It was a decade ago when a celebrated book claimed that now we lived in a world that was flat: technology in a post-Berlin-Wall-world had created a level field where information was to flow easily and people could collaborate worldwide, thus stretching the reach of the supply chain. In this inter-connected world where information and labor and technology could effortlessly come together, there could be few drawbacks and many winners. Without explicitly stating it in the book’s conclusions, trade was tapped as one of the primary beneficiaries of a flat world.

And, boy, did the world trade grow in the last decade! According to the World Trade Organization, worldwide trade of goods was propelled by more than 60 percent to more than US$19 trillion in nominal value by the end of 2014. It was a great time, indeed. And the shipping industry had a fantastic time for most of that same period when freight rates and vessel prices were at a multiple of historic averages.

While capesize vessels for the transport of coal and iron ore historically were earning $20,000 per day and costing $30 million to build in 2008, their freight rates has increased ten-fold to close to $200,000 per day and their value was standing at more than $180,000 million, an eight-fold increase. Shipowners responded by ordering more vessels and the world’s dry bulk fleet more than doubled in the same period.

Contrast this with the present. Anyone who follows the shipping industry knows that 2016 has been one of the worst years in recent memory for the industry. Earlier in the year, approximately 30 percent of the world’s fleet was idling and freight rates were at the lowest point of the last 30 years. This has been true for dry bulk vessels, containership vessels, drill ships and offshore supply vessels, and, to a smaller extent, for tanker vessels. The last couple of years have been brutal for shipping with many shipping banks and shipowners experiencing varying degrees of distress.

The current problems in the shipping industry are partially self-inflicted: quite frankly, there seemed to be an oversupply of vessels. Credit was cheap and easy a few years ago by both shipping banks and shipbuilders, and given the prevailing optimism of a rosy market, it was too tempting to place more newbuilding orders than required for a balanced market. The fact that there is typically a time lapse of at least two years between ordering a vessel and seeing her delivered from the shipbuilder only ensured that when signs of an oversupplied market appeared, it was too late to turn the spigot on the spot. Thus, tonnage oversupply (too many vessels) should be getting a great deal of the blame of the weak shipping markets.

On the demand side for shipping, the availability of cargoes to be traded, the picture has not been as enticing as in the immediate past and not nearly as strong as during the boom years of the cycle. According to data by the WTO, trade in goods dropped by 12 percent between 2014 and 2015, the latest years...
The current problems in the shipping industry are partially self-inflicted: quite frankly, there seemed to be an oversupply of vessels.

were complete data is available. Likewise, in 2016, based on monthly data so far, growth seems positive, but minimal. Specifically, demand for marine (seaways) transport is expected to have scored minimal growth (a couple of percentage points) in 2015 and 2016. In short, there is no doubt that demand for ships has been slowing down in the couple of years, and worse, demand for vessels is overwhelmed by supply of vessels (deliveries from the shipbuilders).

The supply aspect of the equation is rather well understood: cheap money, excessive optimism and good old-fashioned greed caused the market to be oversupplied. It has happened before in shipping and in many other industries throughout recorded history of human commercial activity. So far, so bad.

However, deciphering the collapse of demand seems to be much more esoteric and complicated, nevertheless much more crucial in order to create an opinion about the prospects of a market recovery for the industry. By just browsing the international business headlines in the last few years, one can sense several factors for declining trade:

a) China, the definite driver of growth in the past decade, has seen its economy slowing from about 16 percent to a state-estimated 6 percent. For an economy in excess of US$ 11 trillion, each percentage point decline represents US$ 110 billion in foregone output.
b) The EU and the overall European continent seems to be besieged with political and sovereign concerns in the last years with only Germany and the U.K. resembling barely growing economies.
c) In the U.S., rather anemic GDP growth rates of 2 to 3 percent will do little to support world trade.
d) In Japan, despite the aspirations of the Bank of Japan and the Abe administration, it seems that another “lost decade” is about to be added to the once formidable “Japan Inc.”

In short, the growth picture seems rather bleak when one focuses on the OECD countries, which comprise almost half of the world’s economy; in other words, half of the world’s economies are either stagnant or underperforming, leaving smaller economies of emerging markets to pull the growth wagon forward.

As a rule of thumb, world trade grows over long periods of (normalized) time at double the rate of world GDP growth. Intuitively, this make sense as in the course of normal economic activity countries typically import a great deal of raw materials and commodities to be processed and then exported as semi-finished or end products. The above graph, drawn from GTO and World Bank data, more or less confirms the rule. However, one has to notice that, in the last couple of years, there have been overlapping concerns on whether this is a “seasonal” effect or a structural change in the market. If the former, it would be a matter of time before trade growth reaches normal levels; if the latter, then one should be expecting more headwinds for the shipping industry.

To complicate the analysis further, one has to notice that our flat world has been showing some ghastly signs of ripples lately. In 2016, in the U.K., voters opted for a Brexit from the EU, and while the details of any agreement of said departure are yet to be negotiated, one has to assume that going forward it will be more than just the English Channel separating the U.K. from the continent. In continental Europe, meanwhile, there seems to be a trend towards “nationalization” by several member countries of the EU, challenging the promise of the free movement of goods and people across borders both within the EU and through treaties (TIPP with Canada, for example) with countries outside the EU.

Across the Atlantic, U.S. voters surprised the experts late this year and voted Donald Trump into office on a clear anti-globalization and re-shoring agenda where trade agreements, whether existing (NAFTA) or to be ratified (TIPP), could be expected to be treated with skepticism.

There is a clear trend in the western world against trade and the movement of people across borders. Countries in Asia still seem more inclined to have regional trade agreements (ASEAN and RCEP), which, however, seem to be decoupled from the western world.

Shipping, and the transport industries in general, are considered leading indicators of economic activity; intuitively again, first raw materials and cargoes are shipped before they show up in indices counting economic activity. In the last couple of years, shipping has held little promise for the future, if its forecasting prowess is to be depended upon. There is certain “noise” in that shipping as a leading indicator is weak due to problems with excessive vessel supply, but again, there are just too many clouds around the industry that seem to darken a bright future. From slowing demand to an anti-globalization wave, the headwinds are hard to ignore.

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