

SOME OBSERVATIONS ON
THE STATUS OF THE
MARITIME TRANSPORT
INDUSTRY – EMPLOYMENT
OPPORTUNITIES AND POLICY
FOCUS AREAS

Pivotal importance of Maritime Transport for South Africa....

- Responsible for the transport of > 90 per cent of foreign merchandise trade by volume and by value.
- Large cargo volumes + substantial lengths of haul → heavy demands on global sea transport industry: S A seatriade ~ 1640 billion ton-miles out of aggregate “real” seatriade ~ 31500 billion ton-miles, or roughly 5.2 percent of global sea transport activity, yet....
- South Africa is not a major ship-owning or ship operating nation state, either by flag, by beneficial ownership *or in terms of control of the transport process*, such that...
- The lion’s share of import/export cargoes are transported in *foreign-flag vessels fixed by foreign principals*

... and even greater importance for KwaZulu-Natal, which has:

- The largest diversified bulk port in the Southern Hemisphere – **RICHARDS BAY**
- The largest multi-purpose general cargo, liquid-bulk and neo-bulk port in the Southern Hemisphere – **the port of DURBAN**
- In terms of employment and expenditure, the richest set of port-ancillary economic activities in a southern hemisphere port city, in the form of the Durban **MARITIME CLUSTER**
- The reason for our presence in this session of the Business Summit

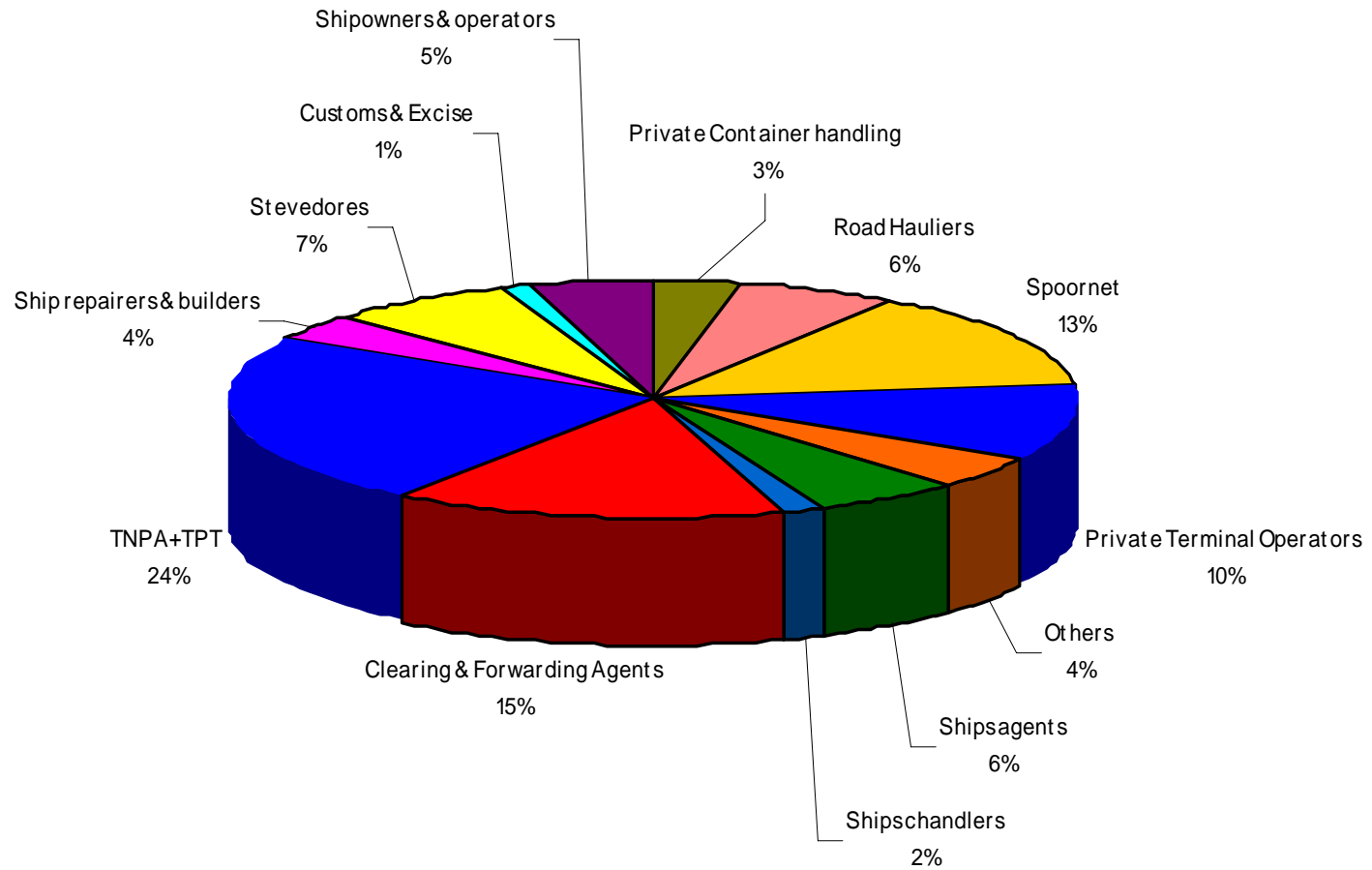
DIRECTLY PORT-DEPENDENT or PORT-ANCILLARY

Economic activities would not exist in the absence of the port

- The National Ports Authority (TNPA)
- Public-sector terminal operators (TPT)
- Private terminal operators (Bidvest, Grindrods, etc.)
- Stevedores
- Ship Chandlers
- Ships Agents, Ship Owners and Operators
- *Clearing & Forwarding Agents*
- *Warehousing services*
- Rail services (“Spoornet”)
- Road hauliers
- *Freight Logistics service providers*
- *Ship Repairers and Shipbuilders*
- Bunker suppliers
- *Container depots and parks...*
- and a myriad of other activities

This port ancillary cluster is conservatively estimated to provide approximately 40,000 full-time, annual Durban-based jobs.

Employment in the Port of Durban by principal port-ancillary activities



Clearing & Forwarding

Some characteristics

- **Labour intensive operations**
- **Diffuse industry structure, with:**
 - Many establishments (150+ in eThekweni alone)
 - Limited barriers to entry
 - Coexistence of large and small establishments
 - Opportunities for small entrepreneurs
 - Opportunities for BEE ventures
 - Strong linkages with warehousing, road haulage, container logistics, depots – i.e. with general cargo distribution PLATFORM

Freight/Container storage & logistic distribution

Some characteristics

- **Under-researched area** (but receiving attention)
- **Major opportunities along distribution corridors**
 - Captive to immediate port hinterland?
 - If so, big impact on back-of-port space, and also
 - Big impact on roads & traffic infrastructure
 - Opportunities for inland depots, distribution centres? (Van Klink, Notteboom)

**Development of cargo distribution PLATFORM
a major opportunity (and challenge) for South
African general cargo port cities**

Ship Building and Ship Repair

Advantages/Potential strengths

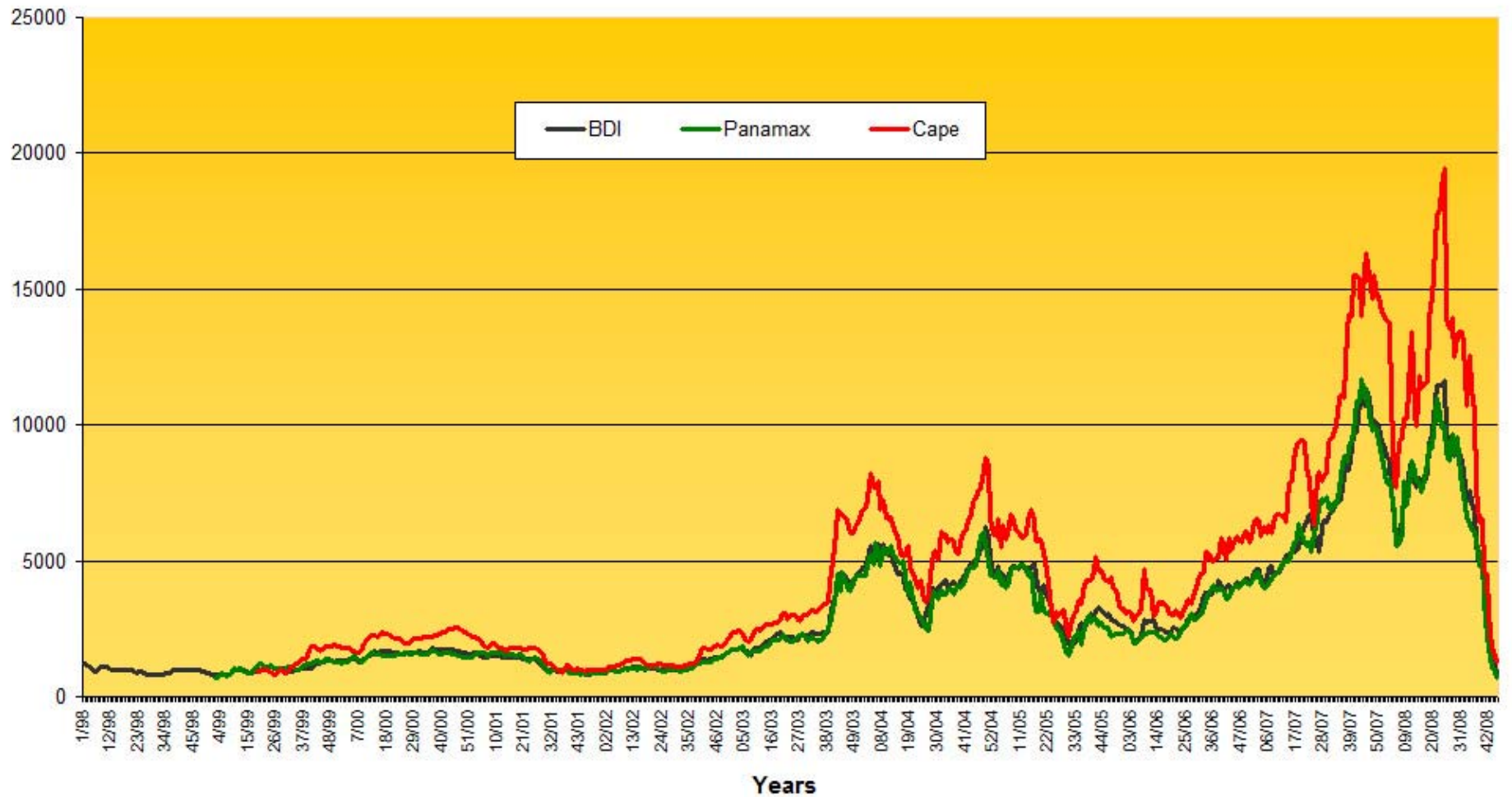
- **Existing Infrastructure and Facilities**
 - Integration with existing ship repair complex to form building/repair cluster (demand smoothing?)
- **Powerful backward linkages, multipliers to local industries/activities such as:**
 - Steel fabrication
 - Mechanical & electrical engineering
 - Paint
 - Outfitting; and consequently....

- **Strong employment and expenditure multipliers, though wide variance, from**
 - 1:9 (Blohm & Voss, Germany, high local absorption)
 - 1:8 (IDC study in SA, though admitted to be optimistic)
 - 1:3.5-4 (Hawes, 2003, UKZN, based on micro-study of Durban tug construction)
- **Fair track record of build quality**
- **S A Steel prices reasonably competitive**
- **Import content by value initially high but rising with yard maturation and continuity of orders**

Limitations/Disadvantages/Challenges

- **Poor historical track record**
 - Inability to sustain foreign orders without subsidisation (FINRAND)
 - Sporadic domestic orders insufficient for sustained yard activity
- **Limited to smaller vessel types**
 - Not hard & fast - realistic size cap around 30,000 dwt or 1,700 teu
 - Handy-sized bulkers and feeder containerships the best bet?
- **Vulnerability to cyclical instability of world shipbuilding activity**
 - Long cycles and short-term building spikes an established and recurrent feature (Hampton), but catastrophic short-term outlook
 - Order book currently at historic high (>550 m dwt in October 2008, or >50% of current global fleet)
 - New orders evaporating in the face of falling freight rates (Stopford's "tortoise & hare" analogy?)

Dry-Bulk Freight Rates: 1998-2008



Limitations/Disadvantages/Challenges

- **Competition from low-cost emerging shipbuilding nations, such as:**
 - Vietnam (focus on handy-sized bulk carriers)
 - Philippines (ditto)
 - Romania (focus on feeder container ships)
 - Turkey (ditto)
- **Labour cost competitiveness with other emerging builders?**
- **In EXPENDITURE terms, container handling outperforms shipbuilding as competing candidates for scarce port space (TEMPI, 2006)**

THE SHIP REPAIR INDUSTRY

Advantages/Potential strengths

- **Terminal port status (critical plus)**
 - 3300-3500 vessel calls at Durban annually by non-bunker/transit callers, representing ~1300 different ships.
 - Regular, planned, survey maintenance needs a substantial baseline potential demand for ship repairs, but not fully exploited (case of MSC?)
 - Less vulnerable than shipbuilding to vagaries of market cycles
 - **Provision of repair facility for largest diversified general cargo port in southern hemisphere a non-negotiable attribute**

- **Hostile coastline generates opportunities for repairs for reasons of *force majeure*; these windfalls also potentially large jobs**
- **Poor alternative repair sites in south, east, west Africa & southern Indian Ocean**
- **Powerful backward linkages, multipliers to local industries/activities (< full shipbuilding?)**
- **Strong employment and expenditure multipliers, though less research, but**
 - Somewhat less rich than full new vessel construction

Ship repair a better overall bet?

Maritime Transport Policy Focus Areas

- **Greater participation/activity by S A ship owners, and support for S A-flag merchant marine (fiscal measures, Tonnage tax regime, etc.) Unexceptionable, but**
 - Possibly modest employment gains (far more ashore than afloat – crew sizes generally falling)
 - Difficulty of penetrating liner trades (though some interesting recent policy pointers)
 - More promising prospects in bulk trades?
- **Interest in S A as a potential seafarer supplier. Again unexceptionable, but in the context of:**
 - Global OVERsupply of Ratings, but a
 - Global UNDERsupply of officers, with asymmetry widening
 - Cost competitiveness of South African seafarers
 - Importance crucible of skills for port ancillary sectors, where many more job opportunities
- **Interest in stimulation of SHIPBUILDING industry (dealt with above)**

Too narrow a view of Maritime Transport? Where should the boundaries of national transport policy be?

Are we not directing policy focus at the wrong end of the process? Rather a focus on:

- **Greater participation/activity by S A CARGO owners in the TRANSPORT PROCESS, via**
 - A different view of the INCOTERMS – a higher proportion of cif sales and/or fob purchases
 - Establishment of more developed shipping departments in major exporters
 - Linkages with S A carriers if and only if these offer competitive services
 - Greater value-adding and employment creation in the broader economy

Policy goal to develop a CULTURE of TRANSPORT-MINDEDNESS or SEA-MINDEDNESS within the South African trading community and economy