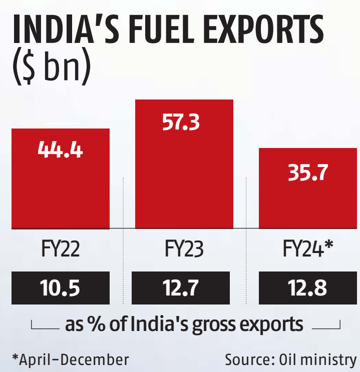
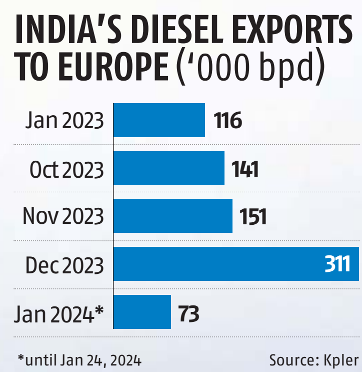
Red Sea crisis hurts India's petroleum product exports

Outbound petro shipments contributed $57 billion to India's coffers in FY23





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The intensifying conflict in the Red Sea has started taking a toll on India's overseas sales of petroleum products, a key contributor to India's export growth — after several ships were forced to take a much longer route to deliver fuels to western markets, according to shipping data and industry officials. The hit, from attacks by Yemen-based Houthi rebels on ships using the Red Sea route to supply oil, is sizeable on sales of diesel to Europe, which accounts for over a quarter of India's total fuel exports in volume terms.

The disruption in Indian supplies of transport fuels to western nations has also given competitors an opportunity to supply European markets. The importance of India's fuel exports to the Indian economy cannot be understated. Petroleum product exports contributed $57.3 billion to India's coffers in FY23, around 12.7 per cent of India's total exports by value, according to oil ministry data. Indian refiners led by Reliance Industries earned $35.7 billion in the April-December period of this FY.

India's overall petroleum product exports dipped sharply by around 23 per cent in January to 1.05 million barrels per day (bpd) from 1.37 million bpd in December, according to loading data from Paris-based market intelligence agency Kpler. The biggest impact was felt on sales of fuels to Europe, with exports shrinking by half in January to 205,000 bpd from December. Diesel sales, a key export earner for India, to Europe dropped 77 per cent as US suppliers made inroads. Europe accounted for 30 per cent of India's total fuel exports last month.

Ships carting gasoline, diesel and jet fuel from India to Europe use the shortest maritime route via the Suez Canal, an artificial waterway linking the Red Sea to the Mediterranean Sea. The Suez is the shortest and least expensive route to send commodities from India to Europe and the US east coast. An alternate route via the Cape of Good Hope, the southern tip of Africa, may add anywhere between 4,000 to 6,000 miles to the journey, inflating costs, and travel time by 3-4 weeks.

There were 12 such diversions of US and Europe bound oil tankers from India, which took the Cape of Good Hope in the December 18-January 24 period, said Serena Huang, head of Asia-Pacific analysis for market intelligence agency Vortexa in Singapore. Ten of those cargoes originated in Jamnagar, where Reliance Industries' 1.36 million bpd refinery complex is located. Reliance is the biggest exporter of fuels from India, accounting for around two-thirds of the country's exports last month.

Indian ships carrying jet fuel have avoided the Bab el-Mandeb, which connects the Red Sea to the Gulf of Aden, this month, said Viktor Katona, an analyst at Kpler. The disruptions are beginning to show, with India shipping only 70,000 bpd of diesel this month to Europe compared to a record 311,000 bpd in December because of mounting attacks by Yemen-based Houthi rebels in the Red Sea. The fuel is India's biggest export product.

The breach left by Indian sellers led by Reliance is now being filled by US suppliers, who are elbowing in to capture India's share of the European diesel market, according to shipping data and industry officials. European buyers of diesel or jet fuel are increasingly considering risk-free deliveries of fuels leading to a surge in diesel volumes from the US, an official from a state refiner said. The US overtook India as the largest supplier to the European continent in December and will consolidate those gains even further, shipping data show. It has already loaded over 316,000 bpd of diesel to Europe this month after supplying a record 367,000 bpd last month. The US will continue to increase its share of the European market this year until the conflict in the Red Sea eases, Katona said.

India's overall sales of clean and dirty products to Europe and the US have also reduced by half because of the Houthi attacks. India loaded 263,000 bpd of clean and dirty products as of 24th January to destinations in the US and Europe compared to 490,000 bpd in the entire month of December, according to Kpler data. Exports averaged 461,000 bpd in the October-December period. The conflict in the Red Sea is likely to impact India's overall exports to Europe and the US, with consignments getting delayed because of higher shipping costs, India's commerce ministry said earlier this month.