

CHIP SCARCITY MAY GET WORSE AMID UKRAINE CONFLICT

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

Russia supplies the global semiconductor industry with rare metals and Ukraine supplies specialty gases required by the chip-making industry.

NEW DELHI : The Russia-Ukraine conflict is likely to aggravate the global semiconductor shortage as the two countries are major suppliers of raw materials critical to chip production, a report by Moody's Analytics said.

Russia supplies the global semiconductor industry with rare metals, and Ukraine supplies specialty gases required by the chipmaking industry. Moody's Analytics said that the ongoing war might have massive ramifications in the already acute semiconductor chip shortage scenario.

The supply of chips for vehicles and electronic goods have been under tremendous stress for the past year because of the pandemic.

A lingering conflict between Russia and Ukraine can quickly exhaust thin semiconductor inventories, disrupting production worldwide and affecting the fragile global economic recovery.

Last month, commerce and industry minister Piyush Goyal had stressed the need for India to be self-sufficient in critical areas such as semiconductor manufacturing as the pandemic and rising geopolitical tensions exposed the fragility of global supply chains, adding that India has committed almost \$10 billion to promote semiconductor manufacturing in the country.

"Neon and helium are both gases critical to the production of chips, and Russia and Ukraine are both major players in the global supply chain—so much that neon prices went up more than 10 times following the Russian annexation of Crimea in 2014," the report said.

The stress could potentially impact the manufacturing of automobiles and electronic equipment in the Asia-Pacific region, the report said.

The report further highlighted that palladium, another key component of the chipmaking process, may be affected given that Russia controls a quarter of the world's palladium stock.

India is worried about the impact of the war between Russia and Ukraine on the country's trade with the two neighbours, finance minister Nirmala Sitharaman said on Monday.

However, Moody's Analytics noted that it does not see an immediate impact on chip production because most major chipmakers have stockpiled raw materials due to significant demand growth during the pandemic.

"But if the Russia-Ukraine conflict drags on, chipmakers in Taiwan, South Korea, Japan, China and other countries will feel the impact. This will likely result in higher chip prices and longer lead times moving forward," the report added.

Analysing the larger impact of the Ukraine-Russia conflict on the Asia-Pacific (APAC) region, the

Moody's Analytics report said that iron ore, semifinished iron and iron bars are among the four largest commodities imported by APAC countries from Ukraine.

"Ukraine is not an exporter of energy to the region, so the conflict contributes only indirectly to higher energy prices either via blockages of shipments from Russia and by the risk premium now priced into global crude oil and other energy products," it said.

The Indian government is also assessing the evolving geopolitical situation and will decide on cutting excise duty on fuels if the current surge in crude price lingers longer than can be absorbed by state-run fuel retailers, Mint reported earlier.

Food price inflation could stay higher for longer due to high energy prices or disruption of shipments of wheat, corn and edible oils. The report added that there would be a modest impact from any disruptions of exports from the APAC region destined for Ukraine.

The report concluded that the impact would be much smaller on the APAC region than what is expected in Europe, which is much more dependent on the food and industrial goods coming from nearby Ukraine.

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