

## KEY POINTS

- Between 23 – 29 March the 400 m long, 200,000 tonne Ever Given MV ship which became lodged diagonally across the southern end of Egypt's 200 m wide Suez Canal **caused Cairo over US\$15m in losses per day and disrupted around US\$9.6bln daily in international trade.**
- **No definitive determination has been made as to the cause of the grounding.** While an investigation has been launched, Cairo and international shipping companies are likely to be on the same side in this case – attempting not to attribute the blockage to the vessel's sheer size but on human error or a freak combination of unlikely causes.
- **Cairo has now impounded the Ever Given** until a settlement for the disruption can be agreed upon – **it is demanding US\$916m from the ship's owner**, which includes an opaque US\$300m claim for 'loss of reputation' and does not include costs of the dredging and refloating work. Therefore, the case is likely to go through international arbitration courts and may protract.
- **The impact on global supply chains is expected to last for several months** as capacity of the worldwide container ship fleet will not be able to help counter the worst effects of the Suez incident. **Container traffic is expected to remain high in the short term.** However, with consumption already volatile as many countries implement a third or fourth COVID-19 lockdown, **uncertainty in the maritime shipping sector will remain high and protracted.**
- **While global businesses may seek a re-examination of global supply chains** and investigate into the causes, Cairo and the world's largest shipping companies will seek to blame the pilot, nature and/or mechanicals – which can be isolated to the once incident.
- **It is in neither Cairo nor maritime shipment companies' interests to prevent these massive vessels traversing the canal and therefore the trends of expanding international container shipping will continue and similar incidents will remain a possibility.**

## About us

*AKE has over 20 years of experience working with the financial sector, providing clients with political and economic risk consultancy. Our experienced team provides tailored analysis and strategic forecasting, allowing our clients to better assess risks in challenging environments.*

## OVERVIEW

On 23 March the 400 m long, 200,000 tonne Ever Given MV ship became lodged diagonally across the southern end of Egypt's 200 m wide Suez Canal as it was traversing north to Rotterdam from Taiwan via Malaysia. The traffic jam caused could be seen from space. The multi container cargo vessel, owned by Taiwan-based Evergreen Marine Corp, blocked the strategic waterway for six days and was finally refloated on 29 March during a supermoon king tide after international companies had flown in for excavation works and dredging.

Within seven days of the ship's refloating, delays at either end were resolved after Cairo doubled the canal's shipping traffic. However, the implications are far further reaching.

## MARITIME SHIPPING AND THE SUEZ

Maritime shipping is the backbone of world trade; it is estimated that some 80 per cent of all goods are carried by sea. Global maritime container trade is estimated to account for around 60 per cent of all seaborne trade, which was valued at around US\$14tn in 2019.

The number of goods carried by containers increased from around 102mmt in 1980 to about 1.83bln mmt in 2017. In tandem, vessels have likewise increased their capacity. Between 1980 and 2020, the deadweight tonnage of container ships has grown from about 11 million metric tons to around 275mmt and the length in tandem. In parroted facts regarding the Ever Given it is roughly the length of four football pitches, longer than the Empire State Building and 15 times as heavy as the Brooklyn Bridge in New York.



Ever Given in the Suez Canal Source: AKE Global Intake

This significant increase in maritime shipment has also increased the Suez Canal's strategic importance, which is complemented by the drive to accommodate ever-bigger vessels. The shipping lane carries over 12 per cent of world trade volume, 7 per cent of oil and for 30 per cent of container ship traffic daily. The 193 km long canal is the fastest route for cargo between Asia via Europe to the United States (US), and for oil westbound from the Gulf. The route allows tankers and container ships to avoid a long trip around the southern tip of Africa.

The shipping journal Lloyd's List estimates that goods worth US\$9.6bln pass through the canal every day, with about US\$5.1bln of that traffic westbound and US\$4.5bln eastbound. About a quarter of that traffic is on container ships, with over 50 ships traversing the per day carrying 1.2bln tonnes of cargo. Consequently, every sector was impacted by the blockage, from livestock to textiles, semiconductors to food – adding another layer of uncertainty to global shipping and supply chains that have already been stressed from COVID-19 disruptions. This adds to shipping's ongoing crew change crisis as 200,000 seafarers are restricted from boarding or disembarking ships at ports amid COVID-19 restrictions.

The blockage halted around US\$9.6bln in daily trade, while costing Egypt around US\$15m daily in tariffs and disrupted around 2m bpd in oil. Speculation is still rife as to how the Ever Given became stuck – myriad factors including piloting, windspeed, technical problems and navigation errors have been cited – although many are quick to dismiss the ship's size as a central factor.

## THE SUEZ CANAL



Steamer traversing the Suez Canal Source: Cairo Postcard Trust

The construction of the Suez Canal was completed in 1869 by Egypt, Briain and France. It connected the Mediterranean Sea to the Red Sea through the Isthmus of

Suez in Egypt – a 75 mile-wide strip of land that is the boundary between the continents of Africa and Asia. The artificial waterway instantly enabled European powers to more easily reach their colonies to the east without having to traverse the route around the longer and more perilous Horn of Africa, which immediately established the canal's geopolitical importance.

The canal was nationalised in 1956 by Egypt's Gamal Abd al-Nasr, the first president of the Egyptian Republic after he declared independence from the UK, a move which sparked the first Suez War.

Cairo blocked the canal during the 1967 Six Day War trapping 15 cargo ships for eight years until its reopening in 1975. It has been mined, blockaded, bombed and leveraged by multiple parties. However, since the 1970s, the canal has remained relatively unscathed, and thus taken for granted as a conduit of global trade, which continues to expand with ever-larger vessels.

In 2014 President Abd al-Fatah al-Sisi launched an US\$8.2bn expansion of the Suez Canal, which deepened the main northern waterway and provides ships with a 35 km channel parallel to the main canal's body, in the northern part of the canal. At the much fanfared inauguration in August 2015, Sisi welcomed foreign leaders aboard an historic yacht as helicopters and fighter jets flew by.

The expansion was as much a geopolitical move as an economic one – Sisi needed to unite Egyptians and the international community around him to consolidate his recently seized presidency at a time when Egypt was facing numerous economic and security crises from the fall out of the 2011 protests known as the 'Arab Spring'. In the preceding years, two governments had been replaced – one by Sisi in 2013 after the military seized power from the Muslim Brotherhood. They were elected in 2012 following the upheaval of 2011 'Arab Spring' that deposed long-time dictator Hosni Mubarak.

Therefore, when the vast 'Golden Class' mixed cargo container ship blocked the canal, it impacted national pride and caused a block to vital liquid foreign currency for Cairo. Questions were raised about the common practice of paying bribes on the canal to canal pilots and surrounding the opacity of the navigational process on the canal. 422 tankers and cargo ships were trapped and maximum disruption caused. Some vessels were rerouted around the Cape of Good Hope which takes 13 days. 2m bpd of oil shipments were disrupted, pushing prices to US\$65bp.



*Photo of the Ever Given blocking the Suez Canal. Source: Wikipedia*

Trapped ships included 41 bulk carriers including six capes and 20 panamax and supramaxes. Two bulk ore carriers, 24 crude tankers, including three VLCCs and nine suezmaxes, 33 containerships, including four of 197,000 dwt-plus (including Ever Given) which puts them in the 20,000 teu category.

Also trapped were 16 liquid petroleum gas or liquid natural gas carriers, 15 product tankers including three long range two ships. These would have been carrying 90,000-tonne cargoes of jet fuel or diesel to Europe or the Mediterranean. Eight vehicle carriers were also affected. Lloyds estimates that 90 per cent of ships disrupted will not be able to claim for out-of-pocket expenses.

## CONCLUSION

On 13 April the Suez Canal Authority (SCA) impounded the Ever Given mega-ship in Suez Canal's Great Bitter Lake, preventing it from leaving Egypt until Taiwanese shipping company Evergreen, owned by Japanese tycoon Shoei Kisen Kaisha, agreed on compensation. The Ever Given's insurer, UK Club insures Shoei Kisen Kaisha for third-party liabilities, including damage caused to infrastructure or claims for obstruction. UK Club stated that they had made an offer to the SCA to settle their claim, before the vessel was impounded. Cairo had filed a compensation claim for US\$916m on 7 April, of which US\$300m is for purported 'loss of reputation'. Refinitiv data estimates that lost transit fees totalled less than US\$100m. The claim also does not include the fees of the specialist salvage company Royal Boskalis Westminster brought in to help refloat the Ever Given, as the owner and another insurer expected to pay separately.

The size of the sum and the seizure of the vessel once again indicates that that Sisi will once again be using this

cause to rally the Egyptian public as well as to extract much needed funds for the Egyptian government.

Shoei Kisen Kaisha has reportedly told his customers not to expect the cargo in the medium term, indicating that he will not settle on the required sum and therefore proceedings will go through formal legal channels.

## THE IMPACT

The impact on global supply chains is expected to last for several months as capacity of the worldwide container ship fleet will not be able to help counter the worst effects of the Suez incident. Container traffic is expected to remain high in the short term. However, with consumption already volatile as many countries implement a third or fourth COVID-19 lockdown, uncertainty will remain high and protracted.

While global business will seek a re-examination of global supply chains and investigation into the causes, Cairo will seek to blame the pilot, nature and/or mechanicals. The world's largest shipping companies will back Cairo in their efforts to deflect blame from the sheer size of the ship being the main issue. It is in neither's interests to prevent these massive vessels traversing the canal and therefore similar incidents will remain a possibility.