The Red Sea saga continues as importers, shippers and others face nail-biting experience

by Manik Mehta Feb 02, 2024

As the Houthi attacks against merchant vessels in the Red Sea continue, with the latest Jan. 28 attack targeting a U.S. logistics support base in Jordan and a U.S. response expected to follow, importers, shippers and other stakeholders face nail-biting moments, unable to fathom what turn things would take the sea trade across this vital route.

Besides facing extended delivery times because of the unavoidable longer route vessels take around the Cape of Good Hope in South Africa, combined with steeply rising freight costs, importers and exporters fear they could lose their foothold in markets where consumers are becoming frustrated with steep hikes in the end prices of imported products.

A Turkish freight-forwarding company, Mars Air + Sea, of Istanbul which had organized the transportation of exhibits of Turkish exhibitors at the recent Texworld trade show in New York, has closely monitored shipments to and from Asia through the Red Sea.

Namik Keles, the company's events logistics manager, told the American Journal of Transportation at the show that his company, a leading Turkish freight forwarder with some 2,600 trucks, had business interests in Spain, France, Belgium, etc., besides having agreements with the railways across Europe.

"Sea trade with Asia is a problem, not so much with North America. There is also, of course, the possibility of rail transport from countries like Asia to Turkey, but rail freight costs are much higher than sea freight though less than air freight," Keles said.

Namik Keles, events logistics manager for Mars Air + Sea

Logistics Experts Fear Escalation

Some logistics experts fear that the Houthi attacks and further escalation could become uncontrollable and create another international supply chain crisis.

Freight Right Global Logistics of La Crescenta-Montrose, California, an international air, and sea-freight forwarding company, has been closely following the chain of incidents in the Red Sea and the risks for cargo vessels.

Robert Khachatryan, the company's CEO/founder, pointed out in a telephone interview that with a 150% increase in cyberattacks on supply chains during the last two years, the threat of data being lost or stolen and system shutdowns, was "real" with logistical and supply-chain ramifications.

Since supply chains were now heavily becoming technology-dependent, system failures or technological breakdowns were a serious concern, Khachatryan said.

"Not many vessels are now passing through the Red Sea. This is affecting shipping lanes, particularly to Europe though the impact on U.S. shipping is less. However, the Panama Canal drought is causing congestion," he said, adding that although the Panama Canal experienced some rain recently, it suffered declining water levels.

The Houthi attacks were not affecting U.S. trade as much as much as Europe. Since World War II, the U.S. had been the de facto guarantor of free shipping and navigation, Khachatryan reminded.

Another factor which could affect container shipping, particularly from China to the U.S., was the rush during the Chinese Lunar New Year season which traditionally sees a sharp increase in exports from Asia and further drives rates up; adding to the woes of the importers and shippers is the traditional closure of business houses in Asia which go offline for two weeks.

Freight costs are expected to rise by 20-30% on shipments to the U.S. East Coast and a longer delivery time by two weeks to the U.S. East Coast because of the longer Cape of Good Hope route, compounded by the Panama Canal issue. "The west coast port infrastructure facing tremendous pressure, may reach a breaking point soon, even though west coast ports are better prepared today after the last massive disruptions," Khachatryan said.

Insurance costs on shipments were also rising. "... insurance claims on late shipments can be problematic unless the goods are perishables," he said.

Joseph Klobus, claims insurance manager at OEC Group in Rosedale, New York, an international logistics group with vast connections to the Asia-Pacific region, described the Red Sea situation as "delicate and could potentially escalate further". "It's almost like a perfect storm in geopolitical terms," he said.

He said that 20% of the container cargo transits through the Suez Canal; with the current situation in the Red Sea, delivery time had increased considerably, besides triggering a surge in costs. Another worrisome problem are sea-piracy incidents near Somalia and also Nigeria, as vessels sail around Africa.

“I would urge importers to closely examine their insurance coverage. Some are thinking of shipping via the west coast … I expect more importers to import their requirements through the west coast though the west coast cargo volume is massive and can further increase,” Klobus said, adding that “as of now” there is no significant change in demand for imports, and additional costs are being absorbed by importers and eventually by consumers.

Chinese shippers, already with their backs to the wall following the shift among big Western buyers to turn to suppliers in other Asian countries, are severely impacted by the Red Sea shipping turmoil. Since the Houthi attacks, the cost of shipping a container to Europe had surged “by over 100%” compared to costs in December, one Chinese exhibitor at the recent Frankfurt trade show Heimtextil said.

“Profits were already low, and the latest disruptions have further impacted our earnings,” the Chinese businessman said, adding that the Red Sea turmoil was creating problems for China’s export-oriented economy. He said that home-textile importers were sourcing products from competitors in Turkey, India, Vietnam, and Pakistan. He also feared that other companies would reassess their de-risking strategy, preferring to buy from sources closer to the home market – or “near-shoring”, to use the term in vogue.

Robert Khachatryan, CEO/founder at Freight Right Global Logistics

Box Demand Increasing with Chinese New Year Coming

Meanwhile, the U.S. ambassador to the United Nations, Linda Thomas-Greenfield, recently stated at a UN Security Council briefing on the Red Sea situation that the U.S. and U.K. – supported by Australia, Bahrain, Canada, and the Netherlands – conducted joint strikes against Houthi targets in Yemen, aimed at disrupting the Houthis’ ability to continue “their reckless attacks against vessels and commercial shipping in the Red Sea and the Gulf of Aden”.

She pointed out that since November, more than 2,000 ships were forced to divert thousands of miles to avoid the Red Sea. More than 50 nations were affected in 27 Houthi attacks on international commercial shipping, with Houthi militants threatening or having already taken hostage mariners from more than 20 countries, including the crew of the Galaxy Leader, a Bahamas-flagged, Japanese-operated vessel. On November 19, Houthi forces hijacked the ship and kidnapped a multinational crew including Bulgarian, Mexican, Romanian, Ukrainian, and Filipino citizens. “Despite (Security) Council calls for the release of the ship and its crew, the Houthis held them hostage to this day,” she said.

One of the consequences of the Red Sea turmoil is that “retailers must get used to keeping higher inventories as supply chain disruptions become a norm” said Christian Roeloffs, co-founder/CEO, of the Hamburg-based Container xChange, an online container logistics platform for container trading and leasing, adding that there would be a notable rise in demand for containers in China and South Asia as well as in Container trading spot rates ahead of the Chinese New Year. The average quoted rate on China-Europe, as of mid-January, was about US$5400 per 40’ container, up from US$1,500 just the week before.