

Red Sea crisis: Shipping costs surge

Yemen-based Houthi fighters' attacks on cargo vessels in the Red Sea, a show of their support for Hamas fighting Israel in Gaza, have surged ocean freight rates, triggering warnings of inflation and delayed goods.

One of the world's busiest waterways, Egypt's Suez Canal, connects the Red Sea to the Mediterranean Sea and ships fuel, food, and consumer goods from Asia and the Middle East to Europe, CGTN reported. The canal accounts for 12 percent of global trade, including 30 percent of all container movement, according to Egypt's State Information Service.

As Houthi fighters, who are backed by Iran, have stepped up attacks on vessels in the Red Sea since November, hundreds of container ships and other vessels have been rerouted around Africa's southern Cape of Good Hope to avoid the attacks.

This adds up thousands of kilometers, or seven to 20 days of their voyages, driving up the cost of shipments from Asia to Europe and raising the prospect of a renewed inflation shock for the world economy.

As a rough benchmark, avoiding the Red Sea would add around \$2 million to a ship's journey in terms of fuel and other costs, Lars Jensen, founder of Vespucci Maritime and former Maersk director said. This means for a full round-trip journey between Asia and Europe, each vessel could have an extra \$4 million in costs, he added, which would lead to increases in freight rates.

Asia-to-North Europe rates more than doubled to above \$4,000 per 40-foot container in the first week of the new year, with Asia-to-Mediterranean prices climbing to \$5,175, according to Freightos, a booking and payments platform for international freight.

Some carriers have announced rates above \$6,000 per 40-foot container for Mediterranean shipments starting mid-month, and surcharges of \$500 to as much as \$2,700 per container could make all-in prices even higher, said Judah Levine, Freightos' head of research.

Higher costs have also stirred worries about a resurgence in inflation, particularly in the eurozone.

Goldman Sachs on Friday raised its forecast for May euro-area core inflation to 2.3 percent, from 2.2 percent, as a result of the jump in shipping costs, and said a prolonged re-routing of cargo away from the Red Sea would likely have a bigger inflation effect.

But Goldman Sachs believed the inflation would not be as severe as in the pandemic era. "Our equity analysts expect that the shock will be neither as bad nor as prolonged as 2020-22 due to increased ship supply, and no port congestion due to lockdowns," it said.

Delivery of products destined for numerous companies had already been delayed due to Houthi attacks, as the Suez route is used by the likes of IKEA, Walmart, and Amazon.

Twelve governments, including the US, Australia, Canada, Germany, Japan, and the United Kingdom, issued a strongly-worded statement earlier, warning the Houthis against further attacks.



Houthi supporters rally to commemorate 10 Houthi fighters killed by the US Navy in the Red Sea, in Sanaa, Yemen, on January 5, 2024.
● KHALED ABDULLAH/REUTERS

Houthis attracting swathes of new recruits Will Red Sea attacks destabilise Yemen's fragile peace?



Houthi forces boarding the cargo ship Galaxy Leader on November 19, 2023, in the Red Sea.
● AP

By Justin Salhani
Freelance journalist

PERSPECTIVE

The recent Houthi attacks on commercial shipping vessels in the Red Sea have helped the group drive domestic recruitment and mobilise large rallies in the capital, Sanaa. Analysts say the attacks have provided the group a boost after its popularity had taken a hit in recent months.

But they also warn that domestic moves by the emboldened group could threaten the fragile peace within Yemen, as talks towards a ceasefire to a decade-long war appear to be gathering momentum.

The Houthis say their attacks in the Red Sea target Israeli-connected or allied ships and are aimed at pressuring Israel to stop its devastating war on Gaza, which has killed more than 22,000 people since October 7.

That's a message that appears to have resonated with many Yemenis.

Ansarullah, more popularly known as the Houthis, held a rally in Sanaa on Friday, January 1, 2024, drawing millions of Yemenis, according to a Houthi-affiliated media outlet. Images from the event showed a packed al-Sabeen Square, where protesters carried Palestinian and Yemeni flags. The mobilisation took place as the Houthis continued sending missiles and drones into the Red Sea, defying threats of increased military action by the United States.

Amid the heightened tensions in the key maritime waterway, international shipping companies have decided to avoid the Red Sea and go around the southern coast of Africa, adding about nine days to their journey and increasing costs by at least 15 percent. Danish shipping giant Maersk announced on January 1 that it would avoid the Red Sea for the foreseeable future.

programme at Chatham House, told Al Jazeera.

Ceasefire close

The Palestinian cause is extremely popular among Yemenis. But prior to their attacks on ships in the Red Sea, some analysts said the Houthis had struggled to pay salaries and attract new recruits.

That changed after the Houthis started attacking vessels. Recruitment has spiked in recent months as young Yemenis eagerly enlist in the hopes of fighting for the Palestinian cause. The group recently graduated more than 20,000 new fighters, according to Yemen researcher Nicholas Brumfield. He added that the class was named after Hamas's October 7 mission, Al-Aqsa Flood.

"The attacks towards Israel and maritime targets in the Red Sea are favouring Houthis' internal support and recruitment, thus diverting the attention from the social and economic failures," under their rule in Yemen domestically, said Eleonora Ardemagni, a senior associate research fellow at the Italian Institute for International Political Studies (ISPI). "Direct confrontation with the US is likely to have the same effect."

A decade-long war with a Saudi-backed coalition, which supports the internationally recognised government of Yemen, dampened enthusiasm surrounding the group. A truce took effect in October 2022, and the parties have since been in ceasefire talks. The two sides seem to have made serious progress, with an end to hostilities in sight, the United Nations announced in late December. But analysts believe that the Houthis' recent actions mean a final deal could still be derailed.

"Their actions continue to foreshadow escalation that could easily trigger a more aggressive US military response that in turn can unravel the fragile ceasefire conditions," Vakil said. Brumfield added that "it wouldn't be the first time that there was progress and the whole thing fell apart at the last minute."

A teetering truce

The ceasefire could be threatened if the Houthis decide to launch a new domestic offensive, a prospect that some analysts say is a distinct possibility.

In February 2021, the Houthis launched an offensive to seize Marib, the internationally recognised Yemeni government's last stronghold. The city saw active fighting until the truce was announced in October 2022. But in recent weeks, the Houthis have capitalised on their recent recruitment bump by deploying 50,000 troops around Marib, sparking fears that hostilities could be renewed.

"We've seen this very large build-up of forces there over the course of the last couple of months," Brumfield said. "Within the last week, they've deployed even more forces to that location."

He warned that the relative period of calm in Yemen could soon be over. The Houthis appear to be in position for possible confrontations on both the domestic and regional fronts — on land and at sea.

"For the last 18 months, Yemen has been relatively quiet, and that's been a good thing," Brumfield said. "It's just a matter of smoothing out how this war can end, and it could very easily go the other way."

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