Terror at the Gate of Tears

By Captain MELWYN NORONHA

International geopolitics presented global shipping with an unwelcome development in the run-up to Christmas: drone and ballistic missile attacks on ships in the Red Sea.

I have sailed that waterway many times as a commercial seafarer during times of armed conflict. Transit during such times is tense. You don't want the moon to be out because it's easier for attackers to see your ship. And you are just constantly waiting for the first 'bang'.

The geography helps attackers too. The southern end of the Red Sea is particularly narrow – it's about 28km wide at the strait of the Bab-al-Mandeb, commonly translated from Arabic into English as "the Gate of Tears". And, excluding islands, the Red Sea is about 362km wide from the northernmost part of coastal Yemen to the coast of Eritrea on the opposite shore.

It's pretty sobering to then realise that the maximum range of Houthi missiles is up to 1,000 km.

Naval forces have attempted to defend cargo ships and there have been skirmishes in the Red Sea. It remains to be seen how effective naval tactics will be at defending trade and how reassured commercial shipping will be. So far, the signs are that merchant ships can still be attacked while under naval protection and that shipping companies are not reassured – ships are being routed around Africa instead.

There's a lot at stake. About 12% of global trade, 30% of the global container trade, and over US$1 trillion of goods and just under 19,000 vessels each traverse the Suez Canal, which lies at the northern end of the Red Sea. Not all of the trade and ships that transit Suez are destined to pass through the Bab-al-Mandab as there are many Red Sea import / export ports such as Jeddah (Saudi Arabia) and Sokhna (Egypt, roughly 39km south-west-by-south from the southern entrance to the canal). So it's fair to say that the Canal is one of the most vital arteries for world trade – it's particularly important for the Asia-Europe trade.

The direct effect on Australia will be limited. About 12% of our global box trade is with Europe and that will be highly affected. There is also a dry bulk trade with Europe too. But most of our car, box, grain, iron ore, coal and other trades are with Asia. Inevitably, as we explain later on in this Annual Review, Australia will be indirectly affected.

Examining freight rates provides insight. The Shanghai Containerised Freight Index is a composite of 13 different trade routes to / from Shanghai, China. In 2018 to 2019, the index was bouncing around between 650 points to just under 1,000 points. During COVID, that index climbed to an unheard-of 5,000 points. As the effects of the pandemic eased because of increased vaccination, freight rates fell in 2023 back to roughly pre-COVID levels and stayed there. Stayed there, that is, until the Houthi attacks on shipping in the final days of November 2023. Freight rates immediately and sharply spiked throughout December and the year ended with the Shanghai Index at 1,750 points or thereabouts. Rates are therefore considerably higher now than throughout 2023 but are nowhere near COVID-levels. At least, not yet.

However, the issue that is most seriously affecting Australian shipping right now is waterfront disruption because of industrial relations.

Terminal operator DP World Australia has been subject to industrial action since Enterprise Bargaining began in, or about, September last year. Action typically takes the form of series of bans on work being carried out lasting from a couple of hours to a whole day; bans on working ships calling from various shipping lines (this appears to be occurring on a rostered basis); bans on the unloading or loading of trucks and trains; bans on the performance of overtime; and, bans on shift extensions and the like.

The consequences are severe

Delays to ships can take up to 20 days in the worst cases. With the all-inclusive ship operating costs ranging from tens of dollars to hundreds of dollars a minute, shipping companies simply cannot afford to have their ships idling in port congestion.

Shipping companies have to change their port rotations, omit ports, change venues for loading and discharge of cargo, and, in the most extreme cases, to completely re-configure their service offerings. All of this cuts capacity and service quality to importers and exporters, and add costs and delay.

This is hitting Australia hard.

We are hearing of automotive companies that are advising that stock levels may be impacted in 2024. Fast-moving-consumer-goods companies are warning of supply chain problems that could lead to an out-of-stock situation,