End of Cape of Good Hope diversions a red light for Zim

Houthi declarations that they will stop all attacks on international shipping operating via the Red Sea and Suez does not extend to Israeli vessels, which could pose a new challenge for Zim.

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File Photo: Zim President and CEO Eli GlickmanCredit: Don Monteaux Photography via Zim

At a Glance

- Houthi to stop targeting all ships transiting the Red Sea expect Israeli owned or flagged vessels
- Major container lines expected to gradually reintroduce Red Sea and Suez transits, which at present would exclude Zim
- Other carriers could be reluctant to enter slot charter deals with Zim

The Houthi Humanitarian Operations Coordination Center (HOCC) announced on 20 January that it will cease to target international shipping transiting the Suez Canal and Red Sea following the start of the ceasefire in the conflict between Palestinians and Israelis.

Israeli tonnage is excluded and will remain a target said the HOCC: "Vessels wholly owned by Israeli individuals or entities and/or sailing under the Israeli flag will remain prohibited from transiting the Red Sea, Bab-el-Mandeb, the Gulf of Aden, the Arabian Sea, and the Indian Ocean at present."

Zim operates a single string from the Far East to Europe the ZMP service, which is operated by 18 chartered and owned ships, with sizes varying from 1,114 - 10,062 teu, with the service currently diverting around the Cape of Good Hope, according to MDS Transmodal data.

Sanctions on Israeli linked shipping will be lifted on the full implementation of all three phases of the ceasefire agreement.

Peter Sand, Chief Analyst at Xeneta said that if Zim is the only line prohibited from accessing the shorter Suez route between Europe and the Far East, "For sure their share price will be hit."

Moreover, Sand said that other lines may be reluctant to enter into slot charter deals with the Israeli line for "fear that would also make them a legitimate target [according to the Houthis]."

Related: Houthis to end Red Sea attacks, except against Israeli ships

It is unlikely, however, that shipping lines will return to Suez directly, but will more likely test the waters first and gradually reintroduce services, but even the gradual ending of the diversions is unlikely to start before phase two of the ceasefire agreement is secured, which will see the return of all those held by both sides and the withdrawal of Israeli forces from Gaza.

Negotiations on phase two are expected to start in two weeks and the enforcement of the second phase is slated for six weeks' time.

Sand agrees that there will "be more activity from liner operators when phase two begins."

Several carriers have published two versions of their 2025 services – one where ships continue to sail around the Cape and the other with vessels transiting the Red Sea and Suez.

"There will be severe disruption in the immediate period following a return of ships to the Red Sea," explained Sand, who added: "Ships will not be where they are supposed to be and will arrive at ports much earlier (or later) than scheduled."

Congestion and delays will ensue as ships arrive at ports at the same time, and the effects will ripple across ocean supply chains.

"The complexity of ocean container shipping networks means it could take 1-2 months for schedules to transition to 'normal' operating conditions through the Red Sea," said Sand.

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Meanwhile, shippers also expect the end of Red Sea diversions will cause disruptions, with carriers needing to make certain that crew are safe, but if the risk does reduce then then war risk insurance costs should be significantly lowered, according to Global Shippers' Forum Director James Hookham.

However, Hookham points out that it is contract season and many shippers are not keen to sign new contract deals given the expectation that rates will plummet as significant levels of capacity are freed up, when the Red Sea diversions end.

Consultancy MDS Transmodal calculated that 377 ships were deployed on Far Eastern trades to the Middle East, the Subcontinent and Europe in December 2023, a total of 5.81 million teu. That had increased to 450 ships of 6.89 million teu by January this year.

"This means that around 73 ships of 1.08 million teu could be released onto the market, around 4% of the capacity deployed on all deepsea trades," said analyst Antonella Teodoro.

This will see a return to the overcapacity that was expected before the Middle East conflict, but with some 3 million teu delivered in the intervening year, with a further 1.8 million teu expected to be delivered in 2025.

Hookham believes lines should be offering deals to shippers that will take into account the expected crash in spot freight rates.

“We can expect to be using Suez by August if all goes well,” said Hookham, “But as we’re already in the contract season carriers could offer twin rates, a Red Sea and a Cape rate.”