150 YEARS IUMI BERLIN 2024
15.- 18. SEPTEMBER

Geopolitical tension – Consequences for shipping and trade

Lars Henneberg

VP, Head of Global Risk Management
A.P. Moller - Maersk

#IUMI2024

1. The world is an increasingly risky place

- Supply chains have experienced several systemic disruptions over the past few years

Change in operating environment
We have moved from a long period of stable rule-based trade to a period where frequent crises and supply chain disruption is the "new normal" and where focus is shifting from cost efficiency of supply chain to resilience of supply chain.

Recent disruptions that have increased the risk

- 2017: Not-Petya cyber attack
- 2020-2022: Covid-19
- 2021: Blockage of the Suez Canal
- 2022: Russia-Ukraine war
- 2023- ?: Red Sea/Gulf of Aden
- 2024: Drought in Panama Canal

2 Geopolitical risk and its significance for trade

- Geopolitics is among the highest enterprise risks for international shipping companies

Maersk Enterprise Risk #2: Geopolitical tension

- “Escalation of geopolitical tensions and political uncertainty will have a strong and **<u>immediate impact</u>** on the supply chain, causing disruptions in supply, demand, and logistics infrastructure and a **<u>longer-term impact</u>** on trade patterns through nearshoring and “friend”-shoring.”

3. Strategic importance of the Red Sea/Suez Canal

- 15% of the world's trade goes through Red Sea and the Suez Canal

Significance of the Red Sea and the Suez Canal:

- 22.000 vessels pass through annually.
- The fairway connecting Asia to Europe.
- Ultra large container vessels dominating the passing capacity (>20.000 TEU).

Implications the current conflict in the Middle East has on shipowners, liner operators and global trade all together:

- In February 2024 traffic had dropped by 55% on a weekly basis.
- 300 vessels less a week.
- Suez a major income source for Egypt.

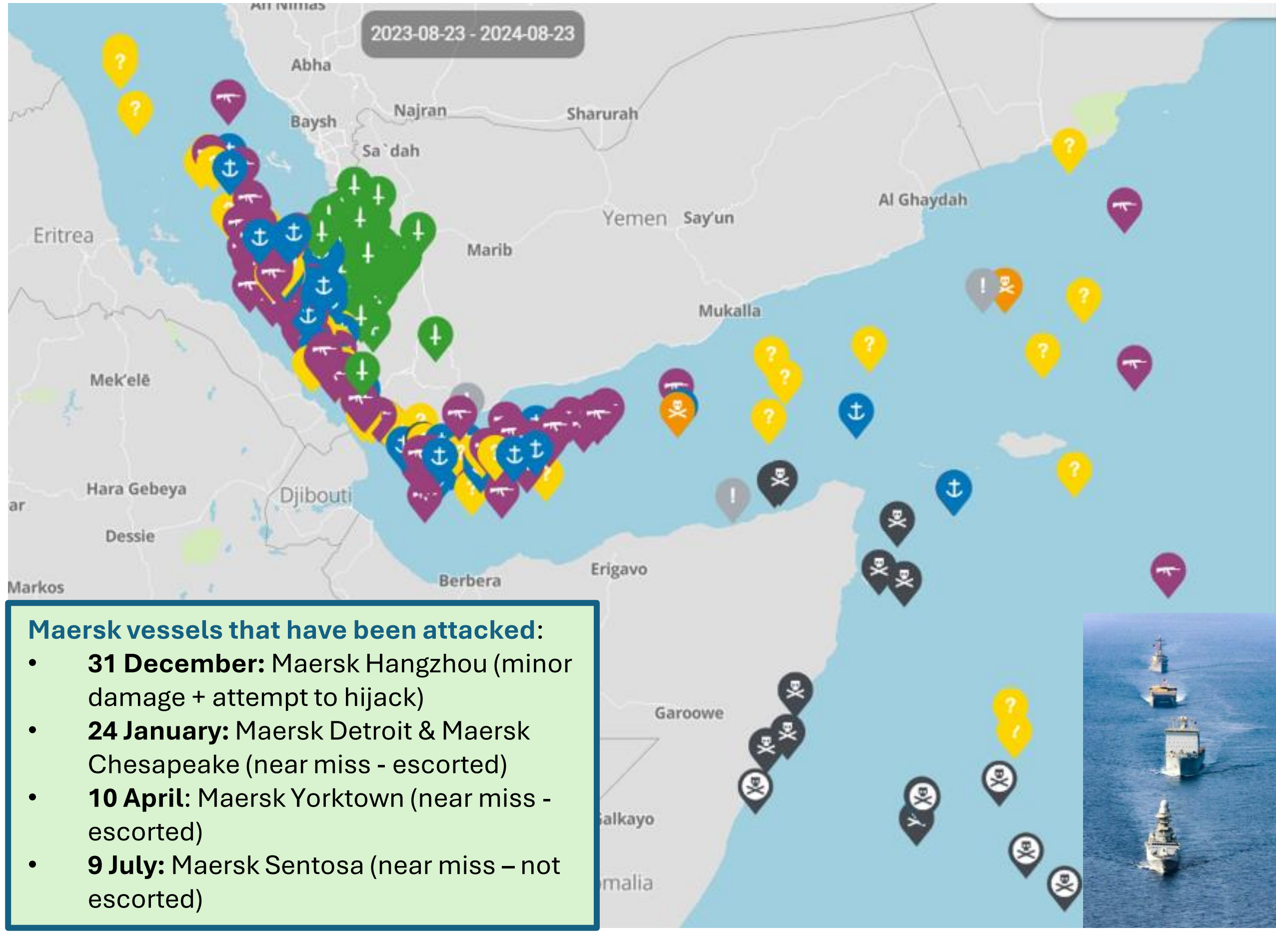
The consequence:
Another significant disruption of supply chains.

4. Operational implications of the conflict

- A massive operational impact as decision was made to deviate amid concerns over safety of crew, cargo & vessels

Timeline of attacks & operational implications

- From mid-November 2023 there has been 236 incidents the **Houthi movement** has conducted **114 attacks** and damaged **around 44 vessels** (selective targets).
- The US-led **Operation Prosperity Guardian** was initiated to offer military protection, but attacks are spreading to a larger area.
- **Owners of chartered vessels were reluctant to take instructions** to transit the Gulf of Aden and the Red Sea due to safety of crew and vessels.
- **Maersk CMT** decided to **pause transit through GoA and Red Sea** on 19 December but resumed on 24 December as situation was deemed safe.
- Following attack on Maersk Hangzhou on 31 December a decision was made to **reroute services around the Cape of Good Hope** (additional 10 days)
- **Services maintained Salalah/Mombasa and Salalah/Mogadishu** and occasional calls at Djibouti continued. Some US flagged transits continued until 24 January.



Maersk vessels that have been attacked:

- **31 December:** Maersk Hangzhou (minor damage + attempt to hijack)
- **24 January:** Maersk Detroit & Maersk Chesapeake (near miss - escorted)
- **10 April**: Maersk Yorktown (near miss - escorted)
- **9 July:** Maersk Sentosa (near miss – not escorted)

Massive implications for customer service and recovery of additional costs through contractual surcharges from customers

5. Insurance implications of the conflict

- Insurance hardly plays a role in the management of the risk as the risk is avoided for safety reasons

The **Joint War Committee (JWC)** established **Listed Area and insurers cancelled war cover** and **offered reinstatement at additional premium** for most vessels.

Cost options are compared, but **decision is ultimately made based on a risk assessment considering safety of crew, cargo and vessel**.

Still possible to **transit the Gulf of Aden/Red Sea** at an additional transit cost (insurance).

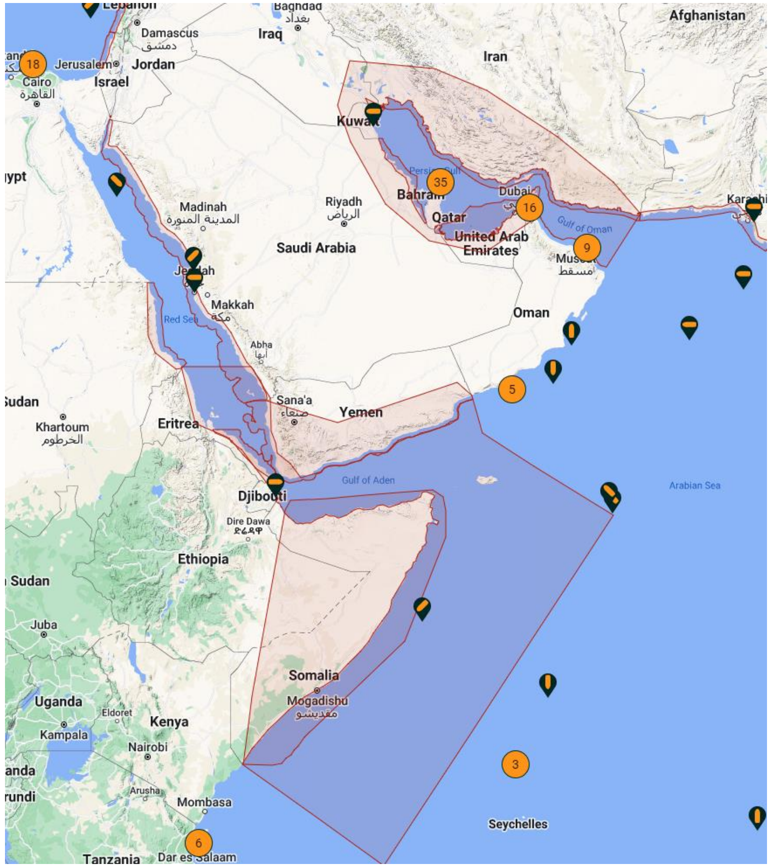
Transit costs (insurance):

- Damage to vessel: Additional premium per transit.
- Charterer's liability: Additional premium per transit.
- Damage to cargo: Reinstatement at additional premium to cargo owners (P&I not responsible due to war exclusion).

Routing around Cape of Good Hope has increased by 85%. It avoids additional insurance cost but incurs other additional costs.

Avoidance costs (deviation):

- Deviation costs: 50% cost increase - not covered by insurance – who pays for the deviation. (charterer/owner/customer)?
- Delays (temporary): Carrier not liable unless physical loss or damage (perishable goods – war exclusion - 50K reefers affected).



6. Trade implications of the conflict

- The additional capacity required to deviate has tilted the supply/demand balance temporarily

As **ships reroute south of Africa,** they face **extended sailing times** and **rises in costs** due to:

- At least 50% additional fuel consumption.
- Higher ETS-fees due to 15% increased GHG-emissions.
- And need for more equipment and vessels.

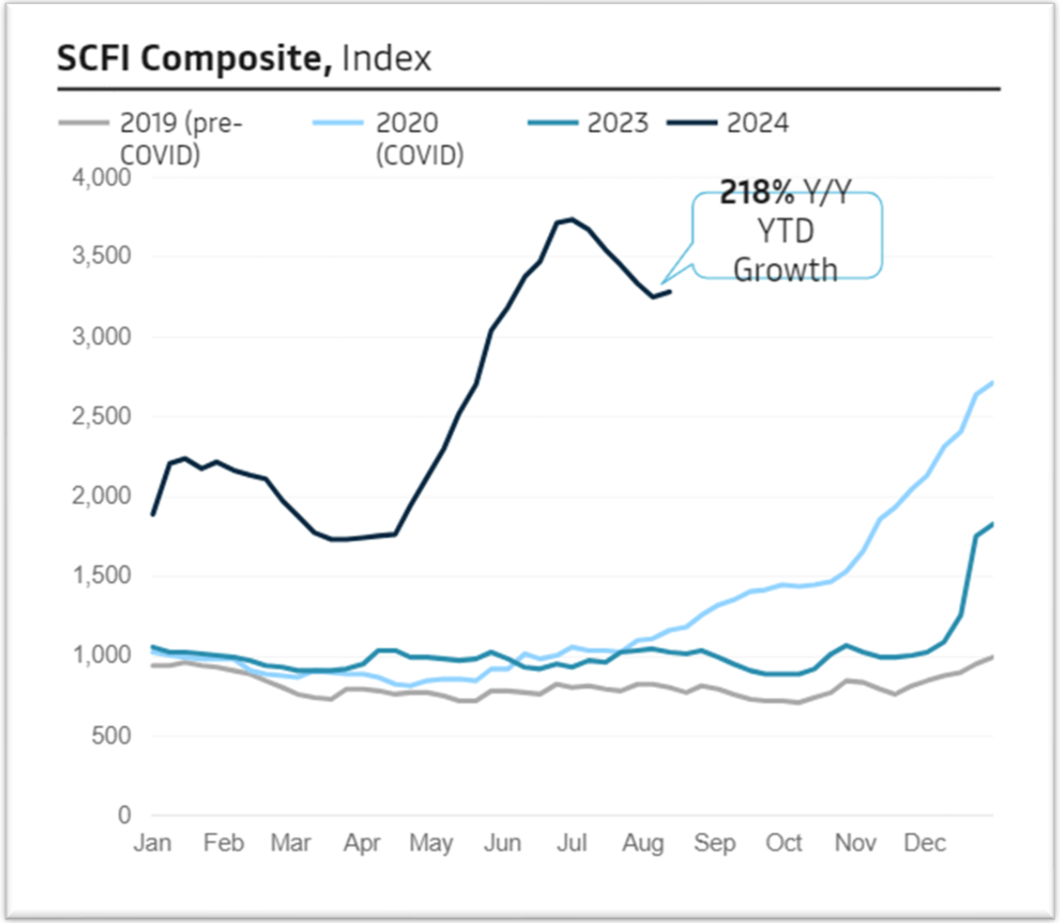
Re-routing of all container vessel services around the Cape of Good Hope **requires an additional 1.5m TEU of capacity** – this is around **6% of global capacity.**

This demand surge, as well as **market overreactions** due to potentially limited future restocking options, **exacerbates supply and demand imbalances**.

Large economic implications for Egypt due to lower income from fees to transit the Suez Canal.

7. What is the commercial impact of the conflict?

- Entrenched nature of Red Sea disruption has offset impact of increased supply

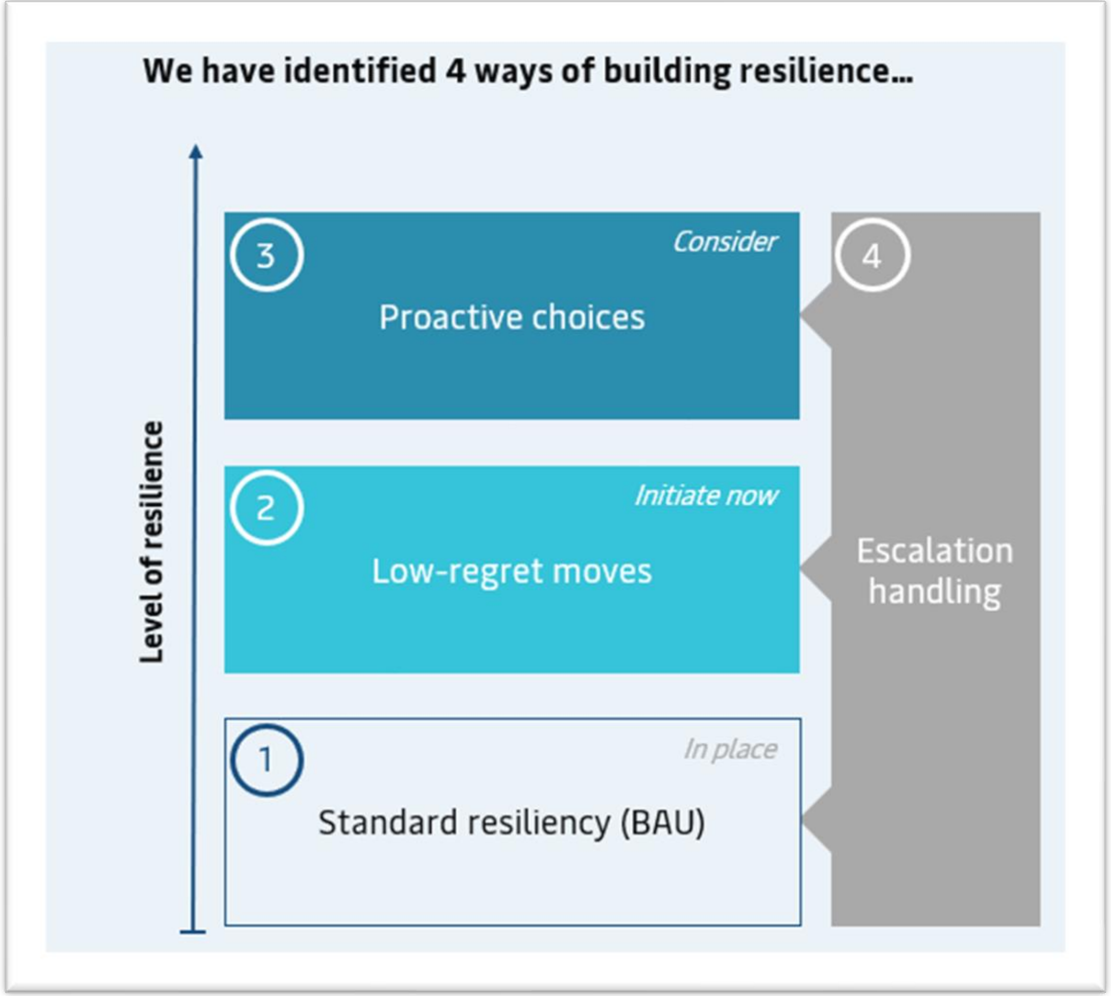


Key Insights:

- Spot (and contract) ocean rates increased throughput Q2 and saw some decline into Q3.
- Rates are currently three times as high as 2023 level.

8. What do we do about it?

- Building agility and resilience is key in the risk response



How can we manage the risk dynamically?
Geopolitical risk is a risk you cannot control, and it is therefore hard to mitigate.

Short term response (agility)

- Agile contracting strategy
- Agile capacity management
- Customer surcharges
- Crisis management set-up
- Safety of crew and assets first
- Manage stakeholders

Longer term response (resilience)

- Decrease supplier dependency
- Exit investments/no new investments
- Network design
- Monitor/analyse political developments
- Nearshore/mirror support functions
- Reduce technology dependency
- Crisis management of escalations
- Adapt to changed trade patterns

150 YEARS
IUMI
BERLIN
2024
15.- 18. SEPTEMBER

#IUMI2024

Geopolitical tension – Consequences for shipping and trade

Lars Henneberg

VP, Head of Global Risk Management
A.P. Moller - Maersk