

Shippers face 25% higher cost due to rerouting

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Increasing attacks on merchant vessels travelling through the Red Sea and an unexpected resurgence of Somali piracy in international waters has shaken the shipping industry, with rising costs becoming a concern for merchant shipping lines, and seafarer safety for governments across the world.

On January 4, Somali pirates hijacked the vessel Lila Norfolk, which carried the Liberian flag and had 15 Indians and six Filipinos on board.

While the seafarers were rescued due to the intervention of the Indian Navy, India's shipping regulator and maritime defence stakeholders do not see the piracy situation changing anytime soon.

Meanwhile, the use of projectile weapons and loitering munitions (or suicide drones) on merchant vessels has led to shipping lines rerouting vessels and avoiding the stretch, impacting prices.

The External Affairs Ministry is monitoring the crisis real-time.

According to Drewry's world container index (updated on January 4), the price increased by 61 per cent to \$2,670 per 40-foot container over the previous week and has gone up by 25 per cent over the same week last year. This figure is now 88 per cent higher than average pre-pandemic rates.

Container prices had shot up during the pandemic.

"Numerous players made windfall profits due to the heightened rates during the pandemic and the industry had been looking for relief on that front. This poses a new challenge," a shipping industry source said.

According to the assessment, freight rates from China to various countries in Europe have surged by 115 per cent during the last week,



RISKY VOYAGE

- Maritime routes between India and Europe becoming riskier amid risks of piracy and Yemeni attacks on ships
- Rerouting of vessels to raise shipping costs
- Increased vigilance expected from Centre as Indian seafarers at risk during attacks

while shipments from China to the United States have become 30-40 per cent costlier.

Most industry executives and market-intelligence firms are expecting prices to escalate, sparking worries of inflation in finished goods as containers are among the most impacted shipping segments.

"We are seeing at least a 25 per cent escalation in re-routing costs for numerous shipping lines," the source quoted above said. "Besides the obvious ones, seafarers also have to be paid higher if they are traversing through a high-risk zone," he added.

According to estimates, around 400 commercial vessels travel through the Red Sea at any given time. The chokepoint created in international waters owing to recent developments has affected 11 per cent of global maritime trade, according to the International Monetary Fund's PortWatch portal.

"The situation is critical around the Red Sea, where military intervention has begun. Our customers have informed us they will not pass through that route until they regain the confidence to do so. It depends on how fast the navies intervene and restore peace," Christian Roeloffs, co-

founder and chief executive officer of Container xChange, a Germany-based online container logistics platform, told Business Standard.

Also, as the contract negotiations are nearing (April 2024), it would mean the contract rates will be higher than what was being projected before this incident.

We have already seen that the heightened security risks have resulted in increased war-risk premiums, contributing to higher operating costs.

"An additional 40 per cent longer route, causing heavy upward pressure on operating costs, is expected to persist as the shipping time extends anywhere between one and four weeks due to the longer route. Added regulatory requirements and compliance will also add complexity to the operations," Roeloffs said.

Meanwhile, the crisis is expected to push up shipping costs up to 60 per cent and insurance premium 20 per cent, the Global Trade Research Initiative (GTRI) said over the weekend.

Delays of up to 20 days due to rerouting, and potential cargo loss from piracy and attacks, were also flagged as serious concerns.