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MK Yadav Sir

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PIB

Dec 31

16TH FINANCE COMMISSION

(Syllabus: GS Paper 2 - Polity)

Government of India constitutes Sixteenth Finance Commission with Dr. Arvind Panagariya as its Chairman

Context: The Government of India, with the approval of the President of India, has constituted the Sixteenth Finance Commission, in pursuance to Article 280(1) of the Constitution.

Finance Commission

- **About**: Article 280 of the Constitution of India provides for a Finance Commission as a quasi-judicial body.
- **Constituted by**: President of India every fifth year or at such earlier time as he considers necessary.
- **Composition**: Chairman and four other members to be appointed by the president.
- **Tenure**: They hold office for such period as specified by the president in his order.
- **Recommendation of Commission**: The recommendations made by the Finance Commission are **only of advisory** nature, **not binding on the government.**
- **Fifteenth Finance Commission was constituted**: On November 27, 2017.
- **Power and Functions**
  - The **distribution of the net proceeds of taxes** to be **shared between the Centre and the states.**
  - The principles that **should govern the grants-in-aid to the states by the Centre** (i.e., out of the consolidated fund of India).
  - **Any other matter referred to it by the president** in the interests of sound finance.

The **Sixteenth Finance Commission shall make recommendations** as to the following matters, namely:

- The **distribution between the Union and the States of the net proceeds** of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;
- The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States by way of **grants-in-aid of their revenues under Article 275 of the Constitution** for the purposes other than those specified in the provisos to clause (1) of that article.

THE HINDU

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SOVEREIGN GOLD BONDS

Syllabus GS Paper 3 – Economy)

Should you invest in Sovereign Gold Bonds?

Gold-price gains are far from even, they tend to rise sharply over short periods and retreat equally quickly; price spikes are usually triggered by global events such as geopolitical tensions

GOLD BONDS

Aarati Krishnan

Sovereign gold bonds (SGBs) have been attracting a lot of interest lately, after the first set of the bonds matured in November. Investors who bought SGBs in 2015 at a face value of ₹2,584 per bond have seen the maturity value zoom to ₹6,132 with a rise in market prices of gold.

This works out to an annualised return of about 10.8%, on top of the annual interest of 2.75% the SGBs have paid. This is an exceptional return for a government-backed instrument.

But, if you are planning to invest in SGBs in the hope of 10%-plus returns, hang on. You may need to tone down return expectations and weigh the pros and cons of SGBs against other gold investments.

Volatile returns

SGBs are Government of India borrowings denominated in gold. The bonds are issued at a face value pegged to the prevailing market price of gold. At maturity after 8 years, they are redeemed at the gold prices prevailing then.

SGBs score over physical jewellery or bullion on ability to deliver gold returns transparently, based on the prevailing market prices of gold. With jewellery or physical bullion, you incur making charges, GST and other costs at the time of purchase and again suffer deductions such as wastage, when selling it back to the jeweller. The costs eat substantially into returns even if gold prices have zoomed during the holding period. With SGBs you get prevailing gold prices sans deductions.

> But returns from SGBs are highly dependent on movements in gold prices between buy and sell dates. Also, they pay a nominal interest on face value

> You can't cash out SGBs at a time of your choice. Once sold, the bonds are traded on the exchanges. But, they tend to feature low trading volumes, making exit difficult

But returns from SGBs (like from physical gold) are highly dependent on movements in gold prices between buy and sell dates. Also, the bonds pay a nominal interest on face value, which used to be 2.75% earlier, but has been set at 2.5% now.

Many Indians believe gold prices rise every year. In reality, they move up and down and do not even manage a gain every year. Between 2015 and 2023, Indian gold investors faced two years of losses (8% fall in 2015 and 4% drop in 2021) and two years of lower-than fixed deposit returns (3% and 7% in 2017 and 2018). But bumper years like 2019 and 2020, when gold prices added 20%-plus, lifted the average return to 10.8%.

For these investors, price returns on gold originate from two sources – movements in the international price of gold (because most of the gold consumed in India is imported) and the movement of the rupee against the U.S. dollar (a weaker rupee adds to the import price). Swings in these two components make for a volatile combination. On an average, rupee depreciation has contributed 2-3% to the returns from gold. Should gold prices stay put or the rupee appreciate against the dollar, this can mute returns from SGBs.

Unlike in equities, your ability to hold gold for a long period does not necessarily improve returns. A long-term rolling return analysis of gold from 1990 to 2020 showed that over 10-year holding periods, it offered less than 10% returns about half the time, while it returned over 12% about 40% of the time. This suggests you cannot rely heavily on SGBs to create wealth.

Unpredictable moves

Gold-price gains are far from even. It tends to rise sharply over a few weeks or months and retreat equally quickly. Price spikes are usually triggered by global events such as a financial crisis, geopolitical tension or flare-up in crude oil prices. As the events are tough to predict, it becomes difficult to tell when gold will perform.

To maximise returns, buy when prices are ruling low and sell after they have shot up on some external trigger. This is a habit that Indian jewellery buyers have honed over time. But with SGBs, practising the strategy is difficult as the timing of buys or sells is not in your hands. SGBs are sold and redeemed during limited windows of time decided by the Reserve Bank of India.

Liquidity

Unlike physical gold or gold Exchange Traded Funds (ETFs) you cannot cash out of SGBs at a time of your choice. SGBs, once sold, are traded on the exchanges. But they tend to feature low trading volumes, making exit difficult. For an assured exit, you may need to wait for 5 years, after which RBI offers to buy them back at a fixed price. Or, you need to wait until maturity date 8 years later. Gold ETFs, in contrast, can be bought or sold at any time. But they don't pay interest. They also entail an annual management fee which you don't incur with SGBs.

For individuals, SGBs bought from RBI and held until maturity are exempt from capital gains tax. But all other forms of gold investments - jewellery, gold ETFs - are subject to short-term capital gains tax if held for less than 36 months and long-term capital gains tax if held longer.

Context: Recently, there has been a notable surge in interest for Sovereign Gold Bonds (SGBs) following the maturity of the initial set of bonds.

Sovereign Gold Bonds (SGB)

- **Introduced**: In November 2015
- **Issued by**: Reserve Bank of India on behalf of the Government of India.
- **Aim**: To reduce the demand for physical gold and shift a part of the gold imported every year for investment purposes, into financial savings through Gold Bonds.
- **Eligibility**: SGBs will be restricted for sale to resident individuals, HUFs (Hindu Undivided Family), Trusts, Universities and Charitable Institutions.
- **Tenor**: The tenor of the SGB will be for a period of eight years with an option of premature redemption after 5th year.
- **Minimum size**: The minimum permissible investment will be One gram of gold.
- **Maximum limit**: The maximum limit of subscription shall be 4 Kg for individuals, 4 Kg for HUF, and 20 Kg for trusts and similar entities per fiscal year (April-March) notified by the Government from time to time.
- **Joint holder**: In case of joint holding, the investment limit of 4 Kg will be applied to the first applicant only.

ALL INDIA RADIO

Dec 31

PSLV-C58

(Syllabus: GS Paper 3 – Sci and Tech)

ISRO begins countdown for launch of PSLV-C58

Context: The countdown for the launch of PSLV-C58 has been started by ISRO.

PSLV-C58

- **Objective**: The primary goal of the PSLV-C58 mission is to launch the XPOSAT Satellite into an Eastward low inclination orbit.
- **3-Axis Stabilized Mode**: This is aimed at reducing the orbit to a 350 km circular orbit, ensuring the satellite remains in 3-axis stabilized mode for Orbital Platform (OP) experiments.
- **10 Identified Payloads**: This experiment is designed to achieve the objectives of 10 identified payloads, supplied by ISRO and IN-SPACe.

Polar Satellite Launch Vehicle (PSLV)

- **About**: PSLV serves as India's third-generation launch vehicle.
- **Innovation**: It stands out as the initial Indian launch vehicle incorporating liquid stages.
- **Reliability**: Earning the moniker 'the workhorse of ISRO,' PSLV has consistently delivered a diverse range of satellites into low Earth orbits, notably contributing to the IRS Series of satellites.
- **Capability**: PSLV is capable of placing multiple payloads into orbit, thus multi-payload adaptors are used in the payload fairing.
- **Stages of PSLV**
  - **First Stage (PS1)**: Comprises the S139 solid rocket motor, complemented by six solid strap-on boosters.
  - **Second Stage (PS2)**: Utilizes the Vikas engine, an Earth-storable liquid rocket engine developed by the Liquid Propulsion Systems Centre.
  - **Third Stage (PS3)**: Employs a solid rocket motor to provide high thrust during the upper stages following the atmospheric phase of the launch.
  - **Fourth Stage (PS4)**: Represents the uppermost stage of the PSLV, housing two Earth-storable liquid engines.

PUBLIC SECTOR BANKS

(Syllabus: GS Paper 3 – Economy)

Focus on innovative deposits for low-cost funds: FM to PSBs

CASA Deposits' Share Under Pressure As Customers Eye FDs

Sidhartha@timesgroup.com

New Delhi: With public sector banks losing share of current and savings account business, finance minister Nirmala Sitharaman has asked state-run bank chiefs to focus on innovative deposit instruments so that they can raise lower-cost resources to meet their financing requirements.



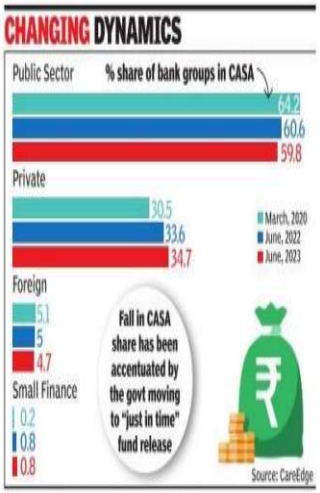
The minister once again flagged the issue at a meeting with public sector bank chiefs on Saturday with sources saying that she wanted the lenders to focus on their "core activity". In recent months, the share of CASA in bank deposits has come under pressure as depositors have been parking funds in fixed deposits, which are offering high returns. Some of the new generation private banks, for instance, are offering over 9% on certain tenures of term deposits.

What has compounded the problem for public sector banks is their decision to lower the interest rate on savings bank deposits at a time when some of the private banks have opted to offer higher rates to corner a bigger share of this business.

In recent years, public sector banks have also lost out on salary accounts of large companies to their private sector rivals. The fall in the share of CASA has been accentuated by the government moving to "just in time" fund release, with the state-run players looking to counter this by chasing current account balances of medium-sized businesses.

For private sector lenders, such as HDFC Bank, tie-ups with exchanges and other sources have helped mobilise a strong base of low-cost deposits. According to CARE Ratings data, the share of CASA in the deposit base of private banks was estimated at over 43% at the end of the June quarter, compared with 41% for the state-run players. The public sector players have, however, lost nearly 4.5% share of CASA business, which has been taken over by private lenders.

Going by the current trends, banks will be chasing fixed deposits in the fourth quarter as they raise resources to fund the lending requirements. Public sector players such as SBI and Bank of Baroda have opted for an increase in FD rates and others are expected to follow suit. Typically, deposit rates peak in the fourth quarter.



Context: Finance Minister of India asked state-owned banks to come out with innovative and attractive schemes to mobilise deposits from the public as this will enable them to extend more credit.

Public Sector Banks

- **Ownership Structure**: Public Sector Banks (PSBs) are characterized by government ownership exceeding 50%.
- **Government Regulation**: Due to government ownership, financial guidelines for PSBs are regulated by the government, instilling a sense of security among depositors.
- **Customer Base**: Public sector banks typically boast a large customer base, owing to the perceived security of deposits.
- **Exemplary Case**: The State Bank of India (SBI) stands as the largest public sector bank in India, with the Indian government holding more than 63% of its shares.

Private Sector

- **Ownership Dynamics**: Private sector banks are defined by significant ownership by private individuals or companies.
- **Independent Financial Strategy**: Despite adhering to the central bank's guidelines, private sector banks have the autonomy to formulate their independent financial strategies for customers.

LIVEMINT

Page 2

LUMPY SKIN DISEASE

(Syllabus: GS Paper 3 – Sci and Tech)

IIL plans to develop vaccines for lumpy skin disease

Somrita Ghosh
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NEW DELHI

The Indian Immunological Institute, a subsidiary of the National Dairy Development Board (NDDB), is working on new vaccines to treat lumpy skin disease and infectious bovine rhinotracheitis (IBR) virus along with a combination of vaccines for protection against rabies, said Dr K. Anand Kumar, managing director, Indian Immunologicals Ltd.

"Our research and development team is working on different vaccines. We are working on various combinations of vaccine for dogs, developing vaccines for IBR in cattle which is also a very big problem in India, and developing vaccines against lumpy disease," he said.

The pace of milk production slowed in 2022-23 due to outbreak of the lumpy skin disease among cattle. The Union minister for fisheries, animal husbandry and dairying Parshottam Rupala said in Parliament that the annual growth rate of milk production in the country fell to 3.83% in 2022-23 from 5.77% in 2021-22, adding that lumpy skin disease led to the decline.

Considering the demand for vaccines for veterinary diseases like foot and mouth, the IIL is expanding their manufacturing units. The IIL manufactures 300 million Foot and Mouth Disease Vaccine (FMD-Vac) as well as Foot and Mouth Disease + Haemorrhagic Septicaemia Vaccine (FMD+HS-Vac) in a year of which the major purchaser is the Union government.

Context: The Indian Immunological Institute, a subsidiary of the National Dairy Development Board (NDDB), is working on new vaccines to treat lumpy skin disease and infectious bovine rhinotracheitis (IBR) virus along with a combination of vaccines for protection against rabies

Lumpy Skin Disease

- **About**: It is a viral disease that affects cattle. It is genetically related to the goatpox and sheeppox virus family.
- **Transmitted by:** Blood-feeding insects, such as certain species. of flies and mosquitoes, or ticks.
- **Causes**: Fever, nodules on the skin and can also lead to death, especially in animals that that have not previously been exposed to the virus.
- **Symptoms**: The incubation period for lumpy skin disease is between 14 day post-infection.
- After an initial period of high fever (41°C) and swollen lymph glands, the animal may develop large, firm nodules that are up to 5 cm in diameter in the skin.
- These can be found all over the body, but particularly on the: head.
- Guidelines for prevention of Lumpy Skin Disease:
- **Preventive Measures**: Control of animal movement, Restriction with affected animals and persons dealing with such animals, Vaccination.

National Dairy Development Board (NDDB)

- **About:** It is a statutory body set up by an Act of the Parliament of India.
- **Founded**: In 1965
- **Nodal Ministry**: Ministry of Fisheries, Animal Husbandry and Dairying

HINDUSTAN TIMES Page 1

EXCLUSIVE ECONOMIC ZONE
(Syllabus: GS Paper 1 – Geography)



Sri Lanka says it will not allow any Chinese research vessel to dock at its ports or in EEZ

Shishir Gupta
letters@hindustantimes.com

NEW DELHI: Sri Lanka has informed India that it will not allow any Chinese research vessel to dock at its ports or operate within its exclusive economic zone (EEZ) for a period of one year, people aware of the matter said on Sunday.

The move comes close on the heels of Prime Minister Narendra Modi urging President Ranil Wickremesinghe to respect Indian strategic and security concerns during their meeting on July 21, 2023.

The declared moratorium was conveyed to India through apex diplomatic channels last week, the people cited above added.

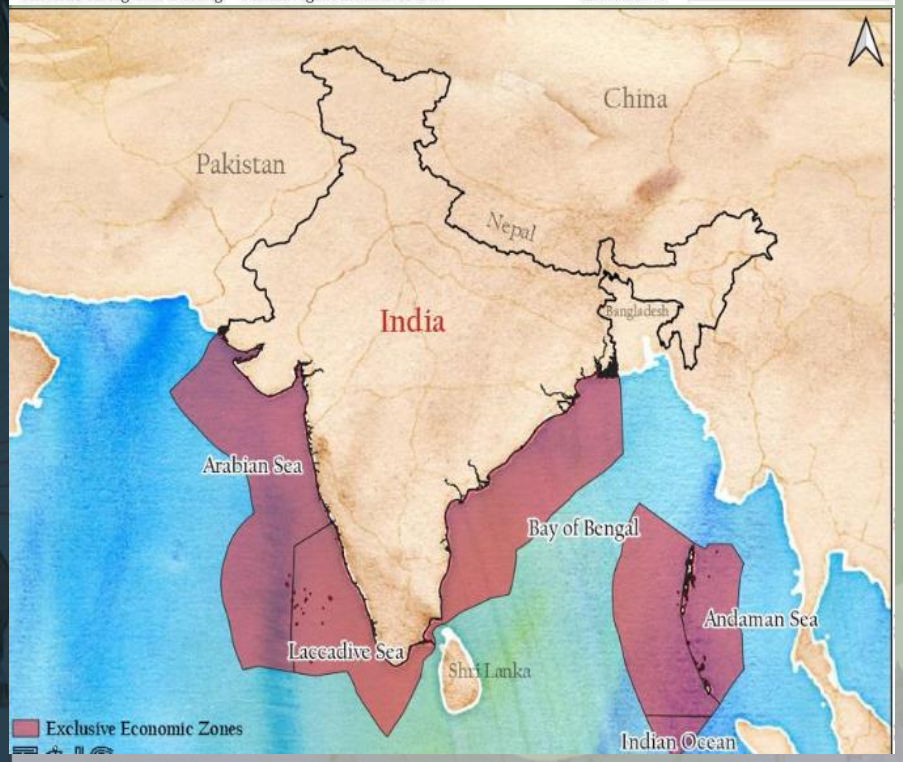
This means that Chinese scientific research vessel Xiang Yang Hong 3, which was scheduled to conduct "deep water exploration" in the south Indian Ocean from January 5, 2024 to late May, will not be granted a clearance by Sri Lankan authorities. China has also asked the current pro-Beijing Mohammed Muizzu regime in Maldives to let the 4,600-tonne Xiamen-based vessel conduct a survey off the coast of Male.

The Wickremesinghe government notified the one-year moratorium last week after India and the US red-flagged Colombo entertaining Chinese scientific research vessels and ballistic missile trackers in the Indian Ocean and providing them logistical support, the people said. India had raised objections to Chinese research vessel Shi Yan 6 conducting a joint maritime survey with the Sri Lankan mari-

continued on →6

US says destroyed anti-ship missiles, boats in Red Sea

WASHINGTON: The United States said Sunday it destroyed anti-ship missiles and boats operated by Yemen's Houthi rebels after a failed attempt by the Iran-backed group to board a container ship in the Red Sea. →P15



Context: Sri Lanka has informed India that it will not allow any Chinese research vessel to dock at its ports or operate within its exclusive economic zone (EEZ) for one year.

Exclusive Economic Zone (EEZ)

- **About:** EEZ" is an area of the ocean, generally extending 200 nautical miles (230 miles) beyond a nation's territorial sea, within which a coastal nation has jurisdiction over both living and nonliving resources.
- **Concept Origin**: EEZ was adopted through the 1982 United Nations Convention on the Law of the Sea.

Exclusive Economic Zone of India

- **About**: India has the 18th-largest exclusive economic zone (EEZ) with a total size of 2,305,143 km2 (890,021 sq mi).
- **Coverage**: It includes the Lakshadweep island group in the Laccadive Sea off the southwestern coast of India[2] and the Andaman and Nicobar Islands in the Bay of Bengal and the Andaman Sea.
- **India's EEZ is Bordered**: West by Pakistan, to the south by the Maldives and Sri Lanka and to the east by Bangladesh, Myanmar, Thailand, Malaysia and Indonesia.

Importance of EEZ

- An **EEZ provides a nation greater access to oil, natural gas, minerals, commercial fishing** and other marine resources, freedom of navigation, international trade, national security, and strategic leverage over other nations.[
- **Piracy, poaching or illegal fishing by foreign vessels**, freedom of navigation, transgression of foreign vessels into Indian EEZ, and conflicting claims are major issues in EEZ.

INDIAN EXPRESS

Page 5

TAHREEK-E-HURIYAT
(Syllabus: GS Paper 3 – Internal Security)

Govt bans J&K outfit Tehreek-e-Hurriyat for 5 yrs under UAPA

Involved in terror, activities to separate J&K from India: Shah

MAHENDER SINGH MANRAL
NEW DELHI, DECEMBER 31

THE GOVERNMENT on Sunday banned the Tehreek-e-Hurriyat, Jammu and Kashmir (TeH), a separatist outfit founded by the late Syed Ali Shah Geelani in 2004, for five years under the Unlawful Activities (Prevention) Act (UAPA).

Announcing the decision, Union Home Minister Amit Shah said in a post on X: "The Tehreek-e-Hurriyat, J&K (TeH) has been declared an 'Unlawful Association' under UAPA. The outfit is involved in forbidden activities to separate J&K from India and establish Islamic rule. The group is found spreading anti-India propaganda and continuing terror activities to fuel secessionism in J&K."

He said that under Prime Minister Narendra Modi's zero-tolerance policy against terrorism, "any individual or organisation found involved in anti-India activities will be thwarted forthwith".

The TeH was formed by separatist patriarch Geelani after he parted ways with the Jamat-e-Islami in 2004. This caused a split in Jamat as many of its leaders sided with Geelani and joined his new separatist outfit.

After heading the TeH for 15 years, Geelani stepped down as its chief in 2018 and his deputy Mohammad Ashraf Sehrai took over. A few months after Geelani's death in 2020, Sehari too died in jail in May 2021. With most of its leadership in jail, the TeH was in virtual disarray and had been running without a clear leader.

In 2019, the National Investigation Agency (NIA) had claimed that separatist leader Masarat Alam, who was arrested in a terror funding case, had confessed that Hurriyat leaders got funds from Pakistan to foment trouble in the Valley. According to the agency, Geelani was among those named by Masarat Alam.

In a gazetted notification issued Sunday, Additional Secretary Praveen Vashista said, "Whereas, the Tehreek-e-Hurriyat, Jammu and Kashmir, is known for its involvement in fomenting terrorism and anti-India propaganda for fueling the secessionist activities in the Jammu and Kashmir…The objective of TeH is to separate Jammu and Kashmir from India and establish Islamic rule in Jammu and Kashmir."

The notification said that "the leaders and members of the TeH have been involved in raising funds through various sources, including Pakistan and its proxy organisations, for perpetrating unlawful activities, including supporting terrorist activities, and sustained stone-pelting on security forces in J&K".

"The TeH members are paying tributes to terrorists who were killed in encounters with security forces and its members have been involved in supporting terrorist activities with an intent to create a reign of terror in the country, thereby endangering the security and public order of the State…," the notification said.

"The Central government is firmly of the opinion that having regard to the activities of the TeH, it is necessary to declare it, as an 'unlawful association' with immediate effect under the Unlawful Activities (Prevention) Act, 1967 for a period of five years from the date of its publication in the Official Gazette," it said.

Incidentally, the government banned TeH days after similar action on the Masarat Alam faction of the Jammu and Kashmir Muslim League.

In an FIR filed on May 30, 2017, the NIA had alleged that Kashmiri separatists were receiving funds from Pakistan, including from Lashkar-e-Taiba (LeT) co-founder Hafiz Saeed and Hizb-ul-Mujahideen chief Syed Salahuddin, to foment trouble in the Valley. Around 13 people were chargesheeted by the agency.

"Masarat Alam, the so-called poster boy of stone pelters and violent agitations in Kashmir Valley, during his custodial interrogation, revealed that Pakistan-based agents route funds through hawala operators, which were transferred to separatist leaders, including Syed Shah Geelani, Chairman APHC (G). Alam also revealed that there are rifts in the Hurriyat Conference regarding collection and use of funds," an NIA statement had said.

WITH INPUTS FROM ENS, SRINAGAR

Context: The Centre declared Tehreek-e-Hurriyat (TeH) an 'Unlawful Association' under the Unlawful Activities (Prevention) Act (UAPA).

Tehreek-e-Hurriyat (TeH)

- **About**: It is a separatist political party in Jammu and Kashmir, India founded by Syed Ali Shah Geelani.
- **Founded**: On 7 August 2004 after Geelani quit his former party Jamaat-e-Islami Kashmir.
- **Composition of TeH**: Jamat-e-Islami, JKLF, Muslim Conference, Islamic Students' League, Mahaz-e-Azadi, Muslim Khawateen Markaz, Kashmir Bar Association, Ittehadul Muslimeen, Dukhtaran-e-Millat, and Jamiat-e-Ahle Hadees.

The Hurriyat Constitution

- **Struggle for Self-Determination**: The APHC constitution defines its purpose as leading a peaceful struggle to secure the right to self-determination for the people of Jammu and Kashmir, in accordance with the UN charter and resolutions adopted by the UN Security Council.
- **Negotiated Settlement Efforts**: The constitution emphasizes efforts towards an alternative negotiated settlement of the Kashmir dispute.
- **Global Projection of Struggle**: To project the ongoing struggle in the state before nations and governments worldwide. This presentation aims to depict the struggle as one directed against the alleged forcible and fraudulent occupation of the state by India.

THE WIRE Dec 30

UNRWA
(Syllabus: GS Paper 2 – International Organization)

India Hands Over $ 2.5 Million to UNRWA For Palestinian Refugees

Context: India recently announced that it has provided US $ 2.5 million to the United Nations Relief and Works Agency for Palestine Refugees in the Near East or the UNRWA for the welfare of Palestinian refugees.

United Nations Relief and Works Agency (UNRWA)

- **About**: UNRWA is a UN agency dedicated to supporting the relief and human development of Palestinian refugees.
- **Establishment:** 1948 Arab-Israeli war by UNGA Resolution 302 (IV) on December 8, 1949.
- Commenced operations on May 1, 1950.
- **Headquarters:** Beirut, Lebanon, Relocated to Vienna, Austria, in 1978.
- **Fields of Operations**: Provides services in five areas: Jordan, Lebanon, Syria, Gaza Strip, and the West Bank, including East Jerusalem.
- **Services Provided**: Encompasses education, healthcare, relief and social services, camp infrastructure improvement, microfinance, and emergency assistance, including during armed conflicts.
- **Funding**: Voluntary contributions from UN Member States.
    - Receives some funding from the Regular Budget of the United Nations, mainly for international staffing costs.

ALL INDIA RADIO

Dec 31

SVAMITVA SCHEME
(Syllabus: GS Paper 2 – Govt Scheme)

Government distributes around 1.25 crore property cards under SVAMITVA Scheme in the country

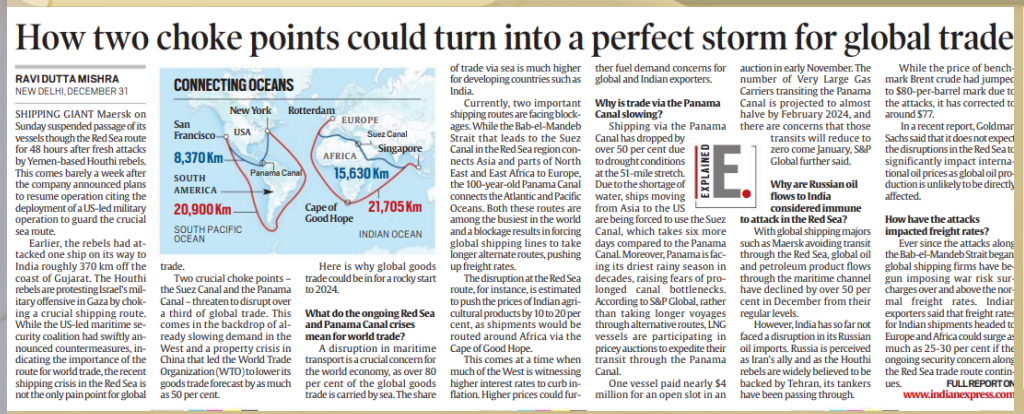
Context: The Government has distributed around 1.25 crore property cards under the SVAMITVA Scheme in the country.

SVAMITVA Scheme

- **Full Form**: Survey of Villages and Mapping with Improvised Technology in Village Areas
- **Launched:** On 24 April 2020 with the Ministry of Panchayati Raj as nodal ministry.
- **Aim**: To survey village areas and provide a property card to house owners as their Record of Rights (RoR).
- **Target**: To cover all Indian villages by March 2025.
- **Implemented by**: Ministry of Panchayati Raj, State Revenue Department, State Panchayati Raj Department and Survey of India.
- **Objectives**: Creation of accurate land records for rural planning and reduce property related disputes.
  - To bring financial stability to the citizens in rural India by enabling them to use their property as a financial asset for taking loans and other financial benefits.
- **Benefits of the Scheme**
  - Granting property rights through an official document will empower villagers to leverage their property as collateral, facilitating access to bank finance.
  - Property records for the village will be systematically maintained at the Panchayat level, streamlining the collection of associated taxes from property owners.

SUEZ CANAL AND PANAMA CANAL

(Syllabus: GS Paper 2 – IR)



How two choke points could turn into a perfect storm for global trade

RAVI DUTTA MISHRA
NEW DELHI, DECEMBER 31

SHIPPING GIANT Maersk on Sunday suspended passage of its vessels though the Red Sea route for 48 hours after fresh attacks by Yemen-based Houthi rebels. This comes barely a week after the company announced plans to resume operation citing the deployment of a US-led military operation to guard the crucial sea route.

Earlier, the rebels had attacked one ship on its way to India roughly 370 km off the coast of Gujarat. The Houthi rebels are protesting Israel's military offensive in Gaza by choking a crucial shipping route. While the US-led maritime security coalition had swiftly announced countermeasures, indicating the importance of the route for world trade, the recent shipping crisis in the Red Sea is not the only pain point for global trade.

CONNECTING OCEANS
New York
Rotterdam
EUROPE
San Francisco
USA
Suez Canal
Singapore
8,370 Km
AFRICA
15,630 Km
SOUTH AMERICA
Panama Canal
20,900 Km
Cape of Good Hope
21,705 Km
SOUTH PACIFIC OCEAN
INDIAN OCEAN

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

Here is why global goods trade could be in for a rocky start to 2024.

What do the ongoing Red Sea and Panama Canal crises mean for 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 and parts of North East and East Africa 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 around Africa via 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 is trade via the Panama Canal slowing?

Shipping via the Panama Canal has dropped by over 50 per cent 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.

EXPLAINED

Why are Russian oil flows to India considered 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 so far 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.

While the price of benchmark Brent crude had jumped to $80-per-barrel mark due to the attacks, it has corrected to around $77.

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.

How have the attacks impacted freight rates?

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

FULL REPORT ON www.indianexpress.com

Context: Recently, the shipping giant Maersk decided to suspend the passage of its vessels through the Red Sea route for 48 hours in response to fresh attacks by Yemen-based Houthi rebels.

- Two crucial Choke Points: the Suez Canal and the Panama Canal – threaten to disrupt over a third of global trade.

Suez Canal

- **About:** The canal links Port Said on the Mediterranean Sea to the Indian Ocean via the Egyptian city of Suez on the Red Sea, serving as a critical international shipping route.
- **Location**: Situated in northeastern Egypt, the Suez Canal stretches across the Isthmus of Suez, covering approximately 120 miles (193 kilometers) from Port Said in the north to Suez in the south.
  - It acts as a geographical separator between the African continent and the Sinai Peninsula.
- **Historical Development**: While the idea of a canal across the Isthmus of Suez has ancient origins, significant efforts began in the nineteenth century.
- **In 1858, the** Universal Suez Ship Canal Company**, predominantly owned by the French and Britis**h, was established to undertake the canal's construction.

Panama Canal

- **About**: The Panama Canal, a man-made waterway, serves as a vital link connecting the Atlantic and Pacific oceans by traversing the Isthmus of Panama.
- **Strategic Importance**: Recognized as one of the world's two most crucial artificial water passages, the Panama Canal shares this distinction with the Suez Canal, playing a pivotal role in international maritime trade.
- **Dimensions**: Stretching approximately 80 kilometers in length, the canal serves as a remarkable feat of engineering, significantly shortening travel distances for ships.

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