C. OUTLOOK

1. Poor short-term outlook for maritime trade

Uncertainty remains an overriding theme in 2020. Predicting the impact on maritime trade and the timing and scale of the recovery is fraught with uncertainty. Many factors are at play, significantly influencing the outlook. These include the pathway of the pandemic, the effectiveness of the efforts to control further outbreaks, continued shifts in spending patterns, trends in consumer and business confidence, developments in commodity prices and the ability of stimulus packages to give an impetus to growth and put the world economy back on track. Bearing this in mind and extrapolating from past trends, UNCTAD expects the volume of maritime trade to decline in 2020. Based on the maritime trade-to-GDP ratio for the period 1990–2019 and the forecast of GDP growth by the International Monetary Fund (October 2020), UNCTAD predicts that international maritime trade will fall by 4.1 per cent in 2020 (table 1.12). Seaborne trade forecasts for 2021 also depend on economic growth projections, and these vary.

For example, UNCTAD expects world GDP to rebound by 4.1 per cent in 2021 (see table 1.3 above), the Department of Economic and Social Affairs in its May 2020 forecast projects a global GDP expansion of 4.2 per cent and the International Monetary Fund in its June 2020 forecast predicts that growth will bounce back to 5.4 per cent in 2021. By contrast, the WTO forecast of April 2020 points to a recovery in world merchandise trade volume in 2021 ranging from 21.3 to 24 per cent, depending on the scenario (WTO, 2020). For 2021, UNCTAD estimates that maritime trade flows will recover by 4.8 per cent.

2. Falling containerized trade volumes and rising service cancellations in 2020

Container shipping is strongly affected by the disruptions induced by the pandemic, as containerized trade is closely linked to world economic developments, consumer activity and supply chains. Reflecting the negative impact of the combined demand and supply shocks, volumes are coming under pressure in 2020. The large share of ship capacity idled and the number of services cancelled are a good indication of the slowdown. To provide a general picture, 10 per cent of global vessel-carrying capacity was sitting idle in April 2020 (Drewry, 2020d).

As shown in figure 1.8 and tables 1.9 and 1.10, global containerized trade is projected to contract across all trade routes, with intra-regional trade faring relatively better than the others.

Data available for the first and second quarters of 2020 highlight the impact of the pandemic on containerized trade originating from China across the three main East–West containerized trade routes (figure 1.13 (a) and (b)). Journeys involving the Far East, especially the export leg (westbound Asia–Europe, eastbound trans-Pacific), contracted in the first quarter of 2020, compared with the same quarter in 2019. These numbers were more pronounced during the second quarter when the slump in demand in Europe and North America was felt. On the transatlantic route, where automotive goods are a staple of container flows, the outlook has also deteriorated. As shown in figure 1.13 (b), double digit-drops on the transatlantic route were recorded during the second quarter of 2020.

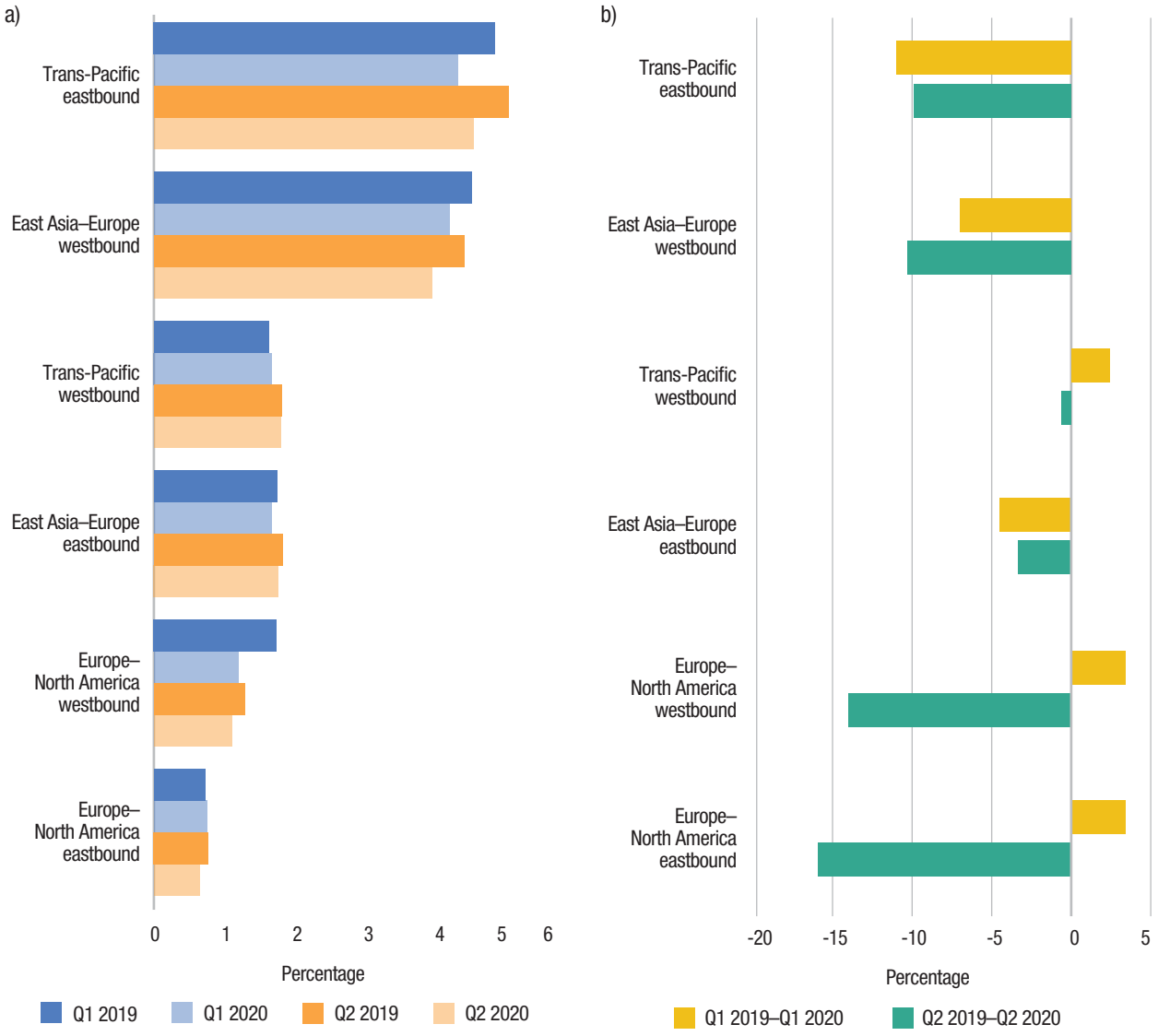
Owing to diminishing trade volumes as factory output in manufacturing regions slowed down and consumers reduced discretionary spending on non-essential items in Europe and North America, carriers cut capacity by introducing blank sailing, idling capacity and re-routing via the Cape of Good Hope to pare down costs while taking advantage of lower fuel prices (see chapters 2 and 4). This makes it possible to avoid the cost of transiting the Suez Canal ($600,000 and more for a one-way trip for ultralarge container ships) and absorbing excess capacity by extending sailing times. Re-routing vessels could

Table 1.12 International maritime trade development forecasts, 2020–2021
(Porcentage change)

Forecasting entity	Annual growth (percentage)	Years	Source
UNCTAD	-4.1	2020	International Monetary Fund world GDP growth forecast
UNCTAD	4.8	2021	International Monetary Fund world GDP growth forecast
Clarksons Research Services	-4.0	2020	*Seaborne Trade Monitor,* October 2020
Clarksons Research Services	4.7	2021	*Seaborne Trade Monitor,* October 2020

Source: UNCTAD calculations, based on own analysis and forecasts published by the indicated institutions and data providers.

Figure 1.13 **Containerized trade growth on main East–West routes**
(a) in million 20-foot equivalent units;
(b) percentage change, first quarter 2019–first quarter 2020, second quarter 2019–second quarter 2020



Source: UNCTAD calculations, based on MDS Transmodal, 2020b, World Cargo Database, 19 August.
Abbreviation: Q, quarter.

imply over $10 million in lost charges for the Suez Canal Authority. While a rebate scheme was announced in early May 2020, it failed to curtail the longer journeys via the Cape of Good Hope (DHL, 2020).

Blank sailing and service cancellations announced by the carriers without the usual notice periods affect service reliability and the ability of shippers to plan their supply chains. Deploying larger vessels means that any missed port calls caused by blank sailing has a greater impact on available capacity (JOC.com, 2020e). In June 2020, many ports reported that blank sailing had resulted in mega-sized vessels calling less often but when they did, the large volumes created peaks and operational challenges. These operational hurdles affect ports (ship-to-shore operations and yard activity), as well as landside distribution (Notteboom and Pallis, 2020).

Since container vessels move on a scheduled rotation, the cancellation of a sailing from the first port in the rotation cascades down to all the other ports served by that carrier in that rotation. Some smaller ports are particularly hard hit by multiple cancellations from different services. Ship capacity into and out of the ports of Manila and Odessa, the Russian Federation, for example, was reduced by 25 per cent in May 2020, that of the ports of Beirut and Visakhapatnam, India by 20 per cent, and larger ports such as Hamburg, Germany and Rotterdam, the Netherlands, by 10 per cent. Trans-shipment ports such as Colombo and Djibouti are also affected by such

reductions, 13 per cent and 11 per cent, respectively (Clipper Data, 2020). In this context, it is argued that blank sailing could increase the bargaining power of carriers compared with terminals and canals, owing to increased arrears for terminal-handling charges, for example (International Transport Forum, 2020).

Shippers also contribute to the disruption by cancelling bookings without prior notice to carriers, thereby making any planning to optimize vessel capacity difficult. At the port level, less traffic sometime results in the cancellation of work shifts without advance notice to inland carriers. The operational challenges are combined and amplified by growing detention and demurrage charges for exceeding free storage time and the late return of equipment to marine terminals (see chapter 2). The experience shared by the Northern Corridor Transit and Transport Coordinating Authority in Eastern Africa highlights some of these challenges in the case of a cross-border corridor and underscores the need for effective trade-facilitation measures (see chapter 4). Pressure on warehousing capacity, such as shipments of non-essential merchandise idled, are also reported (JOC.com, 2020e). Rebalancing of empty containers is another challenge, as empties were in shortage in Europe, while they stagnated at ports in China (JOC.com, 2020f). Information sharing, transparency and communication are key to avoiding the hurdles and inefficiencies that arise while responding to disruptions (Lloyd's Loading List, 2020c).

In April 2020, reports that some carriers had reinstated cancelled sailings and announced rate increases for the Asia–Europe route were met with some optimism as early signs of a recovery. However, others argued that sailings had been reinstated in part because carriers had overestimated the fall in demand and that activity could be explained by a clearing of the backlog that had accumulated when China was in lockdown (JOC.com, 2020g). In all likelihood, the announced extension of blank sailings through August 2020 points to the expected pressure on demand and recovery in maritime trade volumes. Blank sailings could give some indication about trends in demand. (Drewry, 2020e). While a decline in the number of blank sailings could be one of the earliest signs that global trade may be picking up (Clipper Data, 2020), conclusions should not be drawn quickly. Blank sailings alone do not provide the full picture and should be assessed against scheduled supply capacities and other relevant indicators.

3. Oil and gas trade declines with restrictions in travel and transport in 2020

The pandemic has had a significant impact on trade in oil and gas. Global oil demand fell with the freezing of large parts of the global economy, restrictions on travel and transport, and cuts in industrial activity and refinery output. Together, these factors have depressed demand, as volumes of both crude oil and refined petroleum products have declined. Supply-side factors are another consideration. A surplus in oil production has practically filled all oil inventories, with many vessels being used as floating storage (see chapter 2). The implementation of supply cuts by the extended group of the Organization of the Petroleum Exporting countries in early May 2020 is expected to reduce the availability of crude oil. Disruptions in oil infrastructure in Libya, alongside declining outputs in the Islamic Republic of Iran and the Bolivarian Republic of Venezuela, are also curtailing growth (Clarksons Research, 2020j). The outlook for liquefied natural gas shipping is also affected by the pandemic. Disruptions in early 2020 depressed import demand in China during the first quarter. With the global outbreak of the pandemic in March 2020, global demand for liquefied natural gas also came under pressure.

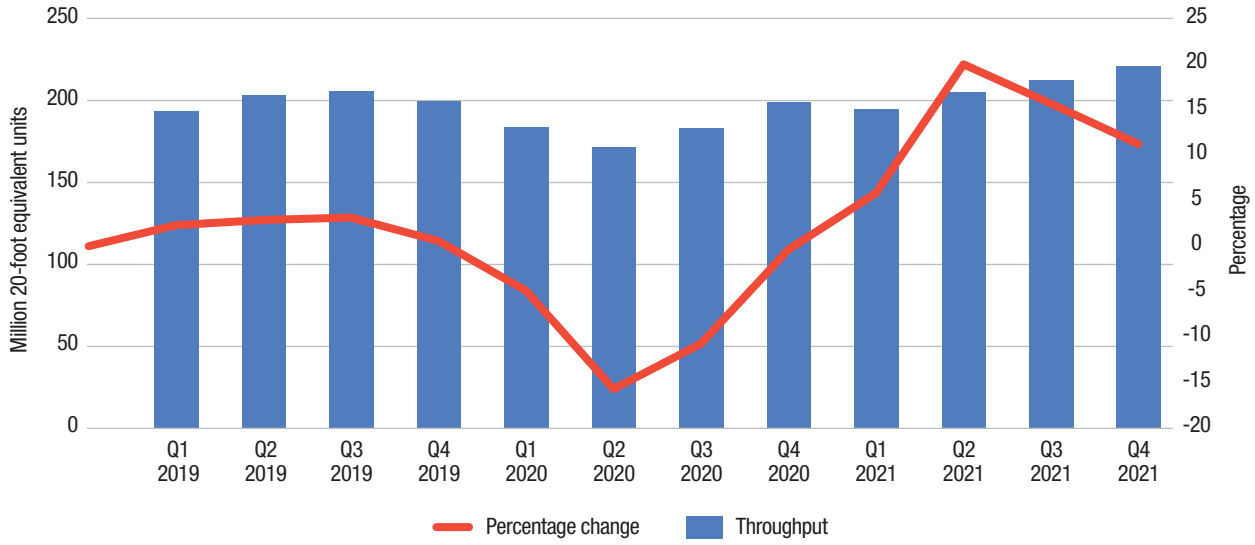
4. Dry bulk trade affected by decline in industrial and automotive sector activities

Reductions in mining and industrial activity had an impact on dry bulk trade but to a relatively lesser extent than containerized trade. Global dry bulk trade came under pressure in 2020, owing to suppressed economic activity and demand. Nonetheless, a partial recovery in Brazilian iron ore exports and the rebuilding of stockpiles in China should support iron ore trade flows after a decline in 2019, the first in two decades. Trade in coal is projected to shrink, due to weaker power demand in many regions, and lower oil and gas prices are making coal power generation less competitive. Minor bulk trade commodities, such as steel products, cement and scrap metal, which are associated with construction and steel manufacturing, generally suffer from a weakening of the economy. The steel and aluminium sectors, on which the automotive industry depends, collapsed, and the automotive sector was hit hard (Baltic and International Maritime Council (BIMCO), 2020). Trade in minor bulk commodities is expected to deteriorate in 2020, although some of the stimulus measures that concentrate on infrastructure and housing investment may boost demand for such commodities. Overall, assuming commitments set out in phase 1 of the trade agreement between China and the United States are implemented, grain shipments from the latter are likely to pick up. Generally, food-based agricultural commodities are less exposed to a decline in economic output.

5. Shrinking port volumes in 2020 and need for more storage space

According to a baseline scenario provided by Drewry, global port container throughput is expected to contract by 7.3 per cent in 2020. The contraction could amplify and reach 12 per cent if the negative scenario is upheld. As shown by the quarterly trends depicted in figure 1.14, global container port volumes collapsed in the second quarter of 2020 at the height of the

Figure 1.14 World port-handling forecast, 2019–2021
(Million 20-foot equivalent units and percentage change)



Source: Drewry baseline forecast; Drewry, 2020e, 2020 Container Forecaster Update, quarter 1, May.
Abbreviation: Q, quarter.

pandemic. Port volumes in 2021 will vary, depending on the scenario. Projected figures range between another contraction of 3 per cent and a jump of more than 10 per cent (Drewry, 2020f). The range of scenarios shows how unpredictable and volatile the short-term outlook can be.

Several ports reported an increase in port and terminal utilization due to a rise in imported essential goods, such as grains (rice, wheat). Other ports reported that traders began storing liquid bulk commodities in anticipation of future commodity price developments. Another situation faced by ports relates to the automotive industry, as many new cars were not collected, due to a collapse in sales, which resulted in the overcrowding of relevant storage areas. Storage space has also been used in cases where transit container shipping programmes have been suspended. For example, the Mediterranean Shipping Company applied the suspension of transit while using some of the world's leading trans-shipment hubs (Bremerhaven, Germany; Busan, the Republic of Korea; King Abdullah port, Saudi Arabia; Lomé; Rodman port, PSA Panama International Terminal, Panama; and Asyaport, Tekirdağ, Turkey). As reported in the experience shared by the Mediterranean Shipping Company, this allowed shippers to benefit from advance yard storage and start moving goods early in anticipation of a resumption in demand (see chapter 4).

Unlike shipping lines, which could mitigate the effect of volume reductions through, for example, blank sailings, service suspensions or capacity cuts, ports have no mitigation tools at their disposal and are likely to focus increasingly on costs. Developments in production and supply-chain-design choices are of relevance to ports. As noted above, the disruptions brought by the pandemic are likely to hasten a shift away from single country-centric sourcing. However, and as previously noted, while there may well be a shift away from China as a supplier, its supply chains have from some angles proved more resilient throughout the pandemic experience, compared with other locations.

Container ports will have an important role to play in servicing the migrating trade. The new locations will need to prepare for the potential growth in volumes. For example, Cambodia and Indonesia are said to have shortfalls in port capacity, that is, to handle more traffic and larger vessels. In Viet Nam, the major beneficiary of recent changes in container trade patterns, port capacity is considered suitable, although the country may need to invest in deepwater berths capable of handling larger vessels and direct calls. Closing the infrastructure gap in the region is estimated to require over $12 billion in investment (Drewry, 2020g).

6. Shifts in consumption and shipping patterns with the rise of e-commerce likely to continue

The pandemic revealed how e-commerce can be an important instrument to sustain consumption during crises. The pandemic and the lockdown may have boosted e-commerce uptake, which may continue as consumption patterns evolve. The potential for growth is significant. UNCTAD puts global e-commerce sales in 2018 at $25.6 trillion, up 8 per cent over 2017. In 2018, the estimated e-commerce sales value, which includes business-to-business and business-to-consumer sales, was equivalent to 30 per cent of global GDP. The United States continued to dominate the overall e-commerce

market and remained among the top three countries in business-to-consumer e-commerce sales, namely China and the United Kingdom (UNCTAD, 2018). Global cooperation in the area of e-commerce, which would facilitate the cross-border movement of goods and services, narrow the digital divide and level the playing field for small businesses, will have to be enhanced (Lloyd's Loading List, 2020d).

Growing e-commerce shipping will put more pressure on warehousing and distribution capacity, as business will want to ensure the availability of safety stocks and buffers. In turn, this will increase demand for storage and space. Demand for logistics space continues to outpace supply in Asia, where consumer demand for e-commerce is growing much faster than the logistics infrastructure supporting it. More than $4 billion have been poured into Asia-based logistics development funds since the beginning of 2020 (JOC.com, 2020h). Demand for distribution centres and warehouses is also expected to increase, given the changes brought about by COVID-19-induced disruptions. For example, supply chains were re-appraised, inventories were increased and the geographical diversification and decentralization of supply chains pursued.