Supersize me: Caribbean shipping goes for growth

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The shipping trade with the nations of the ACS can be said to have begun in 1879 when Captain Lorenzo Baker's eighty-five ton schooner the Telegraph, stopped off in Jamaica to collect a cargo of bamboo. He also took on, incidentally, stems of bananas, landing them in a saleable condition in Boston after seventeen stormy days at sea. After many difficulties a market for the fruit developed, leading to a regular shipping service, the development of commercial banana plantations and smallholdings across the region and eventually, through mergers, to the creation of the powerful United Fruit Company.

As the trade developed shipping services proliferated carrying a mix of passengers, freight and a range of other agricultural produce between the region, North America and Europe; arguably leading also to the development of Caribbean tourism and the creation of today's fast growing cruise ship industry. Today the shipping and ports sector is central to the ability of the region to integrate, become globally competitive and service industries from bananas to tourism.

This is further emphasised by recently signed agreements such as the Economic Partnership Agreement between the Caribbean and Europe, and the negotiations recently begun for a Central American Association agreement with the EU are all predicated on viable ocean transport.

But can carriers remain competitive in the face of increased energy prices and the liberalisation of trade?

In a 2002 paper for the Association of Caribbean States, Professor Norman Girvan, then the ACS's General 2000-2004, noted that research showed that the costs of transport as a proportion of the total cost of imports into the countries of the whole Caribbean, were two to three times the world average. While the world average for transport costs, as a percentage of the cost of imports was five per cent, the cost in CARICOM countries was, he suggested, on average, twelve per cent.

The reason for this was, he argued, because of the trend towards ever-larger cargo ships, containerisation, and the growing role of transshipment in maritime cargo which meant, perversely, that smaller countries have to import a higher proportion of their cargo via transshipment ports and bear extra costs.

What he could not have imagined then was the impact that energy costs and other factors beyond the region's control would also come to have on shipping costs.

Over the past two years, oil prices have surged. There are many reasons for this. The global oil system is running at near to full capacity. The US had been purchasing oil for its strategic stockpile, insufficient global refining capacity has restricted production and soaring demand from China and India as their development programmes accelerate, have been pushing requirements close to or beyond present levels of supply. This, taken together with the financial markets' uncertainty about the stability of oil producing states in the Middle East and Africa and the global threat of terrorist disruption suggest little likelihood of any significant downward trend.

Steel, another commodity that affects the cost of shipping around the world has also been showing prodigious gains. Comparing prices in mid 2004 with those for the same period in previous years, current values in much of the world are unparalleled in recent history. But analysts seem divided as to what will happen next. From a historical standpoint, they argue that current values look unsustainable. But while most believe that present prices will start to slip there is a strong body of opinion that suggests that they will stabilise at close to present levels.

Despite the high costs of steel, forward orders for ships at the world's shipyards are only showing a gradual decline. Analysts suggest that for certain ship types forward order books are very large. For LNG tankers, for example, it represents more than thirty percent of vessel capable of carrying 5,400 passengers.

According to industry analysts the move to larger vessels is the industry trend. International cruise lines took delivery of seven new ships in 2006, with eleven new builds scheduled for delivery by the end of 2007. Each has an average capacity of around 3,300 passengers.

There are two reasons behind this drive for size. The first is that by increasing the capacity of the ships the cruise lines can maximise their profits against a background of a weakening Caribbean cruise market and increased operating costs. The second is that by increasing the size of the vessel, operators can provide an ever wider range of on board experiences thereby attracting a wider range of visitors and retaining an increased amount of overall passenger expenditure otherwise spent on-shore.

Proof that this concept works can be seen in the annual reports of Carnival and Royal Caribbean, the two biggest operators, who made respectively US$2.3 billion and US$634m in profits in 2006, despite rapidly increasing fuel costs.

But larger vessels are bringing with them new problems. Caribbean islands have been investing heavily in creating new port and on-shore infrastructure to facilitate cruise ship arrivals. This means, according to a 2003 paper by Kenneth Atherley of the Barbados Port Authority, that port expansion projects have had to be initiated roughly every ten years to match the changes in modern ship technology. To cope with the ever increasing size of new cruise liners, a Caribbean cruise port now has to have a minimum of two mega ship berths with at least eleven metres draught alongside; the ready availability of reliable utilities; facilities such as incinerators for waste; special fender systems; and a wide range of port reception facilities for visitors, crew, security and other personnel.

While virtually all Caribbean destinations have invested in cruise ship facilities there are risks involved. Cruise ship operators are often volatile and because of the nature of their business can respond to natural disasters and changes in port charges or visitor taxes by changing their sailing schedules at short notice.

Future trends are mixed. There is growing year round competition from cruising in the Mediterranean, cruise lines are starting to call at their own private islands in the Caribbean and are establishing in some destinations their own private clubs in order to maximise their revenues. Set against this, Caribbean nations that have good berthing and reception facilities, low port dues and charges, a wide range of visitor attractions, sufficient quality ground transport and high levels of security are clearly benefiting from increased numbers of cruise ship calls.

There are also interesting opportunities for Caribbean ports that promote themselves for home-porting with European lines. European cruise visitors account for some ten per cent of cruise passengers visiting the region and European lines are more prepared to consider a Caribbean destination as a home port. However success will depend on there being good infrastructural facilities, sufficient air lift from Europe and enough hotel beds available for pre and post-cruise stay-overs to make this viable.

Other opportunities are also being investigated. These include the Scandinavian model whereby mixed cargo and ferry services traveling between ports no more than half a day sail away might provide facilities for top-end visitors similar to those on smaller cruise ships operating on the Caribbean coast of Latin America. A further but more remote option lies in the home port opportunities that lie in the new development of residential cruise ships.

While the new generation of mega cruise ships may only call at a limited number of ports, there are many more new and smaller refurbished cruise ships that will continue to want to call at even the smallest of Caribbean ports. Cruise ships have become a permanent part of the Caribbean scene. The likelihood is that the container and bulk cargo operation will continue to sit side by side with cruise ship terminals for the foreseeable future.

With the exception of Trinidad, Venezuela and Mexico, all ACS nations are now concerned that the recent huge leap in oil prices may seriously damage economic recovery and plans to adjust economies in preparation for the changes that will come inevitably as a result of trade liberalisation. The shipping industry is no exception as carriers have no alternative but to raise rates through fuel surcharges or ships, in certain categories, cost more to build as steel prices increase.

What emerges from all of this is that the Caribbean shipping industry must now rise to three great challenges: a change in the structure of the international shipping market; the continuing high cost of energy and steel; and the effect that the process of global trade liberalisation will have on competition and the volume and direction of trade. ■

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