

# Recent threats in the Red Sea

## Economic impact on the region and on the EU

### SUMMARY

Since mid-November 2023, the Iran-backed Houthi militia, which controls large parts of Yemen, has attacked numerous Western commercial ships near the Bab el-Mandeb Strait in the Red Sea. In response, major shipping companies have temporarily suspended Suez transits and diverted their trade. This diversion coincides with decreasing freight in another maritime chokepoint, the Panama Canal, provoked by lowered water levels. Rounding South Africa via the Cape of Good Hope is the shortest alternative route for travel by ship between Asia and Europe, a route that increases shipping time by 10 to 14 days.

Shipping prices had already been on the rise recently, owing to increased fuel and insurance costs. The diversion has caused delays that have disrupted global supply chains, with certain companies choosing to halt production in their factories. If the situation persists or worsens, it could further affect energy supplies and prices, all this potentially contributing to higher inflation. This could, in turn, hamper the efforts of central banks to achieve a 'soft landing'. If, in addition, United States (US) and European Union (EU) central banks decide to keep interest rates high, developing countries will have to pay premium prices for international debt, raising repayment risks for many countries in Africa that have maturity deadlines this year. The attacks have reduced income from maritime fees and could affect commodity exports for some countries in the region, worsening an already precarious economic situation. If the situation persists or worsens, it could also impact trade for other countries in east Africa and aggravate food security challenges, generating social unrest in countries in the region.

In addition to the attacks on ships, there are suspicions that the Houthis have been involved in damage to submarine communications cables. This damage – to what is categorised as critical infrastructure – could represent a significant cost to the EU and other economies. Following calls by the European Parliament and Council, the European Commission has recently adopted a recommendation on the security and resilience of submarine cable infrastructures.



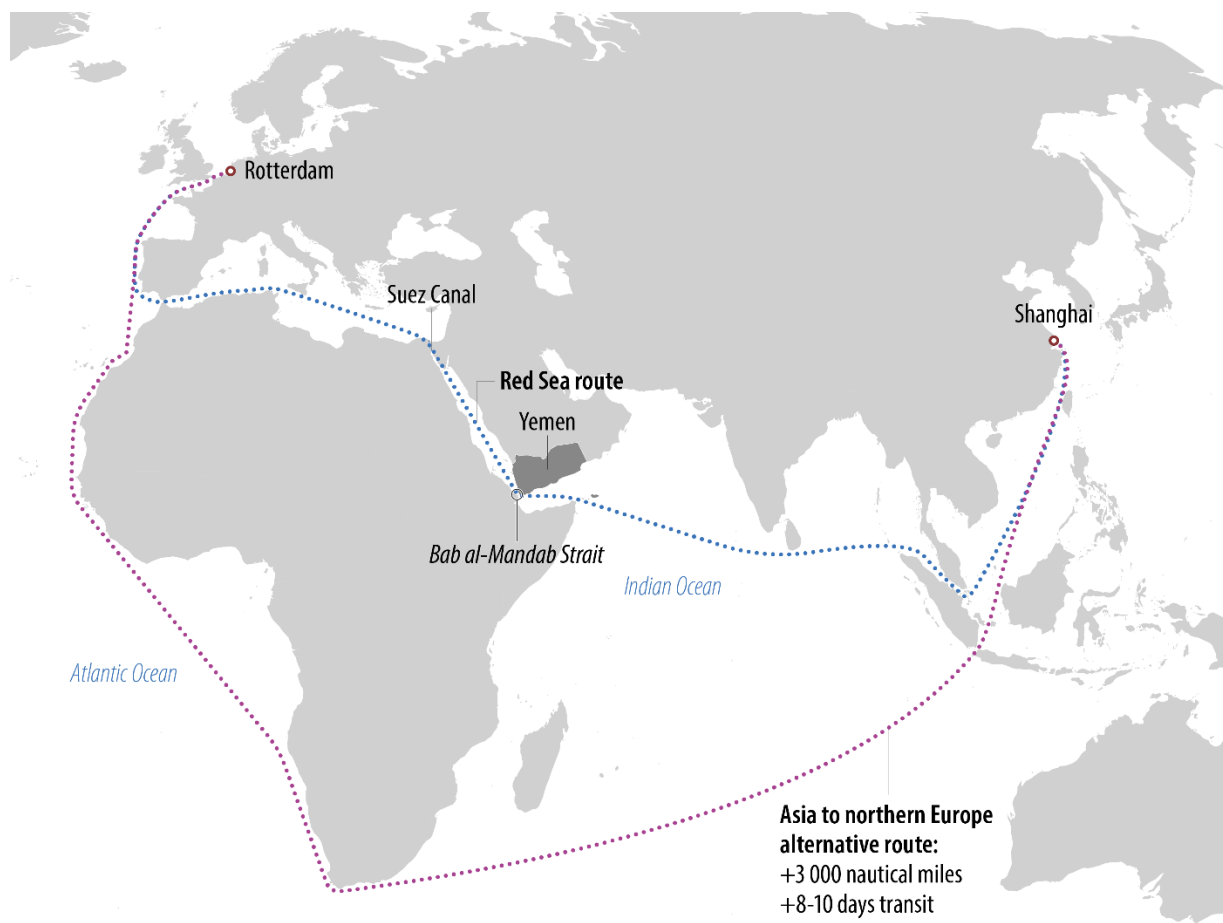
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## Introduction

Figure 1 – Shipping diversion due to attacks



Source: [Associated Press](#).

Since mid-November 2023, the Iran-backed Houthi militia, which controls large parts of Yemen, has [attacked](#) numerous commercial ships near the Bab el-Mandeb Strait in the Red Sea 'in solidarity with the Palestinians' following Israel's war on Hamas after the latter's October 2023 terror attack.

In response, major shipping companies are currently avoiding transiting through the Red Sea (and adjacent Suez Canal) and have chosen alternative maritime shipping routes. This trade diversion coincides with [decreased freight volumes](#) in another major maritime chokepoint, the Panama Canal (-49 % in February 2024 compared with the January 2022 peak). This is the result of lowered water levels resulting from an El Niño-induced [drought](#). To save on water, the Panama Canal Authority has reduced the number of vessels that can transit.

This leaves the Cape of Good Hope in South Africa as the shortest alternative route for travel by ship between Asia and Europe; a route that [increases](#) shipping time by 8 to 10 days (see Figure 1). An analysis of the traffic in Bab el-Mandeb Strait and the Suez Canal shows a [drop](#) in trade volumes of more than 50 % at end-January compared with last year (in Bab el-Mandeb, the seven-day average on 28 January 2024 was 1.8 million metric tonnes, compared with 4.6 million metric tonnes on average in the same period last year). At the same time, the Cape of Good Hope has seen a 60 % [increase](#) in shipping traffic since mid-December, compared with last year.

The Red Sea is an important shipping lane accounting for about 11 % of global maritime trade volume annually. Many economies in the Middle East, Europe, Asia and Africa rely heavily on this shipping lane for exports and imports in energy, commodities and manufactured goods. During the 2020-2022 period, 32.4 % of [vessels passing](#) through the Red Sea were tankers (i.e. carrying oil),

27.9 % were container ships (i.e. carrying manufactured goods), and 26.2 % were carrying dry bulk (for instance agricultural products and grains, coal or minerals). Prolongation of the current situation could therefore have serious economic repercussions in several regions.

## Impact of the attacks

**Shipping prices** have been rising. In the last week of December 2023, average container spot freight rates increased by US\$500, the highest-ever weekly increase according to the United Nations Conference on Trade and Development (UNCTAD).<sup>1</sup> Contributing to that overall cost are insurance premiums, which have also surged.<sup>2</sup> Nevertheless, different shipping industries are impacted in different ways. [Thibault Denamiel et al.](#), of the Center for Strategic and International Studies note that bulk carriers, which carry less valuable cargo (often raw materials), may choose to risk crossing and are not impacted in the same way as cargo ships, which tend to transport more valuable goods and thus prefer to take the detour via the Cape of Good Hope.<sup>3</sup> Similarly, ships from certain countries (Russia, China) have not (yet) been attacked and thus continue crossing.

In its latest outlook, the [World Bank](#) noted that in the context of an escalating conflict, **energy supplies** could also be disrupted and prices could increase anew: according to the US [Energy Information Administration](#), the Bab al-Mandeb Strait accounted for **8.8 million barrels** per day of total oil flows (about **21 %** of global petroleum liquids consumption) and 4.1 billion cubic feet per day of liquid natural gas shipments in the first half of 2023. However, as of the time of writing, such an increase in prices has yet to materialise. [The Economist](#) argues that this is due to the fact that half of the crude oil that passes through the Suez Canal is of Russian origin flowing to Asia. The Houthis probably **avoid** antagonising major oil importers such as China and India, or partners of Iran, such as Russia. In addition to the above, William Tobin and Joseph Webster from the [Atlantic Council](#) note that the Houthis probably will not target energy cargos, so as to avoid an environmentally catastrophic oil spill along Yemeni shores.<sup>4</sup>

Prolonged delays, particularly in [container shipping](#), pose a direct threat to **global supply chains**, especially for industries that rely on [just-in-time](#) manufacturing and inventory (such as retailers, and tech. and automobile manufacturers), raising the risk of delayed deliveries and higher costs. In January, car manufacturers, especially producers of electric vehicles that are dependent on inputs from Asia, [announced](#) brief production halts or slowdowns in their EU factories in early 2024.<sup>5</sup> Similarly, retailers in the shoe and apparel industry have informed consumers about delays and potential higher prices.<sup>6</sup> As regards the costs, UNCTAD [notes](#) that it will take time for the higher prices to hit consumers, with the full impact expected within a year.

The crisis could also create new **food security challenges**, disrupting grain shipments from Europe, the Russian Federation and Ukraine, and rice shipments from [India](#), while also impacting global food prices, with longer distances and higher freight rates potentially contributing to higher final prices.

The crisis is also having an [impact](#) on **maritime fees collected by countries** such as Egypt and Djibouti, which rely on them for a significant part of their national budgets. Egypt's Suez Canal revenues for example have taken a severe hit owing to ship diversions. As of 12 January 2024, revenues had [dropped](#) by 40 % compared with 2023 levels. According to [experts](#), a trade decrease of this magnitude from Suez equates to an important fiscal revenue loss for Egypt, around US\$4 billion or 1 % of the country's gross domestic product (GDP).<sup>7</sup> Worse still, canal fees are paid in foreign currency, which the government [needs](#) in a context of currency devaluation (**-70 % against the US dollar** since 2022) and increasing inflation (currently at 35 %).

The crisis could also affect **commodities exports** from countries in the region. For example, some experts have suggested that [Jordan's](#) exports of potash to Asia could be affected by the crisis. More broadly, the attacks in the Red Sea may impact the regional trade of Djibouti (6 % of exports and 31 % of imports through the canal), Kenya (12 % of exports, 15 % of imports) and Tanzania (8 % of exports, 11 % of imports).

Another, less visible area where the crisis has an impact is the [environment](#). Shipping already contributes to about 3% of all global greenhouse gas emissions. The Cape of Good Hope route is not only considerably longer than the Red Sea-Suez Canal route. It also requires ships to burn significantly more fuel per mile, not only to travel faster and compensate for the detour, but also on account of the different weather conditions. As more firms decide to send ships around the Cape, the carbon footprint of the industry is bound to increase.<sup>8</sup>

Last but not least, some of the aforementioned elements may combine to keep [inflation](#) high. Supply-chain disruptions and higher shipping costs [contributed](#) to the spike in global inflation in 2021-2022 (in the wider context of the pandemic and the war in Ukraine). The current trade tensions risk fuelling inflation at a time when experts were [expecting](#) a deceleration in 2024. This could hamper the work of central banks in bringing inflation under control and could even influence debates ahead of the many elections of 2024. In addition, if US and EU central banks decide to keep interest rates high, developing countries will have to pay premium prices for international debt, raising [repayment risks](#) for many countries in Africa that have maturity deadlines this year.

## Countries affected

The [Economist Intelligence Unit](#) notes that the rerouting of trade and increase in import time will impact certain Asian and Indo-Pacific countries disproportionately.

Countries such as Singapore, Cambodia, New Zealand, Indonesia and Sri Lanka – for which China is the biggest source of imports – will be less impacted by inbound shipping delays than others, such as Japan, India and Australia. Similarly, countries with a high dependency on imports of food products, (e.g. New Zealand, India and Pakistan) will also be affected. As a result, inflation pressures will also be felt differently across these various countries. [Exports](#) across Asia will also be adversely affected, with an increase in the number of shipping days and the time that outbound vessels spend at port being secured, having cargo loaded or discharged.

On the other hand, countries that are situated at strategic points along the maritime route around Africa – such as Mauritius, Madagascar, and to some extent Namibia – could stand to profit from increased traffic, servicing and trade. Experts [note](#) that South Africa could profit the most, given its location and sophisticated port and logistics infrastructure. At the same time, it may be [held back](#) owing to capacity shortages, under-investment and poor equipment maintenance in its ports.

Finally, countries in the immediate region will be affected. As mentioned above, Egypt and Djibouti derive revenues from shipping transit. Egypt has also lost revenues from a drop in tourism since the beginning of the war, an experience shared by Jordan and [Lebanon](#), whose economy was already in a dire situation before the war in Gaza. Finally, Faozi Al-Goidi and Oumeyma Chelbi also [point](#) to the fact that Yemen itself will be affected. According to the [World Food Programme](#), 18.6 million Yemenis require humanitarian assistance in 2024, and 17 million are food insecure. They note that, ironically, part of this is precisely due to the higher shipping costs resulting from the cost of war [risk premiums](#). The recent escalation and the [re-designation](#) in mid-February of the Houthis as a terrorist group risk further compounding the humanitarian crisis, as [aid operations](#) and funding are compromised.

## Mitigating factors

While longer travel times (when rerouting round Africa) will increase demand for cargo ships, there is already some over-capacity in the freight industry. Unlike in 2021, when the [Suez](#) Canal obstruction compounded the challenges to supply chains generated by the COVID-19 pandemic, most major carriers have already expanded their fleet sizes over the past two years. Port and storage capacity is also higher than two years ago, allowing shippers to smooth out deliveries. As a result, shipping price increases may [benefit](#) the shipping industry, allowing it to weather the current drop in trade demand better.

[Consumer demand](#) is much weaker than it was during the pandemic years. Usually shipping volumes from Asia to Europe increase in the period from October to December (Christmas period in the EU). In the subsequent period, Chinese factories wind down for the Chinese New Year celebrations. The slowdown in [retail trade](#) in Europe in a broader context of [de-risking](#) has translated in Chinese imports to Europe [peaking](#) in October before dropping significantly in December. This, coupled with the fact that Russian and Chinese ships have not been affected by the Houthi attacks, may help to contain inflation.

## European Parliament position

In its [resolution](#) of 28 February 2024 on the implementation of the common foreign and security policy, the European Parliament condemned the 'illegal, unacceptable and profoundly destabilising attacks against commercial vessels transiting the Red Sea', stressing that they have caused significant disruption to global trade. Members of the European Parliament (MEPs) called for an immediate end to these illegal attacks and the release of unlawfully detained vessels and crews. They called for collective action and 'enhanced EU engagement and international cooperation'. In that context, they welcomed the decision by the Member States to launch a [maritime operation](#), to protect merchant vessels, strengthening maritime situational awareness and accompanying vessels to deter attacks and ensure freedom of navigation on one of the world's most critical waterways.

## Damage to subsea communication cables

In addition to the attacks on ships, it was [reported](#) on Monday 26 February that submarine [communications cables](#) belonging to four big telecom networks had been damaged in recent months. The cut lines [include](#) Asia-Africa-Europe 1, the Europe India Gateway, Seacom and TGN-Gulf. The cause of the damage has not been identified and natural damage happens [relatively regularly](#): subsea cables can be cut by [anchors](#), including those dropped from ships that have been disabled by the attacks. The Houthis have [publicly denied](#) attacking the cables.

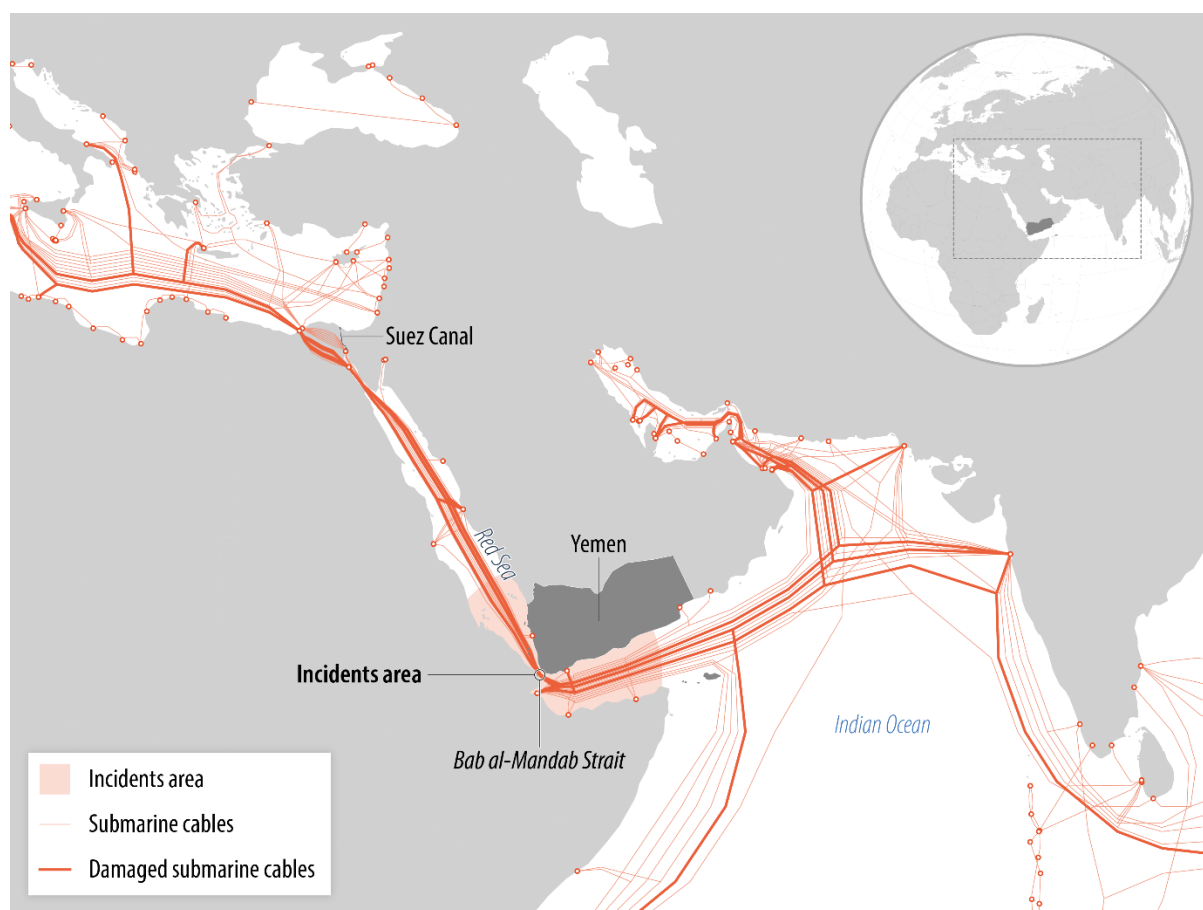
[Telecom firms](#) linked to the UN-recognised [Yemeni](#) government, however, expressed the fear in early February that Houthi rebels were planning to sabotage a network of submarine cables in the Red Sea. This fear was based on a Houthi-linked Telegram channel, on which a map of the cables running along the Red Sea bed was published, with the message: 'There are maps of international cables connecting all regions of the world through the sea. It seems that Yemen is in a strategic location, as internet lines that connect entire continents – not only countries – pass near it'.

## Importance of submarine communication cables

The global network of [undersea cables](#) provides the high-bandwidth connections needed for a wide range of activities vital for modern society, from financial transactions to global communications and international scientific cooperation. Over 95 % of international data and voice transfers are routed through the many fibre-optic cables that crisscross the world's [seafloors](#). Across the [bed of the Red Sea](#), 16 small [fibre-optic lines](#) carry approximately 17 % of all international data traffic (Figure 2). Globally, operators report around [150 to 200 cases](#) of major damage [every year](#), roughly 70 % of which are the result of human activities such as bottom trawling fishing, dredging, and ship anchoring.<sup>9</sup> That is why submarine cable locations appear on nautical charts. Information about global cable routes, meanwhile, is available on the internet, making it easy to discern a given country's weak spots. Occasionally, cables are stolen in acts of piracy.

The importance of cables lies in the absence of [substitutes](#) in the event of damage. The earth's satellites can carry no more than 7 % of US international voice and data traffic, which is only one part of global traffic.

Figure 2 – Submarine cables in the Red Sea



Data source: Compiled by EPRS from ArcGIS [Undersea](#) telecom cables and [BBC](#).

In a 2022 [paper](#) requested by the Security and Defence (SEDE) Sub-committee of the European Parliament, Christian Bueger et al. map submarine cables in the EU, explain the importance of the cables and analyse potential vulnerabilities of the current infrastructure. They proceed to provide a view of awareness and response strategies in Member States and at EU level, and finish by providing some recommendations to enhance the protection of submarine cables. These include increasing awareness of the issue by updating the EU's maritime security strategy, and improving the sharing of information on cable governance, incidents and suspicious activity, by establishing a coordination group in the Commission. Another recommendation is to give the European Maritime Safety Agency (EMSA) a mandate for cable surveillance at EU level and to add cable surveillance to the strategy's common information sharing environment. Lastly, the authors advocate the EU engaging in 'cable diplomacy' and capacity-building programmes.

## Potential costs

It is not easy to quantify the cost of damage to these cables. At the same time, when an undersea network cable serving Somalia was accidentally damaged by a container ship in 2017, the [government](#) of Somalia noted that the country was losing almost US\$10 million a day as a result of the lack of connectivity.<sup>10</sup>

The costs could be much higher however: [every day](#), SWIFT, the Society for Worldwide Interbank Financial Telecommunication, transmits some 20 million messages to more than 8 000 banking organisations, security institutions, and corporate customers in nearly 200 countries, reconciling trillions of dollars' worth of assets across global financial markets. Intercontinental Exchange, which operates a global network of currency exchanges and clearing-houses, typically processes over 10 million contracts each day, covering energy, commodity, financial, and equity derivatives

markets. Without the undersea fibre-optic network, this type of electronic banking and commerce simply could not happen. If the cable system were shut down completely, millions of transactions would be cut short.

Submarine cables are also critical for transatlantic security as governments rely heavily on this infrastructure for their own communications. [Diplomatic telegrams](#) and military orders pass through these cables, as military-operated and classified cables remain marginal. Undersea cable breakages between Egypt and Italy in [2008](#) led US drone flights in Iraq to decrease sharply from hundreds to tens a day. This reliance on subsea cables to project and sustain power is projected to increase, as there are [many](#) military applications of 5G in intelligence, command and control, and unmanned and autonomous vehicles.

The aforementioned examples only concern two areas, but damage to cables would also impact several other areas, including private communication and usage, and trade.

## The EU and submarine communication cables

In December 2022, the Council adopted a [recommendation](#) on a Union-wide coordinated approach to strengthen the resilience of critical infrastructure. The recommendation set out targeted action at EU and Member State level for enhanced preparedness, enhanced response and international cooperation to protect critical infrastructure with significant cross-border relevance. In the recommendation, the Council invited the Commission to carry out a comprehensive study concerning the resilience of submarine communication cables and to consult relevant stakeholders and experts on appropriate measures in relation to possible significant incidents regarding submarine infrastructure.

The Commission's work became very topical and urgent following the sabotage of a submarine telecoms cable in the [Baltic Sea](#) in October 2023, with the prime suspect being a Chinese vessel.

On 21 February 2024, the Commission published a [recommendation](#) on the security and resilience of submarine cable infrastructure, in which it identified a series of relevant targeted actions that could be pursued by Member States at national and EU level. At national level, Member States are encouraged to (i) carry out risk assessments on the cybersecurity and the physical security of submarine cable infrastructure; (ii) encourage and support operators of submarine cable infrastructure in regular stress-testing based on common principles at EU level; and (iii) consider the fast-tracking of permit-granting procedures.

At EU level, the recommendation encourages Member States to assist the Commission in mapping the existing submarine cable infrastructure at EU level and update their national mapping exercises, at least annually. They should also regularly exchange information on situational awareness, incidents and incident response, as well as best practice. In addition, they should assist the Commission in proposing a draft list (to be reviewed annually) of strategic cable projects of European interest, to be supported through EU programmes (complemented with national funds).

These strategic projects should be funded by private financing, supported where necessary and appropriate by Union programmes, potentially complemented with national resources, in compliance with State aid rules.<sup>11</sup>

Lastly, Member States and the EU should be encouraged to cooperate in promoting the development of secure, trusted and resilient submarine cable infrastructure with enlargement countries, third countries, strategic partners, and in multilateral and multi-stakeholder forums.

## European Parliament position

In its [resolution](#) of 7 June 2022 on the EU and the security challenges in the Indo-Pacific, Parliament highlighted the fundamental role that connectivity plays in the geopolitical relations of the EU and its Member States. It noted the 'importance of connectivity cooperation for the EU and the Indo-Pacific region to successfully face up to the new security challenges, including cybersecurity, digital

connectivity, and critical infrastructure, and believes that this should also include efforts to ensure the security of the global internet infrastructure, including undersea cables'.

## ENDNOTES

- <sup>1</sup> The organisation notes further that rates from Shanghai to Europe have more than tripled (+256 %), while rates to the west coast of the US have increased by 162 %, although ships on this route do not go through the Suez Canal.
- <sup>2</sup> For vessels with cargo valued at US\$100 million, the insurance increasing from 0.1 % to 0.5 % or more, meaning an increase in insurance costs of US\$0.5 million to US\$1 million or possibly more.
- <sup>3</sup> This is reflected in the relevant indexes, with the Baltic Dry Index, (raw materials) increasing to US\$3 000 in mid-December 2023, but retreating to US\$1 503 by January, while [Drewry's World Container Index](#) (cargo containers) increased from US\$1 521 in mid-December, to US\$3 777 in mid-January.
- <sup>4</sup> Such a spill was avoided in August 2023 when the oil tanker FSO Safer was successfully [drained](#) of its contents.
- <sup>5</sup> Tesla had to shut down its factory near Berlin from the end of January 2024 until 11 February 2024 because of shipment delays. Similarly, Volvo idled its assembly line in Ghent, Belgium, for three days in March while waiting for a key part for transmissions. Production at a Suzuki Motor Corporation plant in Hungary stopped for a week because of a delay in getting engines and other parts from Japan.
- <sup>6</sup> The Associated Press refers to the chief executive officer of the American Apparel & Footwear Association, according to whom, around 40 % of clothes and 50 % of shoes imported in the EU –and 20 % for the US– traverse the Red Sea.
- <sup>7</sup> The Suez Canal [contributed](#) US\$9.4 billion in 2023 or approximately 2.3 % of Egypt's GDP.
- <sup>8</sup> For over a decade, the shipping industry has been adopting reduced sailing speeds to cut fuel costs and curb greenhouse gas (GHG) emissions from ships. For a large container ship, a 1 % speed increase typically results in a 2.2 % rise in fuel consumption. In this context, UNCTAD [estimates](#) that GHG emissions for a round trip (from Singapore to northern Europe) may rise by over 70 % per trip.
- <sup>9</sup> [Generally](#), submarine cables are no larger than 60mm diameter. The remainder being made up of a polyethylene insulating/water proofing material, a copper core (needed to transmit power to signal boosting equipment), and potentially varying combination types of steel armour wires - depending on location and application of the cable on the sea floor.
- <sup>10</sup> At the time, the Minister of Posts, Telecommunication and Technology, said during an interview with [Xinhua News](#) that 'The average loss that lack of internet services is about \$10 million per day. We lost \$130 million only in the past two weeks after missing the services which was the lifeline of our people'.
- <sup>11</sup> EU funding could be implemented through grants, procurement, blending operations, including currently under InvestEU, or public private partnerships, according to the rules of the relevant programmes. Member States are encouraged to consider contributing to the financing of those projects for instance through the participation of their national promotional banks and institutions or other implementing partners in blending facilities or using budget from the Connecting Europe Facility.

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