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Top News - Oil

China oil output growth to slow in 2024 as supply harder to extract

China's surging oil production growth in recent years, the result of a concerted investment push, is expected to ease in 2024 as falling output from mature fields requires state oil companies to tap more challenging shale and ultra-deep reserves.

While China is the world's biggest crude importer, it was also the world's sixth-largest crude oil producer last year, according to the EI Statistical Review of World Energy, with heavy investment helping to reverse a significant decline between 2015 and 2018.

Production for 2023 at around 4.18 million barrels per day (bpd) remains below the 2015 record of 4.3 million bpd, but Goldman Sachs said that the upside surprise of China's output trails only the higher-than-expected production this year from the U.S., Iran and Russia.

For next year, analysts and agencies are divided on the outlook, with forecasts ranging from a drop in output by as much as 31,000 bpd or increase of up to 60,000 bpd, a growth slowdown that is likely to increase China's import dependency.

"The majority of China's oil fields are in a mature phase, facing natural production declines, (while) the scarcity of substantial new discoveries poses a challenge to sustaining long-term production growth at current rates," said Rystad Energy analyst Lin Chen.

After a 12% drop in output between 2015 and 2018, national oil companies Sinopec Corp, PetroChina and CNOOC Ltd ploughed cash into increased recovery at existing fields and exploration of new ones amid Beijing's push for greater energy security.

Since 2018, domestic oil output has grown an average of 2% per year.

"The Chinese majors have been working at maximum capacity to grow production," led by CNOOC, said Yu Baihui, analyst at S&P Global Commodity Insights.

BOOMING BOHAI

China's production from offshore fields totalled 58 million metric tons in 2022, equal to 1.16 million bpd and accounting for 60% of the country's total production increase, according to the National Energy Administration (NEA), centred on the Bohai basin off China's east coast, including the Bozhong 19-6 and Kenli 10-2 fields.

Offshore specialist CNOOC, the primary Bohai company, has boosted output from the region by 22% between 2018 and 2022.

On land, the state producers are developing shale assets and deep reserves, much of it in the west, including Sinopec's development of one of the world's deepest reserves in the Tarim basin of the Xinjiang region.

China's annual shale oil production exceeded 3 million tons in 2022, nearly quadrupling from 2018, the NEA said.

'HIGH-HANGING FRUIT'

However, the technical difficulty of exploring such wells means that China's oil production is unlikely to sustain growth.

"The new fields tend to fall into two camps: challenging, deep and remote new fields onshore, and new marginal discoveries offshore, primarily by CNOOC," said Angus Rodgers, head of Asia -Pacific upstream analysis at Wood Mackenzie.

The consultancy forecasts domestic production to fall by 0.8% to 3.94 million bpd next year, with a slow decline in the following years.

However, Rystad forecasts a 1% increase from 2023 to 4.22 million bpd next year, though they are less optimistic of growth after 2024.

The International Energy Agency (IEA) expects production to rise by 1.4% to 4.36 million bpd.

Chinese state oil companies are now pushed to chase "high-hanging fruit", said Woodmac's Rodgers, such as PetroChina's Qingcheng shale oil field in the Ordos basin.

PetroChina estimates that there are some 7.3 billion barrels of oil in place at Qingcheng, but high costs mean that only a small portion of this is currently commercially viable, Woodmac said.

"We think it will be very challenging for China to maintain oil production growth," Rodgers said.

US Gulf of Mexico oil auction is largest since 2015

A Biden administration auction of Gulf of Mexico drilling rights raised $382 million on Wednesday as oil companies claimed offshore acreage for what is set to be the last time until 2025.

The auction total was the highest of any federal offshore oil and gas lease sale since 2015, according to a Reuters tally.

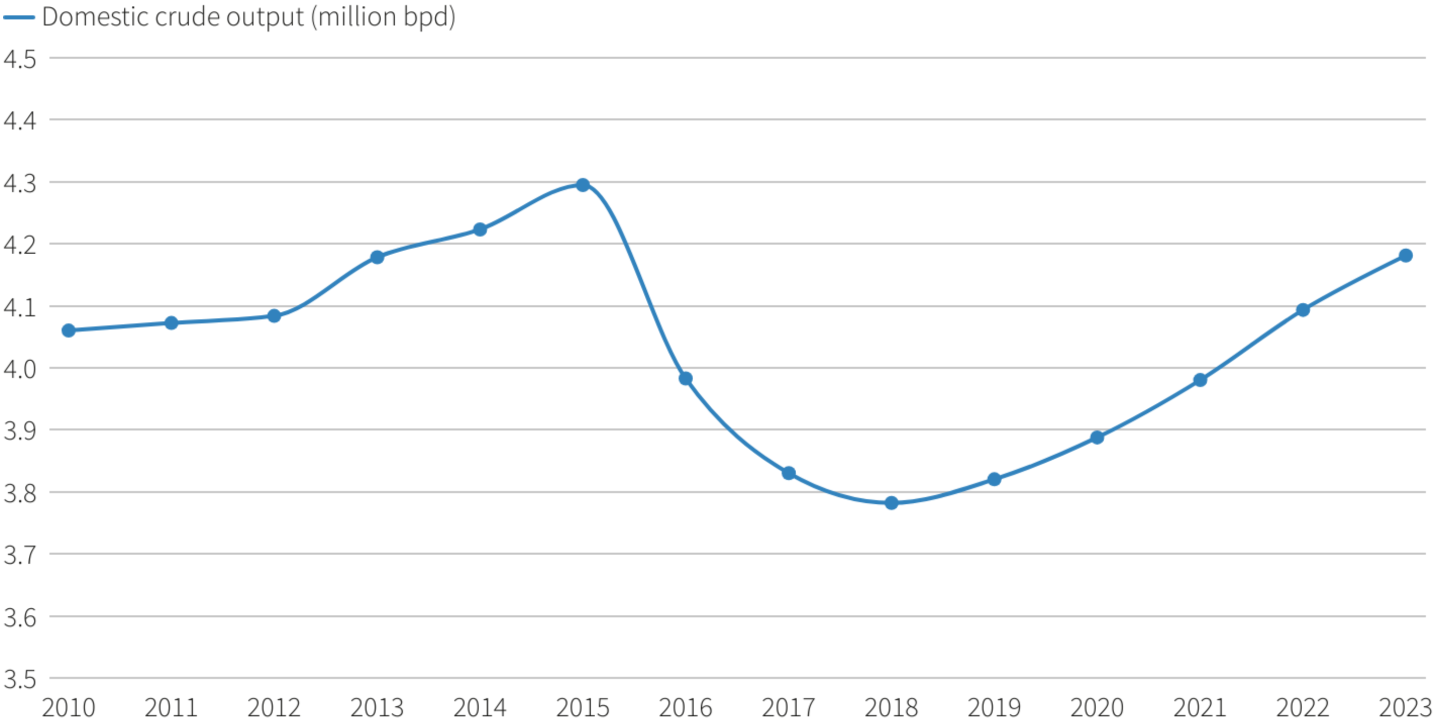
Shell, Hess, Anadarko, BP, Chevron, Repsol and Equinor were among the 26 companies that participated in the sale.

Anadarko had the auction's highest bid of more than $25 million for a block in the deepwater Mississippi Canyon area, according to an online broadcast of the sale by the

U.S. Bureau of Ocean Energy Management (BOEM).
The sale will likely be the last opportunity for oil and gas companies to bid on Gulf of Mexico acreage until 2025, according to the administration's five year schedule, which includes a historically low number of planned lease auctions.
An oil and gas industry group said the sale results underscored the Gulf of Mexico's role as an economic engine and called on Congress to require more leasing.
"The U.S. offshore oil and gas industry is stepping up and making the investments vital to enhance our energy, economic, and national security for decades to come," National Ocean Industries Association President Erik Milito said in a statement.
The sale of more than 72.7 million acres on the Outer Continental Shelf included 6 million acres that Interior Department officials had tried to withdraw months ago to protect the habitat of the Rice's whale.
A federal judge ordered that the sale be expanded after oil and gas companies sued.
An environmental group said the oil industry was prioritizing profits over the environment.
"Perpetual leasing, new fossil fuel export projects and oil spills are creating a hellish situation for marine life and Gulf communities," Center for Biological Diversity's oceans legal director, Kristen Monsell, said in a statement.
About 2.4% of the acreage offered received bids, according to a document of pre-sale statistics posted on BOEM's web site. More than three-quarters of the tracts that received bids were in water more than 800 meters (2,625 feet) deep.
BOEM will release additional auction statistics later on Wednesday.
President Joe Biden has sought to limit new oil and gas leasing as part of his climate change agenda, but a new federal law made offshore wind leasing contingent on offering oil and gas drilling rights.
The Biden administration sees offshore wind development as important to decarbonizing the U.S. power sector.
The sale comes days after the United States and nearly 200 other nations agreed to begin reducing consumption of fossil fuels to avert the worst impacts of climate change.

Chart of the Day

China has considerably increased domestic oil production since 2018



Note: 2023 figures are for January - November
Source: National Bureau of Statistics

Top News - Agriculture

Farm, rail companies urge reopening of US-Mexico crossings shut over migrants

Dozens of major U.S. agricultural groups on Wednesday urged the U.S. to reopen two rail crossings on the Texas-Mexico border in an effort to restore the trade routes shuttered due to increased migrant crossings, saying they are causing steep export losses.

In a sharply worded letter to U.S. Homeland Security Secretary Alejandro Mayorkas, the growers - representing corn, milk, rice and soybean producers, among others - said the crossings could be easily reopened.

"Each day the crossings are closed we estimate almost 1 million bushels of grain exports are potentially lost along with export potential for many other agricultural products," the groups wrote, adding that blocking food heading to Mexico could lead to inflation or food insecurity there.

Railroad companies and business groups, including the U.S. Chamber of Commerce, in recent days have pressed U.S. Customs and Border Protection (CBP) to reopen the two rail bridges in Eagle Pass and El Paso, Texas, after U.S. border authorities closed them on Dec. 18 in order to "redirect personnel" to process migrants crossing the border.

Among the groups signing the agricultural business letter were the National Grain and Feed Association, U.S. Wheat Associates, American Soybean Association and National Corn Growers Association.

U.S. Border Patrol apprehended about 10,800 migrants at the southwest border on Monday, according to an internal agency report reviewed by Reuters, which several current and former officials said was near or at a single-day record high.

The news came after Mexico's immigration agency said in an internal Dec. 1 memo reviewed by Reuters that it would suspend migrant removals due to an end-of-year funding crunch.

Operations should return to normal in January, a Mexican source familiar with the matter said, adding that the U.S. closure of legal border crossings appeared to be an attempt by the U.S. to pressure Mexico over the scaled-back enforcement.

Mexico's foreign ministry spokesperson said no date had been set for resuming the repatriations.

The agricultural groups said CBP could reopen the railroad bridges with as few as five employees per crossing, challenging the agency's rationale for closing the trade routes.

A White House spokesperson said on Wednesday that the U.S. is "working closely with the Mexican government in attempt to resolve this issue, and also surging personnel to the region. We are communicating regularly with industry leaders to ensure we are assessing and mitigating the impacts of these temporary closures."

In October, total rail freight between the El Paso and Eagle Pass ports topped $3 billion in both directions, according to the U.S. Department of Transportation. That accounted for some 4% of total trade across the U.S.-Mexico border that month.

Neil Bradley, chief policy officer of the U.S. Chamber of Commerce, said in a statement to Reuters that the rail shutdowns "will inflict significant economic harm" and "do nothing to secure the border."

The increase in migrant crossings comes as Democratic President Joe Biden, who is running for re-election in 2024, has sought to strike a deal with Republican lawmakers that would pair increased U.S. border security with military aid for Ukraine and Israel. But a bipartisan group of senators negotiating a compromise have so far failed to reach a deal as a Christmas break approaches.

'NEED TO HAVE OPEN TRADE'

Eagle Pass and El Paso have received thousands of newcomers in recent days, as migrants - including many families with young children - make their way to the border by bus, atop cargo trains, on foot and even by bicycle.

Among them was Isabel Rodriguez, 55, who said he fled his home country of El Salvador after he was attacked earlier this year by gang members who were enraged that his nephew had refused to join their ranks.

"I left my country because they threatened to kill me, and they said they would find me wherever I went," he said, speaking by the riverbank in the Mexican city of Piedras Negras, across from Eagle Pass.

On Wednesday in Eagle Pass, hundreds of migrants were being held in an outdoor area near the Rio Grande. Three migrants were carried out with medical emergencies in the afternoon while others called out for food, a Reuters witness said.

CBP said it was aware of two medical emergencies, one related to dehydration and another that appeared to be seizure-related. During a press conference near the border, U.S. Representative Tony Gonzales, a Republican who represents Eagle Pass, urged U.S. lawmakers to make legal changes to deter illegal border crossings that have disrupted trade and transit.

"This has to come to an end," Gonzales said. "We need to have open trade and commerce again."

Some 270 U.S. Immigration and Customs Enforcement (ICE) agents have been pulled from their jobs handling deportations and international investigations to help with migrant transport and other tasks at the border, a Department of Homeland Security (DHS) official told Reuters, requesting anonymity to discuss internal operations.

Union Pacific and Berkshire Hathaway's BNSF Railway, two of the nation's largest freight railroad companies, warned of supply chain disruptions ahead of the Christmas holiday due to the railway bridge closures.

Union Pacific said in a statement on its website that a range of products - including grain, beer, metals, cement and automotive parts - have been halted due to the closures. The closed bridges account for about 45% of its cross-border shipments and that the overall economic impact of the closure will be more than $200 million per day. BNSF declined to comment on the value of goods affected by the closings.
In addition to the railroad crossing closures, U.S. border authorities this month have closed a busy pedestrian crossing near San Diego, California, and another crossing in remote Lukeville, Arizona, to free up workers to process arriving migrants.

French wheat area to fall 11% to lowest since 2000 after rain – Argus
The area sown with soft wheat for the 2024 harvest in France is set to fall to its lowest level since at least 2000 at 4.24 million hectares (mln ha) as two months of heavy rain took their toll on crops, consultancy Argus Media said on Wednesday.
The estimate is down by 530,000 hectares or 11% from the current marketing year's crop and includes an estimated 54,500 hectares of late planting that farmers are set to sow in the coming days, Argus, which took over the Agritel consultancy, said.
The farm ministry last week already warned of a sharp fall in the sowing of winter cereals after heavy rain disrupted field work in the European Union's largest grain producer. But it was less pessimistic, projecting the soft wheat area at 4.49 mln ha, down 5.1% from this year's harvest.
All regions in France are expecting a year-on-year drop in planted areas for soft wheat, Argus said.
The region of Nouvelle Aquitaine in southwestern France suffered the greatest impact after receiving 445 millimetres (mm) of cumulative rainfall over the past two months, leading to a fall in area estimated at 29%.
Soft wheat crop conditions were the best in the northeast of the country, where wheat was sown in early October and able to establish itself before rain set in, the consultancy said.
For rapeseed, Argus estimated the planted area in France at 1.34 mln ha versus 1.35 mln ha last season.
"The rapeseed crop has generally fared much better than winter wheat. That said, crop conditions are worth monitoring, given a particularly low yield recorded in 2020 after a dry spring followed wet weather in the autumn," it said. Argus' estimates are based on feedback from over 1,200 farmers across France collected Dec. 7-14.

MARKET MONITOR as of 07:45 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$74.17 / bbl	-0.07%	-7.59%
NYMEX RBOB Gasoline	$2.19 / gallon	-0.57%	-11.45%
ICE Gas Oil	$790.50 / tonne	-0.94%	-14.17%
NYMEX Natural Gas	$2.43 / mmBtu	-0.65%	-45.68%
Spot Gold	$2,035.00 / ounce	0.29%	11.54%
TRPC coal API 2 / Dec, 23	$99.5 / tonne	0.00%	-46.14%
Carbon ECX EUA	€76.31 / tonne	1.03%	-9.12%
Dutch gas day-ahead (Pre. close)	€32.85 / Mwh	3.79%	-56.53%
CBOT Corn	$4.83 / bushel	0.10%	-28.76%
CBOT Wheat	$6.25 / bushel	0.52%	-21.82%
Malaysia Palm Oil (3M)	RM3,755 / tonne	-0.61%	-10.04%
Index	**Close 20 Dec**	**Change**	**YTD**
Thomson Reuters/Jefferies CRB	303.93	-0.48%	0.86%
Rogers International	26.69	0.70%	-6.91%
U.S. Stocks - Dow	37,082.00	-1.27%	11.87%
U.S. Dollar Index	102.32	-0.09%	-1.16%
U.S. Bond Index (DJ)	428.42	0.26%	9.16%

Top News - Metals

Nippon's US Steel deal needs scrutiny, says Biden campaign adviser Deese

Brian Deese, a key player in President Joe Biden's 2024 re-election bid, said on Wednesday that Nippon Steel's proposed purchase of U.S. Steel was concerning and that the administration should look closely at it.

Several Democratic and Republican U.S. senators have criticized the deal this week, citing national security concerns or raising questions about why the two companies did not consult U.S. Steel's main union ahead of the announcement.

Deese ran the White House's National Economic Council for the first two years of Biden's presidency and helped set the administration's economic priorities.

"It is concerning and the announcement raises a set of issues that the administration should and likely will look closely at," Deese said during a call hosted by Biden's re-election campaign. "The particulars of this announcement do raise real, legitimate concerns that do need to be looked closely at."

Nippon said on Monday it would buy Pittsburgh-based U.S. Steel for $14.9 billion in cash, prevailing over rivals such as Cleveland-Cliffs, ArcelorMittal and Nucor in an auction for the 122-year-old steelmaker.

The White House has been tight-lipped about the deal, saying only that there could be a regulatory review, in a reference to a likely review by the Committee on Foreign Investment in the United States (CFIUS) and possibly antitrust authorities.

Democratic Senator Sherrod Brown, who chairs the Senate Banking Committee, on Wednesday urged Biden in a letter to explore "all options" to scrutinize the Nippon-U.S. Steel deal.

Brown said the Democratic president should require "an evaluation of potentially applicable antitrust authorities and a CFIUS review to assess any national security risks" and if the deal "is in the best interest of U.S. workers, consumers, and national security."

LIKELY REVIEW

Three U.S. Republican senators on Tuesday urged Treasury Secretary Janet Yellen to block the deal, citing national security concerns. Yellen chairs CFIUS, a closed-door panel that scrutinizes deals for potential national security risks.

Philip Bell, the president of the Steel Manufacturers Association, said Japan is a trusted U.S. ally and the deal does not appear to consolidate control of iron ore mining or automotive steel production under a single company, as Cliffs' proposed purchase earlier this year of U.S. Steel would have done.

U.S. Steel itself is not a member of the trade group, but its Big River Steel subsidiary is. U.S. Steel said in securities filings that the deal is subject to CFIUS approval and "certain other foreign regulatory approvals."

"There will likely be a (CFIUS) review, but they will probably not block it," said Sarah Bauerle Danzman, who teaches international studies at Indiana University. She said CFIUS could only block the deal if it found "a clear national security threat."

She said transactions involving a Japanese investor happen frequently, with some 60 Japanese transactions reviewed between 2020 and 2022, according to the recent CFIUS annual report.

A similar political outcry arose over a deal involving U.S. assets and a foreign buyer in 2006 when Dubai Ports World took over the global assets of Britain-based P&O - including ports in New York and New Jersey.

While CFIUS approved that deal, Dubai Ports came under tremendous political pressure from U.S. lawmakers and later relinquished the port operations it had purchased to American International Group Inc.

Czech minister calls on Liberty Ostrava steel owners to return cash to firm

The Czech industry minister on Wednesday called on the owners of steel maker Liberty Ostrava to return money lent to related parties to the firm.

Liberty, which has an annual capacity of 3.6 million metric tons of steel and employs about 6,000, is on the brink of collapse after its energy supplier declared insolvency over missed payments from the steel maker and prepared to cut off energy supplies.

The company, whose parent Liberty Steel is owned by commodities tycoon Sanjeev Gupta, has idled production and shut-off furnaces as it battles a decline in the European steel market. After meeting Liberty Ostrava representatives, Industry and Trade Minister Jozef Sikela said the state would consider various options including an insolvency petition, depending on modifications it requested to a restructuring plan and the owners' willingness to return cash into the company.

He said Liberty was owned 7 billion crowns by related firms and the state was owned 1.5 billion crowns by Liberty. "The decisive factor will be a clear commitment from the group, that means a materially significant sum...flowing back into the firm in January and following months," Sikela said a briefing shown live on television.

He said Liberty, which won a court order in November protecting it from its energy supplier Tameh, assured him that the production shutdown was reversible and that employees would continue to receive salaries.

Liberty Ostrava and its parent Liberty Steel Group did not immediately respond to a request for comment.

Tameh was declared insolvent on Tuesday after Liberty, its main customer, missed payments. It expects to finish shutting down supplies to Liberty by Thursday afternoon.

A spokesperson for the Czech company earlier said that some employees would continue to work to maintain equipment while others would remain at home.

Top News - Carbon & Power

Canada announces deal to backstop carbon credit prices for Entropy CCS project

The Canada Growth Fund (CGF), a federal clean-tech financing agency, on Wednesday said it would invest C$200 million in carbon capture and storage developer Entropy Inc and backstop carbon credit prices for the first time.

Under the terms of the 15-year deal, known as a carbon credit offtake (CCO) commitment, the CGF has agreed to buy up to 1 million tonnes a year of carbon credits generated by Calgary-based Entropy, a subsidiary of oil and gas producer Advantage Energy.

The initial commitment will enable Entropy to sell up to 185,000 tonnes a year of credits, generated by the second phase of a carbon capture and storage project at Advantage's Glacier gas plant in Alberta, to the CGF at a price of C$86.50 per tonne.

Last year the company also agreed a C$300 million investment deal with infrastructure firm Brookfield.

"By creating a large-scale CCO to guarantee long-term carbon pricing and adding C$200 million to our existing Brookfield funding for third-party projects, Entropy has a clear path to accelerating growth and reducing emissions, right here at home," Entropy CEO Mike Belenkie said in a statement.

The CGF is a C$15 billion body set up last year by Canada's Finance Ministry to help attract private investment in clean tech by mitigating financing risks.

Ottawa has been working on ways to provide carbon price certainty to firms looking to invest in carbon capture and storage to reduce their emissions, in addition to providing investment tax credits.

Canada is the world's fourth-largest crude producer and the oil and gas sector is its highest-polluting industry, accounting for more than a quarter of all emissions.

National Bank analysts said the deal was a "massive milestone" for Entropy.

Dale Beugin, executive vice president with the Canadian Climate Institute, said the investment will help minimize risk in clean growth projects and make carbon pricing work better in Canada.

"By guaranteeing value for Entropy Inc's carbon credits, this investment drives emissions reductions, without crowding out private investment," Beugin said.

Orsted to proceed with mega Hornsea 3 North Sea wind farm

Orsted said on Wednesday it had made a final investment decision on the Hornsea 3 project off Britain's coast, indicating it will proceed with what will become the world's largest offshore wind farm.

The project, which will have capacity to power more than 3.3 million UK homes and is expected to cost 70-75 billion Danish crowns, is targeted for completion by the end of 2027.

The 2.9-gigawatt project is seen as vital for Britain's push to boost energy security and its renewable power output to meet climate targets.

The decision comes after several developers cancelled projects in Britain and the United States this year as soaring costs made them unprofitable.

Orsted, the world's biggest developer of offshore wind, last month halted the development of two U.S. offshore wind projects and said related impairments had surged above $5 billion.

Orsted said Hornsea 3, which is part of a wider array at the Hornsea site off the Yorkshire coast, has a value creation "around the bottom end" of its targeted return on projects. Bernstein analysts projected the internal rate of return at 7-7.5%.

Development of the Hornsea 3 project had been in doubt due to rising upfront costs, as the industry grapples with supply chain delays and higher costs.

Most of the capital expenditure for the project was contracted ahead of recent inflationary pressures, securing competitive prices, Orsted said.

Governments have shown more willingness in recent months to pay higher prices for offshore wind, a renewable energy source that would help them cut emissions and reach climate targets.

Orsted was last year offered a price for power production at Hornsea 3 of 37.35 pounds per megawatt hour (MWh) in inflation-indexed 2012 prices.

In response to a September auction that failed to attract any offshore bids, the British government announced it will increase the price offered at its next renewables auction, with offshore wind projects to be offered 73 pounds per MWh.

Orsted has permission to submit up to 700,000 MW of the project's capacity in future bidding rounds, potentially allowing it to double the offtake price.

Shares in Orsted, which have more than halved this year after massive writedowns on U.S. projects, rose as much as 5% on Wednesday.

Top News - Dry Freight

Shipping industry in the dark over US-led Red Sea navy force

Shipping companies remain in the dark over a new international navy coalition being assembled by the United States to combat attacks in the Red Sea, with many vessels continuing to avoid the area or cancelling contracts, sources said on Wednesday.

The sources, who include shipping and maritime security officials, say few practical details are known about the initiative launched on Tuesday by Washington or whether it will directly engage in the event of further armed attacks at sea.

Iran-backed Houthi militants in Yemen have since Nov. 19 stepped up attacks on vessels in the Red Sea to show support for Hamas as Israel's military offensive in Gaza continues.

Their leader said on Wednesday the group would strike U.S. warships if it is targeted by Washington.

Houthi fighters have fired missiles and launched seaborne assaults on ships from fast boats. Missiles fired have been repelled by U.S. warships.

"There are still a number of unknowns with the coalition. We don't know exactly how many warships will be involved, how long it will take those vessels to get to the region, or their rules of engagement and the actual protection scheme that will be put in place," said Corey Ranslem, chief executive of British maritime risk advisory and security company Dryad Global.

"Globally this is a fairly small area, however providing protection to commercial vessels in this region could be a major undertaking depending on the number of vessels along with any changes to the Houthi tactics."

On Nov. 19, Houthi commandos landed on car carrier Galaxy Leader by helicopter and took it back to Yemen's northern Hodeidah port. The vessel and its crew are still being held.

The attacks have disrupted a key trade route that links Europe and North America with Asia via the Suez Canal and caused container shipping costs to rise sharply as companies seek to ship their goods via alternative, often longer, routes.

Dryad's Ranslem said the threat to commercial shipping was likely to continue as the war goes on.

"A number of global shipping companies are diverting around Africa or completely pausing operations within this region. If the coalition efforts are not effective we expect more shipping companies to divert around the Cape," he said.

Traffic through the narrow Bab al-Mandab strait connecting the Red Sea and the Gulf of Aden fell by 14% in the Dec. 15-19 period compared with Dec. 8-12, according to data from AIS ship tracking and maritime analytics provider MarineTraffic.

U.S. Secretary of Defense Lloyd Austin, on a visit this week to Bahrain, home to the U.S. Navy's headquarters in the Middle East, said Bahrain, Britain, Canada, France, Italy, the Netherlands, Norway, Seychelles and Spain were among nations involved in the Red Sea security operation.

The group will conduct joint patrols in the southern Red Sea and the adjacent Gulf of Aden.

"Will they do anything except swat the missiles out of the sky? If that's all, then will it give the assurances that are needed for shipping companies? We don't know yet," said one shipping industry source.

"The market needs to see it have some success or concrete action," another source said.

The International Chamber of Shipping said it expected the new task force to enable a "co-ordinated effort across a large number of military warships that will provide a significant suppressive response".

Container shipping companies in particular have continued to pause their voyages through the Red Sea, using instead a route around Africa that adds days to journey times and raises costs. That in turn has stoked worries about delays to deliveries and price rises that could trigger a new bout of global inflation.

"We will continue to re-route all vessels planned until Dec. 31. Then we will reassess the situation and decide," a spokesperson for Germany's Hapag Lloyd said.

Another shipping industry source said some ship owners had cancelled charter contracts through the Red Sea citing "unsafe navigation", or were requiring a risk premium on top of reimbursement for rising war risk insurance cover.

A U.S.-led Combined Maritime Force already exists, comprising 39 countries and based in Bahrain. Its main focuses are "counter-narcotics, counter-smuggling, suppressing piracy, encouraging regional cooperation", according to its website.

The new coalition will initially be led by the United States and Britain and other members over time "will be persuaded to do their bit", said Gerry Northwood, a consultant with maritime security company MAST and former British navy captain.

"So, industry will have to lump it," said Northwood, who once commanded warships in the region.

"The rules of engagement will be configured to allow the ships to defend shipping against surface and air threats. Taking the fight to the Houthis ashore will be for a different operation."

Exporters explore cargo flights as way out of deepening Red Sea bottleneck

Exporters are scrambling to find alternative air, land and ocean routes to get toys, apparel, tea and auto parts to retailers as disarray ripples through freight supply chains around the world during a wave of attacks in the Red Sea.

Iran-backed Houthi militants in Yemen have stepped up attacks on vessels in the Red Sea since Nov. 19 to show support for Hamas during Israel's military offensive in Gaza.

The attacks have disrupted a key trade route linking Europe and North America with Asia via the Suez Canal. Container shipping costs have surged, more than tripling in some cases, as companies seek to move goods via other, often longer, ocean routes.

If there are extended disruptions, the consumer goods sector that supplies the world's top retailers like Walmart and IKEA will face the biggest impact, S&P Global said in a report.

Alan Baer, CEO of OL USA, has teams advising shipping and logistics clients to prepare for at least 90 days of Red Sea disruptions.

"It doesn't help that it's Christmas weekend," said Baer. "We'll have a quiet period from now until Jan. 2, and then everybody will be frenetic."

Some fast-acting companies already are trying to switch to so-called intermodal transport, which can involve two or more modes of transportation, said Jan Kleine-Lasthues, chief operating officer airfreight with leading German freight forwarder Hellmann Worldwide Logistics.

Hellmann has seen increased demand for combined air and sea routing for consumer goods like apparel as well as electronics and tech items, he said. For example, that could mean goods being transported first by sea to a port in Dubai, where they are then loaded onto planes.

"This alternative route allows customers to avoid the danger zone in the Red Sea and the long voyage around the southern tip of Africa," Kleine-Lasthues told Reuters.

While companies moving urgent or critical items might opt to use air freight, the expense means it is not a blanket solution, said Paul Brashier, vice president of Drayage and Intermodal for supply chain group ITS Logistics.

Moving goods by air costs roughly 5-15 time more than by sea, where container shipping rates are still low by historical standards, said Brian Bourke, global chief commercial officer at SEKO Logistics.

If the time it takes to get goods to shelves doubles, more shippers will switch to air - especially for high value goods like designer clothing and high-end electronics, said Bourke, who has already received queries from customers.

MAJOR TRADE ROUTE

Some 35,000 vessels sail through the Red Sea region annually, moving goods between Europe, the Middle East and Asia, representing about 10% of global GDP, said Corey Ranslem, CEO of British maritime risk advisory and security company Dryad Global.

U.S. retailers including Walmart, Target, Macy's and Nike depend on the route to get goods ranging from cotton sheets and electric toothbrushes from India to footwear from China and Sri Lanka.

"Under an extended threat you will see the price of fuel and goods into Europe increase substantially because of the increased costs of diverting around Africa which can add roughly 30 days to a transit depending on the arrival port," Ranslem said.

Tailwind Shipping Lines, a subsidiary of German discount supermarket chain Lidl, which transports non-food goods for Lidl as well as goods for third-party customers, said it was shipping goods around the Cape for now.

"Our aim is to remain as close to our schedule as possible," it said.

Shipping companies remain in the dark over a new international navy coalition being assembled by the United States aimed at stablising the area.

A Spanish fashion industry source told Reuters shipping lines were telling customers a lot was riding on the U.S.-led task force and whether it can prevent more attacks and make the route safe again.

It is critical that European companies are able to use the Suez Canal again to ensure supplies of clothes from Asia, the industry source said.

The timing of the Red Sea security issues compounds difficulties for shippers, said Jeb Clulow, partner in law firm Reed Smith's transportation industry group.

The Panama Canal is struggling with severe drought and has slashed the number of ship passages it allows. In addition, there is a race to get goods in transit before Chinese New Year factory closures planned for Feb. 10-17, which can disrupt supplies for a month or longer.

Meanwhile, large container ship owners have begun adding fees, including emergency surcharges, for cargo affected by the Red Sea disruptions.

In a customer notice on Wednesday, French shipping group CMA CGM announced fees of $1,575 per 20-foot container, $2,700 per 40-foot container and $3,000 for refrigerated containers and special equipment for cargo traveling to and from Red Sea ports.

Picture of the Day

Two people row a gondola nearby a bridge of the Naviglio Grande canal that was decorated with Christmas lights, in Milan, Italy, December 20. REUTERS/Claudia Greco

(Inside Commodities is compiled by Archak Sengupta in Bengaluru)

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