

Maritime Summary Note n°227 – January 2021

« A maritime review of a year of unprecedented crisis »

The Covid-19 pandemic is clearly destined to leave its mark on human history. The global economic crisis it triggered is itself quite exceptional in its causes, operations, and consequences. Almost every economic sector in our modern world has been more or less severely affected, and maritime transport is no exception. Yet, one of the most important service economies will likely end the year with declining figures, but at acceptable levels. This is one of the key lessons of this specific moment: the globalized world, much like our individual lives, cannot exist without shipping. The maritimization of raw materials and industrial goods has reached such a scale that the 50,000 vessels (and, let us not forget, 180,000 seafarers) are absolutely vital and indispensable, unless we fundamentally alter our economic model. There remain the specific characteristics of this crisis, which is based more on operational disruptions than on a fundamental questioning of our economy, provided that the health crisis does not drag on too long into 2021.

General characteristics of the crisis

The progression of the health crisis is known to all: a Chinese onset, European and American infections, global spread, a relative summer lull, and an autumn resurgence. For the economy, it meant the negative impact of the spring lockdown followed by the constraints at the end of the year. This period brings, however, two pieces of good news: the prospect of vaccines and the incoming US administration of President Joe Biden.

Entire economic segments are more or less heavily affected, as numerous restrictions imposed for health reasons prove penalizing. Maritime transport (with the exception of the cruise sector) is not among them, but it remains dependent on the state of the economy.

The 2020 crisis is more severe than the 2009 crisis. According to the World Bank, the -4.3% decline in global GDP is much harsher than the -0.1% drop seen back then. The GDPs of the Eurozone (-7.4%) and the United States (-3.6%) contracted with larger figures than in 2009, though ultimately less severe than projected during the summer. China will post +2%, standing as the only positive economy. India suffers severely from the health crisis (-10.3%), while Africa (-3%) and Southeast Asia (-3.4%) manage to limit the damage.

According to the WTO, global merchandise trade is expected to decline by 9% in 2020. European imports (-10.3%) are projected to fall further than those of North America (-8.7%). Conversely, Asian countries will see their exports decrease by only -4.3%.

Maritime trade is consequently affected by the Covid crisis. The projection from Clarksons points to a -3.8% contraction in international maritime activity. The estimate stood at -5.3% in August, proving a slightly mitigated impact by the end of the year. With 11.5 billion tonnes, crossing the 12-billion threshold will wait until 2022. Behind these figures lies an obvious truth: maritime transport is fundamental to our world because our energy consumption is colossal and the contraction of consumption remains limited. This crisis is, in many aspects, highly specific.

Oil: A quickly faded euphoria

Black gold was the first victim of the crisis. The Chinese lockdown sent prices plunging, and the Euro-American lockdown dragged them down to the abyss. European Brent touched \$20 in April, and American WTI even dipped into negative territory. A price of \$40 became the norm from mid-spring to autumn, reaching \$50 at the end of the year.

The drop in global demand is expected by the IEA to reach -8.8%, with Europe and the United States experiencing identical declines of -13% to -14%. Only China stands in stark contrast to the rest of the world, posting a 9.5% growth in demand and imports.

The maritime oil market has been very unusual this year because, as in 2014, the collapse of the barrel was treated as a speculative opportunity. In the spring, tanker charter rates soared due to the heavy demand for vessels used to transport oil to available shoreside storage or utilized as floating storage at sea, peaking at 200 Mt in June. Once the idea of a brief crisis vanished, rates returned to low levels in line with global demand. The revenue bubble of the spring is now being used to absorb the deficits of the autumn, with vessels chartered below their break-even point.

In the autumn, Clarksons provided an initial estimate for the year 2020. The volume of crude oil transported by sea is expected to drop in tonnage by -6.6% (-4.4% in tonne-miles). Refined products are projected to post a decline of -7.7% (-8% in tonne-miles). Russia, which primarily exports to Europe, showed -14.6% for crude oil and -4.5% for petroleum products across its ports over eleven months.

One consequence of this highly specific year has been the low rate of tanker demolition, including not a single VLCC scrapped. Given that 26 VLCCs were delivered, this fleet segment is bound to expand. According to BIMCO, demolition will nonetheless follow, driven by falling freight rates and sluggish demand. The fleet growth forecast for 2020 stands at 2.4% for crude tankers and 2.7% for product tankers.

Gas remains in positive territory

Enthusiasm for methane has been global in recent years. Emitting fewer greenhouse gases, it can substitute for coal in electricity generation. The expansion of global export capacities drives both supply and demand. Qatar decided to sharply increase its production and signed agreements in June with South Korean shipbuilders to secure a tailored fleet for the coming years.

The volume of LNG should increase by 2% this year (S&P Global)—certainly a slowdown compared to last year (+13%), but still oriented upward. The onset of the cold season even triggered a sharp surge in Asian demand and a spike in spot rates. China is expected to further increase its imports from 60 to 80 Mt, in contrast to a sharp Indian contraction and perhaps a slight European decline.

Dry bulk still driven by China

According to Clarksons, dry bulk is expected to post a -2.9% decline expressed in tonnes. Bulk commodities have a specific baseline, having grown by only +0.2% in 2019. Naturally, bulk is a vast aggregate composed of industrial ores (iron, bauxite, manganese, nickel), coal and coke, cement, scrap metal, fertilizers, and agricultural products (grain, soy, sugar). Conventional cargo such as steel and forest products are also added. This represents a multitude of products within shifting market dynamics. Two-thirds of global iron ore will end up in Chinese steel mills; maritime ore transport therefore depends heavily on China. In 2020, iron ore transport is projected to grow by +3% (1.5 billion tonnes), driven by strong Chinese demand (+9%) which offsets European, Japanese, South Korean, and Taiwanese declines. Another market is now controlled for more than half by China—benefiting Guinea in particular: bauxite transport, which is expected to grow by 10% (147 Mt).

Coking and thermal coal will post a -10% decline this year. For thermal coal, the drop is widespread (910 Mt), as lockdowns and the economic slowdown reduce electricity demand. The declines vary: -16% in China, -4% in Japan, -13% in South Korea, -16% in India, and -36% in Europe.

Agricultural markets are roughly split into two categories: soy and grain. Soy (beans and meal) will progress by 9% (161 Mt); European demand is positive (+3%) and China (+15%) is rebuilding its pig herd. Grain is destined for Southern hemisphere and developing nations, and under the impact of the pandemic, many countries sought to safeguard against any food crisis. Wheat transport is therefore expected to grow by 3% in 2020 (365 Mt), with demand coming from Southeast Asia (+17%) and Africa (+4%). US exports benefit the most from this phenomenon (+17%).

In terms of the shipping market, charter rates inevitably experienced a decline at the beginning of the year (due to Chinese and then Western lockdowns) before returning to a more usual monthly cyclical pattern. The dry bulk market has been marked since 2008 by severe overcapacity—too many vessels for markets that did not live up to promises despite the Chinese appetite for raw materials. The fleet capacity in 2020 is expected to grow by 3.8%, notably within the Panamax sector. The level of demolition this year is significant, mirroring previous years of sectoral crisis (the latest being in 2016). New orders follow the same downward trend, with only 12 million dwt contracted compared to 30 million dwt last year.

A unique year for containers

The first step is to understand the extent of the contraction in global containerized activity. The year is atypical, even in times of crisis. The 2008 crisis had been straightforward: the bankruptcy of Lehman Brothers merely burst the economic bubble built up over the years. In October 2008, the global economy collapsed rapidly and remained down for about fifteen months, before recovering during 2010. The golden years of the previous half-decade had flawed foundations, and the world resumed a more chaotic march, with Europe experiencing another crisis in 2012 and China progressively slowing its growth.

The Covid crisis is peculiar. The pandemic slows human activity because of a political choice to restrict economic and social operations for health reasons. In February, containerization experienced the Chinese lockdown, which slowed the supply of manufactured goods. The European and American lockdowns in the spring then deprived consumers of access to consumption. The effects of unemployment and precariousness were, however, mitigated by state support policies. In the summer, the easing of lockdowns removed these shackles and allowed a return to a normalized form of life in many countries. Consumption asserted its rights once more, and as they do every year, Western retailers had to repatriate their goods from producing countries for the holiday season. The peak season was shifted from the beginning to the end of the summer, with shippers discovering along the way the constraints of China's Golden Week holiday at the beginning of October. Beyond that, a phenomenon of short-termism in demand characterized this year. Faced with uncertainties, retailers and industrial manufacturers appeared cautious, placing orders with suppliers without much anticipation. In addition to conventional imports, there was a surge in demand for IT equipment driven by remote work, alongside requirements for medical supplies.

For 2020 activity, BIMCO projects a -1.5% decline. Drewry highlighted a contrasting year, with -6% for the first half and +10% for the second half. On the European side, outbound traffic from the Far East over eleven months posted a decline of -5.3% (according to CTS data). According to Alphaliner, the decline in port activity within Europe will stand at -3.1% for the north of the continent and -4.5% for the south. For the United States, transpacific flows posted an extraordinary +4% over eleven months (according to PIERS sources), reaching 15 million TEUs. In early December, the National Retail Federation considered American import volumes to have achieved an annual growth of +0.8% (21.8 million TEUs), with the year-end commercial momentum erasing the declines of previous months. On the Chinese side, port container activity over eleven months stood at +1%.

To be clear, container traffic has been highly erratic this year. Nevertheless, at the outset, liner shipowners considered that they were facing a new crisis. Their reaction was to rationalize supply by contracting it, specifically through the cancellation of rotations—and thus port calls—or even, in certain cases, the suppression of entire services. Observers counted more than four hundred blank sailings. This phenomenon abated in the second half of the year as commercial dynamics returned. Naturally, vessel layups (*désarmement*) served as a fallback, as they do during every difficult period, with an unutilized fleet peak of nearly 10% in the spring.

The supply rationalization orchestrated by shipowners was poorly received by shippers. Port call delays and container shortages added to their grievances. Organizational chaos combined with yo-yoing demand merely exacerbated the unavailability of empty boxes. The agility of shipowners in shaping their supply clashed with the urgency of shippers, sparking friction.

According to Sea-Intelligence, shipping line profits will reach \$14 billion, while Drewry estimates them at \$11 billion. Carrier revenues reported quarter after quarter caused a sensation. Shipowners are not losing money; they are earning it. Revenues are climbing while traffic contracts—a stark paradox. Shippers and freight forwarders are voicing sharp criticisms. Shipowners opted for a form of collective discipline. They are not engaging in commercial wars, meaning there is no undercutting of freight rates. Reduced to a mere handful following the major consolidation wave of 2016 and committed to massive capital expenditures (vessels, terminals), they refuse to break prices. And all the better if bunker fuel came at a rock-bottom price this year.

The monitoring of container freight rates through the Shanghai Container Freight Index (SCFI) is revealing of this year's market behavior. The spot market reflects the spring drop followed by a surge in prices faced with spikes in prompt demand. Supply volatility fosters a spot market that favors the carriers. The SCFI reached astronomical levels in the autumn. Ship charter rates followed suit, and unutilized tonnage became limited (3%). Negotiated contract rates, visible through the China Container Freight Index (CCFI), are also rising sharply. On one side, it is argued that supply is merely tracking very strong

demand within a context of rationalization. On the other side, critics denounce prices that bear no relation to the crisis context, implemented within a framework of extremely degraded services.

Shippers said nothing when they benefited from the 2016 commercial war, which featured rock-bottom freight rates. That war was designed to eliminate the weakest players and ultimately led to major consolidation and reorganized alliances. Following the 2008 crisis and the end of liner conferences, shipowners had to hunker down, especially as they were locked in a race toward gigantism—heavy investments that, moreover, cost some their survival. Consequently, it was from a position of strength that shipowners approached this crisis.

In this specific year, according to Alphaliner, the fleet is expected to grow by only 2.9%, with 134 vessels delivered, representing 0.8 million TEUs of capacity. New orders amounted to 98 units (0.5 million TEUs of capacity). Demolition was in line with 2019 levels, hovering around one hundred units, because shipowners required every usable vessel in the fleet during the second half of the year.

For ports, the reality is harsher. Drops in traffic weigh heavily on the ecosystem, and blank sailings severely impact the revenues of port authorities. In difficult times, shipowners rationalize their services and clearly favor hub-and-spoke networks. Singapore and Tanjung Pelepas, as well as Gioia Tauro, Algeciras, and Tanger Med, post positive or slightly negative figures. Antwerp and Rotterdam are also absorbing the shock. Conversely, French, German, Spanish, and Italian gateways are posting substantial declines, particularly if they lost transshipment volumes.

Ferries caught in the trap of the European crisis

With the spring lockdown, a restrained tourist season in the summer, and the year-end re-confinement, the European Ro-Ro sector—which counts approximately 120 Ro-Pax lines—is particularly hard hit. Ultimately, only the post-Brexit agreement with Great Britain provides some clarity. Ireland will benefit from a new density of direct routes operating from French and Belgian ports.

Mediterranean traffic patterns were disrupted but remain fundamental to the major and small islands of the continent, as well as for ties with Mediterranean partners. Undoubtedly, the lower footfall on tourist islands was also reflected in the supply freight segment. The situation for the European Ro-Ro and ferry sector is challenging. The press bears witness to calls for state aid or corporate restructuring plans. The Spanish shipowner Armas Trasmediterránea, in severe distress, requested public support. In France, a net salary guarantee was established for one year for Brittany Ferries, which was heavily affected by successive disruptions to cross-Channel transit with Great Britain.

Broadly speaking, the freight segment is primarily affected by the economic crisis linked to the pandemic, whereas the ferry sector suffers from the same phenomenon as aviation: the restriction on travel. Establishing a precise balance sheet for European companies remains difficult, but DFDS's nine-month figures indicate a -70% drop for passengers and a -12% decline for freight. Brittany Ferries posts drops of -75% and -25% respectively.

The black year for cruises

With its 300 vessels and 30 million global passengers, this industry—standing at the crossroads of shipping, leisure, and tourism—is heavily paying the price of the Covid crisis. By gathering thousands of passengers, cruise ships were condemned to a complete standstill by lockdowns. While some European countries accepted a relative return of voyages at the end of the summer, the United States, through its federal agency, the CDC, proved particularly stringent. The sanitary situation in the United States justified drastic measures, and even with the principle of a highly controlled return decided in November, it did not diminish the extreme caution of shipping lines. They refuse to see their vessels, hit by a few infection cases, turned into media scandals. Once again, vaccine management of the pandemic remains the best hope.

The major cruise corporations are passing through a year in hell. They are "burning" \$1 billion per month, relying on loans and capital increases. Only trust in the global potential of the cruise sector over the coming years will be able to erase the catastrophe of the crisis.

Cruise shipbuilding will hunker down. For the time being, European shipyards are maintaining their programs. There have been no cancellations, but rather delivery delays and subsequent construction shifts. The decade can remain positive, but within a remodeled calendar. This also presents an opportunity to continue developing innovative energy solutions within the framework of responsible

cruising—an observation that holds true for all maritime sectors. LNG is expanding more and more, and initiatives are multiplying (hydrogen, methanol, ammonia, batteries, and wind propulsion).

A mixed balance sheet

Without a doubt, no human will forget the year 2020. The pandemic disrupted our lives, from the unthinkable lockdown of populations to the slowing down of societies and economies. It is impossible to compare this economic crisis to past ones, linked as it is to the disruptions of sanitary measures. It resembles neither 1929, 1973, nor 2008. Maritime transport is suffering from sectoral rollbacks, but they remain ultimately limited. More than ever, it is indispensable to our world. Our need for Chinese manufactured goods remains as strong as ever, and China, little disrupted by the pandemic, is doing rather well. The volumes of iron ore, bauxite, oil, gas, and soy bear witness to the fact that China is living at a different pace. There remain, for 2021, the hopes of a vaccine to curb Covid. International institutions foresee a return of growth for economies and trade. If all goes well.

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