



December 20, 2023

Chaos in the Canals to Bring Supply Chain Disruptions

As we have reported for several months, the Panama Canal drought continuously worsened after the water levels at Gutan Lake reached critical levels. Gutan Lake feeds the canal with fresh water and did not receive the proper water levels this season after a lackluster rainy season and El Niño effect. The Panama Canal normally handles 38 vessels per day, but since July, this figure has dropped significantly and is currently at 24 vessels per day.

Restrictions have limited the weight and size of vessels able to transit through the canal, which prompted an appointment system and increased congestion waiting to enter. Transit times on this routing have increased by a week or more and as ocean carriers began to put out warnings of delays and the restrictions, fee-based surcharges and delays, several have cut back on the frequency of sailings via the Panama Canal and further focusing on their strings that move via the Suez Canal as the immediate alternative. Some carriers have even suspended their Panama Canal routings until further notice with uncertainty as to when they will reengage. The impact is noticeable on the Transpacific and South America trade and has already created supply chain constraints.

As the shift to the Suez Canal has quickly increased, which will include added transit times and increase use of transshipment points such as Singapore and Colombo, escalation of attacks by the Yemeni rebel group, Houthis, in the Red Sea, have now caused serious security concerns and an immediate need to reroute vessels. During two days late last week, Maersk has seen two of their vessels attacked while a Hapag Lloyd vessel, the Al Jasrah, was victim of a direct missile attack. As a result, several ocean carriers have halted their vessels from advancing toward the Gulf of Aden and Red Sea. Their contingency plan for most carriers appears to be routing their vessels around Cape of Good Hope in South Africa. It has been cited this could potentially add an estimated 10 days or more than the Suez Canal transit times and will likely be further clarified in the coming days as more carriers update their strings and confirm future vessel plans.

On December 18th, Secretary of Defense Lloyd J. Austin III announced “the establishment of Operation Prosperity Guardian, an important new multinational security initiative under the umbrella of the Combined Maritime Forces and the leadership of its Task Force 153, which focuses on security in the Red Sea.” This task force currently includes the United States, United Kingdom, Bahrain, Canada, France, Italy, Netherlands, Norway, Seychelles and Spain. They will “jointly address security challenges in the southern Red Sea and the Gulf of Aden, with the goal of ensuring freedom of navigation for all countries and bolstering regional security and prosperity.” While promising, the timeline is not certain.

As the situation remains fluid and there are daily updates amongst the three ocean carrier alliances and their members, it does appear that the following will be impacts from the current market conditions of both the Panama Canal and Suez Canal constraints:

- Increased transit times
- More fuel to be burned due to longer distance and transit which could impact future bunker levels
- Surcharges that carriers have or will implement to offset constraints and added costs they will need to absorb
- A quick shift to routings via the U.S. West Coast ports for inbound cargo and increased use of rail to reach U.S. Gulf and East Coast regional ports and rail ramps
- Increased freight rates as ocean carriers use the opportunity and constraints to bring current rate levels up.
- Tight space and potential container rolling as void sailings are planned for the coming weeks
- Congestion at origin ports, transshipment ports and ports of discharge
- All Risk Marine Cargo Insurance with War Risk (excluding Afghanistan, Cuba, Iran, Iraq, N. Korea, Somalia, Syria, Libya, Yemen and truck rail shipments to/from and within Mexico) – subject to change based on market conditions – American Shipping can assist with this coverage.

Disruption is to be expected and there are still many unforeseen constraints that will likely arise from the current events.

We highly recommend to follow the current events and speak with your local handling office and account representative should you need assistance.

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