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INDIA AND MARITIME TRADE

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Maritime sector in India

- India is strategically located on the world's shipping routes with a coastline of approximately 7,517 km.
- About 95% of India's trade by volume and about 74% by value travels over the sea and is served by a network of 12 major ports and 205 notified minor and intermediate ports.
- More than 80% of India's oil and over 50% of India's gas is sourced from various parts of the world and travels over the sea.
- More than 60% of this is imported from the Arabian Gulf.
- As of 2021, India owns over 30% global market share in the ship breaking industry and is home to the largest ship-breaking facility in the world at Alang.
- India has set a target of becoming a USD 5 trillion economy by 2025, it is aiming at a USD 25 billion from the maritime zone, in accordance with the global standard of about 5%.

History of Maritime trade in India

- India has rich maritime heritage dating back 5000 years.
- One of the earliest mentions of maritime trade in India can be found in the Rigveda, an ancient Hindu text dating back to around 1500 BCE. The text describes trade with distant lands, and the sailors who ventured out on long voyages to bring back precious goods such as spices, textiles, and precious metals.
- The world's oldest drydock has been excavated at Lothal which dates back to the Harappan civilisation.
- It was during the medieval period that India's maritime trade really began to take off. The Chola dynasty, which ruled over South India from the 9th to the 13th centuries, was particularly renowned for its maritime prowess. The Cholas had a large navy, which they used to control the sea routes and protect their maritime trade. They also established trade links with Southeast Asia, China, and the Middle East, and were able to build a powerful maritime empire.

- In the centuries that followed, India's maritime trade continued to expand. The Portuguese were the first Europeans to arrive in India, and they established a trading post in Goa in 1510. The Dutch, French, and British soon followed, and India became an important center for European trade with Asia.
- During the colonial period, India's maritime trade was dominated by the British East India Company. The Company used India as a hub for its trade with Southeast Asia, China, and the Middle East, and built several ports and harbors in India, including Mumbai, Kolkata, and Chennai.

PORT OPERATIONS

- Landlord model?
- Service port model?

- Of the total 240 cargo berths operating at major ports (Union government-owned), 66 berths or 28% are on public-private partnership (PPP) model, while 174 berths are state-owned. (In 2016)
- PPP cargo berths/terminals at major ports have so far been awarded through the revenue-sharing mode—the bidder willing to share the most from his annual revenue wins the deal—since these projects were viable on a stand-alone basis.
- The viability gap funding (VGF) model can be used if revenue from the berth is inadequate to service the capital expenditure. In such cases, a one-time VGF can be provided by the central government to make the PPP investment viable.

- The annuity model can be used to remove traffic and revenue risk for PPP projects. In such cases, the port authority can pay a fixed semi-annual fee to the private operator to compensate him for capital cost and operational expenses, along with an assured percentage of returns.
- The private developer, though, will not have the right to any charges levied on cargo. A variation of this is the hybrid annuity model wherein a 40% capital support is provided by the government and annuities are replaced by fixed cash flows to meet the cash outflows of the private developer.
- If a state-owned cargo berth has no potential for PPP, it can enter into an operation and management (O&M) contract for operations management with O&M fees charged annually.

Right of First Refusal (ROFR) licensing conditions

- In pursuance of 'Make in India' policy of the Government of India, Ministry of Shipping has reviewed the ROFR (Right of First Refusal) licensing conditions for chartering of vessels/Ships through tender process for all types of requirements.
- To promote the demand of the ships built in India, priority in chartering of vessels is given to vessels built in India, flagged in India and owned by Indians under the amendments in the guidelines of ROFR(Right of First Refusal).

- Now it has been decided that for any kind of charter of a vessel undertaken through a tender process, the Right of First Refusal (RoFR) would be exerted in the following manner:
    - Indian built, Indian flagged and Indian owned
    - Foreign built, Indian flagged and Indian owned
    - Indian built, foreign flagged and foreign owned
- Provided that:
- A. All vessels flying the flag of India (i.e. registered in India) up to the date of issue of new circular by the Director General of Shipping shall be deemed to be Indian built vessels and will fall in category (i) above and

- B. The foreign flagged vessels permitted by DG (Shipping) under Section 406 of the Merchant Shipping Act, 1958 for chartering by an Indian citizen/company/society, who is building a ship in an Indian shipyard for registration under the Indian flag, as a temporary substitute for the Indian ship under construction, meeting the following two conditions shall be deemed to fall under Category (i) above.
  - 25% of the contract money has been paid to the Indian shipyard
  - 50% of the hull fabrication has been completed, as certified by Recognised Organisation.

Types of cargo and trade partners to India

Crude and product imports from the Gulf, Malaysia, and Nigeria

- India imports around 40 million tonnes of crude and 20 million tonnes of products every year, chiefly from the Gulf, Malaysia, and Nigeria. While Indian ship-owners have a considerable stake in this trade, liberalization, and relaxation of norms has allowed private-sector refineries to make their own shipping arrangements.

Iron ore exports from India to East Asia

- India exports around 30 million tonnes of iron ore annually, 70 percent of which is directed toward Japan, China, and South Korea. Iron ore exports are predominantly made on an f.o.b. basis, implying lack of opportunity for Indian ship-owners. It should be noted that globally iron ore shipments are made in large Capesize and Panamax vessels. These vessels, however, constitute a small portion of the Indian fleet.

Coking coal imports from Australia to Visakhapatnam, Paradip, and Haldia

- India imports around 10 million tonnes of coking coal, chiefly from Australia, by Handymax vessels for consumption by public sector steel majors like SAIL & RINL and Tata Steel. Indian ship-owners, led by SCI, have a share of 4 million tonnes.

Thermal coal from Haldia, Paradip, and Vizag to Chennai and Tuticorin

- More than 14 million tonnes of thermal coal moves along the coast from Haldia, Paradip, and Visakhapatnam to Chennai and Tuticorin primarily to meet the fuel requirements of coal-fired power plants of the Tamil Nadu Electricity Board. The responsibility of making necessary shipping arrangements is borne by Poompuhar Shipping Corporation (PSC), a government of Tamil Nadu undertaking. The firm along with its three Handymaxes, hires around 10 vessels of similar size from Indian shipping companies like - Great Eastern, Tolani, Surrendra Overseas, Essar and Varun Shipping, on a one year time charter basis by way of open tender and in case of need, more vessels are also hired on a spot charter basis.

Iron ore from Visakhapatnam and Paradip to JNPT and minor ports in Gujarat

- Around 3 million tonnes of iron ore move in Handymax vessels from the eastern ports to JNPT and Magdalla for shore-based steel plants of Ispat and Essar respectively.

Crude oil from Bombay to various major ports like Kandla, Cochin, and Chennai

- Coastal movement of crude oil to the extent of 10 million tonnes while the above routes account for around 8 million tonnes. Crude originates from Bombay High oil fields of ONGC off Bombay and is chiefly bought by oil majors like IOC, HPCL, and BPCL for their shore-based refineries.

Fertilizer and fertilizer material

- India had been an importer of 5 million tonnes of fertilizer and 3 million tonnes of rock phosphate and sulphur, chiefly in small size Handymax and Handysize vessels. Imports are made nearly at all the major ports of the country, of which, more than 60 percent of the imports are routed through the East India ports. Better infrastructure facilities at ports such as JNPT have led to prospects of future fertilizer imports being made in Panamax vessels to capitalize on economies of scale.

Containers

- India exports and imports around 1 million TEU's each, mainly through Bombay, JNPT, and Chennai. USA, Western Europe, and East Asia are the chief destinations through transshipment ports of Dubai, Colombo, and Singapore. Only one Indian player, SCI, has a role in container shipping. However, most of the leading global container lines like NOL-APL, Maersk-Sealand and P&O-Nedlloyd offer services to Indian shippers.

Coastal shipping

- Compared with global trade, coastal trade has remained quite stagnant and today accounts for around 40 million tonnes of cargo, chiefly comprising four bulk commodities viz. crude, products, thermal coal and iron ore. This is primarily because of the typical contours of our country which favors roadrail transport more than coastal shipping. This, added to lack of proper regulatory support to coastal ship-owners and lack of proper integration with road/ rail network has led to present scenario of low coastal trade volumes.

Cement

- Cement is another important commodity moving between various minor ports, in smaller 2,500 - 4,000 dwt vessels. Gujarat Ambuja Cement was the first company to set-up bulk-handling facilities to transport cement by sea. Narmada Cement, which has been taken over by L&T, is also using coastal shipping for transporting cement between ports in Western India. Other companies who have used coastal shipping for movement of cement include L&T, Saurashtra Cements, etc.

Inland waterways

- India has an extensive network of inland waterways, which comprises rivers, canals, backwaters, and creeks.
- The Inland Waterways Authority of India (IWAI) is responsible for the development and regulation of inland waterways in the country. The IWAI has identified 111 waterways as National Waterways (NWs), covering a total length of 20,276 km. These NWs are categorized into three categories based on their navigational capabilities and potential for transportation.

- **NW-1**: NW-1 is the longest waterway in India, covering a distance of 1,620 km. It runs along the Ganga river from Haldia to Prayagraj and provides connectivity to major cities such as Varanasi, Patna, and Kolkata. The development of NW-1 is expected to reduce transportation costs and promote sustainable transportation.
- **NW-2**: NW-2 runs along the Brahmaputra river from Dhubri to Sadiya and covers a distance of around 891 km. It provides connectivity to the Northeastern states of India and has the potential to become a major route for transportation.
- **NW-3**: NW-3 runs along the west coast of India, covering a distance of around 1,620 km. It provides connectivity to major ports such as Kandla, Mumbai, Goa, and Kochi.

- The Indian government has launched several initiatives to develop the inland waterways in the country. The Jal Marg Vikas Project is a major initiative to develop NW-1, which includes the development of river terminals, navigational aids, and other infrastructure. The government has also launched the National Waterway Act, 2016, which provides for the regulation and development of inland waterways in India.
- **Challenges**: The infrastructure along the waterways, such as river terminals, navigational aids, and dredging, needs to be improved. In addition, the low navigational depths in some sections of the waterways restrict the movement of larger vessels. The lack of awareness about the benefits of inland waterways and the absence of a regulatory framework for the sector are other challenge.

Challenges faced by the shipping industry and strategies to overcome

Onerous Tax Regime

- The shipping industry is facing significant tax burden such as minimum alternate tax, dividend distribution tax, withholding tax liability on interest paid to foreign lenders & on charter hire charges paid to foreign ship owners, and so on which is ultimately squeezing the bottom line/profit margin further.

The multiplicity of Regulations – costly affair

- The shipping industry is regulated by IMO. There are also international regulations on operations of ships, such as International Convention for the Safety of Life at Sea, International Convention for the Prevention of Pollution from Ships, Convention on the International Regulations for Preventing Collisions at Sea, International Convention on Loadlines, International Ship and Port Facility Security Code, and International Safety Management Code. There are also international regulations for seafarers, such as the International Convention on Standards of Training, Certification, and Watchkeeping for Seafarers, and ILO Merchant Shipping Convention. Even though such regulatory framework makes stricter entry barriers into the industry, it adds cost to the compliance of such regulations.

Declining Share of Indian Shipping Tonnage in India's Overseas Trade

- There had been significant decline in the share of Indian Shipping Tonnage because of various problems such as - high transportation costs, port delays, poor turnaround time of coastal ships on account of over-aged vessels, and inadequate mechanical handling , which are ultimately deterring many new players or existing players to add new ships to the Indian fleet.

Manpower Shortage

- One of the major problems faced by the shipping industry is the shortage of manpower. India is not able to provide an adequate number of seafarers to man Indian flag vessels. This is mainly because not enough young people seem to find seafaring an attractive and appealing career with many of the officers preferring to sail onboard foreign flag vessels owing to favorable taxation policies.

Supply Chain Challenge

- These businesses/markets are linked by cash flow and form an inevitable part of the value chain of the shipping industry as a whole.

Threats

- **Supply** - Supply is determined by the addition to shipping capacity. The Maritime Agenda has a target of increasing total port capacity to 3,130 MT. Current port capacity stands at 1515 MT (FY19).
- **Demand** - Demand in the shipping industry is closely linked to the economy – global and domestic, and trade.
- **Barriers to entry** - High, as it requires high capital investment, adequate cash flows, and technical expertise and know-how.
- **Bargaining power of suppliers** - Low, as there are only a few shipping companies that dominate the market.

- **Bargaining power of customers** - High, as customers are from all over the world. Switching costs are also low as customers can switch to another company from any part of the world.
- **Competition** - High, as shipping companies not only face competition from domestic players but from international players as well.
- **Threat of Substitutes** - Moderate to High for solid cargo. Customers can switch to substitutes such as airlines, trucks or goods trains if there is a change in quality of service, increase in freight rates and transit time.

Market segmentation

Shipbuilding industry

- The Indian shipbuilding industry currently accounts for a mere 1% of the global shipbuilding market. At present India has 27 shipyards of which 19 belong to the private sector. The current cumulative shipbuilding capacity of Indian shipyards is around 0.5 million deadweight tonnage. The major players in this market are private players such as ABG shipyard and Bharti shipyard along government controlled Hindustan shipyard and Cochin Shipyard. Together these four account for more than 70 percent of the market share. Of late a lot of companies from the infrastructure segment are showing an interest in this industry like L&T, TATA Steel and some other carrier companies like Apeejay shipping.

Shipping transport industry/Freight or Cargo Industry

- At present, there are 235 shipping companies in India in which the shipping corporation of India is the largest accounting for about 33% of the total tonnage. India has one of the largest merchant shipping fleets with about 997 vessels and is ranked 17th in the world. Most Indian shipping companies ply on Indian shipping routes only to meet Indian export and import demands; however, a few companies like GE shipping also do business on global routes.

Ship - breaking industry

- The Indian shipbreaking industry has a global market share of 25 percent. Alang in Gujarat is one of the world's largest shipbreaking yards. The Andhra Pradesh authorities gave conditional approval to a mega shipbreaking project on Vodarevu beach. The other ship-breaking yards are in Pipavav and Bombay. The ship breaking industry is located in India because of the availability of cheap labor and also a lax government attitude towards stringent regulation of environmental laws.

Ports

- India has 13 major ports and about 200 non-major ports covering an extensive coastline of 7517 Km. the port sector has witnessed a substantial growth in cargo traffic leading to utilization levels of almost 94%. Taking this into account government has called for capacity expansion projects on a PPP basis with the private players. The major revenue stream is port charges. Recently, ports have started collecting congestion charges due to over congestion at the ports. Revenues also come from sources like demurrage collection, port handling activities, storage of containers, providing Depot services, etc. In order to improve efficiency productivity and quality of services as well as to bring in competitiveness in port services, the port sector has been thrown open to private sector participation. The Major Port Trust Act, 1963 permits private sector participation in major ports invites Foreign Direct Investment (FDI) up to 100%.

Offshore industry

- The offshore industry comprises of support services to the exploration and production (E&P) activity of oil and gas in offshore areas. The industry includes a wide array of activities ranging from drilling rigs, marine construction, port support/terminal services to development of oil field and production of support facilities.

Others

- Ship sale & purchase, ship engineering & manning personal are also a part of the shipping industry.

Maritime India Vison 2030

- The Maritime India Vision 2030 (MIV) 2030, launched in March 2021, is a 10-year roadmap with the aim of overhauling the Indian maritime sector
- A dedicated Maritime Development Fund (MDF) will be created to oversee funding of the Maritime India Vision 2030. The vision envisages Rs. 3 lakh crore (US$ 41.44 billion) investment in port projects that are likely to generate 20 lakh employment opportunities.

MIV 2030 vision document outlines 10 key themes as follows:

- 1. Develop best-in-class port infrastructure
- 2. Drive e2e logistics efficiency and cost competitiveness
- 3. Enhance logistics efficiency through technology and innovation
- 4. Strengthen policy and institutional framework to support all stakeholders
- 5. Enhance global share in ship building, repair and recycling
- 6. Enhance cargo and passenger movement through inland waterways
- 7. Promote ocean, coastal and river cruise sector
- 8. Enhance India's global stature and maritime co-operation
- 9. Lead the world in safe, sustainable & green maritime sector
- 10. Become top seafaring nation with world class education, research & training

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