

MARITIME TRADE DISRUPTED

THE WAR IN UKRAINE AND ITS EFFECTS ON MARITIME TRADE LOGISTICS

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UNITED NATIONS
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The war in the Ukraine is stifling trade and logistics of Ukraine and the Black Sea region. The search for alternate trade routes for Ukrainian goods has rapidly increased the demands on land and maritime transport infrastructure and services.

For Ukraine's trading partners, many commodities now have to be sourced from further away. This has increased global vessel demand and the cost of shipping around the world.

Grains are of particular concern given the leading role of the Russian Federation and Ukraine in agrifood markets, and its nexus to food security and poverty reduction.

Grain prices and shipping costs have been on the rise since 2020, but the war in Ukraine has exacerbated this trend and reversed a temporary decline in shipping prices. Between February and May 2022, the price paid for the transport of dry bulk goods- such as grains- increased by nearly 60 per cent. The concomitant increase of grain prices and freight rates would lead to a nearly 4 per cent increase in consumer food prices globally. Almost half of this impact is due to higher shipping costs.

The Russian Federation is a giant in the global market for fuel and fertilizer, which are key inputs for farmers worldwide. Disruptions in their supply can lead to lower grain yields and higher prices, with serious consequences for global food security, particularly in vulnerable and food-import dependent economies.

The Russian Federation is also a leading oil and gas exporter. Confronted with trade restrictions and logistical challenges, the cost of oil and gas has increased as alternative sources of supply, often at more distant locations, are called upon.

Higher energy costs have led to higher marine bunker prices, increasing shipping costs for all sectors. By the end of May 2022, the global average price for very low sulphur fuel oil (VLSFO) had increased by 64 per cent with respect to the start of the year.

Taken altogether, these increased costs imply higher prices for consumers and threaten to widen the poverty gap.

Global trade depends on a complex system of ports and ships that connect the world. If global trade is to flow more smoothly, it must be ensured that Ukrainian ports are open to international shipping and that collaboration among transport stakeholders continues to provide services. Alternative ways of transport must also be pursued. And investment in transport and trade facilitation should be fostered as well as the support for the most vulnerable economies.

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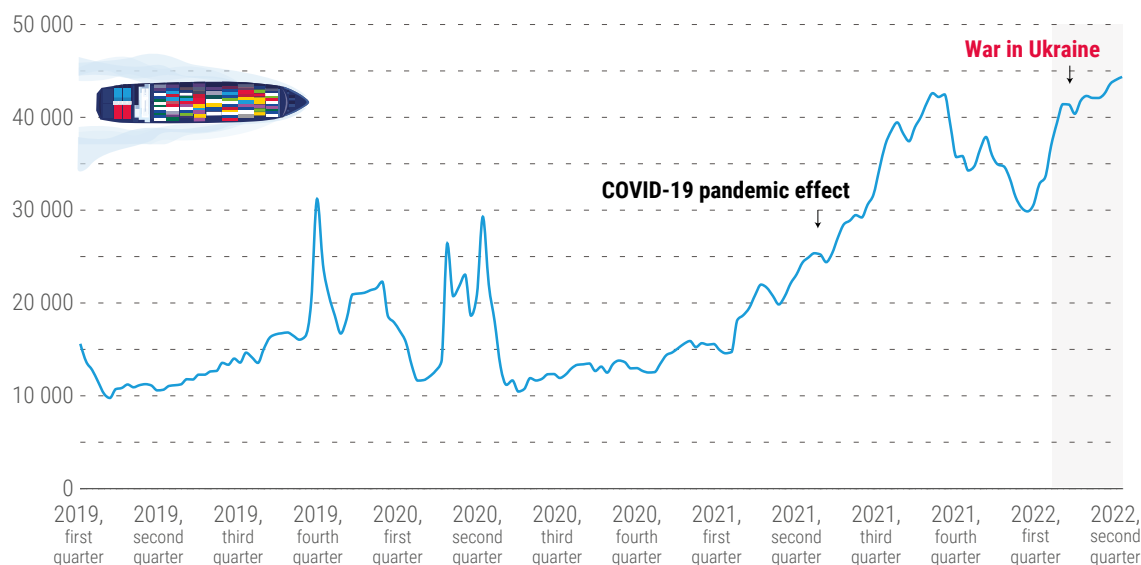
Shipping costs are rising



Disrupted regional logistics, the halting of port operations in Ukraine, the destruction of important infrastructure, trade restrictions, increased insurance costs, and higher fuel prices, have all contributed to the logistical hurdles arising in the Black Sea region. They have also contributed to a more costly and unpredictable global trading and shipping environment. Many countries have had to look further afield for suppliers of oil, gas and grain. Consequently, shipping distances increased, along with transit times and costs.

It is not possible to associate all developments in global shipping with a specific cause. The war in Ukraine is one of several major issues currently affecting international maritime transport, compounding other challenges such as the COVID-19 pandemic, port congestion, the need to switch to low carbon fuels, to name but a few. Nevertheless, it is clear that the disruptions and the higher ton-mile demand caused by the war in Ukraine contribute strongly to higher shipping costs (figure 1).

Figure 1. The price of shipping is rising again
Clarksea index in dollars/day, all shipping markets



Source: UNCTAD, based on data provided by Clarksons Research Shipping Intelligence Network.

Note: The series tracks average vessel earnings across the major shipping sectors, including tankers, bulkers, containerships and gas carriers, weighted by the number of ships in each segment.

Higher energy prices exacerbate the challenges faced by shippers. The Russian Federation is a leading oil and gas exporter. However, trade restrictions and shifts in trading patterns resulting from the war have led to a surge in ton-mile demand. Daily rates for smaller-size tankers, which are key for regional oil trading in the Black Sea, Baltic Sea and Mediterranean Sea regions, have dramatically increased.

The higher energy costs have also led to higher marine bunker prices, raising shipping costs for all maritime transport sectors. By the end of May 2022, the global average price for very low sulphur fuel oil (VLSFO) reached over \$1,000 per ton, a 64 per cent increase with respect to the start of the year – and the average fuel surcharges charged by container shipping lines have risen close to 50 per cent since the beginning of the war.

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Fewer grain shipments over longer distances lead to higher food prices

The Russian Federation and Ukraine are prominent players in agrifood markets, including animal feed. Together, they account for 53 per cent of global trade in sunflower oil and seeds, and 27 per cent of wheat.¹

A total of 36 countries import more than 50 per cent of their wheat from the Russian Federation and Ukraine alone.² Ukraine exported around 50 million tons of grain in 2021. Before the war, estimates projected a growth of 3 per cent in global sea exports of grain. Now, however, they are projected to shrink by 3.8 per cent in 2022. Global shipments of fertilizer and its inputs such as potash are projected to drop by 7 per cent in 2022.³

Reduced grain exports from Ukraine are partly offset by increased shipments from other suppliers. For example, Brazil is expected to increase its wheat and coarse grain exports by an impressive 37 per cent in 2022. Together, the United Kingdom of Great Britain and Northern Ireland and the European Union are set to expand their exports by 8 per cent during the same year. Soybean exports are expected to increase from Argentina, Brazil and the United States of America.⁴ In the medium term, Australia, Brazil and the United States can be expected to compensate for reduced grain exports into North Africa and the Middle East.

Despite the overall reduction of volumes for shipping, the demand for transport work – i.e. ton-miles – for the food-importing countries is likely to increase, as the alternative cargos are sourced from further away.

Changing port calls and logistical challenges

The shift in grain trading patterns is reflected in port calls by dry bulk vessels in the Black Sea. Black Sea ports normally served more than 90 per cent of Ukrainian overseas grain shipments. With port operations suspended, overseas grain dispatches have been limited to deliveries via western borders, by rail, as well as through the small ports of Reni and Izmail on the Danube River. These alternatives are not sufficient to compensate for the lost capacity normally provided by Ukrainian Black Sea ports.

Since the start of the war, weekly port calls have gone from 60 to almost zero in Ukraine, and declined somewhat in the Russian Federation and Türkiye since the start of the war. Meanwhile, dry bulk vessel calls have seen small increases at ports in Bulgaria and Romania, reflecting the re routing of some of the trade from Ukraine (figure 2).

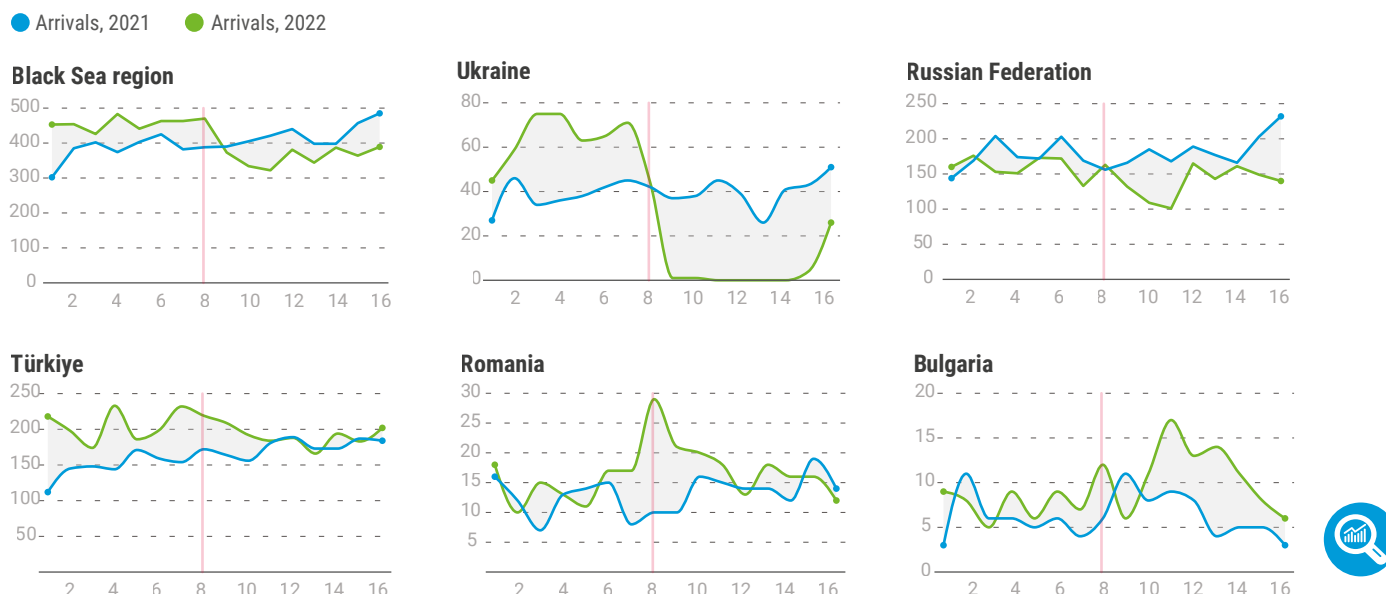
¹ UNCTAD (2022). The impact on trade and development of the war in Ukraine. UNCTAD Rapid Assessment. 16 March. https://unctad.org/system/files/official-document/osginf2022d1_en.pdf.

² UNCTAD (2022). Global Impact of war in Ukraine on food, energy and finance systems. Briefing Note No. 1. 13 April.

³ Clarksons Research Studies, Dry Bulk Trade Outlook, Volume 28, No. 4, April 2022.

⁴ Ibid.

Figure 2: The changing pattern of port calls of dry bulk in the Black Sea region
Number of port calls of dry bulk in the Black Sea region, by week, 2021 and 2022



Source: UNCTAD, based on data provided by Marine Traffic.

Note: Russian Federation and Türkiye include ports outside the Black Sea region. Figures for the Black Sea region include Georgia and the Republic of Moldova. The vertical lines at week 8 indicate the beginning of the war in 2022.

Some of the Ukrainian grains are transported by rail and trans-shipped at ports in Bulgaria and Romania. However, existing grain storage capacity is already committed to last year's harvest, leading to concerns that the new harvest cannot be stored and, therefore, will be damaged.

Box 1: Logistical challenges for the Ukrainian harvest

In Ukraine, due to the hostilities, many grain elevators are unable to take pest control measures, protect grain from rainfall, or stir it to prevent self-heating, thus, increasing risks of quality deterioration. If export transport capacity continues to be limited, next year's crops become uncertain, further aggravating the food shortage spectre. Even an immediate re-opening of Ukrainian seaports would still be too late for some of the 2022 harvest season, as logistics and human resources may not be arranged in time.

Nearly all of Ukraine's grain exports are carried out through seaports on the Black Sea and the Sea of Azov. Commercial vessels, including those loaded with grains and other agricultural commodities, are prevented from leaving the ports. The military action and damage to logistics and infrastructure in Ukraine has immediate and potentially long-term consequences on global grains and oilseeds trade and supplies to susceptible regions, including Africa, Asia and the Near East.

It is important to restore safe access for Ukrainian farmers and producers to fields and infrastructure related to the production and transportation of grains. With the imminent start of winter wheat harvesting and spring grains and oilseeds planting, the next few months will be a crucial period for farmers in Ukraine. Safe access to fields and adequate supply of seeds, fuel and fertilizers are among the main factors needed in Ukraine to achieve a successful harvest in order to ensure domestic food security and contribute to the global food balance.

There is a need to combine additional mobile storage facilities in Ukraine and in neighbouring countries with the use of the railway, road and waterway networks. Logistical challenges remain a key obstacle however, with different rail gauges and transit procedures undermining the smooth flow of trade. Competing demands from neighbouring countries' producers and traders, insurance costs, congestion and lack of pilots for waterway transport, further compound the logistical crunch.

Source: UNCTAD, based on information provided by the International Grains Council, www.igc.int.

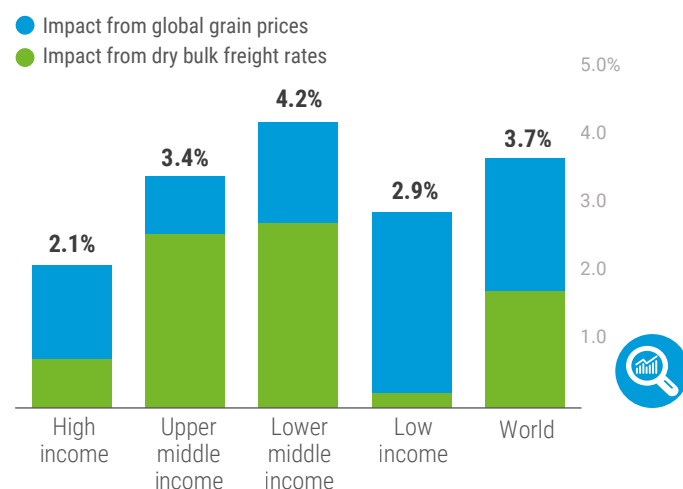
Higher freight rates and higher food prices

Between February 2022 and May 2022, the Baltic Dry Index - a global benchmark for dry bulk freight rates - increased by 59 per cent. This could lead to an additional increase of 3.7 per cent in consumer food prices globally. Almost half of this increase is due to higher transport costs, resulting from higher freight rates and longer distances (figure 3).

Middle-income economies are expected to experience slightly higher food prices increases as their food imports depend on dry bulk shipping more than the global average (figure 4). The impact of the dry bulk freight rate surge on low-income economies is expected to be smaller. Their food imports are concentrated on processed rather than primary food products (figure 5), partly due to their low capacity to process food.

Figure 3: Higher freight rates and grain prices mean higher food prices

Impact of higher dry bulk freight rates and global grain prices on consumer food prices, selected country groupings



Source: UNCTAD, based on data provided by Clarksons Research Shipping Intelligence Network, IMF, International Financial Statistics, Direction of Trade Statistics and Consumer Price Index, UNCTAD Statistics and the World Bank, World Integrated Trade Solutions, Commodity Price Data and A Global Database of Inflation.

Figure 4: Middle-income economies are more dependent on ships to import grains

Share of grains imported by dry bulk ships in total food imports, selected country groupings, 2019

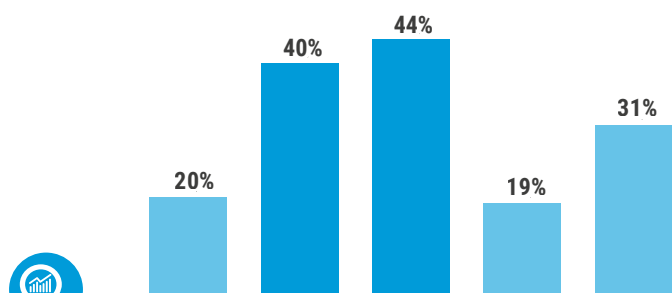
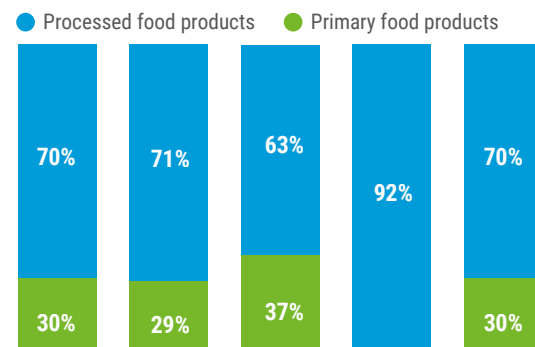


Figure 5: Low-income countries depend more on processed than primary food products in food imports.

Share of primary and processed food products in food imports mainly for household consumption, selected country groupings, 2020



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