

# Challenges faced by the shipping industry economics essay



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Today, the shipping industry is still facing a hard period due to macro economic conditions. Most of the shipping entities are struggling to survive these difficult times. There are clear signs of economic recovery in the other sector but on contrary maritime industry has not shown any such indication of recovery from effects of havoc created by the latest economic tsunami. Seaborne trade is uncertain and that some challenging lie ahead for shipping and international seaborne trade. These challenges are further compounded by other developments of some regulations concern in the problem of maritime safety and the protection of marine environment. What kinds of current challenges to the maritime industry related to economic and development of maritime regulations, and how the maritime industry cope with those challenges will be described base on the reference studies.

### **Challenges Facing from Economic Point of View**

The global maritime industry has presently been reeling under the impact of the ongoing economic crisis. It is expected to experience a few years of decline due to the overcapacity of ships, and a substantial reduction of shipment, resulting in a drop in tariffs. Overall, the shipping industry is witnessing a new trend of consolidation. Smaller companies, which are asset heavy, are merging with larger organizations in order to survive these difficult times. Observations indicate that the prospect of considerable improvements in trade volumes before the end of 2010 is unlikely. “ It can be safely assumed that the shipping industry will learn its lessons and emerge stronger from the current economic crisis. However, there is still a long way to go, at least three years, before the shipping industry bounces

back to its earlier prosperous times and freight rates are rationally stabilized.” (Frost & Sullivan, 2010).

## **Challenges Facing from Development of Maritime Regulations**

Most companies in this domain are struggling with the problem of positive cash flow. The major challenges facing the shipping industry not only stem from the economic standpoint, but also arise from strict enforcement of emission regulations and increasing safety and security issues. The Rotterdam rules are expected to replace the old Hague, Hague-Visby, and Hamburg rules. These regulations will provide fresh and fair legal rights to shippers and other cargo-interested parties. Shipping lines and terminal operators will be exposed to new legal claims system for damages, stolen goods, and shipment delays. The criminalization of seafarers is a prominent issue clouding the industry landscape. Seafarers are subjected to severe penalties and punitive charges for acts that have nothing to do with criminal negligence. In addition, carbon emission is a matter that will ultimately determine the future of the shipping industry. Emission control measures require the fitting of detectors and making expensive changes in the machinery deployed on board. This exerts additional pressure on the shipping organizations that are already struggling.

## **How Maritime Industry Cope with those Challenges**

Under the current circumstances, collaboration shows the way forward.

Additionally, companies must look internally to eliminate non-value adding activities. Removing “ non-value-added” waste or “ Muda” from their value chains and focusing on customer satisfaction, which assumes greater

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importance during these testing times, has the potential to help companies to stay out of the red. Port authorities and operators must optimize utilization of existing capacities rather than building new ones and dealing with excessive idle capacities. Ramping up infrastructure capabilities to cater to regional needs will eventually lead to profitable operations. This applies to shipping companies that should strategically analyze the profit earned on each route, and reduce the number of services on the route where trade volumes are severely down. “ For survival in the shipping market, it is essential to maintain the flexibility required to take advantage of any emerging opportunities and to act on available market intelligence,” says the analyst (Frost & Sullivan, 2010). “ Major financial benefits will be associated with well-timed market activity - the probability of shipping companies achieving the latter will be markedly improved through the undertaking of regular appraisals of markets and market prospects.”

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Frost & Sullivan. (2010). Maritime Industry: Strategic Insight into Current Issues and Future Outlook, from the World Wide Web: <http://www.researchandmarkets.com/reports/1197139/>

Review of maritime transport

Against the background of a global financial crisis and economic downturn, growth in seaborne trade continued, although at a slower rate.

While demand fell, the supply of new vessels continue to grow as the result of vessel orders placed before the financial crisis. It led to an oversupply of tonnage and a decline in vessel prices. Prices for scrap metal in 2009 remain <https://assignbuster.com/challenges-faced-by-the-shipping-industry-economics-essay/>

very low and many vessel owners have preferred to hold on and lay off their ships, hoping for better times to come. As a consequence of falling demand and increased supply, freight rates have fallen from their 2008 highs.

The great number of disturbing incidents of piracy and armed robbery against ships – particularly off the Somali coast and in the Gulf of Aden – have become an increasing concern not only for the maritime industry that is heavily affected by these incidents, but also for international organizations, including the International Maritime Organization (IMO) and the United Nations.

In the field of maritime and supply-chain security, efforts to implement and refine relevant legal instruments and standards are ongoing. Noteworthy environment related developments include IMO's continued commitment to making progress in a number of areas, including in relation to reducing emissions of greenhouses gases from international shipping and in its work towards the establishment of a relevant global regime.

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Assessing the costs of climate change impacts on ports and, more generally, supply chains, was seen as important. Understanding the implications for trade and development especially for developing countries needed to be enhanced and relevant studies should be carried out

Climate change mitigation in maritime transport and the need to adapt to climate change impacts posed a particular challenge for geographically disadvantaged landlocked countries with significant population, especially for their already volatile trade and development prospects. In that context, <https://assignbuster.com/challenges-faced-by-the-shipping-industry-economics-essay/>

further attention should be focused on the impact of potential mitigation measures and adaptation requirements for the trade and development prospects of landlocked developing countries, as well as LDCs [least developed countries]. In that context, financial and technical assistance, as well as capacity-building, were important.

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Having come through what many have described as the worst year in its history, the global maritime industry is looking towards better days. While the going remains challenging, there are positive signs that portend hope for the future. Freight rates are heading up on a strengthening global economy. The supply overhang of ships is less severe than earlier feared because of order cancellations and deferments, and slow steaming. The improved sentiment is trickling down to other sectors of the maritime industry. As we face the challenges in the year ahead, we see some encouraging signs of the world economy bottoming out and progress on a slow road to recovery.

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Climate change is happening and its impacts are already being felt, in particular in the more vulnerable countries. Unchecked, climatic changes can reach tipping points resulting in disastrous and irreversible consequences for humanity. The wide-ranging impacts of climate change and their potential implications for development underscore the need for integrating climate considerations into development and transport planning and strategies. Thus, urgent, concerted and considered action is required at all levels to ensure effective control of GHG emissions and establish the requisite

adaptive capacity, especially in developing countries. Like other economic  
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sectors, maritime transport, which is vital to globalized trade, has a role to play in addressing this challenge. At the same time, access to cost-efficient and sustainable international transport services must be safeguarded and enhanced -especially for LDCs, LLDCs and SIDS. Against this background, and to contribute to the debate, deliberations at the meeting may help identify relevant policy actions that serve the purpose of climate change mitigation and adaptation in maritime transport without undermining transport efficiency and trade facilitation gains. One objective of the meeting is to gain a clearer vision of the format, scope and content of a potential new regime on GHG emissions from international shipping and help ascertain the economic and policy implications of various mitigation measures, including on trade competitiveness of developing countries. To this end, and with a view to providing substantive policy guidance in the context of UNFCCC conference in December 2009, discussions are expected to help, inter alia:

- (a) Assess impacts on/implications for transportation systems, in particular ports and ships;
- (b) Improve the understanding of required adaptation measures;
- (c) Explore the potential for synergies between transport and trade facilitation measures and climate policy, including in relation to technology;
- (d) Outline best practices in terms of mechanisms used to integrate climate change considerations into transportation policy, land use planning, as well as infrastructure investment decisions, and development strategies; and

(e) Identify current climate change-driven cooperation mechanisms between maritime industry stakeholders and explore their potential expansion in developing countries.

Maritime transport is a service rarely in demand for its own characteristics. As the demand for products increase, so the demand for transport facilities increases. Factors determining demand for maritime transport are: condition; price; competition; affordability; speed; quality; standards; comfort; reliability and most importantly safety and security.

Marine transport encompasses all forms of transport by sea, intermodal links and inland ports but has certain fundamental differences from other modes of transport. Firstly it caters to a large degree for the freight market. Secondly, as it operates in an international environment, it is influenced by considerable competition and standards.

## **Trends, developments and challenges to the Maritime Transport**

The international nature of maritime transport renders its vulnerable to the ever-changing world scene and this is a major challenge to the industry as tabulated below.

### **2. 1 Globalization**

The freer movement of people, goods and information characterizes today's globalised world. It is a more interrelated world, whereby the actions in one part of the world have implications elsewhere. In tandem with the expansion of trade is the elevation of the importance of shipping as the major catalyst of global trade. The case in point is, mega shipping conglomerates and

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alliances, as well as global terminal operators exercise increasing power on global trade, the maritime transport sector and shipping matters at large. At the same time, there is concern that the forces of liberalization and competition sweeping through the maritime sector might compromise shipping standards.

Challenges:

be proactive in identifying trends and developments affecting maritime transport

be comprehensive and inclusive in our approach to maritime matters

be effective and efficient in responding to maritime trends, developments and incidents, within the framework of the IMO

involve relevant government departments and stakeholders in the formulation and adoption of policy

## **2. 2 Heightened maritime safety concerns**

Enhancing maritime safety through ensuring that each link in the chain of responsibility fully meets its obligations is a priority for the maritime community as a whole. An effective maritime administration is critical in ensuring an effective and efficient maintenance of maritime safety standards through proper co-ordination.

Challenges:

The challenge is to enhance technical, operational and safety management standards. A further challenge is to identify and evaluate factors influencing a safety culture and to turn them into practical and effective mechanisms for further developing a quality and safety culture throughout the maritime community. An existence of an effective and efficient SAMSA is critical in the enforcement of maritime safety standards.

### **2.3 Heightened maritime security concerns**

The unfortunate events of 11 September 2001 in the United States of America changed the manner and approach in which matters of maritime security were handled. The collective approach by the IMO in developing and adopting maritime security policies and measures has meant that shipping will no longer be the same again. There are equally growing concerns that the new measures should not unduly affect the efficiency of shipping and port operations, more so in an interconnected world highly dependent on sea-borne trade. The entire maritime community is hard at work to ensure full compliance with the provisions of the ISPS Code and changes to SOLAS.

Challenges:

The challenge is to promote the effective implementation of the new security measures, to instill a security consciousness in ship and port facility operations and at the same time, ensure the right balance is struck with trade facilitation, and that sea borne trade will continue to be smooth and efficient.

## **2. 4 Heightened environmental consciousness**

There is growing public intolerance to environmental pollution from shipping incidents as experienced from several accidents. There is also heightened concern over the impact of global shipping activities on the environment, giving impetus to efforts, such as ensuring the preservation of aquatic systems and not allowing the introduction of harmful substances from ships in the marine environment.

Challenges:

The challenge in line with the global emphasis on sustainable development, is to be proactive in identifying and addressing maritime and shipping activities that could have an adverse impact on the environment; and

To develop effective responses to maritime incidents to mitigate the impact on the environment, should they occur.

## **2. 5 Safety of people at sea**

In line with the IMO's fundamental principle to protect the lives of all those at sea, the advent of large passenger ships with capacities of several thousand persons, and the continuing loss of seafarers' lives at sea have heightened concerns over the safety of human life at sea and the success of search and rescue operations in case of distress. Such concerns include the safe operation of ships and whether current response capabilities to deal with emergencies are adequate.

Challenge:

The challenge is to ensure all that systems and infrastructure related to ensuring the safety of life at sea are adequate, including the welfare of persons working at sea and in ports. We need an effective and efficient MRCC5

## **2. 6 Shifting emphasis onto people**

Human performance in all sections of the maritime industry is a major cause of maritime incidents. Advances in technology affecting the human element offer new opportunities that we can harness to enhance the human element in safer shipping.

Challenge:

Is to increase emphasis on the human element in safer and more secure shipping, port operations and continuously improve measures to enhance human performance in the maritime industry.

## **2. 7Technology as a major driving force for change in the maritime transport sector**

Technological developments particularly in communications and information provide better opportunities for knowledge management to increase transparency and accessibility to information. Care should however be taken with regard to possible negative consequences that technology could bring.

Challenges:

To ensure that when adopting technological developments, they enhance maritime safety, security efficiency and protection of the environment;

Ensure the proper application of technology in information management and provide enhanced access to that information by the shipping industry and others.