



Mr Hajara is a well known face in the Indian shipping industry. He has rich experience in various aspects of shipping. On September 1, 2005, he became Chairman and Managing Director of the Shipping Corporation of India Limited.

Mr Hajara is an eloquent speaker and has published many papers in various reputed shipping and non-shipping journals. He has been a member of a number of Indian delegations at Council and Assembly meetings of International Maritime Organizations where he has represented SCI and the Indian National Shipowners' Association. He has also represented the INSA and International Shipping Federation at conferences of the International Labour Organization.

Presently, he is the President of INSA and a trustee of the Mumbai Port Trust. He has also been the Vice-President and Director of the International Shipping Federation which represents international ship-owners. He is also on the Board of Governors of the World Maritime University.

Shipping Industry during the times of Global Recession

The shipping markets are considered to be the indicator of the global economy and the current low levels of shipping freight truly reflect the gloomy scenario on the economic front. That shipping is highly cyclical and freights are volatile is well known. It would be interesting to run through the latest shipping cycle. The previous slowdown that shipping markets experienced was during the world economic slowdown led by the downturn in the US economy that followed the bursting of the 'dot-com' bubble in 2000. Thereafter, during 2003, shipping markets staged a remarkable recovery on the back of the improving world economy and during the next five years global shipping industry experienced an extended phase of buoyancy. The three main sectors of dry bulk, tankers and containers enjoyed a synchronized

boom in 2004. Even when the current problems in the financial markets came to attention as the US subprime mortgage crisis in August 2007, the shipping freights in some sectors seemed blissfully oblivious of the imminent slowdown. As a matter of fact, the Baltic Dry Index reached its historically highest level of 11,039 on November 13, 2007. The year 2008 started with a heavy sell-off in the world's equity markets as fears of a deepening recession gained traction. The weakening US housing market was seen to be spreading beyond subprime into prime and exporting itself to similarly inflated markets in Europe such as the UK, Ireland and Spain as the entire world woke up to the grim prospects of a full-blown recession. The year 2008 was a challenging year for global ocean shipping and the world economy as a whole. Amongst different

shipping sectors, the container sector appeared to have picked the early trend of the slowdown in the US trades in the second half of 2007. The liner industry has been hit by three concurrent events – the meltdown of demand in industrialized regions and export-oriented countries, the freeze of financial lending and unrelenting growth of fleet, a result of record-high ordering during 2006-08. Just as the dramatic rise, the fall in the BDI has been ruthless, as currently this freight index is hovering between 1,700 to 1,800. However, in case of tanker market, despite a lackluster oil demand growth, tanker rates have remained relatively strong.

What happened in the shipping industry since the previous slowdown through the extended boom period till today when the industry has reconciled to the recessionary economic conditions, is something that typically happens in the shipping industry with unfailing regularity i.e. buoyancy in the markets leading to heightened expectations of the shipowner, who in turn, place more and more newbuilding orders resulting in glut causing problems for both shipowners and shipbuilders. As on 1st March 2009, the merchant fleet on order was 48% of the existing world fleet. The newbuilding orders were 40% and 70% for the tankers and bulk carriers respectively. Among the dry bulk sector, the capsize orderbook is at mind-boggling 105% of the existing fleet, much of it ordered at very high prices historically. However, as far as this colossal orderbook is concerned, many experts are of the opinion that the same could be reduced by a wave of cancellations of newbuilding orders induced by worldwide financial crisis, which will have a cascading effect on the engine manufacturers, sub-contractors and the ancillary sector. Needless to mention that low freight rates would also lead to increased scrapping of the older vessels in the present fleet, thus providing a balance in demand-supply position. The spate of cancellation could create problems for the

shipbuilders as the world shipyard capacity is also reported to have increased from 61.3 million gross tonnage in 2007 to the present of about 81.6 million gross tonnage. Furthermore, the South Korean shipbuilders are facing another problem, which is expected to rise from the forward sale of dollars that they expected to receive over the next two to three years from new building orders, particularly in view of the substantial depreciation of Won. The recent drop in the new building and secondhand prices is an indication of correction in the sale and purchase market.

The fall-out of the world economic crisis for the shipping lines has been quite severe. There have been increasing instances of defaults in payment of charter hire or re-delivery before completion of charter period; filing for bankruptcy protection by small shipping companies is not uncommon and many shipping lines have resorted to laying up their bulk carriers and container carriers as revenue is not sufficient to cover even the operating costs.

Undoubtedly, the shipping industry is facing one of the worst crises in its modern history. However, I am an optimist and feel that despite the recession, the Indian shipping industry should not deviate from its growth plans keeping in mind the long term growth of the Indian economy and need for maritime support for this growth. I believe that in every problem there is an opportunity. Shipping companies with strong balance sheet and liquidity will have financial flexibility not only to survive but also to grow as the plummeting asset values present an opportunity for acquisition. Shipping industry has taught us the cyclicity of the shipping business and that every downturn is bound to be followed by an upturn. I am sure that with our sustained efforts and with support of the Government of India, Indian shipping industry will be ready to play a more significant role in the growth of Indian economy. ■