



BULLETIN

FAL

FACILITATION OF TRANSPORT AND TRADE IN LATIN AMERICA AND THE CARIBBEAN

# Short-term fluctuations in maritime transport

## Introduction

In response to the crisis described in the previous issue of the FAL Bulletin and in other documents of the Economic Commission for Latin America and the Caribbean (ECLAC), the shipping industry adopted a cautious but optimistic strategy based in three main areas (relating to finance, trade and the fleet), with the dual goal of avoiding the negative impacts as well as it could and being in a good position to enjoy a future upturn in trade and economic activity which would boost the sector once again. Subsequently there was a recovery phase which confirmed that the measures adopted had been effective, but the industry was perhaps too quick to adopt an optimistic stance. Lastly, a new downturn began, particularly following the third quarter of 2010; this intensified in the early months of 2011.

The three-year period which will be analysed here (2008-2011) has the following characteristics: (a) it coincides with a change in the business and maritime cycles and, consequently, it is part of a period longer than the three-year segment; (b) each of these cycles shows a wide amplitude—the difference between the maximum and minimum levels, or the crest and trough of the wave—as can be seen in the figures showing activity and price levels; (c) within a business and maritime cycle of longer range, however, short-term fluctuations are occurring, especially encouraged by the changing expectations of economic operators which have exposed the maritime sector to a series of positive overreactions (*overshooting*) and negative ones (*undershooting*).

To sum up, the combination of such a large crisis (wide amplitude of the cycle) with changing expectations has added to dramatic attitudes and extreme behaviour, which the sector should be careful to avoid.

As a general lesson, as has often occurred in analyses of the crises and the maritime cycle, once again greater prudence and caution are needed in response to signs of recovery and of an end to the crisis or recession, and also in respect of expectations which tend to exaggerate reactions.

This issue of the *FAL bulletin* continues the analysis begun in the previous issue (Issue No. 295, number 3/2011) on the impact of the crisis on maritime transport. This document will consider the strategy adopted by the shipping industry in order to cope with the financial and economic crisis which shook the world from 2008 onwards. The author of this issue of the Bulletin is Ricardo J. Sánchez, Chief of the Infrastructure Services Unit of ECLAC. For additional information please write to [trans@cepal.org](mailto:trans@cepal.org)



Introduction



I. Adjustments in the industry during the crisis



II. Market overshooting and undershooting



III. Conclusions



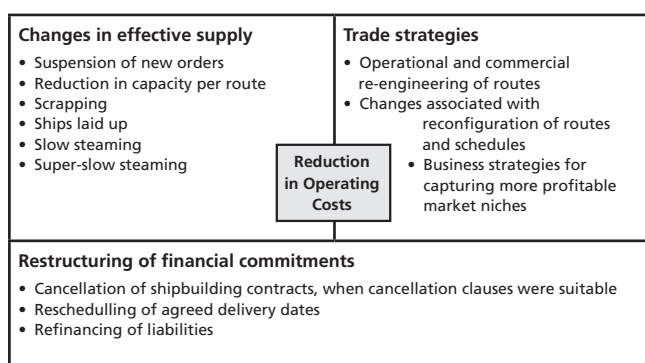
UNITED NATIONS

ECLAC

## I. Adjustments in the industry during the crisis

The previous edition of the FAL Bulletin described the effects of the crisis and the fall in world trade, which had a severe impact on the maritime transport industry. The sector showed negative financial results as a result of falling sales and freight charges and also the debts the sector had run up previously in order to expand fleets, as shown in figure 1. Against this negative background, generally speaking, the industry followed a cautiously optimistic strategy.<sup>1</sup>

**FIGURE 1  
ADJUSTMENT STRATEGY IN THE MARITIME SECTOR**



Source: Ricardo Sánchez (2010).<sup>2</sup>

The ultimate goal was to reduce operating costs and restructure financial commitments. The strategy was cautiously optimistic, since the industry chose to take a number of measures seeking to manage the overexpansion of the fleet, which had taken place earlier, and to adopt appropriate commercial behaviour in response to the crisis. At the same time, even when the problem of overexpansion was known and the sector faced a very delicate situation, the industry took steps to be well prepared when the world economy began to grow again, requiring considerable transport capacity. Thus, although the industry took clear preventive measures against excess fleet capacity, it did not completely drop the optimism left over from the previous stage.

Within the strategy which is seen to be more or less extensive, the industry —by its own decisions taken during the market boom period— had to reschedule its financial liabilities by cancelling shipbuilding contracts (when cancellation clauses were suitable), refinancing

<sup>1</sup> The background to this analysis can be found in Cipoletta Tomassian and Ricardo J. Sánchez (2010).

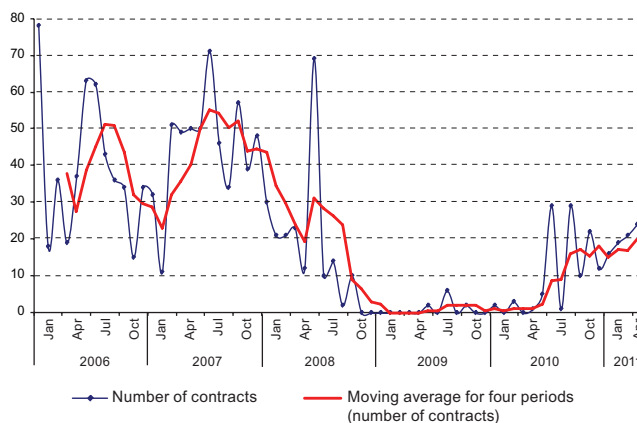
<sup>2</sup> Cipoletta Tomassian, Georgina and Ricardo J. Sánchez (2010): La industria del transporte marítimo y las crisis económicas; NRID Series 149, ECLAC, Santiago, Chile.

debts where possible, and negotiating changes to agreed delivery dates, in order not to exacerbate excess supply and to obtain some financial breathing space.

There were also measures in the field of employment and a rethinking of commercial strategies in order to reduce operating costs and capture more profitable markets. Steps were taken to re-engineer routes operationally and commercially and to develop business strategies to capture more profitable market niches. Clearly, much of the reorientation of commercial strategies is closely related to changes in effective supply, which are described below.

One such measure was the complete suspension of all fleet expansion. Figure 2 shows how the beginning of the crisis was followed by a rapid decline in shipbuilding orders, which practically ceased in late 2008. Shipbuilding contracts remained minimal in 2009, as will be seen below. Although figure 2 refers only to container ships, the rest of the industry reacted in the same way. Behaviour remained cautious in early 2010, but there was a change in May when orders for container ships rose significantly, with peaks at 30 orders in some months.

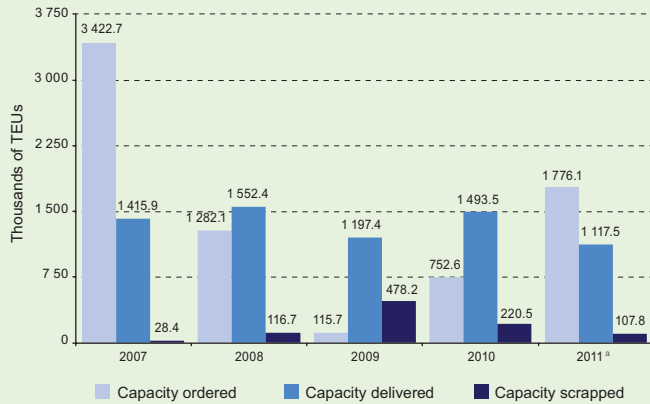
**FIGURE 2  
ORDERS FOR CONSTRUCTION OF CONTAINER SHIPS,  
FROM 2008 TO APRIL 2011**



Source: Ricardo J. Sánchez and Maricel Ulloa, on the basis of Clarksons publications, various issues.

The recovery in shipbuilding orders began in the second quarter of 2010 and is remaining positive up to the last quarter in 2011, as are prices (freight rates); this trend continues despite falling prices in 2011 (see figure 3). Similarly, positive expectations can be observed in figure 2. An increase in shipbuilding orders began in June 2010, after 18 months when they had been at or close to zero.

**FIGURE 3  
CONTAINER SHIPS ORDERED, DELIVERED AND  
SCRAPPED, 2007-2011**



Source: Ricardo J. Sánchez and Maricel Ulloa, on the basis of Clarksons publications, various issues.  
<sup>a</sup> Partial.

It was decided that capacity per route should be reduced. This was one of the most important elements in dealing with the overcapacity problem; it was also a way of responding to falling demand and cutting variable costs. As can be seen in table 1, transport capacity supply fell during the crisis in comparison with the pre-crisis period.

It is noteworthy that the available capacity for the principal worldwide routes fell from 8.6 million TEUs in October 2008 to a minimum of 7.1 million TEUs in April 2010. This management of supply may have influenced the price rises in marine transport shown in the figure in the previous edition of *FAL Bulletin* issue 294.

The situation in Latin America and the Caribbean was similar in terms of the industry's initial reaction to the crisis. Up to 2009, the fleet available to South America comprised 1.5 million TEUs, 10.2% less than in October 2008.

**TABLE 1  
VARIATION OF AVAILABLE CAPACITY ON LATIN AMERICAN AND WORLDWIDE ROUTES**

Routes from:	October 2008	April 2009	October 2009	April 2010	October 2010	March 2011	Percentage change compared with October 2008				
							April 2009	October 2009	April 2010	October 2010	March 2011
Caribbean and Central America	2 438.5	1 994.6	1 701.2	1 973.8	1 645.3	1 673.6	-18.2	-30.2	-19.1	-32.5	-31.4
South America, east coast	648.8	584.3	648.1	702.3	733.4	762.2	-9.9	-0.1	8.3	13	17.5
South America, west coast	298.2	258.0	322.6	401.5	467.1	475.6	-13.5	8.2	34.6	56.6	59.5
South America, north coast	335.8	309.8	267.5	363.5	352.4	356.3	-7.8	-20.4	8.2	4.9	6.1
South America	1 282.8	1 152.1	1 238.1	1 467.4	1 552.9	1 594.1	-10.2	-3.5	14.4	21.1	24.3
Principal worldwide routes	8 591.7	7 797.0	7 084.8	7 071.3	7 682.8	7 988.0	-9.2	-17.5	-17.7	-10.6	-7.0

Source: Ricardo J. Sánchez and Maricel Ulloa, on the basis of Containerisation International, various issues.

Note: The size of arrow are in function of the percentage blue 0% to 10% of 1.5 points, 10.01% to 20% 2.5 points, 20.01% to 30% 3.5 points, 30.01% to 40% 4.5 points and over 40% 5.5 points, in red, the same percentages. Thousands of twenty-foot equivalent units (TEUs).

Similarly, in April 2009, the fleet serving Central America and the Caribbean (strongly influenced by major ferry traffic) fell from 2.4 million TEUs in October 2008 to 2 million in April 2009, and continued falling until October 2010, when it stood at 1.65 TEUs. The trend is similar to that of the principal worldwide routes, but

with sharper falls. South America stands out in that, from mid-2009 onwards, available capacity began to recover.

Table 2 shows the variations in available container transport during the crisis.



**TABLE 2**  
**VARIATION OF SUPPLY DURING THE CRISIS**

Routes	October 2008	April 2009	October 2009	April 2010	October 2010	March 2011
Caribbean-Europe	83 329	84 040	89 472	148 281	133 850	176 264
Caribbean-Mediterranean	26 147	30 090	17 349	20 816	22 440	18 755
Central America-Europe	166 872	171 321	124 390	195 188	186 781	201 769
Central America-Mediterranean	56 404	76 183	73 786	79 057	115 417	133 568
Caribbean/Central America-Far East	788 981	708 842	691 526	745 571	660 275	658 001
Caribbean/Central America-North America, east coast	726 352	573 633	397 989	446 755	276 929	258 265
Caribbean/Central America-North America, Gulf	222 883	110 282	113 488	125 342	121 893	86 814
Caribbean/Central America-North America, west coast	367 544	240 217	193 213	212 754	127 727	140 204
Central America and Caribbean	2 438 512	1 994 608	1 701 213	1 973 764	1 645 312	1 673 640
Europe-South America, east coast	161 060	140 198	159 829	166 884	136 650	148 223
Far East-South America, east coast	197 368	210 847	204 485	228 104	267 069	295 980
Mediterranean-South America, east coast	127 669	67 416	131 844	123 199	134 347	140 040
North America, east coast-South America, east coast	76 797	104 371	81 068	103 226	105 167	93 027
North America, Gulf-South America, east coast	85 858	61 436	70 830	80 934	90 157	84 939
South America, east coast	648 752	584 268	648 056	702 347	733 390	762 209
Europe-South America, west coast	51 916	68 566	93 893	154 716	138 091	153 968
Far East-South America, west coast	147 050	121 021	139 585	135 763	199 000	198 842
Mediterranean-South America, west coast	11 474	11 176	7 718	11 071	11 459	9 834
North America, east coast-South America, west coast	32 128	10 883	15 639	20 819	18 493	18 838
North America, Gulf-South America, west coast	5 852	20 487	34 111	46 971	37 687	26 147
North America, west coast-South America, west coast	49 795	25 893	31 651	32 188	62 381	67 947
South America, west coast	298 215	258 026	322 597	401 528	467 111	475 576
Europe-South America, north coast	107 831	92 021	84 207	137 553	120 524	136 401
Far East-South America, north coast	-	37 604	42 208	50 776	57 140	84 471
Mediterranean-South America, north coast	36 106	38 209	31 021	37 113	36 749	33 672
North America, east coast-South America, north coast	131 206	123 677	91 593	114 910	114 900	78 644
North America, Gulf-South America, north coast	58 976	16 568	16 722	21 408	21 411	16 769
North America, west coast-South America, north coast	1 724	1 724	1 724	1 724	1 724	6 387
South America, north coast	335 843	309 803	267 475	363 484	352 448	356 344
Europe-Far East	2 559 497	2 234 943	2 003 530	2 075 156	2 405 419	2 731 810
Europe-North America, east coast	546 329	455 245	385 870	382 184	383 838	415 004
Europe-North America, Gulf	112 472	119 929	122 438	130 016	123 806	138 164
Europe-North America, west coast	348 002	331 357	111 909	116 548	103 897	109 267
Far East-Mediterranean	1 776 402	1 315 296	1 294 185	1 238 271	1 278 239	1 091 042
Far East-North America, east coast	646 998	731 167	773 138	842 666	944 416	966 847
Far East-North America, Gulf	101 713	88 593	109 155	99 044	105 294	104 561
Far East-North America, west coast	1 759 512	1 828 366	1 611 559	1 573 668	1 681 901	1 739 362
Mediterranean-America, east coast	419 377	395 867	399 837	396 664	389 539	404 784
Mediterranean-America, Gulf	91 473	72 014	60 880	62 136	62 136	56 804
Mediterranean-North America, west coast	229 923	224 263	212 259	154 914	204 342	230 400
World routes	8 591 698	7 797 040	7 084 760	7 071 267	7 682 827	7 988 045

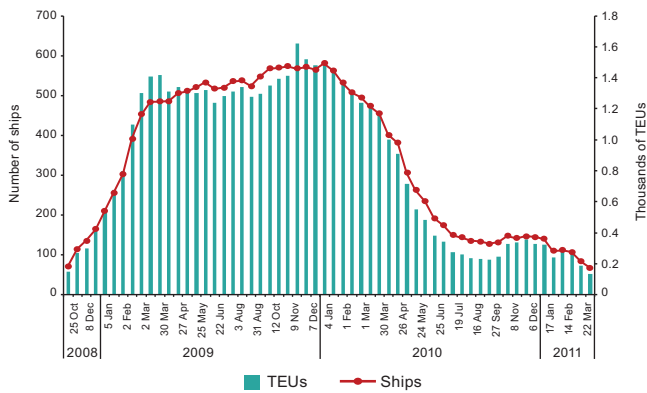
Source: Ricardo J. Sánchez and Maricel Ulloa, on the basis of *Containerisation International*, various issues.



In the context of the aforementioned overcapacity problem, figure 3 shows the fall in total orders for the years under consideration, and also a significant rise in the tonnage which was scrapped<sup>3</sup> because it was seen as uneconomic. This was particularly significant in 2009.

Another part of the strategy to combat overcapacity involved keeping part of the fleet laid up, thereby cutting variable costs. Figure 4 shows the remarkable increase in ships laid up between October 2008 and March 2009, a situation which continued until early 2010, when improving conditions in the industry led to the laid-up ships being brought back into use.

**FIGURE 4  
SHIPS LAID UP**



Source: Ricardo J. Sánchez and Maricel Ulloa, on the basis of the publication *Alphaliner*, various issues.

As of late April 2011, the numbers of ships laid up continued to fall, despite persistently negative price signals; this was perhaps because a reversal of the trend was expected. The figures show how the industry reacted to the crisis, laying up more and more of the fleet over a period of five quarters owing to positive market signals which were confirmed in 2010, when the measure began to be reversed.

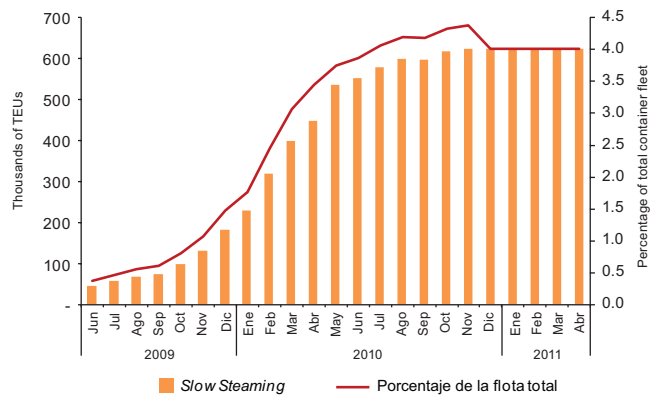
Before the crisis, the practice of slow steaming was already in use in response to rising fuel prices, and when the crisis broke out, the practice became widespread. In practical terms, from the 25-knot speed which was usual at the time, ships began to sail at 20 knots instead. Recently, some companies have taken the measure even further, reducing speeds to as low as 12 knots. The benefit is a cut of as much as 15% in CO<sub>2</sub> output per container, and it is expected that with super-slow steaming a reduction of as much as 25% may be achieved by 2020. Nonetheless, the environmental benefits of slow steaming will be lost if companies seek

<sup>3</sup> Scrapping normally occurs when ships reach the age when they cease to be operational or profitable. Scrapping slows during boom periods, and accelerates when economic activity is depressed. The no-scrapping assumption, used for purposes of simplification, indicates that in calculating the future fleet, it is assumed that there will be no scrapping orders.

to recover transport capacity by increasing speeds. The second benefit for the companies is that slow steaming “stretches” a ship’s turnaround time, offering reduced fuel consumption and a way of using the fleet which contributes to reducing overcapacity, as shown in figure 5.

Slow steaming and super-slow steaming, although they do not optimize the use of the fleet, have cut overcapacity by 4% to 4.5% in nominal terms. In practical terms, it means using an additional ship for each voyage on each route, which cuts down on overcapacity,<sup>4</sup> and the saving on operating costs is 10%.

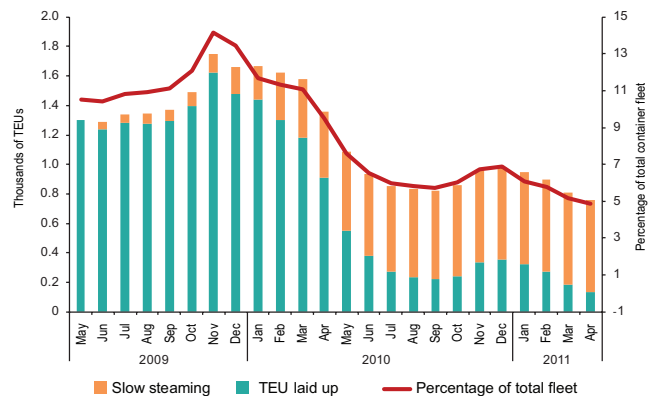
**FIGURE 5  
DEVELOPMENT OF SLOW STEAMING AND  
CAPACITY ABSORBED**



Source: Maricel Ulloa, on the basis of the publication *Alphaliner*, various issues.

Figure 6 shows the addition of the capacity reduction effects absorbed by ships laid up and slow steaming.

**FIGURE 6  
LAID-UP CAPACITY PLUS SLOW STEAMING AND  
ABSORBED CAPACITY**



Source: Maricel Ulloa, on the basis of the publication *Alphaliner*, various issues.

<sup>4</sup> For example, a typical Asia-Europe route takes a total of 56 to 63 days.



In sum, faced with obvious excess capacity and falling transport demand, a major part of the maritime sector's strategy related to the stock of ships. It was decided that all expansion of the fleet should be suspended, that the capacity available on each route should be effectively reduced, that the parts of the fleet that were oldest or least economic should be scrapped, and that operational procedures for slow steaming should be established. The effect of this set of measures is analysed below in order to measure how the industry adapted to the crisis.

When the crisis began, according to the information presented in the previous section, there was excess transport supply which was pushing prices downwards. Figure 7 (a) shows the expected variation of the two variables up to 2014, assuming that all shipbuilding contracts are executed. As for demand, forecasts provided by the main consulting firms since 2010 have been applied. On the basis of those assumptions, there is excess tonnage for container transport, represented by the difference between the cumulative supply and demand curves. The overtonnage is clearly seen from the crisis up to 2013-2014, when a shallower curve is forecast, bringing transport capacity closer to the level of demand.

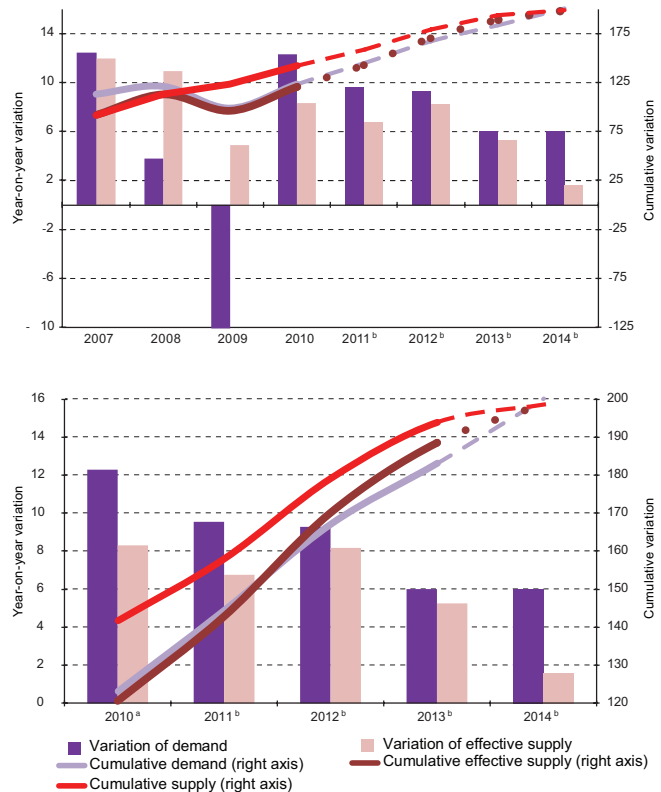
Figure 7 shows that the application in 2009 and 2010 of the measures described in this section brought about a considerable fall in effective supply, achieving a certain parity with demand as well as the effects desired by the industry. This also led to a return, in 2010, to positive profit margins.

Figure 7 (b) shows the impact on supply of the measures described above, concentrating on future years. In 2010, as mentioned earlier, the industry successfully reduced effective supply to such a degree that it eliminated the pressure from excess supply. Thus, a price rise and improved profitability were achieved, which also encouraged positive expectations.

In 2011, however, according to data available up to April, the situation was reversed and is looking worrisome for the future. Consequently, the current negative expectations of the market have had an impact which will be visible in the near future. If the situation does not change, the adjustment measures implemented in the past may need to be reapplied.

The method used to obtain the effective supply shown in figures 7 (a) and 7 (b) consisted of looking at supply forecasts according to the shipbuilding order book, and applying to them the impact of the measures, such as scrapping, which have been applied since the crisis and have been analysed in this section, with projections up to 2014. The analysis proceeded on the assumption that projected laid-up capacity would fall by 40% per year until 2014, and it was assumed that slow steaming would continue in accordance with the practice of recent years.

**FIGURE 7**  
**CONTAINERS: DEMAND AND SUPPLY,**  
**2007-2014 (PROJECTIONS)**  
(Percentages)



Source: Ricardo J. Sánchez and Maricel Ulloa, on the basis of Clarkson and Drewry Shipping Insight, various issues.  
<sup>a</sup> Estimated figure.  
<sup>b</sup> Projected figure.

Thus, a structural and global analysis of the market shows a clear excess of tonnage in the container sector in relation to total supply and worldwide demand. This excess will not be absorbed until 2014, or sooner if the growth of world trade accelerates.

For a more precise picture of the phenomenon, taking into account the multi-product characteristic of the maritime container transport business, a more in-depth analysis is needed for each of the routes and each type of trade, with a precise estimate of the shipbuilding orders that may be cancelled in future if the current situation continues. That would exceed the general analysis approach of this document.

## II. Market overshooting and undershooting

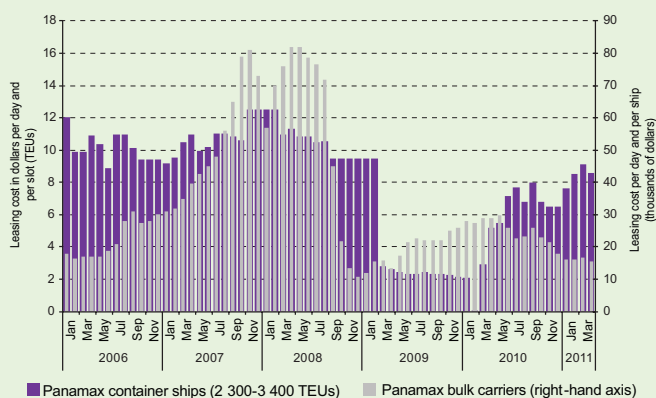
The adjustment strategy adopted by the international maritime container transport industry enabled it to survive the most difficult times following the crisis of 2008, although it experienced widespread negative profit margins in 2009.

The problems were short-term ones, such as falling sales, average prices and profit margins, and medium-term ones, where one of the major problems is excess tonnage in the container fleet. This was observed as in figure 7 (a), whereas figure 7 (b) gives a clearer picture of the impact of the adjustment measures mentioned in that section. Thus, “although the threat of overcapacity was still present, it had diminished”.<sup>5</sup>

One clear consequence of the crisis and of overcapacity in the industry was the fall in the prices of ships, whether for construction or leasing. Figure 8 shows that the leasing cost for bulk carriers and container ships fell steeply between 2008 and 2009, reflecting the decline in demand and excess supply in the industry. Since 2010, however, the leasing prices—which reflect the industry’s short-term prospects—have made a strong recovery, with a continuing upward trend.

A comparison of trends in leasing and shipping charges since late 2010 shows a clear difference in the trends: upward for the former (see figure 8) and downward for the latter (figure 9).

**FIGURE 8**  
**COMPARATIVE ANALYSIS OF THE LEASING OF CONTAINER SHIPS AND BULK CARRIERS, 2006-2011**

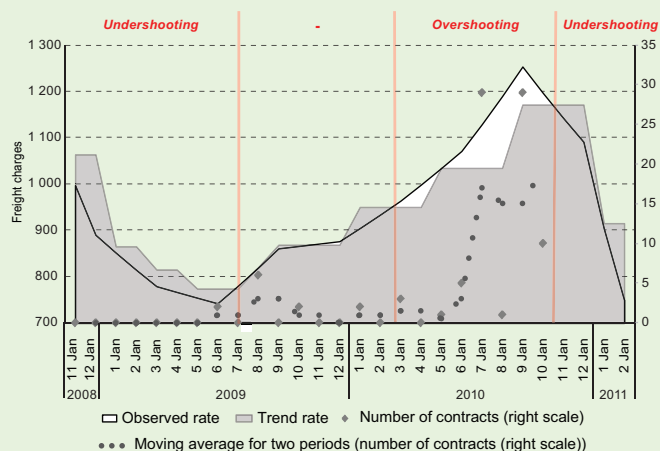


Source: Ricardo J. Sánchez and Maricel Ulloa, on the basis of Drewry and Dynamar, various issues.

Figure 9 shows the variation in freight charges from late 2008 to early 2011. The charges observed relate to the main trade routes beginning in the Far East. The trends are clearly visible and conform to what was expected, falling steeply to begin with, reaching their lowest levels in June 2009 and rising since then, up to a maximum level in September 2010. The recovery was rapid up to that date and the charges were coming close to their pre-crisis levels. After 2010, however, a new downward trend began, and has continued up to the present.

<sup>5</sup> Ricardo J. Sánchez (2010).

**FIGURE 9**  
**OBSERVED CHARGES, EXPECTED TRENDS AND OVERREACTIONS, 2008-2011**



Source: Georgina Cipoletta Tomassian and Ricardo J. Sánchez.

This situation poses the question of the relation between that behaviour of the charges and the longer period which is the maritime cycle. Theoretically, the initial fall clearly corresponds to the beginning of a new cycle, and this, as was seen earlier, resulted from a new business cycle, triggered by the crisis.

The expected evolution of the maritime cycle was analysed in the previous section, where figure 7 (a) in particular shows that a new market equilibrium should arrive between 2013 and 2014, strongly influenced by the expected progress of the container fleet. Consequently, the current instability relates to short-term fluctuations which take place within longer cycles, both the business and the maritime cycles.

The authors believe that the short-term fluctuations which caused the present situation originated in the changing expectations of economic agents. Those expectations lead to overreactions, as is generally explained in economic theory when the observed price of a good or service exceeds or falls below its market-clearing price. The overreactions are generally known as overshooting and undershooting.<sup>6</sup>

Figure 9 shows the variation of an estimated market-clearing price which the authors have produced for freight charges. It shows that, at the beginning of the crisis, observed charges were below the trend rate (as an approximation to the market-clearing price), and this continued until July 2009. The opposite situation, with

<sup>6</sup> These terms are generally used to explain an overreaction occurring in response to economic agents’ expectations for the future, which intensify variations in the variables analysed, taking them beyond the market-clearing price. There are therefore negative overreactions (undershooting) and positive ones (overshooting). The term was coined by R. Dornbusch in order to explain exchange rate changes.

observed charges above the trend rate, existed from March to November 2010. The intermediate period shows minimal differences between the two levels of charges.

From a general economic viewpoint it is understandable that the situation described should be associated with expectations, given the widespread negative economic conditions since the beginning of the crisis. From the maritime perspective, such negative expectations are confirmed with the cessation of shipbuilding orders, which remained at or close to zero until July 2009.

Beginning in mid-2009, there were positive signs from trade and the maritime sector, which were reflected in increased activity and higher freight charges. The situation appeared to be consolidating from March 2010: charges were increasing steadily, as was transport demand for trade. These signs suggested a possible change in market expectations which, from the maritime viewpoint, were confirmed with a sharp rise in shipbuilding orders for container ships. Of particular note in figure 9 is the strong correlation between the freight charges curve and new shipbuilding contracts. There is also a clear link between those two curves and the container ship leasing curve (figure 8) at the times of initial undershooting (area shaded in dark grey) and the subsequent overshooting (white area). The situation changes from late 2010, when there may be a new period of undershooting, although this is in doubt because of the trend in leasing (which differs sharply by trending upwards, where freight charges are moving down).

In sum, if the authors' working hypothesis is correct, the combination of such a major crisis (wide amplitude of the cycle) with changing expectations has added dramatic and extreme behaviour to the variables analysed (undershooting and overshooting), currently leading to a considerable drop in freight charges, casting a dark cloud over the industry's results for the current year.

Expectations are currently influenced by a series of external factors such as macro-economic and political issues. These include worldwide economic and financial instability, the lack of clarity in solving the problems set off by the crisis in the United States, the fiscal situation in the European countries and the immediate future of the giant Chinese economy. Because of these factors, there can be no secure belief that the crisis which began in 2008 has been resolved sustainably. The short-term fluctuations are due to these causes as well as expectations on the global effects of the post-earthquake situation in Japan, the spectre of overcapacity in the maritime sector, petroleum prices (influenced by conflicts in Middle Eastern and North African petroleum exporting countries), and inflationary expectations resulting from

the fiscal and monetary measures implemented by some governments during the crisis.

The aforementioned set of expectations exists against a background of (a) a change in the business and maritime cycles, and (b) very wide amplitude in the cycle (the distance between the crest and the trough of the wave). In a longer-lasting business and maritime cycle, these expectations lead to short-term fluctuations like those which are currently affecting the world container transport sector, exposing it to overshooting and undershooting which maximize the response of variables, especially prices and financial results.

### III. Conclusions

The world maritime sector exists within an imperfect market characterized by inelasticity of supply in relation to demand whose levels are determined by the world trade cycle, which in turn depends completely on the business cycle.

The relationship between the maritime and business cycles is basic to an understanding of the marine container transport market. However, the authors also propose an additional explanation which is strongly linked to short-term fluctuations, which are encouraged by the changing expectations of economic agents. The authors believe that those expectations have produced typical forms of behaviour known as overshooting and undershooting.

In response to the evidence presented in this study, the authors advise that caution should be exercised in analysing the outlook for the maritime transport industry during both rising and falling phases, because expectations may exaggerate pessimistic or over-optimistic behaviour, maximizing the impact of the crisis.

As the same authors stated in 2010, it would be prudent to retain a level of caution in response to signs of recovery and of the ending of the crisis.<sup>7</sup> In the same way, the lessons of the industry and the way in which it ran its affairs from 2008 onwards should not be forgotten.

Although the outlook is reasonably good for the medium term, the reasons for the caution mentioned above include the following:

- The current worldwide economic and financial instability, the lack of clarity of problem-solving in the United States financial system, the fiscal situations of European countries and the immediate future of the huge Chinese economy offer no certainty that the crisis which began in 2008 has been resolved

<sup>7</sup> Ricardo J. Sánchez (2010), p. 8





sustainably. There are also doubts as to the continuity of transport demand through growth of trade, and this leads to uncertainties in the transport industry.

- These causes of insecurity have been compounded by other factors, such as expectations relating to the impact of the earthquake in Japan, the effect on petroleum prices of conflicts in Middle Eastern and North African countries, and inflationary expectations which could lead to more recessionary measures.
- Although overcapacity has diminished somewhat, this has been achieved on the basis of measures which are not good for business in the maritime sector and which impose certain inefficiencies. On the other hand, some measures taken to manage overcapacity have begun to be discarded.
- The current rises in fuel costs.

Countries should consider the importance of the maritime sector. A strengthened maritime sector charging

reasonable rates is necessary for productive and trade activities and in order to ensure economic development. To reinforce the maritime transport industry, it is vital to avoid behaviour which will endanger it—typically described in the maritime cycle— given the important role it plays in economic development in the world's countries and regions. The evidence that the maritime cycle exists and functions and its relationship with the business cycle have once again been made clear in the current crisis, making even more clear the disadvantages of the industry's procyclical behaviour. Economic theory and empirical evidence can help the industry to review its behaviour in decision-making on fleet expansion, and there will certainly be lessons to learnt for the future.<sup>8</sup>

Lastly, caution and prudence are the key words. They should serve as warnings against the extreme behaviour that can be generated by expectations and to avoid such overreactions, which can cause steeper falls or more negative results than those based on strict reality or, in the other direction, a premature return to optimism.

<sup>8</sup> Ricardo J. Sánchez (2010) , p. 41.