



**Five trends  
shaping the global  
maritime industry**



## Five trends shaping the global maritime industry

From shipbuilding to cargo routes to the future of seafaring, the maritime sector continues to evolve in response to economic, political, demographic, and technological trends. Understanding these trends is critical to improving the performance of the industry's capital investment as well as operational efficiency, and provides the backdrop for successful long-term business strategy. This report provides a high-level overview of five of the big-picture trends that will shape the industry in the coming decade, gleaned from the experts at IHS Maritime & Trade.

### 1. Commodity supercycle: super no longer

With most of the developing world in a slowdown, IHS is forecasting a prolonged weakness in commodity prices over the next decade. Prices for coal, iron ore, and crude oil are all likely to remain depressed for the next few years. For most shippers, the 5-10 years of slow growth ahead translates into depressed rates for shipping, particularly dry bulk shipping. Accentuating the price weakness is that most fleets—with the exception of Panamax fleet coal and grain cargo vessels—are fairly young, leaving little room to reduce capacity. As a result, a very painful and lengthy rebalancing of capacity may be in store.

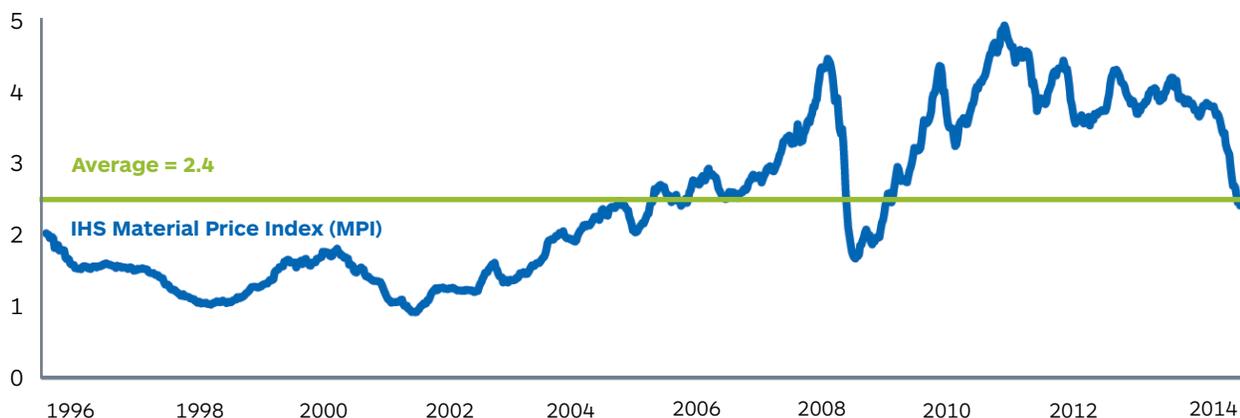
One exception to this trend is tanker shipping, which is expected to stay strong in the short term. During the first half of 2015 the sector saw an increase in freight rates as the low price of crude oil encouraged emerging

economies to burn oil instead of coal. Very Large Crude Carriers (VLCCs) on the Middle East Gulf–Far East route were charging \$60,000 per day in April 2015, up from \$10,000 in April 2014 and breakeven rates in April 2013. Positive revenue growth is anticipated for the remainder of the year as long as oil prices remain low.

Although lower prices will spur more oil consumption in the short term, IHS expects overall global oil demand growth will average just 0.6% per year through to 2040. This is because the link between economic growth and oil demand will weaken as the world adopts alternatives to hydrocarbon fuels and enhances vehicle fuel efficiency.

#### The 15-year commodity supercycle has run its course

IHS weekly Material Price Index (MPI), Jan 1996-Mar 2015



Source: IHS

## 2. China slowdown slows down shipping

China has contributed to the end of the commodity supercycle. The recent deceleration of China's economic growth is affecting many domestic industries, with implications for the global maritime economy. The excesses in industrial capacity, housing inventory, and debt are expected to dampen China's domestic demand in 2016. As a consequence, the construction industry is sinking deeper into recession. At the same time, slow and unstable global economic growth means that China will not be able to export its way to recovery. From 7.3% in 2014, IHS forecasts that China's GDP will sink to 6.3% in 2016, before a modest rebound in 2017.

Dry bulk shipping will be hurt as China's demand for commodities shrinks. Before the slowdown, China imported 70% of the world's seaborne iron ore and 20% of its coal. With China's construction industry in the doldrums, the steel mills' demand for coking coal and iron ore has declined sharply. Coking coal imports declined by 12.0% in September 2015, compared with September 2014, contributing to a year-on-year drop of 17.9% in January-September.

Even with the recent news of mine closures in China in response to the availability of superior, low-cost imports—iron ore exported from Brazil and Australia is of higher quality and is much cheaper than domestic production—there is little chance of a return to 5-8% yearly growth in China's demand for foreign iron ore. Instead demand for seaborne imports will simply stabilize, allowing for the possibility of modest to slight growth.

To date, government-controlled steel makers in China have been able to find buyers abroad as prices fall rather than scaling down production. However, anti-dumping rules are expected to push the industry to cut back production. This is causing a disconnect in the shipping industry between the expectations of owners and charterers for three-to-five year spot rates. New-building prices suggest that freight rates will drop further. While the larger Asian shipyards appear stable, smaller shipyards may be vulnerable, particularly those that specialize in the dry bulk and offshore vessel markets.

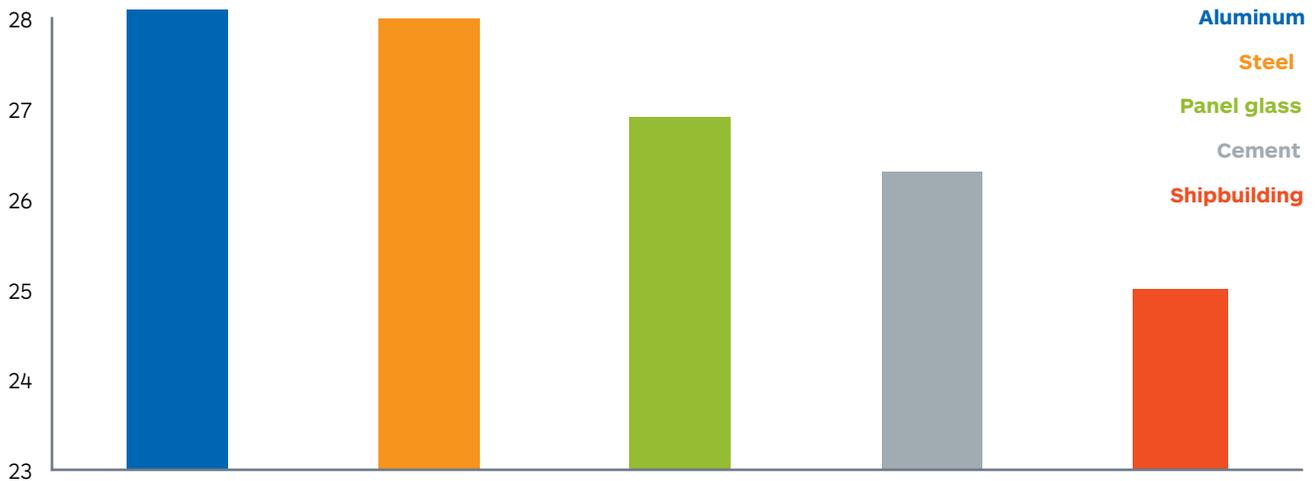
Adding to difficulties for shipping is the decline in seaborne imports of thermal coal to China, due in part to the substitution of land-born coal sourced domestically as well as from neighboring Mongolia. Such a shift in coal sourcing is driven in part by the relocation of thermal power stations west to Inner China, in order to reduce pollution in China's big cities in the east. The growth of nuclear and alternative energy sources has also reduced demand for shipborne imported coal from Australia and elsewhere overseas.

The one bright spot for Chinese shipping is the container trade, which is expected to grow. Volume on the routes to the Western United States is expected to rise 8% in 2016 and on the European routes by 6%, buoyed in part by growing demand for cheap oil and petroleum products.

### 3. Lifting of Iranian sanctions: a positive for shipping

China's excess capacity is high in many key industries

Percentage of total excess capacity by sector



Source: Chinese government estimates, 2013

Iran and the P5+1 nations—China, France, Russia, the United Kingdom, and the United States, plus Germany—reached a nuclear agreement, known as the Joint Comprehensive Plan of Action (JCPOA), on 14 July. The heart of the agreement is that Iran will curb its nuclear program in exchange for some sanctions relief. The European Union and the United Nations Security Council endorsed the agreement on 20 July, and Iran has formally adopted the nuclear agreement. All signatories to the JCPOA officially “adopted” the agreement on 18 October, which triggered Iran’s JCPOA commitments.

Most analysts expect certain EU and US sanctions against Iran will start to be lifted early next year, after IAEA verification that Iran has met its JCPOA commitments. The lifting of some sanctions is expected to add about half a million barrels of oil a day to the global supply by the end of 2016. Iran’s re-entry into the oil export market won’t help tanker operators directly, because most of the oil will likely be shipped in National Iranian Tanker Company carriers sidelined in the Persian Gulf while sanctions were imposed. While adding a half-million barrels a day does not add much to the global supply—Saudi Arabia and the United States both produce 10 million barrels per day—those extra barrels should further depress already weak oil prices; inflating near-term demand for oil, gas, and petroleum products; and helping global shipping overall.

# 4. Big Data, less drama

In addition to the lower volatility expected in commodities, shippers will soon benefit from higher-resolution crystal balls as they make their forecasts. The increased availability of shipping data and advances in Big Data analytics is providing shippers with greater visibility into market and pricing trends, and is helping minimize the dramatic boom-and-bust cycles that have traditionally plagued the industry.

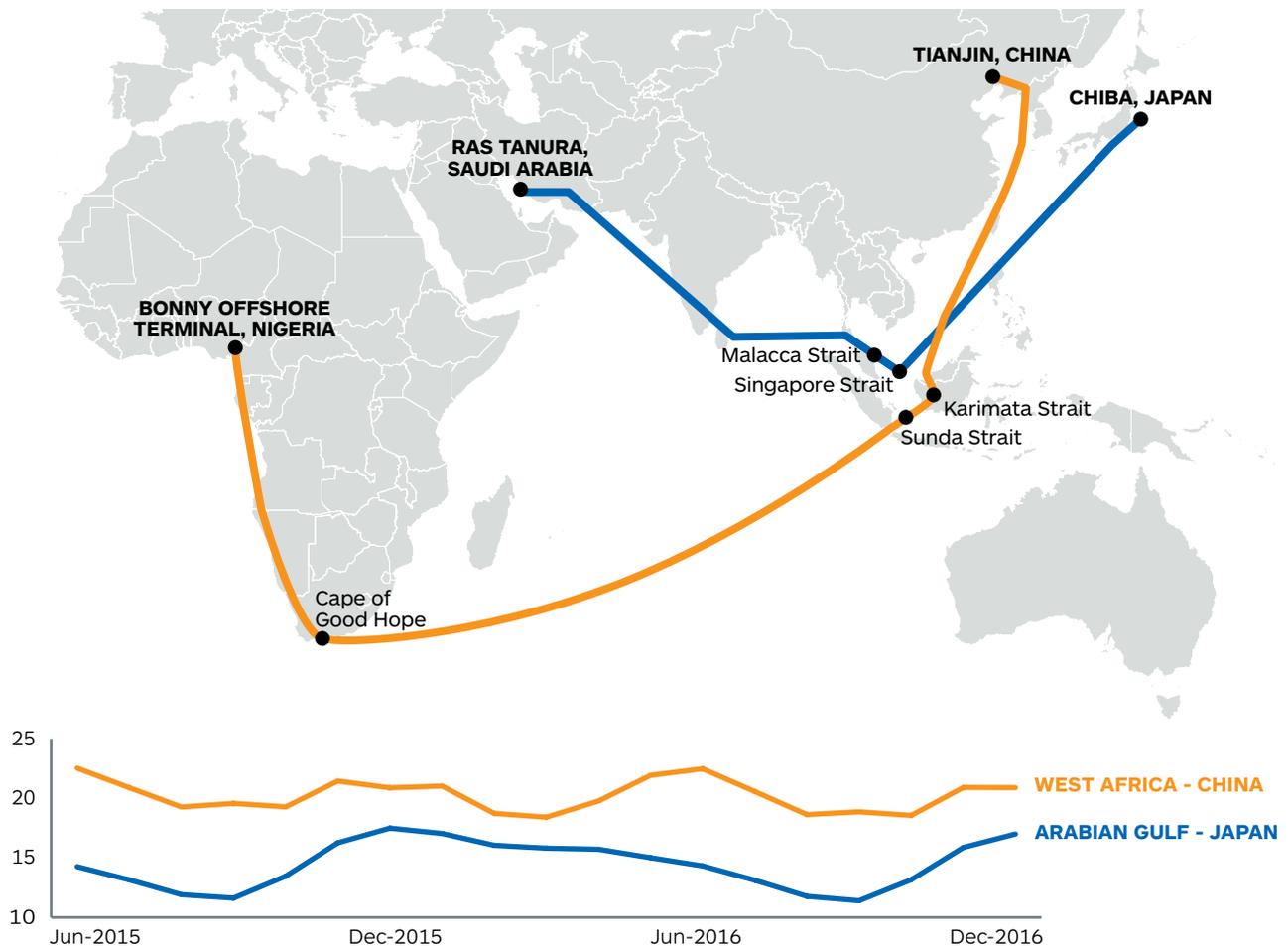
One example is the Big Data analytics provided by the Automated Identification System: a constellation of satellites that keeps track of ships at sea and gives analysts significantly more insight than previous systems into where ships are operating, loading, and

discharging cargo. The availability of such data-driven analytics improves tactical decisions, allowing decision-makers to choose optimal routes, taking into account weather conditions, fuel consumption, and piracy risk. As analysts integrate this information with bills of lading, shipping strategists gain a clearer understanding of how trade routes are evolving over time.

By itself, Big Data analytics can't end the industry's cyclical nature or remove all geopolitical uncertainty. However, it will allow players to act in ways that mitigate their risks and transform many of their challenges into opportunities—a positive overall for shipping.

Freight rates have been strong because of low oil prices, and forecasting tools can be helpful in trade route selection

IHS Maritime & Trade crude freight rate forecast for two major trade routes (US\$ per metric ton)



Source: IHS

## 5. Long-term demographic shifts

Shifts in global demographics and population growth rates, coupled with long-term economic growth in developing markets, will have implications for the maritime sector over the course of the next decade.

The middle class is growing in the emerging economies of Asia, Africa, and Latin America. As disposable incomes increase, demand also rises for imported products, which drives growth in demand for imports of commodities and finished goods. Consider India, where economic growth is expected to steadily climb to 7.9% by 2017, up from 7.3% in 2014. India's consumer spending accounts for about 60% of the economy and is the main driver of economic growth. With inflation receding and global commodity prices low, the real purchasing power of Indian households will continue to improve.

One consequence for the maritime sector of a rise in consumer spending in developing markets will be long-term growth opportunities for container ships. More and larger container ships will require investment in ports, infrastructure, technology, and services to ensure that the flow of business remains efficient.

As the requirements for more technologically advanced systems increase, the global shipping industry faces a serious challenge of managing an aging workforce. Seafarers all over the world are getting older because fewer cadets are being trained to replace the senior officers. The problem is most acute in the Asian shipbuilding sector. In Japan, about half the workforce is aged 50-60, and there are few young graduates joining the industry.

Shipping's employment problem is that it is seen as low-tech compared with industries such as aviation, automotive, and technology. To attract the next generation of maritime professionals, shipyards must become more technologically advanced and innovative, and seafaring must learn new skills and integrate new technology. For instance, the automation of shipboard systems allows for control to be performed onshore, requiring fewer seafarers. While the era of the autonomous ship is years away, these innovations have the potential to spark the imagination of a new generation and help infuse new blood into the maritime industry.

For more information visit [ihsg.com/maritime\\_trade](https://www.ihsg.com/maritime_trade)

