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Transportation Market Update – Middle East Conflict

As the Middle East conflict is entering day 5, there is chaos that has ensued in this period, as ocean and air carriers along with cargo owners look to manage through significant threats and reduce their exposure driven by safety and higher risk that is escalating quickly.

As expected, volatility is upon us and there is a great deal of rumors and assumptions coming out of the transportation arena, as decision makers ponder options and review their immediate constraints. Some details are nothing more than indications and not actual implementation at this time. This message is to advise you to make sure any information sent your direction is qualified and in writing.

It is accurate that carriers operating in the Middle East Gulf region are canceling bookings, omitting ports and are announcing surcharges and/or emergency cost structures to manage through the situation. Such increases in cost vary by carrier, as do their activities and impacted vessel strings. The region impacted includes, but is not limited to, Bahrain, Egypt, Djibouti, Eritrea, Iran, Iraq, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Sudan, and United Arab Emirates. Surcharges amongst carriers operating in the region range from $1500 to $4000 per TEU as some consider War Risk surcharges, revenue recovery initiatives, or have had portions of their cargo insurance cancelled in and around the region.

One of the largest concerns at the moment, is the limited number of oil tankers successfully transiting through the Strait of Hormuz. In a matter of days, serious reductions in oil supply can create a global energy crisis, where oil is not reaching critical regions around the world. From a transportation perspective, this is going to increase fuel for various modes and likely to see a combination of normal increases from rising costs per barrel, often passed on as BAF (Bunker Adjustments Factor) in ocean freight, and a fuel surcharge in airfreight. We may also see the need for carriers to generate an immediate need for “emergency” fuel surcharges, in order to cope right away as the cost of fuel escalates quickly.

While current transits remain seamless out of regions that are not impacted by the Middle East conflict, delays and equipment imbalances may soon be experienced on a global basis as vessels are voided; strings are temporarily adjusted; or some ships are simply left to idle, waiting to determine future steps that involve making sure seafarers and cargo remain safe, and that routes being utilized are deemed safe for passage to their next destination(s).

We anticipate more details to emerge within this week and the longevity of the conflict will be watched closely as the longer the Middle East region is disrupted from a transportation perspective, the wider the impact can be in other regions around the world as a domino effect.

Should you require any assistance, please do not hesitate to contact your handling office or account manager

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