

Shipping heads hesitantly into a year of uncertainty

Next year is likely to be dominated by the same themes as in 2019 — sanctions, scrubbers, sulphur and supply. But the big decisions are all on hold thanks to uncertainty over the twin dynamics of decarbonization

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Will a period of uncertainty and volatility in 2019 force the industry get back to basics and manage risk more effectively in the coming year?



Source: GaudiLab/Shutterstock.com THOSE PREPARED TO LOOK A LITTLE LONGER-TERM AND ACCEPT A MORE OBJECTIVE, CLEAR-EYED ASSESSMENT OF THE CHANGING TIDE AROUND THEM MIGHT WANT TO MODERATE THEIR NEW YEAR CHEER.

THE shipping industry's pathological optimism will no doubt colour its collective thinking for 2020.

Where others see slowing globalisation, increasing protectionism and a falling trade-to-GDP ratio, maritime minds focus on the slivers of opportunity that present themselves. Squint carefully through rose-tinted varifocals and you will see modest trade growth improvements, a more manageable supply side with a shrinking orderbook and yard

consolidation on the horizon. The Lloyd's List sectoral market outlooks, which will be published over the coming days here on [Lloydslist.com](https://lloydslist.com), this year represent a mixed bag, but the sanctions, scrubbers and sulphur scenarios that have been fuelling fortunes and forwarding thinking this year are not going to stop just because the calendar year has clicked over into 2020.

Anticipation of higher freight rates has been keeping many a beleaguered operator going in the fourth quarter this year and the likely effect of retrofit queues, continuing political challenges and, for tankers at least, a sulphur cap boost, should make for a positive story, for some, into 2020.

But this is a short-term view, cherry picking the most positive elements of what is yet to come.

Those prepared to look a little longer-term and accept a more objective, clear-eyed assessment of the changing tide around them might want to moderate their new year cheer.

Last year we argued that exogenous events would dominate the industry's fortunes more than any internal maritime matters, and that is an easy enough forecast to extend into our thinking this year.

Uncertainty, as the cliché has it, is the only certainty we can rely on.

The editorial thread running through Lloyd's List's coverage this year has been the central belief that the shipping industry is on the brink of an epoch shift. The dynamics of digitalisation and decarbonisation will be a long-term project for the shipping industry to contend with.

The answer to the question of how you decarbonise an industry built on carbon is simple: slowly and at great cost.

But this year at least we have seen the emergence of a coalition of the willing, prepared to take a stance via big-ticket programmes such as the Poseidon Principles and the Get to Zero Coalition. That is to be applauded and the progress made this year will only accelerate in 2020, but caution must be applied here.

The blue-chip leaders of this charge, notably dominated not by shipowners but by finance and cargo interests, are only the tip of a stubbornly fragmented industry that is still ill prepared to take advantage of the emerging changes. The calls for business model innovation and significant investment in new technology and fuel types have been heard, but the majority of the industry are holding the door open for others to lead, looking awkwardly at the floor, muttering something to the effect of "no really, after you"...

First mover advantage is a myth in shipping, best left to the roll-necked sweater contingent in Silicon Valley. However you cut this, costs are rising and there is little to indicate that revenues will follow suit.

This argument is not offering any new insights, but the fact that our thinking has not shifted significantly from last year's series of sector outlooks is problematic.

Uncertainty now pervades every aspect of strategic thinking in the industry. We are collectively on hold while the twin mega trends of digitalization and decarbonization progress sufficiently for anyone to make a long-term investment decision.

The more manageable supply situation is partly born out of financial constraints and a long-term lack of liquidity, but even those with the means are not moving, precisely because there are not clear choices to make right now.

Around 30% of global yard capacity have not landed any new orders this year and the orderbook is at its lowest level in 15 years. With no clear direction yet for shipowners to head towards in terms of zero-emissions investments in the next generation of vessels, the inevitable consolidation of shipbuilding is going to be an interesting new dynamic in the market to look out for.

In the meantime, freight rates remain under pressure, global trade continues to be buffeted by trade tensions and protectionism, the fleet supply is still outpacing flagging demand, and shipowners' ability to pass on the additional cost of the 2020 sulphur switch is still far from certain.

So as the industry deals with mid-term uncertainty and the continuing volatility of macro forces and economic headwinds, perhaps there is at least a scenario for the optimists to consider. We can't predict the future and even if we could, the shipping industry has a rapidly diminishing number of tools in its box to affect change positively. That means it's time to get back to basics and focus on how to best manage the risk more effectively. Navigating turbulent waters is, after all, our business.