What are the Consequences of the Suez Crisis?

For an entire week, the giant container ship Ever Given blocked one of the most important waterways in world trade between the East and West: the Suez Canal. This incident not only caused a serious disruption along the transport route, where about 400 ships backed up due to the accident, but also caused serious financial losses to many, which could amount to hundreds of billions of dollars due to the downtime experienced by more than one hundred ships, and the fact that several routes for the transport of goods between Europe and Asia were blocked.

All this prompted some countries to start talking about looking for alternatives to the Suez Canal, and many transportation companies that carry goods between Europe and Asia have already begun to seriously review some of them. Objectively, one of the most interesting options is the route that lies through Russia: This means either the Northern Sea Route (NSR) or the Russian Trans-Siberian Railway. Much has already been said about the prospects held by the NSR: the polar ice is rapidly melting, vast bodies of water are swiftly becoming freed up, and the distance between Europe and Asia is significantly shrinking. Previously, the Kremlin set the goal to increase the volume of cargo traffic through the NSR up to 80 million tons per year by 2024, but the “Suez incident” could change everything, and speed up the transition to a more active phase of taking advantage of the Northern Sea Route.

However, in recent days debate that is no less energetic has begun to originate regarding how to calculate the real losses incurred from the blockage that occurred, and who can pay out compensation to the affected parties. The global market has already suffered massive financial losses because of this incident. Losses will encompass direct losses for the canal, the costs associated with delayed shipment deliveries, and the additional costs for using
alternative transportation routes that many companies have resorted to using. This list is very extensive, and items could be added onto it.

The Suez Canal is one of the main pillars of the Egyptian economy, and is its most reliable source of national income, bringing about 5.6 billion USD a year into the Egyptian treasury. Compared to other sectors in the economy that may be exposed to various risks, or affected by certain kinds of events (in particular, the coronavirus), the canal reaps stable revenues during any catastrophe. According to Egyptian experts, Egypt was losing about 15 million USD daily due to the blockage along the Suez Canal. This sum includes the money earned for ships to pass through the canal that the country has not yet managed to collect due to stopped cargo traffic, as well as the cost of transportation and stevedore services that operate in cities that run along the international shipping corridor.

Losses for world trade, according to estimates from the prominent German insurance company Allianz, amounted to 10 billion USD for the week. The same estimates are contained in a study delivered by Euler Hermes, a world leader in credit insurance and accounts receivable management. According to Euler Hermes, following just a week of having the Suez Canal blocked, there could be a decrease in the annual growth rate for world trade by 0.2 - 0.4 percentage points.

Analysts at the Allianz insurance company point out that the blockage on the Suez Canal exacerbates the problem of cargo shipments in world trade getting delayed or canceled. Specifically, a scarcity of semiconductors and other goods could cause world trade to incur losses in the amount of 230 billion USD, or 1.4% of its volume. In this regard, comparisons have been drawn with the negative consequences for Europe during the spring of 2020, when the first lockdown was introduced because of the coronavirus, and the consequences for the United States are much worse.

However, according to data published by the Egyptian publication NoonPost, Lloyd’s List believes that the real losses exceed the estimates made by the German insurance company Allianz. In particular, it is indicated that the grounded container ship Ever Given blocking the Suez Canal brought daily losses of 9.6 billion USD. In other words, blocking the canal costs 400 million USD per hour. Given that the Suez Canal is the main shipping corridor between East and West, Lloyd’s List estimates that vessel traffic in the western direction costs about 5.1 billion USD per day, while movement in the eastern direction costs approximately about 4.5 billion USD.

As far as the various countries that suffered significant losses due to the "Suez collapse" are concerned, the main losers in this situation were of course the Arab states, especially the countries on the Persian Gulf and North Africa, which depend on the Suez Canal as the main corridor to ship goods and fuel.

Europe, China, and the United States have also been hit hard by the blockage that occurred along the Suez Canal, since for them it is the main trade route via which they ship cargo to each other, or to the Middle East and Arab countries. For example, according to the Kiel Institute for the World Economy, Germany ranks first among European countries affected by the blockage on the canal, since 8-9% of all its maritime vessel traffic passes through it.

Vail Kaddur, a former board member of the Suez Canal Authority, previously stated that according to maritime law the captain of the ship is primarily responsible for the incident. In addition, part of the blame lies with the company that owns the vessel. At the same time, it has been pointed out that in actuality not everything is quite so clear-cut, and all these risks are initially insured, so companies specializing in this are already holding talks on this issue. Despite the fact that their jurisdiction is limited, the insurance coverage involved is a large amount.

While all this does not completely eliminate the responsibility borne by the ship's captain, first an investigation will be conducted to find out the degree of guilt attributable to the crew and its leader. In addition, the captain and his crew are also insured, so their culpability will not be reflected in compensation payouts.

According to the comments made by experts, as far as the responsibility of the marine pilots goes in this situation they are not guilty since, generally speaking, as a rule, they only act as advisers to the captains.

Yumi Shinohara, a spokesman for the Japanese company Shohei Kisen, which owns the Ever Given container ship, said in an interview with Reuters on March 30 that the company has not yet received any claims, or been the subject of any lawsuits, for compensation for damages. Nonetheless, he promised to continue to look into the incident and its financial implications, including insurance claims and potential damages.

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