

Business Line. Dt: 30/01/24

'Persisting global tensions, surge in shipping costs could hit exports'

WAY AHEAD. Exporters must focus on lowering logistics cost, improving product quality, says DEA review

Amiti Sen
New Delhi

Exporting one's way to economic growth will not be easy in the current times because of persisting geopolitical tensions, including the recent events in the Red Sea, that have led to slower growth in global trade in 2023, per the Department of Economic Affairs' review of the Indian economy. "This reinforces the need to lower logistics costs and invest in product quality to hold on to and expand market share in areas where India has an advantage," the review said.

In the first advanced estimates of national income for 2023-24, the share of exports in GDP is estimated to moderate from FY23 to FY24, as a slowdown in global demand has led to a decline in the demand for India's exports, the report cautioned. "Potential risks are expected to emanate from ongoing geopolitical tensions and the recent surge in shipping costs due to re-routing to avoid security risks in international waters, which contains the potential for triggering inflation, especially in terms of energy costs," it noted.



ALL AT SEA. The Houthis' attack on shipments in the Red Sea has forced many nations, including India, to divert their cargo to longer and costlier routes REUTERS

The report was referring to the Iran-backed militant group Houthis' attack on shipments in the Red Sea that had forced many nations, including India, to divert their cargo away from the troubled routes to longer and costlier ones (through the Cape of Good Hope in South Africa). According to some estimates, India's exports could be lower by \$30 billion in the ongoing fiscal due to the crisis in the Red Sea.

Russia's war on Ukraine and the more recent Israel-

Hamas war in Gaza disrupted supply chains across the world affecting movement of goods, including food and inputs, affecting global economic growth.

CONCERNS

The recent events may have brought back concerns over reliance on global supply chains, further aggravating the slower growth in global trade in 2023, the review stated. "In other words, exporting one's way to growth will not be easy," it said, adding that lowering logist-

ics costs and improving quality of goods would be crucial to help Indian exporters retain their existing market and also expand in areas where they had an advantage over their competitors.

POSITIVE SIDE

On the positive side, the review pointed out that in FY23, the country achieved the highest-ever merchandise export of \$451.1 billion while imports grew by 16.8 per cent, the report pointed out. However, the pace of growth moderated due to

persisting geopolitical tensions. Moderation in merchandise exports continued during FY 2023-24 (till November 2023) mainly on account of weaker global demand, it added.

"Despite global shocks, India's merchandise trade balance improved markedly from a deficit of \$189.2 billion in April-November 2022 to \$166.4 billion in April-November 2023 as a result of the decline in imports," it said.

The review observed that the export mix, in terms of the principal commodity classification, had not changed much over the years. But there has been progressive diversification in India's export basket, and there is scope for adding more quality and complexity to exports, given the existing capabilities, it added.

An alternative to the globalisation of 'supply chains will take much longer to emerge if it ever does, the review added. "However, that will not deter governments from pursuing onshoring and friend-shoring of production with a consequent impact on transportation, logistics costs, and, hence, the final prices of products," it said.

Geopolitics may weigh on 'remarkable' export show

Likely surge in prices due to Red Sea attacks, says finance ministry report

SHREYA NANDI
New Delhi, 29 January

Prices may go up because of higher energy costs, caused by the rise in shipping charges, with commercial vessels taking a longer route to avoid the troubled Red Sea region, the finance ministry said on Monday.

Iran-backed Houthi rebels of Yemen are repeatedly attacking ships in the Red Sea.

While the global economy is grappling with challenges such as sticky inflation, sluggish growth, and mounting fiscal pressure, India's external sector could face "potential risks" due to the ongoing geopolitical tensions, according to the finance ministry's report on the review of the Indian economy.

The Red Sea is vital for 30 per cent of global container traffic and 12 per cent of global trade. As much as 80 per cent of India's merchandise trade with Europe passes through it. While freight and insurance premiums have risen, taking the Cape of Good Hope route has resulted in a longer transit time.

According to Nomura, so far, the automotive and retail sectors are most affected by shipping delays, with production cuts in the auto sector. Europe is most impacted, given its dependence on Asia for supplies. "The economic impact (on Asia) depends on the duration of these disruptions (which is uncertain) and whether it also extends to oil prices (not yet seen). We see some downside risks to near-term growth, due to higher import costs and delayed export shipments, as well as potential production delays, while firms may want to maintain higher inventory," Nomura said in note.

Exports, balance on current account

The finance ministry further said though India's export performance had been "remarkable" as out-

bound shipments hit a record high in the last two financial years, the pace of growth moderated in FY23 due to persisting geopolitical tensions, such as the Russia-Ukraine conflict. The moderation continued till November 2023 mainly on account of weaker global demand. The share of exports in GDP is also estimated to moderate from FY23 to FY24, as a slowdown in global demand has led to a decline in the demand for India's exports, it said.

"Despite global shocks, India's merchandise trade balance improved markedly from a deficit of \$189.2 billion in April-November 2022 to \$166.4 billion in April-November 2023 as a result of the decline in imports," the report said.

It further said a consistent rise in services exports as well as remittances had enabled India's current account balance to remain within a "comfortable range". The current account deficit for the first half of FY24 dropped to \$17.5 billion from \$48.8 billion during the same period in the previous year, due to broad-based improvements in

merchandise trade.

"Setting export targets and monitoring of these targets followed by course correction, provision of export credit insurance services for short-term as well as medium and long-term exports, encouraging banks to provide affordable and adequate export credit to MSME (micro, small, and medium enterprises) exporters, enabling them to explore new markets and diversify existing products competitively are some of the measures being taken towards this end," the report said.

Investment

The finance ministry said the "subdued global trends" had resulted in a dip in foreign direct investment (FDI) into India, although the country continues to remain a preferred destination among investors due to its young workforce and a large middle-class population.

Amid continuous reforms in the FDI policy, along with a thrust on improving infrastructure and logistics and facilitating invest-

ments through schemes like production-linked incentives, the finance ministry expects the momentum of inflows will be sustained during the coming months.

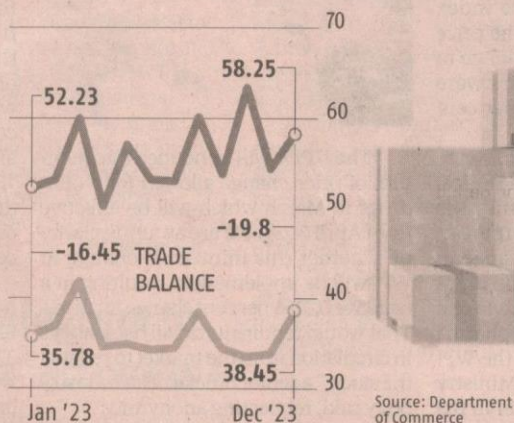
"FPIs (foreign portfolio investors) turned net buyers in FY24 (till January 9, 2024) in contrast to the previous two financial years on the back of rising confidence in the prospects for the Indian economy and markets, supported by the stability in foreign exchange reserves and external debt position vis-a-vis other countries, among other factors," it said, adding that growth in remittances was expected to be up to 8 per cent, taking remittance levels to \$135 billion in 2024.

It said the stability of the rupee vis-a-vis other currencies during FY24, and easing inflationary pressures across the globe triggering expectations of rate cuts in future led FPIs to increase their exposure to Indian markets by \$28.8 billion in the first half of FY24 from an outflow of \$7.8 billion in first half of FY23.

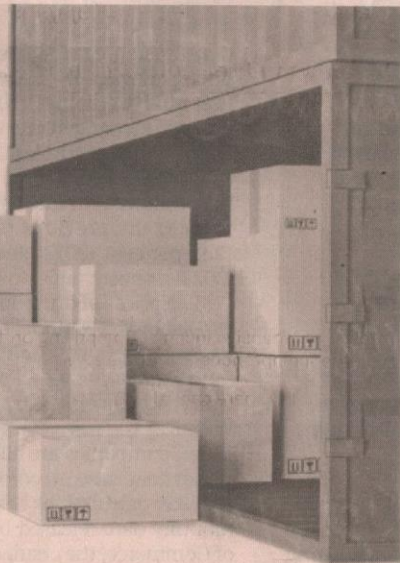
TRADE SHOW

Trade deficit has widened over the last calendar year

Value (\$ bn) — Exports — Imports



Source: Department of Commerce



Business Standard Dt: 31/01/24

No 'immediate' impact of US pause on LNG export permits

SUBHAYAN CHAKRABORTY

New Delhi, 30 January

India will not be immediately affected by the United States' decision to freeze permits for the export of liquefied natural gas (LNG) to countries with which it doesn't have a free-trade agreement (FTA), officials said.

While India imports the largest chunk of LNG from Qatar, the US is the third-largest source of the fuel.

Officials at the Petroleum and Natural Gas Ministry said the move is not expected to affect spot volumes, which have already been bought. "There will be no direct impact in the short-to-medium term for India, in terms of supply,"

an official said. However, the move may raise LNG spot prices globally. "This may push up the overall cost of buying LNG. Shipping charges are already rising due to tensions in West Asia," he added.

On Friday, the Joe Biden administration announced a temporary pause on the pending decisions on export of LNG to non-FTA nations. This is until the US Department of Energy updates the underlying analyses for authorisations. India does not have an FTA with the US.

Officials, however, said major LNG routes into India do not cross the main maritime area affected by Houthi strikes in and around the Red Sea and Gulf of Aden. They

cautioned the latest decision is still being studied and further guidance to companies will soon follow.

In the first eight months of the current financial year, more than 45 per cent of India's LNG imports originated from Qatar, followed by the United Arab Emirates (14.1 per cent), commerce department data shows. Meanwhile, shipments from the US made up 11.6 per cent of the total import volumes.

Data from the US Energy Information Administration shows LNG shipments to India began rising fast from early 2020 as Covid struck.

More on Business-Standard.com

Export of petroleum products falls to 15-month low in Jan

Shipments held back amid Red Sea tensions

ARUNIMA BHARADWAJ
New Delhi, January 31

INDIA'S EXPORT OF petroleum products fell to a 15-month low at 1.02 million barrels a day in January as escalating tensions over the Red Sea prompted exporters to hold back shipments, data from Kpler, a data and analytics firm, showed.

January figures were the lowest since October 2022, when the export volume of refined oil products had stood at around 887,000 barrels a day, it added.

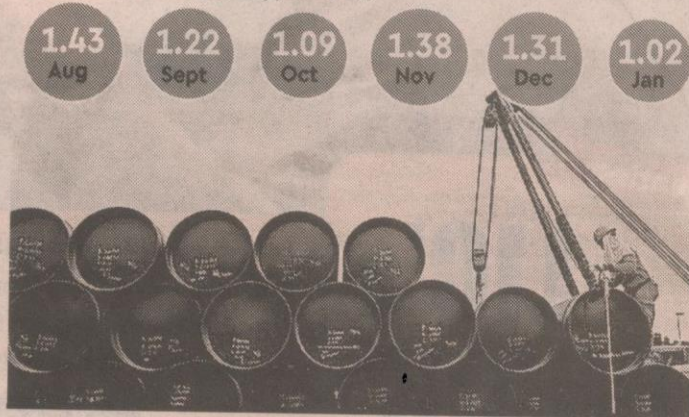
India's shipments to Europe declined in January as many tankers had opted for the longer route via the Cape of Good Hope, resulting in higher shipping costs. Africa's Cape of Good Hope shipping route can extend voyages for up to 14 days or beyond.

"To take just one specific example, the route from Jamnagar to Rotterdam takes 24 days via the Suez Canal and 42 days via the Cape of Good Hope," Viktor Katona, lead crude analyst at Kpler, said.

The UAE, the Netherlands and Malaysia were among the top buyers of Indian petroleum products in January. While the UAE imported 103,690 barrels a day of refined fuels, the Netherlands imported 75,411 barrels a day. Indian exports to Malaysia stood at 64,098 barrels a day.

PETROLEUM PRODUCT EXPORTS

(in million barrels per day, 2023-24)



Though Russian oil cargoes taking the Suez Canal-Red Sea route to India and China, its major buyers, have been secured so far, India's exports transiting the Suez Canal have been hit.

The country's export of petroleum products to Europe had dropped to just 100,000 barrel a day, from 350,000-400,000 barrel a day in November and December, Katona said. "Many tankers have opted for the longer route via the Cape of Good Hope which has resulted in increased shipping costs." The shipping cost has increased by 60-70%.

India's export of petroleum products fell by 17.6% to \$6.88 billion in December, compared with \$8.35 billion in the year-ago period,

the latest government data show. Exports were down 15.6% during the first nine months of the current fiscal to \$62.07 billion.

Not just India faces a threat in its export volumes of petroleum products, but the country's own domestic consumption is seen registering a modest 3% growth in the financial year beginning April 1, data published by the Petroleum Planning and Analysis Cell showed. The growth will be lowest since FY22.

The country's demand for petroleum products including jet fuel, diesel, LPG among others is likely to grow to 239 million tonne in the financial year 2024-25. The country's consumption of petroleum products stood at 233 million tonne last year, the data showed.

Business Line. Dt: 02/02/24

Cabinet okays extension of refund scheme for garments, made-ups exports till March 31, 2026

Amiti Sen
New Delhi

The Union Cabinet has approved the extension of the popular scheme for remitting embedded taxes and levies on garments and made-up exports — Rebate of State and Central Levies and Taxes (RoSCTL) — by another two years, till March 31 2026.

“Continuation of the scheme for the proposed duration of two years will provide stable policy regime which is essential for long term trade planning, more so in the textiles sector where orders can be placed in advance for long term delivery,” per an official release issued on Thursday.



MUCH NEEDED RELIEF. Most of the other products not covered under the RoSCTL are eligible to avail benefits under the Remission of Duties and Taxes on Exported Products

The RoSCTL, which helps to remove the burden of taxes and levies and provides a level playing field on the principle that “goods are exported and not domestic taxes”, had first been approved by the Cabinet up to March 31 2020, after

which further approval was given till March 31 2024.

“The present extension up to March 31 2026 helps in enhancing export competitiveness... It makes apparel/garments and made-up products cost-competitive and adopts the principle

of zero-rated export,” the release said.

Most of the other products not covered under the RoSCTL are eligible to avail benefits under the Remission of Duties and Taxes on Exported Products (RoDTEP), it added.

“At a time when the traditional markets of the USA & the EU are facing unprecedented recessionary trends, the extension of this scheme for the next two years has brought much-needed relief to the industry. This scheme will help the apparel Industry immensely to plan the business on a consistent basis while staying competitive,” said Sudhir Sekhri, Chairman, Apparel Export Promotion Council.

With refiners avoiding Red Sea, diesel exports slip 45% in January

A BIG FALL. India shipped around 302,000 b/d last month, compared to 551,000 b/d in Dec 2023: Kpler

Rishi Ranjan Kala
New Delhi

Diesel exports slipped to a multi-year low in January 2024, after registering a 17-month high in December 2023, with more transporters and refiners, including Reliance Industries (RIL), avoiding the Red Sea.

According to energy intelligence firm Kpler, India shipped around 302,000 barrels per day (b/d) of diesel last month, compared to almost 551,000 b/d in December 2023, a decline of more than 45 per cent.

Kpler data show that clean petroleum product (CPP) exports from India to the US fell to 47,226 b/d in January 2024 from 85,620 b/d in December 2023. Similarly, cumulative shipments to the UK and nine countries, including France, the Netherlands, and Spain, fell to 1,52,010 b/d from



BUYERS AT SEA. Shippers are passing on the elevated risk insurance premium for vessels transiting via the Red Sea to buyers

4,25,193 b/d. Analysts and trade sources point out that since January 12 — when the US and the UK carried air strikes on Houthi rebel positions along the Red Sea — more refiners are avoiding Bab-el-Mandeb, which connects the Red Sea to the Gulf of Aden and accounts for 12

per cent of seaborne crude oil and 8 per cent of LNG trade. The Cape of Good Hope (COGH) is fast emerging as the preferred route.

REFINERS CAUTIOUS

The US EIA said in a February 1 report that “Major oil and natural gas companies that

are avoiding the Red Sea include Equinor, which operates mostly natural gas carriers, and BP, which operates both oil and natural gas carriers.

As of January 23, 2024, other major energy companies pausing Red Sea transits include Euronav, QatarEnergy, Torm, Shell, and Reliance.”

S&P Global Commodity Insights said in a January 16 report that “S&P Global Commodities at Sea data showed that Indian refiner Reliance, a key diesel and gas-oil supplier to Europe, had loaded no product for export to the continent in the first two weeks of January.”

Vortexa’s Head of APAC Analysis, Serena Huang, told *businessline*, “Several tankers that loaded from India and headed for Europe and the US are transiting via the COGH instead of the Suez Canal.”

Vortexa data show that 12

vessels carrying refined products to the US and Europe are using the COGH.

FREIGHT DYNAMICS

The US EIA said vessels avoiding the Suez Canal can go around southern Africa via the COGH. A typical voyage from the Persian Gulf to the Amsterdam-Rotterdam-Antwerp petroleum trading hub (ARA) via the Suez Canal takes 19 days, which increases to nearly 35 days sailing through the COGH.

CPP flows through the Bab el-Mandeb Strait were 30 per cent lower in December than the rest of 2023. A majority of petroleum product trade leaves Saudi Arabia and India bound for Europe and leaves Russia bound for Asia, it added.

A trade source said that shippers are passing on the elevated risk insurance premium for vessels transiting via the Red Sea to buyers.

Steel firms fear Red Sea crisis may hit exports

RAJESH KURUP
Mumbai, February 4

THE RED SEA crisis is likely to emerge as a grave concern for Indian steel manufacturers and could impact exports if it persists. The crisis also comes at a time when steel companies are facing lower demand and stiff competition from other countries.

Between FY20 and FY22, Indian steel makers exported about 10-15% of their annual output (11 million tonnes in FY20 and 18 million tonnes in FY22), with flat steel comprising around 70% of the bulk. This declined to 6.5% in FY23 (when total exports were 8.3 million tonnes) after the government imposed export duties, as per Crisil Ratings' data.

India's steel exports are expected to decrease to 5-7 million tonnes in this fiscal year, influenced by subdued global demand and prices, the data stated.

"The freight operators are hesitant to commute through the channel, even if we offer to double the shipping charges."

"Most of our order wins would possibly take another six months to come into execution mode. So, if the crisis lingers or becomes a more

CAUSES FOR CONCERN

India's steel exports expected to fall to

5-7 million tonne
this fiscal, due to muted global demand & prices



■ Daily container vessel traffic within the Red Sea have dropped by almost **60%** since mid-December

■ Diverting a tanker from Asia to NW Europe via the Cape of Good Hope would cost **\$932,905** extra per voyage

■ The detour would also increase transit time to **32 days** from **16 days**

permanent problem, we will have to find alternate solutions, including taking longer routes," L&T CFO R Shankar Raman said.

The Red Sea crisis started in November, when Iran-backed Houthis in Yemen started attacking vessels on this route. This has led to a nearly 60% reduction in daily container vessel traffic within the Red Sea since mid-December. The additional costs of diverting a tanker from Asia to Northern and Western Europe via the Cape of Good Hope would result in an extra

\$932,905 per voyage, extending transit time to 32 days from 16 days, according to a report by LSEG Shipping Research.

JSW Steel Joint MD & CEO Jayant Acharya said, "There have been some concerns on the container vessel front plying that route. However, on the break bulk side, we have not seen much impact. So, we are re-strategising our shipments for exports to more of break bulks. We are watching the situation."

While the Red Sea crisis is antic-

Higher freight charges are here to stay: Apollo Tyres

THE RED Sea crisis has increased freight rates and transit times, Satish Sharma, president (Asia Pacific, Middle East, and Africa), wholetime director, Apollo Tyres, told *FE*. He said that though the initial impact has abated, higher freight rates are here to stay for sometime. "When it broke out, we did see some cancellations of orders. I guess people felt that it was tem-

porary and that the rates would settle down after a week or so. So there were some temporary cancellations," he said.

"But now they realise that it's probably a long-term phenomenon, and the whole supply chain is getting calibrated to live with this reality for the time being. The wait and watch mode is by and large over," Sharma added.

— **FE BUREAU**

ported to raise freight costs and present challenges in container availability, the expected impact on the earnings and credit profiles of steel makers is considered limited.

"There are two reasons for this. One, domestic steel demand and prices continue to be healthy and has been offsetting the impact of lower exports this fiscal. Exports are expected to be only about 4.5% of production this fiscal, so manufacturers will not see any major impact. On the other hand, domestic demand growth has been buoy-

ant and is expected at 11-13% this fiscal," Crisil Ratings director Ankit Hakhu said.

"Secondly, steel makers are expected to pass on a large part of the freight cost increase. Such cost accounted for just 5-6% of steel prices prior to the Red Sea situation and could increase to 10-12% now. Also, relatively lower increase in freight cost via the break bulk mode compared with containers could lead to exporters using more of the former in the short-term," he added.