



By: **Emre Alkin**

Shipping Risk Is Greater Than Ever



In my previous articles, I **had mentioned** the recent incidents on Suez and Panama Canals, emphasising that the rising interest rates all over the world could remain ineffective against a new wave of inflation arising from logistics costs.

In order to support this argument, let's analyse the current situation in the Suez Canal first.

The Suez Canal is approximately 193 km long, 205 metres wide and 24 metres deep. Last year, it contributed \$9.4 billion to Egypt's economy, a 35% increase compared to the previous year.

Nearly 21,000 ships transit through the Suez Canal every year, which means as many as 80 ships every day. Large container ships pay almost \$657,000 for one-way transit.

Interestingly, ship transits through the canal constantly fluctuated between 1976 and 2022, however, with no change in the yearly number of ship transit, which varies between 15,000 and 21,000.

For example, last year's peak of 21,000 ships was also recorded in the early 1980s. But recently, the daily transit rate dropped from 75 to 38 because of escalating Houthi attacks against shipping through the Red Sea.

These incidents have caused international sea freight rates to increase by 400%.

Normally, the Suez Canal accounts for nearly 12% of all maritime trade, with 30% of global container passing. However, due to recent attacks, cargo ship traffic being rerouted around Africa's Cape of Good Hope has increased by 168%.

Red Sea shipping disturbances have caused Egypt to \$508 million in Suez Canal revenues.

Ben Gurion project

These attacks on cargo ships are considered as 'preparations' to create the circumstances to enable Israel to implement its Ben Gurion

project, which proposes cutting a canal through Israel's Negev Desert to connect the Gulf of Aqaba with the Mediterranean Sea.

It might seem like an unlikely theory on paper but when you look at today's changing map of the Middle East, you realise that Israel's war on Gaza and the combined efforts of Israel and the West to expel the Palestinians from their lands do make perfect sense.

Just like the countries in the Middle East and North Africa are planning for a life after oil, it would be a good idea for Egypt too to start planning for a life after the canal

There is a similar project that is being attempted to put into operation in Türkiye: the Istanbul Canal project, which envisages connecting the Black Sea with the Sea of Marmara, bypassing the Bosphorus Strait.

There are also projects such as a "hyperloop" that involves boring tunnels under the seabed for high-speed transportation of people and freight, which could replace shipping via man-made or natural waterways sooner or later.

So, just like the countries in the Middle East and North Africa are planning for a life after oil, I think it would be a good idea for Egypt too to start planning for a life after the canal.

Rerouting from the Panama Canal

Now let's take a look at the Panama Canal: The canal is 50.5 miles long and it takes cargo ships up to ten hours to transit through it.

The Panama Canal accounts for 5% of the global seaborne trade. The canal is Panama's highest source of revenue. It brought \$4.3 billion in 2022 to the country.

Thanks to the Panama Canal, the distance

between New York and Los Angeles is shortened by 13,705 km.

Large container ships pay \$450,000 for one-way transit. Half of the ships traveling from the Pacific to the Atlantic carry goods from Asia to Europe.

And most of the ships crossing from the Atlantic to the Pacific go from US ports to Asian Ports.

However, there has been a drastic decline in the number of transits since October due to the ongoing drought, not to mention that the waiting times have doubled.

Crossing the North Seas is not an easy task to accomplish and it will require more ships that can withstand heavy weather

Panama is likely to suffer a loss of \$700 million due to the severe drought that is forecasted to last until April.

Rerouting from the Panama Canal to alternative paths has seriously increased container and shipping costs.

As it does not seem wise to go around South America instead of passing through the Panama Canal, everyone agrees to shortcut but costly solutions proposed by the Panama Canal Authority.

Alternative routes include: Shipping operators who normally travel through the Southern Ocean to reach the Suez Canal now prefer the North Seas route instead of going around the Cape of Good Hope, which can considerably help them shorten a distance of 8000 km.

However, crossing the North Seas is not an easy task to accomplish and it will require more ships that can withstand heavy weather.

How to avoid supply chain disruptions?

One might ask, "Wouldn't ensuring peace in the Middle East a more cost-effective solution?" Definitely but the decrease in shipping costs is due to the demand of producers/suppliers and customers.

I don't think that shipping companies have made any such a request. Besides, they were not happy with the rapidly falling prices after the pandemic.

Now they have the chance to introduce new charges. Someone will have to pay this cost anyway. In the worst case, they could ask their governments to reach out to the World Trade Organisation for water freight grants.

Thus, governments will be able to assist shipping companies with their logistics costs.

Last week, **an article** titled "Turkey's US\$1.1B International Rail Project" by Gordon Feller was published on Tomorrow's Affairs.



It would be unwise for any sector or business to exploit difficulties to its advantage for a long time - Emre Alkin

The geometric structure of the railways in Türkiye is currently not suitable for a fast and reliable and fast rail freight.

Besides, the rail width in the former Soviet Republics is not the same as the rail width in Türkiye, which complies with the European standards.

In the past, the wagons of the freight trains coming from Istanbul's Asian side would be loaded onto a ship, crossed the Bosphorus, loaded onto the train on the European side and then continued their journey towards their destination.

Today, this problem no longer exists thanks to cargo ships. It looks like efforts are being made to ensure that freight trains departing from China and India reach their destinations by passing through Türkiye.

The bottom line is that consumers want to see the top selling products available at the stores, whether online or physical. Otherwise they won't come back again.

That is the reason why companies are doing their best to avoid supply chain disruptions. However, throughout history, a problem has always paved the way for an invention.

Therefore, it would be unwise for any sector or business to exploit difficulties to its advantage for a long time.

Acknowledgement: I would like to thank Prof. Murat Erdal for making his presentations available to me prior to the publication of this article.