



PARLIAMENTARY ASSEMBLY OF THE MEDITERRANEAN  
ASSEMBLEE PARLEMENTAIRE DE LA MEDITERRANEE

برلمان البحر الأبيض المتوسط

**PAM Background Note**

**Houthi's attacks in the Red Sea and the repercussions on the global economy and regional security**

**I. Introduction**

In the aftermath of the outbreak of the Israeli-Hamas war, the PAM International Study Center drafted a Background Note analyzing the immediate effects of the war on the international financial and energy markets and on the PAM regions. The note predicted that the war would have had an important but limited impact on the region's economy and on the international financial markets, provided that a number of additional elements would not have materialized. Several weeks after, the assumption has proven to be essentially correct<sup>1</sup>. However, the recent attacks by the Iran-aligned Houthi militias against commercial ships, reportedly in response to the Israeli-Hamas war, has once again risen concerns over the possible repercussions of the Middle East crisis on the world economy and the Global Value Chains (GVCs).

**II. The security concerns in the Red Sea**

The Iran-aligned Houthis rebel group has been operating from Yemen's capital Sanaa since 2014 and has since then controlled much of Northern Yemen. The group has recently increased its attacks using missiles, drones, and even ballistic missile against commercial ships traveling from the Bab El Mandeb Strait towards the Suez Canal. According to the group, the attacks were directed at ships connected to Israel, and represented a direct response to the IDF's operations in the Gaza Strip<sup>2</sup>. Nonetheless, the attacks are in fact largely indiscriminate, also due to the fact that it is sometimes difficult, even for well-equipped naval forces, to identify ships' nationalities<sup>3</sup>. As a result of these attacks, and the one against the Platinum III ship on 15 December, the Mediterranean Shipping Company (MSC), the world's largest shipping company, announced that it would divert its fleet towards the Cape of Good Hope route<sup>4</sup>. Shortly after, other major companies, such as Maersk, Hapag-Lloyd and the French CMA CGM followed suit. In addition to that, oil and gas giants such as British Petroleum (BP) and oil tanker Frontline made similar announcements on 18 December<sup>5 6</sup>. This route

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<sup>1</sup> PAM Background Note, "The immediate Geoeconomic Implications of recent security deterioration in the Middle East", 12 October 2023

<sup>2</sup> <https://www.ft.com/content/deb4d0e7-e439-46bd-9cae-9f9da7a4b607?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8#myft.notification:daily-email:content>

<sup>3</sup> On the issue of the "convenience flags" see, among others: "Small Boats and Daring Men", Prof. Benjamin Armstrong, OUP, 2021

<sup>4</sup> <https://www.bbc.com/news/world-middle-east-67738792>

<sup>5</sup> <https://www.reuters.com/world/middle-east/shipping-firms-avoid-red-sea-houthi-attacks-increase-2023-12-18/>

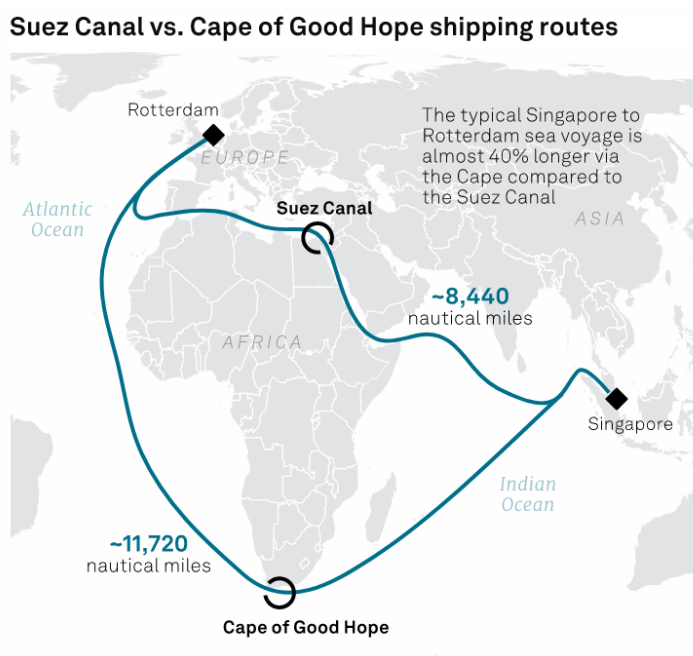
<sup>6</sup> <https://www.bbc.com/news/business-67758126>

diversion has raised concern over risks of potential Global Value Chains disruptions, with effects that, in the longer-term, could resemble the price raise immediately after the COVID pandemic.

### III. The importance of the Red Sea in the Global Economy

The international waterway that connects, through the Suez Canal and the Strait of Bab el Mandeb, Europe and the Middle East, the Horn of Africa, the Gulf of Aden, the Persian Gulf and ultimately the Indian Ocean is of fundamental importance for international trade, for oil and gas commerce and thus for the world economy. Every year, around twenty thousand cargo ships pass through the Suez Canal, accounting for 12 percent of the global trade, while 7-8 percent of the oil and gas trade passes through the Canal annually<sup>7</sup> - which makes it a crucial Chokepoint for global trade.

The alternative route to reach Europe from East Asia requires ships to circumnavigate Africa, around the Cape of Good Hope, a route that is on average 10 days longer and clearly more costly in terms of fuel, crew, insurances, materials and delays in products' delivery due to possible congestion risks in other ports<sup>8</sup> (see chart below).



Source: Global Maritime Hub, S&P Global Commodity Insights

While it may be too early to determine the effects of such rerouting, international markets fear that, in the longer term, it could lead to higher global inflation, leading central banks around the world to resume raise in interest rates that only recently stopped. Moreover, it is worth noting that the crisis comes amid a decline<sup>9</sup> in global trade in goods in 2023. Hence, today's crisis is threatening a further decrease and the recovery in this crucial sector.

<sup>7</sup> <https://www.ispionline.it/en/publication/suez-canal-perspectives-after-ever-given-accident-32127>

<sup>8</sup> <https://www.bbc.com/news/business-67758126>

<sup>9</sup> UNCTAD, Handbook of Statistics, December 2023: <https://unctad.org/news/unctad-releases-handbook-statistics-2023>

Thus far, oil prices have reacted moderately to the crisis, rising on 18 December by only 1%, but stayed on the same level on 19 December<sup>10</sup>. On the contrary, gas prices<sup>11</sup> and insurance risks premium have risen shortly after the crisis<sup>12</sup>.

The uncertainty surrounding the Red Sea and the Suez Canal adds up to the sudden drought that hit the Panama Canal, adding risks of Global Value Chain disruptions, which could result in delays and higher prices head of the Christmas Holidays, which normally brings higher demand in commodities and goods<sup>13</sup>.

#### **IV. The International Community Response**

Following the increase in the number of attacks by the Houthis, and amid fear that a prolonged crisis in the Red Sea would contribute to a return of higher prices, inflation and economic stagnation, a number of willing countries have established a multinational maritime taskforce (operation “Prosperity Guardian”<sup>14</sup>) to be deployed in the Red Sea’s international waterway. Invited by the United States Defense Secretary, Lloyd Austin, several countries have joined the taskforce, including Britain, Bahrain, Canada, France, Italy, the Netherlands, Norway, Seychelles and Spain<sup>15</sup>. The mission’s aim is to deter further attacks by the Houthis militias and to ensure freedom of navigation and the “right of transit passage”, as indicated in art. 37 of the UNCLOS Convention<sup>16</sup>.

While previous similar efforts in the area have proven to be effective in combatting other groups and phenomena, such as the EU Atlanta Operation against piracy in Somalia<sup>17</sup>, a further military escalation in the zone would surely result in a sudden blockade of the Canal and generalized disruption on supply chains, with unpredictable effects on the global economy.

The situation remains extremely volatile, especially in light of the possible response from Iran to the taskforce establishment, as it warned the international community against potential “extraordinary problems” in the area<sup>18</sup>, while the US has not ruled out direct actions against the Houthis, should attacks against commercial ships continue<sup>19</sup>.

#### **V. Conclusions**

While the current security concerns in the area, couple with the risks of a further military escalation, have prompted major shipping and oil companies to temporarily suspend their passage through the

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<sup>10</sup> <https://www.bbc.com/news/business-67758126>

<sup>11</sup> <https://www.ft.com/content/deb4d0e7-e439-46bd-9cae-9f9da7a4b607?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8#myft.notification:daily-email:content>

<sup>12</sup> <https://www.reuters.com/markets/commodities/london-marine-insurers-widen-high-risk-zone-red-sea-attacks-surge-2023-12-18/>

<sup>13</sup> <https://www.ft.com/content/416310ed-9ad0-4cf8-b7df-fd59ce79847b>

<sup>14</sup> <https://www.theguardian.com/us-news/2023/dec/19/us-announces-naval-coalition-to-defend-red-sea-shipping-from-houthi-attacks>

<sup>15</sup> [https://www.reuters.com/world/middle-east/us-launches-new-multinational-operation-safeguard-red-sea-commerce-2023-12-18/?utm\\_source=Sailthru&utm\\_medium=Newsletter&utm\\_campaign=Daily-Briefing&utm\\_term=121923&user\\_email=24d8f4f1d98441023546c3ce566429f579cb3f84321b2197b2f9522b2c37e7dd](https://www.reuters.com/world/middle-east/us-launches-new-multinational-operation-safeguard-red-sea-commerce-2023-12-18/?utm_source=Sailthru&utm_medium=Newsletter&utm_campaign=Daily-Briefing&utm_term=121923&user_email=24d8f4f1d98441023546c3ce566429f579cb3f84321b2197b2f9522b2c37e7dd)

<sup>16</sup> <https://www.analisidifesa.it/2023/12/14/la-crisi-del-mar-rosso-e-la-protezione-degli-interessi-italiani/>

<sup>17</sup> <https://www.eeas.europa.eu/eeas/operation-atalanta-european-union-naval-force-somalia-takes-stock-after-13-years-operating-und-en>

<sup>18</sup> <https://www.aljazeera.com/news/2023/12/14/iran-warns-us-of-problems-in-response-to-red-sea-task-force-plans>

<sup>19</sup> <https://www.ft.com/content/deb4d0e7-e439-46bd-9cae-9f9da7a4b607?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8#myft.notification:daily-email:content>

Suez Canal, international markets have reacted moderately to the crisis so far. In the longer-term, however, should the Houthis attacks continue, or the multilateral taskforce prove to be ineffective or even counterproductive, global supply chains will likely experience a disruption similar to the one produced by the COVID pandemic, with unpredictable consequences for the global and regional economy.