Exporters fear business loss from protracted tensions in Red Sea

No consignment rejection so far, but concerns over fresh orders

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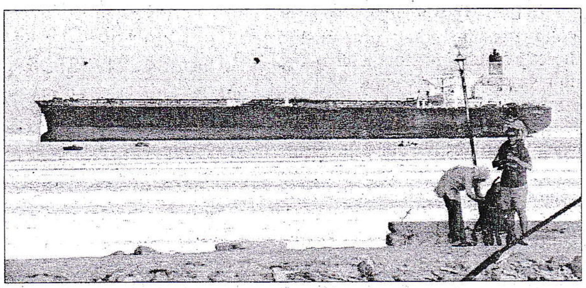
INDIAN EXPORTERS ARE yet to see any order cancellations or demand to renegotiate contracts as a result of the Red Sea disruptions, but are increasingly worried that any inordinate delay in the resolution of the crisis may seriously jeopardise the business.

Textiles and apparel exporters have already started witnessing an increase in transit time in some cases, and a rise in freight, but still have the buyers' confidence intact. In most cases, it is the buyer who pays for transport, sources from the exporting community say.

Sensing delays, some of the buyers are opting to take cargo by air, especially of seasonal fashion items because any delay will mean missed sales, Jyoti Apparels managing director and former Apparel Export Promotion Council chairman HKL Magu said. Some buyers from the US, Canada and Mexico have opted to take delivery by air.

According to exporters, the use of longer routes, via Cape of Good Hope in Africa to avoid the Red Sea and Suez Canal, will add 14 days to the travel time and higher freight. Rates to Europe and the US for a 20-feet container have increased by an average of $1,500 from $500 since the crisis erupted, Corona Steel Industries managing director Arun Kumar Garodia said. The freight rates, however, are still nowhere near what they were during the Covid-19 peak when a 40-feet container to the US was hired for $18,000 to $20,000, Arvind Footwear CEO RK Jalan said.

The peak of shipping rates was in September 2021. Since then, they have been in retreat till the merchant shipping came under fire.



COST AND TIME OVERRUN

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Jalan said prior to the attacks on merchant shipping vessels in the Red Sea, the freight of 40-foot containers was in the $1,400-1,800 range, but now they have risen to $2,400-2,600. The increase in insurance costs for sea freight though has not seen a big jump. Ships are still taking the Red Sea route and crossing the Suez Canal and only a few shipping lines are completely avoiding the route. According to data, 12% of the global trade passes through the Suez Canal.

While overseas buyers face higher transport costs, Indian exporters are still to face demand for renegotiation of contracts or discounts. "New business enquiries are flowing in at normal pace," Garodia, also the chairman of Engineering Export Promotion Council, said.

No exporter reported shortage of containers, which was expected as more time is spent on the seas.

According to a latest report by Drewry, an independent maritime research consultancy, 822 ships of the 6,100 present globally or 10 million twenty-foot equivalent unit (TEU) capacity out of the total 28 million TEU can be potentially impacted by the Red Sea crisis, which translates to 30% of total capacity. TEU is a measure of volume in units of 20-foot long containers. It also said that travel by alternative routes has the capacity to increase the distance on some routes by up to 57%.

It, however, said there is enough capacity in global shipping lines to handle such a disruption and things will further improve after the Chinese new year in February.

The disruption in shipping is impacting exporters in some other ways. Matrix Clothing's managing director Gautam Nair said some of the company's machines in transit had to turn back from the Red Sea twice and would now be landing after a delay of a few weeks. Jalan said while value-added exports can weather the shipping cost hikes, it may impact the exports of bulk commodities where every cent counts.

A senior official of an aluminium exporter from India said on the condition of anonymity that the company has not seen any impact due to the Red Sea crisis as their shipping companies have already altered their routes in a timely manner. The company also said it continues to monitor the situation closely.

Another big item of commodity export from India -- petroleum products -- has also sustained well. This depends largely on imports of crude. India's crude imports from Russia remain unaffected so far. In the event of an escalation in the Red Sea attacks, no decrease in Russian volume is anticipated. However, there is a potential expectation that the US/Latin American crude volumes may opt for the Cape of Good Hope shipping route, according to S&P Global.

In the case of basmati rice, the only bulk agriculture commodity whose export is allowed, exporters said that because of global demand, at present there are no 'renegotiations' on the prices, especially basmati shipped to middle eastern countries. Basmati rice shipped to Europe, although smaller in quantity, has been hit. "But if the Red Sea crisis is not dealt with, the rice exports may get hampered in the coming months," an exporter said.

"The rice exports have slowed down and the freight cost for basmati rice exports to countries around the Red Sea have been hiked significantly," Vijay Setia, MD, Chaman Lal Setia Exports, a leading rice exporter, said.

The gems and jewellery exports, which were worth $37 billion last year out of the total exports of $451 billion, are shielded from the shipping disruptions.

While the world watches closely at developments in West Asia, the government is in regular touch with exporters and shippers to keep an eye on the evolving situation.

(With inputs by Sandip Das and Arunima Bharadwaj in Delhi and Abhinay Kumar in Ahmedabad)