NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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Implications of shipping disruptions in the Red Sea

MARKET INTELLIGENCE REPORT

Summary

- Houthi attacks on commercial shipping in the Red Sea are currently disrupting goods trade between Europe and New Zealand, leading to many shipping companies now avoiding transit through the Suez Canal.

- Exacerbating these global maritime trade challenges, the events in the Red Sea come at a time when shipping via other routes (namely the Panama Canal) are also facing capacity constraints.

- Europe, the UK, and North Africa are a sizable source of goods trade for New Zealand. In the year to September 2023, 11% ($7.7bn) of New Zealand's goods exports and 20% ($15.7bn) of goods imports were traded with these regions.

- Some New Zealand exporters are already reporting shipping delays, rising transport costs, and in some cases cancelled export orders. These impacts are likely to worsen as we move into New Zealand's peak exporting period to Europe from April to May.

- Europe is a major source of machinery, vehicles, retail medicines, and vaccines, with North Africa a key fertiliser provider. As a result, the disruptions could also impact New Zealand households and businesses through price rises for some imported goods. However, there is limited evidence to date that shipping disruptions have added to existing inflationary pressures.

- Shipping and logistics companies are adapting to current disruptions by increasing long-haul shipping between Europe and Asia, utilising a land bridge over the Arabian Peninsula, and setting up new transhipment hubs in the Mediterranean.

Report

Attacks on commercial shipping in the Red Sea are impacting global trade flows

Iranian-backed Houthi militants in Yemen are undertaking a concerted campaign of attacks against commercial shipping in the Red Sea, with at least 30 attacks having occurred since November 2023.

As a result, several major shipping and oil companies have now suspended services via the Suez Canal and Red Sea and are instead opting to sail the more circuitous route around the African continent to service the European region. This adds about 40% in voyage distance, causing shipping delays of 2-5 weeks.

This potential disruption is a significant concern for world trade. The Suez Canal is a major trade route connecting Europe with the Indo-Pacific, servicing around 12-15% of world trade and 30% of containerised shipping. Since the attacks by the Houthi militants began, trade volumes through the Suez Canal have dropped by 40% due to ships rerouting. As a result, global shipping costs have risen rapidly, although they still remain well below the peak seen during the COVID-19 pandemic.

Exacerbating these global supply chain issues are disruptions occurring with the Panama Canal, another key trade route between the Indo-Pacific and Europe accounting for 7% of global seaborne trade. Low water levels in the canal, due to an extended period of drought, has forced operators to restrict the number of ships and impose draft limits on some vessels using the waterway. Only 24 ships per day are currently permitted to transit the Panama Canal versus 36 ships per day in business-as-usual conditions. MFAT is aware that some sea freight from New Zealand to Europe has already experienced delays transiting the canal.

Restrictions on shipping via the Panama Canal fall heaviest on the largest ships, known as Panamax and Neopanamaxes container ships, which are hit hardest by maximum draft limits. Some key New Zealand exporters have been able to navigate restrictions with the use of smaller chartered vessels to get produce to market. Nevertheless, disruption to shipping via the Panama Canal is likely to be lifting the cost of all shipping transiting the waterway.

This is affecting New Zealand’s export interests in the European and North African region

Some New Zealand businesses are already reporting impacts from these recent developments in the Red Sea, including shipping delays, rising transportation costs (with surcharges being added to redirected shipping) and in some cases cancelled export orders, particularly for perishable goods.

Europe, the UK, and to a lesser extent, North Africa represent sizable markets for New Zealand’s exports. In the year to September 2023, New Zealand exported $7.7 billion of goods to Europe, the UK, and North Africa, representing around 11% of total goods exports. The vast majority of these exports are primary sector goods including: meat, wine, dairy, and fruit. Moreover, New Zealand and the European Union signed a free trade agreement in 2023 that is expected to come into force around the middle of this year. Once in force, some of New Zealand's primary sector exports, such as kiwifruit, onions, apples, wine, and Mānuka honey, will have tariffs eliminated from day one. Ongoing trade disruption as a result of events in the Red Sea put the gains of this hard-fought FTA at risk.

Importantly, these primary sector exports tend to be seasonal in their profile, driven by production and market access windows. The typical peak exporting period to Europe occurs between April and June. As a result, if shipping disruptions continue, the impact on New Zealand exporters servicing Europe and North Africa could grow over the coming months. Additional risks from delays in produce reaching market include the potential impact on quality for those deemed perishable (particularly horticultural products) and to a lesser extent, some exports possibly being delayed beyond European quota windows (see Table 1).

Table 1: Selected industry exports to the UK, Europe, and North Africa (Year to September 2023).

Product	Export value to the region	Region’s share of sectors total exports	Seasonal peak
Dairy	$2.2 billion	9%	None
Lamb	$1.2 billion	32%	Feb-Jul
Wine	$750 million	33%	None

Kiwifruit	$500 million	19%	Apr-May
Ag. Machinery	$308 million	13%	None
Seafood	$280 million	19%	Apr-Sep
Medical equipment	$277 million	24%	None
Apples	$90 million	10%	Apr-May
Onions	$71 million	41%	Mar-Jun

Extended disruptions also risk adding costs to key imports from the region

Europe, the UK, and North Africa are also important sources of key imports for New Zealand (see Table 2), representing 20% ($15.7 billion) of total goods imports in the year to September 2023. Europe is a major source of machinery, vehicle, retail medicine, and vaccine (human and animal) imports for New Zealand households and businesses. Fortunately, the majority of vaccine and retail medicine imports from Europe are airfreighted to New Zealand. However, disruptions to shipping in the Red Sea is having a knock on effect on other forms of transport globally as logistics firms adapt to the changing circumstances. So while vaccine and retail medicine imports are less susceptible to shipping disruptions in the Red Sea, they aren't entirely immune.

For the primary sector, North Africa is a significant source (14%) of imported fertilisers. Any additional costs imposed on our imports as a result of these shipping disruptions could risk further adding to current cost of living pressures on New Zealanders and squeezed business margins, at a time when inflationary pressures, although cooling, still remain very high.

Table 2: Selected imports from the UK, Europe, and North Africa (Year to September 2023).

Product	Import value from the region	Region's share of sectors total imports	Seasonal peak
Ag. Machinery	$3.3 billion	30%	None
Vehicles	$3.2 billion	28%	None
Retail Medicines	$885 million	57%	None
Appliances	$863 million	12%	None
Vaccines	$381 million	62%	Dec-Feb
Fertilisers	$109 million	14%	None

Major shipping companies are adapting to current disruptions, but there are additional risks for New Zealand importers and exporters

Global shipping and logistics companies are adapting to disruptions in the Red Sea. Shipping schedules are being revamped to provide more long-haul services between Asia and Europe via the Cape of Good Hope. Some logistics companies are utilising a land bridge over the Arabian Peninsula to avoid the vulnerable Bab el-Mandeb Strait. And some shipping firms are setting up new transhipment hubs in the Mediterranean to keep long-haul transits between Europe and Asia running to schedules.

However, extended transit times for shipping between Asia and Europe are delaying the return of empty equipment, such as shipping containers, to Asia. For New Zealand importers and exporters, such disruptions may constrain shipping capacity in the coming months until shipping companies fully adjust to current circumstances.

In addition, reduced shipping capacity could see major shipping companies prioritising more profitable global routes over smaller routes such as Oceania. Such a scenario occurred during the COVID-19 pandemic, driving up shipping costs for New Zealand firms and leaving some exporters struggling to find suitable shipping. The likelihood of such a risk appears low, but would be more of a concern if there was a sudden surge in demand for global shipping.

Any escalation in conflict in the Middle East could risk broader trade flows particularly for key global commodities such as energy

Significant amounts of oil and gas now pass through the Red Sea region, particularly since Europe replaced supplies out of Russia as part of its economic sanctions regime. Although markets did initially shrug off the risks associated with a broader escalation in the conflict, the potential for disruption initially placed some upward pressure on oil and gas prices. Global oil prices still remain well down on their September peak, recorded prior to current Red Sea disruptions.

Given that a broad-based military escalation in the Middle East still remains a low risk possibility, the potential for disruption to shipments of crude oil via the Persian Gulf (a key source for the Asian refineries from which New Zealand sources its fuel imports) should be small. As a result, energy imports (refined petroleum) to New Zealand to date have yet to be significantly impacted by the events in the Middle East. However while the situation remains volatile, these risks (particularly to price rises at the pump) will continue to be non-trivial, especially given the importance of oil to the global economy and New Zealand’s high degree of energy import dependence.

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