

# SPS Global Insights

## Global Supply Chain Risks in the Red Sea



In this SPS Global Insights report, we examine risks caused by Houthi attacks on shipping in the Red Sea. The report aims to analyse key factors influencing supply chain resilience and outlines strategies for risk mitigation.

# Introduction



As we enter 2024, supply chains find themselves at a pivotal moment, grappling with a variety of challenges stemming from technological advancements, sustainability initiatives, and geopolitical shifts. Following years of disruption, global supply chains largely stabilised in 2023. However, the imperative for resilience moving forward is clear. For example, both the Russia-Ukraine conflict and the pandemic led to significant disruptions in supply chains, nearly halting some global operations entirely. As we have moved into 2024, new risks have emerged and continue to drive a surge of near-shoring as global entities look to avoid global supply chain disruptions.

The conflict in Gaza has emerged as a significant and troubling development for global supply chains. Following the attacks on October 7 by Hamas, Israel initiated a military operation in Gaza aimed at dismantling Hamas as both a political and military force. However, the escalation in hostilities has sparked widespread condemnation throughout the Middle East, particularly due to the rising civilian casualties, which have now staggeringly surpassed 30,000 according to the United Nations.

In response, the Houthis in Yemen have resorted to attacks on commercial shipping in the Red Sea and Gulf of Aden since mid-November 2023, as a display of solidarity with Palestinians in Gaza. Consequently, commercial shipping routes from Asia to European markets have increasingly opted to circumvent the Red Sea and the vital Suez Canal route, instead opting for an alternative path around Africa via the Cape of Good Hope. This has led to increased shipping costs, freight costs, and higher prices for consumers. More concerning, in March, three crew members were killed in a Houthi missile strike, along with four others who were injured, making it the first deaths caused by the group's attacks

This report will outline the significant challenges posed by the recent attacks conducted by the Houthis in the Red Sea as such attacks will continue to hinder global supply chains and potential physical risks looking into 2024.



# Houthi Threats to Global Shipping



The Houthi's assaults on global shipping have targeted numerous commercial vessels since November 2023, with no indication of relenting (Figure 1). This ongoing threat has prompted shipping companies re-routing their journey. The attacks have posed a serious risk to supply chains and potentially leading to higher prices for consumers, and reversing recent falls in costly global inflation. The Red Sea stands as a crucial artery for international maritime traffic, channeling one-third of all global container shipments according to Maersk's Global Head of Business Resilience Consulting, Zera Zhang.

Due to the Houthi assaults, diverting from this pivotal route to travel around the Cape of Good Hope represents a significant departure from one of the key pathways linking Asia and Europe for global shipping, which is already subject to pirate threats. The route to the Red Sea lasted approximately 26 days. However, such shipping will now last 36 days around the Cape of Good Hope to get to European markets (Figure 2).

Consequently, this has led to incurring millions in extra fuel and labour expenses. Since the onset of the Houthi attacks in November 2023, over 100 commercial ships have opted for this detour, and this trend is expected to persist as long as the Gaza conflict continues. Insurance premiums for shipping have surged nearly tenfold since the beginning of the attacks according to S&P Global.

Simultaneously, there will likely be an escalation in energy costs as 12% of seaborne oil and 8% of liquefied natural gas pass through the Suez Canal according to the US Energy Information Administration.

Moreover, JP Morgan reports that ocean spot rates, which are one-time fees shippers pay for transporting a load at current market pricing, have surged due to the Red Sea shipping crisis. In the week of January 25, 2024, spot rates from China to the US West Coast and East Coast experienced a substantial increase of 140% and 120% respectively compared to November 2023, demonstrating that the crisis is impacting not only European markets but also globally.

In Asia, the Chinese government has become increasingly concerned about the repercussions of ship attacks, recognising their significant economic impact. Regarding supply chains, Beijing confronts economic challenges due to the longer and more costly route around the Cape of Good Hope, along with the escalating prices of containers. These challenges arise as China endeavours to enhance its exports, particularly in the wake of the real estate crisis, which has underscored the waning prospects of a property-driven economic surge.

# Houthi Threats to Global Shipping

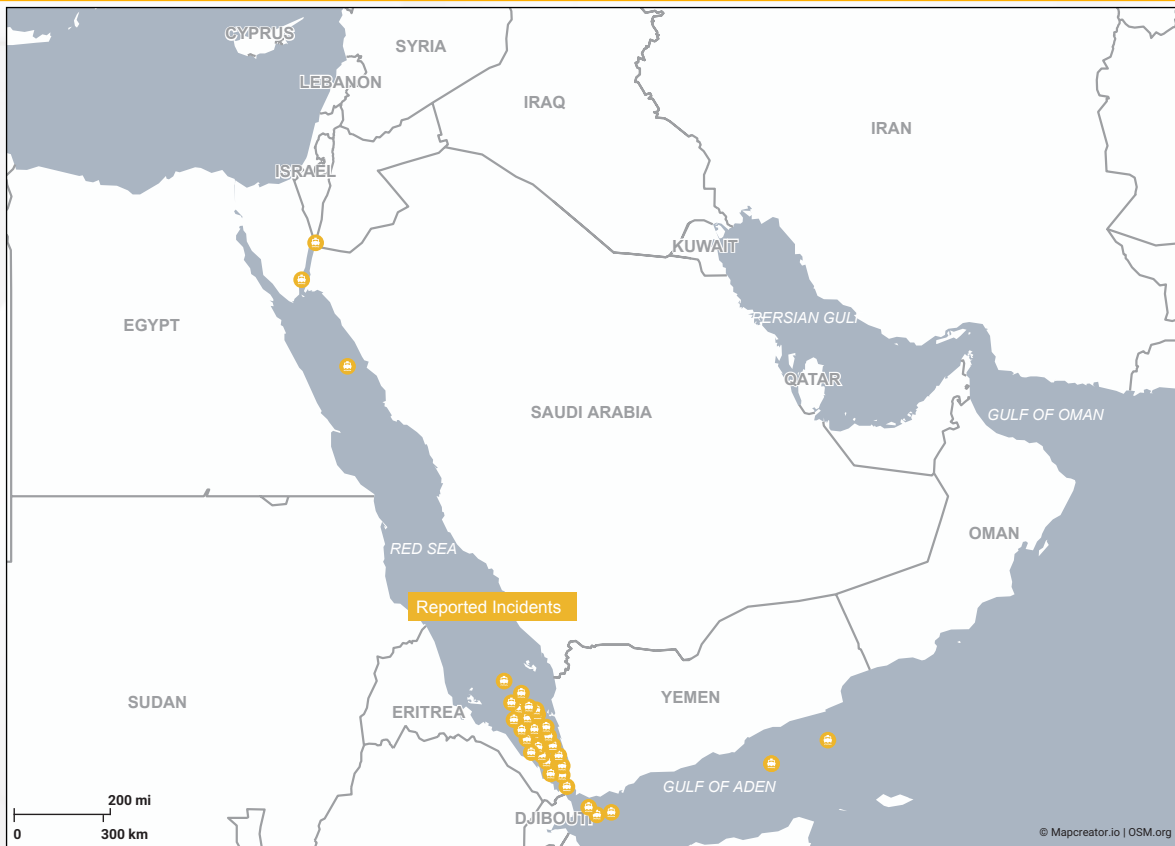


Figure 1: Houthi attacks on ships in the Red Sea and Gulf of Aden since November 2023 (Data Sourced: Council on Foreign Relations)

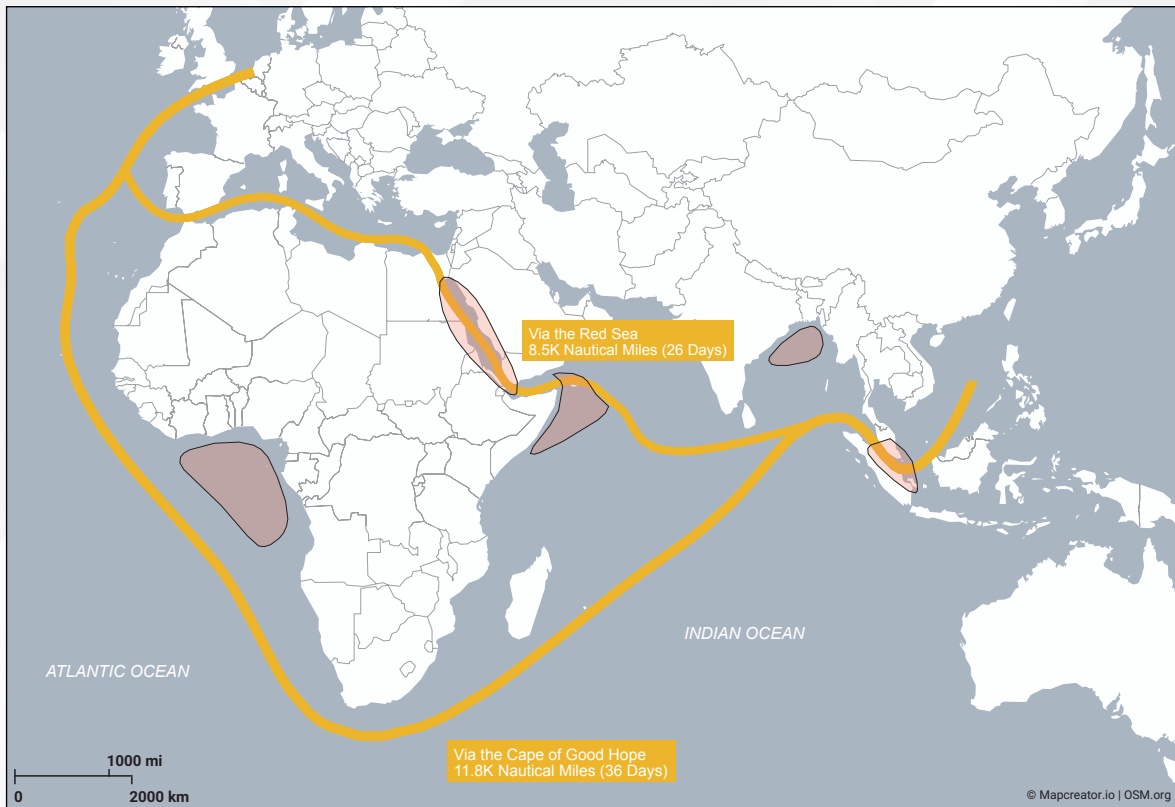


Figure 2 Maritime routes and areas prone to piracy activity



# Houthi Threats to Global Shipping

Furthermore, China's dependence on oil imports from the Middle East underscores its heavy reliance on seaborne trade, with 95% of its international trade conducted through maritime routes. The ongoing attacks by the Houthi rebels pose a significant threat to Chinese companies' commercial interests in the region. Despite the benefits of global trade to its economy, Beijing's response has been relatively muted, lacking significant condemnation or concrete military and diplomatic measures. Additionally, reports indicate that China's navy has not responded to distress calls from vessels under attack, raising concerns about its commitment to safeguarding maritime trade routes.

China's foreign policy has traditionally been characterised by a stance of non-interference in the internal affairs of other states, opting instead for dialogue and diplomatic solutions in times of conflict and geopolitical crises. Looking ahead, it is unlikely that China will take assertive action in response to the ongoing crisis in the Red Sea, preferring to maintain neutrality and avoid potential risks that could jeopardise its economic interests. Moreover, any aggressive stance by China towards the Houthis would likely mirror the policy of the United States, a scenario that China is keen to avoid. Beijing would want to position itself as the more responsible power in the eyes of the international community, as evidenced by its statements in the United Nations Security Council criticising America's actions in the Red Sea as narrow and contributing to instability not only in Yemen but also across the broader region.

In response to the Houthi attacks in December 2023, the United States spearheaded a multinational coalition named Operation Prosperity Guardian, joined by the UK and other Western-aligned nations. Their objective was to counter the assaults on commercial vessels and ships. Despite ongoing airstrikes on Houthi positions and infrastructure in Yemen, the attacks have persisted. The Houthis have demonstrated their determination to continue their efforts, seemingly unfazed by Western actions. Utilising relatively inexpensive weaponry, such as drones, they have inflicted significant damage, making it challenging to protect commercial vessels in the Red Sea, as seen in the attack on and sinking of the *Rubymar* in February. Therefore, one cannot underestimate the threat the Houthis present. For instance, the militias leader, Abdul Malik al-Houthi stated in a televised address that attacks on ships linked to Israel will not only take place in the Red Sea, the Gulf of Aden, but also in the Indian Ocean and even towards the Cape of Good Hope. The bigger target zone is a concerning shift in the groups ambitions but no recorded incident has occurred in the Cape of Good Hope to date. However, heightened vigilance will be key as naval vessels cannot provide escort to every ship, amplifying the difficulty of safeguarding maritime routes. Therefore, looking ahead, the attacks on ships will persist as long as the conflict in Gaza continues.

With negotiations between Hamas and Israel at a standstill, the lack of a ceasefire means the humanitarian crisis is expected to endure. The Houthis will continue to exert pressure on the West, affecting global shipping in the foreseeable future. It also contributes to the escalating risk of a regional conflict, which will in turn continue to impact global shipping.





# Conclusion



The Houthi attacks on ships in the Red Sea pose significant risks to global supply chains and maritime trade. These attacks have already disrupted commercial shipping routes, leading to increased costs, delays, and uncertainty for companies relying on the Red Sea as a key transit route. The ongoing attacks also heighten geopolitical tensions in the region, raising concerns about potential escalation and broader conflict that could further disrupt trade flows and destabilise the global economy. Not only this but it can affect the physical security of crew members, as exemplified by the deaths of three crew members aboard the Barbados-flagged vessel, True Confidence.

As companies navigate the risks of the attacks by the Houthis in 2024, proactive measures will be important to ensure resilience and continuity of global supply chains. Diversifying transport routes emerges as a crucial strategy to reduce reliance on vulnerable transportation corridors, reducing the impact of disruptions caused by geopolitical confrontation. This is most likely going to be the case thus companies will look to adapt and will need to as there is no end of the tensions in the Middle East.

To reduce the risk of attacks by the Houthis, commercial vessels need to implement various security measures. Firstly, ships should closely monitor maritime security advisories and alerts issued by authorities, like the United States-led coalition and regional maritime security organisations. Vessels should also maintain communication with naval forces patrolling the area and adhere to any recommended routing measures for help and arrangements made. This will also be crucial for the safety of crew members as it will undoubtedly put them at risk if ships are traversing through the Red Sea. Lastly, commercial vessels should consider employing armed security teams or utilising escort vessels provided by private maritime security companies. These measures can help deter attackers and provide an additional layer of defence against hostile actions. Finally, ships should review and update their security plans and procedures regularly to adapt to evolving threats and maintain compliance with international maritime security regulations. This will also be important for other maritime routes as risks from the piracy in the Gulf of Guinea and in the Singapore Straits are a frequent occurrence.

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