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Red Sea Disruptions Impacting Australia-Europe Trade - Strategic Briefing/Update

The security dynamics in the Red Sea region have worsened due to increased hostilities from Houthi insurgents backed by Iran, resulting in substantial interruptions to maritime traffic and a consequent rise in global energy costs. In response, a collaboration comprising the United States, European nations, Bahrain, and Canada has launched **Operation Prosperity Guardian**. The U.S. has already dispatched naval forces to the Gulf of Aden as part of this initiative. It seeks to establish an international coalition to safeguard commercial ships from the Houthi threat. While implementing protective strategies such as naval escorts may introduce operational delays, the exact framework and extent of the task force's responsibilities are currently under development.

Key Trade Impacts

- **Diversion:** All major shipping lines have suspended Red Sea transits and rerouted voyages around Africa.
- **Transit Time:** Additional **10-14 days** for Asia-Europe journeys, impacting pre-Chinese New Year shipments.
- **Cost Increases:** Rerouting adds **$3.4M** per Asia-Europe round voyage due to fuel and charter expenses, leading to potential freight rate hikes.
- **Container Shortage:** Rerouted vessels delay empty container return to Asia, potentially impacting Australian exports.

Suspension of Red Sea Transits: As of December 18th, roughly 100 vessels have been rerouted. The major shipping lines have suspended their services through the Red Sea due to potential threats. As a result, these suspended services are being rerouted through the Cape of Good Hope. Hapag and Tailwind had to navigate their vessels back through the Mediterranean and are heading down the West Coast of Africa.

Here is a brief summary of Major shipping lines diversion plans:

Shipping Line	Service(s) Diverted	Route Changes/Notes
MSC	All sailings through the Red Sea	• Rerouted around the Cape. • GRI is expected soon. • Reviewing the blank sailings.
Maersk	All sailings through the Red Sea	• Rerouted around the Cape. • GRI announced for **1st Jan 2024**
CMA CGM	All sailings through the Red Sea	• Rerouted around the Cape. • GRI is expected soon.
Hapag-Lloyd	All sailings through the Red Sea	• Rerouted around the Cape. • GRI is expected soon. • Reviewing the blank sailings.
ONE	All sailings through the Red Sea	• Rerouted around the Cape. • GRI is expected soon. • Reviewing the blank sailings

Rising Costs: The rerouting is incurring higher costs for shipping companies. An extra four-week round voyage around the Cape of Good Hope will add **$3.4M in fuel and charter expenses** to every shipping service in the Asia-Europe Trade. Consequently, this increase in operational costs will impact freight rates. However, we do not anticipate the new rate increases will reach the extreme highs seen during the COVID-19 pandemic.

Shipping Rates Impact: From December 1st, 2023, shipping rates for Asia-Mediterranean routes have surged. Rates increased after December 15 and will hike again on January 1, 2024. Despite only 12% of capacity being blanked in January, rates are expected to remain high due to ongoing Red Sea disruption.

Strategic Significance and Impact on Australia: The diversion of vessels around Africa will absorb the excess vessel capacity, slightly increasing rates in other trades. Some shipping lines scramble to find suitable vessels to add to these services. Diverting vessels from blank sailings to meet the new European schedule requirements may reduce Asia-Oceania trade capacity in the medium term.

Container Supply will be impacted: The shortage of containers will significantly affect the shipping industry. Shipping lines in Asia have only three weeks of container stock. The redirection of vessels around Africa will delay the return of empties from the EU. Bookings from Australia to the USA and South America are expected to be limited in favour of Asian exports. The priority will be given to moving empties from Australia to Asia due to shorter transit times.

Essential Information: The Shanghai Containerized Freight Index (SCFI) is a weekly index that tracks the spot market freight rates from Shanghai. As of **December 15, 2023**, the SCFI has increased by 6.0% compared to the previous week, reaching 1,093.52 points. Shipping lines may limit bookings to low-paying trades if the SCFI jumps by 25% or more.

Recommendations:

- **Stay informed:** Closely monitor updates from shipping lines and IFCBAA regarding Red Sea developments and potential disruptions
- **Shanghai Containerized Freight Index (SCFI):** Monitor for increases. Increases may indicate potential booking rationalisation by shipping lines, prioritising higher-paying routes. This issue may be temporary until some comparative normality of shipping line schedules comes back into play, monitor closely

Information and Disclaimer

MPC International, is a Sydney-based strategic advisory firm, which supports IFCBAA with insightful strategies and innovative solutions, to assist IFCBAA's service initiatives for it's members.
The International Freight Forwarders and Customs Brokers Association of Australia Limited ("IFCBAA") is the leading independent body that represents international freight forwarders and customs brokers in Australia.
IFCBAA and MPC International have collaborated on this Strategic Briefing initiative, with IFCBAA identifying current member challenges and concerns in relation to this pressing issue effecting international seafreight, to which MPC International has then researched and provided this response.
The information, comments and data contained in this press release are provided as a guide only, are current at the time of writing and are largely based on assessment and opinion, therefore the content should not be treated as certain, definite or complete.

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