



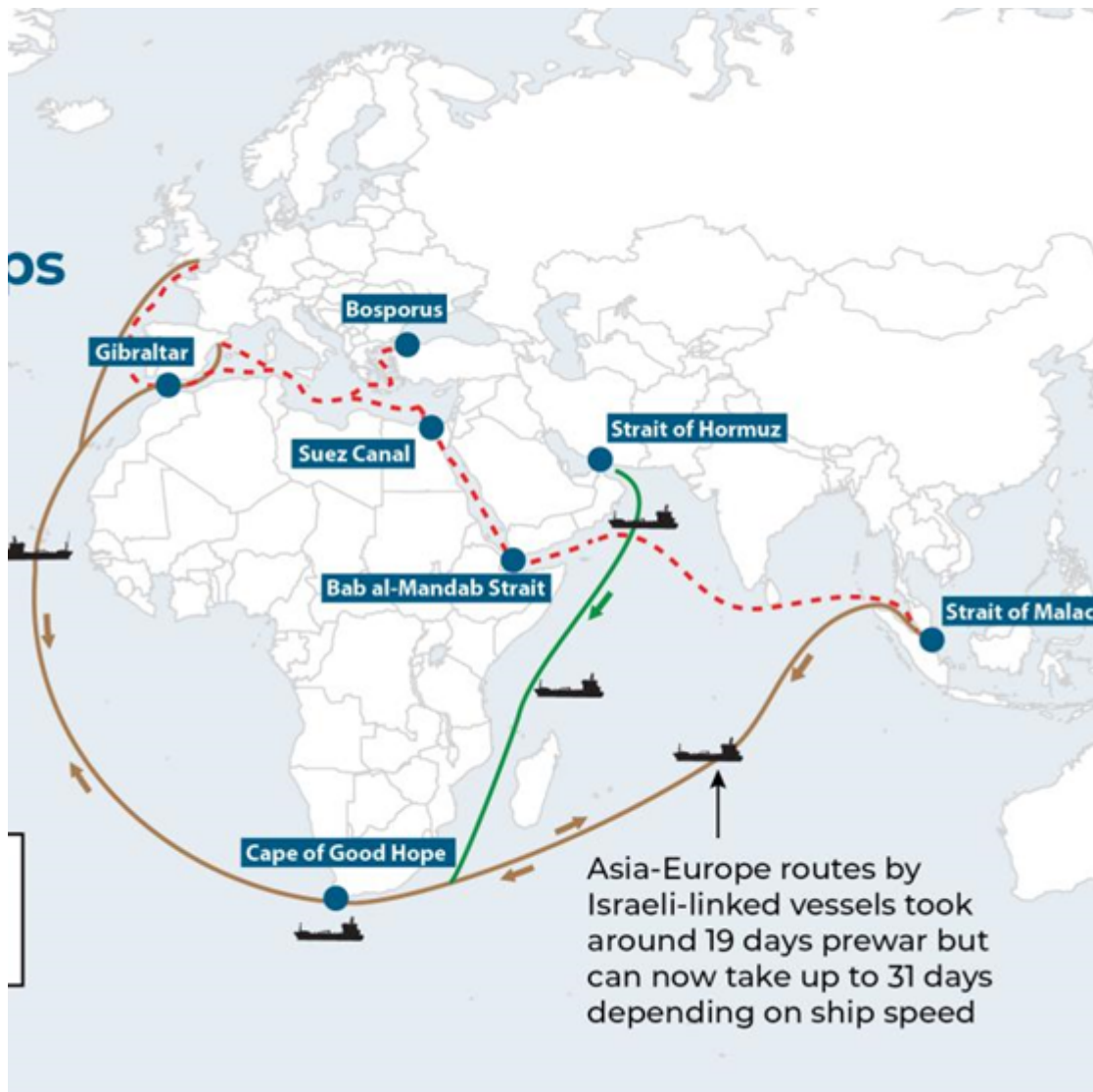
Red Sea attacks, Panama Canal crisis

Published On: 02-01-2024

Why is in news? Red Sea attacks, Panama Canal drought: How trouble at two shipping choke points could impact global trade

Two crucial choke points – **the Suez Canal and the Panama Canal** – threaten to **disrupt over a third of global trade**.

This comes amid already slowing demand in the West and a property crisis in China that led the World Trade Organization (WTO) to lower its goods trade forecast by as much as 50 per cent



Red Sea attacks:

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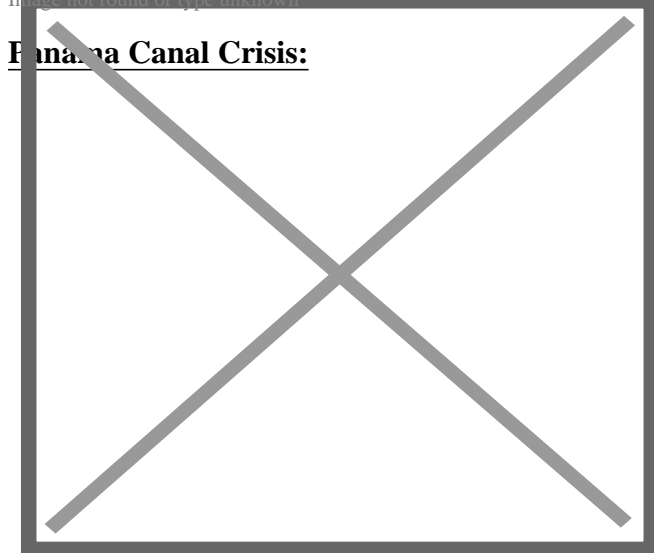
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Amid the recent attacks on ships passing through the Red Sea trade route in West Asia, one ship on its way to India was struck by a drone attack on **Chemical tanker MV Chem Pluto** on December 23, roughly 200 nautical miles (370 km) off the coast of Gujarat.

It has **raised tensions** among **Indian oil importers and exporters of commodities** such as basmati and tea.

The Red Sea attacks have been **carried out by Yemen-based Houthi rebels**, who have been in a civil war with the Yemeni government for about a decade. They say the attacks are to **protest Israel's military offensive in Gaza**.

While the US-led maritime security coalition has swiftly announced countermeasures, indicating the importance of the route for world trade.



Shipping via the Panama Canal has dropped by over 50% due to

drought conditions at the 51-mile stretch.

Due to the **shortage of water**, ships moving from Asia to the US are being forced to use the Suez Canal, which takes six more days compared to the Panama Canal.

Moreover, Panama is **facing its driest rainy season in decades**, raising fears of prolonged canal bottlenecks.

According to S&P Global, rather than taking longer voyages through alternative routes, LNG vessels are participating in pricey auctions to expedite their transit through the Panama Canal.

One vessel paid nearly \$4 million for an open slot in an auction in early November. The number of Very Large Gas Carriers transiting the Panama Canal is projected to almost halve by February 2024, and there are concerns that those transits will reduce to zero come January, S&P Global further said.

Ongoing crises impacts on world trade:

A disruption in **maritime transport is a crucial concern** for the world economy, as over **80 per cent of the global goods trade** is carried by sea. The share of trade via sea is much higher for developing countries such as India.

Currently, **two important shipping routes** are facing blockages. While the **Bab-el-Mandeb Strait** that leads to the Suez Canal in the Red Sea region connects Asia to Europe, the 100-year-old **Panama Canal** connects the Atlantic and Pacific Oceans.

Both these routes are among the busiest in the world and a blockage results in forcing global shipping lines to take longer alternate routes, pushing up freight rates.

The disruption at the Red Sea route, for instance, is estimated to **push the prices of Indian agricultural products** by 10 to 20 per cent, as shipments would be routed through the Cape of Good Hope.

This comes at a time when **much of the West is witnessing higher interest rates** to curb inflation. Higher prices could further fuel demand concerns for global and Indian exporters.

Why are oil flows to India immune to attack in the Red Sea?

With global shipping majors such as Maersk **avoiding transit through the Red Sea**, global oil and petroleum product flows through the maritime channel have **declined by over 50 per cent** in December from their regular levels.

However, India has **not faced a disruption** in its Russian oil imports. Russia is perceived as Iran's ally and as the **Houthi rebels are widely believed to be backed by Tehran**, its tankers have been passing through.

The price of benchmark Brent crude, however, jumped over 5 per cent since the attacks and is hovering around the \$80-per-barrel mark.

In a recent report, **Goldman Sachs** said that it does not expect the disruptions in the Red Sea to significantly impact international oil prices as global oil production is unlikely to be directly affected.



Red Sea attacks impact on freight rates:

Ever since the attacks along the Bab-el-Mandeb Strait began earlier this month, global shipping firms have begun **imposing war risk surcharges** over and above the normal freight rates.

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Indian exporters said that freight rates for Indian shipments headed to Europe and Africa could **surge as much as 25-30 per cent** if the ongoing security concern along the Red Sea trade route continues.

This is troubling, as the European Union is one of India's second-largest export destinations.

Slowing demand from the region has impacted India's labour-intensive sectors, such as textiles, gems and jewellery exports.

Shipping giant Maersk said that it is **preparing to resume shipping operations** in the Red Sea after the US-led coalition was deployed in the area to address security concerns. However, the company added that it would again resort to diverting ship traffic depending on how safety conditions evolved.

Significance of maritime transport in global trade:

Maritime transport shoulders a colossal **80% of global trade by volume and over 70% by value**, far surpassing other modes of transportation as per the United Nations Conference on Trade and Development.

As of 2019, the total value of the annual world shipping trade had reached more than 14 trillion US Dollars.

While shipping does contribute to **around 3% of global greenhouse gas emissions**, it is relatively more fuel-efficient and emits less per ton of cargo transported compared to other modes of transportation like air freight.

The **majority of the world's energy resources**, such as oil and natural gas, are transported by sea. Tankers carry these resources from production areas to consuming regions, playing a critical role in meeting global energy demands.

Measures adopted by India:

Propose a **collaborative security framework** with key Red Sea stakeholders (Egypt, Saudi Arabia, UAE, Yemen) involving intelligence sharing, coordinated patrols, and joint exercises.

It **deployed advanced surveillance systems** like install integrated radar and drone surveillance systems along India's western coastline to enhance early threat detection and response capabilities.

It **negotiates preferential access** like engage with Panama Canal authorities to explore preferential passage for Indian vessels or potential toll discounts for specific routes.

Conclusion:

The world finds itself at a crossroads, with the old world order undergoing seismic shifts. Soft power, diplomatic strategies, and media influence play pivotal roles in shaping global perspectives.

As the younger generation questions established norms, the need for effective leadership to avert major conflicts becomes increasingly apparent.

The unfolding events in the Gaza-Israel conflict, coupled with broader geopolitical changes, underscore the complexities of navigating a rapidly evolving global landscape.