



Guiding Spirit to Shipping Industry

Sagar Sandesh

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Mr. Shantanu Bhadkamkar

One of the predominant discussions about the impact of the Russia-Ukraine conflict is 'if it will potentially change the world order'. On a more mundane note, and to understand the impact of the conflict on our country's maritime sector and the general economy, we will need to take stock of significant developments.

We heard in the news:

- The imposition of sanctions on Russia by some countries;
 - Major container shipping lines will not sail to Russian ports;
 - Customs authorities in Europe are inspecting all goods to or from Russia transiting their ports to identify sanctioned cargo, exacerbating delays and increasing the logistics costs. Some countries may intercept the cargo bound for Russia and Russian origin. The World Customs Organization's (WCO) Secretariat press release states, "we pay special attention to the implications the crisis is having on Customs as border operations have been severely impacted";
 - the Society for Worldwide Interbank Financial Telecommunication (SWIFT) will remove selected Russian banks from the international financial messaging system;
- Some Black Sea Ports, particularly the seaports in Ukraine, are shut down. The loading and discharging of cargo ceased. Since then, around 140 ships berthing in the Ukrainian ports have waited.

Russia-Ukraine Conflict: Impact Analysis by Mr. Shantanu Bhadkamkar- MD , ATC Group

- Insurance costs of shipping through Black Sea soar;
- Ports or the ships berthed in these ports have been intentionally attacked. Three ships, including one Bangladeshi ship, was attacked accidentally while in anchorage. As a result, the cargo interest and the shipping interest strictly avoid the Black Sea routes.

We have learned from recent experience, particularly the post-pandemic experience of how the global economy responds that:

- Commodity prices, particularly the Crude oil prices, intensely flare up in response to the slightest of Geopolitical triggers;
- Even infinitesimal stimuli lead to a Rise in Inflation, with or without shortages;
- Logistics costs, particularly air and ocean freight, rise steeply on a spur, positive or adverse.

The situation is dynamic and fast-changing; the narratives and the story are changing. We have yet to understand the primary consequences fully and let alone fully notice the actual impact; secondary consequences will also matter but maybe a bit later. Since the pandemic, the global supply chains have been fragile, and the conflict will only exacerbate the situation. These are challenging times for companies in many industries, particularly those heavily reliant on commodities for production and even more for those dependent on oil as an energy resource or as a base raw material. Similarly, the SME Sector, the most significant contributor to Indian Exports and Job creation in the industrial sector, will face considerable challenges.

The conflict and its aftermath will

Logistics & EXIM Trade

vigorously impact the shipping industry:

- Delays and increases in crude oil prices will increase the shipping costs;
- Some predict that the insurance rates for ships sailing in neighbouring seas

will also increase as peaceful ships also have suffered attacks;

- Some of the stranded ships in Ukrainian ports have Indian crew on board;

- Challenges for Russian

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and Ukrainian seafarers joining the ships may result in a temporary shortage of crew for the shipping lines on whose roll they work;

- The exclusion of Russia compels Russia and those supporting Russia, directly or indirectly, to support a parallel monetary system for international trade, deviating from US Dollar based trading and reserves.

- o Salaries of the seamen is a concern as the SWIFT payment system exclude selected Russian banks;

- o The exclusion of selected Russian banks has also raised questions over freight settlements from Russian traders, although the actual impact remains to be seen;

- One of the most significant potential impacts on shipping could come from the redirection of rail and air transport on the Asia-Europe route:

- o Around 10,000 TEU of cargo transits across Russia by rail from Asia to Europe:

- o The cargo is both time-sensitive & of high-value cargo, and is further a part of high-value supply chains;

- o If this cargo was to be redirected onto the ocean services, it might price out some lower-value cargo on those vessels;

- Diversion of cargo from Black seaports to other ports could increase volumes at other regional ports and are already resulting in pile-ups at origin ports in Europe and elsewhere, possibly causing congestion and increasing rates on these lanes, and maybe all the trade lanes;

- The possibility of impounding Russian vessels as part of the economic sanctions, thus reducing vessel availability and, hence, further shortage of vessel space;

- Relying on Bill Of Lading Clauses, the Vessel's Captain, i.e. the shipping lines, may declare 'end of voyage' for containers destined for these countries. As a result, the shipping lines could discharge floating cargo at places other than the destination.

Carriers who continue to service ports in the conflict region & even the neighbourhood may introduce War Risk Surcharges, a supplementary charge added to cover insurance premiums in war zones. Maybe the further increase in freight rates or any escalation may only be short-term and primarily due to some firms' oligopolistic control over container shipping. Russia's Container movement volume is about 3% of the global containerised market; hence normally should matter little in container trade, so global container freight rates should not be significantly affected. Even adding volumes

of Ukraine's container volume should not considerably change the Ice(berg) Transport Costs (priceberg) dynamics. Every cause, significant or otherwise, regional or global, impacts the logistics costs and the global commodity market. The ripples spill over into container shipping, resulting in more delays, less capacity, and higher costs.

Silver lining:

Every adversity leads to a new opportunity. Trade and commerce intermediaries find ways to reroute cargo as both the buyers and the sellers are unstoppable:

- If the Russian owned vessels under charter with European / US carriers get affected by the sanctions and payments challenges, it could be an opportunity for the Indian Shipping Community to fill the vacuum.

- The International

Chamber of Shipping highlights the current supply-demand situation with the following numbers: a shortage of approximately 16,500 officers and a surplus of around 119,000 ratings. Russia and Ukraine contribute nearly 15 percent of global seafarers.

- If Exports to Russia and the CIS are affected due to the closure of the Black Sea route and the blockade of the Bosphorus strait, an alternative route to reach CIS countries could be a boon for Indian exports. Or Will China end up being the only route for Russia to get goods, even from India?

- India as Food Bowl to the World in 2030: Do we have the potential and the determination to bridge the gap to fill the shortage of wheat and maize. Or another country will take the initiative?

To Fish in Troubled Waters, we need both the appetite and the ability; time and tide wait for none.

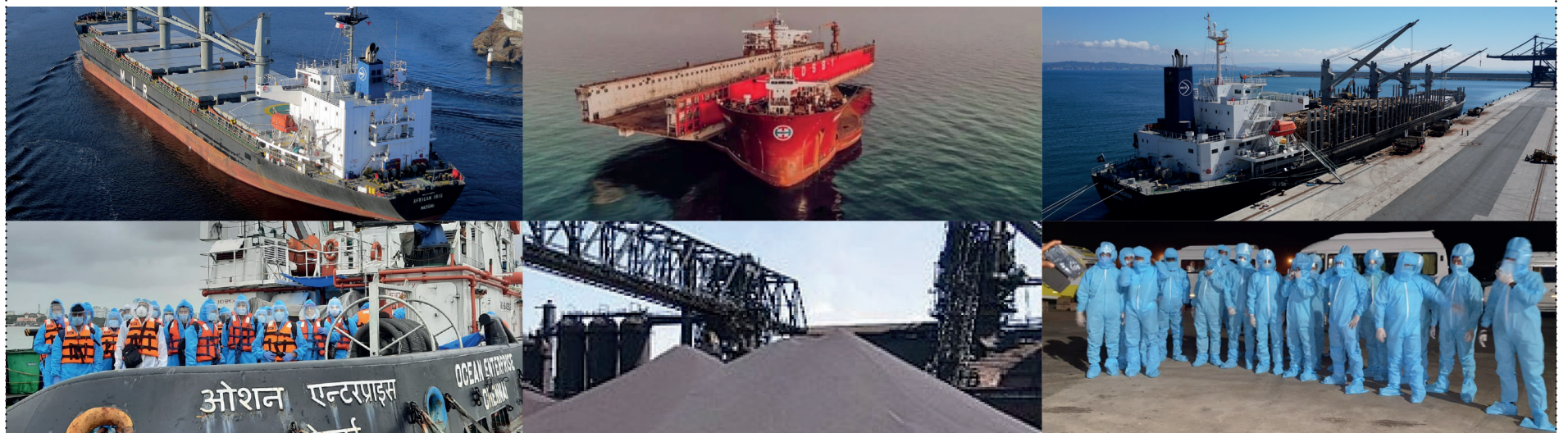


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Kanoo Shipping India Pvt Ltd

Office# 307, Vikas Center, Dr. C.G. Road, Chembur, Mumbai
Tel: +91 22 25200850 | Mobile: +91 9136097311
Email: india@kanooshipping.com
www.kanooshipping.com