NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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The Importance of the Suez Canal to Global Trade

Market Report

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Summary

- The recent grounding of the Ever Given container vessel has underscored the importance of the Suez canal for global freight and supply lines. Approximately 12% of global trade and 30% of global container traffic traverse the Suez, transporting over USD $1 trillion worth of goods per annum.
- On average, 50 ships traverse the canal daily carrying between USD $3-9 billion worth of cargo. Over one billion tonnes of cargo was shipped through the canal in 2019, four times the tonnage transiting the Panama canal during the same period.
- The Suez is one of the most important and busiest trade arteries in the world, indicating that the Middle East and Africa region, and Egypt in particular, are a strategic nexus for New Zealand global trade.

Report

The Suez canal: an artery at the heart of global trade

- Last month, Egypt's Suez canal was blocked for six days due to the container ship, the Ever Given, running aground. The Suez canal, one of the world's most important and busiest maritime trade routes, was paralysed for all maritime traffic, resulting in hundreds of ships being unable to travel from the Red Sea to the Mediterranean. The incident has highlighted the vulnerability of global supply chains and highlighted the criticality of the Suez canal for global trade.
- The 193km Suez canal was opened in November 1869 and remains the fastest and most direct maritime trade link between Asia and Europe. **Approximately 12% of global trade passes through the Suez canal, representing 30% of all global container traffic**, and over USD $1 trillion worth of goods per annum. **In 2020, approximately 19,000 ships utilised the route**. This represents 50 ships per day making the journey between Suez Port and Port Said, carrying between USD $3-9 billion worth of cargo. According to Egypt's Suez Canal Authority (SCA), the waterway carried over of 1 billion tonnes of cargo in 2019, **representing four times the tonnage transiting the Panama canal** during the same period.
- The Suez canal is a **significant route for energy, commodities, consumer goods and componentry** from Asia and the Middle East to Europe. The canal's location also makes it a key regional hub for shipping oil and other hydrocarbons. It enables the transfer of an estimated **7-10% of the world's oil and 8% of liquefied natural gas**. Approximately one million barrels of oil traverse the Suez daily. In 2019, 53.5 million tonnes of ores and metals and 35.4 million tonnes of coal travelled the length of the canal.
- As supply chains and global trade have increased in quantity and complexity, maritime vessels have grown to meet demand. Container ships like the Ever Given are the most common vessel used on the Suez canal, representing 28% of all maritime traffic. In the past 25 years, the capacity of container ships has quadrupled, reaching 220,000 tonnes. Their size has grown so rapidly that infrastructure has struggled to keep apace.
- In 2014, the SCA engaged in an ambitious programme of canal-widening to increase the daily capacity of

vessels from 49 to 97 by 2023, at a cost of approximately USD $8.2 billion. The Egyptian government in 2015 opened a 35km channel parallel to the main waterway. This expansion enabled two-way traffic for most of the route and allowed larger vessels to transit, accommodating ships the size of the Ever Given.

The Ever Given: The blockage in the Suez canal trade artery

- One of the largest container ships in the world, the Ever Given is 400 metres long, 59 metres at its widest point and 16 metres deep below the waterline – for comparison, the length is 72m longer than the height of the Auckland Sky Tower. While initial concerns regarding re-floating it focused on whether the ship would capsize or buckle at its centre, the crisis was compounded as more vessels joined the backlogged queue. Eventually an estimated 450 vessels were halted in or at either end of the canal waiting to transit.
- The Ever Given was finally dislodged after six days, and trade along the Suez canal has subsequently resumed.
- The Suez waterway is operated by the Egyptian state-owned SCA and provides a significant income for Egypt. Following a public apology from the ship owner, on 13/4/21 Egypt compounded the Ever Given, requesting compensation of USD $900 million for lost revenue and costs. The ship, currently held in the Great Bitter Lake halfway along the canal with its 25-member crew on board, would be released upon payment of the compensation. The claim is unresolved at date of writing.

The cost: financial and logistical

- Over two weeks on from the Ever Given being dislodged, analysts believe the stranding could still create congestion at major global trade hubs, including in Singapore, Malaysia, Saudi Arabia and the Netherlands due to disruptions to schedules. Analysts suggest Europe has experienced the strongest impact of the stranding. However, companies in Asia will not only be impacted by the delay of shipments from Europe, but also by a shortage of empty containers returning to the region. The incident has exacerbated the shortage of containers already caused by COVID-19 supply chain issues. One online freight shipping marketplace has suggested a domino effect is now in place with containers shipments being delayed or cancelled, requiring the repositioning of containers, which is making container space sparser and increasing rates. According to the company, in the past year alone the cost to ship a 40-foot container from China to northern Europe almost quadrupled.
- According to a study by Allianz, one of the world's largest insurers, between 23-29 March, each single day the Suez remained blocked could decrease global annual trade growth by 0.2-0.4% and cost USD $6-10 billion and, or the equivalent of USD $400 million per hour.
- The incident was reflected immediately in markets. Companies in the Middle East and Asia were put on alert and had to find ways to navigate the resulting halt or delay in supplies. When the canal was cleared GCC markets observed a jump in shares. The Abu Dhabi Securities Exchange (ADX) gained 1.7%, while the Dubai Financial Market rose by 2.1% on the day following the Ever Given's re-floating.

Few alternative options to the Suez canal

- At present there are no suitable alternatives to the Suez canal, except the long trip around the southern tip of Africa. Transiting the Cape of Good Hope route requires an additional 9,000km or 6-14 days travel time, depending on the vessel and cargo. The usual transit time of the Suez end-to-end is about 13-15 hours.
- The Ever Given crisis forced companies to choose between waiting and riding out the uncertainty of the blockage, or rerouting vessels around Africa. The longer shipping path adds costs, including the resourcing and fuel bills, and the risk of time-sensitive freight being delayed (including medical equipment) or spoiled (such as food and therapeutics). Delays prompted the question of who covers the unexpected expenses, the shipper or the shipping line. The Cape of Good Hope also adds security considerations, including the risk of piracy. Insurance and legal claims from companies whose vessels were delayed, shipments disrupted, or cargo rendered worthless, are likely to continue.
- Many companies turned to air freight instead, despite the high prices, with costs already being elevated

due to COVID-19.

Conclusion

- The Suez canal is a critical maritime passage for global supply chains and among the world's most significant trade chokepoints, alongside the Strait of Hormuz, the Malacca Strait and the Panama canal. The Ever Given blockage has demonstrated the vulnerabilities of international shipping lanes and the fragility of supply chains. Supply chain delays resulting from the Ever Given will likely have a short-term inflationary impact, and will be felt especially in Europe and in the already overheated shipping container market. They also highlight the risks associated with 'just-in-time' supply chains.
- Events of the past month reinforce that the Middle East and Africa region, and Egypt in particular, are a strategic nexus for New Zealand global trade. New Zealand is not immune to the impacts of supply chain disruptions far from home, and perhaps feel them even more acutely than our trading partners. How New Zealand companies contingency plan for future disruptions will impact the success of both our exporters and the New Zealand economy.

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