

## Russian Sanctions Snarl Shipping Even as Pandemic Pressure Eases



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Liz Alderman and Jenny Gross

Russian ships banned from docking in Britain. Cargo containers piling up at European ports. Airfreight rerouted around Ukraine and Russia.

Just as the global economy was on track to emerge from the coronavirus pandemic, Russia's invasion of Ukraine and global sanctions against Moscow are rippling through logistics and supply chains, creating bottlenecks in the transport of goods and commodities and threatening fresh economic pain for countries and businesses near the conflict zone.

Transport companies, maritime insurance executives and industry analysts say the two-week-old war, combined with uncertainty fueled by the sanctions, is causing backups of ships at some ports and could lead to longer delays in shipments, especially around Europe.

The cost of transporting cargo delivered by sea, land and air, which had already jumped during the pandemic, is also under pressure as global oil prices surged past \$130 a barrel this week.

"We thought we experienced a bounce-back from Covid in January and February," said Detlef Trefzger, the chief executive of Swiss-based Kuehne+Nagel, one of the world's largest transport companies, which delivers cargo by ship, air, rail and truck. "But the Ukraine-Russia crisis is a huge setback," he said, "and it will be a long-lasting setback."

The most visceral blow is being felt near the heart of the war zone, in the Black Sea.

More than 100 ships and their crews have been stranded at Ukrainian ports since Russia invaded Ukraine. Missiles have hit several commercial vessels, and an explosion on or near an Estonian dry cargo vessel sank it 20 miles off Odessa, a Ukrainian port. The Russian and Ukrainian crew members all survived.

The risk has forced shipowners to pay an additional insurance premium of 1 to 5 percent of a ship's value, said Marcus Baker, the global head of maritime and cargo at Marsh McLennan, an insurance broker and risk adviser. The insurance industry's Joint War Committee widened its high-risk areas to the waters close to Romania and Georgia this week after adding Russian and Ukrainian waters last month.



Containers destined for Russia stuck in the Port of Rotterdam in the Netherlands. Jerry Lampen/EPA, via Shutterstock

The International Maritime Organization's secretary general, Kitack Lim, said at an emergency council session on Thursday that there was serious concern about the safety and welfare of seafarers in the Black Sea and the Sea of Azov, and that seafarers could not be collateral damage in the military crisis.

The blockage has squeezed global grain supplies from one of the world's biggest grain-producing regions, pushing wheat prices higher on world markets and fanning the threat of inflation. Russia and Ukraine together account for nearly a quarter of global exports of wheat.

Problems around the Black Sea are the tip of the iceberg, rippling disruptions throughout the logistics industry and pressuring global trade, analysts say.

In the last two weeks, some European terminal operators have refused ships carrying cargo for Russia, and hundreds of Russia-bound cargo containers have piled up at others.

Britain has gone further, announcing sanctions that ban Russian vessels from its ports in order to “restrict Russia’s economic interests.” About 20 vessels have been diverted from British ports, said Richard Ballantyne, chief executive of the British Ports Association.

Global ports were already facing bottlenecks during the Covid-19 pandemic — especially in the United States, where scores of ships have been stuck off California because of backlogged warehouses and a shortage of truckers to fan cargo throughout the country.

While the logjam in Europe’s ports isn’t as severe, the sanctions, intended to punish Moscow without devastating the European economy, are shifting that calculus.

At the Port of Rotterdam in the Netherlands, the largest seaport in Europe, some terminals have turned into “a parking lot” for hundreds of cargo containers destined for Russia, said Tie Schellekens, a spokesman for the port.

Many of the containers stacked on docks undergo time-consuming customs inspections to make sure they are not carrying blacklisted items, like spare airplane parts or semiconductors. The pileup is not disastrous, Mr. Schellekens said, but to prevent further congestion, some port operators are refusing to accept ships carrying any Russia-bound cargo.



Along the coast of the Sea of Azov in Ukraine’s industrial port city of Mariupol. Aleksey Filippov/Agence France-Presse — Getty Images

At the same time, he said, some European companies are not even trying to send goods to Russia, for fear of breaching a list of sanctions by Western allies that seems to grow longer by the day. Businesses are also starting to curb production amid worries that Russian clients won’t pay them for shipped products, in part because financial sanctions are gumming up payment mechanisms.

### The Russia-Ukraine War and the Global Economy

**Rising concerns.** Russia’s invasion on Ukraine has had a ripple effect across the globe, adding to the stock market’s woes and spooking investors. The conflict has already caused dizzying spikes in energy prices, and could severely affect various countries and industries.



“It means the effect of the sanctions is wider than the sanctions themselves,” Mr. Schellekens said.

Mark O’Neil, president of Columbia Shipmanagement, a maritime services provider based in Cyprus, said the impact on the smooth flow of goods was significant.

“As soon as you impose sanctions and embargoes, and companies themselves block certain trade, then the knock-on effects of additional checks inevitably cause delays,” he said. “The maritime logistical element is a very well-oiled machine, and it only take a slight petal to be thrown into the pond for the ripples to be felt extremely far.”

The bottlenecks are not only on the water. Sanctions against Russia are putting fresh pressure on already tight air cargo capacity, causing transport rates to spike. With Russian airspace off limits to most carriers, and the United States, the European Union and Canada banning Russian aircraft from their airspace, the global air cargo market is being rapidly squeezed, analysts said.

Flights between Europe and Asia in particular have to be rerouted, adding three to four hours to some routes and requiring more fuel just as the war pushes oil prices to record highs.

Russian carriers such as AirBridgeCargo and Aeroflot Cargo — two big players, flying around one-fifth of global air cargo volume — have pulled back sharply. While just 3 percent of global cargo travels in planes, air cargo makes up over a third of world trade by value.

Ground transport is also being affected, as the conflict disrupts key rail routes between the European Union and China, slowing trade. Some companies have suspended rail freight between the regions over concerns about disruptions at the borders. The sanctions also mean European companies cannot work with Russian railways.

Trucking isn't being spared, either. Kuehne+Nagel stopped deliveries to Russia from Europe and China to avoid violating the sanctions, Mr. Trefzger said. But Europe's trucking industry is also facing a fresh shortage of drivers, as tens of thousands of Ukrainian truckers head back to Ukraine to join in the fight against Russia, he noted.

That leaves many European companies more dependent than ever on other means to get their goods to customers. But conditions in the industry are likely to get worse before they improve, executives and analysts say.

“Transportation links are essential to global supply chains, and they have already been impacted by the global pandemic,” said Anna Nagurney, a professor in the Isenberg School of Management at the University of Massachusetts.

“Now we have an additional man-made disaster,” she said.

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