



Episode 11

The Ship That Broke The Suez Canal, hosted by Rushab Kamdar

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Rushab Kamdar: Welcome to the Business 360 Podcast where we will take a 360 degree view of all things business in under 30 minutes. I'm Rushab Kamdar, an entrepreneur who loves business, but it's strictly platonic.

[00:00:24] What's going on, Business Heroes? This week on the Business 360 Podcast, we're going to change things up. As part of the Think Business 360 approach, I'll be doing episodes on relevant business topics. These topics could be current events or even on businesses that everyone wants to know about. This means we won't be interviewing with guests for these types of episodes, but look on the bright side, at least you're going to learn something.

[00:00:54] On today's episode, we're going to focus on recent events related to the large container vessel, the Ever Given, which ran aground in the Suez Canal resulting in the entire canal being blocked. The good news is that after seven days of being stuck, the vessel was dislodged and the canal has since reopened.

[00:01:14] So why is this an important topic? Well, basically one vessel blocking one of the most important trade arteries has a huge impact on global trade and it's costing companies billions of dollars. Now, how is this possible? Well, we're going to think business and dive into it. But first, this story is very important to me because it hits close to home for me.



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[00:01:39] The first company that I was a co-owner in was my family business and it's in the maritime industry. Our company bought large old ships, such as container vessels, oil tankers, cargo ships, and fishing trawlers and we would bring them to the recycling yards in the South Asian sub-continent where they were dismantled for their parts and their metal. I've had many of my vessels go through the Suez Canal and I'm very familiar with what is going on over there.

[00:02:09] As we break down the business impact, this accident has had. I'll lean on my experiences to fill in any gaps. Now, as I mentioned, we're going to think business. For those of you who have attended my workshops, you'll remember my Business 360 framework, which breaks down business into buckets or virtual shelves in our minds. This helps us keep an organized thought process. So we're going to follow a similar approach and create buckets to structure the topic and highlight its relevancy. So let's get to it. The first bucket is going to be the Suez Canal. So what I want you to do is envision a virtual shelf or bucket in your mind and write the word Suez Canal in the middle of it.

[00:02:55] Now let's briefly talk about it. The Suez Canal is 120 miles stretch waterway with the Northern point of entry called Port Said and the Southern point called Port Suez. I can proudly say I've been to both ports. But I usually was at Port Said and that's mainly because before ships are allowed to pass through the canal, they need to have proper documentation and obtain canal clearance.



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[00:03:20] Most of my ships always entered through the Northern point. All right so getting back to the Suez Canal bucket. Although it's 120 miles stretch, the canal is only 205 to 225 feet wide. That's less than an American football field. And we're talking from end zone to end zone. To give you some context. The vessel that was blocking the canal, which is called the Ever Given is 400 meters long. And that means it's longer than four American football fields. Now you can imagine how difficult it is to have a ship of that size maneuver through a canal that narrow. Remember, the Suez Canal is a man-made waterway trade route, and it was built to cut travel time and costs for trade vessels. The alternative is to travel around the African continent which adds an additional 14 days of travel time.

[00:04:08] Under this Suez Canal bucket in our mind, let's talk about its impact on global trade. You probably heard that 12% of the world's trade goes through the Suez Canal, but even more staggering is that 30% of global shipping freight travels through that canal. That means almost one-third of the world's shipping is reliant on 120 miles stretch waterway. 7% of the world's oil passes through the canal. When oil doesn't reach its destination on time, demand goes up and prices go up. But it's not only on oil. Same thing goes for consumer goods. What happened when we had toilet paper shortages at the beginning of the pandemic, people panicked and started hoarding. Other types of products that were being delayed by the blockage are materials to make a finished product.



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[00:04:58] Some of you may have heard that there is a huge shortage on semiconductor chips, which is used in phones, computers in cars. Also large shipments of medicine and food were being delayed. In some cases, food such as seafood was losing its shelf life. And then use the most notable number that was being thrown around that this blockage was costing \$10 billion a day. In reality, the blockage was delaying \$10 billion of trade a day. But still those delays have huge consequences and there will be a ripple effect. That kind of leads me to the second bucket. So this bucket is going to be called other companies. Under this bucket, we have a few players and they all are related to those ships that we're waiting to transport through the canal.

[00:05:44] First, you have the owners of those ships. Then you have the operators of those ships. Third, you have the sellers that have their products or cargo on those ships. Finally, you have buyers who are waiting for those products or cargo. Let's take a quick moment and differentiate between owners and operators.

In the world of shipping, not every ship owner operates their own vessels. Many times they rent their vessels out to operating companies who then take responsibility of the vessel and use them to transport goods. This type of process is called chartering a vessel. There are many owners who operate and manage the ships themselves.



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[00:06:25] Additionally, some ship owners have their own products on their own ships to be delivered to an end buyer such as seafood. For ship owners and operators, the cost impact is high specifically with the need of refueling and provisions for the crew. And when we say provisions, we're talking about food, sundries and supplies for the crew members.

[00:06:46] For everyday a ship is waiting idle, the crew salaries are rising since most crew members are paid on a daily rate versus a salaried rate. Additionally, as the vessels remain anchored or are standing idle, the possibility of engine and generator problems can arise resulting in added maintenance costs.

[00:07:06] Some ship owners had anticipated the blockage to be longer than it really was, and they rerouted their vessels around Africa. Adding an additional two weeks of travel time and therefore adding more cost to their journey. In the case of the buyers and sellers, the delays in delivering the goods negatively impacted both sides.

Sellers are fearful that buyers can cancel their purchase orders, leaving the sellers with unsold inventory, and those goods would need to be returned on the sellers dime. Buyers are concerned on waiting for materials. That needs to be used for a finished product. For example, think about materials that need to be used on an assembly line.



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A delay of those materials can result in the shutdown of an assembly line and therefore the company will miss manufacturing and delivery deadlines. Other buyers need the goods because they are in the retail business and they're going to be left with empty shelves. What the pandemic and this blockage highlight is the vulnerabilities in the supply chain and logistics ecosystem.

With so many companies being lean and relying on just in time inventory, there's very little room for error. Unfortunately, many companies don't plan for errors that are out of their control. This is something that needs to change. It's also important to note that the cargo on the vessels are insured. So there are going to be claims for any losses by the sellers.

The last item to highlight under this specific bucket is the cost of ship freight rising and other loss revenue. Since many of the vessels are chartered, they have a schedule of their next journey. A delay can result in the vessels missing their next journey and a loss in revenue for that specific charter.

[00:08:48] Now moving onto the third bucket in our mind, we're going to call this Suez Canal Authorities also referred to as the SEA. The SEA is the leading body responsible for the canal. They regulate it similar to the us coast guard. In order to pass through the canal, shipping companies must pay Suez Canal fees, and those fees are extremely expensive.



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I also think it's estimated that the SEA was losing \$15 million a day while this vessel was blocking the Suez Canal. The SEA is also footing the bill currently on the tugboats dredgers and any other equipment used to dislodge the Ever Given. The SEA is going to be under a microscope. There'll be a lot of questions on how this happened and how to prevent it from happening in the future. The results of these investigations once completed will have a rippling effect impacting the SEA and all the shipping companies out there.

[00:09:49] Now let's move on to the fourth bucket. We're going to call this bucket local shipping agents. Of all the players impacted by this vessel blocking the canal, the shipping agents are probably the only ones making money.

Whenever a vessel arrives to any port in the world, they need a shipping agent to represent them. The agents facilitate all the vessel needs such as fuel provisions, repairs, and anything else requested by the shipping owner or operator. These shipping agents also help with clearance documents. Remember in order to pass through the canal, ships need clearance and the agents are the ones who assist on that. Now in my experience and my opinion, these shipping agents are opportunists. When they see an opening, they go for the kill. Agents will raise prices and add hurdles to the process just for that additional revenue.

[00:10:44] Transitioning to the fifth bucket. Let's talk about Ever Given's owners and operators. The Ever Given's owner is a Japanese company. However, they



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have a ship management company that is the technical operator. Now in the Ever Given's case, the ship management company has a ship operator and the ship operator was responsible for sailing the vessel. Frankly, it's not important to get into the nuances of why there is a separate ship management and ship operator company.

The Ever Given is facing huge losses. Companies such as the ones we mentioned in the second bucket will launch litigation against all parties related to the Ever Given while the Ever Given was stuck. There were rising crew, maintenance, and fuel costs that the operators have to deal with. In the future, other companies will think twice on having their products delivered by the Ever Given resulting in the loss of future revenue.

[00:11:36] Finally, let's talk about the sixth and final bucket. We're going to call this bucket liabilities. Who is responsible for this mess? The Ever Given ship operators have blamed high winds from a sand storm. If that's the case an argument could be made that the Suez Canal authorities are responsible because they should have foreseen this and not allowed the vessel to enter the canal. If it was human error or mechanical failure, then the ship operators may be responsible. Whoever's responsible, it's a guarantee that there will be litigation.

The following five areas are where you will see litigation occur. The first area is Suez Canal related losses. That means revenue loss by the Suez Canal



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authorities. It also means actual damages to the canal while refloating and salvaging the ship. The second area are losses incurred by all the other delayed vessels. The third area are cost of dislodging, and refloating the vessel. The fourth area are losses to any cargo on the Ever Given vessel with an estimated value of \$500 million. And the fifth area where you will see any litigation is the potential damage to the vessel Ever Given, which has an estimated value of \$110 million.

Most likely the battles are going to be done by the insurance companies. And it will be going on for years and years before any resolution comes to this. So there you have it, Business Heroes, our first case study on a current event using a simple Think Business approach, which is putting things in buckets.

[00:13:12] To recap, the six buckets where number one, the Suez Canal. Number two, all the other companies. Number three, the Suez Canal Authorities. Number four, the local shipping agents. Number five, the Ever Given owners and operators and number six, liabilities. So I hope this helped. And I look forward to doing more of these. Talk to all of you, Business Heroes, real soon. Take care.

[00:13:46] Thank you for joining us on the Business 360 Podcast. To learn more, go to [thinkbusiness360.com](https://www.thinkbusiness360.com). In life, I follow two things that keep me grounded. Number one, if you only listen to someone's successes and not their failures, you've only heard half the story and number two, compete with yourself and help everyone else. You stay classy, Business Heroes.



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