Dear Colleagues,

Maritime Commerce Disruption in Suez Canal

The Suez blockage by MV Ever Given has presented amongst the biggest risk management challenge in one of the world busiest shipping route. It is holding up $9.6bn of goods a day sending tremors in the world of maritime commerce. Suez Canal, the 190 kms passage connecting the Red Sea and the Mediterranean sea enables direct shipping between Asia and Europe thereby eliminating the need to circumnavigate Africa and reducing the travel time by 10-12 days. Poor visibility and high winds during a dust storm which made the Ever Given's stacked container act like sails have possibly led to the inability to steer leading to its grounding. Multiple options - pulling two sides with tugboats, dredging underneath the hull, using an excavator on the eastern embankment have so far failed. The last disruption was a three day shutdown in 2004 when a Russian oil tanker ran aground. So what if the ship is not able to move for a few days.

Magnitude of Disruption
A longer closure can be potentially expensive for the owners of the ships and the consignments waiting to clear the canal. The owner of MV Ever Given is expected to face millions of dollars in insurance claims, the cost of delayed shipments, production losses and the salvage operations. Shipping journal Lloyd's List estimates that goods worth at least $9.6 billion pass through the canal every day of which about $5.1 billion is westbound and $4.5 billion is eastbound.

According to data 32 oil products tankers, 22 crude oil tankers, 7 LNG tankers and 5 LPG tankers are anchored and waiting. 237 vessels were waiting in the area on Friday - 107 at Port Suez in the Red Sea, 41 at the canal's midway point in the Great Bitter Lake, and 89 at Port Said in the Mediterranean.

Supply Chain
The blockage will potentially delay a range of parts, machinery and raw materials for the EU countries. While the US mostly gets its shipment on the west coast, it is the EU nations that may have supply chain and logistics issues. Local health regulations and virus related restrictions have already ensured crew have remained trapped in bio bubbles on merchant ships. Turnaround times have increased and congestion in offloading containers is already an issue propelled by the Pandemic. Shortages of rare earth, semi-conductors, automobile parts and chips are likely to impact manufacturing and automobile industry already vulnerable due to the Pandemic.

Oil
The middle east is a huge supplier of crude and 1.9 million barrels of oil passes through the canal everyday. About 1 million barrels of crude and 1.4 million barrels of gasoline is transported through the canal everyday. At least 38 oil tankers have dropped anchor waiting for the salvage operations on MV Ever Given. While energy demand is still weak, however, if the ship is not salvaged within 8-10 days oil and shipping companies would find it costly to go around Africa and that would add cost.

Revenue Loss
For container movements that are planned months in advance, a long bottleneck at Suez translates to throwing packing and shipping schedules way off target, claims on contractual non-compliance, production losses and inventory overload. Stressed capacity, strained supplies, over stretched freight movement and longer shipment times are likely to push up freight rates. A round of Cape of Good Hope adds 13-14 extra days and upwards of USD 300,000 in fuel costs. The only other viable options, airlifting products is way too costly and does not allow for much volume. With 234 ships waiting to traverse the canal, it could take more than a week to clear backlog, not counting the per day loss with ships anchored.

Forecast
In the short term, this regional freezing of global shipping is likely to impact prices of essential commodities, cause delay on delivery of petroleum products and create short term artificial shortage of finished goods, electronics and potentially constrain crude shipments in a system that is stressed under the pandemic. In the long term it may lead to contractual breaches, massive insurance claims and prolong a new burden to global supply chains which are already reeling from a pandemic that has hugely impacted maritime commerce with constant shortages and delays.

Regards,
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