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NEWSLETTER
UKRAINE

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Restored shipping route in the Black Sea

The blockades and partial occupation of Ukrainian Black Sea ports by Russia pose a significant logistical challenge for Ukraine since February 2022 while ca. 60% of goods exports were transported via this route in 2021. Against this background, Ukraine's goods exports halved in 2023 compared to 2021. The Grain Agreement provided a relatively safe transport route for certain agricultural products between the summer of 2022 and 2023. However, it was "suspended" by Russia after one year. In autumn 2023, Ukraine defined a new transport corridor in the Black Sea, which is particularly close to the coast. Despite initial security concerns, this corridor enabled the pre-war level of goods exports to be reached again in December 2023. This was influenced by both an improved security situation in the north-western part of the Black Sea and a breakthrough in the insurance of war risks. A public-private partnership, that has succeeded in making merchant shipping for foodstuffs insurable at much lower premium rates, plays a decisive role. Now, insurance can cover up to USD 50 m per ship and indemnity for each passage.

Initial situation

The "Initiative on the Safe Transportation of Grain and Foodstuffs from Ukrainian Ports", also known as the Grain Deal, came into force on 27 June 2022 and allowed exports of Ukrainian grain, foodstuffs, and fertilisers via a prescribed shipping route, the "Maritime Humanitarian Corridor" from three Ukrainian ports of Odessa, Chernomorsk and Yuzhny/Pivdennyi to Istanbul and then on through the Bosphorus to the recipient ports worldwide. The agreement was signed by Ukraine, the Russian Federation and Türkiye at the suggestion of the Secretary-General of the United Nations. Merchant ships, other civilian ships and harbour facilities were not allowed to be attacked by the contracting parties.

Ukrainian exports under the Grain Deal

Until Russia "suspended" the Grain Deal on 23 July 2023, over 1,100 ships exported 32.9 m tonnes of grain and other foodstuffs, including maize (51%), wheat (27%), sunflower meal (6%) and sunflower oil (5%), during its one-year period of validity. The share of developing countries as buyers was 65% for wheat and 51% for maize, totalling 57%. The United Nations World Food Programme accounted for 725,000 tonnes of wheat with aid deliveries to Ethiopia, Yemen, Afghanistan, Sudan, Somalia, Kenya and Djibouti. The control and clearance of merchant ships by the Joint Coordination Centre in Istanbul was sometimes lengthy. As the route led through the operational area of the two belligerent countries despite the contractual protection commitments, only a few insurers on the London market (Lloyds') were willing to insure ships, their equipment and their cargo against possible war risks, and only for high premiums.

After the agreement expired on 23 July 2023, grain exports on the agreed route initially came to a complete standstill. There were attacks on port facilities in Odessa, Chernomorsk and Pivdennyi as well as the Danube port of Izmail. Foreign Minister Lavrov of Russia has announced that civilian ships in the Black Sea are legitimate war targets. Several merchant ships travelling a near-shore route through the Black Sea were damaged by sea mines. These events increased insurance premiums even further.

The new "Ukrainian Corridor"

In August 2023, Ukraine defined a new, coastal shipping route through Turkish, Bulgarian, Romanian, and Ukrainian territorial waters.

New "Ukrainian Corridor"

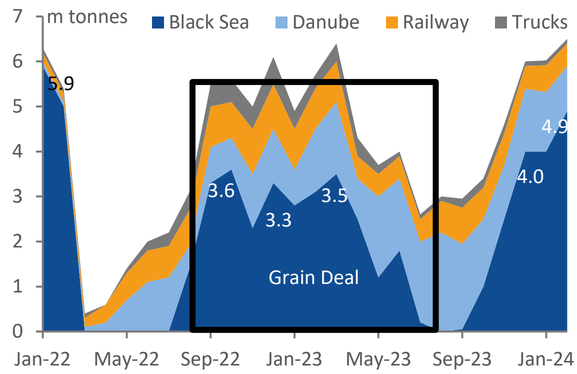
Source: own display

The route bears considerable risks: There are no protection commitments under international law, there are sea mines and very high insurance premiums. However, the Ukrainian army is increasingly succeeding in pushing the Russian naval forces back to the east of the Black Sea. The risk of direct attacks on ships in the "Ukrainian Corridor" has decreased significantly as a result.

Successful ship passages on the new route

The new shipping route is open to all exports and imports. In addition to the route itself, this is a significant change compared to the route that was only open to exports during the Grain Deal. According to Infrastructure Minister Kubrakov, more than 850 ships have already been loaded with 26 m tonnes of export goods in the Odessa area by February 2024, including 18 m tonnes of agricultural goods. Minister of Economic Development Svyrydenko reported that more agricultural goods were exported by sea in December 2023 than in any month of the Grain Deal. This means that the pre-war level has practically been reached again. According to Minister Kubrakov, 8.0 m tonnes were exported in February 2024. In general, over 90% of Ukraine's agricultural exports are currently going through the Black Sea corridor.

Transport routes for grain and oilseed exports



Sources: Ministry of Infrastructure, Ministry of Agriculture, Customs, UN, CES

The improved security situation in Ukrainian territorial waters was decisive for this success, but also a breakthrough in the insurance issue.

Insurance scheme

In November 2023, a public-private partnership (PPP) under the name "Unity Facility" succeeded in establishing a scheme that makes commercial shipping for food exports in the Black Sea insurable at premiums that are significantly lower than before. The model is groundbreaking as it covers ship, indemnity, and political risk (political violence). Since 1 March 2024, this insurance option is extended to transports by ship for all other Ukrainian export goods, with the exception of military goods. Minister Svyrydenko emphasised that exports of iron ore and steel, as well as other goods in container transport, can now also be exported under insurance cover. There are also insurance options against war risks for cargo.

A Ukrainian state guarantee fund is formed by letters of credit of USD 10 m each from the two state banks Ukreximbank and Ukrgasbank, which are credit-insured by the Ukrainian state export credit insurance company "EKA" and confirmed by DZ Bank in Frankfurt. The beneficiary of the letters of credit is a pool of 14 insurers in London (Lloyds'). The insurers offer insurance cover up to USD 50 m each for "Hull & Machinery" including "Political Violence" and for "Protection & Indemnity" (P&I) for each ship passage. In the event of a loss, the Ukrainian guarantee fund must first step in (first loss), after which the British insurers are liable with their "excess of loss" cover. Due to the improved risk situation and the state's joint liability, insurance premiums have been reduced from at times well over 3.0% to initially 1.0-1.25% and now 0.75% of the sum insured.

Conclusion

The Ukrainian endeavours to develop insurance solutions for the risk of war are showing visible success for merchant shipping in the Black Sea. The solutions are innovative in many ways and bring together private providers and state institutions in the form of a public-private partnership. The much more complex aspiration to secure investments in Ukraine's industry and infrastructure against war risks, which are taking place at various levels, have not yet reached a comparable level of maturity. Based on current knowledge, they are only likely to become practicable with massive financial support from bilateral and multilateral donors and from the Ukrainian state.

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