Navigating a post-COVID world: Survey results
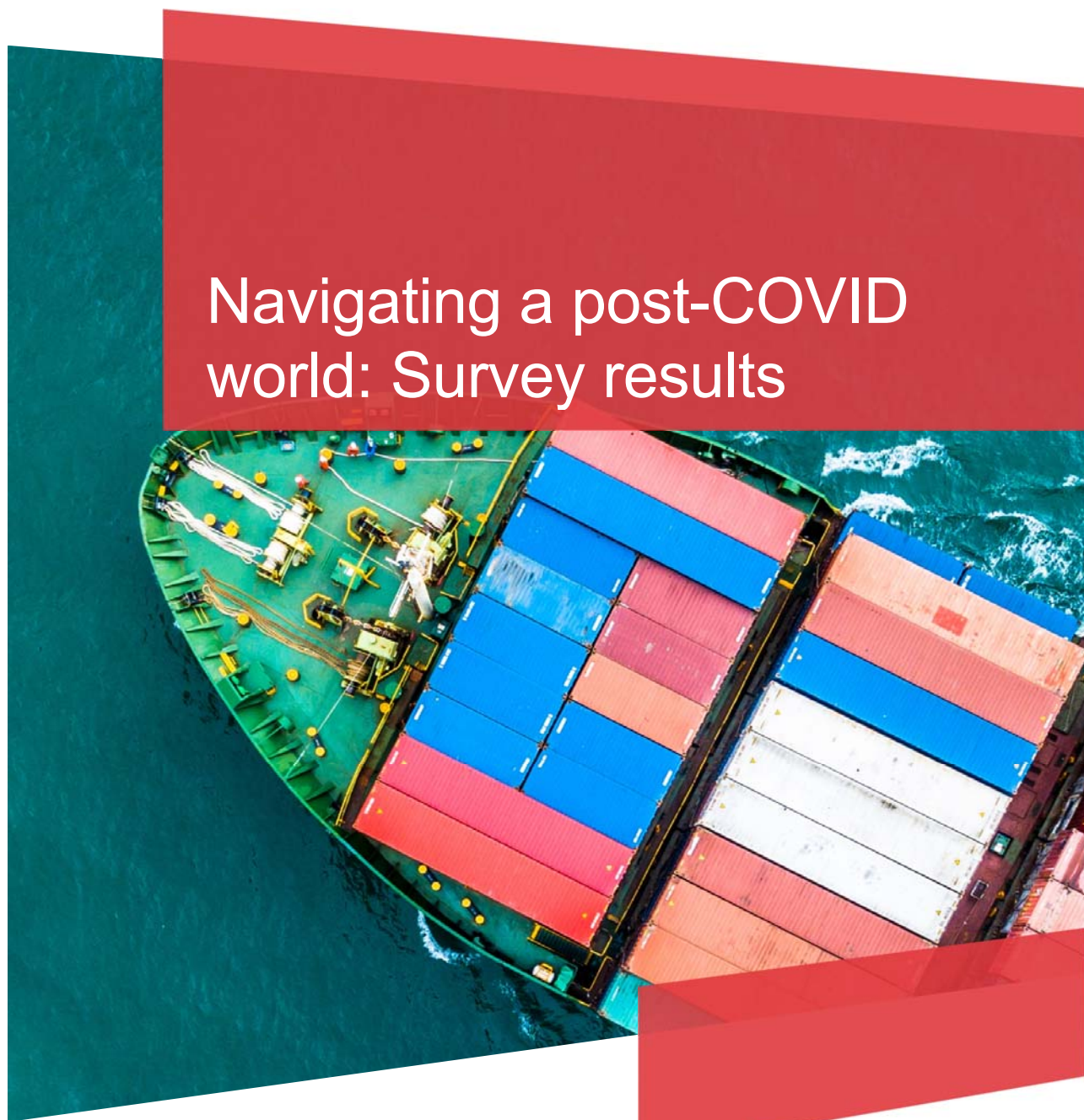
ReedSmith

Driving progress through partnership

Contents

Foreword

Following the global onset of the COVID-19 pandemic in 2020, and its immediate and widespread impact on shipping and international trade, we decided to conduct a survey to discover what impacts participants consider the pandemic will have on the shipping industry in the longer term.

In light of the responses, we have produced this report to record the range of views as to how COVID-19 has affected the shipping industry, and how it will continue to do so. As the sector starts to return to the "new normal", we take a look at how a post-COVID world has altered the business of shipping, and whether it has created any opportunities to change the industry for the better.

Perhaps more than anything, technology has been the driving force behind the world's response to the pandemic, and the shipping industry has not been immune to an acceleration in its adoption. The use of technology during the pandemic may have given industry leaders a chance to re-evaluate newer technologies such as autonomous vessels, blockchain and electronic trading documents, and to factor the speed of change into their strategic thinking and future investments.

In parallel with the pandemic, environmental issues have become increasingly business-critical for the shipping industry with the introduction of low sulphur fuel regulations last year and the IMO's ambitious target of halving carbon emissions from ships by 2050. Executing on this target is top of mind for industry leaders as we head into the new normal.

How the shipping industry responds to the challenges presented by COVID-19, in the context of the wider pressure to decarbonize and utilize new technologies, could determine the shape and future direction of the industry for years to come.

We hope you find the report interesting and valuable.

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Methodology

This survey was conducted in the second half of 2020 and sought responses from a range of industry professionals across the breadth of the shipping sector, as set out below.

Areas of the market

- Finance (16%)
- Ship operation (8%)
- Dry cargo (6%)
- Offshore (5%)
- Containers (3%)
- P&I (38%)
- Ports and logistics (3%)
- Shipbuilding and shipyards (3%)
- Tankers and gas (15%)

Industry participants

- Insurers (30%)
- Professional services (27%)
- Operators (12%)
- Owners (11%)
- Charterers (7%)
- Financiers (5%)
- Ship mangement (5%)
- Government or transport authority (3%)

Regions

- Asia (24%)
- Northern Europe (19%)
- Southern Europe (16%)
- North America (11%)
- Eastern Europe (5%)
- Central America and the Caribbean (3%)
- Western Europe (3%)
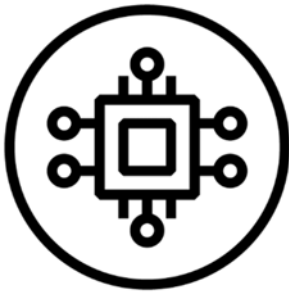
Technological drivers

Q: Has the pandemic's impact on your overall operations increased your need for adoption of better digital systems and IT infrastructure?

IT infrastructure

- Increased
- Decreased
- Not impacted

73%
22%
5%
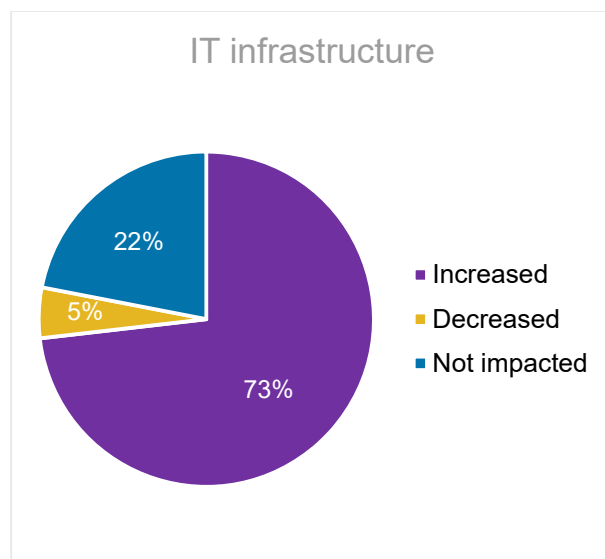
Technology adoption in the shipping industry

As with many industries, the COVID-19 pandemic has demonstrated that jobs which have traditionally only been performed in an office setting can be performed just as well remotely. Remote working has become the new normal for many companies across the globe, and the shipping industry is no exception. The sector has been viewed by many as a late adopter of new technology. However, in recent years a number of advances have been made. Autonomous vessels and the increasing use of blockchain technology are two of the key developments identified as drivers of change in our 2018 digital age survey. As, more industry participants have been forced to review their information technology systems as a result of COVID-19, we can expect the pace of technology adoption in the shipping industry to increase. This is a view that was shared widely by our survey respondents, with 73 percent indicating that the COVID-19 pandemic has increased their need for better digital systems and IT infrastructure.

Autonomous vessels

The COVID-19 pandemic has seen many seafarers stranded on board vessels for long periods of time due to port closures and quarantine requirements. The argument for speeding up the development of autonomous vessels, which require no or limited numbers of crew physically on board, has become stronger. COVID-19 has heightened the thinking around how technology can reduce the risks in shipping, particularly to crew, using technology as the vehicle to reduce these risks.

Transparency

Q: Do you believe that there is a need for more transparency in the shipping industry in order to tackle the impact and challenges caused by the pandemic?

Transparency

- More is needed
- Less is needed
- No change is needed

63% / 32% / 5%
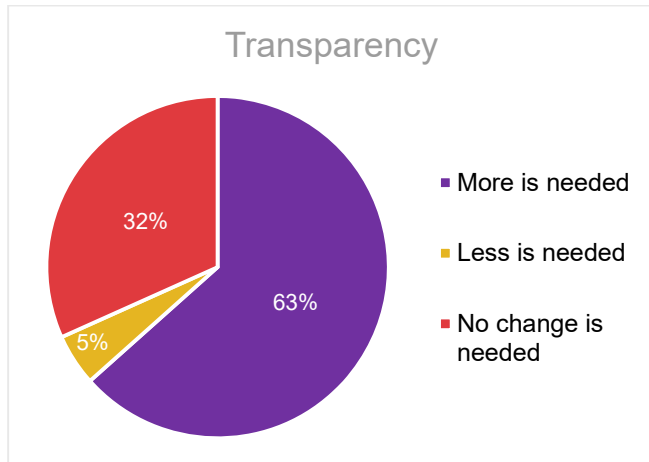
Transparency

Following the onset of COVID-19, collaboration among shipping industry participants became a paramount factor in continuing to meet global challenges. Many industry participants worked together to ensure that essential trade could continue across the globe. Almost two-thirds of our survey respondents felt that more transparency in the shipping industry is needed in order to tackle the impact and challenges caused by the pandemic. Increased levels of transparency would allow the industry to work more collaboratively and drive efficiencies across the sector as a result. Transparency is also critical, in the eyes of many, to ensuring delivery of rapidly-emerging environmental and social agendas.

Is blockchain the answer to future transparency issues?

Transparency within industries can be achieved in many different ways, but in keeping with the digital age, which has defined the twenty-first century so far, technology seems to be an obvious solution. Blockchain gives anyone who is granted access to it the ability to see the entire history of a particular shipment or process. A number of platforms have been developed in recent years, such as the Maersk and IBM TradeLens project. This developed as a result of customers' desire to track their cargo along its journey. However, a key drawback of blockchain is that it requires all participants within the process of the shipment to use the same blockchain technology, and at the moment that is a relatively small proportion of the industry.
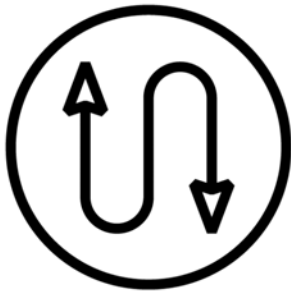
Trade routes

Q: Do you think trade routes will change as a result of COVID-19?

Trade routes

- Yes: 32.50%
- No: 67.50%
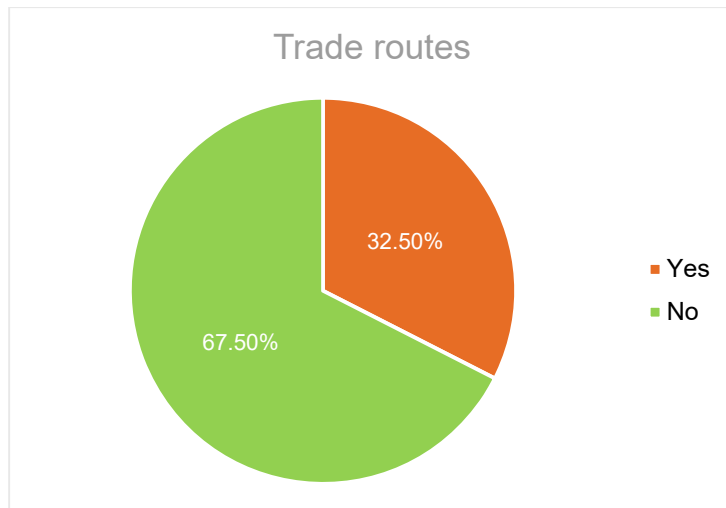
With a range of ports having to close during the height of the COVID-19 pandemic, some vessels found themselves having to change route in order to find an accessible port. Flower exports from Kenya to Europe, for example, were particularly susceptible, with exports decreasing by 50 percent[1] as a result of trade routes collapsing. At the same time, developed economies faced a spike in demand as a result of panic-buying of certain goods, coupled with delays in transporting the goods around the word to meet the increased demand, causing prices for certain items to rise globally. Overall supply and demand is unlikely to change dramatically in the near term and many route changes resulted from port closures, which are unlikely to continue to the same degree even though COVID-19 is likely to remain with us for some time. This is perhaps why the majority of our survey participants think that trade routes will not change as a result of COVID-19.
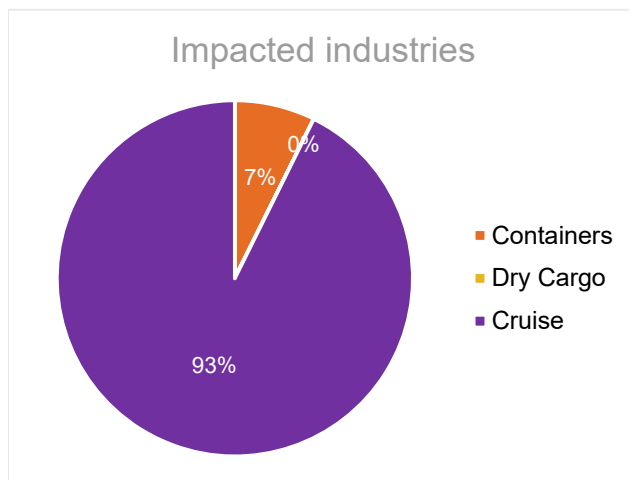
Sanctions

International sanctions continue to have an effect on the shipping industry, with Iran, Syria and Venezuela being just three countries where restrictions have directly impacted trade routes. A number of political changes are likely to have an impact on sanctions throughout 2021 and beyond – Brexit will see the UK implement its own sanctions policies, separate to those of the EU, and we are starting to see what the Biden administration will consider prioritizing in the United States.

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[1] https://www.brookings.edu/blog/africa-in-focus/2020/05/21/covid-19-and-the-future-of-work-in-africa-how-to-reduce-income-loss-for-formal-sector-employees/.
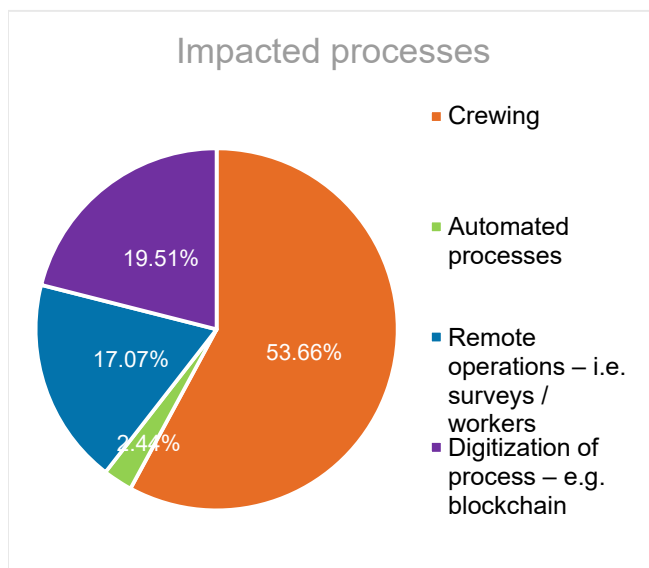
Impacts of COVID-19

Q: What do you think will be the most impacted as a result of COVID-19?

Impacted industries

- Containers
- Dry Cargo
- Cruise

7%
0%
93%

Q: What do you think will be the most impacted as a result of COVID-19?

Impacted processes

- Crewing
- Automated processes
- Remote operations – i.e. surveys / workers
- Digitization of process – e.g. blockchain

53.66%
19.51%
17.07%
2.44%

The end of cruising as we know it?

Unsurprisingly, the cruise industry was seen by our respondents as the industry that will be the most impacted as a result of COVID-19. With almost 400 cruise vessels operating worldwide before the pandemic hit, the cruise sector was booming. Now, however, according to the Cruise Lines International Association, since March 2020, in Europe alone, more than 200,000 jobs that depend directly or indirectly on the cruise industry have been lost. Kick-starting the cruise industry, with the panoply of safety measures which cruise lines will have to implement to encourage passengers back on board, such as social distancing and COVID-19 testing, means the pandemic could have a long lasting effect. Some cruise lines are now starting to take their first voyages, it remains to be seen how the cruise industry will be impacted by the fallout from COVID-19.

Changing processes as a result of COVID-19

With more than 1.2 million seafarers at sea at any one time and the human impact, we have seen over the past year, it is no surprise that our respondents saw crewing as likely to be the most impacted process within the shipping industry. In July 2020, the UK hosted the first International Maritime Summit on Crew Changes, to address crewing issues as a result of COVID-19, with the United Nations and other political and business leaders. The outcome of the summit was that seafarers were deemed "key workers," affording them the protections of other key workers among IMO member states. With the advancement in autonomous vessels potentially providing an answer to some of the crewing constraints in the longer term, the pandemic may well have forced shipping companies to re-evaluate crewing needs for the future.

Scenario planning

Q: The uncertainty of the last year has arguably raised the need for a strategic approach against future disruptions. Towards which area(s) do you believe scenario planning is necessary for the next 5 years?
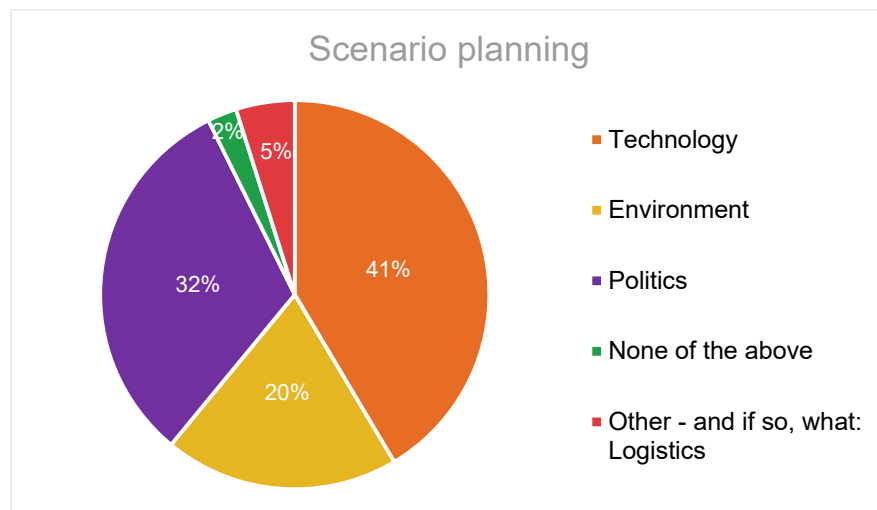

Plans for the future

Technology remains a consistent marker for change across the industry. Undoubtedly, the COVID-19 pandemic has highlighted the need for the shipping sector to develop emerging technologies and integrate them into its operations. This will help to make the industry more robust in defending against debilitating crises, such as cyber-attacks, that render more traditional operations difficult.
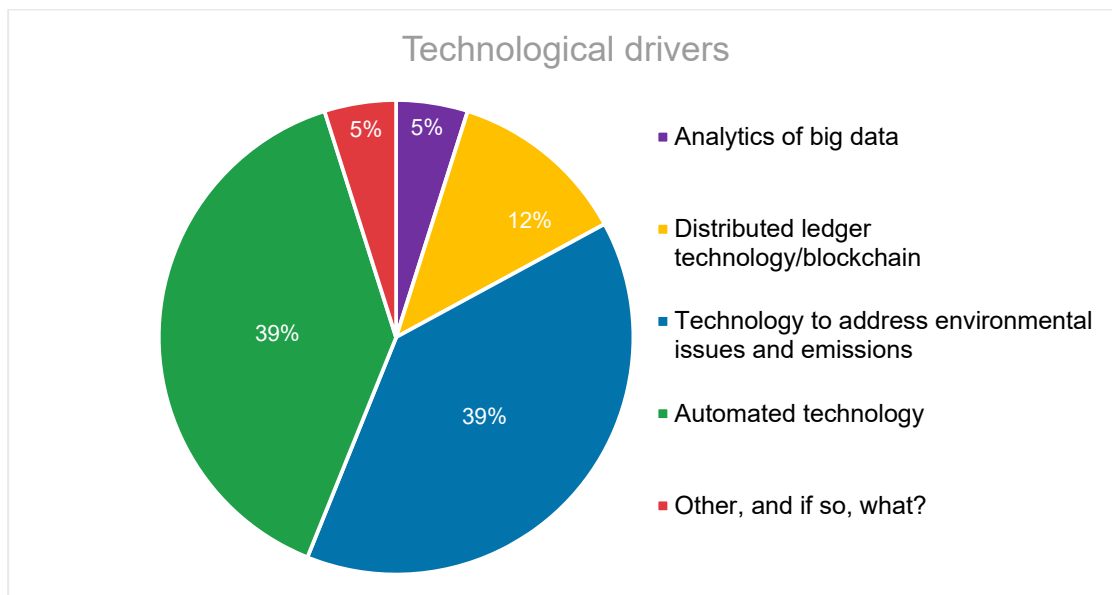
Political and environmental forecasts

Political and environmental drivers are also acting as motivators for future scenario planning. The geopolitical impacts of COVID-19, such as an increase in protectionism, have been felt across the globe alongside many of the existing political challenges in some nations. 2020 saw many political issues come to a head – notably, negotiations on Brexit were concluded between the UK and EU, and the United States elected a new president with a changed stance on international trade. In 2020 we also saw the introduction of the IMO sulphur cap on marine fuel, and a drive to protect the environment became increasingly prevalent beacon for change. The shipping industry is likely to face more regulatory pressure to reduce its impact on the environment on the way to the IMO's 2050 goal of halving carbon emissions from shipping.
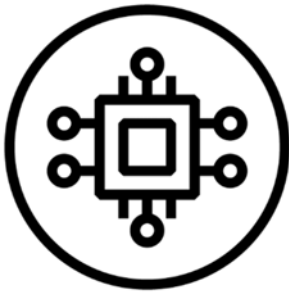
Technology

Q: In our 2018 survey, analytics of big data and technology to address environmental issues were deemed to be the most significant technological driver of change in the next 5 years. Given the current environment, including the impact of COVID, what do you think will be the biggest driver of change in the next 5 years?

Technological drivers

- 5% Other, and if so, what?
- 5% Analytics of big data
- 12% Distributed ledger technology/blockchain
- 39% Technology to address environmental issues and emissions
- 39% Automated technology

Legend:
- ■ Analytics of big data
- ■ Distributed ledger technology/blockchain
- ■ Technology to address environmental issues and emissions
- ■ Automated technology
- ■ Other, and if so, what?

The future of technology adoption in the shipping industry

Automation and technology to address environmental issues have been selected by respondents as equally important drivers of change in the sector over the next five years. When comparing these results to our 2018 survey, where analytics of big data and technology to address environmental issues were seen as the biggest drivers of change, it is clear that the pandemic has impacted our respondents' views on the importance of automation.

With technology to address environmental issues and emissions remaining the primary driver of technological change over the next five years, renewable fuels, and the technology needed to implement them, are at the forefront of discussions on how to meet the IMO's 2050 target. The industry will undoubtedly see more emission regulations being introduced in the future, given that protecting the environment and mitigating climate change have become a key focus for all industries across the globe.

Automated technology

Automated technology is also predicted to play a role in driving change in the next five years, particularly given the crewing issues witnessed after the onset of the pandemic. The United States has implemented fully autonomous systems in its navy vessels, and is now assessing the viability of autonomous vessels within commercial shipping. And Japan and South Korea have together established task forces to develop unmanned or autonomous vessels, focusing on technological applications without human interaction.[2] Automation is starting to gain traction, and no doubt we will be seeing much more advancement in this area in the near future.

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[2] https://sovconsultores.com.ve/en/automation-for-the-maritime-industry/.

Thought leadership

COVID-19

- In pictures: Half a million seafarers stranded at sea by the COVID-19 pandemic – January 20 – Viewpoint

- Administering the COVID-19 vaccine to our seafarers – January 15 – Viewpoint

Shipping

- Free at last – March 29 – Viewpoint

- Stuck in Santos - a not-so-sweet affair for charterers? – March 23 – Viewpoint

- Aussie floods halt coal exports – March 23 – Viewpoint

- Never-ending story: bulker delays off China – March 16 – Viewpoint

- Shipping makes the world go round! – March 8 – Viewpoint

- Not who you thought they were (a modern story of counterparty risk) – February 16 – Viewpoint

- TOWCON 2008 – Knock-for-Knock – Is the Tugowner's liability exemption absolute? – February 15 – Blog – Ship Law Log

- Buyer beware: Pre and post delivery issues under Shipbuilding Contracts – February 9 – Blog – Ship Law Log

- Further set-backs to the "FSO Safer" operation – February 4 – Viewpoint

- Brexit border changes lead to practical challenges for transportation – January 28 – Client alert

- No Oral Modification clauses – January 18 – Blog – Ship Law Log

- All eyes on BIMCO's new clauses – January 18 – Viewpoint

- Piracy increase - caution for owners – January 14 – Viewpoint

- Assignment of insurances: The secured lender's obligation to obtain proper recovery – January 12 – Blog – Ship Law Log

Sanctions

- U.S. and UK reach quickly for sanctions in response to the Burmese military coup, with the EU set to follow – March 16 – Client alert

- BIMCO releases long-awaited sanctions clause for container trade – February 3 – Client alert

- United States sanctions Russian parties involved in Nord Stream 2 – January 26 – Client alert

- More trouble for Nord Stream 2 in the pipeline – January 7 – Client alert

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