CMH SPOTLIGHT

July 2026

Publication by CM Houlder Insurance Brokers Limited
a China Merchants Group subsidiary.

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The Vyssos: English Court Of Appeal Upholds Claim In Landmark MII Dispute

Case reading of Oceanus Capital SARL v Lloyd's Insurance Company SA (M/V "VYSSOS") [2026] EWCA Civ 863

The first instance decision of this case was previously featured in our CMH Spotlight (Issue 2026.02). For consistency, this article also recaps the key points from that earlier coverage.

❖ Factual Background

- The vessel "Vyssos" ("the Vessel") was insured under a marine war risks policy which provided cover for worldwide trading, subject to warranties. One of the trading warranties excluded entering, sailing for or deviation towards the territorial waters of Ukraine, unless expressly agreed by War Risks underwriters at an additional war risks premium ("AWRP").

- Oceanus Capital Sarl ("Oceanus"), as the mortgagee of the Vessel, obtained a Mortgagee Interest Insurance policy ("MII policy") which is designed to protect lenders where the borrowers' primary insurance fails to respond – commonly due to breaches of warranty – provided that the lender has no privity to such breach.

- In December 2023, the Vessel was intended to trade in Ukraine and Oceanus insisted an Additional War Cover be arranged before its entry into Ukrainian waters. The Vessel's charterer provided a document as evidence of the Additional War Cover. However, it later transpired that the document was a forgery and that no AWRP was ever paid to the War Risks underwriters.

- Shortly after entering the Ukrainian waters, the Vessel was damaged by a mine strike and later declared a constructive total loss. The War Risks underwriters rejected the claim on the basis of breach of warranty. Oceanus therefore sought indemnity from MII policy, but the MII insurers denied the policy liability.

The Vyssos: English Court Of Appeal Upholds Claim In Landmark MII Dispute (Cont'd)

The MII Policy was based on a standard London wording – Institute Mortgagees' Interest Clause – Hulls (1/3/97 CL 337-97). The MII insurers denied the liability and brought three disputed issues before the first instance Court, and subsequently appealed the similar issues to Court of Appeal.

- **Issue 1: Causation - Whether the proximate cause of the Mortgagee's loss was the damage to the Vessel or the forged Additional War Cover.**

The Clause 1.1 of the MII Policy which provided:

> *"This insurance will indemnify the Assured for loss resulting from loss of or damage to or liability of the Mortgaged Vessel which, in the absence of an insured Peril set out in Clause 2.1 below, would be prima facie be covered by the Owners' Policies and Club Entries, and not excluded therein, but in respect of which there is subsequent non-payment … by any of the underwriters of Owners' Policies and Club Entries as a result of Insured Peril, provided always that such Insured Peril occurs or exists without the privity of the Assured."*

Oceanus submitted that the proximate cause was the mine strike, or alternatively the Vessel's breach of the trading warranty, and that the War Risks Policy's failure to respond to the mine strike constituted an insured peril under the MII Policy.

The MII insurers argued that the proximate cause was the invalidity or nullity of the forged Additional War Cover as a result of dishonesty of the Vessel's Charterers, and such fraud was not an insured peril under policy.

The first instance Court held for Oceanus. It found that the Additional War Cover never existed, and that the operative policy at the time of the mine strike was therefore the War Risks policy only. The War Risks policy should have prima facie covered the damage to the Vessel, but failed to respond due to the breach of warranty. Breach of warranty was an insured peril expressly covered under the MII policy.

The Vyssos: English Court Of Appeal Upholds Claim In Landmark MII Dispute (Cont'd)

❖ **Issue 1: Causation – Whether the proximate cause of the Mortgagee's loss was the damage to the Vessel or the forged December Cover (Continued)**

The Court of Appeal upheld the decision of the first instance Court. It doing so, it also provided key legal clarification in MII policy regarding insured loss and causation:

- What "loss" is covered under MII policy.

  The MII insurers argued that the MII policy principally protected the mortgagee's interest as assignee and loss payee under the owners' insurances. On that basis, the MII insured loss was said to be the mortgagee's inability to recover proceeds under the owners' policies.

  The Court of Appeal rejected that approach. It held that, under an MII insurance, the mortgagee's <u>insurable interest</u> is its proprietary security interest in the vessel, and the <u>insured loss</u> is the indemnity for impairment of mortgagee's security, rather than the full face value of owners' insurance.

  This understanding follows the policy's indemnity measure, in particular the definition of "Net Loss", which is calculated as loss under the loan agreement "to the extent secured by mortgage". Put simply, Net Loss is the mortgagee's shortfall under the loan, but only to the extent the loan was actually secured by the vessel's value (and after accounting for other recoveries). It is therefore not automatically the entire outstanding balance of the loan.

- Composite perils and causation: how the clause 1.1 works

  The Court further considered that insured loss under clause 1.1 is not necessarily caused by a single insured peril. Instead, clause 1.1. requires that a number of insured perils operate in combination with each other so as compositely to bring about the insured loss.

The Vyssos: English Court Of Appeal Upholds Claim In Landmark MII Dispute (Cont'd)

❖ **Issue 1: Causation - Whether the proximate cause of the Mortgagee's loss was the damage to the Vessel or the forged December Cover (Continued)**

- Composite perils and causation: how the clause 1.1 works (Cont'd)

The relevant cover trigger involved a composite sequence of i) physical loss / damage; ii) prima facie cover under an existing owners' policy; iii) non-payment under that policy due to a defined insured peril in clause 2.1; and iv) the insured peril occurs without mortgagee's privity.

On that framework, the forged Additional War Cover could not qualify as an "existing owners' policy". It therefore could not prevent cover arising under the wording of Clause 1.1. Therefore, the insured perils and non-payment analysis was conducted by reference to the real owners' insurance in play (the War Risks Policy), not by reference to Oceanus's mistaken belief on other insurances. The question is an objective one: whether, in fact, there was an existing owners' policy providing prima facie cover that failed due to a defined insured peril. In this case, the answer is yes.

❖ **Issue 2: Was Oceanus privy to the breach of trading warranties**

The MII insurers argued that Oceanus knew the Vessel's entry into Ukrainian waters would breach the trading warranty, yet still agreed it could proceed. The knowledge and consent amounted to "privity", which therefore breached the proviso to clause 1.1.

Oceanus submitted that an consent was fundamentally influenced by the forged Additional War Cover, which caused it to believe that the necessary insurance protection was in place.

The first instance Court held in favor of Oceanus. It found that Oceanus's consent was obtained by fraud, so it never validly consented to the breach-of-warranty voyage.

The Vyssos: English Court Of Appeal Upholds Claim In Landmark MII Dispute (Cont'd)

❖ Issue 2: Was Oceanus privy to the breach of trading warranties (Cont'd)

The Court of Appeal concurred with first instance Court. It held that fraud can prevent consent from having the legal consequences necessary to establish privity. In particular, the Court accepted that "privity" in the MII policy carried the same meaning as in s.39 (5) of Marine Insurance Act 1906, that both knowledge (including "turning a blind eye") and consent are required.

In this case, Oceanus had knowledge of the breach voyage. However, the "consent" element failed because it was procured through deception and therefore lacked legal validity. It followed that Oceanus was not privy to the insured peril for the purposes of the MII policy.

❖ Issue 3: Was the loss fortuitous

The MII insurers argued that Oceanus's loss was an inevitable consequence of its voluntary conduct in failing to restrain the Vessel from performing the voyage; accordingly, it was not fortuitous.

This defence failed at first instance Court. The judge held that the proximate cause was the mine strike - a fortuitous incident - and that the loss arising from the mine strike was therefore also fortuitous.

On appeal, the Court of Appeal provided more detailed reasoning, particularly in relation to the composite perils. It was held that, where cover depends on a combination of sequential elements, if one of the essential elements in the chain is fortuitous, such would be sufficient to render the overall insured loss fortuitous.

In summary, the Court of Appeal dismissed the appeal and upheld the judgment for Oceanus.

The Vyssos: English Court Of Appeal Upholds Claim In Landmark MII Dispute (Cont'd)

❖ Comments

The Court of Appeal judgment provided landmark guidance on the Institute Mortgagees' Interest Clasue Hulls (1/3/97). It clarified the insured interest, mechanism of composite perils, and reaffirmed the protective function of Mortgagees' Interest Insurance. A few key takeaways as below:

- The clause 2.1 is headed "insured perils", which may suggest that the loss must be caused directly by one (or more) of the perils listed there. However, the Court treated clause 2.1 primarily as identifying the reason for non-payment under the mortgagee's owners' insurances, rather than as the direct cause of the mortgagee's loss.

- As mentioned in our page 6, the MII policy covers loss arising not only from a single insured peril, but rather produced by a composite of sequences. Non-payment of owners' insurances (as referenced in clause 2.1) is only one part of the 4-step frame. To evaluate whether the loss is covered, the framework of composite perils should be comprehensively considered.

- For the purposes of the privity defence, privity = knowledge + consent. Insurers therefore face a relatively high evidential threshold: they must prove not only knowledge (including "turning a blind eye"), but also the existence of a valid and voluntary consent.

- In a composite perils mechanism, there is no need to show that every linked events is fortuitous. The fortuity requirement is satisfied if at least one of the essential element in the chain is proved to be fortuitous.

The Sebat: English Commercial Court Clarifies Commencement Of Laytime Following Invalid NOR

Case reading of Trans Trade RK SA -v- Sebat Shipping and Trading Company (Sebat) [2026] EWHC 950 (Comm)

❖ Factual Background

- Owners and Charterers entered into a voyage charterparty to carry a cargo of barley from Romania to Germany on the vessel “Sebat” (“the Vessel”). The charterparty required the written notice of readiness (“NOR”) to be tendered during specified office hours when the Vessel “is in the loading or discharging berth and in all respects ready to load/discharge”. Only if the berth was unavailable could the Master tender NOR from any usual waiting place.

- On 10th May 2022, the Vessel reached discharge port and tendered NOA at the pilot station. No further NOR was served thereafter.

- On 13th May 2022, the Vessel berthed.

- On 14th May 2022, the hatches were opened in order to commence discharge. However, high phosphine gas levels in the cargo hold – resulting from fumigation at the loading port – prevented the commencement of any cargo operations. The Vessel was therefore ordered to return to anchorage for ventilation.

- On 27th July 2022, the Vessel berthed a second time after 78 days and completed discharge on 30th July 2022.

- Owners claimed demurrage accrued at the discharge port (approximately USD840,000). The Charterers contended that no valid NOR was ever tendered and that laytime never commenced.

The Sebat: English Commercial Court Clarifies Commencement Of Laytime Following Invalid NOR (Cont'd)

❖ The Arbitration Award

In arbitration, the tribunal found that the Vessel prematurely tendered her NOR at the pilot station and held that the NOR was invalid. However, the tribunal referred to *The Happy Day [2002]*, in which the English Court of Appeal held that the commencement of cargo operations amounts to a waiver by a charterer of its objection to an invalid NOR.

The tribunal held that, where there is no valid NOR capable of starting laytime, the commencement of cargo operations may nevertheless operate as a trigger for laytime to run. On the tribunal's findings, cargo operations were commenced on 14 May 2022, when the hatches were opened. It therefore held that laytime commenced on that date, entitling the Owners to recover significant demurrage.

The Charterers obtained leave to appeal the arbitral award to the Commercial Court, on the basis that tribunal had wrongly applied the decision in *The Happy Day [2022]* and erred in law by finding that the Charterers had waived the invalidity of the NOR so as to allow laytime to commence.

The Owners argued that, although the NOR was invalidly tendered, the tribunal found that Charterers waived that invalidity by election or by operation of the principle of "deemed waiver".

The Charterers contended that *The Happy Day [2022]* did not establish a rule of law that the mere commencement of cargo operations invariably triggers the commencement of laytime. Rather, the case decision was based on the doctrine of actual waiver by election, which requires awareness of the right being waived and the knowledge of the facts relevant to the election. In the present case, tribunal made no finding of any agreement, waiver or estoppel to treat the invalid NOR waived by Charterers.

The Sebat: English Commercial Court Clarifies Commencement Of Laytime Following Invalid NOR (Cont'd)

❖ The Commercial Court Decision

The central question was, in absence of a valid NOR and without any agreement, waiver or estoppel to treat the invalid NOR as valid, whether the laytime could nevertheless commence simply because of cargo-related operations starts.

- The Court held that the tribunal erred in concluding that cargo operations alone could start laytime running where no valid NOR had been tendered. It confirmed that, where the NOR is invalidly tendered, laytime does not run unless either: (i) a fresh valid NOR is tendered, or (ii) the Charterers treated the invalid NOR as effective through waiver, estoppel, or agreement.

- The Court rejected the concept of "deemed waiver". It held that no such freestanding legal principle existed. In any event, waiver requires the well-established requirements of actual waiver. For actual waiver to operate, the Charterers must have had knowledge that the NOR was invalid (so there is a right that could be waived), and must then act in a manner inconsistent with that right in order to constitute a waiver.

- On the facts, the Owners had not advanced a waiver case, and the tribunal made no findings on waiver. Although The Happy Day [2002] was cited to support the tribunal's conclusion, there was no finding and no discussion in the tribunal's reasoning capable of supporting a conclusion that the Charterers waived the invalid NOR.

In light of above, the Court held that the laytime did not commence, and varied the arbitral award so that Owners could not recover the demurrage at the discharge port.

In A Nutshell: HNS Convention To Come Into Force In November 2027

❖ Background

Historically, the carriage of Hazardous and Noxious Substances (HNS) by sea has lacked a single, comprehensive international liability and compensation framework. Instead, responsibility for damage caused by HNS shipments has been handled through a patchwork of existing maritime rules and sector-specific conventions such as the Hague-Visby Rules, the Convention on Limitation of Liability for Maritime Claims (LLMC), Civil Liability Convention (CLC) and its Fund Convention, depending on the substance and type of incident. This approach left gaps and inconsistencies, because different chemicals and damage scenarios were treated differently, with no uniform system covering the wide variety of HNS.

The HNS Convention was first adopted in 1996 by the International Maritime Organization (IMO) but would only enter into force pending ratification or accession by a minimum of 12 States. Its structure provides a two-tier compensation system covering more than 2,000 substances, including chemicals, liquefied gases such as LNG and LPG, and bulk solids. A 2010 Protocol later revised the Convention to simplify and modernize its mechanisms. On 29th May 2026, the 12-State trigger condition was met, and the HNS Convention is expected to come into force on 29th November 2027.

❖ Scope

HNS Convention applies only to HNS carried as cargo (not as fuel), and its:

- damage occurring within the territory or territorial sea of a State Party;
- pollution damage occurring within the exclusive economic zone (EEZ), or equivalent maritime area, of a State Party; and
- damage other than pollution damage caused outside the territorial sea of any State where the HNS was carried on board a ship registered in a State Party.

In A Nutshell: HNS Convention To Come Into Force In November 2027 (Cont'd)

❖ Types of damage covered by HNS

The convention provides compensation to:

- loss of life and personal injury occurring on board or outside the ship;
- loss of or damage to property outside the ship;
- environmental contamination;
- consequential economic losses, including losses suffered by the fishing and tourism industries; and
- the costs of reasonable preventive measures together with any further loss or damage caused by those measures.

The convention does not apply to pollution damage caused by persistent oil carried as cargo (this part is covered by CLC), but it applies to non-pollution damage from the persistent oil as cargo, such as explosion or fire.

❖ Two-Tier Operation: Tier 1 – Shipowner liability

The HNS Convention applies a two-tier system for compensating damage. In the first tier, shipowners face strict liability, meaning they are responsible for HNS-related damage without needing to prove fault. However, shipowners' liability is capped based on the vessel's gross tonnage in three categories (under 2,000 GT; 2,001 – 50,000 GT; above 50,000 GT), and pending on whether the cargo is bulk HNS or packaged HNS.

Under tier one, total liability for bulk HNS cargo is capped at 100 million SDR; for packaged HNS cargo, total liability cannot exceed 115 million SDR.

In A Nutshell: HNS Convention To Come Into Force In November 2027 (Cont'd)

❖ Two-Tier Operation: Tier 1 – Shipowner liability (Cont'd)

To guarantee funds are available, shipowners must maintain insurance or other financial security covering these amounts. Proof is provided through a state-issued HNS certificate, which must be carried on board and may be checked by authorities. Lack of certification can lead to delays and potential penalties.

❖ Two-Tier Operation: Tier 2 – The HNS Fund

If compensation claims exceed the shipowner's tier-one limit, a second layer is available from the HNS Fund. The Fund is financed through post-incident contributions paid by receivers of HNS cargo in Contracting States. It is administered by States, with no direct government contributions.

Together, the two tiers can provide up to 250 million SDR per incident. The Fund therefore protects claimants when the shipowner (or insurer) cannot cover full losses or when the shipowner is exonerated.

To access the Fund, claimants must show there is a reasonable probability that the damage resulted from an incident involving one or more ships, even if the specific damaging vessel cannot be identified. The Fund will not pay for damage caused by acts of war, or where HNS is discharged from warships or non-commercial state ships.

❖ Time limits for claims

Actions must be commenced within 3 years from the date on which the claimant knows, or ought to have known, of the damage. In any event, no claim is to be brought more than 10 years after the incident giving rise to the damage.

Market Snapshot

Port of Los Angeles Tops 1 Million TEUs in Record June

- The Port of Los Angeles handled more than 1 million TEUs in June 2026, marking the busiest June in its 118-year history and its third-best month ever.
- In June, the port handled 535,000 import TEUs, up 13% year over year and well above the five-year average, as retailers advanced shipments amid tariff and fuel-cost uncertainty. Exports were flat at 126,000 TEUs, while empty container volumes to Asia jumped 17%, signaling continued consumer demand.
- Market attention is focused on U.S. trade policy. Although Section 122 tariffs expired after July 24, uncertainty surrounds new Section 301 tariffs aimed at excess capacity.
- Meanwhile, rising fuel prices—now accounting for more than 30% of voyage costs—are expected to drive higher bunker surcharges.
- In the first half of 2026, the port processed 5.1 million TEUs, while fiscal-year throughput reached 10.4 million TEUs, ranking among its strongest annual performances.

Dry Bulk Shipping: Coal Usage On The Rise, Amid LNG DisruptionsPort

- Escalating tensions in the Middle East and repeated disruptions to LNG shipments through the Strait of Hormuz are driving Asian buyers back to thermal coal. With gas prices rising and energy security in focus, utilities across the region are increasing coal-fired generation ahead of peak summer demand.
- At the same time, Indonesia, which accounts for about half of global seaborne thermal coal exports, is moving to centralize exports of coal and other key commodities under a state-controlled entity, with full implementation set for January 2027. The policy aims to strengthen state revenue oversight but has sparked concerns over execution risks and possible shipment delays.
- The shift could initially spur front-loaded cargo bookings in late 2026. If bottlenecks emerge, trade flows could gradually shift toward suppliers such as South Africa, Australia, and Russia, potentially increasing ton-mile demand for mid-sized bulk carriers.

Record VLCC Orders Raise Fears Of 2028 Tanker Squeeze

- Record VLCC contracting in the first half of 2026 has sparked warnings of a potential tanker squeeze later in the decade. According to market resources, 54.5m dwt of VLCCs were ordered in the first half alone, surpassing the previous full-year record of 32.6m dwt set in 2006.

- The VLCC orderbook-to-fleet ratio has jumped to around 35%, compared with just 2% three years ago, underscoring the scale of the current cycle. About 83% of the newbuildings are scheduled for delivery in 2028–2029, with 2028 deliveries expected to double earlier projections.

- Chinese shipyards secured about 89% of H1 contracts, led by Hengli Heavy Industries with a 55% share, followed by Jiangsu Hantong and Dalian Shipbuilding. Western owners, primarily Greek, accounted for roughly half of the orders, while Asian owners took about a quarter.

- Across all crude tankers, the global orderbook has exceeded 600 vessels, with deliveries peaking in late 2028 before tapering off into 2029–2030.

Global Trade Faces Fresh Test as Panama Canal Curbs Bookings

- Global trade is facing renewed strain as the Panama Canal Authority moves to curb vessel bookings amid mounting water-supply concerns linked to a strengthening El Niño.

- From July 25, daily auctions for certain Panamax lock transits would be suspended until further notice, cutting overall daily booking capacity from 36 to 34 vessels. Shipping agents warn this will intensify competition for available slots and create added challenges for ships without confirmed reservations.

- Water levels at Gatun Lake, which feeds the canal's locks, are already trending below seasonal averages and are forecast to decline further in the coming months. Forecasters say this year's El Niño could be among the strongest in decades, increasing the risk of prolonged dry conditions across Central America.

- The tightening access adds to disruptions at other global chokepoints, including the Strait of Hormuz and the Red Sea, raising concerns over delays, higher freight costs and renewed volatility across global supply chains.

After Hiccup In 2026, LNG Market Will Rebound But Unsure Through 2050

- The global LNG market is expected to rebound after a temporary setback in 2026 linked to geopolitical disruptions affecting Middle East supply routes, although longer-term prospects remain uncertain.
- Global LNG trade reached a record 437 million tonnes in 2025, up 6.3% year over year, with strong growth driven by expanding liquefaction capacity, particularly along the U.S. Gulf Coast. However, conflict-related damage in Qatar and the UAE has temporarily removed about 16% of global liquefaction capacity, with nearly 13 million tonnes per year of supply impacted at Qatar's Ras Laffan facility over the next three to five years.
- Market voices project LNG demand could rise 65% to around 700 million tonnes per year by 2050, fueled largely by South and Southeast Asia. The International Gas Union is even more optimistic, forecasting global capacity could reach 700 million tonnes by 2030.
- Still, rising competition from cheaper solar and battery storage in Asia could curb LNG growth longer term, raising questions over future investment in large-scale export terminals.

Asia's Appetite For Australian Wheat To Rise As Russia-Ukraine War Disrupts Shipments

- Asian demand for Australian wheat could strengthen as rising tensions in the Black Sea disrupt grain flows from Russia and Ukraine.
- Strikes on energy facilities have heightened diesel supply concerns in Russia as the winter crop harvest gathers pace, while disruptions to ports and shipping routes have weighed on exports across the region. Vessel traffic through key corridors such as the Don-Azov Channel and Kerch Strait has been temporarily suspended, and some shipowners have pulled back from the Black Sea market, tightening near-term supply.
- Amid the disruption, Black Sea milling wheat prices have risen about USD10 per metric ton week on week for August–September shipments. Market resources assessed its Milling Wheat Marker at USD233/mt FOB on July 13, the highest since late June.
- Traders say Southeast Asian buyers could look to Australian wheat as an alternative origin if Black Sea uncertainties persist. While Australian prices have edged higher, market participants note that the scale of any demand shift remain unclear.

Grain Shipments Jump 13% But Weaker Outlook Ahead

- Global grain shipments have risen 13% year on year so far in 2026, supported by stronger wheat, maize and soybean exports from the Americas and Europe. Improved harvests among major exporters have lifted export surpluses, driving higher shipments to Asia, the Middle East and North Africa.
- Shipments to China increased 15% year-on-year, with US grain exports to the country surging 137% amid improved trade relations. Demand has also firmed across Southeast Asia. Despite the closure of the Strait of Hormuz, grain trade to the wider Middle East and North Africa rose 18% year-on-year, although imports into the Persian Gulf fell 49%.
- Higher volumes have mainly benefited the supramax segment, where shipments jumped 27% year-on-year, lifting tonne-mile demand by 4% and supporting freight rates. Handysize and panamax segments also recorded grain cargo growth of 10% and 8%, respectively.
- However, the outlook for the second half of 2026 appears weaker. Fertilizer supply constraints, high temperatures in key producing regions could weigh on trade flows.

Asian Oil Buyers In Talks To Reroute Saudi Red Sea Flows

- Some Asian crude buyers are in discussions with Saudi Aramco about rerouting oil shipments after recent Houthi attacks on tankers in the Red Sea heightened security risks around the Bab el-Mandeb chokepoint.
- Refiners are considering alternatives to using Bab el-Mandeb, with options including lifting cargoes from Egypt's Sidi Kerir terminal in the Mediterranean. Indian state refiners are also weighing sending smaller vessels through the Suez Canal, then transferring cargo to VLCCs in Europe for the longer voyage around Africa — a route they have not previously used.
- Rerouting would significantly extend voyage times, potentially by up to a month, and increase freight costs. However, buyers appear willing to absorb the higher expenses as regional tensions tighten supply.
- The disruption adds fresh volatility to oil markets, with Brent crude climbing above USD98 per barrel amid escalating risks to Middle East energy flows.

Happy Reading, See You In August!

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Acknowledgments

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