TEXTILE INTELLIGENCE CENTRE
IBTEX
INFORMATION BUREAU TEXPROCIL

TEXPROCIL NEWS CLIPPINGS

An ISO 9001:2015 CERTIFIED COMPANY

The Cotton Textiles Export Promotion Council (TEXPROCIL)
Engineering Centre, 5th Floor, 9, Mathew Road, Mumbai 400004. Maharashtra State. INDIA
W. www.texprocil.org E. ibtex@texprocil.org T. +91-22-23632910 to 12 F. +91-22-23632914

IBTEX No. 30 of 2024 February 15, 2024

Currency Watch			
USD	EUR	GBP	JPY
83.02	89.07	104.35	0.55

INTERNATIONAL NEWS

Economic experts warn of risk of recession globally by end of 2024

There is a substantial risk of a global recession looming by the close of 2024, according to the latest findings from the Economic Experts Survey (EES) for the fourth quarter of 2023. The survey, conducted by the ifo Institute and the Swiss Economic Policy Institute, gathered insights from 1,431 economic experts across 124 countries.

With growth expectations for 2024 below average, concerns have been raised regarding the likelihood of a recession in various nations. While the survey did not provide confidence intervals for growth forecasts, many experts anticipate notably lower growth rates, potentially leading to recessionary conditions in some countries.

On average, experts remain cautiously optimistic about avoiding a recession, yet regional disparities are evident. In Eastern Europe and South America, the probability of recession stands at an average of 34 per cent. Similarly, experts in Northern and Western Europe, along with Northern America, express heightened concerns, with probabilities ranging from 30 per cent to 33 per cent.

Despite these regional trends, individual country analysis reveals substantial divergence in recession expectations. For instance, while North Macedonia faces a modest 8 per cent likelihood of recession, Bosnia and Herzegovina braces for a significant 60 per cent probability. Notably, major economies such as Ukraine, Germany, the UK, and the Netherlands exhibit heightened concerns, with probabilities hovering around 38 per cent, the survey revealed.

In Southern Asia, Southern Africa, and Central America and the Caribbean, experts express greater confidence in avoiding recession, with probabilities ranging from 18 per cent to 22 per cent. However, countries like Ecuador and Argentina, grappling with recent recessions, anticipate high probabilities of 48 per cent and 61 per cent, respectively.

Source: fibre2fashion.com– Feb 15, 2024

HOME

****

Australian business confidence remains weak in January: NAB survey

Australian business confidence has slightly improved in January, yet remains low, as business conditions fell to just below the long-run average, ending a two-year streak of above-average conditions, according to the National Australia Bank (NAB) Monthly Business Survey for January 2024. The survey revealed a decrease in business conditions by 2 points to 6 index points, indicating a softening economic landscape.

Retail conditions stayed at lower levels, despite a rebound in capacity utilisation which remains above the long-term average, signalling continued resilience in operational capabilities. Businesses are facing elevated cost pressures, both in labour and other inputs, but there seems to be some leeway for firms to transfer these costs to consumers. This dynamic is underlined by a noticeable uptick in price growth within the retail sector and across product prices more generally. The ability of firms to maintain this pass-through of costs will be critically observed in 2024, as pressures on profit margins become a growing concern, as per the survey.

The survey also anticipates a focus on the slowdown in activity, with any further softening of conditions potentially moving the survey's activity measures significantly below the long-run average. Meanwhile, business confidence edged up by 1 point but remains very weak, with manufacturing contributing to the slight improvement. Across industries, confidence is relatively weak, particularly in the goods sectors, including retail and wholesale.

Forward orders saw a slight increase of 1 point to minus 1 index points, still indicating soft demand. However, capacity utilisation experienced a rebound to 83.6 per cent, well above its long-run average, suggesting that businesses retain a strong operational footing despite challenging conditions.

Input cost growth remained stable, with labour cost growth holding at 2 per cent and purchase cost growth marginally rising to 1.8 per cent in quarterly equivalent terms. Output prices saw a rebound, particularly in retail price growth which rose to 0.9 per cent from 0.5 per cent, and a survey-wide increase in final product prices to 1.2 per cent.

Trading conditions dropped 3 points to 8 index points, with profitability and employment indices both experiencing slight declines to 5 index points. While trading and profitability indices have dipped below the average, employment remains above the long-run average.

“The gradual easing in business conditions continued in January, with the headline conditions index now just below its long-run average,” said NAB chief economist Alan Oster. “Both profitability and trading conditions are now below average with conditions supported somewhat by still above-average employment conditions.”

Source: fibre2fashion.com– Feb 15, 2024

HOME

****

Panama Canal Restrictions Not Expected to Change Until April

The Panama Canal will not alter transit restrictions until at least April, when the waterway's operators will again reevaluate the low water levels at the lake feeding the canal.

According to Panama Canal Authority (ACP) deputy administrator Ilya Espino, demand to transit the canal increased further in the wake of ongoing attacks on vessels in the Red Sea, Reuters reported.

"Due to problems at the Red Sea, many people forced to take alternative routes have tried to resort to Panama, but it has not been possible," Espino told Reuters, adding bulk carriers have been hit hardest.

Sourcing Journal reached out to the ACP.

Currently, 24 vessels are permitted to transit through the Panama Canal on a daily basis, up from the 22 ships that passed the waterway every day in December and the first half of January. Under normal circumstances, the maximum capacity of daily transits via the Panama Canal was 36 to 38 vessels.

At the time of the announcement, the ACP said the changes were based on improving projected water levels at Gatún Lake, which provides the water to move ships through the Panama Canal's lock system.

Currently, Panama Canal is in its transitional dry season, which is expected to last through May. Water levels at Gatún Lake as of Wednesday are 81 feet deep, still four feet below the average water levels of 85.1 feet in the five years prior.

If rains arrive in May as expected, the canal plans to progressively increase daily slots with the end goal to return to about 36 vessels per day, according to the Reuters report.

But the rainfall could make or break the decision in the long run. If rains are short of expectations, the authority could apply further restrictions to either daily passage or draft, a vessel's maximum depth.

The canal currently allows vessels with a maximum draft of 44 feet.

"If rainfall does not begin in May, we would evaluate again whether to cut transit by one or two vessels per day, or to reduce maximum vessel draft to 43 feet," Espino told Reuters. The ACP is also monitoring evaporation at water reservoirs during the current dry season.

Restrictions were initially implemented last summer as a months-long drought during the country's May-to-November rainy season led to the record-low water levels at the lake. The restrictions have thus far resulted in fewer arrivals per day, but ships are wading through the canal waters faster.

Total arrivals per day have decreased from 25.3 in November to 22.2 in January, and has declined every month since September. Canal waters time—the average time it takes a vessel to transit the canal, including waiting time for passage—dipped from 40.7 hours in November to 32.1 hours in January. Without accounting for the wait, in-transit times dipped from 10.4 hours to 9.4 hours in the three-month span.

With the restrictions in place, the queue itself has been dwindling. As of Wednesday, 49 total vessels were in queue to transit the Panama Canal, with 38 already booked and 11 not having made a reservation yet. That number is lower than the 57 vessels in queue on Jan. 11 and the 63 vessels lined up on Dec. 18.

THE Alliance brings back two Panama Canal service lines

In good news for retailers and brands, some ocean carriers appear to be restoring some services that had temporarily moved away from the canal. THE Alliance, comprised of container shipping firms Hapag-Lloyd, HMM, Ocean Network Express (ONE) and Yang Ming, is bringing back multiple service lines that use the Panama Canal, reversing a prior decision in December to reroute three services through the Suez Canal.

Just two weeks after the decision to shift the services east, Hapag-Lloyd was one of multiple ocean carriers that suspended shipping through the Red Sea due to the recurring Houthi attacks in the waterway. As of Feb. 11, Panama Canal transits were fully restored on east and westbound sailings on the trans-Pacific to U.S. East Coast "EC2" service.

Source: sourcingjournal.com– Feb 14, 2024

HOME

****

$12 trn needed to meet global renewable energy targets by 2030: Report

To meet the ambitious global renewable energy targets agreed upon at COP28, a significant investment of $12 trillion is needed by 2030, according to a recent report by Climate Analytics. This breaks down to an average of $2 trillion annually, with $8 trillion earmarked for new renewable energy projects and $4 trillion for enhancing grid and storage capabilities.

The report emphasises the critical role of climate finance, particularly in mobilising $100 billion yearly for renewable energy deployment in Sub-Saharan Africa. This investment, quintuple the current rates, aims to ensure universal energy access in the region and align it with global objectives.

The analysis sheds light on the urgent need for accelerated renewable capacity expansion across different regions to meet the 2030 tripling goal. Sub-Saharan Africa faces a unique challenge, requiring a sevenfold increase in renewable capacity due to historical underinvestment and significant energy access gaps. In contrast, the OECD countries must triple their current renewable output, a significant leap from the forecasted doubling by 2030, as per the report titled 'Tripling Renewables by 2030: Interpreting the Global Goal at the Regional Level'.

Asia, particularly led by policy initiatives in China and India, is the closest to being on track for the tripling target, needing to nearly quadruple its renewable capacity. However, the ongoing development of coal and gas projects poses a risk of creating stranded assets or hindering the transition to renewable energy. The report advocates for a halt in new fossil fuel plant constructions, given the robust growth expected in renewables.

Looking beyond 2030, Climate Analytics stresses that the expansion of renewable energy must not stall. To cap global warming at 1.5 degrees Celsius, renewables will need to grow fivefold by 2035 compared to 2022 levels. As countries start planning their 2035 Nationally Determined Contributions (NDCs), incorporating strategies to continue this momentum will be crucial for meeting international climate commitments and ensuring a sustainable future.Top of Form

"$2 trillion a year sounds like a cost, but it's really a choice. We're set to invest over $6 trillion in fossil fuels over this decade—more than enough to close the tripling investment gap. Faced with this choice, I'd go with the safest, best value option—renewables," said lead author and Climate Analytics expert Dr Neil Grant.

Source: fibre2fashion.com– Feb 14, 2024

HOME

****

UK's e-commerce sales see 7% YoY decline in January 2024: IMRG

The UK's e-commerce sector has witnessed a sluggish start in 2024, with online revenues dropping 7 per cent year-on-year (YoY) in January 2024, according to the IMRG Online Retail Index. This index, which monitors the online sales performance of over 200 retailers, observed a sharper decline compared to the 3.5 per cent downturn last year.

Although this decline is not the steepest in the index's history—with February 2022 experiencing a 29.6 per cent reduction—the significant drop of that month was attributed to the exceptional growth during the 2020-21 lockdowns, resulting in a skewed YoY comparison. The recent dip in January 2024, however, is indicative of genuinely weak demand.

The slump in sales was felt across various categories, notably in clothing, which suffered a 10.8 per cent YoY decrease.

Following the surge in e-commerce during the pandemic, revenues have been on a downward trajectory, declining 10 per cent YoY in 2022 and 3 per cent YoY in 2023. IMRG forecasts a stagnation with 0 per cent YoY growth projected for 2024.

As the post-Christmas period unfolded, growth rates have significantly lagged behind those of the previous year. This was evident during the payday week commencing January 21, which saw a decline of 9.4 per cent YoY, a stark contrast to the 11.1 per cent decline recorded in the same week in 2023. The 7 per cent decline for January marks the second-lowest rate since the skewed lockdown comparison period in early 2022, with the lowest being December 2022's 9.3 per cent YoY drop.

Source: fibre2fashion.com– Feb 15, 2024

HOME

****

Why fashion's 'recycling' is not saving the planet

PARIS: In H&M's flagship Paris store it is hard to find clothes that do not claim to be made from "recycled materials".

Last year, 79 percent of the polyester in its collections came from recycled materials, and next year it wants it all to be recycled.

The Swedish fast fashion giant told AFP that recycled material allows the "industry to reduce its dependence on virgin polyester made from fossil fuels".

The problem is that "93 percent of all recycled textiles today comes from plastic bottles, not from old clothes", said Urska Trunk of campaign group Changing Markets.

In other words, from fossil fuels.

And while a plastic bottle can be recycled five or six times, a T-shirt in recycled polyester "can never be recycled again", said Trunk.

Almost all recycled polyester is made from PET (polyethylene terephthalate) from plastic bottles, according to the non-profit Textile Exchange.

In Europe, most textile waste is either dumped or burned. Only 22 percent is recycled or reused -- and most of that is turned into insulation, mattress stuffing or cleaning cloths.

"Less than one percent of fabric used to produce clothing is recycled into new clothing," the European Commission told AFP.

Recycling textiles is "much more complex than recycling other materials, such as glass or paper", according to Lenzing, an Austrian manufacturer famous for its wood-based fibres.

Unrecyclable

For a start, clothes made from more than two fibres are for now regarded as unrecyclable.

Those clothes that can be recycled must be sorted by colour, and then have zips, buttons, studs and other material removed.

It is often costly and labour intensive, say experts, though pilot projects are beginning to appear in Europe, said Greenpeace's Lisa Panhuber.

However, the technology is "in its infancy", according to Trunk.

Reusing cotton may seem like the obvious answer. But when cotton is recycled, the quality drops so much that it often has to be woven with other materials, experts say, bringing us slap back to the problem of mixed fabrics.

To square the recycling circle, fashion brands have instead been using recycled plastic -- to the anger and frustration of the food industry, which pays for the collection of the used PET bottles.

"Let's be clear: this is not circularity," the beverage industry wrote in a withering open letter to the European Parliament last year, denouncing the "worrying trend" of the fashion industry making "green claims related to the use of recycled material".

Recycling polyester is another dead end, according to Lauriane Veillard, of the Zero Waste Europe (ZWE) network.

It is often impure and mixed with other materials like elastane or Lycra, which "prevents any recycling", she insisted.

Jean-Baptiste Sultan, of the French NGO Carbone 4, is equally damning of polyester. "From its manufacture to its recycling, (polyester) pollutes water, air and the soil."

In fact, environmental groups have been demanding that the textile industry stops making polyester entirely -- despite it accounting for more than half of their output, according to Textile Exchange.

Carbon footprint

So where do all those mountains of unrecyclable polyester and mixed fabrics end up after Western consumers dutifully bring them to recycling bins?

Nearly half of textile waste collected in Europe ends up in African secondhand markets -- most controversially in Ghana -- or more often it is tipped into "open landfills", according to European Environment Agency (EEA) figures from 2019.

Another 41 percent of the bloc's textile waste goes to Asia, it added, mostly "to dedicated economic zones where they are sorted and processed".

"The used textiles are mostly downcycled into industrial rags or filling, or re-exported for recycling in other Asian countries or for reuse in Africa," the agency said.

A new EU rule adopted in November aims to ensure waste exports are recycled rather than dumped.

But the EEA admitted that there was "a lack of consistent data on the quantities and fate of used textiles and textile waste in Europe".

Indeed, NGOs told AFP much of Europe's waste clothes sent to Asia go to "Export Processing Zones", which Paul Roeland of the Clean Clothes Campaign said were "notorious for providing 'lawless' exclaves, where even the low labour standards of Pakistan and India are not observed".

Exporting "clothes to countries with low labour costs for sorting is also a horror in terms of carbon footprint", said Marc Minassian of Pellenc ST, which makes optical sorting machines used in recycling.

Recycling 'myth'

The terrible truth is that "recycling is a myth for clothing", Greenpeace's consumer expert Panhuber insisted.

Others, however, are turning towards new vegetable fibres, with German brand Hugo Boss using Pinatex made from pineapple leaves for some of its sneakers.

But some experts warn that we could be falling into another trap. Thomas Ebele of the SloWeAre label questioned the way these non-woven fibres are held together "in the majority of cases" with thermoplastic polyester or PLA.

It means that while the clothing can be "sometimes broken down" it is not recyclable, he said.

"Biodegradable does not mean compostable," he warned, saying that some of these fibres have to be broken down industrially.

But beyond all that, "the biggest problem is the amount of clothes being made", said Celeste Grillet of Carbone 4.

For Panhuber and Greenpeace, the solution is simple: buy fewer clothes.

"We have to decrease consumption," she said -- repair, "reuse and upcycle".

Source: economictimes.com– Feb 14, 2024

HOME

****

China remains Germany's top trade partner; US close behind

China has maintained its position as Germany's most crucial trading partner for the eighth consecutive year, according to data released by the Federal Statistical Office (Destatis). In 2023, China accounted for a foreign trade volume of €253.1 billion, narrowly surpassing the United States, whose trade volume stood at €252.3 billion. Remarkably, despite China's continued dominance, the difference in trade volume between the two nations was merely €0.7 billion, a significant shift from the €50.1 billion gap observed in 2022.

The latest figures reveal a notable downturn in Germany's trade with China, with a 15.5 per cent decline compared to the previous year. In contrast, trade with the United States experienced a modest growth of 1.1 per cent over the same period. The substantial deficit of €58.4 billion recorded in Germany's trade with China is in complete contrast with the export surplus of €63.5 billion in trade with the United States, as per Destatis data.

Despite these challenges, Germany's trade relationship with the Netherlands remained resilient, with the country retaining its position as Germany's third most important trading partner, albeit with a slight decrease of 5.5 per cent in combined export and import values, amounting to €214.8 billion.

Source: fibre2fashion.com– Feb 14, 2024

HOME

****

Big investments from US, China in Vietnamese industrial real estate market

The Vietnamese stock index has been increasing steadily since the beginning of the year. Industrial real estate shares saw bustling trading sessions following an eventful 2023 when the prices increased.

FDI (foreign direct investment) in 2023 also witnessed a significant increase. Vietnam's industrial park real estate market has the brightest prospects ever in the US and China.

The establishment of the Vietnam-US comprehensive strategic partnership in September 2023 and the plan to build the Vietnam-China 'community with shared future for mankind' both promise great opportunities for Vietnam to develop its economy.

In the latest report, SSI said that the demand for industrial land rent will be high in 2024. The demand for land rent in IZs in northern provinces is expected to increase sharply thanks to the trend of moving manufacturing bases from China to Vietnam, mostly in the electronics and semiconductor industries.

CBRE reported that as of September 2023, Apple had 11 audio equipment manufacturing facilities in Vietnam, while Apple's vendors, such as Lux Share, Foxconn, Compal and GoTek, are running 32 factories in Vietnam.

Meanwhile, southern industrial zones (IZs) are believed to see a strong recovery with tenants in textile and garment, woodwork, footwear, logistics, food and beverage industries. SSI said many IZ developers signed MOUs on leading industrial land with new clients in the second half of 2023.

The MOUs are likely to turn into official contracts and bring revenue in 2024. Opportunities from agreements with China are visible after Chinese Xi Jinping's visit to Vietnam in late 2023.

One of the main points mentioned during the visit was Chinese investment in Vietnam. China wants to make outward investment under the framework of the global infrastructure initiative.

Vietnam's enterprises recently have been trying to attract Chinese enterprises to make investment in domestic IZs. In September 2023, Hanaka, Videc, Phuc Loc and other corporations attended a conference in Shenzhen to promote trade and investment between Vietnam's large IZs and Chinese enterprises.

Meanwhile, the Vietnam-US comprehensive strategic partnership is expected to bring great opportunities. Pursuing the strategy on relocating production out of China, the US is eyeing Vietnam as a suitable destination for organizing production in the fields of semiconductors, minerals for the semiconductor industry, digital infrastructure, energy, infrastructure and logistics.

Industrial real estate

Analysts say that while there are great opportunities to attract foreign investors, the supply of industrial real estate (land and ready-built workshops) is limited. This paves the way for IZ developers to make money.

Kinh Bac Urban Area Development (KBC) owned by Dang Thanh Tam, a well known businessman, is one of the biggest beneficiaries of the investment wave. The IZ developer in 2023 cleared all bond debts, while it expanded its land bank to attract foreign investment.

KBC also bought more land plots in the north in anticipation of FDI waves from South Korea and China. In late 2023, KBC's 1/2000 Trang Due 3 IZ design in Hai Phong got approval. In the south, KBC is pouring more money into the IZs in Hau Giang with total investment capital of VND5.5 trillion.

The high demand for industrial real estate has helped IZ developers' share prices increase. Like KBC, Sonadezi Chau Duc (SZC), Idico and Viglacera also saw their share prices increase sharply last year and the upward trend is expected to continue in 2024.

According to SSI, with the limited supply of industrial land, the land rents in listed IZs will increase by 15.5 percent in 2024. The supply will still be modest because of the problems in land assessment, land auctioning for shifting agricultural into industrial land and in site clearance.

New IZs will only become operational 2-5 years after the projects get the PM's approval. According to Bloomberg, the gap in IZ land rents between Vietnam and Southeast Asian countries has been narrowed, but the rent in Vietnam is still 21 percent lower than the average rent in Indonesia.

A report found that the profits listed industrial real estate firms expect in 2024 may increase by 9.3 percent this year.

Source: vietnamnet.vn– Feb 14, 2024

HOME

****

China-Pakistan FTA spurs textile trade, reshaping Asian dynamics

The China-Pakistan Free Trade Agreement (FTA), implemented in 2020, has become a game-changer for both nations, particularly in the textile, apparel, and fashion industries. Bilateral trade has soared, with data highlighting significant growth in both imports and exports especially in textiles and apparel segment. This trend is poised to reshape Asian trade dynamics and holds promising prospects for the future.

Impact on trade

The FTA has given a huge push to trade between the two nations. As per Trade Development Authority of Pakistan stats, textile, apparel and fashion (TAF) exports from Pakistan went up 23 per cent in 2023, reaching $5.8 billion. Similarly, as per China's General Administration of Customs, textile and apparel exports to Pakistan increased 18 per cent in 2023, reaching $4.2 billion.

The textile and apparel sectors are the primary drivers of this growth. Pakistan's exports to China in these categories increased 37.5 per cent from 2020 to 2022, driven by competitive pricing, high-quality cotton, and skilled labor.

Meanwhile, China exports textile machinery, synthetic fibers, and other raw materials to Pakistan, fostering a mutually beneficial partnership.

Pakistan's fashion exports to China witnessed a remarkable 35 per cent jump in 2023, exceeding $1.2 billion states Pakistan Bureau of Statistics. Chinese investment in Pakistani fashion brands and manufacturing is on the rise, with several notable collaborations announced in 2023.

Key growth drivers

The boost in trade is due to many factors. The FTA phased out tariffs on most TAF products, making them more competitive in each other's markets. Over 7,000 Pakistani products are now tariff free, in the Chinese market. This has empowered Pakistani TAF businesses to gain market share and diversify their export portfolio.

Chinese investments in Pakistani textile infrastructure and joint ventures too are fostering deeper integration along the TAF value chain. Pakistani TAF exports benefit from preferential access to China's vast consumer base. The China-Pakistan Economic Corridor (CPEC) offers efficient land and sea routes for trade. Meanwhile the China-Pakistan TAF trade boom might reshape Asian trade dynamics. Pakistan could emerge as a strong competitor to established textile hubs like Vietnam and Bangladesh in the Chinese market.

Challenges and considerations

However, while trade may have got a boost the ongoing political tensions between regional players could disrupt trade flows and hinder long-term cooperation. Pakistan needs to further develop its infrastructure and logistics to fully capitalize on the FTA's benefits. Also, ensuring fair labor practices and environmental sustainability will be crucial for the long-term success of the China-Pakistan TAF partnership.

Regional trade dynamics

This burgeoning China-Pakistan trade relationship has the potential to reshape Asian trade dynamics. As it will result in reduce dependence on traditional western markets. Both nations can diversify their export destinations and lessen reliance on developed economies. It will also boost regional integration. Increased trade flows within Asia could lead to further economic cooperation and infrastructure development. Increased collaboration between China, Pakistan, and other Asian nations could strengthen the regional TAF industry.

It will also create new opportunities as the rise of a combined China-Pakistan textile and apparel powerhouse could attract new investments and create jobs across the region. However, other Asian TAF producers might face pressure to adapt and diversify their offerings.

Meanwhile experts predict sustained growth in China-Pakistan TAF trade, fuelled by increasing demand, favorable trade policies, and ongoing investments. And Pakistan's focus on textile automation and skill development, coupled with Chinese technological expertise, could lead to a more advanced and competitive TAF industry. Another point to ponder is growing consumer awareness regarding sustainable practices is pushing both countries to adopt eco-friendly production methods, creating opportunities for collaboration and innovation.

The China-Pakistan FTA is weaving a stronger Asian TAF trade landscape, with potential benefits for both countries and the region. Addressing existing challenges and capitalizing on future opportunities will be key to unlocking the full potential of this growing partnership.

Source: fashionatingworld.com– Feb 14, 2024

HOME

****

Pakistan: '50% textile firms may shut down in coming weeks'

With over 50% of firms in the textiles and apparel sector at high risk of shutting down over the coming weeks, All Pakistan Textiles Mills Association (APTMA) has called upon the federal government to review the energy rates to make textile exports competitive in the international market.

The international competitiveness of Pakistan's textiles and apparel exports is being continuously eroded by persistent surge in energy prices that are, on average, over twice those in competing countries. Moreover, electricity prices for industrial consumers are hovering at 16.7 cents/kWh and the price of gas is being increased to Rs2,950/MMBtu from Rs2,200/MMBtu at present, marking a notable increase from Rs852/MMBtu just over a year ago.

In a letter addressed to Energy Minister Muhammad Ali, APTMA, Secretary General, Shahid Sattar warned that the closure of the textiles and apparel sector will cause widespread unemployment and social unrest. "Production at these energy rates is not financially feasible and the sector's exports have become stagnant. We're losing market share to regional economies that have significantly lower energy tariffs like Bangladesh, India and Vietnam," he said.

At the same time, Pakistan's macroeconomic outlook remains weak as high inflation continues to persist, and the external sector remains vulnerable with no improvement in foreign exchange earnings.

The economy is stuck in a wholly unsustainable situation in which industrial activity is shrinking with every passing day. This will have implications not just on employment and poverty but also on power sector revenue and the government's fiscal position.

Industrial power consumption has been declining since Q2FY24. Additionally, industrial contribution to the fixed costs of the power sector has also declined, necessitating an increase in the power tariffs of all other consumer categories, as reflected in the quarterly tariff adjustment (QTA) for the current quarter.

"This will likely cause even more of a decline in industrial power consumption and necessitate further increases in power tariffs for all consumers. We are stuck in a vicious cycle of declining consumption and increasing tariffs with no end in sight," he said, adding that the industry can no longer bear the burden of paying for cross subsidies to non-productive sectors in their energy tariffs.

These cross subsidies are an economic distortion that cannot be exported and therefore significantly hinder the international competitiveness of Pakistan's manufacturing sectors.

"A delegation of industry leaders from the textiles and apparel sector urgently requests a meeting with you to explain the precarious position the industry is in and the implications this will have on the entire economy over the coming months, and to seek your guidance on a way forward," he said, warning that if corrective action is not taken urgently, over 50% of firms in the textiles and apparel sector are at high risk of shutting down causing widespread unemployment and social unrest.

Source: tribune.com.pk– Feb 15, 2024

HOME

****

Bangladesh gets world-first LEED 'Platinum Spinning Factory'

Another factory in Bangladesh has been awarded the LEED certification from the United States Green Building Council (USGBC).

With this, the number of green factories in the country rose to 207.

Shah Fatehullah Textile Mills Ltd (SHAFTEX) factory located in Narayanganj secured a platinum rating, with a score of 87, according to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

Speaking to The Business Standard, Ahnaf Shah, director at Shah Fatehullah Group said, "Shah Fatehullah Group's newest venture [SHAFTEX] has become the world's first and only LEED-Platinum certified Spinning Factory."

Before awarding the LEED certification, the USGBC considers several criteria, such as transformation performance, energy, water, and waste management. The best performers are rated with platinum, followed by gold and silver. Bangladesh is the global leader with the highest number of green industries, where 77 are platinum-rated, 116 are gold-rated, 10 are silver, and four are without any rating.

The country has been receiving the certificate since 2001.

With the capacity of 60,000 spindles the spinning mill daily production will be 40,000 KGS yarn including 100% Cotton Combed Compact , 100% Cotton Card Compact, CVC , PC , 100% Viscose , 100% Spun Polyester, he added.

Shah Fatehullah Group launched Bangladesh's first private yarn spinning factory in 1987 with Shah Fatehullah Textile Mills Ltd.

Ahnaf Shah, director at the Shah Fatehullah Group, said, "We mark a monumental achievement in the spinning industry in Bangladesh with the launch of the world's first and only LEED Platinum certified spinning factory. This groundbreaking initiative not only exemplifies our commitment to environmental stewardship but also sets a global standard for responsible manufacturing in the textile industry.

"With innovation at our core, we're shaping the future of the textile industry, one sustainable thread at a time. What makes us even prouder is the fact that Bangladesh has achieved this status of having the most sustainable spinning factory in the world."

Source: tbsnews.net– Feb 14, 2024

HOME

****

NATIONAL NEWS

India-UAE trade could touch $100 billion ahead of 2030

Prime Minister Narendra Modi and UAE President Sheikh Mohamed bin Zayed Al Nahyan have expressed optimism that India-UAE bilateral trade could touch $100 billion, up from the current $85 billion, well ahead of the target year 2030, per a joint statement issued following the bilateral meeting on Tuesday.

The leaders also discussed the Israel-Palestine situation and the Red Sea crisis, as there are "important stakes" involved, but economic cooperation between the two, including the India-Middle East-Europe Economic Corridor (IMEC) project and initiatives as part of the I2U2 group, was expected to maintain its momentum and stay its course, Foreign Secretary Vinay Kwatra said at a media briefing on Wednesday.

"The leaders expressed optimism regarding elevating bilateral trade to $100 billion well ahead of the target year 2030. The two leaders also acknowledged the formal unveiling of the UAE-India CEPA Council (UICC), which stands as an important development in the bilateral trade partnership," the joint statement said. The India-UAE Comprehensive Economic Partnership Agreement (CEPA) entered into force on May 1, 2022.

Pacts signed

Eight pacts were signed on Tuesday in the presence of Modi and Al Nahyan in Abu Dhabi, which included an intergovernmental framework agreement on the ambitious IMEC to promote co-operation on the logistics platform, building on previous understandings.

"The signing of the agreement between India and the UAE (on IMEC) is clear testimony and evidence that while the ongoing disturbance in the region with regard to conflict in Gaza and situation in the Red Sea is indeed an area of concern and both countries and the leaders continue to monitor, supervise, and exchange notes on them, it is equally important to ensure that economic cooperation continues to stay its course and maintain its momentum," Kwatra said.

The other pacts include a bilateral investment treaty to further promote investments in both countries, an MoU opening new areas of collaboration in the field of energy security and energy trade, including green hydrogen, and agreements on interlinking instant payment platforms – UPI (India) and AANI (UAE) – to facilitate seamless cross-border transactions and on interlinking domestic debit and credit cards, RuPay (India) with JAYWAN (UAE).

The UAE is India's third-largest trading partner and among the top four investors in India in terms of foreign direct investments in 2022-23. About 3.5 million strong Indian community forms the largest expatriate group in the UAE.

Source: thehindubusinessline.com– Feb 14, 2024

HOME

****

India biggest US partner in South Asia, says American official

Describing India as its biggest partner in South Asia, the Biden administration has said it is working with New Delhi to deploy a multi-billion-dollar climate infrastructure and a new fund that will include a USD 500 million investment contribution from its development finance institution. Afreen Akhter, Deputy Assistant Secretary in the Bureau of South and Central Asian Affairs (SCA), told this at a news conference organised by the Washington Foreign Press Center.

"With India, which of course is our biggest partner in South Asia, we launched in January of last year the US-India Initiative on Critical and Emerging Technology. We call this iCET," Akhter said.

The goal is to build a resilient semiconductor supply chain, elevate space cooperation, and partner on the next generation of telecommunications - so, again, a really ambitious initiative to build cooperation on critical and emerging technologies with India, she said on Wednesday.

The US is also advancing regional resilience to transnational threats.

"We want to talk about it in terms of our work on infrastructure or - and climate change and responding to pandemics. So under the Partnership for Global Infrastructure and Investment, which is another initiative we announced recently, we're working with India to deploy multi-billion-dollar climate infrastructure and a new fund that will include a USD 500 million investment contribution from our Development Finance Corporation," she said.

"This will also include 40,000 public e-buses through an innovative payment secured - security mechanism financed by the Government of India, the United States, and our partners of philanthropy," Akhter said.

"And then finally, we also launched the Climate Action Champions Work in South Asia, which is intended to invest in the next generation of climate leaders to support climate advocacy and respond to their needs throughout the region. So as you can see, we're deeply engaged with all of our partners across the Indo-Pacific and East Asia and South Asia," she said.

Akhter said the US and India have deepened a very broad and multifaceted defence partnership through joint exercises, strengthened defence industrial cooperation, and the annual 2+2 Ministerial Dialogue.

"We are really focused on building out that defence relationship. It's one of the key features of our Indo-Pacific strategy," she said.

The US is making huge investments throughout South Asia, she said.

"So last fall, the United States and India's Adani Group announced a half-billion-dollar investment in the Port of Colombo in Sri Lanka. This investment is intended to expand the capacity of the port, which is already operating at like 90 per cent capacity and really enable Sri Lanka to become an even bigger economic player in the region as it sits in this prime shipping route," Akhter said.

"To bolster regional security, we're always engaging with our South Asian partners and really looking to build out those security relationships in the region. And we're doing that through a variety of ways, but one way we're doing it is, of course, providing our partners with new capabilities," she said.

In the Maldives, the US recently announced the delivery of four new patrol boats to help them monitor their Exclusive Economic Zones. It has provided three Coast Guard cutters to Sri Lanka, she said.

Source: economictimes.com– Feb 15, 2024

HOME

****

Govt eyes review of customs duty

As a matter of principle, tax proposals were not considered in the interim budget on February 1, but a comprehensive review of customs duties in the light of various free trade agreements (FTAs) is due and is expected after May, the officials said, requesting anonymity.

"If some specific changes are required urgently to safeguard any particular sector, a decision could be taken even earlier after thorough scrutiny and stakeholders' consultations," one of them said. In order to encourage domestic manufacturing, the government did rationalise import duties on various mobile phone components a day before the interim budget, he added.

The government on January 31 slashed customs duties on various components from 15% to 10% that included battery covers, front and back phone covers, main lens, sealing gaskets, SIM sockets, screws and other mechanical items of plastic and metal for cost competitiveness of finished products and greater ease of compliance.

The issue of duty inversion in the light of FTAs signed way back in 2010 was raised by various stakeholders. The issue has also been flagged by a parliamentary panel earlier this month, a second official said. "The committee is of the view that failure to address this issue could lead to severe negative consequences for the manufacturing industry," he said.

The panel observed that exporters faced unequal competition in many markets due to duty inversion faced by them in many products where raw material imports attracted higher duties compared to finished goods, he said.

For example, in the engineering goods sector, about 80% of total copper tubes and pipes were imported at zero duty under the India-Asean FTA, but their raw materials – such as copper cathode and copper scraps -- attracted higher import duties (5-2.5%). A similar situation is seen in the chemical sector, he added.

Domestic leather manufacturers are also facing high duties (between 5% and 30%) on imports of key components, including toe caps, heels, soles and wet blue crust chrome, tanned and value-added leather. Global brands such as Geox, Clarks, H&M, Ecco, Hush Puppies, etc are keen to shift their manufacturing base from China to India, but they insist that manufacturers must use specific components only available abroad, a third official said. A similar situation is faced by the Indian textiles and jewellery sectors, he added.

“Customs duties are not meant for revenue generation. These are calibrated to encourage domestic manufacturing, check dumping of foreign goods, and control prices of essential commodities,” the official said. Indian products are uncompetitive as compared to those from China, Bangladesh, Sri Lanka and Vietnam because of these reasons, he added.

According to the latest government data, the three sectors have seen a double-digit contraction in exports. Leather exports fell year-on-year by about 12% to $3.25 billion in April-December 2023, gem and jewellery by over 16% to $24.30 billion, and garments by 15% to $10.14 billion.

India’s overall merchandise exports during the said period fell 5.7% to $317.12 billion, the data showed.

Source: hindustantimes.com– Feb 15, 2024

HOME

****

India's manufacturing biz sentiment positive in H1 FY24: FICCI survey

India witnessed sustained and continued growth in its manufacturing sector in the last two quarters of fiscal 2023-24 (FY24), according to the 61st edition of the Quarterly Survey on Manufacturing by the Federation of Indian Chambers of Commerce and Industry (FICCI).

Around 87 per cent of respondents expect either higher or same level of production in Q4 FY24. In Q3, 73 per cent of respondents had reported higher production levels.

Eighty-five per cent of the respondents in Q4 FY24 are expecting higher orders compared to Q3. Domestic demand conditions reflect optimism as well in the current quarter, FICCI said in a release.

Growth expectations for Q4 FY24 for textiles, apparel and technical textiles sector is moderate. The average capacity utilisation level of this sector is 75 per cent now.

The existing average capacity utilisation in manufacturing is around 73 per cent, which reflects sustained economic activity in the sector, which is more or less same as reported in previous surveys.

The future investment outlook also looks steady, with over half of the respondents indicating plans for investments and expansions in the next six months.

Challenges related to the availability of raw materials and their escalating prices, uncertainty in global demand, shortage of skilled labour, market volatility, increased power costs, unutilised capacity and high bank interest rates are some of the major constraints that are affecting expansion plans of the respondents.

About 31 per cent respondents reported higher exports in Q3 FY24. Furthermore, over 40 per cent expect their exports to be higher year on year (YoY) in Q4.

The hiring outlook remains stable as close to 40 per cent of the respondents are looking at hiring additional workforce in the next three months.

Production cost seems to have increased for manufacturers in Q3 FY24. The cost of production as a percentage of sales for manufacturers in the QSM has risen for 67 per cent of respondents, which is slightly more than the figure reported in the survey for the previous quarter.

Increase in price of raw material, utilities, labour cost, freight charges, increase in borrowing cost due to high interest rate and supply chain disruption have been the main contributors to increasing cost of production.

Other factors responsible for escalating production costs include high cost of carrying inventory.

Source: fibre2fashion.com– Feb 14, 2024

HOME

****

India-Peru Trade Pact set to take shape by 2024-end, round 6 of negotiations to start soon

India and Peru have been seeing a steady growth in their trade relationship and the expectation is it may grow in double digit incrementally every year. In fact Financial Express Online learns that the negotiations for the India-Peru Trade Agreement is likely to be wrapped up this year even as preparations for Round 6 of talks start in full swing.

Talks for this pact commenced in 2017 and the fifth round was concluded in August, 2019. On account of Covid, the negotiations came to a pause. Luis Cabello – Trade and Tourism Counsellor of Peru in India is however optimistic as the sixth round of negotiations are set to begin soon, "The sixth round of negotiations for the trade agreement between Peru and India will start. We expect to wrap it up by end of this year (2024)."

As per official data provided by both the Indian and Peruvian officials, the bilateral trade volume reached $3.12 billion in FY2023. India exported goods worth $865.91 million to Peru, and Peru's total exports to India in 2023 equaled $2.55 billion. Key Indian exports to Peru include motor vehicles/cars, cotton yarn and pharmaceuticals, while Peru primarily exports gold, silver, copper ores and concentrates, industrial metals like aluminium, iron and agri products include blueberries predominantly.

Cabello pointed out that what really helps is that "India and Peru are two complementary economies. We are not competing with each other. So that is why this agreement will be convenient for both economies. This does not just cover goods but also services and movement of people. It also covers investment." As a result, he is confident of seeing "at least 10% growth every year in trade volume between Peru and India."

Source: financialexpress.com– Feb 13, 2024

HOME

****

13th WTO Ministerial Conference: Trade in a fragmented world

As the 13th WTO Ministerial Conference (MC) is scheduled to take place during February 26-29, 2024 at Abu Dhabi amidst a highly fractured world, trade minsters of member countries are concerned about the prospects of world trade. The growth of global trade is on a decline and a prospect for improvement is not in immediate sight. In fact, it was projected to decline by 5.1% in 2022 to 0.9% by December 2023.

The establishment of the multilateral trading system over seven decades ago was based on the understanding that free and fair trade benefits everyone, and the interdependence and cooperation it fosters contribute to peace and shared prosperity. However, the recent "polycrisis" emanating from geopolitics, healthcare, extreme protectionist measures, climate change, rising cost of living, Red Sea disturbance, and Gaza conflict have led to fears that globalisation exposes countries to excessive risks.

Such fears have increased pressures to unwind trading relationships among traditional partners and instead compelling countries to turn to unilateral policies.

The pursuit of such unilateral policies in last five years has resulted in the fragmentation of global trade. For example, Chinese imports after tariff imposition by the US have been primarily replaced by exports from Vietnam and Mexico. So, this inward and alliance-oriented arrangements due to current geopolitics are proving to be meaningless as they are based on short-term interests and weak foundations. However, such developments dramatically alter the course of multilateral trade pursued during globalisation in the 1980s, 1990s, up till 2008.

Against such fragmentation in the global economy today and the unilateral actions followed by many important members of WTO, the 13th MC may find it difficult to forge any unity among 164 member countries. Outstanding issues such as agricultural negotiations including food security, reforms in dispute settlement mechanism (DSM), a moratorium on custom duties relating to e-commerce, and fisheries subsidies will be at the forefront of discussions in Abu Dhabi.

Agricultural negotiation, by far, has remained the most contentious and thorny issue. As two-thirds of WTO members are dependent on agriculture for their livelihood, these countries are extra cautious about its trade liberalisation. They find the proposal put forth by developed economies highly discriminatory in nature. To counter such tendencies, India, on behalf of developing economies, has taken the lead in pitching for provisions like special safeguard mechanisms (SSMs) and identification of 'special products' (SPs), which aim to help developing countries defend their triple concerns of food security, farmers' livelihoods, and rural development in the event of agricultural trade liberalisation.

The issue of public stock holding (PSH) of grain will find prominence in the 13th MC. India is firm that such a mandate only aims at food security, and hence can't be compromised.

On the DSM front, it looks very unlikely that there will be a consensus on the selection of the appellate body members or the further reforms required to make the DSM a transparent, secured, predictable, impartially actionable, and fast-moving process. Developed and developing countries hold different viewpoints on this matter.

The moratorium on custom duties relating to e-commerce transmission holds significance as potential of e-commerce is globally recognised. India and many other countries expect the moratorium to end so that the policy space is preserved for their digital advancement, import regulation, and revenue generation through customs duties.

All these issues are an extension of the 12th MC held in Geneva in June 2022 and will be no doubt deliberated at length in the 13th MC. But will there be a positive outcome or consensus on these issues? It seems doubtful, as the current fragmented world is pursuing objectives unilaterally.

For instance, the unilateral industrial policy followed by the US, China, and others with heavy governmental intervention is causing a hindrance to the free flow of goods and services. Restrictive industrial policy measures such as tariffs and subsidies have distorted and reduced the prospects of world trade.

Industrial policy can even distort FDI patterns and be a disincentive for investment. Around 3,000 trade restricting measures were imposed last year—nearly three times the number imposed in 2019. National security consideration is also becoming an influential factor in the fragmentation of global economy post the “polycrisis.”

With such fragmentation in sight, the larger goal of a global green transition is being jeopardised. Critical rare earth minerals essential for global production are highly concentrated in some parts of the world. This further will make the green transition more difficult. With unprecedented challenges like global warming and climate change threatening the very existence of human life, global cooperation has never been as daunting as it is today.

So, what is the alternative? The biggest danger one can see is that of climate change. That requires collective action, not an individual country’s chivalry. International cooperation in framing all inclusive trade policies with openness and predictability while addressing security concerns would be the best bet. The 13th MC at Abu Dhabi should aim at restoring the faith and confidence of all members to bring back the spirit of multilateralism and simultaneously exposing the risks and impact of unilateral industrial policies.

Source: financialexpress.com– Feb 14, 2024

HOME

****

Red Sea crisis: Over 700% rise in freight rates give exporters a sinking feeling

As the spectre of Houthi attacks engulf the Red Sea region, its repercussions on global trade are tightening the choke on Indian exporters. Freight rates have risen 600%, insurance costs are higher and container shortage is becoming acute. SMEs, already worried that their goods may not reach the buyers, are feeling the pinch of these factors as well.

Vikas Singh Chauhan, Director of the Home Textile Exporters Welfare Association, points out that Europe freight that was $400-600 per container before the crisis has now rocketed to $4,000-6,000. "70-80% of exports in home textiles have been impacted," he says, explaining that the rise in transportation and insurance costs is squeezing the working capital cycle and eating away the profits of traders.

Indian businesses cannot avoid the Red Sea as it is a crucial trade channel linking Europe, Asia and the Middle East as it is the gateway to the Suez Canal: nearly 12% of global commerce and a third of the world's container ship traffic pass through this region. The surge in attacks by Iran-backed Houthis on ships on this route has forced commercial vessels to divert to the longer route around Africa — around the Cape of Good Hope. This bottleneck has inflated expenses across the board — from freight rates and insurance premiums to container leasing spot rates. It also raises voyage distance by 40%.

Shipping companies have increased by threefold the prices they charge to transport a container from Asia to Europe as they circumvent the Houthi menace by navigating an additional 4,000 miles around Africa. They say the detour results in extra fuel consumption, higher operational and manpower costs, and adds over two weeks to the travel time in each direction.

Shipments are at sea

Chauhan explains that it has become a logistical nightmare. His shipments to Israel's Port of Ashdod now reach in 83-120 days against 12 days previously. Freight rates to UAE have risen from $50-100 to $700-900, says Chauhan.

These shipments, with multiple transshipments, face a 600% increase in freight rates as shippers find it viable to reroute less-than-container load (LCL) — one of the two main categories of containerised transportation services popular among Indian traders — to Singapore and Egypt. This is putting pressure on Singapore port.

The port is also a bunkering (refuelling) point, points out Vijay Kalantri, Chairman of MVIRDC WTC Mumbai. With vessel traffic increasing in Singapore, shipping lines are also struggling to find alternative locations for bunkering.

Kalantri says the surcharge on 40-foot containers on the Red Sea route is $3,000. This is a new charge. A $3,000 surcharge has been introduced for 40-foot containers on the Red Sea route. say industry observers.

A report by UK-based Altana, which gives supply chain insights to governments, recently said the Red Sea disruption is affecting 79% of Europe’s apparel imports from Asia. Chauhan concurs with this finding, saying the additional manoeuvring on seas has impacted 70-80% of exports by volume and 20-30% in value in the home textiles sector. Not many people are forthcoming in acknowledging such a steep fall in numbers, he says.

Some destinations remain relatively insulated from the Red Sea effect, like New Zealand and Australia. But consignments to these geographies go via Singapore, which is seeing vessel congestion and connectivity issues that are raising transit times. Also, most textile exports from India go to Europe, the US, and West Asia, making the Red Sea unavoidable for traders looking to send goods more cheaply and quickly.

Cost of the impact

Freight spot rates are spiking as shipping companies are factoring in the additional costs of going around the Cape of Good Hope or factoring in the additional risk premium of using the Red Sea route, says Jitendra Popat, National Head of Sea Freight at Jeena & Company.

A 40-foot container that used to cost $500 started costing $1,000 on December 20; $2,150 on January 1 and $3,600-4,400 from January 16, he explains. “Freight rates increased 700% to 850% in a short span of 1.5 months.”

The problem is more acute for companies relying on goods that have to reach a destination within a time limit. These companies cannot wait longer for a rerouted ship to arrive without taking a hit on their financials.

Shipments from India to Europe, North America and South America see a cumulative delay of 14-21 days because of a 7-day rerouting, says Chandrachur Datta, Partner at Vector Consulting Group. “This results in a shortage of supply, compelling pharmaceutical companies to opt for costly air freight, impacting their financial health.”

However, the turbulence has made air routes also unviable for industry. Nishant Parmar, Regional General Manager of Delhi-based Blue Bird Cargo Pvt Ltd, says air freight costs have doubled, and there is no space on planes taking goods to destinations in Europe and the USA.

The extended sailing time is putting pressure on manufacturers to synchronise production with shipping schedules or face delays of 65-70 days or escalated warehousing expenses.

According to Ranjith Raja, Head of EMEA Oil Research at LSEG (London Stock Exchange Group), the Red Sea crisis is primarily responsible for the current sharp spike in spot rates. This is mainly because vessels being locked in on their current voyages for a longer period reduces the available tonnage in the market for chartering. This results in a shortage of supply that results in a spike in spot rates. Paris-based Organisation for Economic Co-operation and Development (OECD) estimates the tensions to cause a 5% increase in import costs for its members, leading to a notable increase in inflation.

Nikkhil K Masurkar, CEO of Entod Pharmaceuticals, says the crisis is feeding itself as disruptions in shipping lanes and delays in cargo deliveries are causing shortage of vessel availability and driving up spot rates. “While the extent of the crisis on spot rates may vary depending on various factors, including the duration and severity of the crisis, it remains a significant factor influencing shipping costs and supply chain dynamics in the region and beyond,” Masurkar adds.

Insurance & inventory pangs

Industry players say there has been a significant surge in marine war risk premiums, increasing by approximately fifty times compared to before the war. “We have to shell out extra, exceedingly extra than what we used to pay," says Jitendra Srivastava, CEO of Triton Logistics & Maritime Pvt Ltd. "Insurance costs are definitely up — to the tune of 25-100% depending on the nature of the cargo. In some time-sensitive product ranges (pharma, seafood, agri commodities, etc), it is above 200% of the value of the goods. Facing a barrage of drone and rocket attacks, insurance companies are quite hesitant to provide cover to goods. That major trade route has suddenly turned economically unviable for them, and companies who are still risking it are charging huge war risk premiums (WRP). In sum, insurance companies are exploiting our situation."

Insurance costs depend on factors such as vessel type and age, cargo, sailing history, risk perception and security concerns. Speaking on condition of anonymity, an official of a London-based financial information company says the common insurance premium rate before the Red Sea crisis started was 0.05-0.7%. But it has now reached almost 1% of the value of the asset.

To make matters worse for the industry, there seems to be no sign of immediate relief for the sector. Japanese shipping giant Mitsui OSK Lines estimates tensions in the Red Sea to disrupt the trade route for a year.

The severity of the problem has made traders draw parallels with the supply chain crisis of 2020 — seen during the Covid lockdowns. Businesses have not forgotten the detrimental effect of that, and some are yet to return to normalcy after that hit. Experts have predicted that it might take years for supply chains to recover and return to the pre-pandemic levels of efficiency.

They fear a new problem: inventory bloating, which happens when fear of supply disruptions force companies to place additional orders, to add buffer stocks, leading to higher storage costs. This comes with its own risk. Recently, retailers in the US and Europe were struggling to clear stocks as their additional inventory, ordered to buffer them from Covid disruptions, were not moving off the shelves due to a dip in the economy.

Industry players say overseas buyers are taking time to commit to any deals as they want to know how the situation will unfold. They are asking Indian suppliers for deeper discounts or hold shipments. This has squeezed the working capital cycle of several traders, particularly MSME exporters.

Container shortage, again

Heightened shipping costs are also affecting the availability of containers — an issue that had crippled trade during the pandemic. The Drewry World Container Index, a key benchmark for container freight rates, has more than doubled since the previous year's end. This reflects an acute shortage of containers.

Research by online platform for container logistics, Container xChange, shows the top 10 locations in container trading experiencing substantial month-on-month percentage increases in container trading prices. The highest container trading prices globally are in Chennai as compared with Nhava Sheva and Mundra in January ($1,546 in Chennai, $1,345 in Mundra, and $1,492 in Nhava Sheva). As an example of how leasing rates have reacted to the Red Sea crisis and its repercussions, Container xChange observes that certain stretches, like the Shanghai to Chennai route, have seen a substantial 144% rise in leasing rates from November 2023 to January 2024 (from $85 to $208), showing increased demand for containers in this lane.

Red Sea crisis has triggered the second-largest decline in shipping capacity in recent years, surpassed only by the "Ever Given" grounding in 2021, according to Trade Capacity Outlook report of sea intelligence.

"The significant spikes in shipping rates over the last three months signal a notable shift in the supply-demand dynamics, with demand recovery and capacity being increasingly tied up as the transit times via the cape of Good Hope increase by 2 –3 weeks. While the pre-Chinese New Year surge contributed, it was the disruptions caused by the Red Sea rerouting that served as the primary catalyst for the shooting up of leasing rates for containers,"

says Christian Reoloffs, co-founder, and CEO of Container xChange.

Fuel cost has also increased, roughly 20-23%, as ships have to travel a longer distance, notes Container Xchange. "Ultimately, the end consumer pays the freight cost. In the short term, usually, there is some intermediary that pays the bills because they have promised at a certain price, but ultimately, in normal circumstances, the price per unit is adjusted marginally to the end consumer when such disruption occurs," adds Roeloffs.

Ease after Chinese New Year?

Geopolitical tensions such as the Russia-Ukraine conflict have also added to the rise in fuel price, insurance and operational costs of shippers.

Many experts say the situation can ease a little after the Chinese New Year — which falls on February 10 this year. Many businesses in the country's global manufacturing hubs are closed or reduce operations during the holiday season, causing a slowdown in manufacturing and trade. Experts say this can lower demand for container shipping services, leading to a cooling period. But the global trade situation will not stabilise unless the Red Sea crisis is resolved, to begin with, they add.

Roeloffs expects the situation to persist for a longer period but agrees that the drop in demand usually seen during the Chinese New Year can give carriers time to reconfigure their network and adjust to the longer transit times.

No matter what, Indian MSMEs should be looking for new markets that are insulated from the geopolitical crisis. HEWA's Srivastava suggests exporters focus more on Africa, Russia, South America, New Zealand and Australia. This will create a solution that can weather multiple geopolitical crises.

Source: economictimes.com– Feb 14, 2024

HOME

****

In red over Red Sea crisis: Indian exporters take a hit as freight rates skyrocket

The Houthis have thrown India's exporters a curveball.

Since November 19, when the Iran-backed Yemeni group started attacking commercial ships passing through the Red Sea, shipping costs have surged two and a half to three times or more. In fact, shipping rates from Asia to Europe and US have surged nearly five-fold, going up to USD2,500-USD5,000 per 20-foot container in several cases. Right before the crisis in November 2023, shipping rates hit rock bottom, going back to pre-pandemic levels. For example, from India to European and US ports, shipping rates ranged between USD500 and USD1,000 per 20-feet container.

Industry insiders say shipping companies have hiked rates sharply, knowing that the Houthi impasse is not going to be resolved anytime soon. Also, shipment timelines have increased an average of 10 to 12 days. Insurance costs have risen. Then there are risks of business going to competing nearshoring countries.

India is among Southeast Asian and South Asian countries that use Red Sea as the shortest route to reach US and European markets. It uses the Red Sea route for roughly 50% of its exports and 30% of imports. The trades most impacted are from India to regions in North Africa, the entire Europe, bordering countries of the Middle East and the East Coast of the US.

"Everyone is hoping against hope that the situation will improve quickly, and freight rates will come down," says Ajay Sahai, director general and CEO, Federation of Indian Export Organisations (FIEO).

Shipping lines have their own justifications. Their costs have increased because they have had to adjust their networks. Instead of moving ships through the Suez Canal, they are moving through the longer Cape of Good Hope route, which takes around 3,280 nautical miles more to reach Europe and the US, leading to additional transit time of 10 to 12 days or more. Extra travel time adds to fuel costs and shipping lines, in order to maintain the consistency of service, had to add one or two vessels to the longer route.

To be sure, there is no panic building up among exporters as of now, as despite freight rates going through the roof in a very short time, they are still far below the pandemic days, when shipping rates for a 40-foot container moving from India to New York had peaked at USD15,000 per container.

However, the demand scenario is also very different at present. During Covid-19, demand was very high in the US and Europe markets. But the overall demand at present is pretty low and many countries are facing high inflation. After Covid, because of high demand and low inventory levels, buyers were willing to adjust the increased freight rates and compensate exporters. That is not the scenario now. “Today buyers say that inflation is already very high. They won’t be able to provide any further increase [in prices]. That is a huge cause for concern,” says Sahai of FIEO.

Most industry insiders believe the problem is not going to be a long-term one, but right now the situation is highly volatile. “The longer these disruptions [stay], the more likely shipping rates will stay elevated, if not increase further,” remarked Nora Szentivanyi, senior economist at JP Morgan, in a recent report.

So, what is the short-term impact and who will be affected the most?

Between rock and a hard place

The major impact will be on products where freight is a large component, and it is not possible to pass it on completely to the buyers. For example, in many cases, the freight charges for furniture export are more than the cost of the product.

Also, for certain commodities like cereals, freight is a very important component, going up to 50%-60% of the item’s value. If the freight rate goes up by 300% to 500%, the product risks becoming uncompetitive. For several commodities, exporters work on very thin margins, at times 2%-3%. So, if freight goes up substantially, it will eat away their profits.

There may be other products where freight is only a small component. As per FIEO, in the case of certain machinery items, freight may be just 0.5% of the value of the item, hence the impact of freight hike will be limited.

For Exim (export-import) trades under FOB (free on board) contracts, the seller bears the transport costs and fees until the goods reach the port of origin. Once the goods are on the ship, the buyer bears all transport costs as well as Customs duty, taxes, etc. On the other hand, CIF (cost, insurance and freight) is an international shipping agreement under which the seller pays for the costs of transferring and shipping the freight as well as insuring the cargo until the goods have been delivered to the buyer's port.

A number of exported items going to the US and European markets, such as garments, general merchandise goods, electronics and auto components, are shipped under the FoB agreement which means most of the transportation costs are being taken care of by the buyer (importer) and not the shipper (exporter).

Customers with FOB contracts are taking the hit of higher freight costs. On the other hand, exporters who have CIF contracts are taking a hit on their bottom line since they are absorbing increased freight costs. However, the immediate impact on sales is not there because the orders are already in place.

“Indian exporters pay freight for several engineering goods, agricultural goods and pharmaceuticals which are shipped under CIF agreements. If the buyer is not accepting the cost escalation, the exporter may have to absorb the costs,” says Naveen Prakash, director, Global Logistics Solutions India.

“As of now, the situation on the export front may not be that worrying because exporters have no choice but to supply products, despite suffering losses. But negotiating new orders will be very difficult,” says Sahai of FIEO.

Exim industry insiders allege shipping companies are exploiting the Red Sea situation to jack up freight rates. Post Covid, shipping companies had ramped up capacity by investing in bigger, more automated and fuel-efficient ships which may help mitigate cost escalations.

Venkateswara Rao, chief logistics officer at Jindal Stainless Group, agrees. “It takes 30 days to reach Europe from India’s West Coast. Now it is taking 10 days more. Freight rates can go up to 25% or maximum up to 30%. It cannot be 700%”. The group, India’s leading producer of stainless steel, prefers containerised shipments for its niche cargo but is converting its container shipments to break-bulk mode which is cheaper at present.

Impact analysis

Higher impact of freight increase	Lower impact of freight increase
Bulk minerals & ores	Pharmaceuticals
Agro products (rice, maize, onions)	High-street fashion merchandise
Engineering goods which need to be exported in special equipment like open top, flat rack containers	General store essential goods
Bulk liquids which have to be moved in ISO tank containers	High-end electronics & mobile phone

Source: *Global Logistics Solutions India*

ETPrime

“It is a very competitive world out there. If we are not very price competitive, it is very difficult to survive. We cannot absorb more than 20%-25% freight rate hike because we need to compete with China and other international players. Freight contributes to roughly 8% to 10% of the product cost,” adds Rao.

Big players like Jindal or Tata Steel can opt for break-bulk shipments since they have considerable volumes to get the freight advantage. However, for small- and medium-sized businesses, it is difficult to switch to break-bulk mode because their volumes are small. Mostly small players go for LCL (less than container load) shipments, wherein multiple shipments from small players are consolidated to fill a container.

The threat of nearshoring

If the situation drags on for the next few months, buyers of goods such as textiles, furniture or footwear may look at alternative supply options and compare the shipping cost from, say, Vietnam, Indonesia, or China.

For example, both India and South Africa are major producers of ferroalloys. Now, if, say, the freight rate from South Africa to Europe is USD1,000 per 20-feet container and if the shipping cost from Kolkata to Europe is much higher, Indian exporters risk being outpriced by South Africa.

Countries like Turkey which has ramped up textile production, may be in a better position to supply to Europe because of lesser logistics costs. Similarly, Mexico has emerged as an important alternative, after China, for the US market.

However, while alternatives are there, the challenge with several nearshoring options is that their capacities are still limited and ramping up in a short time will be difficult.

"In all likelihood, some businesses may spill over to alternate options in the near future but may not move dramatically because their capacities are unlike India or China," says Israr Ahmed, officiating president, FIEO.

Several industry players are of the opinion that it is time India invests in its own shipping lines of international repute and have regulation in place. "In India, we should have maritime regulatory bodies like the Federal Maritime Commission in the US to regulate shipping rates," says Rao of Jindal Stainless Group.

Till that happens, high shipping rates will remain a drag on India's trades.

Source: economictimes.com– Feb 14, 2024

HOME

****

Apparel exporters relieved as RoSCTL extended

The central govt announced the extension of the Rebate of State and Central Taxes and Levies (RoSCTL) scheme for export of apparel/garments and made-ups till March 31, 2026. The scheme provides benefits of up to 6% to exporters of garments, made-ups and bedsheets. It was to end on March 31, 2024, and there was uncertainty because exporters were thus unable to take orders after March 31.

Bharat Chhajer, former chairman of Powerloom Development and Export Promotion Council (PDEXCIL), said, “This was a much-needed decision for the garments and made-ups sectors. The scheme was available till March 31, 2024, so there was no clarity for exporters to accept new orders with cost calculation based on the scheme after March 31, 2024. All export promotion councils of the textile industry demanded that the RoSCTL benefits continue, and the central government accepted this. This scheme offers benefits of up to 6% for exports by rebates. Gujarat is a textile hub, and this decision will help the textile industry.”

“Continuing the scheme for two years will provide a stable policy regime which is essential for long-term trade planning, more so in the textiles sector where orders can be placed for long-term delivery. RoSCTL will ensure stability in the policy regime, lower the tax burden and provide a level playing field on the principle that “goods are exported and not domestic taxes”.

The scheme’s objective is to compensate for state and central taxes and levies by rebates, in addition to the duty drawback scheme on export of apparel-garments and made-ups. It is based on the principle that taxes and duties should not be exported, to enable a level playing field for exports,” the Centre said in a statement.

Rahul Shah, co-chairman of the GCCI textile committee, said, “The textile sector is passing through a tough phase. India’s textile and apparel exports for April to November 2023 were $21.8 billion, which was 6.56% lower than for April-November 2022 and 16% lower than April-November 2021. In this scenario, this extension will help exporters of garments and made-ups.”

Source: timesofindia.com– Feb 15, 2024

HOME

****