Potential Impacts of Red Sea Crisis Escalation on Food Insecurity in Yemen

Photo: James Devonshire/The Manufacturer/ 18th December 2023

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Main Highlights

- **Normal food and fuel imports:** Despite the escalation started in November, the analysis up until January 2024 show that there is an increase in imports of fuel, wheat, and other food items. As Yemen relies heavily on imports for its food requirements, with around 90 percent of its staple cereals being imported, we are projecting the current crisis to disrupt or block the movement of goods, leading to food shortages in the markets at least in the short-term (from March/ April).
- **Stable food and fuel prices:** in line with the stability in the global food and fuel prices, corresponding prices in Yemen stabilized in January 2024 compared to the Dec 2023. However, this is unlikely to remain for the foreseeable future. If the crisis continues, it will accelerate the already increased shipping costs, occasion further delivery delays, or even to a complete suspension of trade routes and closure Yemeni Ports. This disruption can result in scarcity of food supplies and a subsequent increase in prices. As a result, the vulnerable population, including the poor and internally displaced, will struggle to afford essential food items.
- **Deterioration of infrastructure:** Increased military activities in the Red Sea carries the risk of destruction of critical infrastructure, including ports and storage facilities. This can hamper the efficient distribution and storage of food in Yemen, further worsening food insecurity.
- **Disruption of livelihoods and others in the value chain, including for fishermen:** The escalation of the crisis may force Yemeni fishermen to abandon their activities due to increased insecurity at sea and at landing sites. This will not only negatively impact their income, but also affect the availability of fish in the markets, reducing a vital source of protein for the population.
- **Continued decline in humanitarian assistance while food insecurity expected to escalate:** As the resources coming to Yemen has dwindled significantly, huge disagreements in reaching out to beneficiaries, and the Red Sea crisis can complicate the delivery of humanitarian assistance to Yemen. Humanitarian organizations heavily depend on maritime routes to import food, medicine, and other essential supplies to the affected areas. Any disruption or blockage of these routes will hamper the delivery of assistance, exacerbating food insecurity among the already vulnerable population.
- **Inflation and economic instability:** A worsening crisis in the Red Sea could worsen economic instability in Yemen. The remittance may plummet, inflation may rise, and the national currency may depreciate, making food and other essential commodities even less affordable for the average Yemenis.
- Overall, the escalation of the crisis in the Red Sea is likely to **worsen the food insecurity situation in Yemen** in 2024, exacerbating an already dire humanitarian crisis. Immediate efforts to **de-escalate tensions and facilitate the uninterrupted flow of commercial and humanitarian food supplies are essential** to mitigating the expected negative impact on Yemenis.

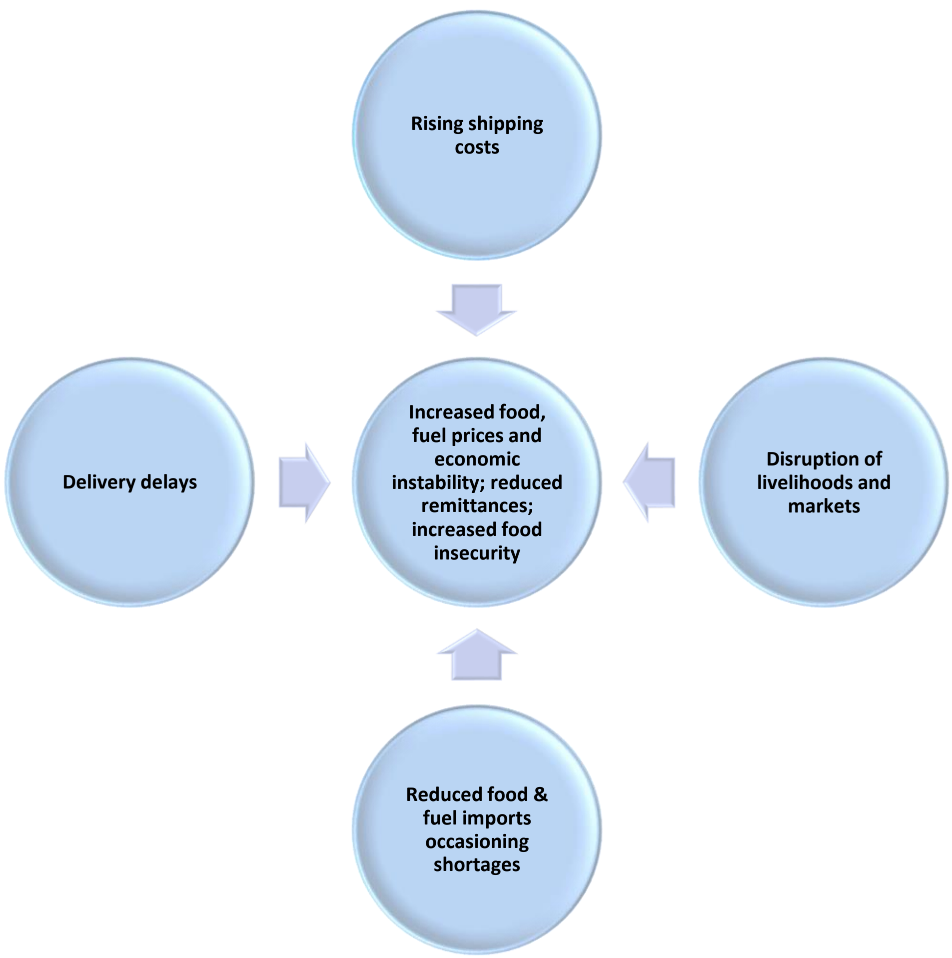
Background

Since mid-November 2023, the Bab el-Mandeb Strait, which lies at the southern tip of the Red Sea, has become an increasingly risky checkpoint for shipping lines off the coast of Yemen, after Sana'a Based Authorities (SBA), in solidarity with Palestine following Israel- Palestine war, declared that it would attack or seize Israeli or Israeli-aligned, UK and US commercial ships. The current crisis is disrupting shipments of grains and other key commodities from Europe, Russia, and Ukraine not only to Yemen but to the other importing countries in Eastern & Southern Africa and Asia.

In response, informed by the strategic importance of the Red Sea route which is estimated to normally handle **17 percent of in global maritime trade,** the US and UK led coalition launched a maritime naval operation in the Red Sea starting 12th January 2024 with targeted airstrikes on SBA military facilities. Consequently, many targets both on land and on sea have been hit in SBA controlled areas, the most affected being Sana'a City and the Red Sea port city of Hodeidah. The attacks on ships continue while the Coalition air strikes intensified in February. The happenings mark a significant escalation in the ongoing conflict and have the potential to worsen an already dire food insecurity and humanitarian crisis in the coming months.

Figure 1 below, presents a summary of the expected associated risks on food insecurity in the country.

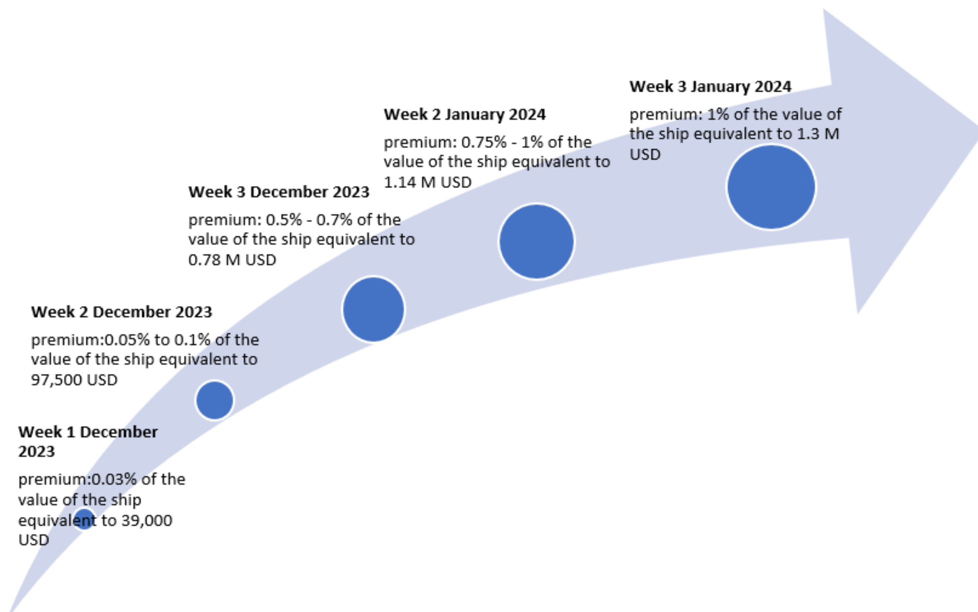
Figure 1. Associated risks and their impacts on food security in Yemen



Rising shipping costs and delayed deliveries

War risk insurance premiums for vessels transiting the Red Sea have progressively increased since the first attack on ships as shown below (Figure 2). As of 17th January, the war premium risk per ship had risen to 1 percent the value of the ship, equivalent **1.3 M USD**, more than **3,200** percent increase from the value just one week before the attacks. At the same time, ship owners, especially those with perceived Israeli and allied links, are finding it increasingly challenging to secure insurance. The war risk insurance premiums are expected to continue rising provided the attacks intensify.

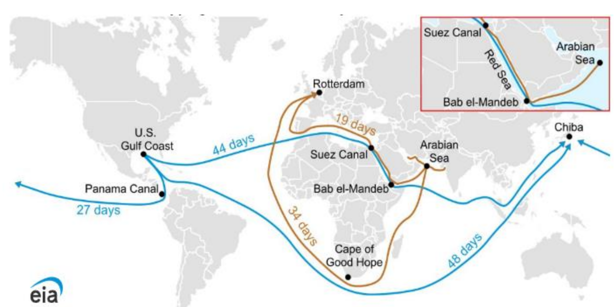
Figure 2. Increase in war insurance premium rates for vessels transiting the Red Sea



Sources: Compiled from: GTRI; AGBI; AL-MONITOR; Insurance BUSINESS; S&P Global; METRO Shipping; ECONOMIST INTELLIGENCE ; and US EIA

The hike in shipping costs and attendant risks to ships have forced some shipping lines to divert to the longer but safer route through the Cape of Good Hope circumnavigating Africa, adding substantial time and cost to voyages. According to WTO, around 8 percent of wheat shipments from the European Union, Russia and Ukraine that would typically travel via the Suez Canal followed alternative routes in December 2023 up from 3 percent before the start of the crisis. In the first week of January 2024, the average number of freighters active each day in the Red Sea were 105 bulk carriers and 58 tankers, down from 115 bulk carriers and 70 tankers the week before, representing a **12 percent** decline in just one week. In the first two weeks of January 2024, the share of shipments bypassing Suez is estimated to have reached **42 percent**.

The situation has led to delayed deliveries. According to a report published by ACAPS, this long route is adding up to **10-14 days** to a vessel journey. Moreover, food and fuel import trend analysis in Yemen indicate typical peaks in March (just before Ramadhan and Hajj Festivities), June (just before Monsoon Winds) and in November



Data source: U.S. Energy Information Administration using calculations (end of Monsoon winds). Therefore, the impact of the increased maritime shipping costs by March 2024 will be more pronounced on retail food prices as the month of Ramadan approaches.

The increased shipping charges and delayed deliveries is **inflating the cost of humanitarian imports** into Yemen further squeezing the budgets of humanitarian actors against the backdrop of reduced donor funding. This together with delayed humanitarian shipment and continued restriction on humanitarian space in the North has the potential to impede the delivery of vital humanitarian food assistance.

Risk of reduced food and fuel imports

Despite anticipated reduction in import flows, wheat imports through the three major ports (Saleef, Hodeidah and Aden) increased in January by **28 percent and 12 percent**, above December 2023, and same month last year, respectively while also **12 percent higher** than the 3-year average. There was also no significant change in wheat flows through the same ports in December last year compared to November (Figure 3). At the same time, petrol, and diesel import volumes increased by **14 percent** in January 2024 compared to the previous month although they were reduced by **17 percent** year-on-year and stable against the 3-year average (Figure 4). Therefore, food and fuel imports are still flowing normally into Yemeni ports despite the escalation in the Red Sea implying that the conflict **is yet to severely impact import flows** at least in the last two months because of lag effects.

Moving forward into 2024, the impacts of the crisis on import flows into Yemeni port will depend on ensuring safe passage through the maritime corridor. In the most likely scenario that the current escalation is sustained in the next 3 months, imports would slow down, affecting food availability and prices and worsen food insecurity.

Figure 3. Wheat imports to Yemen through Saleef, Aden and Hodeidah Ports (January 2023 to January 2024)

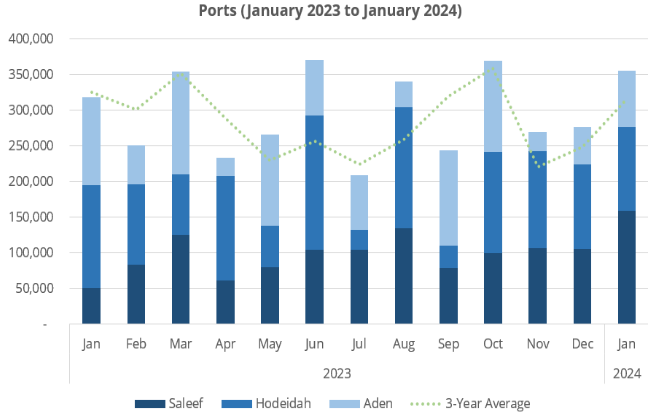
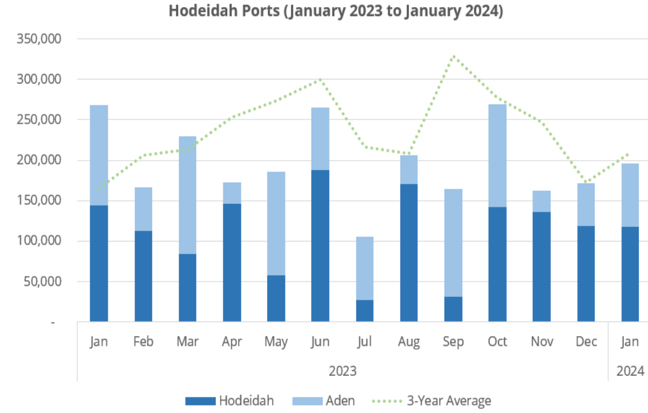


Figure 4. Petrol and Diesel imports to Yemen through the Aden & Hodeidah Ports (January 2023 to January 2024)



Risk of increased fuel and food prices

The prices of essential food items remained stable in January 2024 compared to the previous month with the **reference staple wheat prices remaining nearly the same level** as they were at the end of 2023 (Table 1). This implies that **no notable domestic food price increases** have been observed despite the maritime disruptions and increased shipping costs. This is because of typical lag effects of pre-crisis stocks imported during the last quarter of 2023. There is a high likelihood of increased shipping costs being reflected in higher food prices after 3-4 months from onset of the crisis since basic goods are normally imported in huge quantities with enough stock to meet the need for several months. Food prices are, therefore, expected to start increasing much from March/April 2024 as increased transaction costs are pushed to consumers, intensified by increased demand during Ramadan and Eid festivities.

At the same time, fuel prices remained mostly unchanged in January 2024 from their levels in December 2023 despite the increased shipping costs due to lag effects (Table 2).

Fuel prices in Yemen are mostly driven by global crude oil prices, shipping costs, and the exchange rate. While global crude oil prices slowed down in the last two months of 2023, prices in January **increased slightly (3 percent)** because of the Middle East tensions and production cuts by OPEC+ countries, slight upward trajectory is expected in the short-term (1-3 months).

Table 1: Changes in prices of wheat flour, rice, and MFB in Aden, Hodeidah and Sana'a (December 2023 to January 2024)

		Aden	Al Hudaydah	Sana'a City
Minimum Food Basket Cost	Jan-24	121,708	47,481	46,483
	m-o-m Change	-1%	-2%	1%
Imported Basmati Rice 1kg	Jan-24	2,383	918	1,100
	m-o-m Change	0%	-1%	0%
Wheat Flour 1kg	Jan-24	900	918	350
	m-o-m Change	-4%	-1%	0%

Table 2: Changes in prices of diesel and gasoline in Aden, Hodeidah and Sana'a (December 2023 to January 2024)

		Aden	Al Hudaydah	Sana'a City
Diesel (Official) - 1 L	Jan-24	1,338	479	475
	m-o-m Change	-3%	0%	0%
Petroleum (Official) - 1 L	Jan-24	1,320	479	475
	m-o-m Change	0%	0%	0%

Continued depreciation of the local currency, combined with increased shipping costs will be reflected in increased pump prices and higher transportation costs, putting upward pressure on prices for goods and services. This is particularly so because maritime shipping cost accounts for an estimated **30-50 percent** of the retail price of wheat flour according to UNDP while Yemen depends on imports to meet **90 percent** of their primary food needs. The ensuing economic turbulence will affect employment, investments, and overall macro-economic stability, reduce household incomes, and worsen food insecurity.

Risk of decline in remittances

The recent US imposition of sanctions on some foreign exchange companies in Yemen could reduce remittance flows to the country, an important lifeline for millions of Yemenis. World Bank estimates that **10 percent** of Yemenis wholly rely on remittances so any reduction would affect nearly **3 million** people directly.

Remittances are also an important source of foreign exchange and plays a crucial role in stabilizing the local currency so a decline could trigger fresh wave of depreciation of the YER and reflect in increased cost of basic commodities. While the sanctions are targeted and limited, it could limit external financial transactions, including imports and money transfers and increase transaction costs and trigger inflation.

Risk of accelerated economic instability

Yemen has faced mounting economic challenges since the war started in 2014, characterized by depreciated value of the local currency, depleted reserves, and a staggering **52 percent** contraction in real GDP per capita yearly. While World Bank estimates that the economy showed modest signs of recovery in 2022, with the real growth of **1.5 percent**, driven by increased household and government consumption. However, recent adverse economic events and competing policies by Authorities is expected to push the economy back into a recession, contracting by **0.5 percent** in 2023. Much uncertainty holds for Yemen's economic landscape in 2024 given oil export constraints, delayed peace settlement and now the Red Sea crisis.

The local currency in Government of Yemen (GoY) controlled areas lost significant value in 2023 having depreciated by up to **25 percent** between April 2023 and February this year. The precipitous decline in oil, gas, and tax revenues in 2023 produced enormous budget deficits and reduced the GoY's capacity to cover essential expenditures and pushed the Government to the brink of insolvency. The Red Sea stand-off will further deepen the economic crisis and instability going forward.

January 2024 analysis indicate that the **Yemeni Rial lost ground to the USD by 4 percent** month-on-month in GoY areas. The local currency is expected to deteriorate further in 2024 and significantly raise inflation rates, reduce domestic production, and the economy, increase poverty, unemployment and consequently deepen people's suffering.

The expected increase in food and non-food prices is expected to impact inflation as traders transfer the increased costs to consumers. Fuel shortages and increased cost of inputs is expected to lower production, taxes, household incomes and slow down the economy and disrupt provision of essential services and exuberate food insecurity.

Risk of disruption of livelihood opportunities and markets

The continued escalation of the Red Sea is not only disrupting livelihoods but also markets. There is an increased risk of reduced fishing activities, an industry that used to employ more than half a million people and was the country's second biggest export after oil and gas before the 2014 conflict. While the number of people involved in fishing has since gone down following the 2014 civil war, a considerable population still rely on the activity while thousands are employed along the fish value chain. The current crisis means that fishing communities cannot optimally engage in the activity resulting in low production and reduced incomes but also disruption of the entire fish market value chain and the loss of income. This will affect the availability of fish for consumption in the markets but also increase prices.

Even though the airstrikes have been largely targeted to military installations in densely populated areas of the capital Sana'a and the port city of Hodeida, there is an increased risk of civilians not being able to optimally engage in their normal livelihood activities thereby reducing household income opportunities.

The escalation could increase the risk of degrading vital infrastructure, including the strategic port of Hodeidah, which would limit the port's capacity to handle trade flows and reduce import volumes and affect food availability and increase prices but also lead to job and income losses for port workers and those involved the backward-forward linkages in the port. Should an embargo be imposed on Yemen, there is a risk of food shortages, inflation and job losses for thousands of people employed directly or in-directly in Ports and aggravated food insecurity.

Short-Term Outlook

Yemen, already in the throes of a severe humanitarian crisis and one of the worst food insecurity levels in the world after more than 8 years of internal civil war, **enters another face of conflict in the Red Sea** that has the potential to worsen food insecurity in the coming three to four months. The **deepening humanitarian crisis** comes at time when humanitarian actors are struggling to meet food needs on the backdrop widening funding gaps and competing response needs in new conflicts in Ukraine and Palestine.

The crisis escalation and increased sanctions on private and public entities in SBA areas could also **undermine the realization of sustainable peace** thereby prolonging post-war economic recovery and the GDP shrinking further. Renewed conflict could prove catastrophic and complicate an already dire and fragile situation and **precipitate an unprecedented levels of food insecurity.**

The impacts of the crisis on food insecurity will be felt country-wide despite SBA being the epicenter of Red Sea stand-off. Even in the event of an immediate de-escalation, the economic deterioration, worsening of food insecurity, the fuel crisis and wider humanitarian challenges will continue for several months as economic and trade actors bid their time assessing the impending risks associated with the ongoing regional political developments and tensions.

It is, therefore, expected that the **food security situation will deteriorate over at least the coming three to four months**, only tempered by temporary seasonal improvements during the Ramadan and Eid festivities.