

Arabian Sea may become 'high risk' again: PortsMin

Wrote to MEA, DefMin; traders may have to shell out higher freight, insurance costs

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Amid rising Houthi attacks on merchant vessels in the Red Sea and Somali piracy in the Arabian Sea, the Ministry of Ports, Shipping and Waterways expressed concerns about the possibility of the Western Indian Ocean being re-established as a "high-risk area", *Business Standard* has learnt.

A high-risk area is determined by the global shipping industry through its associations and declared for information for all maritime stakeholders in the global supply chain so that adequate security protocols can be put in place on those trade routes.

A high-risk area typically entails cost escalations for traders in the form of higher freight and insurance costs as the risk of traversing these trade routes is accounted for.

The shipping ministry wrote to the Ministry of External Affairs and Ministry of Defence in December 2023, highlighting this possibility, along with the impact the Red Sea crisis could have on the economy.

"The increase in operational costs could have a cascading effect on our economy, influencing trade, commerce, and the pricing of commodities. We may also consider the possibility of the re-establishment of the high-risk area in the Western Indian Ocean and Arabian Sea if such a situation persists," the ministry wrote in its communication on the subject of the Red Sea crisis, seen by this paper.

However, an official in the know played down the high-risk area issue and said that



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The Ministry of Ports, Shipping and Waterways, Ministry of Defence, and Ministry of External Affairs did not respond to queries by the time of publishing.

The Red Sea crisis began on November 19, 2023, with the Iran-backed Houthis in Yemen launching their first attack on the *Galaxy Leader*, a merchant ship. Over 25 attacks have been reported to date, which encompass anti-ship missiles, piracy, ballistic missiles, and unmanned aerial vehicle strikes. Estimates by London Stock Exchange Group Shipping Research suggest that a single tanker voyage between Asia and

Northwestern Europe is now costing shippers a \$1 million higher on account of rerouting via the Cape of Good Hope, as the Red Sea becomes increasingly unsafe for merchant vessels. This is not inclusive of the additional premiums being paid due to the elevated risk.

"Due to the Houthi attacks, insurance premiums are already quite high on account of a war risk premium, but the effects of becoming a high-risk area, if it happens, may become visible once the Red Sea crisis is over. Insurance costs had come down after the high-risk area was removed in 2023," the head of a logistics industry body said.

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