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The Red Sea And The Impact Of Global Events On Shipping

KATE SUN / 6 MINUTES / JANUARY 16, 2024

Choked by conflict and delays, the Red Sea exposes vulnerabilities in global shipping. Disruptions ripple through global trade – impacting costs, transit times, and supply chain operations. **Navigate these turbulent waters with TecEx**.

S&P Global recently released a report finding that the Red Sea crisis continues to impact global trade. Some of the key points included:

- Due to extended supplier delivery times from manufacturers, shipping delays have been significantly impacted, with the Red Sea emerging as a major bottleneck in the global supply chain.
- The downturn in trade conditions was limited to developed markets.
- India remains the fastest growing exporter (followed by Brazil).

Global Events and Supply Chain Disruptions

The global supply chain, a complex web of interconnected processes moving goods from production to consumers, has faced numerous challenges in recent years. These disruptions have caused shortages, delays, and price increases for a wide range of products.

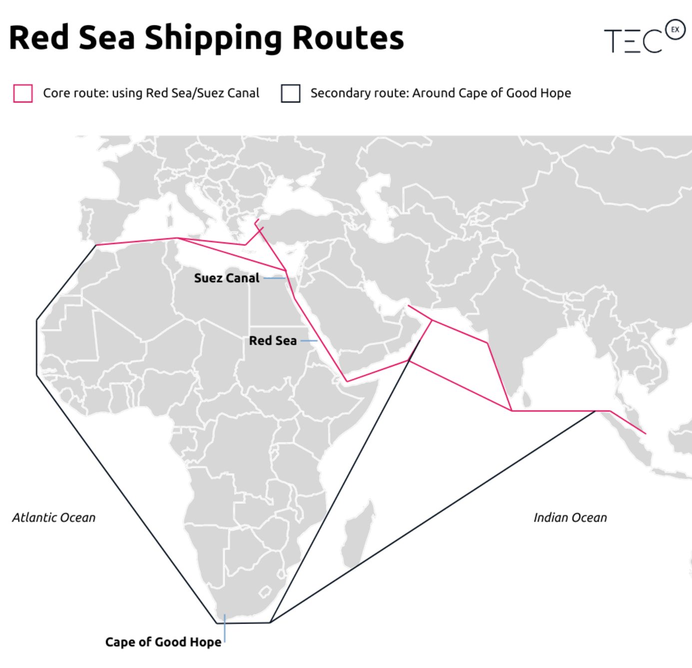
Interruptions such as the ongoing war in Ukraine have caused significant disruptions to supply chains. Furthermore, the pandemic's lingering effects, extreme weather events due to climate change, politically based trade tensions and sanctions, labor shortages in certain sectors, rising energy costs, and chip shortages continue to threaten already unstable supply chains.

These operational disruptions pose distinct risks to the global economy. For example, it's estimated that disruptions can **reduce corporate profits** by as much as **40%** and significantly contribute to increased global inflation.

Once a tranquil passage for merchants, the Red Sea has become a flashpoint highlighting the precarious web of international shipping and its vulnerability to global events. Traversed by the Suez Canal, the Red Sea is a critical link, accounting for **12% of global trade volume** and **30% of global container shipping volumes**. It's the preferred route for Asian goods reaching Europe and vice versa, offering significant time and cost savings compared to the alternative Cape of Good Hope route. However, recent disruptions in this vital artery between the East and West have laid bare the risks to the world's interconnected supply chains.

The Red Sea Disruptions: A Bottleneck on an Important Global Trade Route

As of 11 January 2024, there have been 26 strikes on shipping vessels within the Red Sea channel. Amidst heightened security concerns, container ships are being diverted around the Cape of Good Hope to avoid attacks by Houthi rebels along the crucial international trade route. The attacks against commercial vessels in the Bab-el-Mandeb strait between the Arabian Peninsula and the Horn of Africa since late November are part of an escalating campaign amidst continued conflict in the region.
The result has been large-scale rerouting and logistical alternatives to avoid these waters.
The rerouted journey around the African continent adds roughly 3000-3500 nautical miles (approximately 3700 miles), ten days, and significant costs to the journey. This, coupled with the lingering memory of Ever Given's Suez Canal blockage, has highlighted the inherent risks of relying on single chokepoints. Further issues with alternative routes, such as the Panama Canal, have added delays and limited alternative options.



These diversions and alternatives have impacted freight rates with up to **80% hikes**. Additionally, carriers have announced rate increases for certain routes – with exemptions being made for new tariff notices due to disruptions.

Impacts of Global Events on Freight and Logistics: A Ripple Effect

The ongoing crisis in the Red Sea has sent shockwaves through the global supply chain, impacting logistics costs, slowing transit times, and hindering international trade. Shipping costs have begun to surge as companies reroute ships or pay premiums for escorts.
Furthermore, delays in shipping times and the increased demand for alternative solutions have placed supply chains under enormous pressure.

Incoterms and DDP: Navigating Risk in Uncertain Waters

The Red Sea crisis casts a long shadow beyond immediate disruptions, revealing the stark vulnerabilities of global supply chains and the urgent need for bolstered resilience.

Delivery Duty Paid (DDP)

Incoterms, standardized trading terms like Delivery Duty Paid (DDP), play a crucial role in navigating these choppy waters. DDP, for instance, places delivery responsibility, including risks and costs, with the seller until the goods reach the buyer's destination. This clarity in responsibility allocation helps mitigate risk and provides a framework for negotiations and settlements during disruptions.

Companies such as TecEx will ship goods on your behalf using the DDP shipping incoterm, taking on the risk and responsibility and ensuring the safety and efficiency of your shipment.

The threat to the global supply chain is marked, with more and more shipping companies avoiding the Red Sea route. This will ultimately result in pressure on other routes as suppliers seek alternatives. For example, air freight will see increased operations, leading to higher prices and slowed transit times to manage the higher demand.

Supply Chain Risks in Troubled Waters

Downstream, the impact will be far-reaching as industrial supplies, caught up in delays, will struggle to meet global delivery demands on time, triggering production slowdowns. These delays will be hard-felt as the compounded pressure of supply chain disruption meet seasonal delays such as the Chinese Lunar New Year. Storage and demurrage costs will likely soar as shipments that finally reach ports are left beyond the free time allocated by carriers.
The global implications will be massive as these factors take hold of the supply chain. Rising workforce costs, production delays, and fuel price hikes will conspire to stoke the flames of global inflation.
But crisis often breeds innovation. For example, China's Belt and Road Initiative (BRI) will inevitably see increased pace and broadened scope as the globe looks for alternative solutions. An uptake in blockchain innovations, with its promise of data transparency and visibility, could also see a rise as businesses scramble for more resilient supply chain options.
Building stronger partnerships with industry specialists, such as TecEx, can help businesses navigate future disruptions with greater agility and foresight.

TecEx: Anchoring Stability in Turbulent Waters

In a world where unforeseen events can shake the very foundations of trade, uncertainty is understandable. But you don't have to weather these storms alone. TecEx stands beside you, not just as a trade management service provider but as a partner who understands your challenges. We speak your language – the language of incoterms, of delayed shipments, of rising costs. And we're here to navigate these complexities with you every step of the way. Because in a world where vulnerabilities loom, trust and partnership are the anchors that hold us steady. Let TecEx be yours.

> We understand the challenges our clients are facing today when shipping between Europe and Asia as a result of the Red Sea conflict. The demand for shipping routes via the Cape of Good Hope have surged and longer transit times and potential cost impacts are crucial considerations for our clients. At Tecex, we specialise in crafting tailored shipping solutions that not only navigate these challenges but also align seamlessly with your budget and project lead times. Our dedicated team is focused on optimising every facet of your shipping plan. We understand the value of time in the logistics landscape. In response to potential delays, we go the extra mile by streamlining transit routes where possible, expediting customs clearance, and arranging a reliable last-mile delivery.
> *~ Esmari de Wet, Head Account Manager*

Contact Us to Learn More!