Peterson Institute for International Economics

The Strait of Hormuz closure: What happens to trade and shipping?

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[00:00:21.00] - Cecilia Malmström

Good morning. Good afternoon. Good evening. Welcome to this episode of Trade Winds, where we're going to talk about the Strait of Hormuz. My name is Cecilia Malmström. I'm a non-resident senior fellow at the Peterson Institute for International Economics in Washington. The Strait of Hormuz has, of course, received almost daily attention the last 6 months in relation to the US war on Iran. The strait is one of the most important shipping choke points, and in peacetime, around 90 commercial vessels per day pass the strait. They carry 14 million tons of raw oil and 4 million tons of refined products such as gas, chemicals, and fertilizers. After the war, the traffic has been very limited. Only a handful of vessels pass per day depending on the hostilities. But these vessels are critical for global trade, and the war is driving up prices. And on the boats, there are seafarers, human beings who are isolated, who are worried, sometimes killed or injured in a war they have no part of at all. Up to 400 ships are stranded and thousands of seafarers are on board. What are the human costs of the war and the consequences for the maritime industry and traffic?

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Oil and fertilizers going through the Strait are vital for energy, crops, industry all over the world. And prices have, of course, fluctuated dramatically and also supply. What are the impact for trade and development? These are the questions we will discuss today, and I have two very knowledgeable guests who will help us understand and explain the situation. We have Professor Simon Evenett, who is a professor of geopolitics and strategy at IMD in Lausanne, Switzerland. He's also the founder of St. Gallen Endowment for Prosperity through Trade at St. Gallen University in Switzerland, and he's leading the initiative Global Trade Alert that monitors trade and trade tensions globally. We also have Dr. Dorota Lost-Sieminska, who is a Director of Legal Affairs and External Relations at the International Maritime Organization. She's a Polish lawyer and has PhD in maritime law from University of Gdańsk. The IMO is a United Nations agency with responsibility for the safety and securing of shipping, and it has 176 member states. You are both very welcome. So the war in the Middle East has been going on since the first American attacks on Iran in February. We have seen different talks and peace attempts and truthees and memorandums of understandings and agreements, cautious restart of shipping, and then new hostilities.

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One can talk a lot about that, but we are going to focus on the actual ships and the trade effects of that. Can you help us set the scene a little bit? What are the effects for shipping, starting with the people on the vessels? Of course, there have been fatalities, injuries, and many international ships have been attacked. Can you give us an update of the situation?

[00:03:35.18] - Dorota Lost-Siemińska

Yes, of course. First of all, thank you very much for the invitation to this discussion. I'm very happy to share what the International Maritime Organization is is doing during this time of crisis in the Strait of Hormuz and the Persian Gulf. And hello everyone. It's a pleasure to be with all of you. Let me start first with the 28th of February when the US and Israel attacked Iran. And on the 4th of March, as a consequence, Iran declared the Strait of Hormuz closed. Laid down the sea mines and began attacking merchant ships. At that time, the maritime traffic, traffic through the Strait of Hormuz dropped to near zero. IMO immediately started monitoring the situation in collaboration with member states and industry partners. And initially, the first numbers that we reported were approximately 20,000 seafarers and 2,000 ships stranded in the Gulf. Ever since the strait remained effectively closed, the situation extremely uncertain and the continued attacks, the attacks continued on merchant vessels and innocent seafarers. As of the mid of August, we have confirmed 65 attacks on ships. With 17 confirmed seafarers fatalities. But these numbers, of course, may change. We have new attacks almost every day.

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IMO Secretary-General consistently reaffirmed that the safety of seafarers is of paramount importance and that they should never ever face the risk of losing their lives for simply doing their jobs. So our focus is, is on safety of shipping, on seafarers, on facilitating the, uh, every help, every aid that we can provide to seafarers. As an international organization, we facilitate the dialogue between member states, industry stakeholders, And we do everything what we can to help seafarers in this crisis situation.

[00:06:21.08] - Cecilia Malmström
Yes, it must be a terrible situation for them and their families and the uncertainties. So there are still around 2,000 ships there, or that was the situation in February? How many more or less today?

[00:06:34.17] - Dorota Lost-Siemińska
So as we still have, the numbers are close to thousands and we still have several thousands of seafarers. Thanks to the evacuation plan that the IMO launched in June, we managed to evacuate almost 136 ships with several hundreds of seafarers. That was the most successful operation in this difficult time. But many, many hundreds of seafarers are still there, and we still continue whatever we can, all putting together all the efforts that we can to help those seafarers.

[00:07:24.02] - Cecilia Malmström
Must be a very dangerous situation as well for the evacuators. So lots of—

[00:07:29.03] - Dorota Lost-Siemińska
Of course, it's, you know, the attacks on ships and not only on the merchant ships that should be on a normal day as usual, business as usual day, but it's also extremely dangerous and extremely risky for all the salvage operations and for all those who are providing assistance to those ships that are stranded there. Uh, we are aware that there were some cases of, uh, successful crew changes where situation was really dire on board of ships. So we kind of monitor the situation that there are supplies of food and medication and whatever seafarers may need. They are from that point of view mostly supplied. This doesn't change the fact of immense mental constraints and, you know, their lives is at risk every single hour. So, of course, this is an extremely demanding situation for them and their families as well, because not always they have contact with with their families. Not always they can communicate also with the ship owner or with the organizations to get help that they need.

[00:09:00.12] - Cecilia Malmström
No, it's an aspect of this war that very few people are talking about, the lives of these seafarers and their immense stress on the crew, of course. How many ships a day are passing? Is it a handful only? I think it of course depends from day to day, but can you give an average? Of ships who are passing the strait?

[00:09:24.06] - Dorota Lost-Siemińska
Yes. So as you said in your introduction, on a normal day before the conflict erupted, there were around 100, 120, 130 passages a day. Now these are single digits. This is like 5, 6, passages every day, meaning that the passage through the Strait of Hormuz dropped by more than 90%.

[00:09:57.05] - Cecilia Malmström
Well, that's dramatic. Simon, you and your colleagues have been monitoring the implications of the war for trade. Can you give us a brief overview of how it has evolved since February?

[00:10:09.28] - Simon J. Evenett
Certainly. Let me begin by putting this events in the Straits of Hormuz into some context for you. I think the first is that we've in recent years, we've seen plenty of examples of governments trying to restrict the exports of a particular commodity. But here we actually have a whole trade route being blocked. And so material on the one that immediately makes you think maybe the impact could be significantly larger because many products are flowing, are flowing through. And I'll come back and talk a bit about some of the products. So the first point is that this is materially different from much of what we've seen before. The second point is we have a few precedents to look at in this case, but not so many which are directly relevant. We, of course, had had the actions in the, in the Red Sea and also in the Black Sea as well, where there were sometimes attacks on ships as well. And we've had precedent cases there, but they don't quite seem to capture the same scale of what's going on here. And so, and I think the reason we will look at the Strait of Hormuz case carefully is because as geopolitical tensions intensify, there is concerns that the Strait of Malacca and also the South China Sea could become, uh, important, uh, theaters for this type of action.

[00:11:29.02]
And the third comment to make is, um, that we saw certainly with respect— in respect to the invasion of, of, uh, of Ukraine and Russia's reactions to it Russia's actions following this, there were a lot of overreactions, I think, from commentators. There was a big concern that, for example, German industry would be gutted by all these very high energy prices, and they certainly took a hit, but it wasn't— the German economy actually adjusted a lot more, which suggests that there's a bit more, um, bit more, uh, resilience in there. So I put those comments out there, the original, out there up front so that people can start seeing what I'm about to say in the appropriate context, uh, and I'll come back to them. So what have we— what What have we seen? Well, we haven't seen a sort of broad-based reduction in global trade this year at all. What we have seen, of course, is in some key products there has been a significant reduction in the quantity shipped. The case of oil is very well known. Perhaps less well known is what's going on in fertilizers. And I dug up the data, the latest apples for apples comparison there.

[00:12:36.29]
And in the case of urea, the volume of urea shipped so far this year is about 9% lower over the same comparable period last year. And the unit value, that's the price of urea, is about 37% higher. So we do see for some products really tangible reductions. For ammonia, it's about a 14% cut in volume, and the price increase, depending on the type of urea, is between 30% and 50%. So there are, for the products which are affected, I think very tangible impacts which are happening. And I imagine we'll come back later to the food security implications and the like of all of those. So I think this is— so I think we can point to very specific problems there. But I think that doesn't quite capture the significance of this particular shock because, of course, oil is upstream to a lot of both production activity as well as supply of public services, as well as we use a lot of it in our own personal consumption. And here, I think the very fact that we've had

such a significant reduction in supply has then led to demand, what we call demand destruction. Somehow we have to get demand down.

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Prices, of course, are the traditional mechanism. They did go up a lot. But of course, prices of oil are also affected by the availability of stockpiles and also expectations as to when this conflict will end. But still, there has been an attempt to try and reduce demand. Governments, of course, have gone further there in this regard. And we see— and I checked this— there's 8 countries in East Asia and the Pacific who have taken steps to either encourage working from home, limit the amount of sales to individuals or to companies, various attempts to essentially reduce the demand for oil or make and, and gas. If you go to South Asia, pretty much every country, 6 countries there, have taken measures, in some cases very drastic measures as well. And you can then go to the Middle East, outside of the Gulf, look at quite serious measures taken in, um, Egypt. And then we also see in Latin America and the Caribbean measures being taken as well, which gives you a sense of the global spread of essentially an oil price, uh, what happens when, um, oil supplies are dramatically reduced. On top of this, of course, those oil prices, when they have gone up, are pushing up costs, not just of manufactured goods, but also services, services, services.

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And this in turn is generating high levels of inflation. And this is again putting pressure on central banks to raise interest rates, or at least not to cut them. And we're already seeing in the Treasury bond markets repricing on the basis of expected inflation. So what I've hoped to give you in this opening set of comments is just as the sense of the, the fact that this may look like a geographically confined trade route, but when you unpack the different consequences, whether we come to food or to macroeconomics, they're pretty significant and they're felt around the world, but not uniformly around the world. And I think that's a very important point which we may want to dwell on later.

[00:16:02.13] - Cecilia Malmström
But still, it is— some areas are more affected than others. But as this is such an important choke point for, for basically all over the world. I think the International Energy Agency and other UN agencies said that this was the biggest supply disruption in history for oil market. Do you agree with that? I mean, that's very strong, strong words.

[00:16:21.24] - Simon J. Evenett
They, I mean, they actually backed up that statement with some numbers. And again, you can, I think you can make that case. I think some people would want to, would look at some of the developments in the 1970s and say that they were pretty profound and shocking. Either way, we are in the middle of an event which is, which is still unfolding and sizable in its consequences. And I think we're also seeing governments take trade and subsidy measures as well in increasing numbers as well. So this is creating dominoes through not just the global economy, but also the trading system and through supply chains.

[00:17:05.17] - Cecilia Malmström
And the ships that are there, they are carrying oil, as you said, but also urea and fertilizers. They're important for global industry. Yeah, but it has also— there are lots of international warnings coming about the effects for crops all over the world that this lack of fertilizers do not reach their destination. So it can have effects on actually on food supply. And of course, developing countries are most affected by this. Is this something you want to comment on? I

know that this is also certainly— IMO, of course, with the routes where the ships are going afterwards in normal cases.

[00:17:50.27] - Simon J. Evenett
Maybe I can say, start the conversation. I'd love to hear what Dorota has to say as well. Of course, with the case of the fertilizer supplies, fertilizer is of course used by farmers in growing seasons. And if the amount of fertilizer available is going down considerably or and farmers use much less of it, then this affects the growing seasons for the latter half of this year and the early part of next year. And so this will have implications for the quantity of crops which are available on world markets. Now, one thing which has to be said, and this is, is that, you know, agricultural market outcomes are a function of a number of variables, not just the amount of, um, fertilizer, but there's also weather-related factors as well. And so One, I wouldn't want to sound like a Cassandra and say we're going to have food shortages at the end of this year and beginning of next year, because often those types of predictions have been confounded by better than average weather. And that was exactly what happened, if you can remember, after the Black Sea shipments were blocked last time round. So what we're seeing here with the fertilizer reductions in exports and the like is a negative factor, but it could well be offset by others.

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And it's interesting to see just the huge volatility in food prices at the moment, which we're having across time and also across crops. But still, I mean, there has to be a yellow flag raised here on food security grounds. And we know that in a number of developing countries, food insecurity triggers political unrest. And this in turn has other knock-on consequences. So we're right— I think it's right to raise raised this issue, but I think we learned from the Black Sea episode that just because there's a hit doesn't mean it translates— hit to supply doesn't mean it translates into bad overall outcomes. There are many factors that matter.

[00:19:49.11] - Cecilia Malmström
Do you have any comments on this, Dorota?

[00:19:52.12] - Dorota Lost-Siemińska
Well, I can only echo what Simon said, that of course the oil supply and fertilizer supply are massively affected. And we are aware that it will certainly affect the food prices. And most likely the poorer country, the poorest countries will be the most impacted and feel it the most. It's always the poor who suffer most. So, you know, there is this perspective of the Western world, if you want, that, you know, there are oil prices going up and food prices going up, but the poor countries and the poorest will feel it most, that there will be really, really food shortages. What I can add to that is also that the this whole conflict is reshaping the global shipping industry across every financial and operational dimension. So, it's also container prices, the trust in shipping routes, the insurance availability, simply the basic economics of moving goods. So, all those factors will eventually affect the prices. This is how the market its work. If we are looking right now at the— how the shipping is rerouting the supplies, the alternative route is through the Cape of Good Hope, which adds 10 to 14 days to the voyage and millions in extra bunker fuel costs.

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So, of course, this will then be translated into food costs and other costs that every one of us will eventually pay.

[00:21:59.17] - Cecilia Malmström

Yes, well, it's a very bad year in that regard. We had, of course, this huge crisis in the Hormuz, and then we have the related to the crops and the ships in the Black Sea with the war, Russia's war on Ukraine. Then we have the situation with the Houthi rebels in the Red Sea. And you said that they also some some worries in the Malacca Straits. I mean, all this is adding, of course, to the whole, both the supply of oil and fertilizers and food, but also the trust of the industry and the price of the industry, because there's only that amount of ships. I mean, if they're stuck in the Hormuz, they can't go elsewhere. I mean, it's hard to compensate, to find alternative routes. You said that some of them need to go through over South Africa, which takes another 2 weeks and adds emissions and costs and timing, of course. But there are so many worrisome situations all over the world. So the shipping industry must be having a very, very difficult year.

[00:23:09.22] - Dorota Lost-Siemińska
You know, shipping is a very, very resilient industry, and it's kind of this, if you want, this new normal is there. And we had the crisis several years ago in the Gulf of Aden with the piracy. We mentioned the Houthi attacks, Hormuz tensions where not only now, they were also in the past. The COVID-19 and a complete collapse of the whole supply chain for a period of time. We had the Suez blockage. We have, we see more often now than in the past, the climate-driven disruptions like the, for example, the Panama Canal drought and storms. So there are lots of those either geopolitical tensions or natural phenomena that affect how shipping works, but shipping is an industry that is adjusting to the situation and is, as I said, very resilient. So, of course, this is all affecting how the supply chains will work in the future. It will, the industry will adjust. It is You know, we are monitoring the situation, working very closely with our industry partners, and we are taking and addressing the situation as and when necessary. The insurance markets are also adjusting, but our most focus as IMO is always on seafarers and how to help them, how to be prepared for the future.

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How to make sure that their welfare is preserved, their rights are preserved, and they have all the necessary aid and support they need. Because without seafarers, there is no shipping, and without shipping, there is no supply chain. Yes. So, we must get our priorities right. And for us, it's always the people, and especially the seafarers who are working and doing their daily jobs on ships.

[00:25:46.04] - Simon J. Evenett
Can I add just a couple of things there to flesh out what Dorothee is saying? I think it helps to separate out between the short-term and the medium-term situation we face because in the short term—

[00:25:58.12] - Cecilia Malmström
Yeah, I was going to ask it. Yeah.

[00:26:00.08] - Simon J. Evenett
In the short term, supposing we do get some type of deal to reopen the Strait, and I hope we do, then many ships will be able to leave the Strait. I Then the interesting question is whether the shipping companies will be willing to send them back into the Strait of Hormuz to go and pick up a next round of supplies. And so the confidence then that the shipping companies have in the durability of the deal, and of course, critically, in the safety of their crews and their ships, will become a key issue. So getting the ships and the seafarers out is one thing. Whether they'll go back is another, and that will in turn have implications for the supply of all the products we've been talking about earlier. So that's the, I think, this short-term sort of straight-related shipping question. The medium-term one is that shipping is, as Dorota, she didn't put it like this, I'll put it

like this. This is a sector which is used to feast or famine. It's used to huge volatility in and performance and financial performance and the like. And for much of the last decade, so 2013 to 2023, the actual capacity available for shipping globally was going down.

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This is now reversed in the last few years. We've seen significant orders for new ships, but new ships can take up to 3 years to be built. And many, you know, they're built principally in China, South Korea, and Japan. And so you can see that we could be in this period in between 1 to 3 years where this disruption ripples on for some time. But we are, as I say, if the number of orders of ships that I've seen in the latest Clarkson report on this is anything to go by, then, then we are going to see actually an expansion in the number of ships which are available, which suggests that, that someone has confidence in global trade growing growing in the future and recovering.

[00:28:06.22] - Cecilia Malmström
Yes, bu t even if the Strait opens fully tomorrow, it will not happen, but let's pretend it does, it will still be a huge backlog to get out all these ships, the 1,000 ships who are there. And so the normal trade will not resume immediately. It will take how much months or what will happen Dorota

[00:28:32.16] - Dorota Lost-Siemińska
So, the estimate numbers are that, as Simon said, in the short term, to get ships out would take approximately 3 weeks to 1 month. It very much depends, of course, on the cooperation between the Gulf states and Iran and Oman and the US. To be back to normal, if at all possible, because nobody knows the answer to this question. Will we ever get back to the pre-war freedom of navigation and the pre-war conditions? But it will take months in the very optimistic scenario of, you know, going back to pre-war conditions. It will take still months to get the trade flowing in the Persian Gulf. Gulf and through the Strait of Hormuz.

[00:29:31.15] - Cecilia Malmström
Yes, if ever back to normal, there are discussions now, and I know this is on a political level and it's very, it changes by the hour sometimes, but there are discussions about some sort of tariff or a fee or a tax that has to be paid and who will monitor and so on. Are you sort of making scenarios of what this will mean for trade and for the shipping industry?

[00:29:57.09] - Dorota Lost-Siemińska
Well, the IMO position as a UN agency, as a part of the United Nations organization, and as a creator of many international treaties, our position is always, was always very clear and is consistent. Freedom of navigation, as provided in the United Nations Convention for the Law of the Sea and the Safety of Life at see no tolls for simply passing this strait or any strait, no additional costs on the shipping industry. The transit passage is the right that is very well established in international law. And we firmly stand by the freedom of navigation and the right of transit passage for those straits used for international transit.

[00:30:58.11] - Cecilia Malmström
Simon, have you made any estimations of what impact would this have for trade if there were some sort of tariff or tax or fee?

[00:31:09.23] - Simon J. Evenett
No, I have not made a direct calculation of what the knock-on effect of a fee for going through the strait is. I think to be honest, it will probably be swamped by any macroeconomic effects that

we could see as a result of this particular, this particular crisis. So I suspect that that's the right ranking. To the extent that the fee is significant, then I think we will see the development of more overland options for transporting goods or transporting goods overland to ports which are either small and could be scaled up or built in the first place. So I suspect we will see a substitution away from shipping some things through the Strait of Hormuz. How much will depend on a range of factors. The size of the fee would be definitely a factor.

[00:32:05.15] - Cecilia Malmström
This is one of these, of many situations where you really would need some international cooperation and where you wish there were strong multilateral bodies that could do— of course, the International Maritime Organization, you are doing what you can to support, to monitor and to supply this. Negotiations are held in rooms that we do not have access to. But could the international community— can we learn something from this? Can we do more? Could there be a role for the WTO? Could there be some sort of strengthening of working with IMO and other bodies on this? What do you think, Simon?

[00:32:44.28] - Simon J. Evenett
Well, let me— I think there's two things to say there. One is that the WTO has a— and the Secretariat have a mandate to track developments in the trading system. So I would not be surprised—

[00:32:55.21] - Cecilia Malmström
they are tracking the shipping and so on. Yes, they have very good statistics.

[00:33:00.13] - Simon J. Evenett
And I think this, I would not be surprised, it will be ramped up and elaborated upon. And I think it may well lead to further attention given to other key choke points in, in world shipping as well. And so I think this sort of helping to inform, um, uh, discussions on this is exactly a key role. I also think looking at episodes like the one we had at the beginning of the, the, the Russian invasion of Ukraine, where we do have sudden cutoffs of supplies, how quickly do markets adjust, where do alternative supplies come from, this will help also set expectations for, for amongst policymakers as to how quickly things may revert back to some type of normality. So I think there's a very important information role there. And Cecilia, you know this as well as I, you know, sometimes the narrative and the discussion in trade policy gets a little bit ahead of the underlying facts and fear starts driving discussions in ways that it perhaps shouldn't. The second area where I think naturally a trade policy audience would ask is, well, we have very weak rules on export controls at the WTO and we have very weak— and we certainly have no rules on blocking trade routes.

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So, and that I'm not suggesting that we're likely to get either strengthening or creating either. But it is interesting seeing how some countries are looking at continuity of supply as an objective, not just the traditional trade policy objective of how do we get the tariffs down, how do we make trade more— policy more predictable, how can we ensure that continuity of supply is seen as a priority and supported. And there, there have been a number of Asia-Pacific governments who have been trying to find ways to assure each other that they wouldn't cut each other off. Now it's interesting. So I have in mind, I think New Zealand and Singapore were in on this. I think Australia has also done some action here. Even these countries, which I think are genuinely very, very open to trade and all the rest of it, they do not seem to be willing to commit on paper to do very much, which is particularly farsighted. So I think this is an area where governments are quite fearful of of treading. But as we get into a more— an era of

greater geopolitical rivalry, I think there will be more attention given to continuity of supply through trade routes or, or continuity of supply in general.

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And maybe we'll get some creative ideas from different trade policy, different governments on how they want to try and stabilize trade flows, because after all, many countries can't produce everything. They specialize for good reason, and so they are dependent upon cross-border supply. So why not think about how to stabilize that supply, not just get tariffs down?

[00:36:02.27] - Cecilia Malmström
Dorota, is there anything that the International Maritime Organization would like from the international community as support for this situation that we have now, but also for possible future similar situations?

[00:36:17.08] - Dorota Lost-Siemińska
So, in all the cases, whether we are talking about the Black Sea or the Red Sea, the Persian Gulf or any other area, I think that our member states and our Council are very clear what is the priority. The priority is the safety of life at sea, the safety of navigation, which translates to then the first of all protection of seafarers, preservation of the supply chains, keeping the trade flowing, but also the protection of the marine environment because of course all those attacks on ships and we see it now in the Persian Gulf of the coast of Oman, an environmental disaster happening. So I think that But from the perspective of IMO member states, everyone is very clear that we sit together at the table and we continue negotiations on how to make shipping safe and secure. And from this perspective, the member states are cooperating and they are talking to each other. That they meet only, you know, occasionally. We have regular meetings, whether it is the meeting of our Maritime Safety Committee or the Marine Environment Committee, the Legal Committee. These committees are composed of all 176 member states. They are very well attended.

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The delegations are coming, sitting together, developing new rules, adopting resolutions and so on. In last July, our council again reaffirmed and adopted a resolution confirming the safety and security in the vital shipping claims and confirming the freedom of navigation and the right of transit passage through the straits. So I think that from that perspective, from the perspective of international law, international collaboration, and negotiations, we are still very much there and we will continue those negotiations and sitting together and addressing whatever, whether it is crisis or any new developments. The organization, the IMF, was quite successful over the decades in bringing member states together and finding solutions. And we will continue to do that.

[00:39:00.05] - Cecilia Malmström
What if this drags on? What, what I mean, we trade nerds, we used to say that trade is like water. It finds new ways all the time. Trade is affected. But overall, and I think that was your first sentence as well, Simon, that trade overall, global trade is not that much affected if you look at the bigger picture. But then of course you can, if you break it down, you see tendency. But if this drags on, what would be the, the geopolitical effects? On trade and supply chains?

[00:39:32.07] - Simon J. Evenett
Well, look, I mean, the first order question will be governments will look even more warily at sourcing from abroad, at least sourcing through or sourcing from countries where product has to pass through a choke point. And I think that's— I think essentially the broader discussions we've

had in the last few years about security of supply will also now include a chokepoint dimension to this. And so you can imagine governments talking about, you know, adding a new dimension to the whole discussion of resilience, right? And this, of course, will put even further pressure on the private sector to try and change their supply chains. By the way, let me just add on this from the companies that I speak to through my business school role, They're acutely aware of this, of the closure of the Strait of Hormuz. And I must say, in the last 12 months or so, the number of supply chain managers who are taking a very strong interest in geopolitical matters has increased significantly. And they are— and sourcing managers and procurement managers as well— very, very attuned to these issues now. So I imagine on continuity of business grounds alone, they may well make adjustments.

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But those adjustments, of course, will take time. And who knows, governments may not be happy with the speed of those adjustments. And we'll get back into the old debate about our firms organizing their supply chains, taking account of the appropriate risks. But I do think it's hard to see how closing trade routes like the Strait of Hormuz is going to make governments more favorable to sourcing abroad, but it might do what geopolitics often does, is it reshuffles which geographies are seen as more or less problematic. So geographies where products have to go through choke points will get a black mark against them, whereas other ones which don't, which might not have been places we sourced from in the past, become more attractive. So the old feature of geopolitics, which is it has an uneven impact across the world, world will have, um, will reshuffle, I think, uh, perceived, perceived safer sourcing of different products. On top of this, of course, there will be expansions, I'm sure, in fertilizer production and the like outside of the, the Gulf region, right? So there, others will respond to these price signals. So again, we were in the short run, things might always look a bit scary, but it's always remarkable to me how adaptable the private sector is over the medium term in finding ways to get product to customers who are willing to pay for it.

[00:42:25.19] - Cecilia Malmström
There's actually a question from, from the audience, from Sherry Stevenson, uh, which is relating to this. It says, what is the implication for the Strait of Hormuz on the opening of an Arctic sea lane by Russia and China? That's seems to be imminent. Will it allow for oil shipments, or will the constraints around the Strait of Hormuz not change because of geography? This is a very interesting question. We saw this just the other day that they're trying to open up this new route. Any comments on that?

[00:42:55.26] - Simon J. Evenett
Well, look, I think— oh, sorry, Dora, after you.

[00:42:58.24] - Dorota Lost-Siemińska
No, please go on, go on, Simon, please.

[00:43:01.26] - Simon J. Evenett
Oh, God. All I was going to say is that I think this is very early days for that trade route to to open up or that sea lane to open up. It's pretty clear that there is an opening, but how big an opening it is and whether it will become a major alternative, we will see. I think there was some pretty artful public relations on the part of China and others showing that they have alternatives. And of course, for Beijing, this has been a long-term concern going back several general secretaries talking about what they call the Malacca problem, which is that so much of their oil was dependent on passing through the Straits of Malacca. So if they can obtain fuel through other routes, then clearly that's a plus for them. So that's an important geopolitical dimension,

which I think is well established in Chinese policy. So I think we can— we'll see. We'll see. At the moment, one or two ships getting through isn't isn't a trade route.

[00:44:08.15] - Dorota Lost-Siemińska
I totally agree with Simon. We have, looking at it from the perspective of the safety of navigation in the polar waters, IMO several years ago already developed the so-called Polar Code, which is addressing the safe navigation in those waters. However, even though we have the the climate change and the warming of a climate and those roads opening, meaning not being covered by ice throughout the year, there are still severe limitations to using that road. It is not available throughout the year, certainly not, because it is still covered by ice most of the many months of the year. Ships, when they operate from transporting goods, they need infrastructure. They need ports, they need supplies, they need crew changes. This infrastructure doesn't exist there. It's not as available as in other routes. So it's not simply that shipping will switch from the routes that they are using right now to the Northern Route. It's possibly very, very slowly in the future, but not, certainly not immediately.

[00:45:38.02] - Cecilia Malmström
A lot of hype and discussions around it more than actual facts, possibly something we can come back to because it's interesting and it has a lot of geopolitical implications as well related to Russia's war and so on. There's a question also, from Catherine MacLeod from OECD, who wants you to elaborate a little bit on the evolution of the two key reasons the Hormuz shock was less severe than expected. What evidence are you monitoring to estimate how much shippers are avoiding the blockade? And outside of oil, how are you monitoring firms' inventory drawdowns? You can read the questions in your Q&A as well. Is this something you are monitoring at IMO?

[00:46:27.06] - Dorota Lost-Siemińska
So, we are working very closely with UNCTAD, and UNCTAD is putting together all those reports on how the oil prices, how the energy prices are affected, what is the real impact of the closure of the Strait of Hormuz on the prices and the supply chain. So those reports are available on the, on CTAT website. We are reporting more from the perspective of the how many attacks on ships happened and how many seafarers fatalities we have. But again, as Simon said earlier, it depends on the perspective and on the specific area that you are looking at. One may argue that it has a severe impact on oil prices. And in some areas of the world, especially in Asia, in countries like Indonesia, Malaysia, Thailand, the effect was and the impact was more visible than in other areas of the world. So, it depends, you know, the Iranian oil was mostly transported to Asia. So, those regions will be more affected by the closure of the Strait of Hormuz than the other areas of the world which take their oil from other sources. So, it really depends on what you focus on, which geographical area and which product you focus on.

[00:48:12.17]
You may argue both that there is a severe impact or that the impact wasn't that big. Some countries certainly felt it more than others.

[00:48:25.04] - Simon J. Evenett
If I can, if I can add here, I think this question is a very valuable reminder to us that the closure of the Strait of Hormuz reduces the supply of key commodities, but the impact on the overall global market will depend on what the existing stock of inventories are. And as we know, in some commodities, these are much— are not just better measured, but the data is more publicly available. Oil is a great example. I'm not sure I know of comparable tracking, say, of stockpiles of fertilizer. And I think there might well be important blind spots there as far as our

understanding on our ability to track how quickly those stockpiles are falling. We certainly know from industry reporting and press reporting that there's a number of farming sectors, and we've even had reports from the United States where farmers don't have large stockpiles. And we certainly know when it comes to oil and energy that there's, as Dorota said, there's a number of East Asian countries which have very, very limited stockpiles. And so it is the combination of of the flow plus the low stockpiles, which triggers, I think, the emergency action. And again, this is an area where we have to— you have to wonder, is there— could there be better international tracking of, of these different commodities?

[00:49:56.09]
I should say that if you look in the area of agricultural trade, the amount of investment put in tracking both the supply of new products and where stockpiles are is much higher. And maybe we need that maybe we need that for certain other key commodities and derivative products which our livelihoods depend on. Again, it's another— I think it's another gap in the international architecture as far as evidence collection is concerned, which in turn, because that gap exists, enables all sorts of fears to be articulated. And sometimes fear doesn't lead to the right policy decisions.

[00:50:36.26] - Cecilia Malmström
So we need better information there about the— and the better figures and more transparency on this. But could there be, again, if this drags on, because there doesn't seem to be any political solution around the corner, even if there are lots of grandiose statements coming once in a while. But if it doesn't open in several months, we might actually do face a food crisis. Is there any alternative routes? Is there any alternative big producers that could emerge? Can we see any other winner of this crisis, new actors coming up to prevent that this is escalating, especially in the food sector?

[00:51:24.08] - Simon J. Evenett
I think that, I mean, look, I think you're right to say the longer this goes on, the more problematic it is. By the way, this negotiation has this feel to me of a big game of chicken as to who who throws their hand in first. And I have a sense that both sides are hurt by this. The question is who will— who blinks first. Of course, for the people who are consuming food based on the fertilizer and all the rest of it, that is— there's no consolation knowing that. But I do think this episode we had after the initial attacks in the Black Sea was very instructive. If I remember rightly, the year— in the year that followed the wheat shipments being reduced out of the Black Sea, it turned out that certain Latin American countries, I think Argentina in particular, had incredible crop— crops those years. And so I think one, one needs to look at who the alternative suppliers are for these for these crops, and then to see what circumstances they face. If you want to worry, then you— I think you, you know, you could combine the fertilizer shortages with the incredibly high temperatures we're seeing at the moment, with El Niño.

[00:52:45.04]
And you can see, you can put those things together and tell a pretty gloomy— or generate a pretty gloomy scenario. But that's not the only pathway between now and into next year. And I think I think the difficulty here in making forecasts in this area is that so many other factors matter. And it's important to bear in mind that you could be surprised on the upside. But there's no guarantee we will be surprised on the upside. But again, in preparing for this talk, there is a real, I think, fear of being too pessimistic, a Cassandra. Yet on the other hand, You don't want to come across as all Pollyannaic, that don't worry, markets will always adjust and everyone will get the food they need. I don't think history supports that conclusion either. So I think this is a

strong case for all sorts of different types of scenarios, developing scenarios based on key drivers.

[00:53:43.19] - Cecilia Malmström
Yes, and that's why civilized conversations with knowledgeable people like you both are so important. We're approaching the end, but I wanted to ask you, Dorota, you underlined And history knows that, that shipping is a very resilient industry in a way. We've seen ships confronted with all kinds of— I just watched The Odyssey the other day. So shipping is— and seafarers have throughout the history seen so many different challenges and somehow managed to adjust and find new ways and so on. And we don't know where this will end, but there are lots of of worries on the horizon. Is this going to change shipping industry dramatically? Prices, of course, will vary, insurances, maybe the possibilities to recruit new seafarers because of all these uncertainties is going to be more complicated in the future. What's the scenario?

[00:54:40.22] - Dorota Lost-Siemińska
So of course, again, it is very difficult to predict the future, you know, and to know what will happen in a in a week time or in a year time. Shipping will certainly adjust and ships will continue to reroute through those roads that are safer and that are economically viable. I think that we will be looking in the future, as you say, at seafarers and how to support them in this very, very risky, very dangerous situation. So, we will be looking at safety for seafarers in risky and dangerous areas. Of course, the insurance market is another question. It is the subject for a separate, completely separate podcast and discussion. It's extremely complex, but all those puzzles, they do work together and they will be put together and continue to supply food, goods, and other commodities. We estimate irrespective of all the geopolitical conflicts, irrespective of the war and other situations The estimate is that the industry will need hundreds of thousands of seafarers in the near future. There is a huge shortage in the supply of seafarers. They will need to be trained with respect to the new technologies. We haven't talked at all today about alternative fuels and how the industry will also will maybe depart from heavy fuel oil and move to— we are talking about decarbonization.

[00:56:43.13]
So, alternative fuels will come into question. And then, of course, the training of seafarers to deal with those alternative fuels. So, it's kind of a very, very complex picture that is not really related to the conflict that we are talking today about, but it's related to more broader transition into new technologies, into automation, into decarbonization, alternative fuels, and so on and so forth. So certainly we will need more seafarers, we will need more training, we will need more regulations to regulate, to provide a solid legal basis for safe navigation, bearing in mind all those factors as new technologies and new fuels that are coming into the question and into daily operations of shipping.

[00:57:40.12] - Cecilia Malmström
Important issues. Any final comment to that, Simon, before we wrap up?

[00:57:46.07] - Simon J. Evenett
Yes. I mean, let's, let's go back to where I started. Look, we've seen governments restrict exports of medical equipment, of commodities, of rare earths, of technology, semiconductors and like. Now we're seeing governments blocking trade routes and we're seeing non-state actors disrupting trade routes as well. So think about the Houthi rebels. I think this is all making us, I think, worried not just about market access issues, the traditional question in trade, but also about what factors are influencing the very continuity of supply of products too. So the set of

questions to consider as we look at the stability and predictability of the trading system is widening, and this episode shows that.

[00:58:30.14] - Cecilia Malmström
Yes. And for trade to function, for shipping to function, there is always the human beings. And lots of these seafarers today are suffering immensely. And without them doing their job, it wouldn't work at all. So hopefully that part can get more attention as well. And hopefully they will soon be able to leave the strait, reunite with their families, and we will see traffic as normal again. Lots to discuss, lots of questions for the future as well. Thank you so much, Dorota. Thank you so much, Simon, for sharing your insights and your expertise. And thank you for watching. Have a nice afternoon and evening.

[00:59:08.26] - Dorota Lost-Siemińska
Thank you.

[00:59:09.13] - Cecilia Malmström
Thank you.

[00:59:09.23] - Dorota Lost-Siemińska
Bye-bye.

[00:59:09.29] - Simon J. Evenett
Thank you. Goodbye.