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# RSIS COMMENTARIES

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## Shipping Glut Portends Piracy, Safety Risks

By Euan Graham

### Synopsis

*Overcapacity in the shipping industry and the worsening global economic outlook are likely to compound piracy and marine safety risks in the Southeast Asian region.*

### Commentary

THE RISK of renewed recession is one negative factor currently bearing on the shipping industry, regionally and globally. Faltering growth prospects in Europe, Japan and North America will inevitably weigh on demand, such is the continuing dependence of Asia's export-led industries on external markets. The impact is likely to be felt in the container carrier sector, where the Asia-Europe route is predominant. Although utilisation rates remain high, losses of up to US\$3 billion have been predicted for the year.

Singapore and major transshipment ports in Malaysia are likely to be cushioned against the anticipated downturn. Port Klang is even expanding its container-handling capacity. The major upside for Southeast Asia is that demand for shipping services to India and China remains strong. However should China or India 'catch cold', Southeast Asia would surely follow and the impact on shipping lines and regional ports would be severe. The impact of any downturn would be harder on smaller feeder ports around the region, where security is also less tight.

### Recession impact on shipping

In 2009, the shipping sector experienced its worst recession for a generation. In addition to commercial losses to the industry and unemployment among seafarers, the downturn reduced global maritime traffic flows for the first time in years. This meant fewer vessel transits through the Malacca Straits, which had experienced annual traffic growth of around six percent, surpassing 75,000 ships in 2007. The growing fleet anchored off Singapore became a well-known barometer of global recession, as the global financial crisis spread to the real economy underpinned by maritime trade.

While easing the navigational burden on the straits, the downturn spelled negative implications for shipboard safety and security. This was particularly the case for vessels whose owners were unwilling to meet the upfront cost of laying up surplus capacity, or seek the protection of well-policed anchorages such as Singapore. For ships kept in service between charters during the 2009 slump, financial pressure to cut operating costs frequently forced some combination of reduced steaming speeds, further crew reductions, or cut-backs on shipboard security measures.

Southeast Asia's piracy problem currently pales in comparison with the western Indian Ocean. However, a combination of these factors played their part in a spate of piracy attacks in Southeast Asian waters during

2009-10, including merchant vessels anchored off Tanjong Piai and Tanjong Ayam, in Malaysia's Johor state. Their static situation left them vulnerable to being boarded, usually in the hours before dawn – a modus operandi that features consistently in Southeast Asia's typology of piracy. Malaysia's Maritime Enforcement Agency (MMEA) has improved security in the affected areas, but MMEA officers noted that many ships continued to anchor without authorisation, presumably in order to avoid fees.

More recent attacks against vessels, in 2010-11, in the southern portion of the South China Sea may also have exploited ship vulnerabilities exacerbated by the global recession of 2008. The evidence suggests that sub-standard shipping is more prone to maritime predations. This vulnerability is compounded where ships are loitering for long periods. Bulk carriers, dependent on spot charters, are especially vulnerable during fallow periods.

### **Overcapacity**

Overcapacity is the other half of the problem. New merchant ships on order range between 30-45 percent of the existing fleet. Even if Asia's economies weather the risk of recession, the current shipping glut is predicted to last throughout 2012. First, the current over-supply reflects the long time lag between shipping orders and vessel deliveries. Second, industrial policies in China and South Korea designed to promote ship-building have fanned the construction boom. Third, China is investing strategically to ensure that energy and commodity imports are increasingly carried in Chinese-owned hulls. This includes plans to treble China's current fleet of very large crude carriers, from 36 at present with a further 76 on order, to fulfil a target of transporting half the country's petroleum imports. Although China and Hong Kong presently account for only 11 percent of the global merchant fleet, as China's fleet expands regional shipping lines will find it harder to compete for business on Chinese routes.

Southeast Asian ship-owners are also investing heavily. As of August 2011, Vietnam had 81 ships on order, Malaysia 51 and Indonesia 46. As this new capacity enters the market, smaller operators at the margins are likely to be squeezed; compounding the risk that regional shipping will present inviting targets for pirates and other criminals. Piracy is not the only risk from sub-standard shipping: marine pollution and accidents are more likely.

Since new ships are safer and more resistant to piracy, whether off Somalia or in Southeast Asia, there is also an upside from the new construction. However, this depends on whether the industry heeds calls to scrap elderly, surplus vessels, including a proposal to require the demolition of all bulk carriers over 23 years old. A policy of mandatory scrapping would benefit the industry as a whole, but individual operators are reluctant to downsize unilaterally given that less diligent shippers would reap a competitive advantage. The more likely outcome is that while the bigger operators continue to add capacity in pursuit of greater economies of scale, smaller lines will be pushed into insolvency, eroding safety and security standards in the process.

In 2010, 1,411 ships registered under 64 flags were detained for serious deficiencies found during port state control inspections in the Asia Pacific region. The inspection rate, however, has fallen owing to the increasing numbers of ships in the region. Sub-standard ships may pass quickly into new ownership through bankruptcy 'fire sales', thus perpetuating the problem.

There is limited protection against market forces. But rather than awaiting a repeat of 2009, regional port authorities, shipping firms and law enforcement could agree a common approach ahead of any downturn, to minimise the security and safety risks posed by idle and sub-standard shipping. This should include a robust rate of port state control inspections, as well as impressing on masters and owners the importance of seeking safe anchorages and maintaining security standards onboard idle vessels.

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