Insurance Marine News

Bulkers, container ships, tankers will all be hit by Russia-Ukraine war, says UNCTAD

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All forms of international shipping and the world economy will be affected by Russia's war on Ukraine, according to just published analysis by The United Nations Conference on Trade and Development (UNCTAD).

The intergovernmental UN body carried out a "rapid assessment" of the war's impact on trade and development. It found a "rapidly worsening" outlook for the world economy that had at its base rising prices for food, fuel and fertilizer.

UNCTAD Secretary-General Rebeca Grynspan said that "the war in Ukraine has a huge cost in human suffering and is sending shocks through the world economy," said in a statement. "All these shocks threaten the gains made towards recovery from the COVID-19 pandemic and block the path towards sustainable development."

UNCTAD noted that, since the outbreak of war, there had been a series of restrictions on transport through Russia and Ukraine. Russian airspace was closed to 36 countries and vice versa. Air freight carriers may have to fly alternative, longer and more expensive routes. Meanwhile, some freight forwarders were now recommending that shippers should not book overland shipments between Asia and Europe. Both Russia and Ukraine are key countries for the Asia-Europe land route.

UNCTAD warned that "already expensive and overstretched maritime trade will find it difficult to replace these suddenly unviable land and air routes". The investigation also noted that 1.5m ocean containers were shipped by rail west from China to Europe. "If the volumes currently going by container rail were added to the Asia-Europe Ocean freight demand, this would mean a 5% to 8% increase in an already congested trade route. Indeed, due to higher fuel costs and re-routing efforts, current container shipping carrying capacity is being constrained."

UNCTAD concluded that one impact of the war would be higher freight rates. It said that "due to higher fuel costs, rerouting efforts and zero capacity in maritime logistics, the impact of the war in Ukraine can be expected to lead to even higher freight rates".

Countervailing factors, UNCTAD found, were that global container rates seemed not to have risen, "but rather continued their recent slightly downward trend from earlier record highs"
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Data showed that, since the outbreak of war on February 24th, freight rates on the Asia-Europe and the Europe-Asia routes had generally trended downwards. However, freight rates on the Asia-US (trans-Pacific) routes had generally (but not always) trended up on both the front-haul and the back-haul routes.

Data from the Shanghai Shipping Exchange found that exports from China to the world had trended down by an average of 1.6 percentage points (range -0.7 points to -2.4 points).

Export rates from Australia-New Zealand had generally declined markedly since the end of January, having fallen by about 209 index points. The average weekly percentage fall from China to the ANZ region since the end of January to 11 March had been about minus 1.9% a week,
It was not clear what impact fuel prices were having, with marine fuel prices being exceedingly volatile.

A key driver of freight rates was the supply of shipping capacity. For several reasons the impact of Covid-19 was to create a shortage of container carriers, and of containers. The free market did at least some work here and by the end of 2021 the fully cellular fleet had increased in size by about 144 ships and 1.1m teu. It was forecast that by the end of 2022 the fleet would increase in size again by another 175 vessels and another 1.05m teu. Because of the long lead times in altering container capacity, an even bigger increase forecast was in place for the end of 2023. Hence the gradual decline in freight rates. The war in Ukraine will act as a support for prices, although whether it will be sufficient to push them back up again was less certain.

Finally, in the world grains sector, especially corn (maize), barley, wheat and oilseeds (e.g. sunflower), a major impact came from the fact that Russia and Ukraine together provided a large minority of the world's requirements.

Combined, the two countries account for about 14% of corn supply, 23% of barley, 27% of wheat and 53% of oilseeds.

The impact on Africa could be serious as the continent primarily imports wheat from Russia. Russia is also a significant exporter of fertilizer, which would either result in increased costs of producing crops elsewhere in the world or result in reduced yields.