OCEAN ADVISORY UPDATE

by Daniel Thompson, Ocean Development

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The Impact of the Russia-Ukraine Conflict for Ocean

Following the invasion of Ukraine over a fortnight ago, there have been many economic and financial sanctions placed on Russia. These sanctions have a direct impact on Russia’s purchasing power, in terms of how and what they can buy and sell as a nation. The situation however will affect many areas of maritime trade.

Many carriers have now suspended services to Russia and Ukraine with insurance premiums to Black Sea ports now soaring. CMA, Maersk, ONE, MSC, and Hapag-Lloyd have all suspended services to and from both Russia and Ukraine, a decision that will impact almost 50% of global container shipping. Adding to this disruption, Customs authorities are now placing checks on cargo to ensure they are not breaking sanctions at entry into EU and UK Ports. Ports in Cyprus, Latvia, Bulgaria and Finland are recording congestion now reaching levels of between 40-80%. The withdrawal of services will definitely put pressure on the supply of tonnage, which will ultimately mean more disruption and potentially higher freight cost.

A reduction in the Trans-Siberian rail services, which have also been supporting demand for time-sensitive product, is expected to see the volumes return back to the ocean carriers by some 10,000 x TEU per week.

The conflict has further exasperated a sharp increase in oil and bunker fuel costs this year. With the container shipping sector consuming 64m tonnes of fuel each year, the additional cost incurred across the carrier scope, as of the 4th of March is advised at **$19M per day**.

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The Carriers will be looking for cost recovery, through the BAF surcharge mechanism and possibly the introduction of War Risk and Port Congestion costs. We may even see a new surcharge, all of which has yet to be determined. With the cost of living continuing to rise, it is argued that should the conflict intensify, consumer spending could slow down , which could lead to freight cost reductions. However, the impact of the fuel situation may be too great a variable to have a substantial impact overall to any reduction in freight -and we must remember that the carriers have now gained the ability to manage their capacity better.

During the first week of the conflict the SCFI fell by 1.8% to North Europe and 1.2% to the Mediterranean, although that is not particularly unusual post-Chinese New Year.

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