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The Effects of Crisis-Related Bottlenecks at The Suez and Panama Canals

Ocean Freight and Drayage

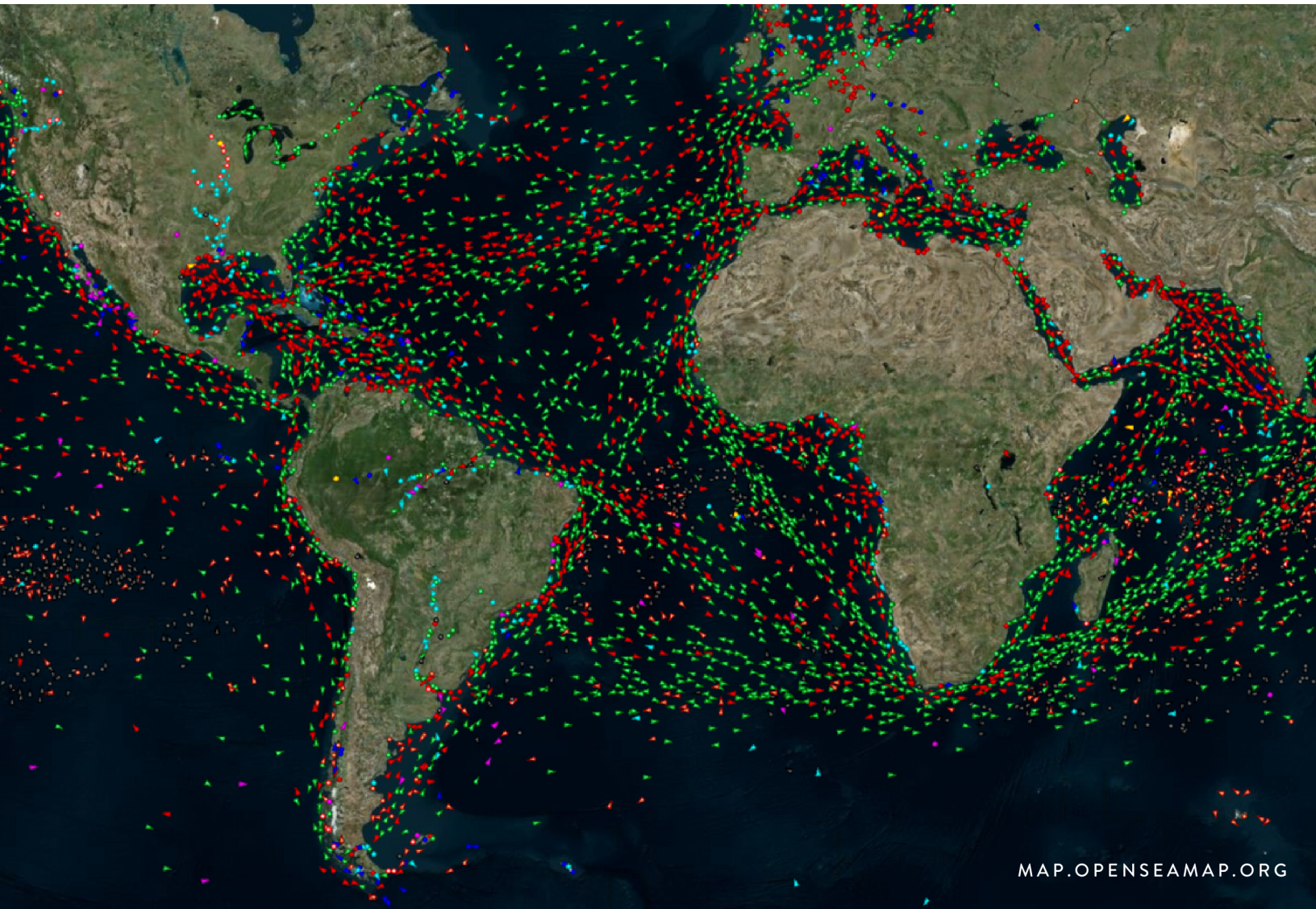
WHITE PAPER


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NAVIGATING NEW CHALLENGES

Tranco Global is actively monitoring the events unfolding in both the Middle East and in Panama. The Suez & Panama Canals, although very different, are both at the forefront of an emerging global trade disruption. The primary question becomes, will this trade disruption continue or perhaps worsen?

Both the Suez and Panama Canals provide significant short cuts from Asian markets. Without reliable canal routings, steamship lines are faced with increased transit times which effect overall capacity, and the resulting impact to ocean freight rate structures. There is also a question as to whether ocean carriers are taking advantage of the headlines to improve pricing in an ocean freight market that was severely diminished in 2023.





ATTACKS NEAR THE SUEZ CANAL

Currently, Iranian backed Houthi rebels have been attacking merchant vessels attempting to enter the Suez Canal. This has impacted all Suez traffic, including container vessels and bulk oil carriers. Rather than risk attack or extended anchoring delays, most carriers have avoided the conflict area and are now diverting routings below the tip of Africa. This can add up to 24 days and 11,300 nautical miles to an ocean freight routing.

While US Naval forces have pledged support to merchant vessels entering the area, there is also a effort by the US to balance what is a proportional response given the desire not to allow the Palestinian conflict to fester into a broader regional engagement.

In addition to the decrease in ocean freight capacity, which directly impacts rates, some carriers are beginning to float the idea of War Risk Surcharges, or invoking Force Majeure, which would allow for the discharge of cargo at unscheduled ports of call.

LOW WATER LEVELS IN PANAMA

Completely different than the manmade conflict over the Suez, the issues at the Panama Canal are created by mother nature. Whether attributed to Global Warming and/or a natural weather phenomenon, Central America has not received the necessary seasonal rainfall to fill its reservoirs that support the canal. When the canal cannot be fully filled with water, it means the vessels that traverse the routing are faced with “draft” restrictions. Draft (or draught) is the vertical distance between the waterline and the bottom of the ship’s hull.



The heavier a vessel becomes, the higher draft that is required. Under normal conditions, the Panama Canal can accommodate a draft of up to 50 feet. Under current conditions, draft restrictions are set at 44 feet. The net impact for vessels that were specifically designed to maximize the beam (width) and draft (depth) restrictions of the canal is they can only be loaded to 80-85% capacity.

Given the Panama rainy season runs May through December, there will be little chance for rain relief for several months. Additionally, some carriers are beginning to question the long term viability of the Panama Canal.

Some ocean carriers are beginning to lockout heavy containers or starting to apply Panama Canal surcharges based on weight restrictions. These penalties are especially impactful to heavy, 20ft containers.



As we enter the New Year, Tranco Global is prepared to assist with these developing challenges and all your other shipping needs..

Please reach out to your Tranco solutions specialist or contact quotes@trancoglobal.com for more information.

