

How nations can foster the resilience of their international supply chains

TOC Europe - Rotterdam

June 11th, 2024





Historically there are 5 maritime traffic chokepoints worldwide, with one currently facing severe issues, while 2 other are encountering challenges

Three major chokepoints are experiencing issues:

! Bab el-Mandeb Strait (Red Sea crisis):

By end 2023, ongoing conflicts in the Red Sea escalated, severely disrupting regional and global trade. Commercial ships navigating the Bab-el-Mandeb Strait faced direct and frequent threats/attacks from Houthi rebels. This is having a direct effect on Suez Canal transit.

Around ~ 55% reduction in ship transits compared to previous year

Around ~ 66% reduction in container volumes to previous years

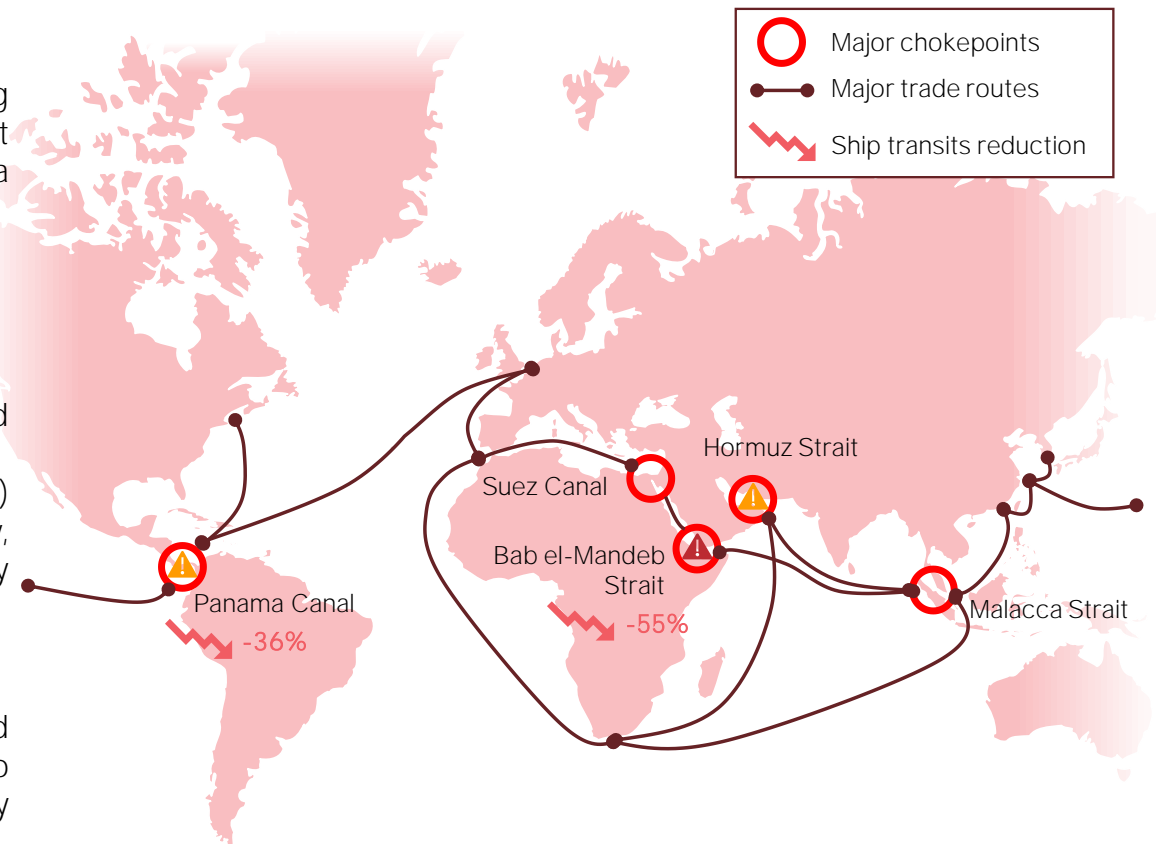
! Panama Canal drought:

Drought has reduced water levels in Panama Canal, restricting ship crossings and forcing reroutes, leading to shipping delays and higher costs for companies.

Daily vessel transit reduction from previous 35-40 (capacity before drought) down to 24 transits (~ 36%). It reached bottom in Feb 2024 with 18 transit. Lately, driven by recent rains, it has gone again up to 31 transits per day. By 2025 they expect to be back to normal.

! Hormuz Strait

Seizure of MSC Aries by Iranian Armed Forces in Strait of Hormuz has raised alarms and could increase regional tension. As of today, there have been no reports of a halt in **ships'** transit, but potential SoH¹ closure could greatly aggravate situation in the region and globally.





Case 1: Red Sea crisis

The Red Sea crisis has disrupted global cargo flows, diverting most Far East-Europe routes through the Cape of Good Hope

Global implications:

Conflict impacts

- **Cargo diversion** through Cape of Good Hope of Far-East – Europe routes, increasing **10-15 days** the route on average
- **Increased container rates:** Container freight rates increased x2.5 since November 2023
- **Raised insurance premiums** as high as 50% for (US, UK or Israeli) vessels sailing through Red Sea
- **Chinese, Iranian and Russian-flagged vessels** can potentially transit **safely**

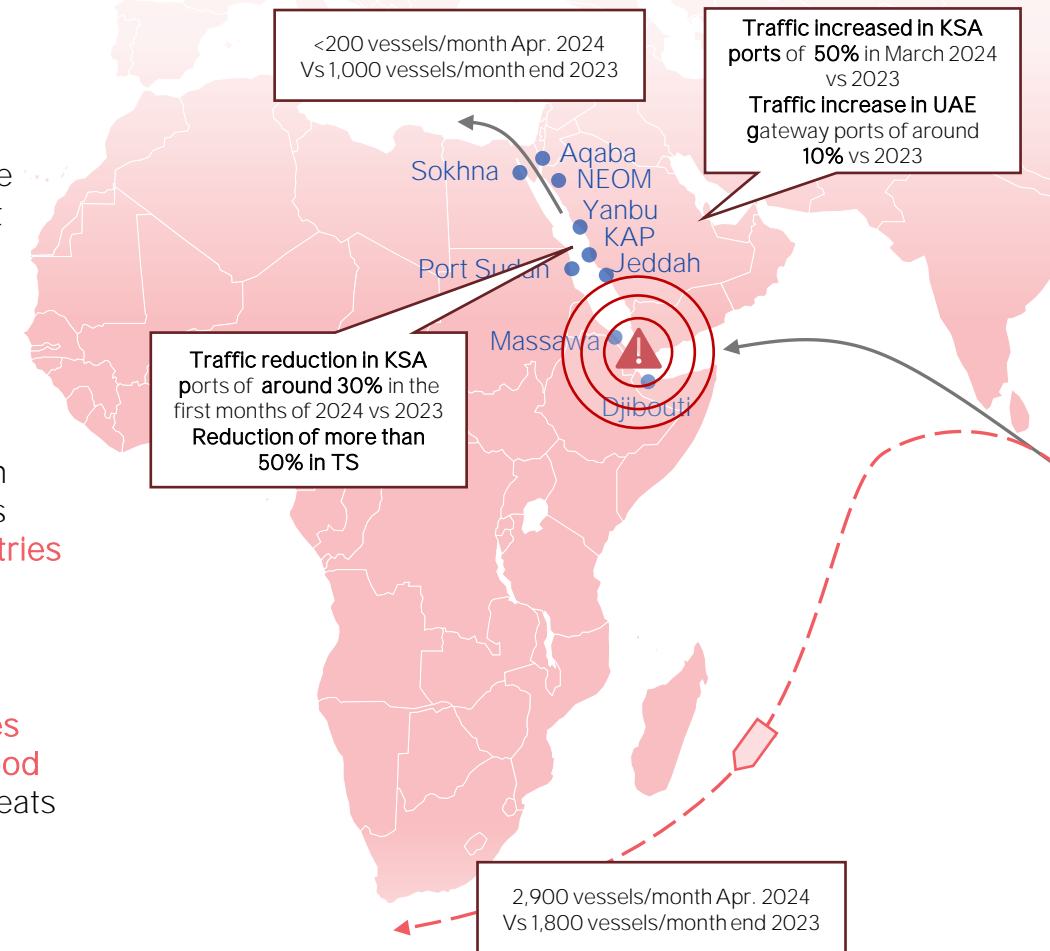
International Response

10-country coalition to **protect vessels** and patrol southern Red Sea and the Gulf of Aden

Cargo diversion: Red Sea ports have been partially removed from the port rotations in key trade routes

Rerouting of cargo flows to ensure supply to affected countries, through **alternative corridors**, in some cases generating dependency on **3rd countries**

Majority of **Far-East – Europe routes** were rerouted through **Cape of Good Hope** after the repeated security threats in the Bab el Mandab Strait

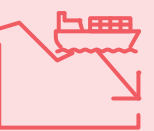








Case 2: Panama Canal drought

Extended droughts in Panama have resulted in a series of restrictions in the Canal, significantly affecting maritime traffic

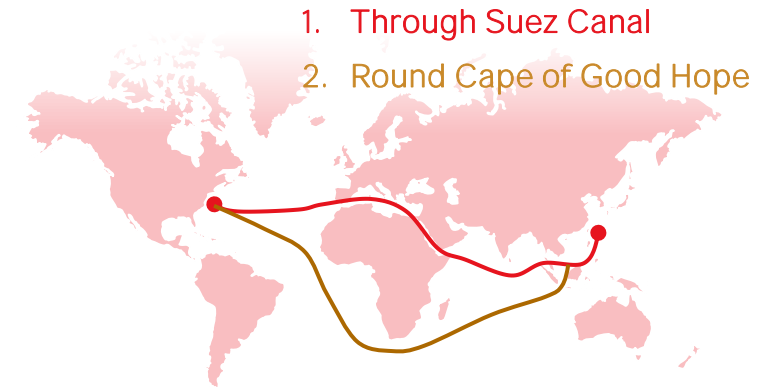
Direct impacts of Panama Canal drought

- 1  Daily vessel transit reduction: currently cut to 24 from 35-40 capacity before drought. Reached 18 transit in Feb.
- 2  Vessels required to carry less cargo due to depth limitation:
Neo-Panamax from 50 to 44 feet
Panamax from 45 to 39,5 feet
- 3  New Panama Canal surcharges per FEU:
MSC's \$297
Hapag-Lloyd's \$130
CMA CGM \$150 per 40feet container
- 4  Increased waiting times reaching up to 20-21 days in August for northbound and 18-21 for southbound
- 5  All these impacts have also resulted in some cargo diversion

ASIA-USEC:

Services covering these routes have experienced several changes from normal transit through Panama Canal:

1. Deviation through the Suez Canal instead of crossing the Pacific Ocean
2. Deviation through Cape of Good Hope passage due to the Red Sea crisis



Shift to land:

Rail transport saw minimal adoption due to higher costs (+30%), with only Maersk briefly splitting the OC1 service between rail to cross Panama and two loops, reverting to the original one loop setup soon after



WA-EA:

Container ship visits from major carriers in Argentina and Chile to the Drake Passage increased by 5%, with a 2% increase for bulk carriers. This does not firmly establish a widespread route change



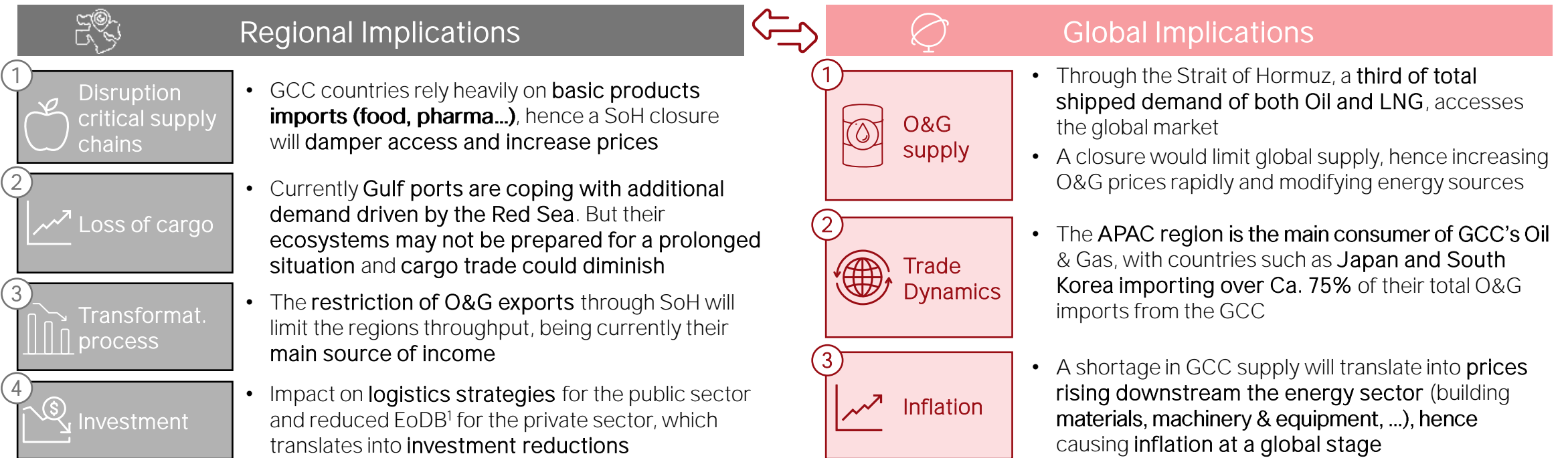


Case 3: Strait of Hormuz combined with the Red Sea

Following MSC Aries event, a potential closure of the SoH would worsen both regional and global trade impacts, when paired with current Red Sea crisis



Potential SoH Closure



If the Red Sea crisis is paired with maritime traffic disruptions at the Strait of Hormuz, the situation could become almost catastrophic for GCC countries due to excessive isolation: combination of inability to export O&G and import basic critical products

¹EODB: Ease of Doing Business Source: Desktop research, IMF, Bloomberg, Alphasider, UN Comtrade, AIA analysis




Based on the existing context, the logistics sector globally is facing a series of challenges that need to be tackled



Maritime cargo diversion



Stock out & price increase



Environmental








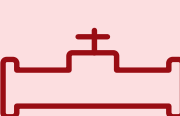







x2
x3 Paired effect

- Since the beginning of the **Red Sea crisis**, most of the shipping lines have had to **reshape their networks**, not only affecting the Middle Eastern ones. Similarly, **restrictions in the Panama Canal** have provoked deviations in key shipping routes
- In a very short period of time **Shipping Co** have had to implement a completely **different commercial strategy**, implying both **challenges & opportunities**
- This networks' redesign has put a **significant pressure on both supply chains** (price & lead times) **and shippers**, now that they were going back to "normal" after COVID
- Once again, shippers and distributors have had to redefine their **stock & inventory strategies** to accommodate the **new supply chains** (driven by longer lead times and increasing levels of unreliability), implying additional **pressure on costs**
- In the case of Panama Canal need to preserve and accumulate enough fresh water in its lakes during rainy seasons to be able to face future droughts without problems
- Longer trips can imply **higher emissions** (being mitigated by cruise speed)
- **Disruptive events in maritime traffic are pairing their effects** like the Panama Canal and the Red Sea situations. Moreover, **if the Strait of Hormuz were to close**, it could lead to potentially catastrophic isolation for GCC countries, impacting their ability to export oil and gas and import critical commodities, with **significant global repercussions**



Short term action plan


In the short-term countries need to closely monitor the impacts and act consequently, maximizing usage of the existing assets & procedures


<p>1  KPIs</p>	<p>Governments must have comprehensive dashboards to monitor key trade drivers in order to promptly act & mitigate the effects</p>	<p>Stock volumes </p>	<p>Trade perf. </p>	<p>Trade costs </p>
<p>2  Assets</p>	<p>Need for more alternative land corridors, while optimizing & maximizing existing logistics assets to cope with new demand. Incorporation of new assets if needed</p>	<p>Transport Infra </p>	<p>Warehouses </p>	<p>O&G Pipelines </p>
<p>3  Procedures</p>	<p>Avoid any sort of bottleneck by further streamlining, where possible, existing procedures related to critical supply chains (deepening digitalization)</p>	<p>Customs </p>	<p>Compliance </p>	<p>Inventory mgmt. </p>
<p>4  Coordination</p>	<p>Efficient collaboration & coordination between the public and the private sector</p>	<p>Public Sector  Ministries Regional govts. Publicly owned co.</p>		<p>Private Sector  3 & 4PL Infra operators Shipping lines Rolling stock ops.</p>



To cope with and be prepared for these events a fully operational and self-sustaining long-term resilience plan is required

Resilience plan key drivers

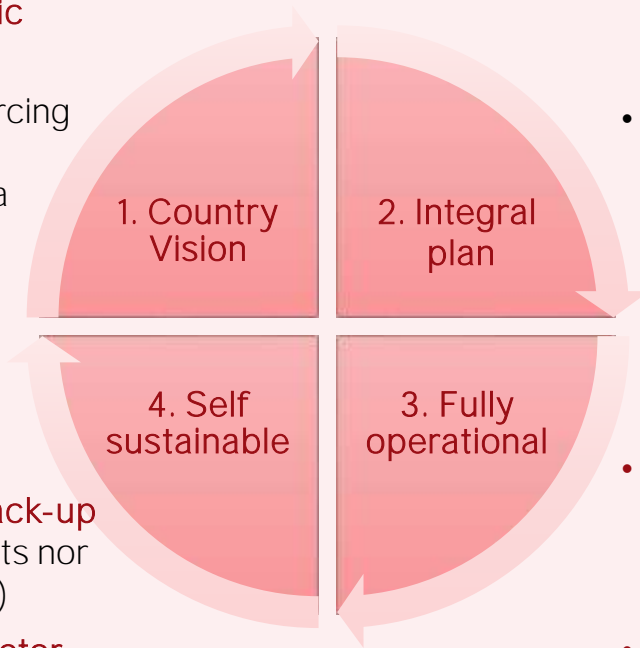
 **Strengthening corridors**
Develop a vast network of alternative corridors (strengthening existing ones & developing new) to ensure trade

 **Supply chain & assets**
Develop/acquire assets to guarantee trade (ports, inland depots, shipping lines, trucks...). Invest in transportation assets abroad if it helps

 **Procedures**
State-of-art process & procedures to smooth cargo transit
Increase digitalization of supply chains

 **Agreements with other parties**
Agreements with local parties and with foreign governments to ensure smooth transit

Resilience plan key requirements



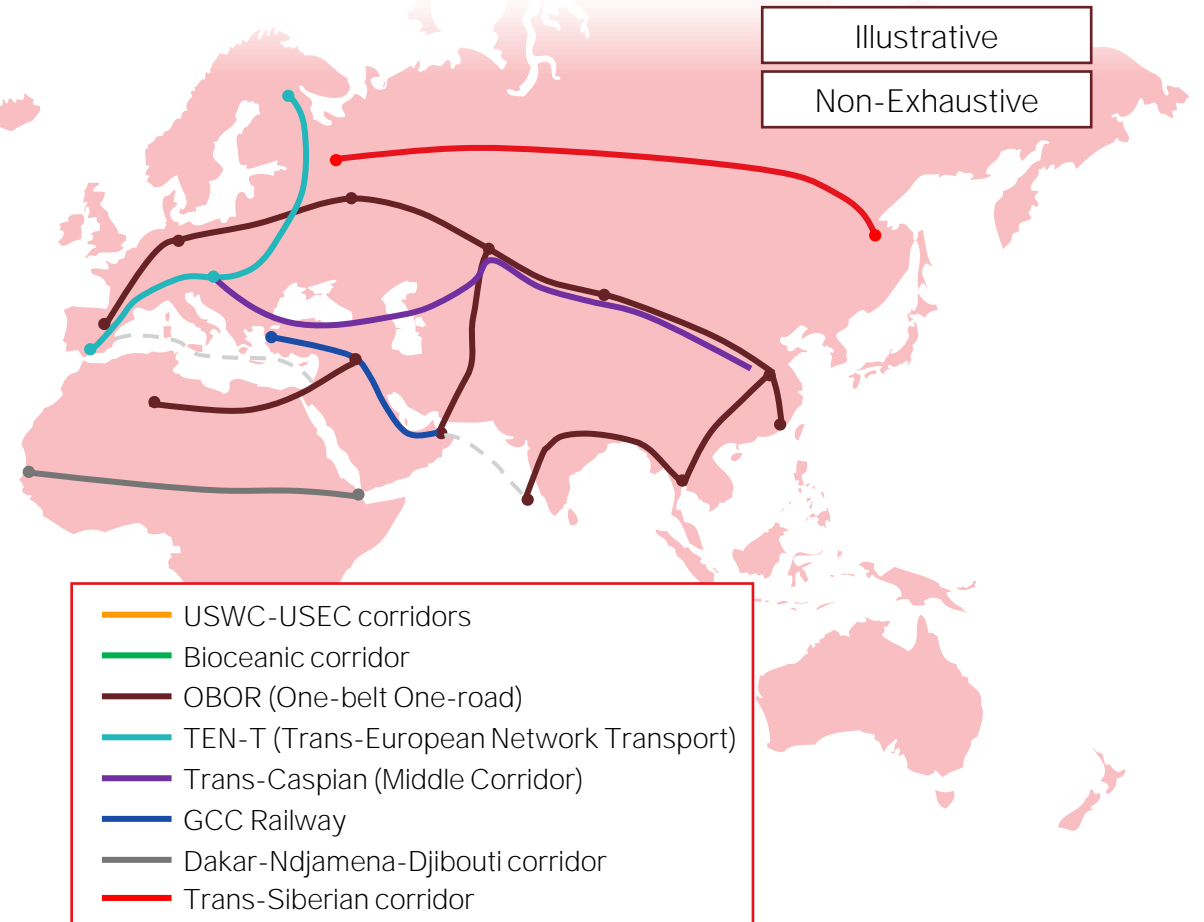
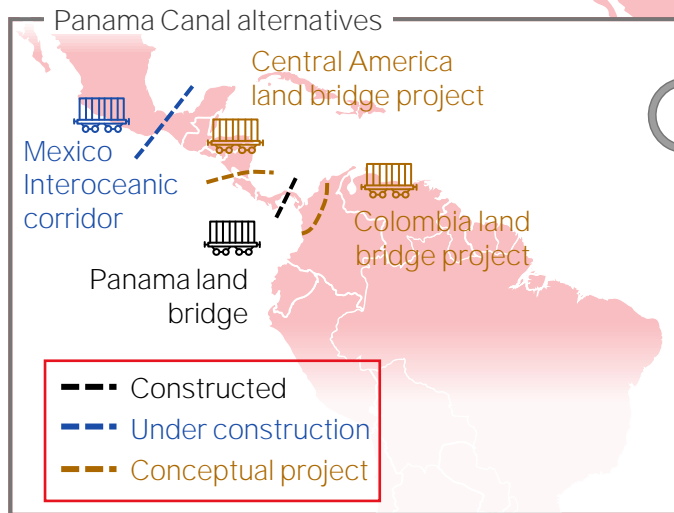
- In line with the **country's strategic vision**
- Focused on reinforcing the **national performance** (as a global)
- **Financially self-sustainable vs. back-up** (no overinvestments nor unnecessary ones)
- **Involve private sector** (this cannot be done by the public alone)
- Focused on **corridors vs. individual assets** (shift in mindset)
- Based on **overall performance** of the system (in different **corridors' shares** scenarios)
- **High performance operational solutions** (not giving up pursue of excellence)
- **Fit for purpose** with easiness to expand capacity (**scalable**)



Alternative corridors to current situation

Major corridors, many still under development, when fully operational can help reduce the impact of disruptive events at critical chokepoints

Many of the corridors proposed here are partially developed, but when fully operational in conjunction with smaller-scale regional corridors, they could reduce dependency on maritime transport and the disruptive events that affect it



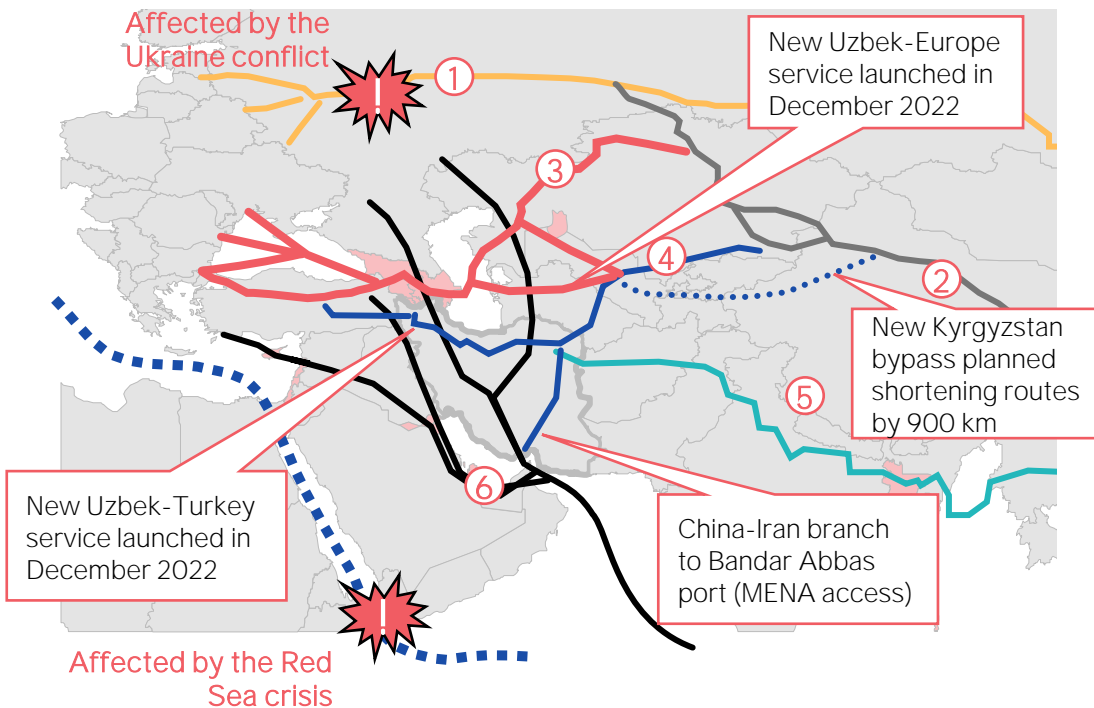


Focus: freight corridors in the CIS region (illustrative example)

Middle Corridor: The shifting geopolitical landscape countries is opening new logistics opportunities spurred by the realignment of the natural corridors

CIS logistic corridors

The different conflicts surrounding CIS countries have led to the emergence of new logistical opportunities as well as to the importance of existing ones, such as the Trans-Caspian



		2018	2022
①	Trans-Siberian corridor	70 kTEU	49 kTEU
②	Trans-Kazakhstan corridor	285 kTEU	410 kTEU
③	Trans-Caspian corridor (Middle Corridor)	15 kTEU	33 kTEU
④	Southern China- Iran corridor	-	-
⑤	Southern China-India corridor	-	-
⑥	GCC corridor	-	-

There are actions that can boost the effectiveness of the Trans-Caspian corridor (non-exhaustive):

- Improve railway infrastructure (cities bypasses, new inter-country connections...)
- **Improve ports' performance** (fit-for purpose infra & equipment)
- Increase rolling stock across the corridor
- Development of a network of inland depots and intermodal platforms (in some cases combined with SEZ/FTZ)
- Trade facilitation (processes & digitalization)
- Encourage the presence of operators all across the corridor

Source: United Nations, UNECE, Alhambra Advisors analysis



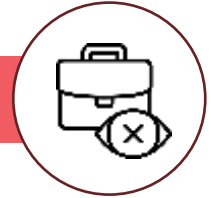
The resilience plan may lead to new opportunities both for the private and the public sector

Nations



- Further improve competitiveness their existing logistics ecosystems through new self-sustainable alternative corridors, helping increase trade
- Reinforcement of their regional influence, as well as encouragement of cooperation with other countries. Promote the internationalization of local players
- Attract both local and foreign investments with new projects, while generating new revenues streams
- **Increasing country's logistics resilience will support economic & social transformation**

Private sector



- Increase of revenues in business related with the resilience plan: ports, land infrastructure, warehousing, **transportation companies...**
- **Increase services' providers footprint in both primary and secondary corridors**
- New projects will bring new investment opportunities (hopefully through fair and transparent PPPs)
- Internationalization of companies (operators, investors...) **in line with country's influence expansion** (leveraging on G2G initiatives). **Multi-country presence of services' providers will enable lean logistics**



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