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Prospects for international maritime shipping

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technology. Appropriate technology would in turn help to equalise the distribution of incomes.

The promotion of labour-intensive technology therefore is an indispensable part of a basic-needs concept – especially in its initial phase of realisation; exactly what the choice of technology will have to look like once the satisfaction of everyone's basic needs has been achieved must remain an open question for the moment.

Practical Application of the Concept

The Programme of the ILO contains a number of further proposals beyond the essentially economic aspects discussed here, however, some of them with little bearing on the main points mentioned above, but which nevertheless must also be considered as part of the framework. The wide scope of the Programme in itself represents a considerable problem: it seems as if this programme, worked out on the international plane, aims at satisfying the demands of so many nations and power groups that complete implementation within a reasonable period is unrealistic. In other words, the danger of a dilution of the basic-needs strategy lies not so much in – economically or politically conditioned – deletions, as in too many additions. A typical example is

the attitude of the ILO towards the New International Economic Order: it is assumed, without discussion, that the two concepts are harmoniously complementary, even though the NIEO will have to be very carefully adapted to the requirements of the basic-needs strategy if contradictions are to be avoided, as the NIEO continues to be based largely on traditional yardsticks of development²⁴.

Naturally no one will expect an overall plan of action to provide detailed directions on how to act. The basic-needs concept must keep numerous options open if only because many of the relationships involved have not yet been investigated at all. Nobody knows how an economy reacts under such massive interference and manipulation as is envisaged in the ILO Programme. The scope of action of individual governments is therefore inevitably kept wide. The Programme of Action repeatedly emphasises that national sovereignty and freedom of decision have precedence over international doctrines. It therefore remains to be seen what concepts will be developed by the different countries for the satisfaction of basic needs and what actions they will decide on.

²⁴ Cf. the more detailed discussion in R. Heierli-Hogaustr., op. cit., p. 14 ff. and p. 52 ff.

SHIPPING

Prospects for International Maritime Shipping

by Peter M. Nomikos, London/Piraeus*

The world's energy supplies are dependent not only on the producer countries' production capacities and policies but also on adequate transport facilities. In fact, a shortage of vessels able to carry coal is widely expected to be a major bottleneck for the substitution of oil by coal on a large scale. Shipowner Peter M. Nomikos holds a different view.

Carrying goods by sea is inherently the cheapest form of transport and very sensitive to economies of scale. Furthermore, maritime shipping, which is primarily international, has always been dynamic, independent, flexible and adaptable. It is capital intensive and likely to become more so, and its development has often followed unpredictable courses. It is certainly not for the faint-hearted. Therefore, it has attracted and will continue to attract skilful entrepreneurs and risk-takers. It has been claimed by

some to be the only industry left where pure competition, in the classical sense, prevails and this seems to "contaminate" even Eastern Bloc shipping when involved in international trade. These basic characteristics will not change significantly in the future and, as long as they do not, international shipping in its many specialized forms will continue to serve the growth of world trade most effectively and efficiently.

Adaptation to New Markets

The post-war period has been marked by an adaptation of ships to new markets, thus giving rise to all

* Slightly modified version of a paper presented to the Athens Seminar on Growth and Trade on July 25, 1981.

kinds of specialized carriers. This trend, which had started before the Second World War, is well established today. Broadly, the market is divided into liquid carriers, dry carriers, combination carriers and others (including passenger ships, fishing vessels, etc.). On the liquid side the flexible Second-World-War-built T2 oil tanker was succeeded by new and bigger crude oil carriers continuously increasing in size – super tankers, mammoth tankers, VLCC's (Very Large Crude Carriers), ULCC's (Ultra Large Crude Carriers) – and by clean and dirty product carriers of petroleum products, specialized chemical carriers, LPG (Liquified Petroleum Gas), LNG (Liquified Natural Gas), wine and even orange juice carriers. On the dry side the traditional tramping tweendeckers are still being built and being adapted to the new trades. The bulk trades, however, have been dominated by the bulk carriers, of all sizes from minis to mammoths. Container ships, Heavy-Lift Ships, ro-ro (Roll-on/Roll-off), LASH (Lighter Aboard Ship) and all types of cargo liners have evolved for other specialized trades. The combination carriers, the O/O's (Ore/Oil), the OBO's (Ore/Bulk/Oil) were developed to take advantage of more than one market.

This specialisation will continue and ships will continue to adapt to the new trades. Already Very Large Coal Carriers of over 200,000 tons deadweight have been designed and are under construction. Sewage Disposal Vessels are under serious consideration and Floating Factory ships are already in existence and likely to evolve further. Even Very Large Water Carriers (VLWC's) are being considered as good water becomes a valuable commodity.

It is impossible to review here all aspects of shipping and its expected growth but the point is that international maritime shipping has been continuously adapting to the needs for growth in world trade and in a timely fashion, anticipating these needs.

Benefits from the Tanker Surplus

It has recently become fashionable to "attack" tankers mainly because of their pollution potential and to dismiss them (especially the very large ones) as dinosaurs (or should one say "petrosaurs"), implying their early demise. The kindest thing said about them is that they are a necessary evil. But tankers are the arteries and veins of this world and they keep us efficiently supplied with what is still the most important source of energy: oil! This source of energy is likely to retain its importance in spite of the continuously worsening long-term outlook for oil resources.

There is presently a large surplus of tankers of all sizes, but especially of the very large crude carriers, overhanging the market. Under normal operating conditions about 50 % of the world tanker fleet would be presently redundant. Shipowners are desperate and oil companies are reducing their fleets. Ships are slow-steaming, slow repairing and "hanging around" loading areas waiting for cargoes. Market values of large crude carriers are at best around one-tenth of their replacement cost. They are valued like milk bottles to milk. The ratio of values is almost the same.

However, there is a positive side to this sad story and it should be emphasized here that there is a great benefit to the oil importing countries resulting from this surplus (not limited to cheap transport rates), which has been unobtrusively assisting in reducing energy-bottlenecks and in keeping oil prices under control. Were it not for this surplus, the oil companies could not have maintained a full oil pipeline of slow-steaming tankers, a flexible pipeline which helps to reduce the impact of crises such as the recent Iraq-Iran war. The ability to pick up cargoes of oil when and where they become available with a large supply of tankers (and at low rates) has been of great help to the oil importers.

Furthermore, the use of tankers as floating storage for a short term or medium term everywhere in the world has been invaluable for maintaining a secure flow of oil, besides relieving seasonal needs and helping the Saudi Arabians in achieving their enlightened policy of a unified pricing system within OPEC. In a worsening international situation with threatening conflict this tanker surplus could play an incalculably crucial role.

What are the prospects for tankers in general in view of the falling demand for oil? The present tanker surplus will probably not last forever, especially in view of the ever accumulating financial losses. The time will come when a balance will be re-established between supply and demand (in crude carriers later than in product carriers) through a fall in supply of tankers (i. e. scrapping) and not through an increase in demand. (It should be noted that there are practically no new tankers of over 200,000 tons deadweight on order today.) When this time comes the benefits derived from the present surplus in tankers could be sorely missed (of course not by the shipowners and the shipbuilders).

Furthermore, the cost of replacement will be extremely high, maybe even 20 times the present market value of equivalent ships. This is almost certain to happen within the next 3-7 years depending on the level of economic activity and type of ship needs. All the estimates of oil demand are extremely pessimistic, and this in itself is enough to create a shortage of tankers

sometime in the future provided the most pessimistic outlooks do not materialize.

The reverse is happening in the case of coal carriers where the estimates are "bullish". It is a foregone conclusion that we will have to turn to coal increasingly for our energy needs and it is expected that a substantial shift to coal will begin in the mid to late 80's. Estimates, however, of total coal requirements, like all estimates, are strongly influenced by assumptions. And estimates of coal import requirements are subject to even more assumptions.

Increasing Supply of Coal-carrying Ships

Let us take for illustration some estimates from the recent World Coal Study of the Massachusetts Institute of Technology, an international project involving the major coal-using and coal-producing countries. Projected expansion, on the basis of a moderate increase, of OECD steam coal import requirements to the year 2000 are given therein. Depending on two basic assumptions – only one of oil limitations and another of nuclear delays – the annual estimates of imports (not necessarily all sea-borne imports) by the year 2000 vary from 210 to 650 mtce (million tons coal equivalent). The disparity ratio of about 3 to 1 in these estimates could be even higher (as high as 6 to 1) if the Study's other assumption of high increase coal demand is included.

In any case, coal export potential from producing countries seems to exceed the optimistic export forecasts. In spite of that, regional supply uncertainties must be added to the demand uncertainties, as politics, economics, technology and the uncertainty of timely availability of physical facilities of all kinds come into play. So, even with coal, energy bottlenecks can occur and will occur, but it seems unlikely that these will occur as a result of the unavailability of vessels able to carry coal.

The reason for this is that on an international level in modern conditions of high shipbuilding capacity and flexibility in production the shipowners and the shipbuilders are, more likely than not, going to create a temporary but large surplus of coal-carrying ships, because the well-advertised views of the forecasters and decision-influencers of yesterday and today (and usually their most optimistic forecasts) tend to be believed by both profit-seeking private shipowners and hungry shipbuilders and consensus-following institutions (and this includes banks). These then could, and will, combine to cause an excessive production and a surplus of those ships that the forecasters and decision-influencers had been saying a few years earlier would be most obviously needed.

In spite of the potential hardship that this may cause to some imprudent shipowners, occasional temporary surpluses of vessels able to carry coal (not limited to specialized coal carriers) will occur which, from the point of view of the growth in world trade, will be highly beneficial.

The Future of Shipping

For the profit-seeking shipowner and the hungry shipbuilders the main stimulus, the need to carry coal, is firmly established. But many questions abound:

- What will be the capital requirements of this coal-carrying ship expansion and how will it be financed?
- What will be the size and type of vessel in most general demand? In other words the "workhorse" of coal carrying?
- What will be the nature of the chartering market? What will be the relative importance of long-term to short-term contracts and so-called spot fixing? Will it follow the post-war patterns of the tanker market? How closely? Will today's pattern of coal trading change significantly?
- Will shipping maintain its independent free enterprise character for the benefit of this market?
- Who will the new owners be? What flags? What interests? What crews?
- How will regional supply uncertainties and availability of production, loading and discharge facilities influence this market?

Shipowners have always been great risk-takers and they will continue not to shy away from taking risks. And if some of today's shipowners might lose this zest, other profit-seeking shipowners will come forward. Let us not forget that the biggest shipowner of today (Y. K. Pao of Hong Kong) hardly existed as a shipowner 15 years ago.

When it comes to investing in international shipping there are several financial inter-related imponderables whose impact on the shipowners is potentially acute. These are: availability and cost of energy, the rate of inflation, the relative value of currencies and interest rates, and these imponderables can be awesome especially in "newbuildings" of high technology (where it is not unusual to have investments of one to three million dollars per crew member) and where the cargoes carried more often than not exceed the value of the ship. In the final analysis, because investing in shipping is one great financial gamble, shipowners require not only extensive problem-solving ability, but also considerable foresight and a great deal of daring.