

Commercial Impact of Covid-19 on Shipping Industry

Précis of Research Findings

October 2020



Twin Parallel TSW Methodologies

- Desk Research (**Quantitative**) sourced from specialist databases
- Systematic review of existing literature; reports; webinars; technical papers, IMO website
- 23 x depth interviews (**Qualitative**) with senior executives from key segments of the Shipping industry value chain



Who did we talk to?

23 x In-depth Telephone Interviews	Sample Size
Ports & Harbours	5
Supply Chain	5
Trade Associations / Shipping Industry Bodies	5
Class Societies / IMO	3
Consultants	2
Drilling Rigs - Oil & Gas	1
Hydrographic Office	1
Shipping Data Company	1
Total:	23



Supply Chain



Vladimir Ponomarev
Director Solutions
<https://www.wartsila.com/>

The logo for OneOcean, with the company name in white text on a dark blue rectangular background.

OneOcean

Malcolm Soares
VP for Maritime Strategy
<https://www.oneocean.com/>



Kent Lee
CEO
<https://voyagerww.com/>



Borge Hetland
Chief Commercial Officer
<https://www.navtor.com/>



Mike Osborne
Managing Director
<https://www.oceanwise.eu/>



Ports & Harbours



Marcel Van Dijk
Cargo Marketing Manager
<https://www.portoflosangeles.org/>



Ben Van Scherpenzeel
Chairman International Taskforce
Port Call Optimization
<https://www.portofrotterdam.com/en>



Tim Morris
CEO
<http://ukmajorports.org.uk/>



Richard Ballantyne
CEO
<https://www.britishports.org.uk/>



Martin Willis
Executive Officer
<https://www.ukhma.org/>



European Shipping Industry Bodies / UK Trade Associations



Martin Dorsman
Secretary General
<https://www.ecsa.eu/>



Peter Sand
Chief Shipping Analyst
<https://www.bimco.org/>



Isabelle Ryckbost
Secretary General
<https://www.espo.be/>



Michael McCarthy
Chairman
<https://www.cruiseurope.com/>



Bob Sanguinetti
Chief Executive Officer
<https://www.ukchamberofshipping.com/>



Class Societies; IMO; Hydrographic Office; Academic; Oil Rigs



Gijsbert De Jong
Marine Marketing & Sales
Director
<https://group.bureauveritas.com/>



Nicola Good
Head of External Relations
<https://www.lr.org/en-gb/marine-shipping/>

Imperial College
London

Khalid Bichou
Visiting Professor in Ports &
Maritime Logistics Dept
<https://www.imperial.ac.uk/transport-studies/port-operations/>



Natasha Brown
Media and Communications
Officer
<http://www.imo.org/EN/Pages/Default.aspx>



MARINA
MILITARE

Luigi Sinapi
Director
<https://www.marina.difesa.it/en/Pagine/default.aspx>



John Vingoe
Operations Manager
<https://www.seajacks.com/>



What did they tell us?

Extracts / Quotes from Interview Summaries



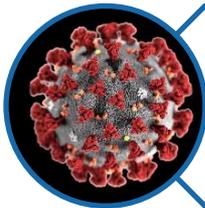
Global Trade – 2020 Impact on Shipping < 20%



World trade volumes to reduce by 20% this year.
Source : Capital Economics.



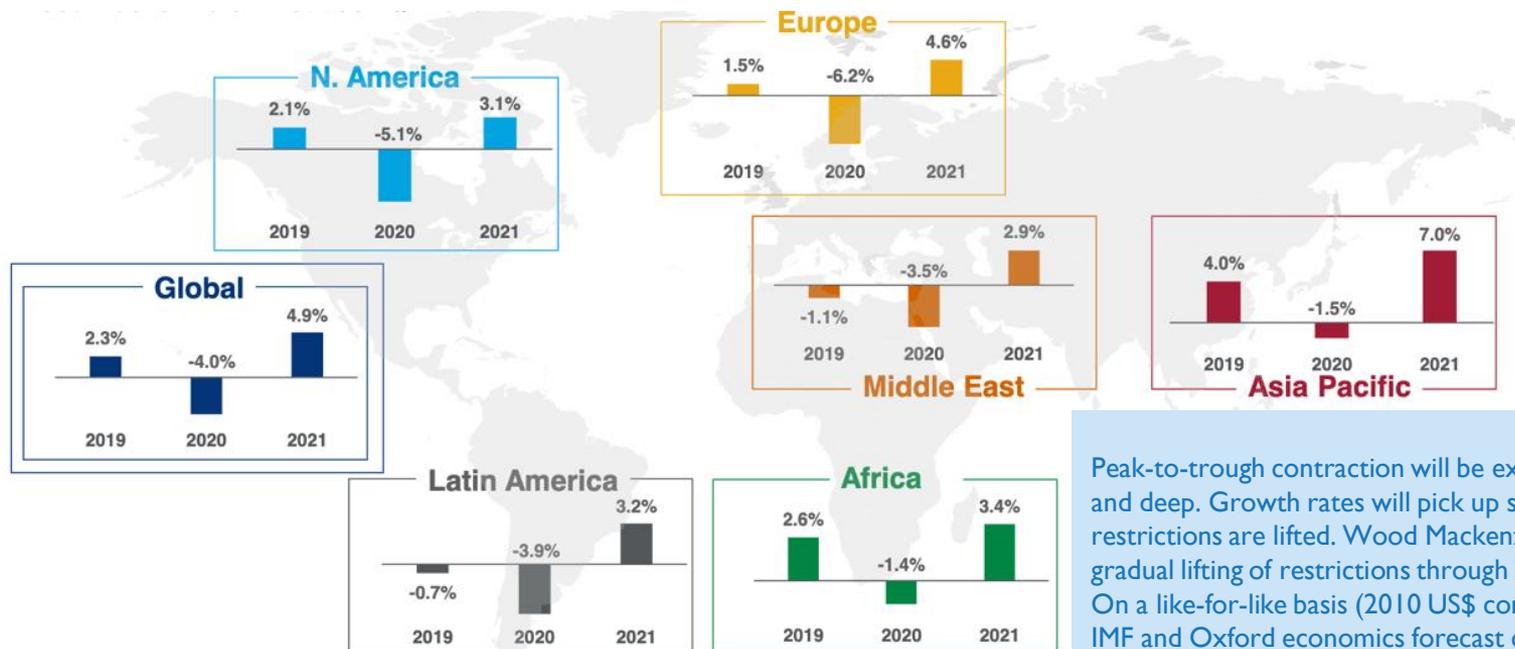
*“We are still at 82% of typical business levels”
– Port of LA*



*“Traffic is between 15 and 20% down in the first half
of this year” – ESPO*



GDP Outlook by Region



Peak-to-trough contraction will be extremely swift and deep. Growth rates will pick up sharply as restrictions are lifted. Wood Mackenzie assume a gradual lifting of restrictions through 2020. On a like-for-like basis (2010 US\$ constant), the IMF and Oxford economics forecast contraction of 4.3% and 4.1% in 2020, respectively.

Source: Wood Mackenzie Q2 2020 Macroeconomic outlook



Ports & Harbours – Resilient in the face of COVID-19



“Ports have done enormously important work during Covid-19 to make sure the flow of goods and cargos could continue..... ports across the world have coped very well with the challenges they face” – BIMCO



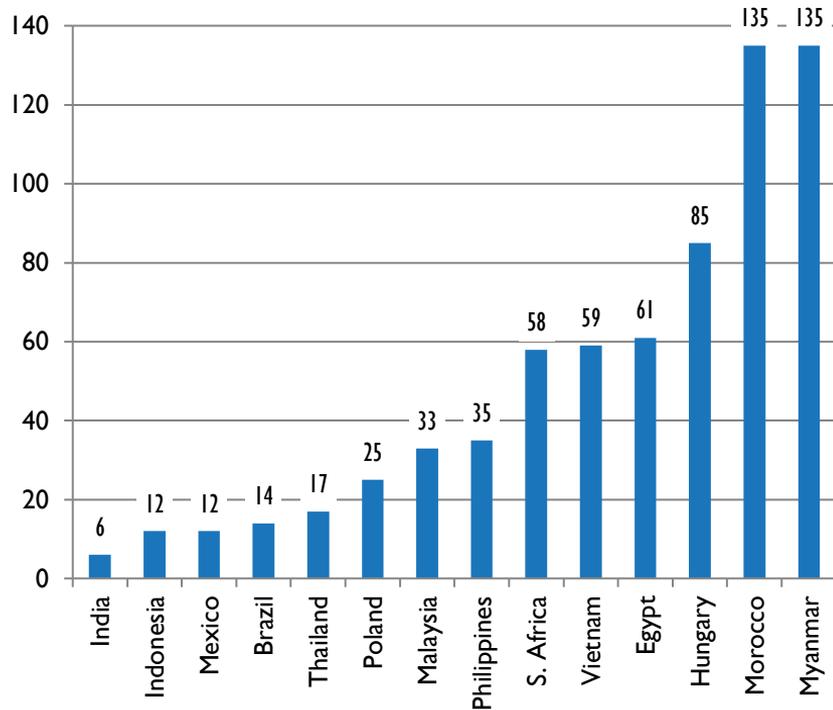
“Ports have actually responded really well to this pandemic, in that they have stayed open, they have continued to process freight to an almost normal degree” – UK Major Ports



“This has been a good stress test for the resilience of ports. Many were afraid that their own operations would be badly impacted by the virus but that hasn’t been the case. They have all remained operational and have developed extra resilience.” – ESPO



Supply Chain Disruption - China accounts for 30% of global manufacturing



- Companies looking to de-risk supply chains but this is a 2 – 5 years scenario rather than one year.
- This chart shows the (theoretical) % increase in domestic manufacturing by country to accommodate just 1% of China's production output.
- At lowest level India would have to increase manufacturing capacity by 6%. This would be equivalent to adding \$5 billion to GDP on a quarterly basis

Source Trading Economics



De-Risking Supply Chain is widely predicted over 2-5 years

- shift to 'near shoring' & other Asian countries



“Everyone in the supply chain will now look at self-sustaining options from their local domain before going out into the outside supply chain.” – ONEOCEAN

“People see the value more of local sourcing.” – Navtor

“A shift from ‘just in time’ to just in case’.... manufacturers will have bigger stocks so that they can cope for longer” – ECSA

“We expect to see more nearshoring but not much onshoring. Mexico could be a big beneficiary of this move.” – Port of LA

“There’s been a huge wakeup call that there was too much dependence on long and insecure supply chains.” – Cruise Europe

“Storage facilities are now needed to store large quantities of goods. We have started seeing the importance of nearshoring ports, a little bit away from the sea, but they belong to a port area; custom zones to provide storage facilities.” – Imperial College

“Due to the US / China trade war some of the main shippers have de-risked supply chains by investing not only in China but other Asian countries; Cambodia, Vietnam have seen most changes” – BIMCO

“We need to look where the world’s production hubs will shift; how alternative supply chains will develop, i.e. China to Europe railway transportation, pipeline construction – all this can seriously affect the size and profitability of marine” – Wärtsilä Voyage

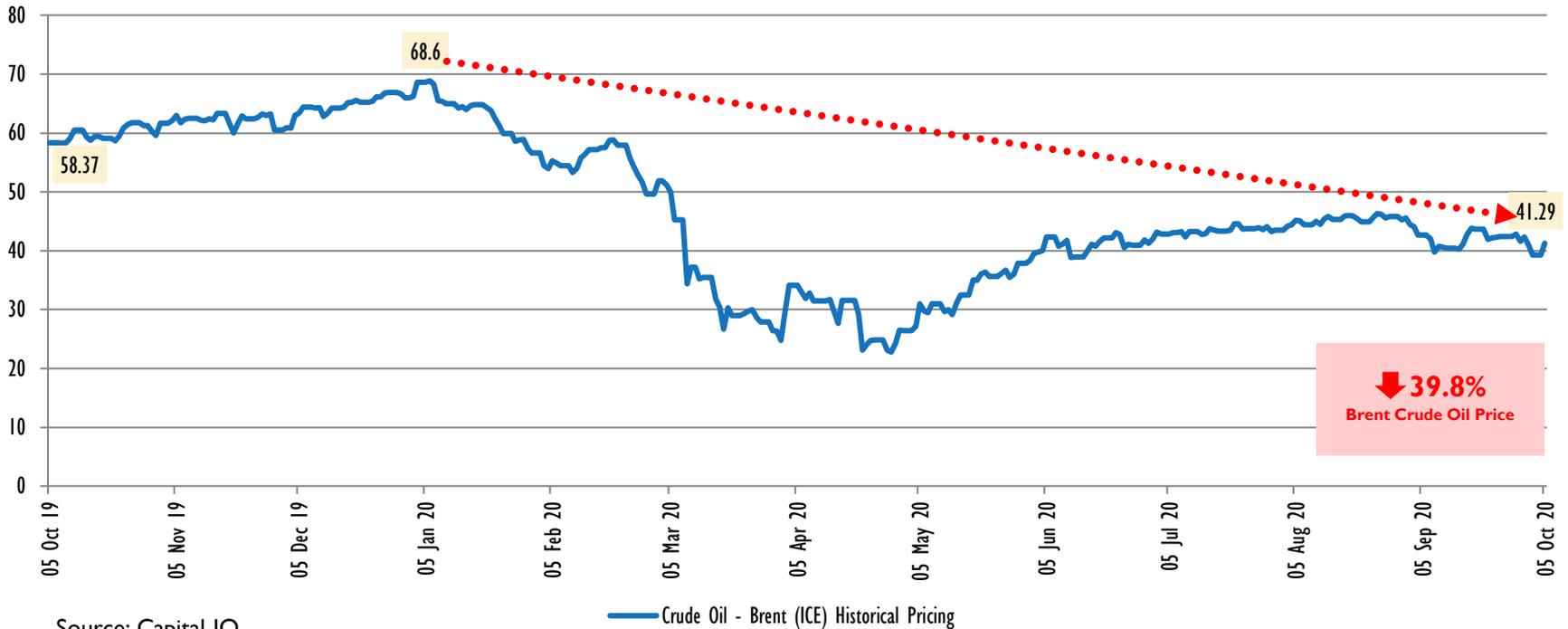


Futuristic Supply Chain Scenarios - Shipping Patterns Impacted

- *“More vertically integrated companies will emerge to control the entire supply chain, including maritime operations, the use of ships and terminals. **The triangle “shipowner, ship operator and fleet management company” will cease to exist. Instead, vertically integrated companies will enter the market.** Vertical integration will aim primarily at optimizing the supply chain and reducing costs.” – Wärtsilä Voyage*
- *“For tighter supply chains, we are likely to need more shipping rather than less shipping. Simply in logistics terms if you have smaller warehouses you have more shipping and more smaller trucks. This same concept applies to shipping, if we have countries closer to us, which probably offer more flexibility, you have a **portfolio of supply chains**. So instead of manufacturing all of our goods in one country, we can manufacture them in two or three countries, even at a higher total cost. I think this is very relevant.” – Imperial College*



Brent Crude Oil Price Oct 2019 - Oct 2020





Oil & Gas – little optimism in evidence

“We expect about 12 to 18 months of hard conditions for oil & gas” – BIMCO



“Once they shut up shop it tends to take them a long while to get going again..... the oil and gas industry is a bit of a wounded animal.”
– Seajacks UK



2030

By 2030, BP said in August it will:

- Produce 40% less oil and gas.
- Generate 20 times more renewable energy.
- Invest 10 times more in low-carbon technology.
- Source: <https://www.greenpeace.org.uk/news/bp-oil-production-renewable-energy/>

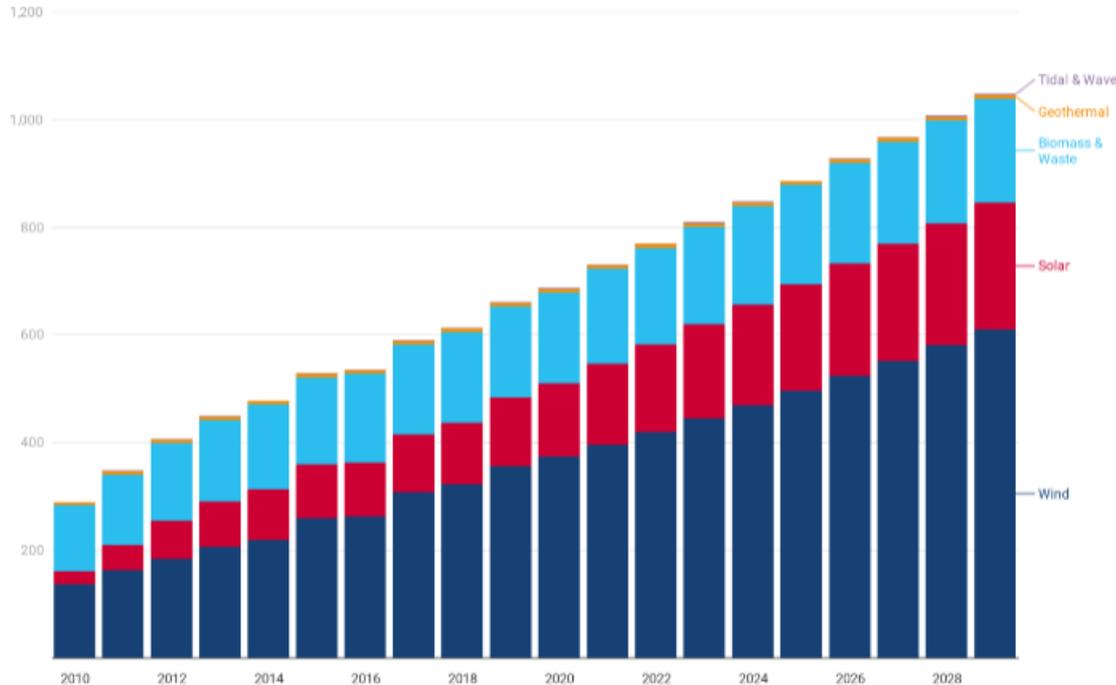


Future demand for Oil

- Oil price trading 40% below (pre-COVID) Jan. peak. Futures trading similar levels
- **Sustainable Investment** strategy adopted by global Banks and Gov. fiscal stimulus packages work against Oil: *Energy market is re-balancing.*
- Record investment committed to Offshore Renewables in first half 2020 – larger turbines / floating farms / greener wind ‘fleets’
- In contrast YTD capex in O&G only 14% of projected 2020 levels
- Petrochemicals rapidly becoming largest driver of global oil demand; set to account for 33%+ of demand by 2030 and nearly 50% by 2050
- China accounts for 40% of global chemical manufacture. Source IEA
- **Offshore:** 200 of 800 global inventory of oilrigs sent to scrap – some under 10 years old – c.\$350m each. Only 468 active at end Aug. (Seajacks / Clarksons) .



Renewables: Forecast EU Energy Generation (units = TW)



The state is once again at the heart of economic decision-making. Pivotal to four categories of policy recommendations:

1. Green economic stimulus packages focused on low carbon energy system development and infrastructure will have a fundamental effect on reducing emissions during the recovery
2. Managed decline of fossil fuels should be central to every green recovery plan.
3. Fair distribution of costs and benefits
4. International solidarity between rich and developing economies. i.e. debt cancellation or restructuring.

Source: Fitch Post Covid-19 Energy Outlook



Post COVID-19 - Renewables will boom



“Spending on renewable power will outstrip oil and gas drilling for the first time next year”

“Borrowing rates have risen to as much as 20% for fossil fuel ventures compared with as little as 3 per cent for renewables”

Source: Goldman Sachs - FT 22.8.20

“Economic fallout from Covid-19 pandemic might actually help drive decarbonisation as government consider stimulus packages and investments to rebuild economic growth and focus on a re-setting the carbon trajectory.” – Lloyds Register

“Renewables and decarbonisation is very much on most development countries’ agendas; linking Covid recovery to sustainable credentials” – UK Chamber of Shipping

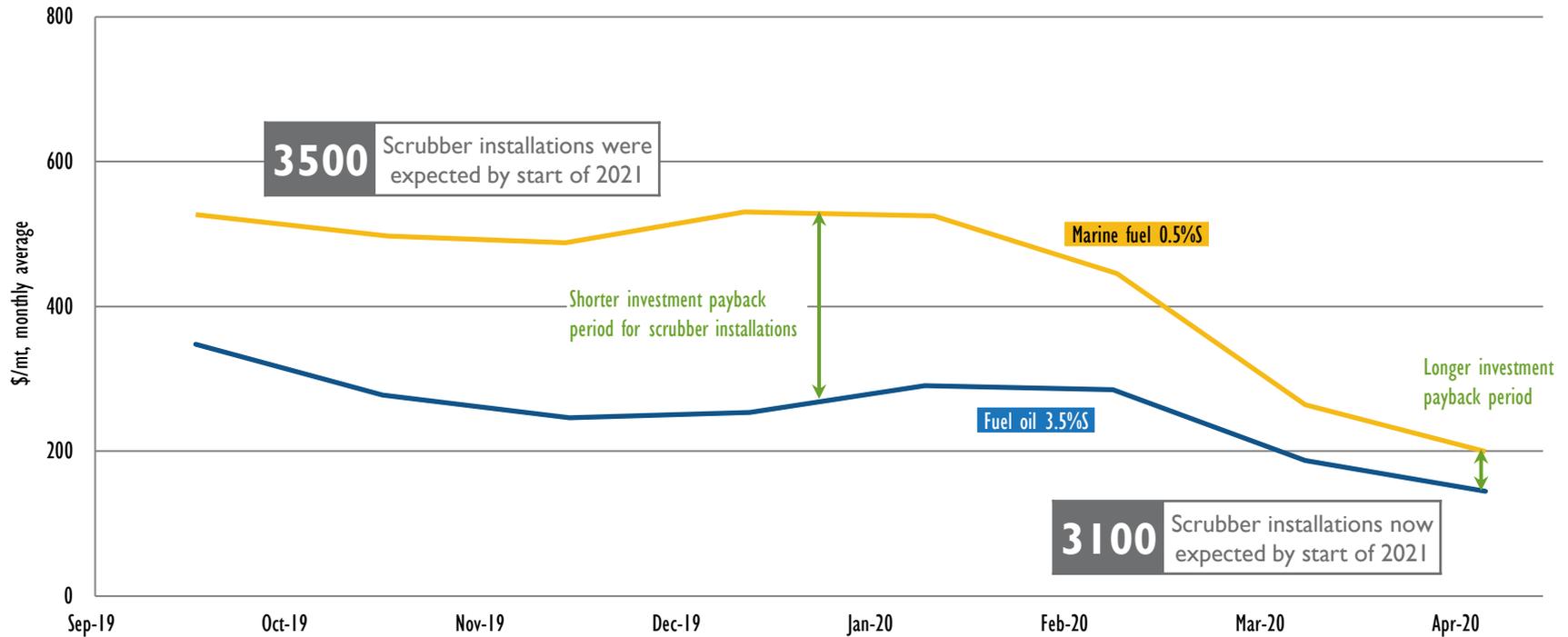
“There will definitely be a stimulus in renewable energy and for the ships too; we need to support the installation and maintenance of those windfarms” – Bureau Veritas

- Green economic stimulus packages focused on low carbon energy system development and infrastructure will have a fundamental effect on reducing emissions during the recovery
- Managed decline of fossil fuels should be central to every green recovery plan.

Source: Fitch Post Covid-19 Energy Outlook



Price Gap between HFO and LSF narrows post COVID-19



Source: Insights Global, S&P Global Platts, S&P Global Platts, Analytics, Rotterdam Port Authority



Newbuilding - Vessels Contracted – 4 years trend

Newbuilding Activity	Vessels Contracted				Year-on-Year
	2017	2018	2019	2020	Trend
Oil tankers	283	212	217	103	-36%
Chemical & Spec. Tankers	107	73	58	35	-18%
LPG Carriers	34	48	63	24	-48%
LNG Carriers	18	77	60	22	-50%
Bulk Carriers	423	458	327	114	-53%
Containerships	151	216	115	30	-65%
General Cargo Vessels	92	99	102	42	-44%
Ro-Ro Vessels	20	31	22	4	-75%
Refrigerated Vessels	6	3	5	1	-73%
Offshore Vessels	38	51	53	20	-49%
FPSO/FSU	5	5	6	3	-32%
Passenger & Cruise Ships	106	100	106	20	-74%
Other Misc. Vessels	45	33	38	22	-21%
Total Contracting	1328	1406	1172	440	-49%

Source: Clarksons 25th September 2020



SHIPBUILDING - BIMCO Ship Orderbook Survey - August 2020



“The continued increase in the supply of ships, despite higher demolitions and lower contracting, cannot be ignored as the volume of world trade is set for a considerable drop this year, and not forecasted to return to pre-pandemic levels until at least 2022. While the decline in contracting will result in slowing fleet growth in the coming years, balance in the shipping markets may prove elusive for many years to come” – Peter Sand (BIMCO)

The orderbooks for dry bulk and container ships in particular have fallen sharply. At 63.4m DWT, the dry bulk orderbook is at its lowest level since April 2004 and 34.7% smaller than twelve months ago. Similarly, the orderbook for container ships has fallen 10.3% in the past 12 months to its lowest level since September 2003.
BIMCO

“The sharp uptick in demolitions following the reopening of yards is entirely expected due to the demand shock from the Covid-19 crisis and expectations of a long road to recovery ahead of us. This is reflected in both the higher demolition numbers, with owners pushed to act on older and substandard ships that they had kept sailing until now, as well as the drop in contracting as the outlook for the next few years has become much gloomier than it was at the start of the year.” – Peter Sand (BIMCO)



Cruise Industry - Worst Hit - Slowest to Recover



In May, Norwegian used two of its cruise ships and two islands as collateral for part of a \$2.4bn fundraising. It said that this could see it through 18 months without cruises

“The disrupters to Cruise are absolutely catastrophic to the whole industry”
- Cruise Europe

“The cruise market is going through difficult time and they are very uncertain in the recovery of their business.” - Bureau Veritas

“The cruise sector will probably be the last to really recover from the COVID pandemic”
- UK Harbour Masters Association

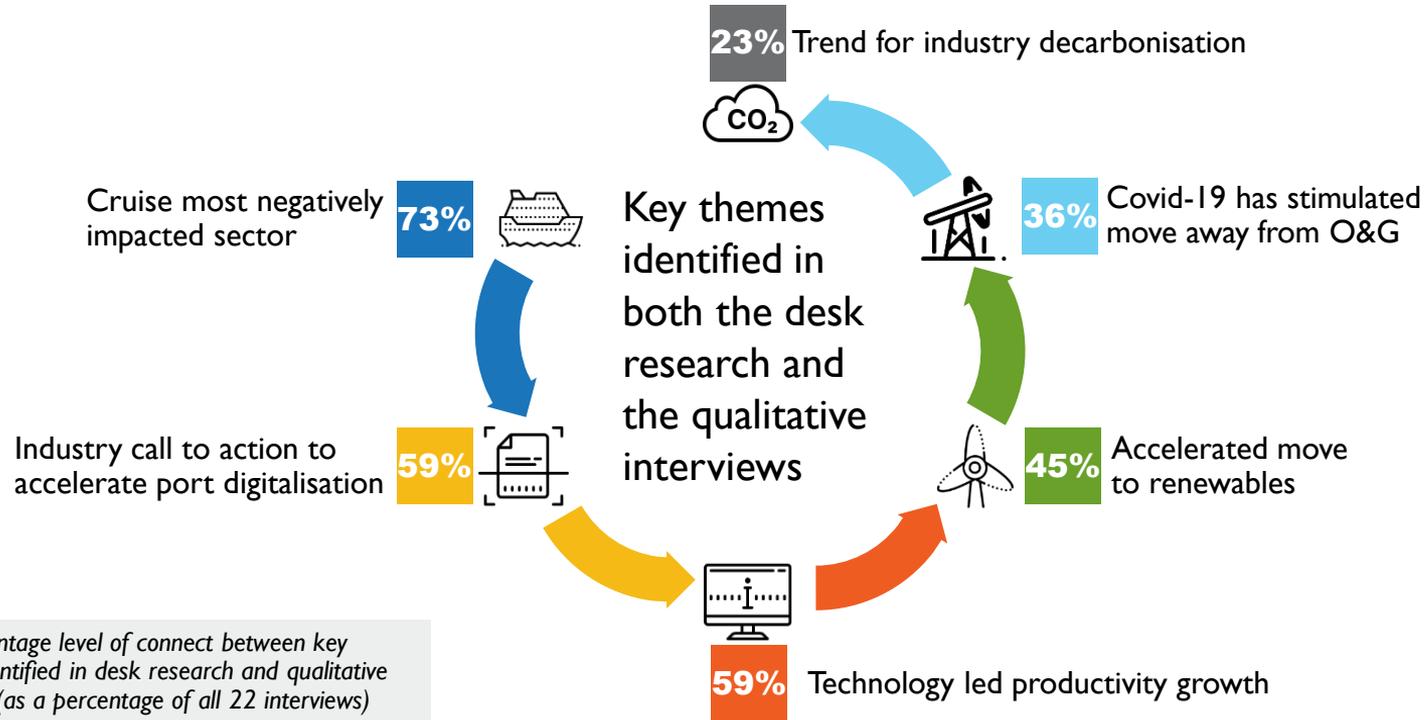
“I think it will recover but it will take time maybe one, two, three years for it to be back where it was in 2019, but I do see it recovering ...there is a demand”- Cruise Europe

Royal Caribbean raised \$3.3bn secured against 28 vessels and intellectual property, shortly after S&P and Moody's had both downgraded the company's credit rating to junk.

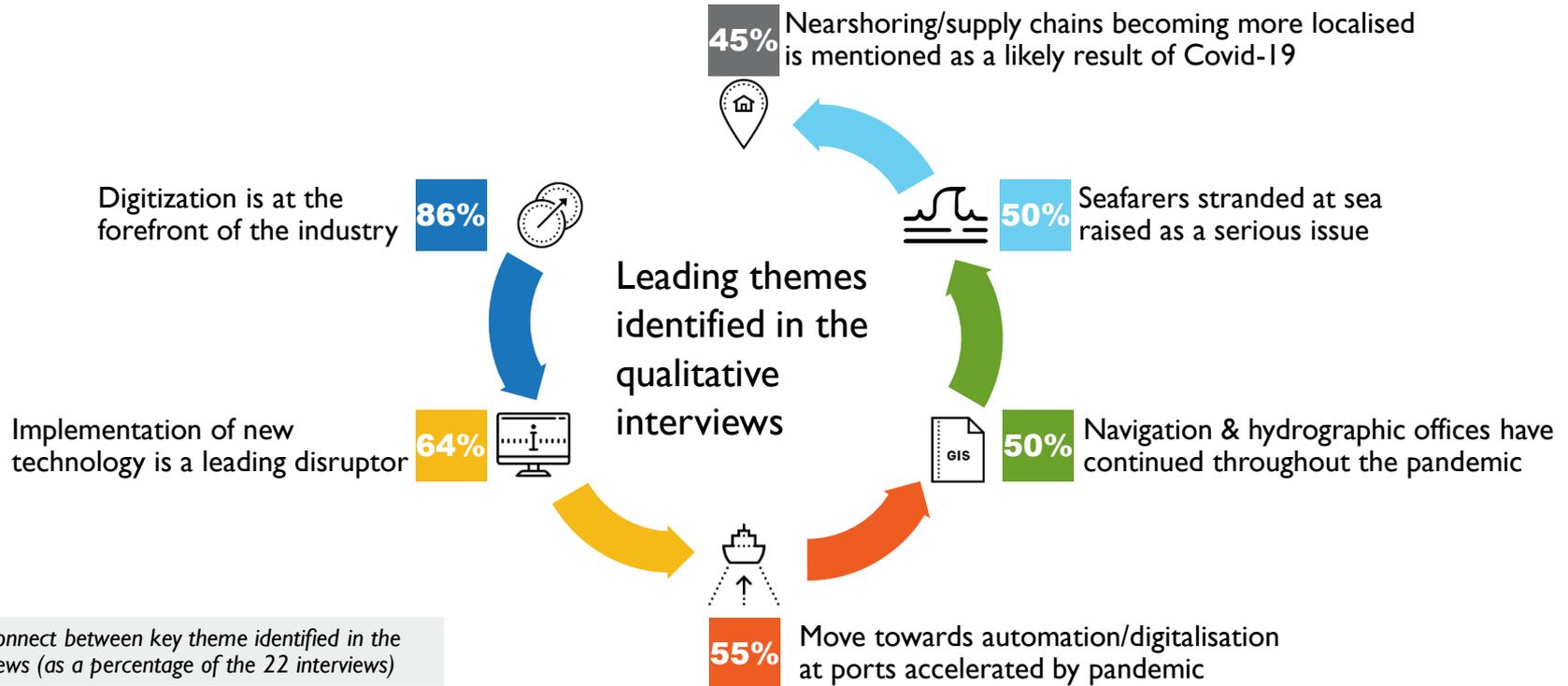
Also secured a binding commitment from Morgan Stanley for a \$700 million term loan facility.



Covid-19 is a Catalyst for Innovation & Change



Thought leaders have articulated main disruptors (more positive than negative)



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