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As the Russia-Ukraine war rages, the ebbing supply chain crisis gets an extension

Synopsis

Eastern Europe has pushed the world into another downward economic spiral. It has wide-ranging ramifications for Indian supply chain players.

Just as businesses across the world start breathing a little easier as Covid cases ease off, the global economy is being forced to play a round of Russian roulette. The bullet is the same one that caused dread around the world the past two years: **supply chain** crisis.

Covid repercussions have jammed global trade since the pandemic began. Empty containers piled up at various ports, blank sailing became common and transportation costs shot through the roof. The situation has not yet cooled down. But, the Ukraine-Russia **war** has created a similar situation for trade to and from Europe. Indian traders and exporters to Europe are having to face the heat again.

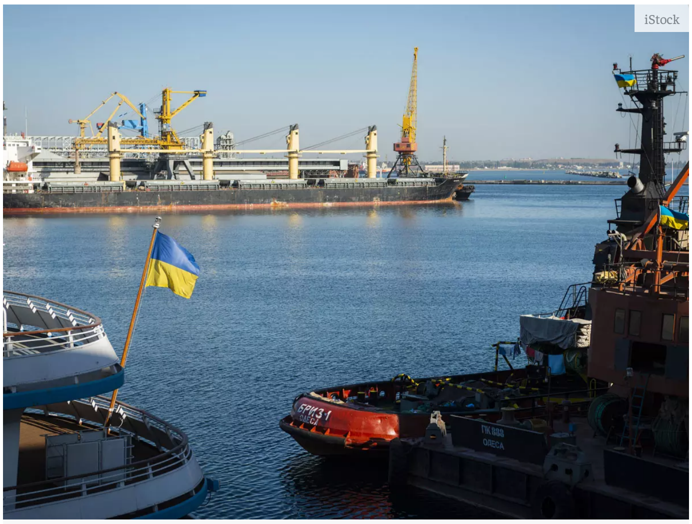
The Federation of Indian Export Organisations (FIEO) says the crisis "has come at the worst time" as every country is struggling to contain inflation. Since **Russia** and **Ukraine** are important suppliers of gas and petroleum as well as metals and cereals, supply disruption from these two sources will push up energy and food prices, says Ajay Sahai, DG & CEO, **FIEO**.

One of the major problems for Indian exporters to Europe is that the trade passes through the Black Sea, which has been affected by the war. International news reports have claimed that more than 100 ships were stranded in and around Ukraine's ports in the Black Sea, an important sea trade route for Europe-bound shipments from India. This is an all-year transportation artery for Eastern Europe, Russia, the Caucasus and Turkey. The critical maritime transport line sits adjacent to Bulgaria, Georgia, Romania, Russia, Turkey and Ukraine. Both Russia and Central Asian countries are dependent on the Russian port of Novorossiysk for agri products and oil. The established trade patterns stand crippled because of the invasion of Ukraine.

Shipping freeze

Indian traders are staring at problems with shipping and freight operations and container availability. They are also feeling the pinch of the sanctions on Russia by the US and European nations. FIEO states that most of the shipping lines have stopped taking consignments to Russia. "We had expected the situation to improve after Covid. But freight rates are again moving northward," says Sahai.

It is going to create another container shortage. Whenever container supply from a part of the globe is affected, it is bound to impact the overall container availability, explains Sahai. "With sanctions in place, shipping lines will be reluctant to touch Russia. Such a development will have a bearing on our exports to the **CIS** (Commonwealth of Independent States) region as a lot of consignments to CIS were moving through Russia. We need to explore the possibility of routing them through other countries, either through Qingdao (China) or through Poti (Georgia)."



The Black Sea port of Odessa, Ukraine, has been a key shipping route.

Shipping giant Maersk has already said it has temporarily suspended new intercontinental rail bookings on both east and westbound routes between Asia and Europe because of the sanctions. "We cannot engage with, receive from or make payments to any sanctioned banks, or any other sanctioned party – including Belarusian and Russian parties...," it said. Maersk has also suspended all new air bookings to and from Russia and Ukraine. It sees a potential risk to the cost of air transportation as airspace gets restricted and flights are further subject to rising fuel and insurance costs. Among others, DHL Express has suspended inbound services to Russia, Ukraine and Belarus; UPS and FedEx have suspended inbound and outbound services to Ukraine and Russia. For bookings made before the announcement of the suspension, logistics companies have said they were committed to delivering those despite delays in transit.

Mounting Economic Costs

Supply chain players are hurting. Richard Theknath, Chairman & Managing Director of **Jet Freight Logistics Ltd**, says the blockage and the problem in the Black Sea has thrust another massive crisis on the logistics industry. "Freight rates have been the highest ever. The industry has been affected by almost 300-500% compared to pre-Covid time, and this has spiked the cost of goods which will eventually be borne by the end-user." Theknath adds the Ukraine-Russia crisis has added fuel to the fire as air freight and sea freight rates have witnessed an increase of almost 30-40% from the pre-conflict period.

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Cancellations by shipping lines have heightened the anxiety among supply chain players. Nishant Parmar, Sales Head of Bluebird Cargo Pvt Ltd, says not only have shipping lines cancelled new bookings to Ukraine and Russia, they are also asking suppliers to recall the containers.

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This has affected freight rates, which had already risen after Covid began. "After Covid, a New York-bound 40ft container cost about $3,500. We are currently getting it for $11,000. It is the same story for the Persian Gulf sector. For Dubai, it has increased from $200 to $2,400 now," says Parmar.

If all these problems weren't enough, the Suez Canal Authority (**SCA**) has decided to increase the canal toll by 5-10% from March 1. Experts say recent geopolitical upheavals and the rising oil prices are responsible for it. About 30% of global container traffic passes through the Suez Canal. Though the Russia-Ukraine conflict zone is not in the immediate vicinity of the canal, FIEO says the geopolitical issue is already delaying the movement of ships through this trade artery. It typically takes 45-60 days to move goods via the Suez Canal from India to Europe, from where goods go to Central Asia, says the federation. That timeline has already increased by 2-3 weeks, say trade experts.

Oil-freight equation

Dealing with a broken supply chain is in itself quite challenging and now we also have to deal with the added pressure of freight rates going up, says Vineet Agarwal, Managing Director of Transport Corporation of India Ltd. "Container freight rates will remain high till the second half of the year. On the domestic front, we will see a very rapid increase in domestic fuel prices as crude oil prices have gone up."

An increase in fuel price has a direct bearing on freight cost. Typically, a 10% increase in fuel price will inflate freight cost by 4-5%, says Agarwal. "What makes matters worse is that in March, there is usually higher demand for freight traffic as domestic companies are closing the financial year and want to expedite orders for the period. We should see a rapid increase in freight rates in the next few weeks."

All indications are that global trade is likely to be affected more by the uncertainty and intensity of the conflict than by economic sanctions. Trade policy expert Nisha Taneja says such a situation discourages businesses from making fresh transactions or business deals with both Ukraine and Russia. "They will prefer to wait and watch. These developments are likely to further hurt the already stressed global value chains," says Taneja, a professor at Indian Council for Research on International Economic Relations (**ICRIER**).

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Faced with market uncertainty, logistics and supply chain services companies are trying out newer mitigating measures. "A lot of traffic that moves by road will come with a higher cost structure. So, we are pushing for multimodal solutions instead of just road transport. We are also using ships to move goods domestically," says **TCI**'s Agarwal.

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Queries sent to the logistics division in the

Department of Commerce and the Federation of Freight Forwarders' Associations in India were unanswered when this story was being published.

A Plan B?

Another major problem for freight movers is that many banks are not transferring money received from Russia. These banks are saying the amount would be returned to Russia due to the sanctions.

The exporting community, too, is exploring new ways to safeguard their business interests. FEIO's Sahai emphasises that one way to deal with the situation will be to trade in local currencies for commodities that are not on the sanctions list. The money lying in state credit with Russia can be used to settle export transactions, he points out. "However, banks will be extremely careful in dealing with such transactions. Since the payments for exports already done will be delayed, we request the government to provide relief to exporters by asking banks not to charge a penal rate of interest and also be liberal in granting an extension in the remittance period on expiry of 9 months' deadline," Sahai says.

Experts suggest that traders should also be aware of increased insurance costs as that could stealthily eat into their profits. Exporters to Ukraine, Russia and other CIS countries should contact their nearest servicing branch of Export Credit Guarantee Corporation of India (ECGC) for clarity on insurance coverage, says Vijay Kalantri, Chairman of Mumbai-based trade facilitating body MVIRDC World Trade Centre.

Capitalising on War

Kalantri, however, maintains that the crisis will not have a significant impact on India's global supply chain. The reason: it has mainly affected India's to and fro shipments with the 12 CIS countries, which hardly account for 2.7% of our imports and 1.4% of our exports. As for non-EU destinations, he insists major shipping lines have not cancelled services from India to non-EU destinations and so the crisis' impact on India's trade will be minimal. However, there will be a rise in ocean freight cost due to expensive crude oil, he adds.

Some commodities would also be affected as Ukraine supplies 52% of the world's sunflower oil, 14% of maize and 9% of wheat.

As for Russia, India's major exports are engineering items, pharmaceuticals and organic chemicals — accounting for 48% of the exports to Russia. However, Taneja highlights that India's share of exports to Russia in each of these products as a proportion of total exports to the world is just 1-2.4%. "Major imports from Russia include energy, pearls and fertilisers, accounting for 68% of India's imports from Russia. Of these, fertiliser imports account for 9% of India's import of this item from the world, while each of the other two items accounts for only 2% of the imports. The impact will be felt the most on fertiliser import. India does not rely heavily on Russia for the import or export of any other item and, hence, a shift to other sources or markets may not pose a huge cost," she adds.

FIEO chief Sahai even sees a silver lining. The crisis is an opportunity to capture the markets largely catered to by Russia, particularly in sectors such as wheat, corn, iron & steel, petroleum, plastics, rubber and spices. "While our exports to the EU remain unaffected, the freight hike is affecting the profit of exporters. However, as Russia's major market is Europe, we will have a much better opportunity to push our exports to occupy some space left by Russia, owing to the sanctions," he adds.

Many western nations have imposed financial sanctions on Russia but have not yet stopped agri commodities trade. When comprehensive and harsher sanctions are levied on Russia, India would get a chance to export its stock of grains and agri products to the world at higher prices, says TCI's Agrawal, who is also President at ASSOCHAM. The iron and steel industry also has an opportunity to meet global demand for semi-finished products of iron and non-alloyed steel, where Ukraine's world export share is 12%.

As the West and Russia face off over Ukraine, India can emerge as a winner.

(Edited by Ram Mohan)

ADD COMMENT

NEXT STORY

India is in a cosy place in terry towel exports. But neighbours are competing for the spot

Synopsis

The country's leadership in the cotton terry towel market can face a challenge unless the government makes some policy changes, ease exporters' path with FTAs and ensure raw material is easily available.

BY
Shariq Khan
ET Online

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When it comes to towels, India towers over others. These products, particularly the cotton terry ones, are highly sought after across the world and have given manufacturers a comfortable position in global trade. But if India wants to continue to be a world leader in this category, some policy adjustments are necessary.

The country became a competitive export leader in the **terry towel** segment — classified as cotton/knitted and crocheted (HSN code 63049250) — because it is a major producer of cotton and has a mature textile industry.

India's terry towel **exports** in FY2020 were $127.67 million, says the Commerce Ministry, rising 10.95% from the previous period. This figure soared to $141.65 million in FY2021. It reached $413.63 million in Apr-Dec 2021-2022 — a remarkable 192% rise despite Covid pangs. The Chief Economist at PHD Chamber of Commerce and Industry, SP Sharma, estimates terry

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