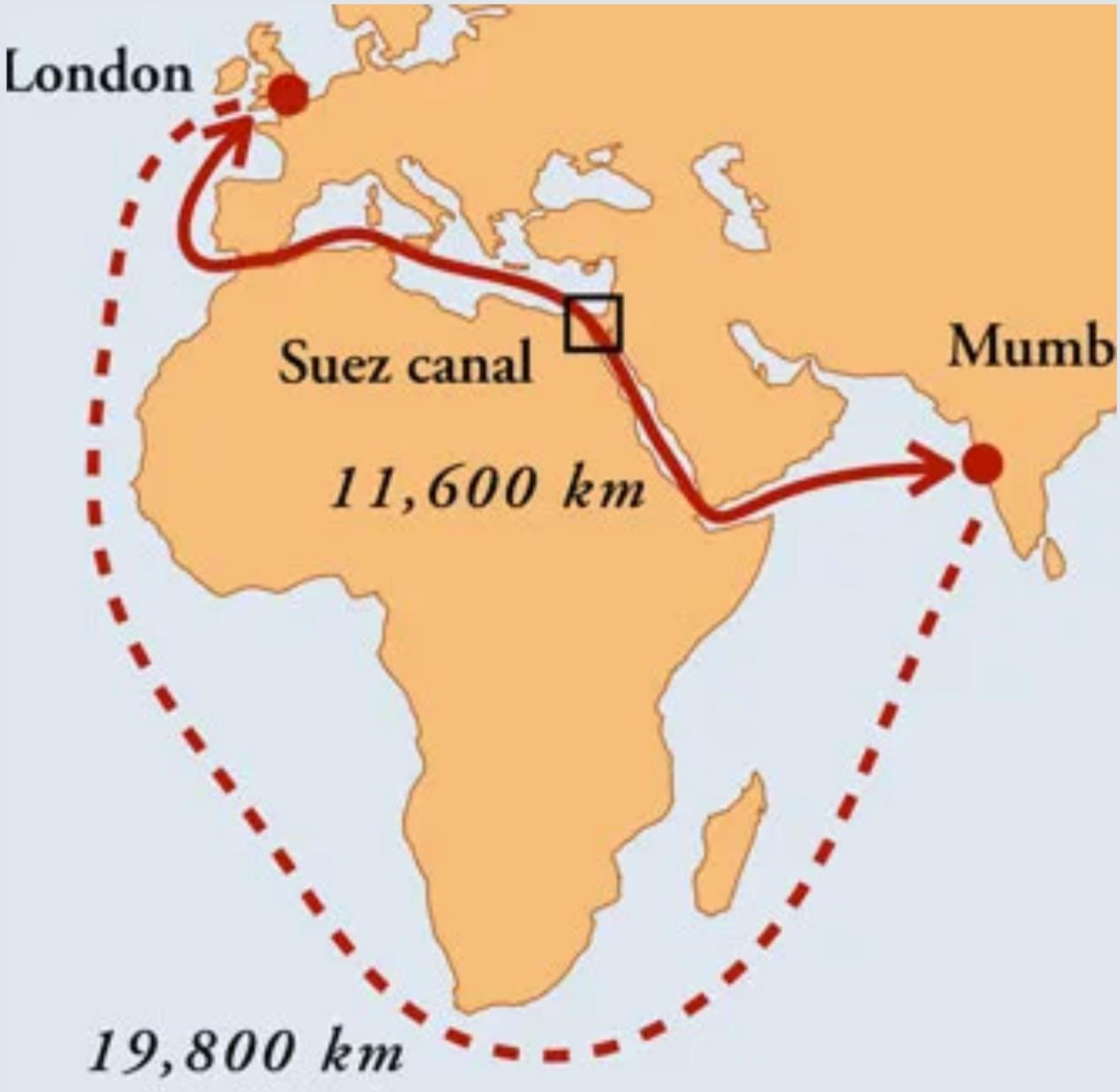
RED SEA SHIPPING DISRUPTIONS HIT 5-MONTH MARK



ADVERSE IMPACT ON TRADE DATA WILL BE VISIBLE IN THE NEW FISCAL

A GTRI REPORT

GTRI Report

12-03-2024

Red Sea shipping disruptions hit 5-Month Mark: Adverse impact on trade data will be visible in the new fiscal

Global Trade Research Initiative

www.GTRI.co.in

Hi

Red Sea shipping disruptions hit 5-Month Mark: Adverse impact on trade data will be visible in the new fiscal

With escalating everyday attacks and no end in sight, the Red Sea crisis will adversely impact trade volumes in substantial way in 2024.

Rising shipping, and Insurance Costs, delayed arrival of shipments will continue to disrupt global value chains, squeeze margins and make exports of many low margin products unviable from current locations.

Countries in Asia, Africa and Europe will face most disruption across industries.

This GTRI report highlights the impact on trade.

We would be happy to receive your feedback at ajay@gtri.co.in

Ajay Srivastava

Global Trade Research Initiative

Red Sea shipping disruptions hit 5-Month Mark: Adverse impact on trade data will be visible in the new fiscal

1-Back ground

The Red Sea crisis began in a major way on October 19, 2023, when the Iran-backed Houthi movement in Yemen launched attacks on civilian-operated cargo ships near the Yemeni coast. The Houthis have targeted any shipping believed to be connected to Israel, though several vessels attacked had no apparent link to the country. This situation is part of a broader proxy conflict involving the United States and Iran, Hamas and Israel.

In March 2024, the crisis in its fifth month.

2-Trade disruption

The Red Sea shipping crisis has significantly disrupted global trade and supply chains, particularly affecting routes through the Suez Canal, which handles about 30% of global container trade.

With ships now detouring around Africa's Cape of Good Hope, transit times have increased by 30%, and the global container shipping capacity has dropped by about 9%.

The IMF reported that the volume of trade that passed through the Suez Canal dropped by 50 percent year-over-year in the first two months of the year, and the volume of trade transiting around the Cape of Good Hope surged by an estimated 74 percent above last year’s level.

This detour delays shipments from Asian producers to European consumers by up to 20 days, causing significant delays for companies reliant on these supply routes.

By mid-February 2024, approximately 621 container ships had changed their usual routes to avoid the crisis zone.

Additionally, container freight rates spiked by $500 in the last week of December 2023, with companies like Hapag-Lloyd significantly raising their rates for shipments from the Indian Subcontinent to North Europe in response to the increased risks and costs.

Maersk is diverting all container vessels from Red Sea routes, warning customers to prepare for significant disruption.

The longer journey from Ras Tanura, home to Saudi Arabia's largest oil refinery, to Rotterdam around the Cape of Good Hope, is 42% longer than the Suez route, escalating fuel and operational expenses.

Vessel attacks, including those on the M.V. Chem Pluto, have highlighted the significant security risks to commercial shipping, prompting enhanced surveillance and rerouting measures for safety. Furthermore, the necessary rerouting is causing congestion in key ports like Cape Town, Ngqura, Richards Bay, and Durban in South Africa, leading to delays in loading and unloading cargo, which could exacerbate supply chain challenges and potentially lead to shortages.

3-Impact on India

The Houthi conflict's disruption significantly impacts Indian trade, especially with the Middle East, Africa, and Europe. India, heavily reliant on the Bab-el-Mandeb Strait for crude oil and LNG imports and trade with key regions, faces substantial economic and security risks from any disruption in this area. Approximately 65% of India's crude oil imports in FY2023, valued at US$105 billion, from countries like Iraq, Saudi Arabia, and others, likely passed through the Suez Canal. For overall merchandise trade with Europe and North Africa, about 50% of imports and 60% of exports, totaling US$113 billion, might have used this route.

- This conflict is leading to increased shipping costs (40-60%) and delays due to rerouting (upto 20 days more) , higher insurance premiums(15-20%), and potential cargo loss from piracy and attacks.
- Oil imports from Russia through the Suez Canal are troubled by longer routes, raising costs and delaying supplies.
- As a big exporter of petroleum products to Europe, India faces delays and higher shipping costs, making some exports too expensive to continue.
- Shipping costs for all container goods, including cars and electronics, are up.
- Confectionery companies are hit by high cocoa prices and shortages due to late deliveries from Africa, reducing profits.
- Textile and leather industries, which operate on thin margins, are renegotiating shipping costs with buyers, impacting earnings.
- Car manufacturers are using different shipping paths to avoid delays.

4-Options before India

I-Government

- India might look to diversify its sources of crude oil and LNG, and explore alternative trade routes to reduce dependency on the conflict-prone Red Sea passage.

- While India is implementing measures to ensure the safety of its ships in the Red Sea, the effectiveness may be limited as most Indian cargo is carried by global shipping firms.

- Relying on ports outside conflict zones, like Oman and Djibouti, for transshipment and regional trade.
- Offering financial support and insurance schemes to Indian companies affected by trade disruptions.
- Strengthening partnerships with regional players like Saudi Arabia and the UAE to encourage economic cooperation and stability.
- Exploring opportunities to provide humanitarian aid and reconstruction materials to Yemen, potentially opens new avenues for engagement and underscores the interconnected nature of regional stability, international trade, and global economic health.

II-Indian firms

India firms are scrambling to avoid disruption to shipments due to attacks in the Red Sea.

- They are negotiating costs with logistics providers, insurance companies, and considering alternative ports to ensure the timely delivery of goods.
- Firms are adopting strategies like multiple sourcing for less complex components to maintain supply continuity and cost efficiency. For more complex and critical products, companies are exploring strategic sourcing options including onshoring, nearshoring, and friendshoring to reduce geopolitical risks and ensure supply chain resilience.

5-Trade disruption in Europe and Africa

Countries around the world, including those in Europe, Asia, and the Americas, are seeing price increases in a variety of products, from food to electronics. This contributes to inflation and impacts consumer spending power.

I-European Countries

European countries, heavily reliant on the Suez Canal for Asian imports, are grappling with higher shipping costs and potential goods reception delays, impacting a broad spectrum of industries from food to manufactured items. Countries in Northern Europe like Germany, the Netherlands, the UK, Belgium, and France are particularly vulnerable to these delays and cost increases.

- Rerouting is making oil and gas transportation more expensive, impacting energy prices.
- Europe's reliance on imports makes it prone to supply chain issues, leading to higher costs for arriving goods and affecting sectors like retail and technology.
- Europe-based auto plants have announced temporary production shutdowns due to delays in obtaining car parts from Asia. Auto component makers, especially those with high revenue exposure to exports from China to Europe and the U.S., are also affected. The crisis tests the resilience of the auto supply chain, particularly for New-Energy Vehicles (NEVs), which are a key part of China-Europe trade. China mainly exports NEVs to Europe via sea routes.
- Delays in shipping electronic parts from Asia-Pacific are hurting consumer electronics and medical equipment.
- Europe's need for imported grain is causing vulnerability to delays and higher costs, with wheat and sunflower oil prices rising.
- Food businesses are struggling with the need for fast shipping due to perishable products. European dairy deliveries to Southeast Asia are delayed and more expensive.
- More than half of UK's exporters, manufacturers, and retailers are facing supply problems. The UK is at risk of a tea shortage due to longer transport times and higher shipping costs from South Asia and East Africa.
- The cost of single-use plastics and packaging is rising due to increased shipping costs.

II-Africa and the Middle East (including Egypt, Sudan, Yemen)

- These regions are particularly vulnerable due to their reliance on grain imports of wheat, corn, and rice through the Red Sea.
- Countries like Egypt, Sudan, and Yemen, already facing food insecurity, could see worsening conditions if grain shipments are delayed or become more expensive. This highlights the potential humanitarian impact of the crisis on regions heavily reliant on imported grains.
- As consumers of Middle Eastern oil, many African countries might face increased transportation costs and potential impacts on local economies.

III-Russia

Crude Oil Exports to India, transiting through the Suez Canal, are impacted by the need for longer transit routes, affecting supply dynamics, costs and decreasing trade volumes.

6-Urgent need for comprehensive international collaboration

The crisis underscores how geopolitical conflicts can swiftly destabilize global shipping routes, leading to increased shipping costs and significant delays across multiple sectors and regions.

The crisis also underscores the importance of exploring alternative maritime and land-based trade routes.

- This includes potential investment in the Northern Sea Route and expanded land transport infrastructure. IMEC becomes important in this context.

Annexure

India-Middle East-Europe Economic Corridor (IMEC): IMEC can be a key alternative to Suez route to export to Europe, when ready

India has proposed the development of the India-Middle East-Europe Economic Corridor (IMEC). IMEC is facing delays due to the 2023 Israel-Hamas war. Launched in September 2023, the IMEC was announced at the G20 Summit in New Delhi with backing from the US, India, European Union, and several Middle Eastern countries. The project aims to create a vast economic corridor connecting Europe, the Middle East, and Asia through improved transportation, communication networks, and energy infrastructure.

It comprises rail, road, and sea routes across two main corridors: The East Corridor links India to the Arabian Gulf. The Northern Corridor connects the Gulf to Europe.

Ports and Railways Involved in IMEC:

- Indian Ports: Mundra (Gujarat), Kandla (Gujarat), and Jawaharlal Nehru Port Trust (Navi Mumbai).
- Middle East Ports: Fujairah, Jebel Ali, and Abu Dhabi in the UAE, as well as Dammam and Ras Al Khair ports in Saudi Arabia.
- The railway line will connect Fujairah port (UAE) to Haifa port (Israel) via Saudi Arabia (Ghuwaifat and Haradh) and Jordan. Israel's Haifa port is also part of the project.
- European Port: Piraeus port in Greece, Messina in South Italy, and Marseille in France.

Despite the delays, the IMEC is seen as a Initiative that could significantly boost trade and economic development across three continents when realized.

The GTRI report has been prepared by Ajay Srivastava.

Disclaimer

The information contained in this Report may be viewed solely as a resource for its users without any assurance. While the Report tries to provide high-quality content, the Materials provided in this Report are provided "as is" without warranty of any kind, either express or implied, including without limitation warranties of merchantability, fitness for a particular purpose, and non-infringement.

The Report does not make any warranties or representations regarding the accuracy or completeness of any Materials contained herein. GTRI will not be liable in any capacity for damages or losses to the user that may result from the use of or reliance on the information views expressed in this Report.

GTRI shall not be responsible for any errors, omissions, or inadvertent alterations that may occur in this Report.

About Global Trade Research Initiative

GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

Mr Ajay Srivastava is the co-founder of GTRI. He took VRS from the Government of India in March 2022. He is an Indian Trade Service officer with experience in trade policy making, WTO and FTA negotiations. He did MBA from Indian School of Business.

Feedback

Your feedback on this report is most welcome. Please email at ajay@gtri.co.in

GTRI Report

12-03-2024

Red Sea shipping disruptions hit 5-Month Mark:

Adverse impact on trade data will be visible in the new fiscal

Global Trade Research Initiative

www.GTRI.co.in