

WEEKLY MARKET *UPDATE*

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LATEST News

Canada cuts Russia and Belarus from Most-Favoured-Nation Tariff treatment. Russia's invasion of Ukraine, supported by Belarus, is a violation of international law and threat to the rules-based international order. Canada is taking further action to ensure those who do not support the rules-based international order cannot benefit from it. Today, the Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance, and the Honourable Mary Ng, Minister of International Trade, Export Promotion, Small Business and Economic Development, announced that the Government of Canada has issued the Most-Favoured-Nation Tariff Withdrawal Order (2022-1), removing these countries' entitlement to the Most-Favoured-Nation Tariff (MFN) treatment under the Customs Tariff. This Order results in the application of the General Tariff for goods imported into Canada that originate from Russia or Belarus. Under the General Tariff, a tariff rate of 35 per cent will now be applicable on virtually all of these imports. Russia and Belarus will join North Korea as the only countries whose imports are subject to the General Tariff. This measure is in addition to the many punitive actions that Canada and its allies have already taken against Russia and Belarus as a result of the illegal and unprovoked invasion of Ukraine, including other trade restrictions under the Special Economic Measures Act.

AIR Freight

Long flights, grounded fleets: How the war in Ukraine could alter heavy airfreight capacity. Many planes capable of transporting heavy goods are part of fleets from Ukraine and Russia. Airspace restrictions due to the war in Ukraine could further limit options for shippers looking to transport large cargo. The United States joined the European Union and Canada in closing its airspace to aircraft from Russia on Wednesday. The Department of Transportation order suspends foreign air carriers based in Russia from operating scheduled passenger and all-cargo air services to and from the U.S. This includes services from Russia's largest airline Aeroflot and all-cargo carrier AirBridgeCargo Airlines. These restrictions add further pressure to an already tight airfreight market. AirBridgeCargo "is a major player on the North East Asia to Europe tradelane," Niall van de Wouw, Chief Airfreight Officer of Xeneta, said in an email. It ranked 16th in cargo traffic in 2020, according to the International Air Transport Association, and offers a fleet of 18 Boeing freighters. Boeing freighters are a mainstay in air cargo transport, but AirBridgeCargo parent company Volga-Dnepr Group also has something few other carriers can offer: the ability to ship extra large and bulky freight. Its fleet includes 12 AN-124s and five IL-76s, both of which have heavy transport capabilities. "Russian carriers have operated in the US in the past but their loss will not significantly impact air cargo capacity in the long run except in the movement of oversize/outsized cargo," said Ben Skipper, executive director of aerospace and defense programs at the University of Tennessee-Knoxville, in an email. "The loss of the Russian and [Ukrainian] commercial fleets including AN-225, AN-124s and IL-76s could be problematic in the short run."

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How invasion of Ukraine could ease shipping logjam off US ports. BIMCO: War will hurt demand for container ships, bulkers and tankers. The traditional wisdom is that geopolitical chaos is good for shipping demand. Trade patterns are disrupted and become less efficient. Cargo must travel longer distances. Rates rise. But Niels Rasmussen, chief analyst at shipping association BIMCO, believes Russia's invasion of Ukraine will be bad for shipping demand. The war "will hurt growth in all shipping segments," he maintained in a report published Monday. Citing estimates that the conflict could shave 1% off global GDP growth, he said: "No matter the specific Russia and Ukraine export developments, this will hurt growth projections for all shipping sectors." Russia-bound container cargoes require increased inspections, slowing operations at European ports. Almost all shipping lines have now suspended service to Russia, dropping off Russia-bound boxes at other terminals en route. The result is increased congestion at European container ports — and congestion is a positive driver of freight rates. That's the immediate effect in one region. Looking further down the road, from a global perspective, the war could reduce port congestion, according to Rasmussen. "The impact of the war on the global economy and consumer confidence may weaken growth prospects," while the war's effect on oil, wheat and corn prices could "lead to the destruction of demand as consumers and businesses prioritize spending." Historically high prices for ship fuel "will only add to the inflationary pressure."

Russian invasion propels price of ship fuel to historic high. Average price at top refueling ports approaches \$900 per ton. The price of ship fuel was flirting with a new record even before Russia invaded Ukraine. Then war broke out, and the highs of the past were left far behind. Ship fuel costs have "gone parabolic," said Braemar ACM Shipbroking. To the extent the fuel cost increase is passed along to the shippers of containerized goods and bulk commodities such as oil and grain, it will add to inflation. To the extent it's not passed on, it will lower shipping's bottom line. Ships consumed high sulfur fuel oil (HSFO) until the IMO 2020 environmental regulations went into force two years ago. Since Jan. 1, 2020, ships have been required to burn more expensive fuel with 0.5% sulfur content known as very low sulfur fuel oil (VLSFO). Ships equipped with exhaust-gas scrubbers can continue to burn HSFO, which has a sulfur content of 3.5%. According to Ship & Bunker, the average price of VLSFO at the world's top 20 bunkering ports reached \$882.50 per ton on Thursday, up 73% year on year. In Fujairah, United Arab Emirates, one of the world's largest bunker (ship fuel) hubs, the price of VLSFO rose to \$922.50 per ton. These price levels are unprecedented. The average price of VLSFO at the top 20 ports has shot up by almost \$130 per ton since Russian forces entered Ukraine. Marine bunkers are "galloping," said brokerage Fearnleys. The previous average daily high for VLSFO at the top 20 ports — \$693.50 per ton — was recorded by Ship & Bunker on Jan. 8 2020, at the height of the IMO 2020 transition. Before that regulation came into effect, HSFO reached highs of \$746 per ton in March 2012 and around \$750 per ton in July 2008.

Port of Halifax adding container facility to reduce inspection turn-around times. The Government of Canada plans to contribute \$7m from the National Trade Corridors Fund to build a new container examination facility within the Port of Halifax. The Halifax Port Authority will invest \$8m, for a total of \$15m for the project. The new facility will replace an existing off-site facility and so is expected to significantly reduce inspection turn-around times and port congestion, and improve the efficiency and security of operations for the Canada Border Services Agency. Capt. Allan Gray, President and CEO of the Halifax Port Authority, said the investment will "facilitate increased trade by improving the flow of container cargo to and from the container terminals and the new marine container examination facility." As announced in 2017, the National Trade Corridors Fund is investing \$2.3bn over 11 years in projects that strengthen the efficiency and

resilience of Canada's transportation system. In 2021, \$1.9bn was added to the fund. The Port of Halifax announcement did not include a construction schedule.

MARKET *Sources*

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