



Crisis in Ukraine – an interview with Torunn Biller White

Torunn Biller White, Gard's Chief Risk Officer, talks with Senior Lawyer Wan Jing Tan about the crisis in the Ukraine and how this has affected Gard and our Members and clients. In a discussion ranging from the extreme effect on seafarer well-being, the impact on global commodity markets and the economic fallout from sanctions, Torunn touches on the many challenges facing our industry yet reminds us that our thoughts are with those most affected by the crisis.

Published 21 April 2022

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Q: Gard is a multi-line insurer insuring many of the world's shipowners and charterers. As Gard's Chief Risk Officer, you have a unique vantage point, and are well placed to give us an overview of the way in which the Ukraine crisis is affecting Gard and our Members. Before diving in properly, I would be interested to hear your thoughts on how this unfolded.

I think most of us were taken by surprise on 24 February. Of course, the warning signs were all there – the increasing geopolitical tension, the aggressive tone, not to mention the substantial intelligence suggesting that an invasion could be imminent. But at the same time, many of us thought that it wouldn't really happen. It wouldn't really come to this. War in Europe – the thought just seemed unreal.

And yet, here we are, more than 50 days later and large parts of Ukraine have been ravaged by war, thousands have died, and millions have become refugees. We are witnessing a humanitarian crisis and as with most wars and conflicts, this one, too, has wide-ranging consequences for trade, the shipping industry and for the global economy.

Q: The global economy has indeed been greatly affected since the invasion took place on 24 February 2022. What are some of the more pertinent global issues and consequences that you and Gard see arising out of this?

The war in Ukraine has triggered increasing geopolitical reactions. The EU has responded with resolve and more or less a unified voice, NATO is deploying military forces along the Russian border, and diplomatic efforts and bilateral dialogue are more or less at a standstill.

The war obviously also has significant implications for global trade. It has given a severe shock to the global supply of food, with Russia and Ukraine being some of the world's biggest agricultural producers, particularly of wheat, corn and sunflower oil. These numbers say it all: About 30 per cent of the world's wheat export comes from Ukraine and Russia. Around 50 countries, including Egypt, Turkey, Bangladesh and Iran, import more than 50 per cent of their grain from Russia and Ukraine. And Russia and Belarus together are large contributors to the world's export of fertilizers. These are staggering numbers. As a consequence, prices are soaring and experts warn that a global 'food crisis' could be looming. Supply disruptions and rising prices could further damage global food markets and threaten social stability.

In parallel, the war has triggered rising energy prices. Russia is a major supplier of oil and gas, and for Europe in particular, this represents a difficult dilemma – The EU imports almost 30 per cent of its oil, 40 per cent of its natural gas and 45 per cent of its coal from Russia. Supported by the US, the trade block is now doing what it can to reduce its dependence on Russian energy. The US has completely banned the import of Russian oil, LNG, and coal, and the EU are pledging to become fully independent from Russian energy before 2030, starting with gas.

One final thing worth mentioning, as part of the global picture, is the general inflation. Inflation was already on the rise well before the war, but many of the factors that were driving up prices before the conflict, are now being exacerbated – almost like ‘a perfect storm’. It is also worth remembering that all of this is overlapping another major crisis – the global Covid pandemic. Supply chains were already heavily strained, and governments have already spent significant funds on Covid recovery, so there is a limited fiscal ability to deal with war impacts on top of everything else. This war is like "a catastrophe on top of a catastrophe." Just when we thought we were starting to recover from one crisis, we have quickly been pulled into a new one.

Q: That really hits hard. Just when the world is hopeful that they have learned how to cope with the pandemic, they are handed another curveball. The sudden shock to the global markets, in fertilizers, grains and energy, coupled with the rising inflation have impacted the shipping and maritime industry. What are some of the challenges and implications you have seen for the shipping and maritime industry?

First of all, the Russian invasion has had some very direct impact on the vessels and companies operating in the region and in the Black Sea and the Sea of Azov. We have seen vessels being trapped, seafarers being caught in the crossfire, and casualties and loss of life resulting from this.

Currently, over 200 vessels, out of which around 80 are foreign flagged, are stuck in Ukraine. Some vessels are in the midst of the fighting outside Mariupol and Mykolaiv and there are reports that a cargo ship outside Mariupol sank after being hit by Russian shells. Although many seafarers have been able to leave, some are still trapped, unable to escape the fighting. Currently there is little progress on creating a maritime corridor allowing them to leave.

The conflict also has a wider impact on crew availability in general, with several implications. Fifteen per cent of the global seafarer workforce comes from Russia or Ukraine, so the war is having a direct impact on the marine workforce capacity. And these are highly trained and often specialized seafarers that cannot just be replaced overnight.

Already we are seeing several challenges impacting seafarers directly. Repatriation of Ukrainian seafarers has, of course, been difficult, knowing that many of them will be asked to join the war. Some crew members have actively asked to be repatriated, while others have sought to extend their contracts because of the risks associated with returning to the region. Given the circumstances, the International Group of P&I Clubs has drafted a [Contract Addendum](#) to assist owners and crew who would like to alter their contracts.

Payment of salaries to Ukrainian and Russian seafarers has also become difficult because of evolving sanctions regulations. Gard is carefully monitoring these new sanctions, as the restrictions apply to Gard's claims payments as well.

We have seen 'crew interviews' conducted by Russian officials at ports, and there have also been reports of challenging situations onboard vessels where Russians and Ukrainians have been working alongside, and where the war has led to tangible tension or conflict onboard the ship. Not an easy situation to navigate.

And again, all of this on top of an already critical situation. Seafarers around the world have suffered the consequences of Covid, and many of them have been stranded on ships long beyond their original contracts, unable to be repatriated due to travel restrictions.

Q: Thank you for your illuminating insight on the challenges and difficulties that the seafarers, particularly the Ukrainian seafarers, are facing. Ordinary people are always the ones who bear the brunt of war. What other claims and knock-on effects of the conflict is Gard seeing given the extensive portfolio?

Some of the factors mentioned previously, both as key global and maritime risks, are of course having an impact on marine insurance as well. For instance, the increased pressure on crew and seafarers can lead to safety issues and increased risks of casualties. We know that fatigue, stress and mental distress have a direct impact on operational performance and on safety, so this is certainly something we are concerned with, given the long-term effects of the pandemic and that seafarers continue to come under pressure.

We are also seeing challenges and insurance implications related to cargo, because of vessels trapped in Ukraine, cargo bound for Ukraine and discharged short of destination or delays/interruptions for cargo bound to Russia due to issues such as sanctions or crewing.

In addition, claims costs may increase as a consequence of increased commodity prices. So, when prices of steel go up, for instance, that of course has a direct impact on the cost of repairs.

Adding to the picture, are the rising prices on oil, gas and steel – all resources that are crucial for the maritime sector. Increasing fuel prices, disrupted supply chains, and crew under significant pressure. So, all in all – a very grim picture is drawn.

Q: Thank you, Torunn. Given the grim picture that the industry now faces, are you able to let our Members and clients know how Gard is affected? How is Gard responding to these new challenges?

Firstly, Gard has no own operations in Ukraine or Russia, and our exposure to Russian entities was quite limited when the war broke out. So in that sense, the risk picture was fairly manageable from an operational point of view. However, just like any other P&I provider, we were immediately faced with a massive influx of questions and concerns from Members and clients. They were worried about what to do with vessels and crew that were operating in the region, what was covered by the insurance and not, war risk covers and so on,

So how did we respond to this? The most pressing risk, or certainly a risk with a potentially high consequence from a marine insurance point of view, is related to sanctions and our Internal Sanctions Group was swiftly mobilized to ensure that Gard as an insurance company operates within the applicable sanctions regulations. In less than 30 hours after the invasion, we had a written assessment of our exposure and potential consequences, including a risk map and possible scenarios. During the first week we had updates in the group leadership team every day, and since then we have continued to update our organisation – as well as our Members, clients and regulators – on a regular basis. We are monitoring the situation very closely, and also tracking vessel movements so that we can give relevant advice and guidance to those operating in the region.

Q: I agree that sanctions are quite likely on everyone's mind at the moment and it is not easy to traverse the sanctions universe. How does Gard, as a marine insurer which is subject to various compliance regulations throughout the world, cope with the evolving sanctions regime?

The sanctions have been evolving and changing at a rapid pace, leaving us with a fluid and fast-moving situation to which we have to respond. In short, the sanctions imposed can be divided into three main categories:

- geographical sanctions
- sectoral sanctions, and
- blacklisting of individuals/entities.

Currently all of these sanction categories have been imposed by the US, EU and the UK governments as a response to the Russian aggression.

The UK is already banning Russian ships from its waters. The US has also mentioned sanctions on the marine sector, although it is not clear what that entails at the moment.

Now even Singapore has taken the rare step of imposing unilateral sanctions on Russia, which includes sanctions on four Russian banks, restrictions on sectors that banks, insurers and financial institutions can do business within Donetsk and Luhansk, and ban on transfer of goods to Russia which can be used as weapons.

Even though the sanctions regimes are extensive and complex, there is very little indication that there's non-compliance with the rules, in fact there is a large degree of the reverse, i.e. additional self-sanctioning, as there is a strong reputational incentive to withdraw from Russian companies.

All in all then, from a marine insurance perspective – a challenging situation and we are, like everyone, worried about the potential long-term effects.

The developments in Ukraine and the impact on the shipping activities in the area is currently being closely monitored by Gard. Updates are received through our local correspondents in both Ukraine and Russia, as well as from other service suppliers. Our main focus along the way has been to assist our Members and clients and to help alleviate the challenges that both crew and shipowners are now facing, whether it is through providing guidance and advise on our website, or in dialogue with our Members and clients, or through the actual insurance covers we provide.

Q: When looking at sanctions and the international response against Russia, it is likely that it will be even more comprehensive going forward. Things have already started to bite. What does this mean for our Members and how can Gard assist our Members in navigating the various regimes in place?

For Gard's Members and clients this means that an extreme level of scrutiny needs to be exercised for any voyage involving Russia or Russian interests to ensure that no trade restrictions or export control measures are being breached.

In addition, due to the sanctions targeting the financial sector of Russia, it is currently extremely challenging to make any payments or provide bank guarantees related to Russia. Most banks have strict compliance policies and low risk appetite in respect of being involved in transactions or issuing bank guarantees with potential sanctions exposure. Within banking there have apparently also been some self-sanctioning practices at play as some banks have refused to make payments even to unsanctioned entities.

You are right, there are more to come. We have already touched upon this, EU members have this week started negotiations over a proposed ban on Russian coal imports as part of a new package of sanctions from Brussels that includes a block on transactions with four banks and the cutting of transport links. There is also a proposal to close EU ports to Russian vessels and ban Russian and Belarusian road transport operators from the region.

Russia, on the other hand, has imposed counter-sanctions through export bans on more than 200 products to several countries, including the US and the EU.

In the same way that Gard's Members/clients would need to have control over their contractual chain when undertaking a trade, Gard as an insurance provider needs to have the same control over our own portfolio and that we comply with all relevant sanctions.

Q: Just a final question for you, Torunn. In your role as Chief Risks Officer, you necessarily consider and weigh up potential outcomes and review the risks, both now and looming over the horizon. As you have explained earlier, energy and food security have become big concerns. Nation states are naturally looking for alternatives.

Following COP 26, there are several goals on decarbonization that countries and the industry are committed to. When it comes to energy security, could we see an acceleration towards renewables in light of the uncertainties created by this crisis?

Well, Europe is trying to build energy security in response to Russia's invasion of Ukraine. Could the crisis in Ukraine lead to a boost in renewable energy? Or will it trigger a setback, with spiraling prices leading to coal plants running at full throttle and retired plants being reopened?

At the moment, the latter perhaps seems like a likely scenario, certainly in the short run – in spite of the global decarbonisation agenda.

Replacing Russian gas looks like a tall order and will be costly. Even though there are opportunities for acceleration of renewables such as solar, wind and nuclear power, some may take years to have a meaningful effect.

In the short term there is an expectation of increased import of LNG to Europe. US president Joe Biden and the president of the EU Commission, Ursula von der Leyen, recently signed a deal agreeing that the US will increase its LNG supply to the EU, and they also agreed to work together to accelerate the supply of renewable energy.

As part of the effort to reduce Russian dependence, we will likely see more commitments like these – a greater commitment to renewables – but at the same time, when push comes to shove, we can also expect a greater sense of pragmatism, for instance when it comes to the role of coal. So as a net effect, this is an ambiguous picture, and it's difficult to predict what the long-term effects will be.

The largest uncertainties have to do with the war itself – its duration and possible escalation, and whether strengthened countermeasures bring the export of Russian oil and gas to Europe to a complete stop.

We can perhaps hope that any setbacks will be only in the short term, and that in the longer run, this crisis can be a catalyst, making it crystal clear that the world needs to accelerate its move towards renewable energy and to reduce our dependency on fossil fuels.

Q: Thank you very much for your time and an extremely interesting discussion on the topic, Torunn. Do you have any closing remarks for us today to round up this discussion?

It is a complex and fast-moving situation all of us are facing at the moment. The conflict is creating shocks and disruptions to the global economy, to the shipping industry and to people's lives. We can only hope that the fighting will cease as soon as possible and that the people of Ukraine – and the global community – can start moving towards some kind of recovery and some kind of normality again. Our thoughts continue to be with all those who have been impacted by this conflict.

Torunn Biller-White, recently participated in Gard's Charterers & Traders' Webinar on 7 April 2022, held in conjunction with Singapore Maritime Week and focusing on the Ukraine crisis. She was joined by Terri Jay, Vice President for Charterers and Traders underwriting and Malene Wang, a Senior Lawyer working with Defence and Charterers and Traders Claims. A lively panel discussion, moderated by Craig Johnson, VP for Charterers and Traders claims, followed Torunn's initial comments. A recording of the webinar can be can be obtained upon request.

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