ALTERNATIVE FOR SUEZ CANAL: INTERNATIONAL REALTION

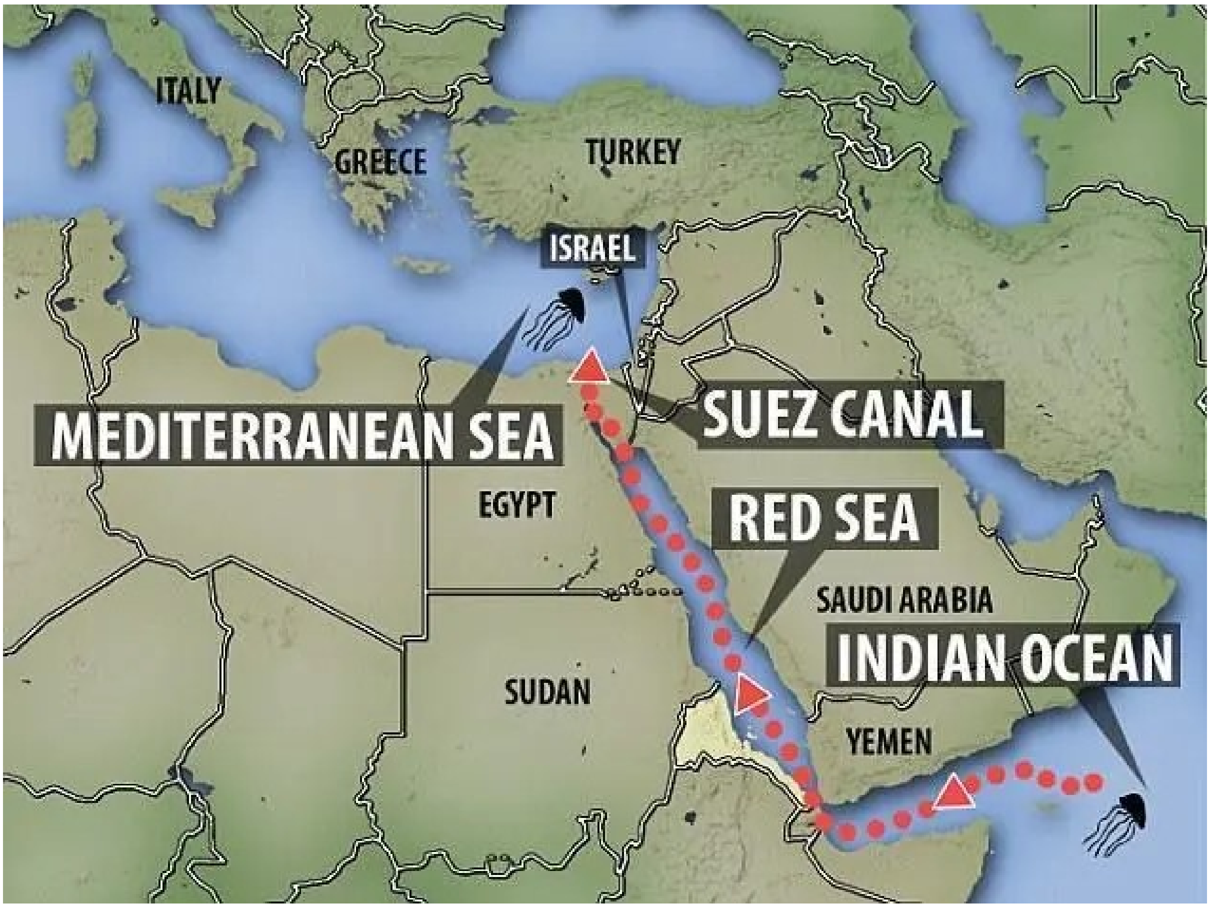
NEWS: Suez Canal offers 15% discount to cargo ships: Will vessels return to the Red Sea route after US-Houthi ceasefire?

WHAT'S IN THE NEWS?

Despite a 15% fee discount and a US-Houthi ceasefire, global shipping lines remain reluctant to use the Suez Canal due to ongoing security concerns, preferring the longer Cape of Good Hope route. This shift has caused major revenue losses for Egypt and increased global shipping costs.

Overview of the Suez Canal

- The Suez Canal is a vital artificial sea-level waterway located in Egypt, connecting the Mediterranean Sea to the Red Sea.
- It was designed by French engineer Ferdinand de Lesseps, constructed in the 19th century and completed in 1869; however, it was opened for navigation in 1879.
- The canal was later nationalised by Egypt in 1956, which marked a major geopolitical event at the time.
- Total length of the canal is approximately 193 km.



Strategic Importance

- The canal enables direct maritime trade between Europe and Asia without the need to sail around the African continent.
- It effectively reduces the travel distance by nearly 7,000 km, making it highly time- and cost-efficient.
- It is a critical artery of global trade, accounting for around 12–15% of global shipping volume, including significant oil and gas shipments.

Recent Crisis and Disruptions

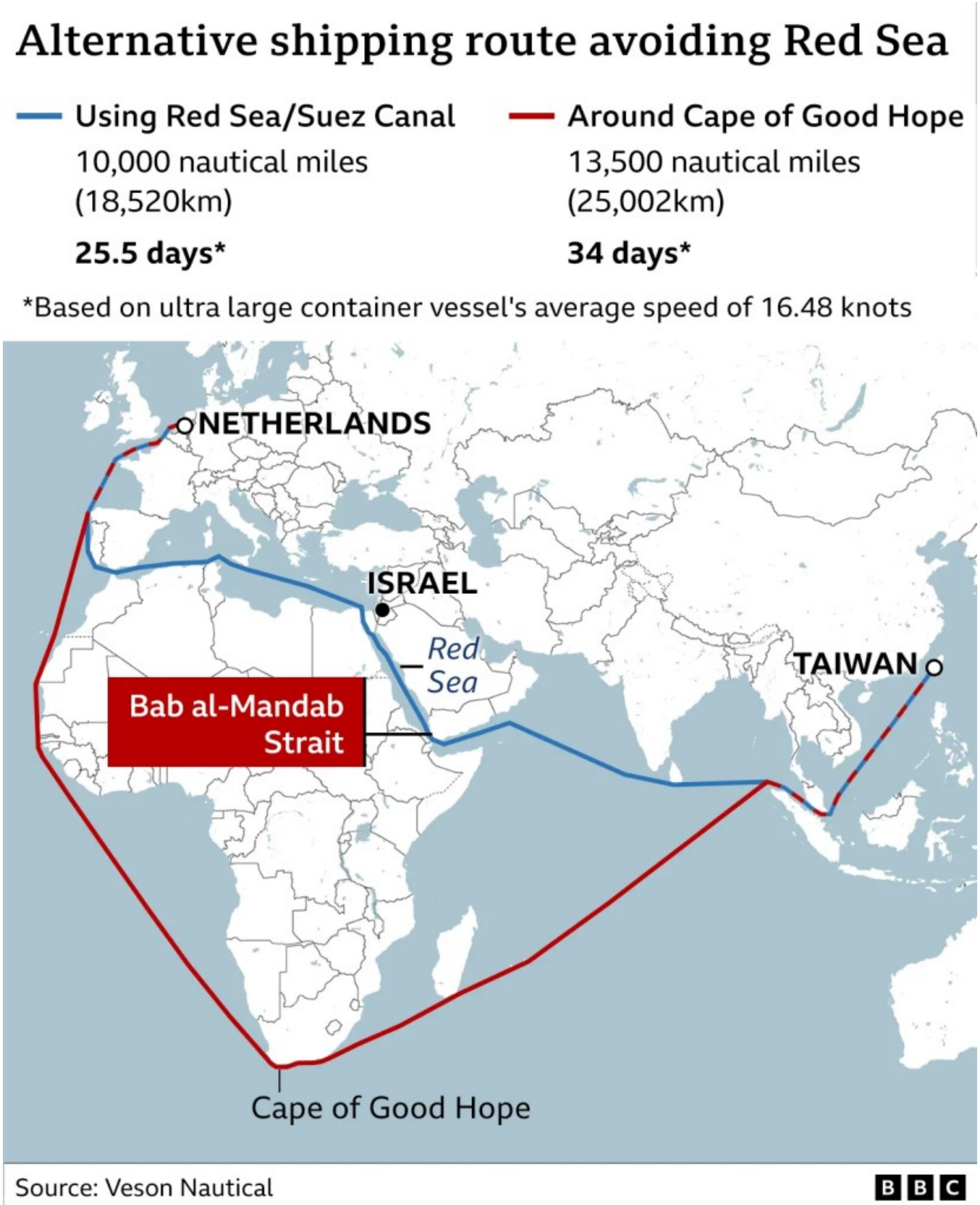
- Since late 2023, there have been a series of Houthi rebel attacks on vessels in the Red Sea, creating serious security threats for ships transiting through the Suez Canal.
- In response, many major global shipping companies started avoiding the Suez Canal, choosing instead to reroute vessels around the Cape of Good Hope (southern tip of Africa).

Economic Consequences

- This mass diversion has had serious economic impacts on Egypt's revenue and global logistics:
    - Suez Canal revenues fell sharply, dropping from $10.3 billion in 2023 to only $4 billion in 2024.
    - There has been a significant rise in global shipping costs due to longer travel distances and increased operational expenses.

Egypt's Attempt to Revive the Canal

- To incentivize shipping companies to return, the Suez Canal Authority (SCA) announced a 15% discount on transit fees.



  - This offer is valid for cargo ships of minimum 130,000 metric tons capacity.

Why Shipping Companies Remain Cautious

- Despite the transit fee reduction and a ceasefire agreement involving the U.S. and Houthis, many companies are still hesitant to return to the Suez route.
- Key concerns include:
  - Uncertainty over the long-term security of the Red Sea.
  - Lack of confidence that the ceasefire will be durable or enforceable.

Impact of Alternate Route via Cape of Good Hope

- Ships rerouted around Africa's Cape of Good Hope are facing:
    - Longer voyage durations by about 10 to 14 days.
    - Higher fuel consumption and emissions, increasing both operational costs and environmental impact.
    - This has led to a surge in freight charges, affecting global supply chains and contributing to inflationary pressures in several economies.

Source: https://indianexpress.com/article/business/suez-canal-15-discount-cargo-ships-red-sea-route-us-houthi-ceasefire-10012240/