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The Suez Canal – A Choppy Transit

India’s maritime trade with Europe and USA in rough waters; delay and cost escalation likely

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Overview

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India uses the Suez Canal route for trade with European countries, North Africa and North and South America, which account for more than 35% of the total foreign trade for India.

Shipments may witness delay in transit and increase in cost due to recent escalation of the conflict in the Red Sea affecting trade through the Suez Canal.

- The Suez Canal is one of the top five busiest global marine routes; nearly 12% of the global trade flows happen through the Suez annually.
- It reduces travel distance between India's west coast and Europe by ~15 days vis-à-vis the Cape of Good Hope (South Africa) and results in significant savings on freight costs.
- However, the recent escalation of the conflict in the Red Sea, has resulted in 122% increase in freight cost in the past couple of months. As a result, majority of the global container shipping companies are deciding to avoid the Suez Canal and instead take the longer route around the Cape of Good Hope.
- While a gradual rise in freight rates would have been easier to pass on to the buyers, the recent spike may negatively impact profitability.

Importance of Suez canal for India

- India is surrounded by water on three sides because of which sea transport or maritime transport plays a major role in carrying out international trade.
- According to the World Bank, the share of seaborne trade in India's total foreign trade is 95% by volume and 67% by value.
- India uses the Suez Canal route for trade with European countries, North Africa and North and South America, which account for more than 35% of the total foreign trade for India.

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Entities dealing in foreign trade with European and American countries will get impacted because of the conflict in the Red Sea.

The intensity of the impact depends upon the share of affected import/export in total revenues, ability of the entity to bear the delay and increased cost.

Impacted sectors for India

- Sectors with higher import dependency (like fertilisers, metals) and higher export dependency (like chemicals, textile, auto components, pharma) on European and North and South American countries could face delay in transit and higher freight cost if the issue persists.
- Exports of agricultural commodities, being perishable, will involve risk of spoilage, loss of freshness and quality because of the delay in transport. Specially exports of grapes have a large dependance on European countries.
- For oil import, the Middle-East and Russia account for majority share, which is not impacted currently. However, oil imports to India from West Africa, North America etc (forming a smaller share) passing through the Suez Canal have been impacted.
- Impact on some sectors like general insurance may not be significant because of the reinsurance agreements and smaller share of marine insurance.

- The intensity of the issue may differ from sector to sector depending upon the share of import/export to affected countries like Europe and North and South America, as well as the ability of the entities to deal with delay in transit and additional freight cost.
- However, if the issue persists, it will negatively impact profitability.

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Thank You!