TOMAX NEWS

Issue 69
25th February 2022

FELICITY ACE CONTINUES TO BURN

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THE UKRAINE BATTLE AND ITS IMPACT ON THE SUPPLY CHAIN

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MARKET SUMMARY

• Ocean Freight BAF (Bunker Adjustment Factor – Fuel Surcharge) rates and airfreight fuel surcharges are expected to increase over the coming months as a result of the tension in Europe. At already high levels, any further increases are sure to have a heavy impact on margins and supply chain costs.

• Air routes are opening back up slowly with Australia opening the borders to the world, with airline beginning to operate more flights as demand increases. Airfreight pricing should reduce as a result over the coming months.

• Transport routes from the Australian east coast to Perth remain congested despite the rail line opening back up recently. Delays of 6-12 days are still being experienced.

• Many importers are being hampered heavily with delays in Quarantine inspection still reaching as long as 2-3 weeks. Whilst importers suffer huge delays to receiving their cargo, they are also often hit with the huge costs of storage and detention whilst waiting for Quarantine to have officers free to do their job.

TARIFF CONCESSIONS GAZETTE

Tariff Concession Orders (TCOs) are an Australian Government revenue concession that exists where there are no known Australian manufacturers of goods that are substitutable for imported goods. The weekly Tomax Client Newsletter will contain a link to the latest Gazette document so that you can stay updated.

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LATEST NEWS

UKRAINE BATTLE: FEARS OF RISING FUEL PRICES, INCREASED RATES AND CYBER-ATTACKS ON SUPPLY CHAINS

Following Russia's decision to invade Ukraine, shippers can expect yet another hike in freight rates, along with fuel costs, surcharges and further supply chain disruption. This morning, forwarders stated that extended disruptions would come to no surprise in both war-affected areas and beyond. One forwarder said, "the Russian invasion of Ukraine is likely to exacerbate global supply chain issues and is already leading to price hikes in commodities, including fuel, which is spiking."

Supply chain economist, Chris Rogers, said, "the [conflict] could cause both physical disturbances to supply chains, as well as a reduced ability for international buyers to transact. In turn, there's also likely to be increased commodity prices, which could further exacerbate ongoing global supply chain inflation."

Many have also expressed concerns regarding the potential for more cyber-attacks, which could cause greater damage to the industry.

According to another forwarder, "fuel is already heading north, bigtime, so BAF and fuel surcharges will be climbing. Also, a war generally increases freight rates – air and ocean on the deepsea – that happened during the Middle East campaigns. Security for air freight may be increased also, as a surcharge, which happened during the Iran conflicts."

Alongside the price hikes, shippers can also expect further delays and disruption with significant delays undoubtedly predicted for road and rail routes through Ukraine and neighbouring countries. Furthermore, conflict, increased border controls and sanction enforcement are all likely to contribute significantly to delays within the region.

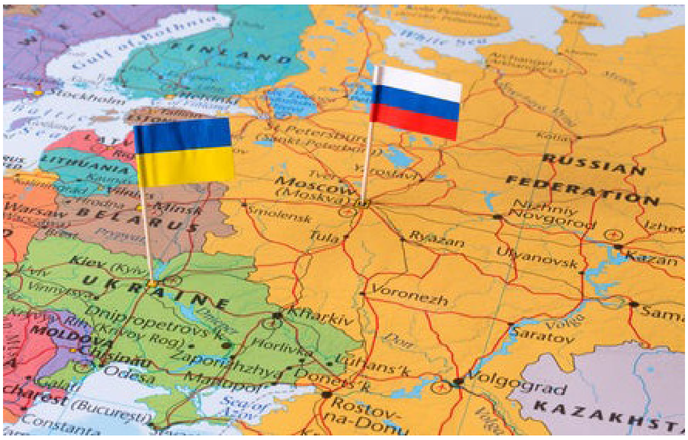
Warnings have been issued of a global spread where, "a ripple effect is likely to increase delays and costs around the whole supply chain. For example, shippers from China to Europe may switch to sea to avoid the unpredictability of land routes. This mode is already under strain because of Covid-19, and Ukraine is likely to make that situation worse. For some suppliers, switching to air freight may offer a short-term solution, but this will increase costs significantly."

Meanwhile in Ukraine, global logistics companies are ceasing operations, amid concerns for staff safety. One forwarder indicated that they are observing the situation with the greatest concern saying, "our thoughts are with our Ukrainian colleagues. What is important is the safety of our approximately 90 employees in the country. We have paused our logistics operations in Ukraine and asked our employees to stay home."

Concurrently, truckers are warning that they will become "ever-more selective" in the jobs they pick amid fuel price uncertainty. One European haulier advised, "the sustained high price of road fuel has already started to affect which jobs we will and won't do. Crude prices have hit their highest in several years, and this is a pricing situation that cannot go on deteriorating. But it looks likely that this will only be getting worse with news of the Ukraine fiasco."

After Russia's announcement of its "special military operation", crude prices surpassed $100 a barrel for the first time in eight years. One haulage operator believes it is "too soon" to make a judgement on how to respond to the crisis, warning that the focus needed to remain on immediate issues, but would still continue to monitor developments closely. A second haulier added that the problem would likely be more acute in the immediate future for "one-man" operators, as most larger companies include fuel surcharge agreements to counter additional expenses linked to sudden fuel price rises. Nonetheless, it was noted that rising fuel prices would have a "major impact" on not only costs, but the road freight routes chosen by operators.

Many are holding their breaths as other impacts from the invasion would no doubt make themselves felt in due course. The haulier added, "we will watch and see where Putin is going with this, and what is his outcome. If I were an egotistical, paranoid, oligarch-like mad dictator, I would target, digitally or physically, global trade – ie, shipping. Hopefully it will de-escalate, but I doubt it."



Whiteman, A & Lennane, A. (2022). Ukraine crisis: Fears of rising fuel price, rate hikes and cyber-attacks on supply chains. Retrieved from https://theloadstar.com/fears-of-rising-fuel-price-rate-hikes-and-cyber-attacks-on-supply-chains/ on 25th February, 2022.

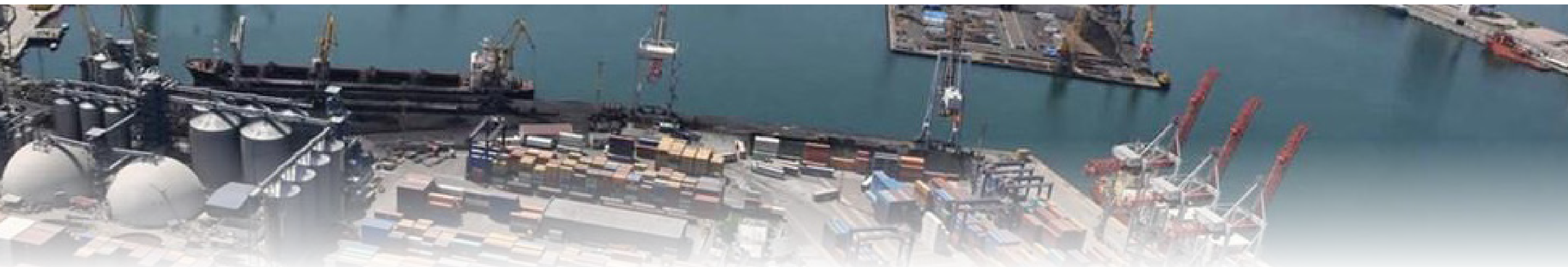
FLIGHTS SUSPENDED & AIR CARGO REROUTED

Russia's invasion of Ukraine saw airlines are re-routing around Ukraine, a Notice to Air Missions (NOTAM) being issued for all Russian airspace and most flights between Asia and Europe required to be rerouted.

Airspace was closed early this morning, restricting aviation around Kyiv, Dnipro, Lviv, Odessa and Simferopol and no commercial aircrafts in Ukrainian airspace. Currently, Ukraine International Airlines have suspended scheduled and charter flights to and from the country. The European Safety Agency has warned that airspace in Russia and Belarus, located within 100 nautical miles of the border, could potentially pose safety risks and that there is a chance of a cyber-attack on Ukraine's air traffic control.

Russia has also suspended some domestic flights to and from airports near the border. One Moscow-based aviation expert said, "no one expected this, and it's too early to tell what will happen."

Lennane, A. (2022). War zone airspace restricted: air cargo re-routed and flights suspended. Retrieved from https://theloadstar.com/war-zone-airspace-restricted-air-cargo-re-routed-and-flights-suspended/ on 25th February, 2022.



SHIPPING WARNED TO EVACUATE

All shipping has been warned to leave the Black Sea area around southern Ukraine, while the broader implications of the invasion are currently being analysed. At the moment, there are three container vessels in the Odessa region: Cosco's "Joseph Schulte", Zim's "Bach" which can be seen already leaving the area and Hapag-Lyoyd's "Hansa Limburg" which is also leaving the port. The port of Odessa was closed by the Ukrainian authorities, suspending operations. The port, with the facility in Tallinn, Estonia, handled a combined total of 453,000 TEU.

Dryad Global's spokesman, Munro Anderson, advised all shipping to broadcast their intentions widely over the radio and to "comply with any instructions given by the Russian military". He noted that the Black Sea region was complex, "but the principal risk is commercial" and as long as shipping avoids Crimea, southern Ukraine and the Sea of Azov, there should be no problem at this time.

Savvides, N. (2022). Security expert warns shipping to leave Black Sea region as tension grows. Retrieved from https://theloadstar.com/security-expert-warns-shipping-to-leave-black-sea-region-as-tension-grows/ on 25th February, 2022.

SUPPLY CHAINS SET TO BE DISRUPTED: A CLOSER LOOK

Oil and gas prices are set to skyrocket as the Russia-Ukraine crisis escalates; however, the impact on energy won't be the only ramification. From wheat to barley, and copper to nickel, analysts predict supply chains are set to be disrupted as the crisis takes a turn for the worse.

FOOD SECURITY

Being considered as the "breadbasket of Europe," Ukraine's invasion would result in the food supply chain being "hit hard." In addition, Russia and Ukraine are also big suppliers of metals and other commodities. If military conflict continues to take place or crippling sanctions are imposed, food security will be at risk.

Europe relies on Ukraine's production of wheat, barley, rye and corn.

"Although harvesting season is still a few months away, a prolonged conflict would create bread shortages [and increase consumer prices] this fall," said an analyst. This will not only impact the European Union, but many nations in the Middle East and Africa as well who all rely on Ukrainian wheat and corn. Thus, disruptions to the supply could affect food security in those regions. Furthermore, China is also a big recipient of Ukrainian corn, who replaced the U.S. as China's top corn supplier in 2021.

As a result, wheat and corn prices are already soaring and could worsen if an armed conflict erupts. "Rising food prices would only be exacerbated with additional price shocks, especially if core agricultural areas in Ukraine are seized by Russian loyalists," said Per Hong, senior partner at consulting firm Kearney. He noted that Russia is also the world's top wheat exporter and together with Ukraine, both account for roughly 29% of the global wheat export market.

Additionally, any disruptions to the natural gas supply will in turn affect the production of energy-intensive products such as fertilisers which are bound to hit agriculture further, with Fertilizers being already in short supply last year leading to rising prices. Moreover, Russia was the largest supplier of natural gas and oil to the European Union last year.

METALS AND RAW MATERIALS

Ukraine has steadily increased its exports over the years, and is now a "huge provider" of raw materials, chemical products and even machinery like transportation equipment. Ukraine is also a major supplier of minerals and other commodities. An analyst stated, "Ukraine's currency began declining in value since Russian troops started gathering at the border. This will increase the cost of their exports."

Russia controls about 10% of global copper reserves, and is a major producer of nickel and platinum. Nickel is a key raw material used in electric vehicle batteries, and copper — widely seen as an economic bellwether, is extensively used in electronics manufacturing and construction of homes. The U.S. chip industry also heavily relies on Ukrainian-sourced neon and Russia also exports a number of elements critical to the manufacturing of semiconductors, jet engines, automobiles and medicine.

IMPACT ON GERMANY

While most of the European Union would be affected by the escalating crisis, Germany would especially suffer the blow. Germany derives most of its energy needs for manufacturing and electricity from the natural gas it gets from Russia. Therefore, if tensions continue to rise and we see an increase in disruptions due to a potential war or sanctions, it will hold back manufacturing production in Germany. Factories would need to curtail production which would cascade to manufacturing in other countries. Top exports from Germany include autos and auto parts, other transport equipment, electronics, metals and plastics.

Tan, W (2022). How a Russian invasion of Ukraine, the 'breadbasket of Europe,' could hit supply chains Retrieved from https://www.cnbc.com/2022/02/23/impact-of-russia-ukraine-on-supply-chains-food-metals-commodities.html on 24th February, 2022.

FELICITY ACE CONTINUES TO BURN AFTER CATCHING FIRE LAST WEEK

After a week of catching fire, the ro-ro vessel Felicity Ace continues to burn in the Atlantic off the Azores. On 16th February, a fire broke out on the Panama-flagged vessel which was on its way to the US from Germany with a cargo of cars.

All 22 crew members managed to evacuate and the vessel manager, MOL Shipmanagement Singapore, stated it was "continuing to make every effort to contain the damage and resolve the situation". MOL yesterday confirmed that there is no oil leakage and the vessel remains stable and indicated that there are two salvage crafts on their way with extra firefighting and towing capabilities, due to arrive on the 23rd and 26th of February.

The cargo comprises an estimated 4000 vehicles including luxury cars such as Lamborghinis, Porsches and other cars made by Volkswagen. As some of the vehicles are electric with lithium-ion batteries, these are extremely difficult to extinguish when on fire.

The Portuguese Navy advised that one of its ocean patrol vessels is currently on the scene monitoring the area and the stability of the ship and plans to deploy a team of experts on 24th February to analyse the ship's condition for towing.

Ackerman, I (2022). FELICITY ACE STILL BURNS A WEEK AFTER CATCHING FIRE Retrieved from https://www.thedcn.com.au/news/specialist-shipping/felicity-ace-still-burns-a-week-after-catching-fire/ on 24th February, 2022.

PACIFIC INTERNATIONAL LINES ANNOUNCES CHINA TO EAST AFRICA SERVICE

Pacific International Lines has announced the launch of two weekly direct services designed to enhance its China to East Africa service – known as EAS and EA3, which will enable its customers to enjoy stable and faster transit times to East Africa.

The enhancement will see the current East Africa Service (EAS), which PIL operates independently, expanding into two service routes – with one serving Mombasa, called EAS, and the other serving Dar es Salaam, to be named as EA3.

EAS will commence on 13 March 2022 from Qingdao, and EA3 will commence on 10 March 2022 from Shanghai. EAS and EA3 will be offered by a consortium of vessels with an average capacity of 2200 TEU, to be jointly deployed by PIL, Ocean Network Express (ONE), Gold Star Line and Hapag-Lloyd AG.

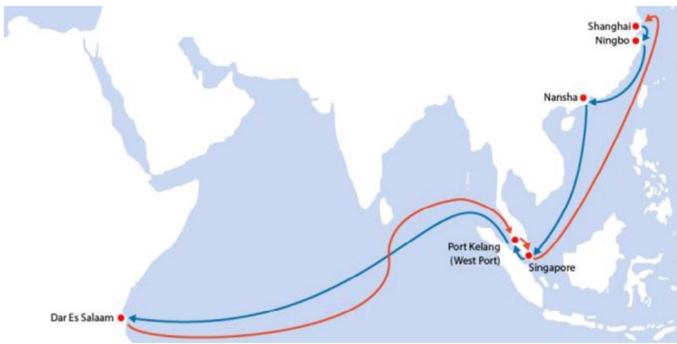
The ports of call for the new services are:

EAST AFRICA SERVICE (EAS) SERVICE ROTATION:

Qingdao – Shanghai – Ningbo – Nansha – Singapore – Port Kelang – Mombasa – Port Kelang – Singapore – Nansha – Qingdao

EAST AFRICA SERVICE (EA3) SERVICE ROTATION:

Shanghai – Ningbo – Nansha – Singapore – Port Kelang – Dar es Salaam – Port Kelang – Singapore – Shanghai



Wallace, P. (2022). PIL LAUNCHES CHINA TO EAST AFRICA SERVICE. Retrieved from https://www.thedcn.com.au/news/bulk-trades-shipping/pil-launches-china-to-east-africa-service/ on 24th February, 2022.

STAFF SPOTLIGHT

What do you do at Tomax?
I am the NSW regional supervisor who oversees our drivers and fleet.

How do you unwind after a long day?
I unwind by watching my favourite TV show, Seinfeld.

Most delicious thing you've eaten?
Pork belly.

Do you follow any sports?
NRL - my favourite team is the West Tigers.

Best advice you've ever received?
Always be honest no matter the consequences.

If you could meet any celebrity, alive or dead, who would it be?
Robin Williams.

Aside from necessities, what's one thing could you not go a day without?
My TV!

QUICK RIDDLES

See if you can answer the following quick riddles!

1) What 4-letter word can be written forward, backward or upside down, and can still be read from left to right?

2) You answer me, although I never ask you questions. What am I?

3) What is there one of in every corner and two of in every room?

4) During which month do people sleep the least?

5) The one who has it does not keep it. It is large and small and comes in many shapes. What am I?

6) What can't you see that is always ahead of you?

7) What word is always pronounced incorrectly?

8) The leaves are on the fruit, The fruits is on the leaves. What is it?

9) What can you fill with empty hands?

10) How can you spell "enemy" in three letters?

11) I am present in a laptop. I am also a human's t-shirt. I am usually described as something above. What am I?

12) What loses its head in the morning but gets it back at night?

Answers: 1) Noon, 2) Telephone, 3) The letter 'O' ,4) February, 5) A gift, 6) Future, 7) Incorrectly, 8) Pineapple, 9) Gloves, 10) Foe, 11) Top, 12) Pillow