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# POLICY BRIEF

## Key points

- The pandemic has laid bare the vulnerabilities of the entire maritime transport sector and severely tested the resilience of supply chains worldwide, including among SIDS.
- As maritime transport is the lifeline of SIDS, supporting economic performance, trade and productive sectors, such as tourism and fisheries, related impacts in these States are expected to be wider and potentially far more damaging than in other States, in particular as multiple crises or shocks could occur at the same time. Many States could experience associated impacts from the pandemic for years to come if appropriate action is not taken to support and sustain them.
- From a maritime transport perspective, enhancing the ability to respond to and recover from disruptive shocks in the future, including pandemics, requires addressing sustainability and resilience issues along with financial, technological and capacity-related gaps.
- This policy brief presents recommended priority actions to enhance capacity to address disruptions to maritime transportation systems and to pursue a sustainable and resilient recovery in the maritime sector.

## SMALL ISLAND DEVELOPING STATES: MARITIME TRANSPORT IN THE ERA OF A DISRUPTIVE PANDEMIC – EMPOWER STATES TO FEND AGAINST DISRUPTIONS TO MARITIME TRANSPORTATION SYSTEMS, THEIR LIFELINE TO THE WORLD

The coronavirus disease of 2019 (COVID-19) pandemic may have had less noticeable impacts on small island developing States (SIDS). However, the impacts may be longer lasting and more critical. The pandemic has exacerbated the unique and overwhelming challenges in these States related to connectivity; a high level of dependence on external trade; remoteness and prohibitive transport costs; food security; infrastructure gaps; resilience; sustainability; and access to finance. This policy brief builds on the findings in *Review of Maritime Transport 2020* and of the ongoing United Nations-wide project “Transport and trade connectivity in the age of pandemics: Contactless, seamless and collaborative solutions”, launched in 2020 amid the pandemic.<sup>1</sup> It highlights key priority actions and policy recommendations to support SIDS in strengthening their ability to respond to shocks and disruptions that undermine their maritime transportation systems and to future proof their maritime supply chains through sustainability and resilience-building efforts.

### Impacts of the pandemic on connectivity, transport costs and trade

The position of a country in liner shipping networks has far-reaching implications for trade. For example, the lack of a direct maritime connection is associated with an estimated drop in export value of between 42 and 55 per cent.<sup>2</sup> As shown in the figure, SIDS are marginalized in international liner shipping networks, with low liner shipping connectivity levels. Among the 50 least connected economies globally, 37 are SIDS. Only Bahamas, Jamaica and Mauritius

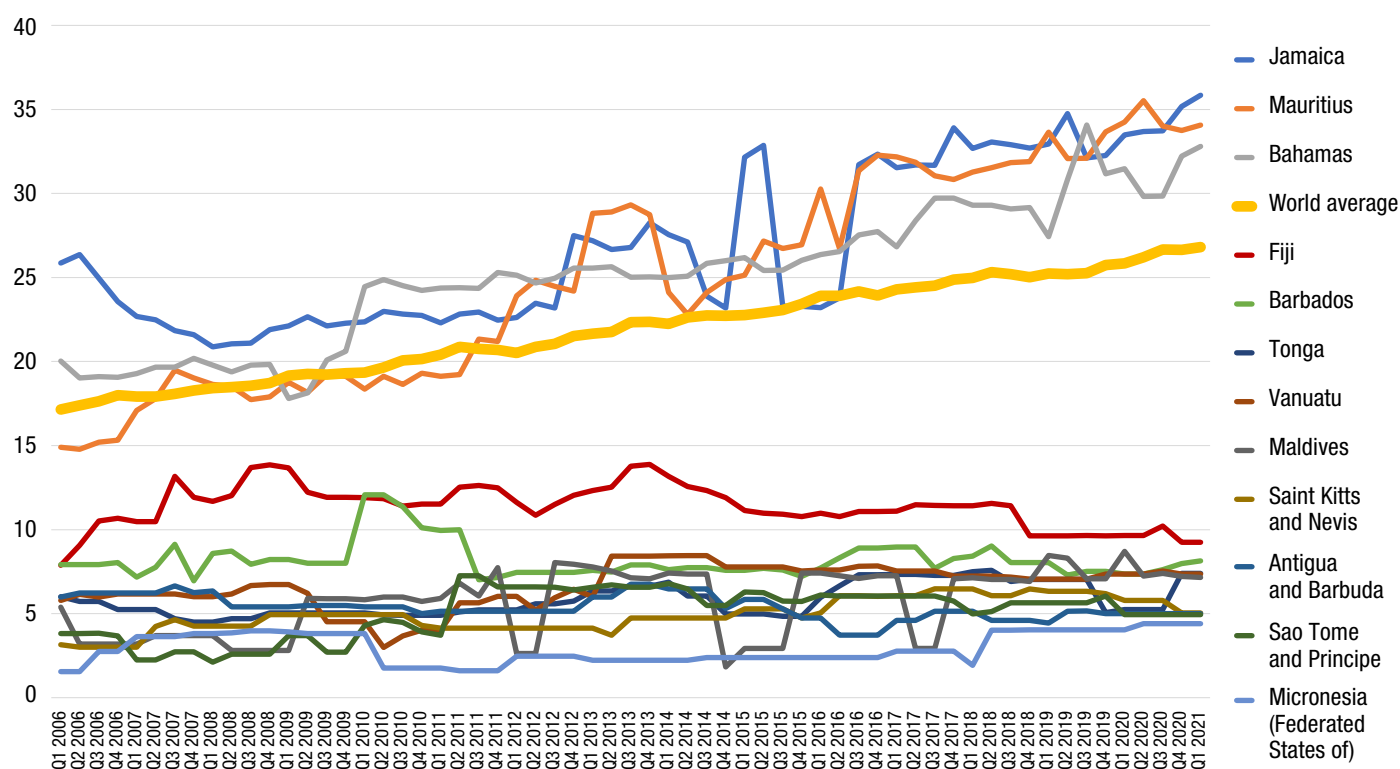
have grown as hubs. Most SIDS have been facing low connectivity for more than a decade, although the world average has improved during this period.

During the pandemic, SIDS have been particularly affected by reductions in deployed ship carrying capacity and in the number of direct calls. In these States, one missed ship call might have critical impacts on economies and local communities, as they depend heavily on maritime transport for much of their imports, including for the provision of essential goods. It is crucial that the liner shipping connectivity of SIDS, which is already relatively low, should not be further reduced.

<sup>1</sup> This policy brief is based on UNCTAD, 2020, *Review of Maritime Transport 2020* (United Nations publication, Sales No. E.20.II.D.31, Geneva). See also the United Nations-wide project website at <https://unttc.org/>.

<sup>2</sup> M Fugazza and J Hoffmann, 2017, Liner shipping connectivity as determinant of trade, *Journal of Shipping and Trade*, 2. See the UNCTAD liner shipping connectivity index at <http://stats.unctad.org/lsci>.

## Liner shipping connectivity index, selected small island developing States



Abbreviation: Q, quarter.

Source: UNCTAD calculations, based on data from MDS Transmodal.

With regard to port calls, the impact on SIDS has increased since week 11 of 2020, that is, at the same time as the declaration of a pandemic by the World Health Organization. In the first quarter of 2020, the decline had been limited to a rate of 1.7 per cent, but in the second quarter, the number of ship calls decreased rapidly, with an intensified impact between week 21 and week 24. As a result, SIDS were among the countries affected the most in the second quarter, recording a drop of 20 per cent in the number of port calls compared with in the second quarter of 2019.<sup>3</sup> A disruption of the type and scale of the COVID-19 pandemic does not bode well for SIDS that are already marginalized in the main shipping networks. Many of these States have introduced pandemic-related measures that also affect ship arrivals including, on occasion, the closure of ports, interisland transport restrictions, varying periods of quarantine and access permitted based on a ship's port of departure and length of time at sea.

The strategy of shipping lines in adjusting supply capacity to lower levels of demand resulted in temporary suspensions or blank sailings. However, when connectivity is already low, the diversion of ships or cancellation of services, as observed during the pandemic, can be a major cause of concern given the related implications for SIDS. These States are heavily dependent on

imports, which are almost exclusively carried on board ships, in order to meet almost all of their consumption needs, including of pharmaceuticals and medical equipment required to mitigate the pandemic. For example, in the first half of 2020, several SIDS in the Pacific region experienced shortages of foodstuffs and fresh food, such as certain islands in Kiribati, which experienced shortages of foodstuffs due to interrupted shipping services.<sup>4</sup> In addition to disruptions in supply chains, shipping surcharges by carriers led to an increase in freight rates for SIDS. To counter this, several States in the Pacific increased self-sufficiency with regard to food and the use of barter systems, highlighting the importance of promoting domestic and regional trade and developing domestic interregional shipping connections to facilitate trade and build resilience.<sup>5</sup>

### The need to future proof maritime transportation systems makes a strong case for the importance of strengthened sustainability and resilience-building efforts

Because of their geographical, topographical and climate-related features, SIDS are inherently vulnerable to multiple shocks that sometimes

<sup>3</sup> See <https://unctad.org/webflyer/covid-19-and-maritime-transport-impact-and-responses>.

<sup>4</sup> See <https://logcluster.org/document/pacific-shipping-operations-update-20-may-2020>.

<sup>5</sup> UNCTAD, 2020.

occur simultaneously. The pandemic has led to a new setback for SIDS in the Pacific that were already experiencing climate change-related and extreme weather events, such as severe tropical Cyclone Harold in April 2020, which caused widespread destruction and loss of life in Fiji, Solomon Islands, Tonga and Vanuatu.

At the launch of the *Review of Maritime Transport 2020*, the Permanent Representative of Barbados to the United Nations Office and other international organizations in Geneva stated: “In the Caribbean, over the past three to four years, [many countries have experienced] category 4 and category 5 hurricanes. In a situation like that, where most of our food is [imported], when there is a set of hurricanes or even one hurricane, there is a pause or a stop in the transport of critical food to our economies as a result of the disruption caused by the hurricanes. Therefore, you see the very real impact of climate change relative to the transport sector.”

Promoting sustainable shipping that enables access to reliable and cost-effective maritime transport is a key priority in many SIDS. Building the sustainability of maritime transport networks that service these States will help to address some of the challenges faced in these economies, including a high level of dependency on fossil fuel imports, given national budgets that may already be constrained, as well as heightened environmental and climate change-related vulnerabilities. Several SIDS have embarked on ambitious national and regional sustainability strategies to develop low-carbon coastal maritime transportation systems. In this regard, for example, the Pacific Blue Shipping Partnership is a country-driven initiative for large-scale blended finance investments, to catalyse a multi-country transition to sustainable, resilient and low-carbon shipping.<sup>6</sup> SIDS are also actively participating in ongoing deliberations at the International Maritime Organization on the reduction of total annual greenhouse gas emissions in shipping, to contribute their perspectives and help to shape the future regulatory regime. However, SIDS have limited resources to improve and adequately develop the necessary sustainable and resilient infrastructure and shipping services. The potentially severe economic impacts of the pandemic could further undermine the ability to finance the sector. Coordinated policy action, including at the global level, is required to support SIDS in this regard.

In addition, increasing environmental concerns have an impact on SIDS as suppliers of maritime transport services. Several States, such as Antigua and Barbuda, Bahamas and the Marshall Islands,

are among the top 25 leading flags of registration. Certification schemes and rankings to compare flag State performance demonstrate the increased importance of environmental considerations in the competitiveness and trustworthiness of ship registries.<sup>7</sup> In this changing competitive context, flag States are increasingly expected to accomplish due diligence with regard to environmental compliance and enforcement. They could play an increasingly important role in the future governance of shipping decarbonization, validating whether a ship is in compliance with rules under the International Maritime Organization.<sup>8</sup> Building capacity in SIDS to effectively monitor and enforce compliance with standards and regulations and their implementation is key.

## Policy implications and recommendations

Resilience can be defined as the ability to recover from setbacks, adapt well to change and keep going in the face of adversity.<sup>9</sup> From this perspective, building a stronger maritime sector that can absorb shocks in future and enable SIDS and their economies to recover, thrive and grow requires stronger international and inter-organizational dialogue, cooperation and support, as well as addressing important financial, technological and capacity-related gaps.

### Promote sustainable domestic and interregional shipping solutions and build resilient trading systems

When disruptions occur, it is important to ensure that the liner shipping connectivity of SIDS is not further undermined. Policymakers can help improve the situation by:

- Promoting sustainable domestic and interregional shipping solutions capitalizing on small-scale interisland regional trade opportunities. The pandemic has shown that ensuring linkages between domestic, regional and international networks is crucial.
- Organizing the transport service market through equipment and information-sharing, freight-pooling and transnational cooperation among transport service providers.
- Streamlining, simplifying and digitalizing trade and cargo-related processes to help reduce the cost of regional and international transport and trade and enable trade continuity in a safer manner.

<sup>6</sup> See <https://www.mcttt.gov.fj/publications-resources/press-release/decarbonising-domestic-shipping-industry-pacific-blue-shipping-partnership/>.

<sup>7</sup> See *Review of Maritime Transport*, various issues, available at <http://unctad.org/rmt>.

<sup>8</sup> UNCTAD, 2019, *Review of Maritime Transport 2019* (United Nations publication, Sales No. E.19.II.D.20, Geneva) and UNCTAD, 2020. See <https://unctad.org/topic/transport-and-trade-logistics/transport-newsletter>.

<sup>9</sup> See <https://hbr.org/2015/01/what-resilience-means-and-why-it-matters>.

- Adopting and investing in supportive technology across ports, transit systems and customs administrations.

## Build capacity to pursue a blue and climate-proof recovery

The inherent vulnerabilities in SIDS put them at the forefront of shocks and disruptions, including from pandemics and climate change. Enhancing their preparedness and risk assessment, mitigation and adaptation capabilities with regard to pandemics and climate change-related impacts and other shocks is key for resilience and recovery.

SIDS are also custodians of large marine spaces. Development in such States is therefore inseparable from the sustainable use and management of marine resources. Promoting sustainable maritime transport patterns enables diversification towards economic activities that will have less of an impact on ecosystems and reduce the heavy reliance on fossil fuels, while sustaining livelihoods and stimulating job creation.<sup>10</sup> This entails policies to:

- Accelerate adequate support for sustainable and climate-proof transport infrastructure and the decarbonization of shipping.

- Build capacities to promote efficient and sustainable shipping services and strategies.
- Enhance data collection capabilities, including in connection with reporting on the fuel oil consumption of ships registered under the flags of SIDS and leveraging automatic identification systems.
- Accelerate the uptake of clean technology and mitigate the risks associated with technology transitions.

A transition to resilient and sustainable maritime transport in SIDS requires substantial investment. For example, the transition to sustainable, resilient and decarbonized maritime transport in States in the Pacific requires at least \$500 million.<sup>11</sup> Overcoming the barriers undermining access to finance by SIDS requires:

- Strengthening partnerships to mobilize resources and building greater collaboration among countries and with the private sector, including public–private partnerships.
- Promoting innovative financing mechanisms such as blended finance, green finance and climate bonds.

### Contact

**Ms. Shamika N. Sirimanne**

Director

Division on Technology  
and Logistics

41 22 917 5510

shamika.sirimanne@un.org

Press Office

41 22 917 5828

unctadpress@unctad.org

www.unctad.org



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<sup>10</sup> See <https://unctad.org/news/why-sustainable-blue-recovery-needed>.

<sup>11</sup> See <https://www.mcttt.gov.fj/publications-resources/press-release/decarbonising-domestic-shipping-industry-pacific-blue-shipping-partnership/>.

