Panama Canal transit slot instead. And, of course, shippers always have the option to ship from Asia to US West Coast ports and move cargo overland to the east although that would be very expensive.

Regardless of whether the origin / destination is in the US or Europe to Asia, re-routing a ship via South Africa is a massive deviation in route (see box).

The main costs involved in such a huge deviation are typically fuel costs, charter costs (a charter cost is a bit like the cost of hiring a van; many ocean shipping companies don't own all of the ships they operate – they hire some of them from specialist companies), and then all the other ongoing operational costs, such as labour costs.

But how significant all of this deviation actually is will depend upon many factors including demand for cargo, available ship capacity to carry that cargo, fuel prices, whether or not carriage is being offered on the spot or contract markets, and how accepting shippers are of rate hikes / ancillary charges / surcharges etc, and how urgent any given piece of freight is right now.

At the moment, freight rates are spiking upwards (but they were low for a year after COVID and are still lower than the COVID-peak); availability of ships is (or was) high; cargo demand is relatively low; fuel prices are moderate (currently (as at the time of writing) the price at Singapore was about US$613 per tonne of Very Low Sulphur Fuel Oil (that price has been about north of USD$1,100 in the recent past)); and the yearly contract market negotiations were already done before the Red Sea problems began (the contract market typically works out freight rates and carriage for a year in advance).

Bear in mind too that avoiding the Panama or Suez Canal also saves a lot of money in canal fees. Depending on the point of origin, destination, and the factors listed above, it can sometimes be cheaper for ships to travel around South Africa. Just prior to the onset of COVID, ocean shipping companies were choosing to sail around South Africa for economic reasons.

Obviously, re-routing away from Suez will take capacity out of the market and, in the current environment, will put extra costs into the market, so there will be upward pressure on freight rates. For instance, analysts are reporting that shippers who want to move cargo urgently may be asked to pay a premium. And, indeed, we are already seeing rate hikes in the in the spot market along with an increase in the amount and volume of surcharges that are being issued.

Pictured: a tanker enters the Panama Canal via the Gatun Locks on the northern side of the canal. The Atlantic Bridge can be seen in the background. Photo credit: Alex Pagliuca via Unsplash.

Here in Australia, our geographic position may be working to at least partly mitigate the harm. Our imports and exports mostly do not travel via Suez. Nearly all of our bulk exports (grain, coal, iron ore and the like) go to Asia. Similarly, most of our container trade is with Asia. Of all of Australia's global box trade (i.e. the Australian trade with the rest of the world) about 12% of our global box trade is with Europe.

We do not believe that re-routing from Suez will cause the same problems that we saw in the 1950s when the joint Anglo-French invasion of Egypt led to the Suez Canal Crisis. Back then there were far fewer supplier nations for goods and commodities of all kinds than now, and that diversity adds resilience. There are a lot more ships now of all kinds, and the ships themselves are a lot more efficient (both in terms of their own energy consumption and other business inputs) and in terms of low-cost cargo carriage.

Overall, the situation is, of course, not good, especially as global shipping is also facing the problem of the drought in the Panama Canal, which adds delay, complexity, and cost to the global picture. As we have indicated above, shipping companies are facing an upsurge in costs and that translates into higher spot freight rates and more surcharges.

Ultimately, it is the everyday consumer that pays the bill of the increased costs which are passed on through the supply chain until they land (in one form or another) on the final user. If the crisis continues and / or if the naval interventions prove ineffective, we can only imagine that there will be continuing upwards freight rate pressure and delays to cargo. Shippers will need to plan accordingly.

However, it should always be remembered that ocean shipping is endlessly adaptable and resilient. Indeed, we are already seeing the effects of that resilience and adaptability as ships are either re-routed into safer areas or wait to be escorted by naval forces.

One thing is clear.

Throughout history – despite wars, insurrection, droughts, natural disasters, and pandemics, ocean shipping has always adapted, sailed on through the problems, and delivered the goods.

Shipping, and therefore world trade, will continue.

And we don't expect that to change.

Deviation – the cost in time and distance

- **Shanghai to Rotterdam via Suez**: 10,525 nautical miles and roughly 18 days at 24 knots
- **Shanghai to Rotterdam via South Africa**: 13,843 nautical miles and 24 days at 24 knots
- **Shanghai to New York via Panama**: 10,582 nautical miles, roughly 18 days at 24 knots
- **Shanghai to New York via Suez**: 12,370, roughly 21.5 days at 24 knots)
- **Shanghai to New York via South Africa**: 14,468 nautical miles, roughly 25 days at 24 knots)