In a world of extreme disruption, ocean shipping is resilient

Pictured: ships being berthed in a seaport. Container ports are the supply chain nodes most susceptible to disruption. Photo credit: William William via Unsplash.

By Capt. MELWYN NORONHA, CEO Shipping Australia

After six months as Shipping Australia's Chief Executive Officer the view from the bridge has been both exciting and challenging.

COVID-19 continues to harrow, burden and torment the peoples of the world. Human activity is greatly disrupted. But, ocean shipping remains resilient and continues to deliver the goods.

One unforeseen side-effect of COVID is a massive surge in the demand for shipping, which is attributed to consumers turning to retail therapy in reaction to a loss of socialising and travel. Consequently, the shipping industry has swung from handling low cargo volumes to high cargo volumes. Inevitably, such a huge swing causes its own complications.

As demand for shipping services has increased, it has soaked up the supply of ships and boxes. Meanwhile, **ship operators have been exposed to massive cost increases**. The average cost of one tonne of Intermediate Fuel Oil 180 (Singapore) is at the time of writing about USD$423 a tonne. It was USD$155 per tonne in April 2020. That's a 173% increase! Box ship charter rates have rocketed. Charter rates for a 1,100 TEU ship in July 2020 were US$5,555 a day. Today, it's US$22,000 a day. That's a 296% increase!

With huge cost hikes and a complete utilisation of supply, **it should be no surprise that freight rates have risen**. In early 2000 the China Containerised (Export from China) Freight Index stood at about 875 points while the Import to China Index stood at roughly 950 points. At the time of writing, the Export Index is just under 2,700 points and the Import Index is at 1,426 points.

Shipping industry critics have commented negatively on the capacity shortage and the increase in freight rates. But these are normal in a tight market and will likely be resolved by the ocean shipping industry, which is investing in extra boxes and ships. These temporary issues brought about by a tight market are just that: temporary. They will resolve.

But how long, exactly, will these temporary conditions last? No-one can tell. Analysts at respected maritime consultancy Sea-Intelligence commented "we are so far into "black swan" territory, that we have no models that can adequately predict how long the current demand boom will last".

Shipping is inherently adaptable to such huge disruptions. The sector has put a huge, idled, containership fleet back to work. There was about three million TEU of idle containership capacity at the beginning of the pandemic. That fleet has mostly been re-hired now. The demolition market for container ships has almost evaporated – in March hardly any container ships were scrapped. Non-specific tonnage (e.g. multi-purpose ships) have been hired to cope with surging demand. Even some bulk carriers have been known to carry containers. Shipping lines have placed giant orders

for new containers and new ships. Ocean shipping is adapting.

Self-interested and biased commentators have criticised shipping companies because ships are arriving off-schedule. This is a problem, but it is not a shipping-created problem. **Ships are arriving off-schedule because of port congestion around the world** and because of government-imposed measures to combat COVID. In Australia specifically, industrial action at ports is also a problem.

The port-bottleneck is one of the biggest challenges in the logistics chain. Sea-Intelligence reports that port congestion is so bad that it is having an effect equivalent to removing the entire world fleet of Ultra Large Container Ships. Industry sources have reported that the transit time from cargo being ready for loading in Shanghai to delivery at warehouses in Chicago has risen from 35 days prior to the COVID-19 pandemic to 73 days now.

Among all these issues, **we must be mindful of maritime crew**. International trade works because seafarers continue to maintain the viability of our maritime supply chains.

Honoured on the Day of the Seafarer (25 June), ship crews have been patient and steadfast in the face of **unreasonable, arbitrary and discriminatory action by governments and officials**. Seafarers deserve better than what has been served up to them by governments. They have a right to healthcare. **Seafarers should not be left in agony** with broken ankles or bad teeth. And when there happens to be a COVID case aboard, **crew should not be unduly exposed to the risk of death**. It is morally bankrupt for the authorities to turn a ship away because of fear of COVID (which is a manageable condition) when there is a patient aboard who needs medical care. The Western Australian political leadership has been particularly disappointing in this regard. They appear to have no compassion or regard for seafarer suffering.

It was, however, good to learn that sixteen states in **the United States of America and some European countries have begun vaccination programmes for foreign seafarers** in their ports. Shipping Australia hopes that other countries, and Australia in particular, will follow suit.

In non-COVID matters, there have been many disappointing developments. The Western Australian government continues to implement policies that are detrimental to shipping. Three days before Christmas, **WA government's Pilbara Port Authority introduced – without proper industry consultation – a new charge at Port Hedland**. The purpose of the charge is to fund the purchase of properties that are coated in iron ore dust from the port. The charge took effect from 1 March 2021 and has no end date. Charging a fee to ships because of pollution created by third parties is indefensible and bizarre. Then, having obtained a taste for shipping-money, the McGowan government decided to gorge upon the industry by imposing a 25% increase on tonnage charges at Port Hedland.

Pictured: COVID vaccines. Seafarers are vital to keeping our economy running. Vaccination is vital to keeping seafarers healthy. Australia's governments should be vaccinating seafarers. Photo credit: Daniel Schludi

On a more favourable note, after consultation with Shipping Australia and affected port users, **Maritime Safety Queensland has delayed the introduction of its new towage arrangements at Port Alma**. MSQ is addressing marine pilots' complaints that they lack enough experience to pilot ships at Port Alma by developing a port-and-ship digital model and then by training pilots with the simulation.

Meanwhile, after a four-week consultation period and submissions from industry, **Victoria's Essential Services Commission was not required to decide on the Port of Melbourne's tariff re-balancing application**. The port withdrew its application citing further opportunities for port users and other stakeholders to provide their views. The port has deferred a proposed tariff adjustment from 1 July 2021 to a later date.

A big development was the **Productivity Commission's interim report on supply chain vulnerabilities**. It got some commentators unduly excited. There were false allegations that overseas-origin shipping presents a risk and there were calls for an Australian national fleet. However, in risk management circles, it is well known that diversification and redundancy reduces risk. The existing international seaborne fleet is far superior to any national fleet because the international fleet features massive diversification and redundancy. A national fleet is the exact opposite: it is a single-point-of-failure fleet. You can imagine the vulnerability of a national single-point-of-failure fleet to militant industrial action by trade unions.

Moving on, there has been extensive evidence from a variety of respected bodies, such as UNCTAD and the Reserve Bank of Australia, that demonstrates the resilience of shipping. Their data shows the same sort of fact in different ways – namely that shipping decreased just after the onset of the pandemic and then increased thereafter to a state greater than pre-pandemic. **This is conclusive proof that shipping is resilient to supply chain disruption**.

Shipping Australia argued that the nation's box ports are finding it difficult to rebound from supply chain shocks. Shortly after voicing such concerns, as if on cue, a round of Protected Industrial Action notices were served at Australian ports in June. Port disruption increased costs for carriers, shippers and consignees. Port disruption has led to congestion which, in turn, has led to fewer port calls and a reduced frequency of shipping services.

It seems that **Australia's waterfront is either in, or nearly in, a continuous state of industrial relations-induced disruption**. Disruption to trade at our ports causes harm to Australian businesses, Australian exporters, importers, consumers and our economy.

Pictured: a containership underway. There has been a huge increase in demand for container shipping services. Photo credit: Thomas B from Pixabay

Our industrial relations system requires an overhaul so that trade is not disrupted at the nation's ports.

But let's go back to the bigger point: blockages of monopoly port infrastructure, which are the supply chain nodes that are most susceptible to disruption, should be an area of concern to government. **An exploration of the resilience of the country's ports is something that Australian governments really should examine**.

Staying with ports, the **inaugural edition of the Container Port Performance Index (CPPI 2020)** was published by the Transport Global Practice of the World Bank in collaboration with IHS Markit. New technologies and increased digitisation have created the opportunity to measure and compare container port performance in a reliable manner. A comparable performance report serves as a benchmark and will stimulate dialogue among key stakeholders in the global economy, including national governments, port authorities and operators. Such reports should be part of a nationally coordinated approach to measure the performance of regulatory and port governance frameworks.

The findings in the World Bank report were a revelation, as some **Australian box ports were not shown in a favourable light**. These findings should attract the attention of government and political officials responsible for monitoring the performance and productivity of ports.

Australia's accession to the **Nairobi International Convention on the Removal of Wrecks (the Convention)** has progressed with work underway on a Regulatory Impact Statement. A uniform wreck removal regime applying to Australia's EEZ and territorial sea without any reservations being made by governments is seen as beneficial to the shipping industry.

Sadly, in late May, we saw the loss of a much-liked shipping industry figure, **Frank Needs**. A former ANL employee and manager, Frank was closely associated with Shipping Australia during his career, serving as the NSW State Chairman and an active player in the affairs of the various Liner Conference Committees. For many years after his retirement from ANL, Frank played an active voluntary role in the production of the Shipping Australia's magazine.

Among the many issues facing ocean shipping, **one of the most important matters is decarbonisation**. Ship operators are faced with a hard decision on choice of fuel, whether that's liquefied natural gas, methanol, ammonia, biodiesel, or hydrogen. The shipping industry is facing uncertainty and no owner wants to build a ship powered by a fuel that proves to be the wrong choice 5-10 years later.

The IMO's Maritime Environment Protection Committee met in June this year, and adopted rules requiring all ships to calculate their Energy Efficiency Existing Ship Index (EEXI) and to establish an annual operational carbon intensity indicator (CII) and CII rating. Carbon intensity links greenhouse gas emissions to maritime transport work. Ships will be rated A (best) to E (worst) on energy efficiency. Administrations, port authorities and other stakeholders are encouraged to provide incentives to ships rated as A or B. If a ship is rated D or E for three consecutive years then it will have to submit a corrective action plan to show how a C (or above) rating will be achieved.

Amendments to MARPOL Annex VI are expected to enter into force on 1 November 2022 with the requirements for EEXI and CII certification to take effect from 1 January 2023. The first annual reporting will be completed in 2023, with the first rating given in 2024.

IMO will review the effectiveness of the implementation of the CII and EEXI requirements by 1 January 2026 and will, if necessary, adopt further amendments.

As we go to print with this edition, the Federal Government is attempting to cut red tape and simplify border processes. It has announced a **new Simplified Trade System Implementation Taskforce** which will review international trade regulations and modernise outdated information and communications systems.

The Taskforce will work with the Simplified Trade System Industry Advisory Council, the Deregulation Taskforce, border agencies, and Australian businesses to review and improve regulations and trade systems.

Aimed at **creating a simpler "tell us once" framework**, the devil will be in the detail and implementation. Today, ships visiting multiple ports in Australia are often required to provide a variety of data to a range of federal and state authorities for each port entry. We can only hope that duplication will be cut down by the Federal reform.

The Australian Government has also committed to establish a **National Freight Data Hub** to enhance the collection and access to freight data across all modes.

Meanwhile, Transport for **NSW has begun work on a digitised Freight Community System** that enables freight supply chain participants to rapidly and securely exchange information. Furthermore, the Port Authority of NSW is reviewing its reporting system for shipping and port-related data exchange.

We hope these systems will be capable of talking to each other and that a simpler "tell-us-once" framework really will be created.

And, finally, **the Federal Court dismissed the Australian Competition and Consumer Commission's lawsuit against NSW Ports**. The ACCC tried to have part of the New South Wales port privatisations declared as contrary to competition law. It's too complex to go into detail here, but, in summary, the State of NSW must pay compensation to the operator of Port Botany for each container handled at the Port of Newcastle above a certain volume threshold. There is a similar obligation on the operators of the Port of Newcastle to then reimburse NSW.

A redacted version of the Federal Court's judgement has been released and the ACCC has recently lodged an appeal against the decision.