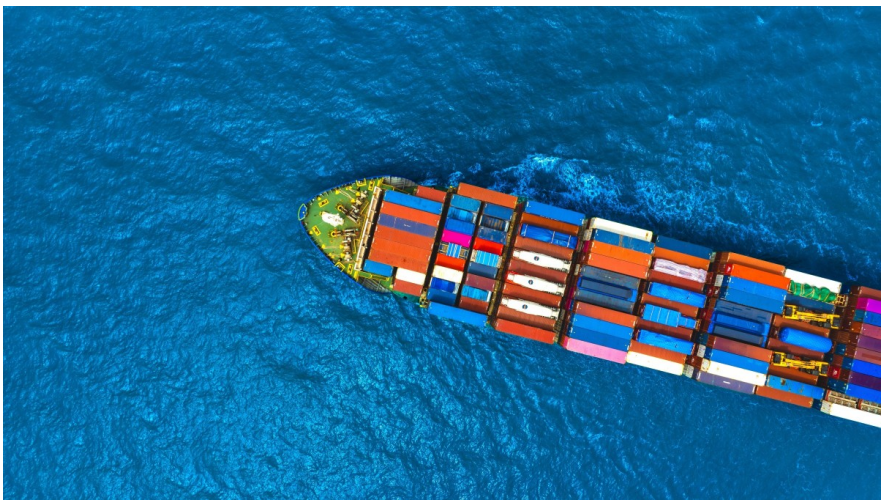
Global shipping: navigating the waves of geopolitics

Geopolitics will heavily influence the outlook for shipping this year. Wars and political tensions have altered trade patterns, and protectionist actions may cause new inefficiencies. The key issue is the resumption of the Red Sea/Suez route, crucial for container shipping. Tanker shipping remains strong, while bulker shipping faces challenges



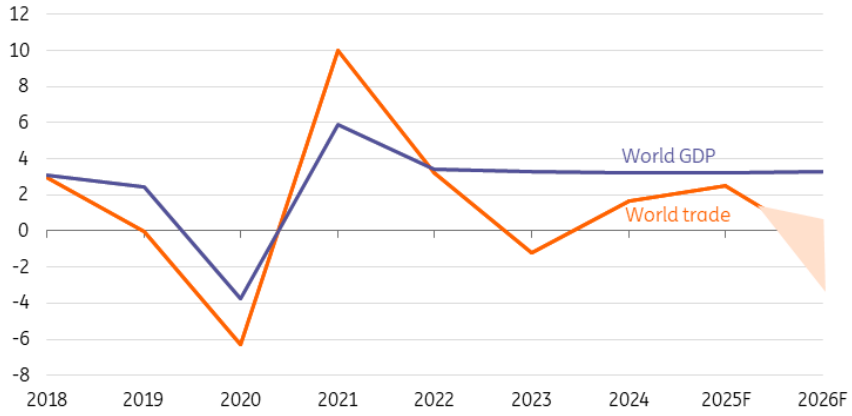
The sway of geopolitics rattles shipping and blurs the outlook

The shipping industry has faced turbulent times over the past few years, and 2025 looks no different with high trade disruption risks. This uncertainty challenges shipping companies and shippers to prepare for various scenarios. Tanker shipping is most vulnerable to geopolitical issues due to its ties to sensitive energy markets and sanctions, but bulker and container shipping are also impacted.

Interestingly, these challenges don't spell financial doom for the sector; often, they lead to benefits like capacity constraints and higher freight rates. We'll break it down in this article.

World trade still on track for growth in 2025. 2026 depends on tariff severity

Development of world merchant trade volume in % YoY



Source: IMF, CPB, ING research

Growth still expected despite slowing protectionism

Global goods trade is under pressure again with new US import tariffs on China, additional levies on steel and aluminum, and country investigations following the start of Trump 2.0. Potential significant extra US fees for Chinese vessel operators, such as Cosco, and those using numerous China-built vessels, further increases costs. Shifts in trade and sailing schemes are expected as well.

The outcome remains highly uncertain, but the threat has triggered 'frontloading,' which continued into the start of the year and may persist since most tariff actions don't take effect immediately. Taking into account the slow start to 2024, we anticipate a year-on-year growth of 2.5% for 2025.

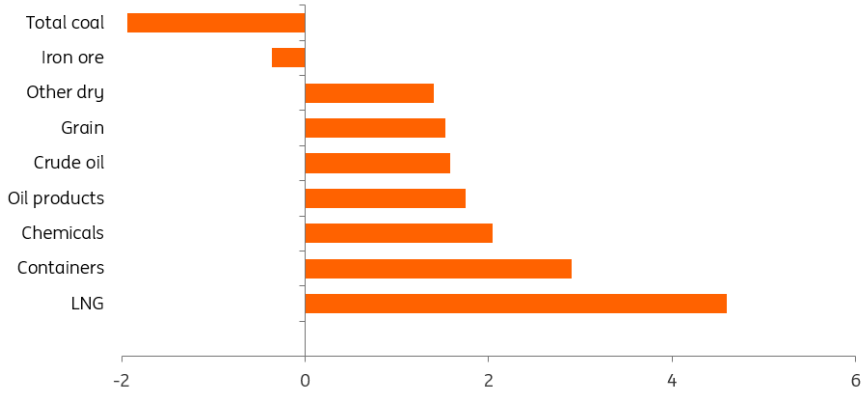
However, the current headwinds will leave trade struggling to keep up with global GDP in the coming years, whereas trade used to grow in line with – and previously even faster than – the global economy. On a regional basis, Asia remains the strongest growth engine for trade and shipping, driven by strong structural economic growth. The US is still growing for now, while Europe lags behind the global average as industrial production faces setbacks and manufacturing continues to reel from high energy prices.

Trump tariffs and constraints might push trade into contraction in 2026

The protectionist actions of the US government will increase costs and weigh on trade growth for 2026 and beyond, especially if they spiral into a trade war. 'Frontloading' and stockpiling by shippers will likely be largely reversed, dragging on short-term growth. For world trade, this could lead to a decline of up to 3% in 2026 in a worst-case scenario, including a full-blown and longer-lasting global trade dispute. But in an optimistic scenario, we still expect some growth to remain. A collapse is not likely, as the US covers just a part of trade flows and trade has previously shown the ability to adjust by shifting to other countries, including Vietnam.

Most tonnage growth for 2025 expected in LNG, least in coal trade

Seaborne trade growth forecast 2025 per segment in tonnes, %YoY



Source: Clarksons, ING Research

Demand for LNG shipping to show most growth in 2025

Industrial production is the most important driver of trade flows. For 2025, the highest growth in relevant larger shipping segments is expected for LNG, which is a replacement fuel for piped gas (in Europe) and coal, as well as an increasingly larger part of the bunker fuel mix in shipping (also as part of the FuelEU-regulation in shipping).

Efforts to ramp up renewable energy production and the slowdown of economic growth have tempered China's oil needs. Still, seaborne trade is expected to grow and a global plateau is not yet in sight before 2030. This is different to coal, which is expected to plateau earlier. Container trade is still expected to see around 3% year-on-year growth in 2025. We will discuss specific elements under the tanker and bulker segments, respectively.

Higher import tariffs: a new push for restructuring supply chains and shipping lanes

Tariff actions could force significant changes in trade lanes, impacting shipping activity. Companies may start to seek new partners to circumvent higher tariffs, which could also spark re- and nearshoring in the mid-term. This could translate into more overland transport and higher demand for smaller vessels (feeders or short sea ships). This especially holds for North America. The relationship between two of the world's largest trade partners, the US and China, has already started to change under Trump I, with US companies importing less directly from China and more (indirectly) from other Asian countries such as Vietnam.

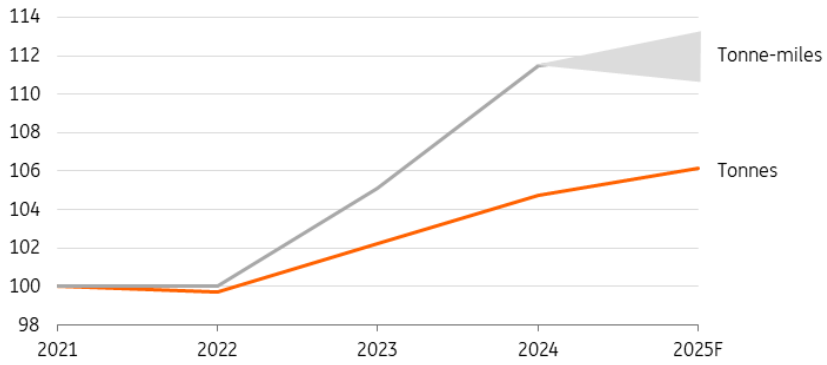
Another 'connecting' country, Mexico, has also seen a surge in trade to the US. Supply chain partners are also diversifying sourcing to build resilience, with lessons learned from various disruptions during and after the pandemic. This means supply chains are lengthening, and smaller ports are increasingly involved in the network.

Generally, shipping ton-mile volume has surged after sanctions on Russia and shifts in commodity flows from Russia to Asian countries, with Europe sourcing elsewhere. This has turned short haul

into longer haul supply, and this isn't likely to reverse soon. We also anticipate further changes in the shipped product mix and trade routes. For instance, the US may need to import more iron ore to ramp up its steel production. Demand for battery metal transportations may also increase in this regard. On a different note, tariff actions could strongly impact car exports and their specialised carriers.

Trade continues to sail longer mileages, resumption of Red Sea transits may lead to a small decline

Global seaborne trade growth (2021 = 100)



Source: Clarksons, ING Research

Red Sea key for shipping-outlook – the longer it takes, the better it is for shipping performance

A critical factor for the outlook of shipping is the rerouting around the Cape of Good Hope to avoid the 'risky' Red Sea and Suez route. At the start of 2024, most market players expected the avoidance to last a few months. However, a year later, the status quo remains in place, with more than half of the vessels avoiding entering the Bab el Mandab Strait, including most large container vessels and about 40% of the previously shipped oil and dry bulk cargo on the route.

The extra 10-14 days and 3,500 nautical miles on a trip from Asia to Europe absorb around 10% of the container fleet capacity and continue to cause knock-on delays in ports. This is negative for shipment costs and emissions, but it keeps freight rates up, which is a positive for the shipping sector. In container shipping, this has flipped 2024 performance from bleak to the third-best year on record for many liners. The impact on bulkers and tankers is less significant, though still present.

Red Sea resumption not expected before the summer

The early 2025 ceasefire deal for Gaza was a first step towards stability and the eventual resumption of the Red Sea route, but the situation in the Middle East remains fragile. Container liners have adapted to rerouting and aim to avoid further disruptions for their clients, hoping for a longer period of stability and certainty. This is especially important as sailing schemes have just been restructured following the start of the Gemini Alliance (Maersk and Hapag Lloyd) from 2 January. These schedules include Cape rounding as the 'new normal' (for now), with a promised

arrival performance rate of no less than 90%, compared to just above 50% currently on a global scale.

What will happen in the case of resumption?

- Resumption will be a gradual process ('transition period'), starting with the return of smaller bulk and tanker vessels, while ultra-large container carriers will likely be the last to return.
- It will also come with disruptions, as European ports will become congested and sailings out of Asia will be blanked, meaning the stabilisation of the system will take months. Trump's tariffs could also create new waves.
- Tonne-mileages will show contraction as soon as the 'shortcuts' resume, but this will likely be most prevalent in 2026.

As it is not in the financial interest of shipping companies, they won't be in a hurry and are not expected to resume massively across the board before mid-2025, meaning normalisation will take us far into 2025.

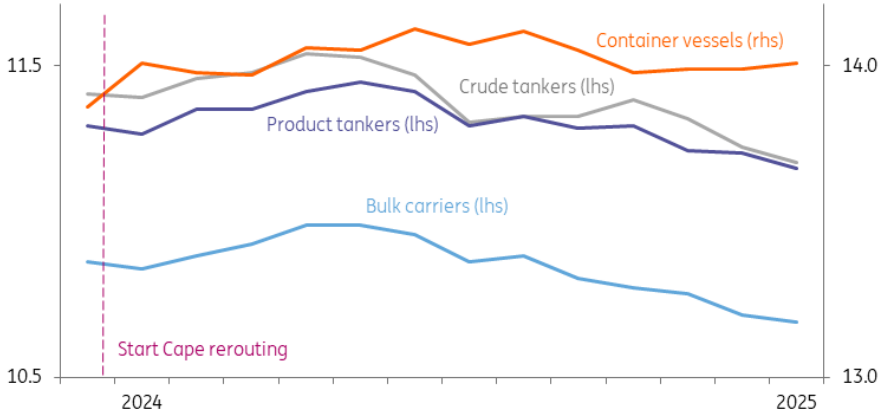
Spree of new ordered vessels will gradually be delivered in the following years

The past few years have been extraordinarily strong across shipping segments, especially 2021 and 2022. Companies are cash-rich and generally enjoy strong financial positions. This has contributed to an order spree over the last few years. Shipyards in China, Korea, and Japan are largely full for the upcoming years, and new vessel inflow will therefore be stretched towards 2028-29. Many of these ships are deemed replacements, and in container shipping in particular, many vessels will be designed to run on LNG or methanol. This is most easy for container vessels sailing in schedules and berthing the same ports where the fuel could be made available.

The trend towards ever-larger vessels has reached barriers of optimality due to the limited nautical accessibility of deep seaports and handling challenges in logistics and supply chains. However, vessels aren't uniform and equally deployable. Very large crude carriers (VLCCs) and Cape-size bulk carriers (170k-180k DWT) are used in trade lanes, e.g., from the Middle East to Asia or from Brazil to China. The new inflow could nonetheless create overcapacity.

Container ships have upped their speed since Cape rerouting started, while bulkers and tankers have slowed

Global average sailing speed of different vessel segments in knots



Source: Clarksons, ING Research

If ships return to the Red Sea, managing overcapacity will become a key focus again

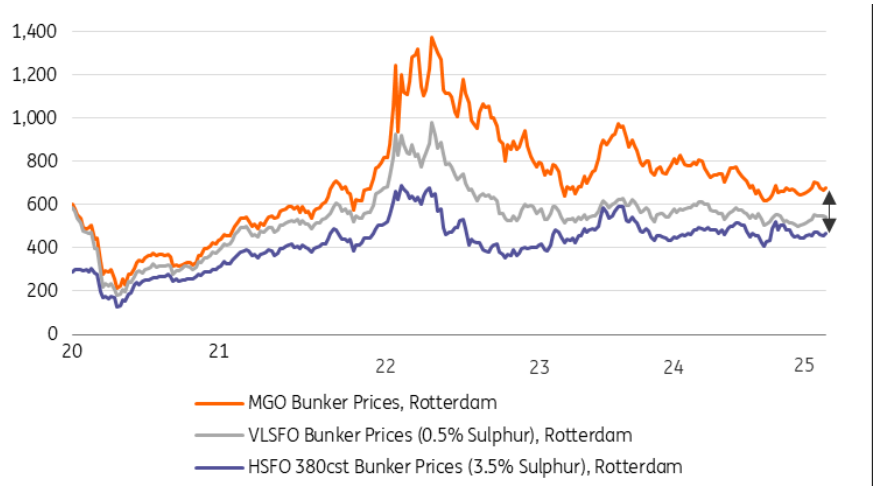
If the Red Sea re-opens and we have gone through the recalibration and rebalancing phase, capacity management will return as a top priority to support spot rates. This is especially relevant for container shipping. The tanker and bulker segments will also feel the capacity unlocking, with many more new vessels on order than before. What options for capacity management do we see?

- **Reducing speed:** Sailing speed is an important variable for shipping companies. While ships are generally steaming slower than a decade ago, container vessels have sped up again to meet client expectations. As fuel consumption increases progressively with speed, this reduces fuel efficiency. Reducing speed by an average of 0.5 knots for the full fleet could absorb around 3% TEU capacity in container shipping. As soon as capacity allows, shipping companies will likely slow down. Container vessels have increased average speed since the Red Sea diversions started, while bulkers and tankers have slowed down somewhat.
- **Catch-up scrapping:** In the past five years, companies have hungered for capacity, and hardly any scrapping took place, which could normally add up to 3% per year in container shipping. With a focus on raising fuel efficiency and prioritising efficient younger vessels, we should see much more scrapping when the old normal returns. IMO climate regulations are another reason to ramp up scrapping, though steel prices will also play a *role.*
- **Blank sailings:** Container liners are expected to take out sailings when the first East-West journey arrives much earlier, and fewer vessels are required in the loop. Liners may also decide to continue sailing around the Cape on the backhaul.

During prosperous years with tight capacity, high freight rates, and strong cashflows, shipping companies ordered many more vessels. Meanwhile, replacing older tonnage has been postponed. Watching the phase-out of older vessels will be crucial in the coming years.

Global bunker fuel prices have traded in a limited range while the spread narrowed

Bunker fuel prices (Port of Rotterdam) in $ per tonne



Source: Clarksons, ING Research

Latest data point 14/2/25

Bunker prices relatively stable – not much increase expected

Bunker fuel is the most important cost fraction for shipping operations, and fuel prices have been relatively stable in early 2025. We don't anticipate a strong increase in oil and fuel prices this year either, as the oil market is expected to remain in surplus, although geopolitical events could lead to volatility.

In tanker and bulker shipping, charterers usually pay for the fuel bill. Fuel consumption of vessels is reflected in charter rates, and charterers therefore are incentivised to pick younger – more efficient – tonnage. In container shipping, carriers usually fund the fuel bill themselves. The spread between HFO low-sulfur compliant fuels VLSFO and MGO has lowered compared to the previous year, making the case for scrubbers less attractive.

Given the increasing bunkering of LNG in dual fuel vessels, it's also relevant to look at LNG prices. For most of 2022, LNG propulsion was very expensive and probably out of sight as an alternative for most companies. Prices traded around $900 per tonne in February, with the equivalent of MGO in terms of energy at around $800.

Shipping not on track yet for IMO's 20-30% CO2e-reduction...

The IMO's GHG strategy for global shipping includes a 20% CO2e reduction by 2030 compared to 2008, with an ambition to reach 30%. The industry made a good start, but in recent years, absolute well-to-wake emissions have actually gone up. Emissions are to have ended up 4% higher than their pre-pandemic 2019 level in 2024 due to massive inefficiencies in global supply chains and longer mileages. Reducing speed and catching up on the phase-out of older vessels and replacements with eco-engines should help turn this around, with charterers preferring more efficient vessels.

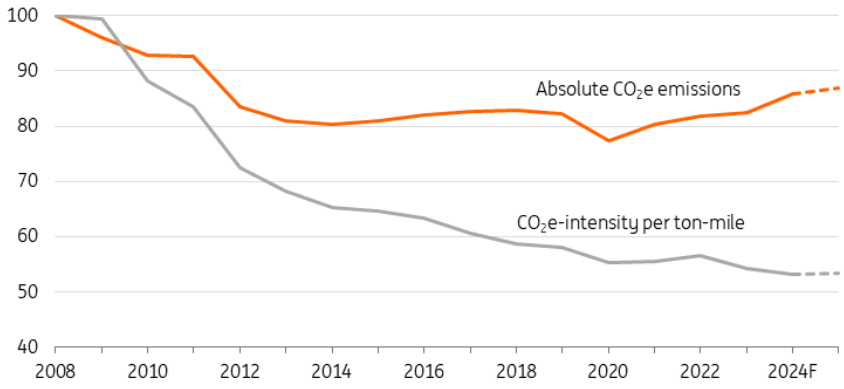
Owners could still leverage low-hanging fruit, such as retrofit options for progress, like adaptions to

propellor, engine, hull coating and even rotors (using wind energy). Obviously, a return to the Red Sea route will also help. With a current reduction of around 15%, the hurdle of -20% by 2030 is still achievable, but a resumption of the downward trend is required.

Another important element of the climate strategy with practical implications is the blending in an average of at least 5% alternative fuel by 2030. This is an industry target, so many combinations are possible, but conventional vessels likely have a chance to contribute by blending biofuel. Further down the road options to buy credits and pooling could also be part of the solution. The IMO will consider the options for a global carbon levy at the MEPC83 meeting in 2025. This would be a significant step in improving the level playing field between fuel options and could still start contributing to CO2e reduction before 2030.

CO2 reduction in shipping hasn't progressed over the last decade, but per shipped ton-mile it looks much better

Well to wake (WtW) CO2e-emissions global shipping per year in % (absolute) and corrected for tonne-miles growth (2008 = 100)



Source: Clarksons, ING Research

But CO2e intensity per ton-mile has dropped dramatically with room for more

Although overall absolute progress on GHG emissions has stalled in the past few years, shipping companies have made dramatic progress in CO2e intensity (for which the energy efficiency existing ship (EEXI) and carbon intensity indicator (CII) are designed).

Corrected for shipping performance in ton-miles on a sector level – which has surged 60% since 2008 – indicative emissions have already surpassed the 40% reduction target. Bear in mind, though, that the 2008 reference year marks a peak in emissions and doesn't align with the historic base year 1990 used by the IPCC and often included in general international climate agreements. Though the industry similarly strives for net-zero 'close to 2050', which requires acceleration later on. In any case there's much more progress to be made.

Car carriers in limbo about shifts in car trade following protectionism

Car carriers have thrived in a niche market. Electric car exports from Korea and China have soared, but vessel capacity remains tight. Asian EV brands like Hyundai/Kia and BYD, with manufacturing in Europe, have gained. Western brands like Volvo and Tesla also build cars in China for Europe. Carriers like Höegh, Wallenius Wilhelmsen, and NYK ordered larger vessels but face a different trade environment.

Protectionist actions, such as steep tariffs on Chinese cars from the US and EU, and potential US levies on all car imports, could lead to factory restructuring and dampen global car trade. Local production might increase spare parts flows instead.

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