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Analysis of today
Assessment of tomorrow

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Red Sea crisis - the spotlight is now on alternatives

The ongoing Red Sea crisis has severely disrupted maritime trade routes, forcing shipping companies and cargo owners to explore alternative modes of transportation.

As the world's massive shipping industry shifts gears, here are some of the key alternatives gaining prominence due to the rising threats from Houthi attacks which are now confronting all kinds of traffic which would normally be flowing through the Red Sea:

Rerouting via the Cape of Good Hope

One of the primary alternatives is rerouting vessels around the Cape of Good Hope at the southern tip of Africa, avoiding the Red Sea entirely.

This detour adds around 3,500 nautical miles and 10-12 days of sailing time to each trip. While safer, it significantly increases fuel consumption, operational costs, and transit times.

> Major shipping lines like Maersk have re-routed all vessels bound for the Red Sea around the Cape of Good Hope

Rerouting ships via the Cape of Good Hope is, by necessity, becoming a necessary alternative to the Red Sea route.

There has been a substantial rise in the number of vessels taking the longer Cape route to avoid the dangers in the Red Sea. Major shipping lines like Maersk have re-routed all vessels bound for the Red Sea around the Cape of Good Hope. This rerouting applies to ships sailing between Asia, Europe, and the North American east coast.

What does this mean, in real terms?

- Longer Transit Times: Circumnavigating Africa via the Cape adds around 3,500 nautical miles and 10-12 extra days to each voyage compared to the Suez Canal route. This significantly increases transit times for cargo.

- Higher Operational Costs: The longer sailing distance translates into higher fuel consumption and operating costs for shipping companies. Estimates suggest the Cape detour could cost an additional $30,000-$35,000 per voyage for larger container vessels.

- Capacity Constraints: With more ships being rerouted, there are concerns about potential bottlenecks and capacity constraints around the Cape of Good Hope, especially if the crisis persists.

- Economic Opportunities: For South Africa, the surge in Cape traffic presents opportunities to revitalize its maritime economy by providing bunkering, ship supplies, and other services to the diverted vessels.

- Contingency Planning: Shipping companies are conducting case-by-case reviews to determine if Cape rerouting is necessary based on the evolving security situation in the Red Sea region.

- Contingency plans are being made for further diversions if required. The Cape of Good Hope rerouting, while safer, comes with significant trade-offs in terms of longer transits, higher costs, and potential capacity crunches that the shipping industry must manage until the Red Sea crisis is resolved.

China-Europe Railway Express

Chinese exporters are increasingly shifting to rail transportation along the China-Europe Railway Express to bypass the Red Sea crisis.

This intermodal option has seen a 30% increase in volumes compared to the previous year, as costs are comparable to elevated ocean spot rates.

There's been a significant surge in demand for the CRE services from Chinese exporters looking to bypass the disruptions in the Red Sea maritime route.

Inquiries about using the CRE have doubled since the Red Sea attacks began. Chinese logistics companies are actively preparing route configurations and increasing capacity to meet the growing customer demand for the rail service.

While more expensive than sea freight, the CRE offers considerably faster transit times compared to the traditional ocean shipping routes. Trains from China to Europe take about 12 days, much quicker than the usual 35 to 45 days of sea transit time.

> The CRE faces challenges due to rising geopolitical tensions, as trains often transit through Russia

This shorter transit is a major advantage for exporters looking to avoid delays caused by the Red Sea crisis. The CRE has emerged as an extensive cross-continent rail network linking China with Europe and other regions:

In 2023, it operated over 16,000 freight trains - carrying nearly 1.75 million containers. The network spans over 100 cities across 11 Asian countries/regions and reaches 217 cities in 25 European nations.

However, the CRE faces challenges due to rising geopolitical tensions, as trains often transit through Russia – in violation of sanctions imposed since Russia began waging their vicious war on Ukraine.

The most popular current route crosses the Caspian Sea, adding transit time. The CRE has heavily relied on government subsidies for operations and expansion since its inception in 2013, as its own profitability remains low. Overcoming congestion and improving efficiency are key issues.

Air Freight

With the shortage of vessels for extended voyages and concerns over supply chain disruptions, cargo owners are turning to air freight as an alternative.

While more expensive, air cargo provides a faster and safer option to minimize delays, especially for high-value or time-sensitive goods.

It did come as something of a shock to the system when, as maritime shipping was severely disrupted, there was such a significant surge in demand for air cargo services.

Airlines and freight forwarders have reported spikes of 20-30% in air freight volumes on routes impacted by the Red Sea blockages.

Cargo owners are using air freight as a contingency option to bypass the Red Sea disruptions and maintain supply chain continuity for their most critical goods until ocean routes stabilize

However, the air cargo industry has limited additional capacity to absorb large-scale modal shipping shifts. Belly cargo on passenger flights accounts for about 50% of global air freight capacity, leaving dedicated freighters to handle the rest. This capacity crunch has led to soaring air freight rates.

Air freight is substantially more expensive than ocean shipping, often 5-6 times higher. The average cost to move cargo by air is $3-$4 per kg compared to $0.10-$0.20 per kg for ocean freight.

This high cost makes air cargo viable only for higher-value goods. Companies are prioritizing air shipments for perishable goods like fresh foods, pharmaceuticals, electronics and machinery parts that are highly time-sensitive and cannot withstand lengthy transit delays.

Cargo owners are using air freight as a contingency option to bypass the Red Sea disruptions and maintain supply chain continuity for their most critical goods until ocean routes stabilize.

While air freight provides a faster alternative, its higher costs and capacity limitations mean it can only partially alleviate the supply chain bottlenecks caused by the Red Sea crisis for certain types of premium cargo.

Panama Canal

Prior to the Red Sea crisis, some shipping traffic had already shifted from the Panama Canal to the Suez Canal route. With the Red Sea disruptions, there may be a reversal of this trend, increasing the utilization of the Panama Canal for Asia-US trade.

The Red Sea crisis has highlighted the vulnerability of global supply chains and the need for resilience and adaptability. While rerouting and modal shifts come with their own challenges, these alternatives have become crucial for maintaining the flow of goods and minimizing economic impacts.

During the past several months, Panama Canal authorities have been forced to further reduce the number of daily ship crossings due to a severe drought impacting water levels in the canal. Here is a quick summary of the latest developments in this on-going climate-change induced saga:

- On April 18, 2024, the Panama Canal Administrator Ricaurte Vasquez announced that daily ship crossings would be cut to 24, down from the normal 38 crossings per day.

- This is after crossings had already been gradually reduced last year due to the ongoing drought.

- The drought, attributed to El Niño and climate change, has caused a significant drop in water levels in the canal's lakes, disrupting operations.

- Canal authorities estimate the reduced traffic could cost them between $500 million and $700 million in revenue losses for 2024, up from earlier estimates of $200 million.

- In the first quarter of the fiscal year, the canal saw a 20% decrease in cargo volume and 791 fewer ships transiting compared to the same period the previous year.

- The canal administration is urging Panama to urgently seek new water sources to address the national water crisis impacting both canal operations and human consumption.

The severe drought has necessitated further reductions in the number of ships able to transit the Panama Canal daily, significantly disrupting global trade flows and resulting in substantial revenue losses for the vital shipping route.