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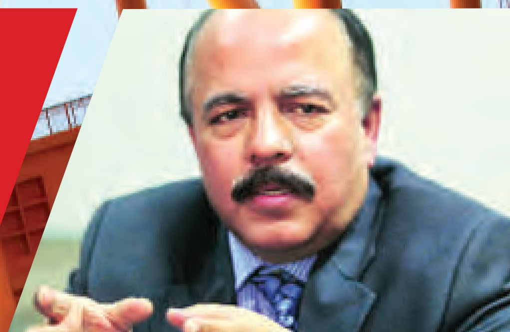

**"My vision is to make JNPT the best port in the subcontinent,"**
**NN Kumar,** Chairman, JNPT

*With the changing dynamics of global trade and the development of P3 as well as the G6 and now the CKYHE alliances, new maritime hubs are likely to emerge in Asian region. Apart from the size of trade, superior infrastructure, ability to handle large ships and competitive tariffs will be the key success factors of any hub.*

# TERMINAL WARS: EMERGENCE OF NEW MARITIME HUBS

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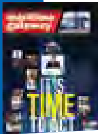

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# Need for actionable SAR policy in Asia

The search for the missing flight MH370, which vanished on March 8 en route from Kuala Lumpur to Beijing, with 227 passengers and 12 crew on board, has not yielded any results. Twenty-six countries are searching 2.24 million square nautical miles of land and sea stretches from central Asia down to the southern Indian Ocean, for the missing Malaysia Airlines jet.

Many experts have lauded the efforts taken by various countries in the Asian region for burying the maritime and territorial dispute hatchet by offering cooperation and in search and rescue (SAR) operations. While many see this as a sign of things to come – future maritime cooperation – it will be too early to predict the formation of any such partnership considering that fact that after almost three-week long efforts, China has started blaming Malaysia for its lack of transparency and delays in reporting relevant information. China feels the Malaysian government's stand has affected the search operations. China's allegations are difficult to substantiate. Yet, it reveals that an effective regional SAR emergency management regime is currently missing from the scene.

**The efforts to form an alliance for regional SAR co-operation started in 1972.**

The efforts to form an alliance for regional SAR cooperation among the ASEAN countries started five years after the formation of the Association of Southeast Asian Nations (ASEAN) by Indonesia, Malaysia, the Philippines, Singapore and Thailand in 1967. In fact, in 1972 ASEAN and the International Civil Aviation Organisation reached an agreement for the facilitation of search for aircraft in distress and rescue of survivors of aircraft accidents. Brunei, Vietnam, Laos, Myanmar and Cambodia acceded to the agreement when they joined the association. But a partnership between ASEAN and China materialised much later in 2002.

After much deliberations and meetings, there is no actionable plan is in place for conducting SAR in an effective manner in the region. The problem was that none of these meetings directly addressed SAR missions, capacity building or practical exercises. If the current search operations are anything to go by, it is time ASEAN countries come together and build a roadmap on SAR policy and build protocols on processing information. With their growing economies and importance in world trade, such a cooperation will help find solutions to not only problems like 'a missing plane' but also benefit maritime trade.

All of the ASEAN littoral states, except Cambodia, followed Malaysia's lead and offered assistance despite minor disputes over maritime boundaries, shows that the nations are willing to cooperate at the time of need. If they could extend this cooperation in future in a planned manner, it would be the beginning of a new era in the Asian region.

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COVER STORY p.18

# TERMINAL WARS: EMERGENCE OF NEW MARITIME HUBS

With the changing dynamics of global trade and the formation of new maritime alliances such as P3, G6 and CKYHE alliances, new maritime hubs are likely to emerge in Asian region. Apart from the size of trade, superior infrastructure, ability to handle large ships and competitive tariffs will be the key success factors of any hub.

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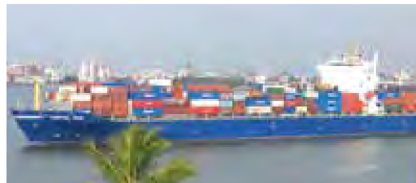

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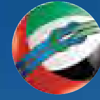


DP WORLD
Cochin

International Container Transshipment Terminal, Vallarpadam, Kochi.

# No distance is too far No Dream is too big!

DP World, a leader in International Marine Terminal Operations, has always been a harbinger of growth and prosperity in the region where it operates.

With the International Container Transshipment Terminal at Vallarpadam, DP World has not only gifted Cochin with one of India's largest state-of-the-art transshipment container terminal, but has also given a major boost to the EXIM community and local economy.

With Cabotage being relaxed for ICTT, direct mainline connectivity to some of the key global markets will put Cochin on the world shipping map and will have a positive effect on the local EXIM Community.

DP World Cochin reaffirms its commitment to be a catalyst of growth and development in this region.

## EU's largest freight transporters

*The Netherlands has retained its position as the largest maritime freight transport country in Europe. At 543 million tonnes, the volume of seaborne goods handled in Dutch ports in 2012 represented 14.6 per cent of the EU-28 total. It was followed by the United Kingdom (UK) and Italy, with shares of 13.4 per cent and 12.8 per cent respectively.*

## Cochin Shipyard delivers fourth FPV

Cochin Shipyard Limited has delivered the fourth of the series of 20 Fast Patrol Vessels (FPV) being built for the Indian Coast Guard, the company said in a press release. The vessel is named *Abhiraj* and will be operated by the Coast Guard station at Tuticorin. Cochin Shipyard had signed the contract with the Indian Coast Guard on October 20, 2010.

## First cape class vessel calls at Vizag Port

The first cape class vessel *MV NGM Sailor* came calling at Visakhapatnam Port Trust (VPT) on March 10. Visakhapatnam has one of the deepest harbours in the country with dredging increasing the depth of the Visakhapatnam outer harbour to 20 metres. According to DK Manral, chief executive officer (CEO), Vedanta – VGCB (Vizag General Cargo Berth) terminal, VGCB will assist Vizag Port in attracting the biggest ships to the port. "This will help not only bring more tonnage, the much-required revenue and generate new employment but also drastically reduce pollution by handling coal with its fully mechanised and state-of-the art facility," he said.

## Essar Ports to double volumes by 2016

Essar Ports, part of the $39-billion Essar Group, is on a consolidation path and currently focused on completing its existing projects at Paradip and Visakhapatnam which will enable it to double its volume in the next two-three years. The company now seeks to expanding the capacity to 181 MTPA over the next few years, which includes 14-MTPA coal terminal at Paradip Port that was facing some issues earlier.

## General Motors to export cars from India

General Motors India Ltd is keen to tap the export market to utilise idle capacity at its Talegaon plant in Maharashtra. Till now, the company has been primarily exporting auto components with only a few cars being shipped to neighbouring markets of Nepal, Bangladesh and Sri Lanka. The 1,60,000 units per annum capacity plant that manufactures hatchbacks Beat and Sail U-VA as well as Sail sedan currently has under 40 per cent utilisation at present. While Sail U-VA and Sail sedan were introduced only last year, sales of Beat that had peaked at 50,628 units in 2012 crashed to 39,041 units last year following depressed sales in the industry. The 1,10,000 units per annum Halol plant churns out Tavera, Enjoy and Spark. Launching the refreshed Beat, by far the largest selling vehicle in GMI portfolio, company vice-president P Balendran said a board decision had been adopted to export cars but details were yet to be worked out.

## Antwerp, Rotterdam Ports want stricter emission norms

Antwerp Port Authority and the Port of Rotterdam Authority want to see stricter nitrogen oxides emission standards for new built vessels on the North Sea and English Channel from January 1, 2016. The two largest ports in Europe do not support a proposal to postpone this already agreed upon regulation by five years. At the beginning of April, the environment committee of the International Maritime Organisation will discuss this proposal.

Ships' engines which comply with the new standards emit 80 per cent less nitrogen oxides than the current built vessels. Reducing the emissions from shipping to improve air quality is in line with the sustainability policy of the two port authorities.

## Hanjin Shipping to merge business with parent company

Hanjin Shipping has decided to merge its business with the shipping and brand management businesses of its parent company Hanjin Shipping Holdings. The proposed move is expected to enhance shareholder value through greater management efficiency. The remaining businesses of 3PL, Hanjin Ship Management, CyberLogitec and real-estate business will stay with the parent firm. The merger is expected to be completed by June 1 this year, if approved by shareholders at a meeting on April 29. The South Korean shipping firm had recorded a 2013 net loss of KRW680.2 billion ($630.2 million) due largely to low freight rates amid the oversupplied container shipping market.

## Afcons Infra looks to build more LNG terminals

Afcons Infrastructure Ltd, having successfully completed the EPC (engineering procurement and construction) work at the Kochi LNG terminal, is eying a big role in the construction of LNG terminals. According to K Subrahmanian, Vice-Chairman and Managing Director, LNG terminals represent better opportunities. The company had built receiving station, storage facility and re-gasification facility for clients. Out of seven operating LNG tanks in India, the company had constructed four.

## SeaLand to offer third party feeder services

Maersk Line's new independent unit, SeaLand, dedicated to intra-America trades will now offer third-party feeder services with a fleet of 30 ships of a capacity of 2,700 teu. The new intra-America shipping company, is dedicated to the North, Central and South America markets as well as the Caribbean. The new independent unit allows Maersk to offer a restructured solution for the intra-Americas through a regional carrier.

## China to launch cargo ship into space

China plans to launch a cargo ship into space in 2016 to serve the Tiangong-2 space laboratory which is currently in orbit. The cargo ship, named *Tianzhou* or “Heavenly Vessel” in Chinese, will be delivered by the newly-developed Long March-7 carrier rocket and dock with Tiangong-2 automatically, said Zhou Jianping, chief designer of China’s manned space program, according to Xinhua news agency. Cargo transportation system that supplies goods and propellants is a key technology China must master to build its own space station.

## Five bidders for Vizhinjam Port

Five Major Port operators– Gammon Infrastructure Projects, the Hyundai-Concast consortium, Essar Ports, Adani Ports, and Srei-OHL, a consortium of Srei Infra and Spanish construction company Obrascón Huarte Lain – have responded to the global tender floated by Vizhinjam International Seaport Ltd (VISL). VISL had earlier called for Requests for Qualification (RFQ) to build the port superstructure and operate the proposed deepwater port and container transhipment terminal at Vizhinjam, The same players have also responded to the other RFQ for engineering, procurement and construction works floated separately. The deadline for the first tender to build superstructure and operating the port, while that for the second runs till June 30.

## GIDC to invest in Adani's Mundra Plastic Park

Gujarat Industrial Development Corporation (GIDC) is investing an undisclosed amount for a 15 per cent stake in an SPV set up by Adani Port and Special Economic Zone Limited to develop the plastic park in Mundra. The Project being developed under the Union chemical and fertilizer department's scheme for developing such parks through public private partnership mode will have an IRR of 30 per cent with Adani proposing to invest ₹196 Cr. They have tied up with 47 plastic producers to establish their exports units in the park.

## NYK to get new bulker

NYK Bulk & Projects Carriers Ltd, an NYK Group company, has agreed to a contract with Baja Bulk Carriers S.A, which is a joint venture between the Mitsubishi Corporation and the Mexican Government, for a 15-year charter of a newly built bulk carrier specialised to transport salt. The new bulker will be delivered in August 2014. The vessel is being built by Oshima Shipbuilding Co. Ltd and the capacity of the ship will be extended beyond the typical 60,000 DWT by extending the vessel's length by 9 meters. The vessel will shuttle salt to the west coast of North America from a salt field business in Mexico.

## GSF concerned over P3 alliance

The Global Shippers’ Forum (GSF) has called on international regulators to fully investigate the impact on price and service of the P3, and to make appropriate changes to ease competition concerns. At its third annual meeting in Los Angeles, USA, GSF urged the US Federal Maritime Commission and the European Commission competition authorities to adopt appropriate measures to ensure that the P3 Global Alliance won't restrict competition, reduce choice or influence rates resulting from its potential dominant position.

# VOICES

In approximately six years DP World aims to more than double its container handling capacity to 100 million teu across its portfolio Going forward we are adding 800,000 teu in India and one million teu in Turkey in 2015. This is all under construction, and it's part of our confidence in the emerging markets, where we're betting big on being present.

**- Mohammed Sharaf**
CEO, DP World

The Indian market is poised at a tipping point. It needs the right policy nudge to achieve its potential. India is an important market for us.

**- Franck Dedenis**
MD, Maersk Line India

When the focus is on decongesting the road and rail corridors, funding for only buses in cities won't be enough. Waterways can take the load off our traditional transport corridors.

**- Vishwapati Trivedi**
Shipping Secretary, Government of India

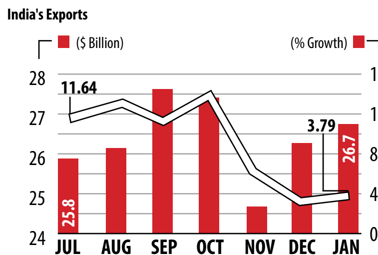
The GSF has made a formal legal submission to the European Commission on behalf of shippers from all over the world. The major fear is the market impact that the P3 Agreement would have.

**- Chris Welsh**
Secretary General, GSF

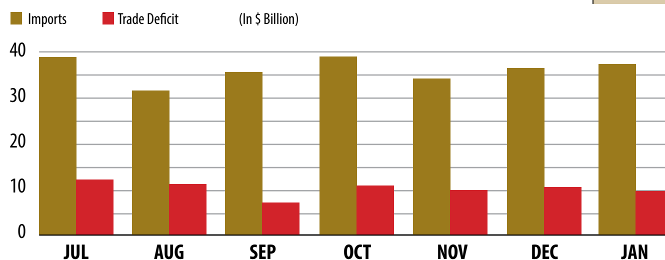
## The Number Game

### SLUGGISH EXPORTS GROWTH A WORRY

India's Exports



### DECLINE IN IMPORTS KEEP TRADE DEFICIT LOW




### WHAT'S GOOD

**EXPORTS** growth low but could look up further

**GROWTH** would have been higher but for lower petroleum exports

**ENGINEERING** and garments exports doing well

**Gold** Imports still low

**CAD** under control

### NOT SO GOOD

**GEMS** and Jewellery exports sluggish

**LOW** Imports growth suggests weak economy

## Lagging Behing

China is expected to remain the fastest growing economy in the region, while several countries, including Lao, Myanmar and Indonesia, are projected to grow faster than India during 2014-18, Paris-based think tank OECD said in a report.

**GDP Growth In %**

| | 2012 | 2018 | 2014-2018* | 2000-'07# |
|---|---|---|---|---|
| China | 7.8 | 7.5 | 7.7 | 10.5 |
| Lao PDR | 7.9 | 7.5 | 7.7 | 6.8 |
| Cambodia | 7.2 | 7.1 | 6.8 | 9.6 |
| Myanmar | _ | 7.0 | 6.8 | _ |
| India | 3.7 | 6.1 | 5.9 | 7.1 |
| Philippines | 6.8 | 5.9 | 5.8 | 4.9 |
| Vietnam | 5.2 | 6.0 | 5.4 | 7.6 |
| Malaysia | 5.6 | 5.3 | 5.1 | 5.5 |
| Thailand | 6.5 | 5.3 | 4.9 | 5.1 |
| Singapore | 1.3 | 3.1 | 3.3 | 6.4 |
| Brunei | 1.0 | 2.4 | 2.3 | _ |
| Average of Emerging Asia | 6.5 | 6.9 | 6.9 | 8.6 |

**Average Annual GDP Growth Estimate: #Average Annual GDP Growth; Source: OECD Development Centre.*

## Chennai Port Trust wins battle against DP World over output target

The Madras High Court has ruled in favour of Chennai Port Trust in a dispute with the DP World-run Chennai Container Terminal over non-achievement of output targets. In doing so, the HC overturned an arbitration panel's verdict. The seven-year-old dispute pertains to a 2001 agreement according to which Chennai Container Terminal had to ensure non-transshipment output (transshipment involves transferring for further transportation) of 20 per cent of the total traffic in its third year; 25 per cent in the fourth; and 30 per cent from the fifth year. Any shortfall, the agreement said, should be compensated. In 2007, the Chennai Port fined the container terminal over ₹63 crore for not meeting the targets for three years in a row. It subsequently issued a termination notice. The parties then invoked the arbitration clause but not before Chennai Port encashed the terminal's bank guarantee of over ₹46 crore. It also demanded nearly ₹18 crore more and a fresh bank guarantee also. The arbitration went in favour of the UAE-based DP World and subsequently the port trust moved the HC.

## APM Terminals Inland Services, South Asia helps local truckers

APM Terminals Inland Services, South Asia, a part of the APM Terminals – a global port,terminals and inland services operator comprising of 66 ocean ports and terminals in 40 countries, along with over 160 inland services operations in 48 countries – has installed 13 eco-friendly comfort stations across its facilities in Nhava Sheva and Panvel locations in Mumbai as part of  its continued commitment of helping local communities, especially the trucking community. "We are committed to helping the trucking community and the markets we serve and this is just another step of how we are improving people's daily lives, especially the truckers who work long hours and help make India's business run better," said Subhasis Ghosh, Managing Director, APM Terminals India Pvt Ltd. and Director - APM Terminals Inland Services, South Asia in a release.

## N N Kumar appointed Chairman of JNPT

N N Kumar, Deputy Chairman of Jawaharlal Nehru Port Trust (JNPT), has been appointed as Chairman of JNPT with effect from January 27. Kumar joined JNPT on February 22, 2010 as Deputy Chairman and was Chairman-In-Charge during the period March 30, 2010 to September 29, 2010 and also from May 16, 2013 to February 26, 2014.

A Postgraduate in Science from Patna University, Kumar has been awarded Fellowship of CSIR, Delhi. After joining the Indian Revenue Service (IRS) in 1984, he worked in various capacities in Kolkata, Mumbai, Delhi, Nagpur, Agra and Aurangabad. He has headed Special Investigation Units for tax enforcement and has vast experience of tax administration as well as general administration.

At JN Port, under his guidance, various projects like the fourth container terminal, 330-m container berth, widening of roads and CSR initiatives got implemented. An additional liquid cargo terminal is also at an advanced stage of tendering and Phase-I of the channel dredging project is nearing completion well ahead of schedule, according to a release.

He has participated in various national and international seminars representing JNPT, and has contributed to drafting the policy framework for shipping and ports through his participation in various committees of the Ministry of Shipping as well as Planning Commission.

## Maersk starts new Far-East alliance link to Indian subcontinent

Maersk (India & Sri Lanka cluster), the core liner shipping company of the Maersk Group and the leading container shipping company in the world, has announced the commencement of operations of its new Far East alliance linking Far East region to Indian subcontinent. On January14 this year, Maersk had announced a new cooperation with three existing Far-East to Indian subcontinent services, starting February 2014.

"India is an important market for us and our aim is to grow profitably. With the Far East alliance, we are making sure that Maersk's service network and capacity is optimised. This multi-carrier cooperation will provide more frequent sailing between Asia's major trading hubs thus bringing tremendous value to our customers," said Franck Dedenis, Managing Director for Maersk (India and Sri Lanka) in a release.

In a slot sharing agreement, 18 vessels with a total capacity of about 17,500 twenty-foot equivalent (teu) will be deployed on the three Far East Indian subcontinent services. The multi-carrier cooperation will provide more frequent sailings between Asia's major trading hubs and, at the same time, eliminate unnecessary service duplications between the carriers.

The enhanced network will enable the carriers to offer three weekly sailings covering China, Korea, Malaysia, Singapore, India, Pakistan and Sri Lanka compared with one weekly sailing currently offered independently by each liner.

"With this step, we once again reinforce our commitment to ensure efficient delivery of cargo in terms of quality, timeliness and reliability," added Dedenis.

## New automobile terminal to be set up at Chennai Port

Chennai Port Trust (ChPT) will develop an automobile terminal at Bharathi Dock II, the non-operational iron ore terminal, to handle ro-ro (roll on-roll off) vessels. This will have a yard space to park nearly 4,000 cars. After a detailed study, the port trust decided to develop an automobile terminal and allow a private operator to run the terminal for a period of 10 years. The terminal will have a yard space of around 10 hectares. The estimated cost of the project to develop the parking yard for export and import automobiles will be ₹30 crore, which will be invested by the developer. Chennai Port handled 2.72 lakh cars, with a majority of them are Hyundai's in 2012-13.

## Korean Register donates software to World Maritime University

The Korean Register (KR) – an IACS member classification society – has announced that it has again donated its award winning KR-CON software to students at the World Maritime University (WMU)KR-CON is an international database program which contains the full up-to-date texts of all IMO Conventions, Codes, Resolutions and Circulars in a single USB memory stick. It enables users to identify regulations relevant to a specific task and helps ensure all IMO requirements are applied correctly. KR-CON is currently being used by surveyors, port state control inspectors, shipping companies, shipyards and design houses in more than 30 countries across the world. Commenting on the donation, Dr. Chon Young-kee, Chairman & CEO of Korean Register said: "We are very happy to support the World Maritime University again this year and we hope that our software will be useful to the students as they continue their studies". KR also donates its software to a number of other international and domestic maritime universities. Mr. Neil Bellefontaine, thanked the WMU Vice President Academic saying, "We sincerely appreciate the generosity of KR for donating its prestigious KR-CON software for the third consecutive year. It will contribute greatly to the studies of our students and our faculty." KR also donates its software to a number of other international and domestic maritime universities.

## GAIL to have domestic yards to build 4 LNG tankers

Indian shipbuilders may get a boost from the state-owned natural gas firm GAIL (India) Ltd, which is likely to have domestic yards build four of the 14 liquefied natural gas (LNG) tankers it will need to start moving gas from the US in 2017. The company will spend about $2.8 billion total on the 14 gas carriers.

## Vasan lays foundation for new DP World terminal at JNPT

In a major development, Minister for Shipping GK Vasan has laid the foundation stone for a new DP World terminal at Jawaharlal Nehru Port.

Once constructed, the new terminal will add 800,000 teu (twenty foot equivalent container units) of container capacity to the port, and help ease congestion, as the port is currently operating beyond capacity. DP World is investing $200 million to build the terminal. With one of the strongest emerging economies in the world, and a burgeoning middle class population, India offers immense potential for growth. With Nhava Sheva (India) Gateway Terminal, DP World will contribute even more to India's growth, offering customers the ability to grow and expand their business in India more efficiently, the company said in a release.

"As the busiest gateway and hub in India, Nhava Sheva has been constrained in the past by lack of facilities, which has impacted trade. We at DP World are proud to bring new capacity to this vibrant city and the fast growing economy of India. The new terminal will serve India for generations to come and help speed goods to market, stimulating trade, contributing to economic growth, which in turn contributes to the development of communities and individuals," said HE Sultan Ahmed Bin Sulayem, Chairman, DP World.

According to Anil Singh, Senior Vice President & Managing Director, DP World Subcontinent, for the last five years, India's premier port has been in critical need of capacity with container trade rising. "The building of greater capacity is part of the port's long-term vision. Nhava Sheva (India) Gateway Terminal will provide the immediate relief that the trade community urgently requires and we at DP World are fast tracking the project to commence operations as early in 2015 as possible and we have already placed the order for the cranes that will be installed," he said.

## Gammon Infrastructure Projects' offshore container terminal to commence work soon

The long-pending dredging work that blocked the start of Gammon Infrastructure Projects' offshore container terminal at Mumbai Port Trust and caused endless disputes, will finally start after a delay of more than six years. The project comprises 700 metres quay length in the first phase, which can be extended to 1,050 metres. subsequently in the Mumbai harbour. The cost of the project has escalated from the initial ₹1,012 crore to about ₹1,800 crore today. Gammon expects the cost of the project to rise further to ₹2,000 crore by end of 2016 fiscal. Gammon confirmed the development but said the troubles for Gammon do not end with dredging. After the channel is adequately dredged, Victoria Dock and Princess Dock will have to be filled to make way for a container storage yard. The contract for filling up the docks has still not been awarded.

## Shreyas to move FCI rice from Kakinada to Kochi by sea

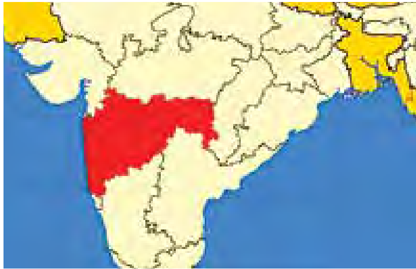
Mumbai-based Shreyas Shipping and Logistics has won a contract from the Food Corporation of India (FCI) to move 20,000 tonnes of foodgrains every month by sea from Andhra Pradesh to Kerala. This will be the first time FCI would be moving foodgrains in containers by sea, the company said in a notice to the stock exchanges. Earlier these consignments were transported through rail wagons and non-availability of 40-rake wagons forced the FCI to look for alternative methods. Besides, movement by sea would be more economical. This will also be a major boost to the Kerala's efforts to promote coastal shipping. Shreyas Relay Systems Ltd, a subsidiary of Shreyas Shipping, will execute the contract for multimodal handling and transportation of foodgrains, mainly rice from Kakinada to Kochi. The company plans to deploy a 400-teu container vessel and have at least three voyages a month. Besides coastal movement being cheaper, carrying foodgrains in containers will reduce transit loss and damages.

## Maersk sees shipping flowers as growth industry

A unit of AP Møller-Maersk MAERSK is developing huge, refrigerated boxes for ships to tap the $14-billion flower transportation market. Maersk Container Industry is teaming up with Boston-based Primaira LLC to outfit standard, refrigerated cargo containers with a system using a high concentration of ozone to eliminate mold, fungi and bacteria. Similar systems are used on some fresh-produce shipments. Maersk and Primaira, which designs appliances, are betting that the new technology can also prolong the life of roses, carnations, tulips and other popular flowers. If the system works, it could offer a new opening for marine-freight companies into a business that has been dominated by air carriers because of the short life spans for many flowers. Analysts say carrying flowers by sea instead of air could cut costs for growers and forwarding companies by as much as 80 per cent.

## Maharashtra acquires stake in DMIC project

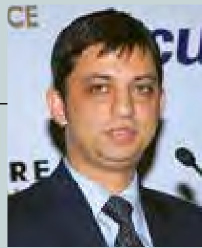
The Maharashtra government has formally signed shareholder and state support agreements for the Delhi-Mumbai Industrial Corridor (DMIC). The project, which aims to boost industrial output to ₹20 lakh crore by 2042.



The development will take place in two phases, with the project cost for the first phase estimated at ₹17,319 crore. A joint venture between the Maharashtra Industrial Development Corporation (MIDC) and DMIC Trust is in charge of executing the project, in which MIDC will hold 51 per cent stake and DMIC the remainder.

"Our contribution will be in the form of providing land, while the Centre's contribution would be to the tune of ₹3,000 crore for each township project. For the rest, we have tied up with Japan International Cooperation Agency (JICA)," Maharashtra Chief Minister Prithviraj Chavan said.

## Manish Saigal joins as Managing Director of Alvarez & Marsal



Alvarez & Marsal has appointed a new Managing Director, Manish Saigal, to its Mumbai office. He would be leading A&M's focus on strategy, commercial and operational diligence and post-deal services in the region including India. He would also be spearheading the firm's focus on transport & logistics, infrastructure and food & agri sectors.

Manish Saigal brings over 17 years of rich experience in strategy, private equity and M&A consulting. He has worked with global consulting firms like KPMG and Arthur Andersen. Prior to joining A&M, he helped set up the strategy group at KPMG and he was also the national leader of transportation & logistics sector for the firm. Manish specialises in the areas of strategy, business feasibility & planning, strategic and commercial diligence, integration and separation consulting.

## Petronet looks beyond Qatar for long-term LNG

Petronet LNG, which gets around 75 per cent of its liquefied natural gas (LNG) supply from Qatar, is looking to reduce its dependence on that country. The company is negotiating long-term LNG purchase contract with Angola, Mozambique, Yamal and Indonesia, Ashok Kumar Balyan, Managing Director and CEO said.

The company is looking at securing contracts for 2.5-3 million tonnes (mt) of LNG through these deals. From Qatar, Petronet gets 7.5 mt LNG at $13-14 per million metric British thermal units (mmBtu) at its Dahej, Gujarat, terminal against the capacity of 10 mt. While Dahej terminal will be expanded to 15 mt by end 2016, the company also has a 5 mt capacity at Kochi, which is currently under-utilised as pipelines carrying the gas to customers are not ready.

## Jamaica aims to become global port hub

Jamaica aims to become a global logistical hub when mammoth "post-Panamax" ships start carrying a growing share of cargo, much of it from China. So far, construction hasn't started, but blueprints call for an expansion of the island's existing container terminal, airports and roads while a Chinese engineering company develops a $1.5-billion transshipment port on a couple of mangrove-fringed islands just off Old Harbor.

"The proposed transformation of Jamaica into a world-class logistics centre is unquestionably the most ambitious and far-reaching project on which this nation has been engaged since we became an independent state over 50 years ago," said Francis Kennedy, president of the Jamaica Chamber of Commerce. All over the Caribbean, the Panama Canal expansion, despite its recent delays, has caused no shortage of countries to think big. With Brazilian financing, Cuba recently started developing a new port it hopes can play a major role in global logistic chains. Ports in places like the Bahamas, Colombia and Miami are also busily strengthening infrastructure.

The plans have excited many in Jamaica, a country of 2.7 million people known mostly for its beaches, reggae music and dominant Olympic sprinters. Yet it's far from clear whether debt-shackled Jamaica can realise its ambitious goals, despite its strategic location by busy sea lanes between North, Central and South American markets. Jamaica has had one of the world's slowest growing economies over the past four decades and a four-year loan package with the International Monetary Fund is propping up the island.

JSW Jaigarh Port

JSW Jaigarh Port

# Benchmarking Maritime Excellence

- Deep draught of 14 meters berthing capesize gearless vessels
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## ABS report on LNG bunkering

ABS, the leading provider of classification services to the global marine and offshore industries, has released a report to provide guidance to potential owners and operators of gas-fueled vessels, as well as LNG bunkering vessels and facilities, to help them obtain regulatory approval for projects.

The report – Bunkering of Liquefied Natural Gas-Fueled Marine Vessels in North America – is developed by ABS and ABS Group, takes a broad look at the requirements of various regulatory bodies including the IMO, US Coast Guard, Transport Canada, US Environmental Protection Agency and the many state and local authorities involved in a bunkering project

"As the potential for LNG fueled vessels in North America continues to grow, uncertainty exists on how to meet various regulatory requirements. It has become very clear to us while conducting this study that the visionary projects teams who properly plan their path to compliance can be successful," says ABS Vice President for Global Gas Solutions Patrick Janssens.

The report lays out an integrated approach to addressing the federal, state, provincial and local requirements that may impact LNG bunkering infrastructure. The report touches on a number of key considerations for any LNG bunkering project, including reviewing potential bunkering options; identifying potential hazards and risks and recommending potential safeguards; presenting state, local and port-specific issues; and summarising applicable regulations and outlining a process for meeting those requirements and ultimately obtaining project approval.

## Parida appointed Chairman of NMPT

PC Parida has been appointed as chairman of New Mangalore Port Trust. Earlier Parida worked as deputy chairman of Chennai Port Trust. He also worked as deputy chairman, Mormugao Port Trust from November 2008 to December 2010, financial advisor and chief accounts officer of Chennai Port from September 2001 to October 2008. He was the deputy chairman of VO Chidambaranar Port Trust (erstwhile Tuticorin Port Trust) for about five years from August 1996 to September 2001. During his tenure in different ports, he was associated with many projects and this includes privatisation of first container terminal at VO Chidambaranar Port, first and second container terminal at Chennai Port, privatisation of coal terminal at Mormugao Port.

## EU to support Africa, ACP

The European Union is funding a €1.2-million grant contract, signed between IMO and the African, Caribbean and Pacific Group of States (ACP) to support training and capacity-building activities aimed at enhancing flag State implementation and port state control in Western and Central Africa, with a view to upgrading the region's maritime administrations and preparing its states for the mandatory IMO audit scheme.

IMO will be executing the two-year programme, identifying the individual countries' needs in terms of enhancing their capacity to carry out their flag State responsibilities. There will also be a focus on port State control, such as training for ship inspectors, in order to support the functioning of the Memorandum of Understanding on Port State Control for West and Central African Region (Abuja MoU), which is an inter-governmental organisation comprising the maritime administrations of countries abutting the Atlantic coast of Africa.

It is anticipated that the project will lead to the maritime administrations being audited in accordance with the IMO Audit Scheme, which is expected to become mandatory in 2016 following the adoption and entry into force of amendments to the relevant IMO instruments. The focus of the capacity-building activities will be on compliance with the IMO Instruments Implementation Code (III Code), which provides the global standard to enable states to meet their obligations as flag, port and coastal states.

It is also expected that the projects will result in enhancing the effectiveness of the Abuja MoU on port State control.

## New EU regulation on ship recycling

The European Parliament has formally adopted the new EU Ship Recycling Regulation (EU SRR). The text was then adopted by the European Council and published in the Official Journal of the EU to become legally binding. The EU Ship Recycling Regulation entered into force on December 30, 2013.

This Regulation is aimed at facilitating early ratification of the Hong Kong Convention 2009 – both within the EU and in other countries outside the EU – by applying controls to ships and ship recycling facilities on the basis of the Convention. It aims to ensure that vessels are recycled in EU-approved facilities worldwide.

The new EU Ship Recycling Regulation means that EU-flagged vessels of 500 GT and over will be required to carry an Inventory of Hazardous Materials (IHM). When calling at EU ports, vessels from non-EU countries will also be required to carry an IHM identifying all the hazardous materials on board. EU-flagged vessels must also be scrapped in an approved ship recycling facility.

## US gas exports to India likely to become reality

The introduction of a bill in the US Congress that seeks to accelerate exports of the US natural gas, is expected to help India to import gas. Close on the heels of the new development, the US Secretary of Energy, Ernest Moniz came to India to take part in the US-India Energy Dialogues which included discussions on gas imports by India. The proposed legislation removes the requirement of an FTA with the importing country, and instead would allow exports to any countries listed under the WTO, of which India is a member.

Rapid advances in technology and extraction of shale gas and oil over the past few years have helped the US produce surplus liquefied natural gas (LNG), giving impetus to the prospect of LNG exports to countries such as India, Ukraine, and Japan.

However, exporting LNG is complicated by the fact that US law does not allow exports of LNG to countries with whom it does not have a Free Trade Agreement (FTA), unless with special exceptions. This leaves out important partners like India, which do not have a FTA with the US. It also leaves out Ukraine, a country that the US would like to see less dependent on Russian gas.

> We welcome introduction of the legislation H.R. 6, the "Domestic Prosperity and Global Freedom Act", to remove archaic bottlenecks on American exports. Having pursued this matter on Capitol Hill since over a year, we shall continue to stay engaged with lawmakers such as Congressman Ted Poe to ensure that our efforts meet the desired result of heralding a new era in US-India LNG trade without restrictions
>
> **Sanjay Puri**
> Chairman, US India Political Action Committee

At a time when the price of gas has become a burning issue in India's elections, the country is actively looking at additional and newer sources of gas. It presently imports from Qatar and Australia, with several other suppliers in consideration to feed India's voracious appetite for energy security.

## Allcargo inks pact with Scania to provide trailers

Integrated logistics major Allcargo Logistics Ltd, part of the Avvashya Group, has partnered with Sweden-headquartered Scania, leading manufacturer of heavy transport vehicles, to provide world-class trailers on operating lease basis for its clients based in India. Under the signed agreement, Allcargo will be utilising the trailers on operating lease from Scania to bring in more productivity, time-saving and efficient transportation services for its customers within the hinterlands of India. Allcargo is already engaged with Scania for clearing and port services. With this agreement, the association has further strengthened to create a new benchmark across India's logistics space. With Allcargo's world-class services and Scania's advanced technology, customers' consignments transported through these trailers will be safe and reach destinations before time without any transit delays, thus increasing productivity and efficiency of transportation for customers in India.

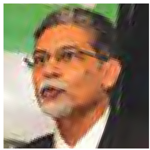
Allcargo currently owns and operates one of the largest owned fleet of over 1,000 equipments comprising trailers, complete range of cranes including crawler, truck lattice and all-terrain, and fork-lifts, reach stackers, barges, coastal vessels etc.

## RiskMap Maritime 2014

A 5 per cent global decline in reported incidents of piracy and armed robbery at sea is outweighed by the changing threat the maritime community is facing in the Gulf of Guinea, according to the RiskMap Maritime analysis, Control Risks' authoritative guide to risks for the maritime community in 2014. Although improved ship security measures and naval coordination have been successful in preventing Somali pirates from hijacking large commercial vessels, groups continue to launch attacks and political tension in Somalia highlights how easily the region could see another rise in pirate activity. While the RiskMap Maritime 2014 analysis states that the number of incidents in the Horn of African piracy continues to decline, ongoing violent unrest and instability onshore in Somalia means that the risk of resurgence is real. Most importantly, individuals will be more likely to return if the offshore situation changes, if ship security levels drop or naval forces draw down. On the other side of the continent Control Risks registered a 30 per cent increase in piracy incidents and armed robbery at sea in the Gulf of Guinea. The number of product tanker hijacks for cargo theft decreased by 12.5 per cent, but 2013 also saw these criminal groups continue to expand their operational area south of Nigeria for the first time.

"The centre of maritime piracy has been shifting west for a number of years, and the decline in activity off East Africa in 2013 has seen the Gulf of Guinea emerge as the global hotspot for maritime crime. But although piracy continues to dominate the headlines, further key factors such as port and anchorage crime, domestic instability and civil unrest, political violence, territorial disputes and migration can pose a similar level of reputational, operational and security risk for the shipping and offshore oil and gas industry," Tom Patterson, head of Control Risks' Maritime Risk Analysis department said in a release. The report also mentions additional five key factors affecting maritime security.
They are: Port and anchorage crime, domestic instability and civil unrest, political violence, territorial disputes and migration.

# Globalisation & Shipping – a critical analysis



**Capt. Suresh Bhardwaj**
FICS,FNI,FRINA,FCMMI
PhD(UK), Master Mariner

Transportation is said to be the fourth cornerstone of globalisation along with telecommunication, trade liberalisation and international standardisation. In transportation, it is the maritime transport that dominates this sector with 80 per cent of share by volume. Matter of fact, the growth rate of world trade and consequently the seaborne trade is exceeding the growth rate of world GDP. It stands to reason that it is the reducing cost of marine transportation that facilitates growth of trade thereby contributing positively to the growth of economy. The efficient port operations, economies of scale achieved on size of ships and importantly the economic advantages drawn out of globalisation have all contributed to this lowering of cost. Shipping is today an integrated constituent of global supply chains, so marine transportation is constantly under pressure to contribute to its nuances of cost, time compression, reliability, standardisation, just-in-time delivery, information system support, flexibility, customisation etc.

However, it also needs to be noted that maritime transport is a safety-critical industry. Hence, concerns for human safety and environmentally safe operations co-exist with service quality that includes operations and management efficiency. Shipping produces its service with the ship as its core constituent unit that operates geographically remotely and in a high risk environment and the unknown – out of sight – seafarer lies at the heart of it.

### The phenomenon of globalisation

Extant literature is rife with arguments that globalisation is a form of capitalist expansion that entails the integration of local and national economies into a global, unregulated market. Although economic in its structure, globalisation is equally a political phenomenon, shaped by negotiations and interactions between institutions of transnational capital, nation states, and international institutions. Its main driving forces are institutions of global capitalism, but it also needs the firm hand of states to create enabling environments for it to take root. Globalisation is always accompanied by liberal democracy, which facilitates the establishment of a neo-liberal state and policies that permit globalisation to flourish. Contrary to the development theories that conceived development as ‘national development’, present notions underlying neo-liberal economic development being pushed through globalisation re-conceives development as global competitiveness within the global market place. The neo-liberal freedom as a concept gets tied down to free markets where people

are free so long as they submit to the dictates of deregulated free markets. Significantly, the race to the bottom hypothesis argues that states in their competition to attract mobile capital must converge to the lowest common denominator.

Economic globalisation thus underpins the state-capital-labour relationship. The increasing dependence of national economies on the global economic flow of investments sees financial capital play off one territorial jurisdiction against another to gain optimum return including labour that is cheaper, more flexible and more easily subjected to hard work. As nations compete amongst themselves, the content of their labour laws are watered down to the detriment of their workers including those that protect their rights. Even ILO has conceded that while there is improvement in global production systems, globalisation has impacted work and worker relations, compromising the observance of core labour standards. A growing amount of literature on social dimensions of globalisation shows that many are wary of the so-called benefits of globalisation. Labour fortunes are undermined by an ideological discourse that upholds profit as a sign of efficiency that will generate the required levels of productivity to sustain economic growth for national development. To succumb to labour demands or interests would render an economy inefficient and directed towards failure, thus making out labour 'standing in the way' of national progress if it insists that its interests should be considered. In this way, while globalisation is about removing state restrictions on capital, it seeks also to control labour by making believe that social protection and job security are uneconomic and inimical to economic growth. Such economic policies that purport to separate efficiency issues from equity treat labour as a commodity and runs counter to the interest of workers. 'Labour market flexibility' and 'capital market flexibility' appear as symmetric policies but they have very asymmetric consequences – and both serve to enhance the welfare of capital at the expense of workers.

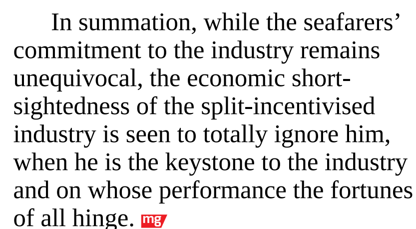
## Globalisation and Shipping

The maritime business is no exception to these pervasive forces of globalisation.

The extraordinary element for the shipping industry is the fact that the law of the seas is grounded in the notions of freedom of the seas with underlying principles of navigation of the oceans freely, a ship's national state having exclusive dominion over that ship and no other nation can exercise dominion over that ship. The Flag of Convenience (FOC) phenomenon and later mimicked by the international registries that is encouraged in such an environment, shows the veracity of de-regulation of the marine industry. This conforms to the notion of globalisation theory put forth earlier and explains the minimalistic attitude adopted by the industry regulators. International regulation is enacted upon by nations who remain keen to make their states an attractive choice as regulators. This sovereign privilege creates an unregulated environment where capital is free to act as it pleases.

The 'low road' globalisation of employment relations is in sharp contrast to what was historically an icon of national identity involving citizen employer and citizen seafarer. The appeal of 'open registers' to shipowners lay in the offer of low wages, lower taxes and less rigorous regulatory environment unlike traditional national fleets. There is widespread laissez-faire approach which has resulted in significant restructuring of its labour market to the detriment of the seafarer where ineffective regulatory infrastructure, weak employment practices, the absence of trade union support and lack of organisational trust in the shipping context manifests deeper sociological issues and organisational weaknesses in the shipping industry. Contractual appointments, fluid labour markets, and high crew turnover result in lack of commitment by a transient workforce in as much as employers being indifferent to them. With the special conditions of seafarers' occupation and employment relations, the seafarers consider the agent or the third-party manager that intervenes to secure his employment as employer rather than the principal that employs him. Ship management companies engage the services of specialist crewing agents who offer competitive services by engaging labour from the new labour supply countries and intensify their use through reduced crewing levels and extended working hours afforded by registering vessels under FOCs associated with lower regulatory cost, weak labour rights and lower wage levels. Today the world's largest fleets are attached to FOCs and over the last 25 years, 80 per cent of the world merchant fleet has been manned with multicultural crew, i.e. one ship having crew from different countries and different cultural backgrounds thus throwing up its own challenges.

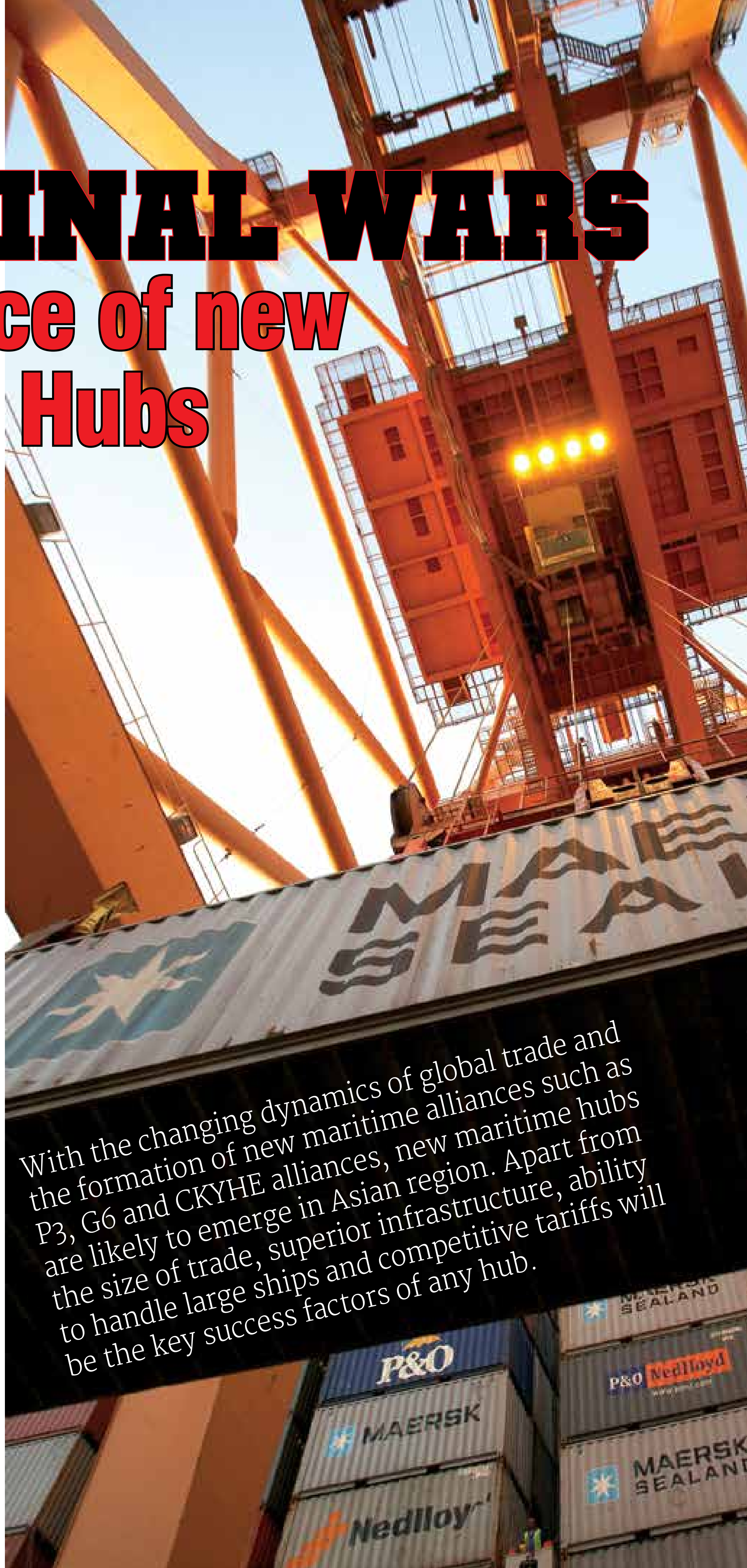
Under the influence of forces of globalisation, the industry structure becomes fragmented giving rise to 'split incentives'. It is seen that in the international shipping environment there are myriad of actors in a common enterprise. This starts with the shipowner himself who has become a mere asset player. This creates failures and barriers in its holistic and well founded development of the industry.



In summation, while the seafarers' commitment to the industry remains unequivocal, the economic short-sightedness of the split-incentivised industry is seen to totally ignore him, when he is the keystone to the industry and on whose performance the fortunes of all hinge. mg

# TERMINAL WARS

## Emergence of new Maritime Hubs




With the changing dynamics of global trade and the formation of new maritime alliances such as P3, G6 and CKYHE alliances, new maritime hubs are likely to emerge in Asian region. Apart from the size of trade, superior infrastructure, ability to handle large ships and competitive tariffs will be the key success factors of any hub.

Last year witnessed a small change in the container port ranking: Shenzhen overtook Hong Kong as the third-busiest container terminal in the world by handling 23.3 million teu (twenty-foot equivalent units) while Shanghai remained the world's busiest container port as the city moved toward its goal of becoming a shipping centre.

Though the change was small, it was significant enough for trade experts and maritime analysts to say that ascendancy of Chinese ports in Asian region is now almost complete.

Container throughput in Shanghai rose 3.3 per cent to a record 33.6 million teu last year, according to a Chinese news agency. Shanghai Port has been the world's largest container port since 2010 when its volumes surpassed that of Singapore.

Singapore Port recorded a 2.9 per cent year-on-year improvement in container volumes in 2013 and handled 32.6 million teuof containers, making it the world's second busiest box port. Hong Kong handled 22.3 million teu last year.

But the success story of Chinese ports is intrinsically linked to the growth of Asia Pacific region, especially South Asian region, and its major share in the global trade. It is no secret that Asia is bound to emerge as the economic powerhouse of the world, if the current trends of development continue for the next couple of decades.

Last year also witnessed China becoming the world's largest trading nation, overtaking the US.

China's annual trade in goods passed the $4 trillion (£2.4 trillion) mark for the first time last year according to official data, after exports from the world's second largest economy rose 7.9 per cent to $2.21 trillion and imports rose 7.3 per cent to $1.95 trillion.

The shift in the trading pecking order reflected China's rising global dominance, despite a slowdown in economic growth last year.

With the storm clouds that have been hanging over the global economy in recent years set to recede gradually in 2014, growth prospects are in the Asia Pacific.

"Asia's two largest economies, China and Japan, are expected to continue to show sustained expansion. Chinese GDP growth is forecast to improve from 7.8 per cent in 2013 to 8.1 per cent in 2014, helped by stronger growth in exports and continued robust consumer demand," says Rajiv Biswas, Asia-Pacific chief economist for HIS, in a report.

According to him, in the long term, the Asia-Pacific region is forecast to continue to be the fastest-growing region of the world's economy over the next two decades, helped by the ascendance of China, which is expected to become the world's largest economy within the next decade, and by the rapid growth of consumer spending power in emerging Asia.

With economic growth showing some increase in all four of the world's largest economies, global economic growth is forecast to rise from 2.5 per cent in 2013 to 3.3 per cent in 2014. This upturn in world growth will also drive a rebound in world trade. The containerised trade is forecast to rebound from a sluggish 2.1 per cent growth rate in 2013 to 4.7 per cent growth in 2014.

"Exports have been one of the main growth engines of the Chinese economy over the last two decades, and the upturn in world trade will support stronger Chinese export growth in 2014, creating positive transmission effects throughout the supply chain of Chinese small and medium enterprises producing export-related goods and services," says Biswas.

"In the last decade, the former differences in quality have disappeared, with ports in mainland China spectacularly increasing their efficiency."

### Hong Kong vs. Mainland China

In an OECD development working paper on the competitiveness of global port cities, Olaf Merk and Jing Li opine that Hong Kong has lost market sharedue to phenomenal growth rates in competing ports such as Shenzhen and Guangzhou.

"In the last decade, the former differences in quality have disappeared, with ports in mainland China spectacularly increasing their efficiency. At the same time, price differences remain: the Port of Hong Kong is relatively more expensive. Due to scarcity of land, Hong Kong has become one of the ports with the highest land productivity in the world (approximately 60,000 teu per hectare per year). The focus of the port has shifted slightly towards transshipment functions. In this respect, Hong Kong is advantaged by the Chinese maritime cabotage law, which restricts domestic cargo handling to Chinese vessels, however Hong Kong is excluded from the law. If this cabotage law is liberalised, other Chinese ports might capture part of Hong Kong's current trans-shipment cargo," the paper says.

A major challenge of the Hong Kong port relates to hinterland accessibility. The costs of cross-boundary trucking between Hong Kong and mainland China are the single biggest element in the cost difference between Hong Kong and other regional ports in Guangdong.

The port-city of Hong Kong is a leading maritime cluster. Main

factors underpinning this cluster are regulation and taxation favourable to global business, an active maritime community and incentives to attract and train manpower in the maritime sector. Competing ports, such as Shenzhen, have not been able to match this, but Shanghai has started to develop a similar maritime cluster.

Hong Kong is also a regional leader in green port policies. The government is currently introducing legislation that will require all ocean-going vessels berthing in Hong Kong to switch to low-sulphur fuel. The goal is to create an Emissions Control Area (ECA) for the Pearl River Delta. Cooperation between Hong Kong and the Guangdong province has been increasing. Intensifying this cooperation and improving regional governance could be a source of opportunities for Hong Kong, according to the paper.

“The container volumes attributed to the Chinese ports are what is referred to as “local”, i.e. predominantly domestic exports and imports. There is some content of relay/ transshipment but this may be about 10-20 per cent at the most. Whereas Hong Kong has a greater percentage of relay cargo and much of it is Chinese origin/destination. The trend appears that this cargo is now being loaded or discharged at the Chinese port rather than on carry to Hong Kong. This is supported by the fact the increasing number of new terminals in the Pearl River Delta are coming on line,” says Subhangshu Dutt, Executive Director, Krishnapatnam Port Pte Ltd Singapore & Chairman, Institute of Chartered Shipbrokers (Singapore Branch).

Guangzhou and six other Chinese ports rank among the top 10 container ports alongside Singapore, Busan in South Korea and Dubai, according to Lloyd’s List. While Guangzhou is smaller than Shanghai, Hong Kong and Shenzhen, it is growing at a faster rate because of Nansha, the dominant of its four ports.

But Hong Kong has to deal with this increased competition. What makes its task tough is the fact that the soaring volumes at mainland ports are mainly due to the increase in Chinese trade in recent years, a trend that was highlighted when China overtook the US as the biggest goods trader.

But Guangzhou is also gaining

## Imports and Exports

| | China | NL | USA | Japan | Brazil | India |
|---|---|---|---|---|---|---|
| Trade of goods and services (as a percentage of GDP in 2011) | 59% | 157% | 32% | 31% | 25% | 54% |
| Total merchandise trade value (as a percentage of GDP in 2011) | 50% | 151% | 25% | 29% | 20% | 41% |
| Export of goods and services (as a percentage of GDP in 2011) | 31% | 83% | 14% | 15% | 12% | 24% |
| Import of goods and services (as a percentage of GDP in 2011) | 27% | 74% | 18% | 16% | 13% | 30% |
| Value of net trade in goods (as a difference between exports and imports, in billion USD in 2011) | 242 | 64 | -735 | -4 | 29 | -116 |

*Source: World Bank 2013*

## Logistics Performance Index

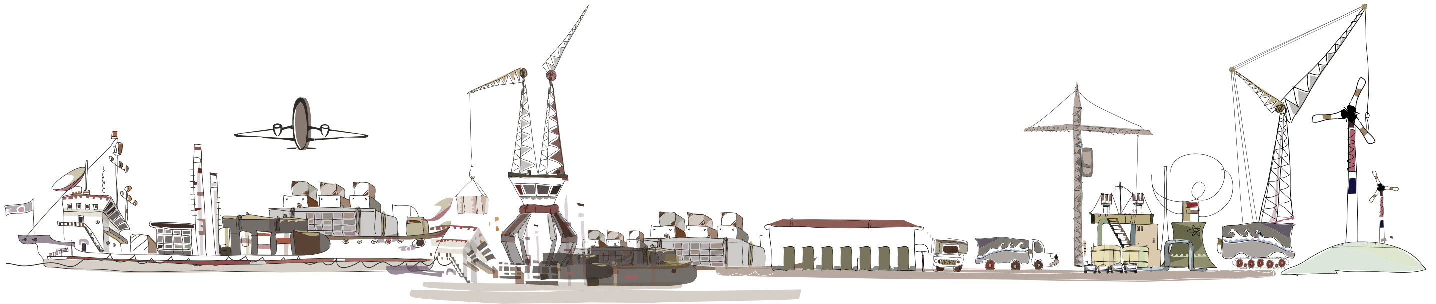
| | China | NL | USA | Japan | Brazil | India |
|---|---|---|---|---|---|---|
| Overall quality<br>Overall score of logistical performance (1=low to 5=high in 2012) | 3.52 | 4.02 | 3.93 | 3.93 | 3.13 | 3.08 |
| Infrastructure quality<br>Quality of trade and transport-related infrastructure (1=low to 5=high in 2012) | 3.61 | 4.51 | 4.14 | 4.11 | 3.07 | 2.87 |
| Efficiency of customs<br>The measured efficiency of the entire customs clearance process (1=low to 5=high in 2012) | 3.25 | 3.85 | 3.67 | 3.72 | 2.51 | 2.77 |
| Logistics services<br>Quality and competence of logistics services (1=low to 5=high in | 3.47 | 4.05 | 3.96 | 3.97 | 3.12 | 3.14 |

*Source: World Bank 2013*

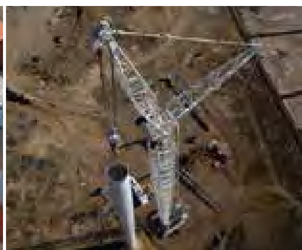
## The port landscape

| | China | NL | USA | Japan | Brazil | India |
|---|---|---|---|---|---|---|
| Number of major ports<br>(total in 2012) | 172 | 24 | 532 | 292 | 81 | 76 |
| Container port traffic<br>(in million TEU in 2011) | 140 | 12 | 43 | 19 | 9 | 10 |
| Time to export<br>Length of entire procedure, without delay (measured in days in 2012) | 21 | 6 | 6 | 10 | 13 | 16 |
| Time to import<br>Length of entire procedure, without delay (measured in days in 2012) | 24 | 6 | 5 | 11 | 17 | 20 |
| Cost to export<br>All fees associated with procedure, excl. trade tariffs and taxes (in USD per container (TEU) in 2012) | 580 | 895 | 1090 | 880 | 2215 | 1120 |
| Cost to import<br>All fees associated with procedure, excl. trade tariffs and taxes (in USD per container (TEU) in 2012) Container port traffic (in million TEU in 2011) | 615 | 975 | 1315 | 970 | 2275 | 1200 |

*Source: World Bank 2013*



# Ingenuity In Motion



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from ships bypassing Hong Kong, a traditional transshipment hub for China trade, and heading directly to the heart of the Pearl River Delta manufacturing area.

"Having local cargo as the main component of port volumes is an undeniable advantage as it is captive volume which will never go away. Also, China is moving from a production to a consuming economy which will generate greater imports," says Dutt.

China's maritime interests already reflect its status as the world's largest exporter and second-largest importer. Many of the world's biggest container ports are in China. It controls a fifth of the world's container fleet mainly through giant state-owned lines. By weight, 41 per cent of ships built in 2012 were made in China.

But some experts believe there is no real threat to Hong Kong, and that a rise in North Asian trade is sparking more demand for transshipment services that will benefit Hong Kong.

### P3 Alliance

But there are some other factors apart from China's growing trade that could affect Hong Kong's business. The world's three biggest container-ship operators in terms of capacity – Maersk, CMA CGM and Mediterranean Shipping Co (MSC) – last year formed a broad route-sharing alliance, called the P3 Alliance.

It seems the alliance which will be operational in the second half of this year would lead to a cut of 10 sailings per week from 18 at the Kwai Tsing container terminal.

An alliance of three shipping companies would need bigger berths for their large vessels and more space at their docks.

The packed layout of berths and shorter berth lengths at Kwai Tsing, which opened in 1972, means only 15 of the 24 berths in Hong Kong can accommodate large container ships or vessels carrying 11,000 to 18,000 teu.

The port facilities in Shenzhen are newer and can handle large vessels. Port operators in Shenzhen are expecting that their business would increase after P3 was up and running.

"Singapore will act as the P3 hub for the Mediterranean, serving all five dedicated strings in both the westbound and eastbound directions. Port Klang will retain two westbound calls but will see the number of eastbound calls cut."

The P3 shipping alliance, which has yet to be approved by mainland China, European Union and the United States, is likely to have a 37 per cent share of the Asia-Europe trade and 24 per cent of the trans-pacific trade.

The rationalisation of the services of P3 members, with 255 vessels on 29 loops, will come through consolidation in vessel rotations and the replacement of small vessels with bigger ships.

"With the development of the P3 as well as the G6 and now the CKYHE, we will see rationalisation of services and greater pressure on terminals to handle the larger vessels as well as maintain performance. There may be a shift of hubs. The primary objective of the formation of these alliances is to achieve operational efficiency and thereby a reduction in cost. This is inevitable as dwindling freight rates has eroded margins and produced a sea of red ink in the books. Most liner operators are now back to the wall and the prospect of being able to raise freight rates is increasingly remote and largely outside their control. Whereas achieving operational efficiency is very much within their ambit," says Dutt.

The announcement of P3 alliance has led to lot of speculation on the partners' choice of hub in Asia. According to latest news reports, Rotterdam and Port Klang will be the big losers of the P3 Network and the Port of Tanjung Pelepas (PTP) will be the big gainer in terms of the three line's Southeast Asian transshipment hubs on the Asia.

The three members of the planned alliance Maersk Line, Mediterranean Shipping Co (MSC) and CMA CGM, currently hub in PTP, PSA in Singapore and Westports Malaysia in Klang, respectively.

Under the planned rotation, PTP will become the main hub port for Asia-North Europe trade for the alliance while Singapore will be the hub for the Asia- Mediterranean trade. Port Klang will only feature on a reduced number of calls on both trades. PTP will have no calls on the Asia-Mediterranean trade for the alliance.

"The consolidation of the SE Asia hubs will enhance the position of Tanjung Pelepas, which will be the main P3 hub for North Europe, with seven out of the eight westbound calls at the port. Singapore and Port Klang will see the number of weekly calls to North Europe shrink from three calls each to only one," Alphaliner noted in its weekly newsletter.

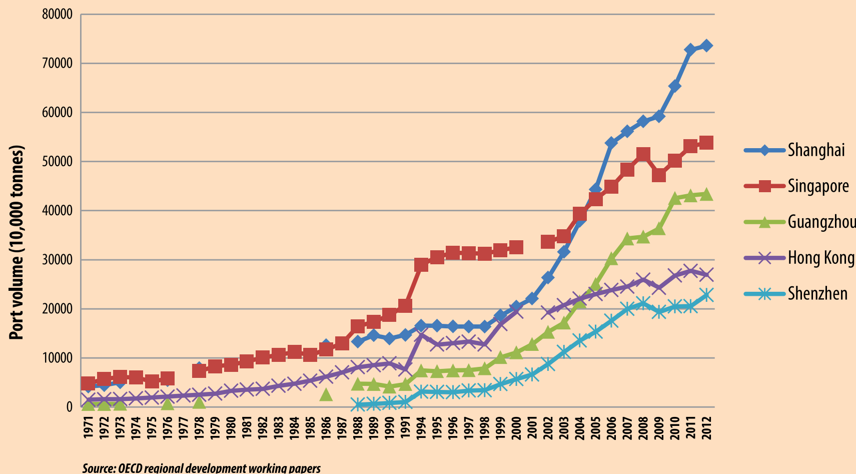
Singapore will act as the P3 hub for the Mediterranean, serving all five dedicated Mediterranean strings in both the westbound and eastbound directions. Port Klang will retain two westbound calls but will see the number of eastbound calls cut from three to one.

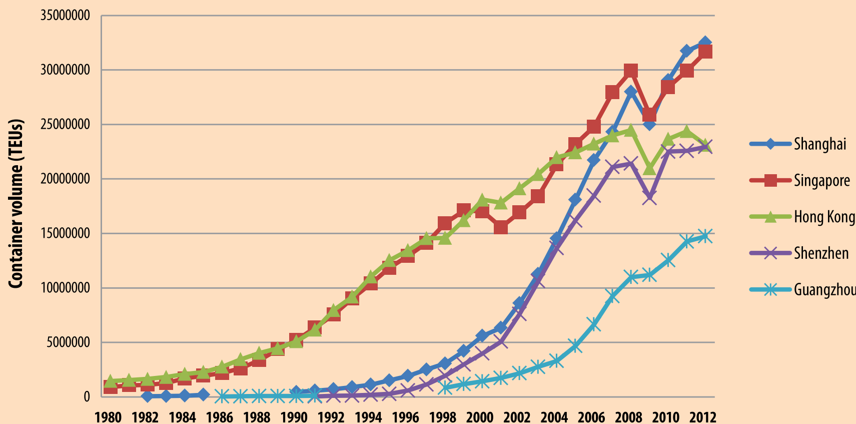
For Tanjung Pelepas and Singapore, there are no major changes, with Tanjung Pelepas getting two less head haul calls instead of gaining three additional back haul calls, and Singapore gaining one head haul call, but losing one back haul call. Port Klang, on the other hand, comes out as the port losing the most in the new network, losing three head haul calls and six back haul calls.

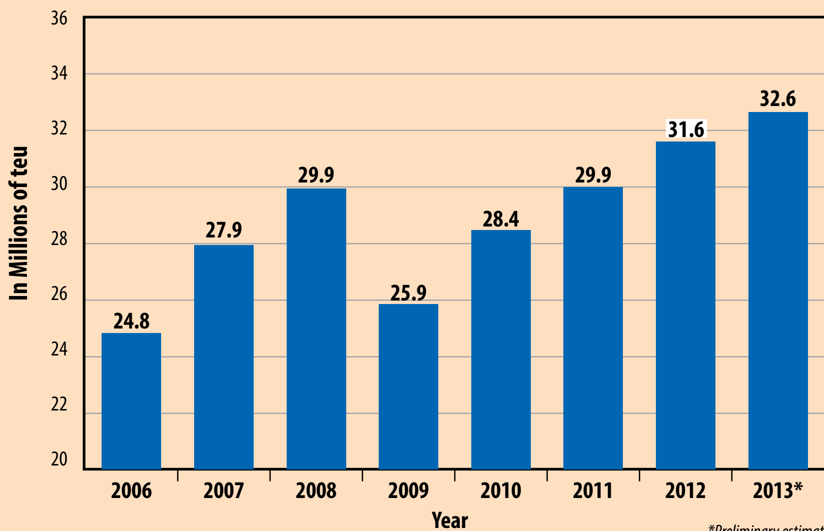
### Singapore

While China certainly holds advantage as a leading maritime hub in Asia, it will not be easy for the country to push over a traditional hub like Singapore to the back end.

"The top ranking port is more symbolic than a hard fought victory. It moves around between the few contenders and has a shelf life of one year. As Singapore is dependent on transshipment volumes (about 80-85 per




cent) it will have to keep ahead of the curve by building bigger facilities. Tuas container port is proof of its ability to do so," says Dutt.

According an HSBC report, Singapore's exports will expand by 5.6 per cent in 2014, up from an estimated 2.9 per cent growth last year.

The city-state's economy will also be boosted by rising volumes being transshipped via its marine terminals and through Changi International Airport.

"In 2014 we forecast growth in both port and airport total tonnage volumes. Both facilities are investing considerably, and we are confident of growth over the medium and long term," said the report.

Standard Chartered also forecasts that Singapore's GDP will grow by 4.4 per cent this year, aided by the increased trade.

## Colombo

The geographic location of Sri Lanka will be a key factor for shipping and logistics, especially for the container shipping industry which accounts for 52 per cent of global trade value and 74 per cent of transshipment volume through the port of Colombo.

While the regional hubs – Singapore, Malaysia and Dubai – and countries like India and Bangladesh have fully liberalised shipping and logistics sectors, the foreign shipping companies constitute only 40 per cent in Sri Lanka. However it has fully liberalised its logistics sector.

"As correctly done by the Sri Lankan government, the 100 per cent liberalisation of the logistics sector is the way to move forward," says Rohan Masakorala, CEO of the Shippers' Academy Colombo in a write-up.

Motivated by its commercial interest, China is also investing in Sri Lanka. The island nation is looking at expanding its infrastructure facilities and is increasingly looking at China for funding.

Last year, Sri Lanka opened a $500-million container terminal at Colombo Port , the biggest investment in the island's harbours, built and operated by China Merchants Holdings

International. The new terminal is part of Sri Lanka's plan to add 7.2 million boxes of capacity and deeper berths at its main port to attract larger vessels. Colombo's three other terminals have the capacity to handle 5 million teu.

### Challenge for India

Sri Lankan port's growth may come at the expense of India's gateway ports. India had relaxaed cabotage norms for its Vallarpadam container terminal in Cochin port to attract transshipment cargo. But experts believe it will be difficult for India to achieve huge transshipment volumes as Colombo is gearing up to give it a tough competition with the help of China.

Colombo is a "transshipment" hub for India: big ships unload containers there and feeder boats take these to India's often crummy ports. About 13 per cent of India's container traffic travels via Colombo. If the new terminal ran at full capacity and dedicated itself to transshipping containers to India, it could rise to 28 per cent, leaving the country dependent on a foreign-run choke point.

Last year, JNPT lost its position as the world's top 30 container port due to increased competition from other ports such as Mundra, Pipavav and Hazira and delay in the developing the fourth container terminal. Until then JNPT handled 4.2 MT containers. But Port of Valencia occupied the 30th position by handling 4.4 MT containers.

According to India Ratings & Research (Ind-Ra), container traffic (in teu) at major Indian ports remained subdued in FY13 and grew by a mere 0.8 per cent (FY12: 1.2 per cent), hurt by weak external demand for Indian goods as well as poor import demand due to the slowdown in the domestic economy.

"As vessel sizes go to the 13-18,000 teu range and possibly bigger, the number of terminals capable of handling such vessels would be limited. We would see some clear hubs emerging."

"In the Indian scenario, export/ import imbalance bothers shipping lines. Last year, we found that shipping lines had an issue in terms of availability of equipments because the imports were low and exports suddenly increased. So, we had to bring empties from other surplus locations to India to meet the demand for exports," said Deepak Tewari, Chief Executive Officer, MSC Agency (India) Pvt.

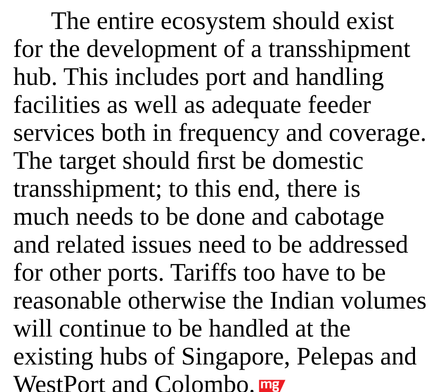
But the silver lining is that private ports in India are setting up world-class infrastructure, which is on par with other leading ports of the world. These ports have increasingly witnessed their container volumes growing at a faster pace. MSC for instance has started foreign transshipment at Mundra Port and have already done about 70,000 teu. It is transshipping Red Sea cargo, East Africa cargo, Pakistan cargo and a little bit of Gulf cargo at Mundra to connect to mainlines.

"We would like to see foreign cargo being moved from one Indian port to another so that hub and spoke system would work better like we did in Mundra. At the moment, we are using a third-party service provider – an Indian flag vessel – and the cost is very high. If we put one of our ships and if it was not an India flag, our cost will come down by 40 per cent. Ultimately, the customer and trade will be benefited. This will also help Indian port revenue to be retained in India rather than giving that to Colombo or Salalah or to a feeder transshipment hub somewhere else. That revenue is rightfully Indian and we should claim it back," said Tewari.

That seems to be the way forward as essentially the ability to handle the mega container ships will be the distinguishing factor for the future transshipment hubs.

"As vessel sizes go to the 13-18,000 teu range and possibly bigger, the number of terminals capable of handling such vessels would be limited. We would see some clear hubs emerging and the formation of the mega alliances P3 or G6 would hasten this development," said Dutt.

He expects automobile transshipment to grow while project cargo / machinery too will increasingly be moved by transshipment in the Asian region.



The entire ecosystem should exist for the development of a transshipment hub. This includes port and handling facilities as well as adequate feeder services both in frequency and coverage. The target should first be domestic transshipment; to this end, there is much needs to be done and cabotage and related issues need to be addressed for other ports. Tariffs too have to be reasonable otherwise the Indian volumes will continue to be handled at the existing hubs of Singapore, Pelepas and WestPort and Colombo.

# 'My vision is to make JNPT the best port in the subcontinent'

Chairman **NN Kumar's** office is perhaps as busy as the Jawaharlal Nehru Port with visitors calling on him frequently. Miles away from the Port and the boxes that parcel portions of the world to India, he oversees the calls and moves. Betwixt all the big visits made by lawyers and other officials I manage to perch myself in his cabin during a brief window of opportunity. Looking up from the files, he starts by elaborating the plans for the port. His vision for JNPT is to take it to the numero uno position in the subcontinent by strengthening the business locally and rendering it a transshipment hub. In his first interview after taking over as Chairman of the Port, Kumar talks at length about cargo, congestion and capacity.

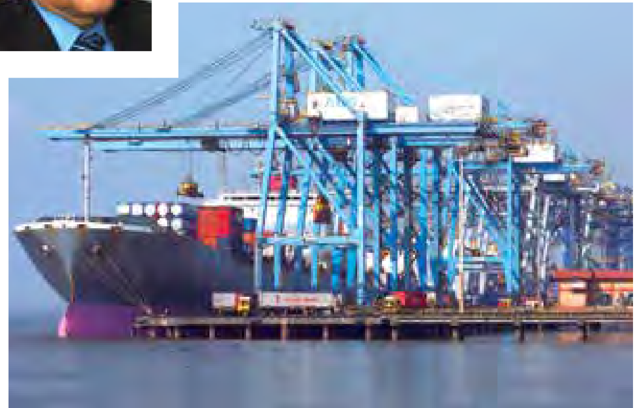
**Q What are the most pertinent issues waiting to be addressed?**

**A** There are two critical issues with JNPT. The first is capacity addition on the waterside infrastructure. After 2006, we have not augmented capacity for container handling at the port and as a result we have not been able to exploit the growth in container traffic in the last four to five years. So, there is an urgent need for us to add capacity to maintain the *numero uno* position as India's largest container handling port. For this, the timely extension of the ₹330-million container project by DP World and the fourth container terminal by PSA will hopefully address the current capacity constraint.

The other issue is about the connectivity to evacuate the cargo. Presently, our roads are chock-a-block handling the 4.2 million teu. To handle the 10 million teu that we envisage to in the next five years, it is a priority to create sufficient road and rail infrastructure on the land side.

**Q How are you going to ensure there is sufficient cargo to support the capacity addition at the terminal?**

**A** Presently, exim trade in India is growing at 8-9 per cent and growth of containerisation is coterminus with it. With the impetus given to the industry by the government,



I understand there will be a huge growth in the container segment. Although the pace of cargo contanerisation in India is only about 22 per cent annually as against 85 per cent in the developed nations, we hope to secure cargo from both growth in exim trade and further containerisation of existing cargo.

**Q In the last many months, cargo belonging to your port has been lured away by Mundra and other private terminals? How do you plan to arrest this and retain cargo at JNPT?**

A The report of cargo shifting from JNPT to private ports is untrue. We have been handling 4 million plus teu of cargo for the last four years and as such there has been no drop in volume of cargo. But, what has shifted is the growth in the cargo volume. After 2006 since we did not add any capacity, the 15 per cent growth in the last three years and 8 per cent in the last two years (about to 3 million teu) has moved to the other ports. Else, our port has always functioned at capacity levels of 100 per cent. Essentially, the cargo that we could not handle moved to the neighbouring ports.

**Q With the western end of the Dedicated Freight Corridor passing along JNPT, how do you wish to leverage on this project to evacuate cargo?**

A We are heavily dependent on the implementation of the Dedicated Freight Corridor that will cater to about 50 per cent of our cargo movement out of the port. We are creating a parallel reception facility and envisage a multi logistics park to come up in 200 hectares that will handle the DFC cargo smoothly segregating cargo meant for road and rail.

**Q How helpful will dredging of the current channel be in accommodating bigger vessels? Also, could you tell us about the technology upgradation process that is underway?**

A We have almost completed the first phase of dredging where we have increased the depth from 11 m to 15 m that will allow for bigger parcel size and lead to efficiency. This will be followed by two other phases of dredging where the final depth of the channel will be extended to 17 m of depth.

We have four cranes presently with twin handling capacity and we intend to add three more cranes this April. We also plan to mechanise our shallow terminal.

**Q With bigger vessels being deployed in most ports overseas, will JNPT handle bigger parcel sizes once the draft is adequate?**

A These ultra large container vessels (ULCVs) have been deployed by Maersk and other big shipping lines in ports overseas not just because the port infrastructure supports such vessels. One needs to asses if the economy and the commercial activity of the region supports such volume of trade and requires such vessels. India and JNPT needs to be a transshipment hub for such big ships to be able call at our ports. There has to be demand in the trade from a destination.

But with the successful dredging at our port we can invite big vessels at our port.

> "We are heavily dependent on the implementation of the Dedicated Freight Corridor that will cater to about 50 per cent of our cargo movement out of the port. We are creating a parallel reception facility and a multi logistics park in 200 hectares."

**Q What is your opinion on the allowing one port alone to take advantage of Cabotage relaxation?**

A Cabotage is a global phenomenon where many nations enforce this policy to protect their domestic industry. So in principle, there is nothing wrong with the principle. But in India, the domestic container industry is not matured enough to provide the service required by the trade. Perhaps it could be the reason for this policy wanting to be annulled. The day the Indian container shipping industry becomes competitive, there would arise no need for removal of this policy. The stress should be more on structural change in the industry and according an infrastructure status to the industry.

**Q How would you see the possibility of JNPT becoming a transshipment hub instead of Cochin given your port's geographical advantage?**

A Like other issues, transshipment is not about a port's infrastructure alone. It is about the cost of operation. If you compare the Indian ports, our cost of operations is very high compared to other nations such as Sri Lanka or Singapore. So, at this stage to compete with these nations is difficult. But JNPT is ideally suited for cargo movement, both within the coast and from the Western coast of the country to other locations overseas.

**Q The last year has seen some policies being revisited by the government. This year major ports have been allowed to put their land to commercial purposes. What other changes do you expect from the government?**

**A** There is a lot of scope for improvement in tariff guidelines proposed by the TAMP and we expect that terminals operating according to the guidelines stated in 2005 and 2008 be brought on the same platform. Secondly, we would like a cell to be established to monitor the PPP mechanism. To have an agreement in the model concessionaire agreement, MCA for a long period without revisiting the agreement for amendments to be made is imperative. Both macroeconomic and technological factors in the agreement need to be revisited from time to time to see both parties perform well.

> "The Asian shipping trade holds a key to the future and in India, JNPT clearly stands to gain in the container trade. JNPT will play a critical role in furthering trade in the continent."

**Q Last year, your attempts to raise money from the market went in vain. How do you propose to complete projects that are underway?**

**A** We have a zero debt balance sheet and our bonds are AAA rated and we were not able to offer a huge interest rate. But we do not visualise the need for funds for our port immediately. Both the new terminals are PPP projects and the concessionaire is investing money. The port requires money for creating land side infrastructure for road, parking and upgrading our own container terminals for which we have sufficient funds. But we do require money for dredging in the second and third phase of dredging. We would need around ₹3,000 to ₹7,000 crore. There is no incremental revenue because of the dredging expect that the economic rate of return, ERR will go up as a result of larger ships calling at the port.

**Q What is the status of the liquid cargo container terminal that is on the drawing board?**

**A** It is in the request for qualification, or RFQ stage and we have received seven bids from interested parties. We are evaluating the bids and within a fortnight we will finalise the qualified bidder before we call for proposals.

**Q JNPT is part of the consortium that is developing the Chabahar Port in Iran. Could you give us a few highlights on the nature and cost of development?**

**A** We are in the stage of holding negotiations with the Iranian government through the ministry of external affairs for the terms and conditions of our engagement to develop the port. We have two or three rounds of negotiations and it is in the final stage. The moment it is final, we will start our work there. There are three phases of development. In the first phase, we will only mechanise the existing jetties and in the second phase we have to create new jetties. The cost depends on the terms of negotiation with the Indian and Iranian governments and the expense depends largely on whether we have to only create infrastructure or just enable it.

**Q Given the economic prominence of countries in the East, Asia is touted to be the new USA and Europe for the shipping industry. What role do you picture for JNPT and India?**

**A** The Asian shipping trade holds a key to the future and in India, JNPT clearly stands to gain in the container trade. With our long standing relationship with the shipping lines, we hope to play a critical role in further development of trade in the continent.

**Q Despite being the biggest container terminal in India, manpower, connectivity and congestion still continue to beset your port. Where lies the answer to these problems?**

**A** For congestion and connectivity, it is the timely completion of the Dedicated Freight Corridor. Our port is connected by three major highways – Mumbai-Pune, Mumbai-Goa and Mumbai-Agra by 43 km of internal road network. How to evacuate the 10 million teu is the big question. JNPT has formed a special purpose vehicle with the National Highways Authority of India and Small Industries Development Corporation, SIDCO to develop this entire 43 km of road network. This is a four-lane project and in the second phase, we are going to add four more lanes with two service lanes each on both sides of the road for passenger traffic. So, in all it will be a 12-lane road network. It will be conflict free from traffic with grid separators and RoBs at strategic places. NHAI is the lead partner and it is expected to cost ₹1,800 crore and we have already invited bids for this project on a BoT basis. But there was some change in the NHAI policy with respect to toll collection that led to a change in the internal rate of return, IRR of the policy. So we are now looking at including viability gap funding component to this project. So, we plan to invite tenders now again. Our labour issues are all from the project affected villages. The issue is primarily about land acquisition where they are asking for 12.5 per cent of the developed land in exchange of their land. The court has helped resolved this issue and the port has handed over 1,100 hectares to the Maharashtra government for distribution among the project affected people. mg

# Varun Shipping loses licence to operate ships

Indian maritime regulator DG Shipping has terminated the licence of Varun Shipping and withdrawn the Document of Compliance (DoC) by terming the company's six India-registered vessels 'unsafe and un-seaworthy'.

Mumbai-listed Varun Shipping Co. Ltd (VSCL), which runs one of the world's largest fleet of liquefied petroleum gas (LPG) carriers, has lost its license to operate ships after it failed to carry out a mandatory dry-docking of its ships for safety surveys and to come up with a financial package to pay off dues to its crew and creditors.

The Directorate-General of Shipping (DG Shipping), the maritime administration where a ship is registered, withdrew the Document of Compliance (DoC) of Varun Shipping by terming its six India-registered vessels 'unsafe and un-seaworthy' – the first instance of the maritime regulator cancelling an Indian shipping company's operating license. While cancelling license, the company was directed to lay up all the vessels immediately at safe locations with operational staff on board.

The DoC certifies that a ship-owning company has complied with the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code) of the International Maritime Organization. The license was issued to Varun Shipping on December 14, 2012, and it expired on March 4, 2014.

According to the rules, statutory safety surveys, particularly expensive dry-dock repairs, have to be done twice in a span of five years on a ship, with intervals between them not exceeding 36 months. However the statutory surveys and certifications for Varun's Indian-registered ships were overdue for several months, making them unsafe.

When Varun Shipping failed to undertake the mandatory annual verification DoC audit on March 03, the DoC became automatically invalid and was withdrawn by the regulator the next day. Varun Shipping has a fleet of 18 ships including 10 LPG carriers, 3 crude oil tankers and 5 anchor handling, towing and supply vessels (AHTSVs). Of these, six LPG carriers and two AHTSVs are registered in India. And of the other four LPG vessels, one each is registered in Singapore, Cyprus, Indonesia and Marshall Islands; three crude tankers are registered in Singapore and three AHTSVs in Cyprus.

Meanwhile, the company has surrendered the DoC to DG Shipping and applied for a fresh DoC to operate ships under a new entity in the name of Varun Global Pvt. Ltd, following a court approved reorganisation of the company, according to sources. The reorganisation involved splitting the company into three separate businesses – for LPG tankers, for crude oil tankers, and for ships used to support offshore oil exploration.

The company has recast its offshore tankers and LPG business now under three different subsidiaries – Cyprus-based Varun Cyprus for anchor handling and towing supply vessels, Singapore-based Varun Asia for Aframax vessels, and Varun Gas for their LPG vessels. Varun Global will be the ship management entity of the group, based in Mumbai, focusing purely on ship management services for all the three sectors – LPG, Aframax and offshore.

"We have arranged the resources for the dry docking and repair of our LPG and Aframax tankers which are scheduled to be completed in the next quarter. It would facilitate 100 per cent utilisation of the tanker and LPG fleet in a viable manner," said Yudhishthir Khatau, chairman and managing director of VSCL.

However, Varun Shipping has not yet received the approval for a new license from the DG Shipping, according to Gautam Chatterjee, the Director General of Shipping.

The company, which is undergoing a severe financial crisis, recently sold off two of its three very large gas vessels (VLGCs) and is looking to sell the third one too. It expects to reduce its total debt of ₹1,000 crore by one third.

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# Global shipping firms, terminal operators invest in emerging markets, buck the slump

Undeterred by ominous predictions of a bleak outlook this year for the shipping industry, terminal operators APM and mainline Maersk have found new avenues of investment. While a surge of private equity investments do signal the arrival of hope, industry players are doing their bit to renew focus investing in underserved markets.

The shipping line from Denmark is betting on the emerging markets to invest in creating infrastructure from Argentina in South America to India in Asia. The vessel owner cum port operator invested close to $7 billion in various growth markets creating capacity.

The ambitious chief executive of Moller Maersk plans to scout for opportunities in China, Africa, South America and India. He avers that the short-term investors who have chickened out from Asian markets because of the US Federal Reserve's periodic roll back of stimulus, have left behind huge room for others to invest. He plans to hedge the investment made by borrowing in both local currency and in US dollars.

To cover risk, the firm will pump in funds into its other business such as oil, ports and drilling units keeping the container line division at bay. The drilling rigs, about six in all, are expected to cost close to $200 million. The Group has forecast a growth of 4-5 per cent for its container line business this year, up from three and a half per cent in 2013.

To preserve funds for investing in other verticals, Maersk has also attempted to slash bunker costs significantly so prevent hurting its profits. In the last three consecutive years, the firm made good profits and it is hoping the big alliance with its competitors CMA-CGM and MSC to help it maintain steady growth in profits.

The other happy firm engaged in this business APM Terminals has announced its profits of $770 million mentioning in the same breath that it would expand into Mexico, Peru, Brazil, Nigeria, Russia and China. Its focus, according to company officials, will be on crafting attractive customer propositions and improving operational efficiency.

Higher productivity at terminals and an increase in volumes helped the terminal operator make profits. A recent study on global port and terminal productivity placed APM Terminal among the top ten productive terminals globally. Some of the firm's upcoming projects include its agreement with Turkey-based Petkim to construct and operate Aegean Gateway Terminal, a terminal that boasts to be one of Asia's foremost container terminals.

According to BIMCO's latest report, the global shipping industry will continue to experience what it sees as "fundamental changes", however, the company also sees a positive outlook materialising around the world.

Global economic growth, already stronger than expected three months ago, will provide the foundation for growth in the shipping industries, as key countries such as the UK, China and the US experience positive adjustments.

Growth in these "advanced economies" generates higher volumes of imported goods per unit of GDP – and thus more trade – than growth in the emerging market and developing economies. This is one explanatory factor, according to BIMCO, behind the fundamental economic growth that is generating a larger demand for shipping every day, but at a slower pace than pre-financial crisis levels.

As the positive trends in the shipping market continue, new build tonnage will likely need to be built to cater for demand. As a result, BIMCO expects many owners will take advantage of the currently strong demolition prices to let go of less efficient ships.

World crude steel production increased 3.5 per cent in 2013, driven forward by Asian production, where China more or less single handedly occupies the limelight due to its sheer size. Japanese growth of 3.1 per cent and Indian growth of 5.1 per cent is dwarfed by China, which brings its total production within striking distance of half the world's production.

The increase in steel production is good news for metallurgical coal producer. The current slight oversupply in the metallurgical coal market will be corrected in the near term, as demand increases and new production projects and expansions are delayed or cancelled. As a result, the demand for metallurgical coal in the medium term may even exceed current forecasts of steady growth, the report published by BIMCO read. The global sea trade is dependent on global growth. It was therefore vital if general shipping demand is to go forward that a smooth transition from a sustained recovery to normalised demand become successful. mg

# Nonstop Sliding Down

The index surveyed 160 countries and ranked them on a number of dimensions of trade including customs performance and infrastructure quality.

India's ranking slipped to 54th in the 2014 World Bank's Logistics Performance Index (LPI), which measures logistics efficiency in a global platform.

Over the years, the country has been continuously losing its position to its global counterparts in the World Bank's list of top logistics performers as measured by the LPI. In the year 2007, the India was ranked 39 which had slipped to 46th position in 2012. India's competitiveness is suffering because, despite improvements in the space, its logistics performance still lags behind its South Asian neighbours.

This year, the index surveyed 160 countries and ranked them on a number of dimensions of trade including customs performance, infrastructure quality, and timeliness of shipments. In the 2014 LPI report, Germany showed the world's best overall logistics performance and Somalia had the lowest score.

Germany is followed by Netherlands, Belgium and the UK. Singapore, which was top in 2012, has slipped to fifth, according to the report, "Connecting to Compete 2014: Trade Logistics in the Global Economy". The United States has maintained its ninth position consecutively.

The World Bank Group's International Trade Unit has been producing the LPI data in every two years since 2007. "The LPI is trying to capture a rather complex reality: attributes of the supply chain," said Jean-François Arvis, senior transport economist and the founder of the LPI project, in the report. The index data comes from a survey of more than 1,000 logistics professionals.

The LPI gives scores for each country as a percentage of the highest performer. The UK, for example, produced a score that was 96.6 per cent of top placed Germany. The USA's score was 93.5 per cent of the highest performer. France was 91.2 per cent, Italy 86.2 per cent, China 81.1 per cent, and Russia 54.3 per cent. Among the BRIC countries, China was ranked 28th and India, Brazil and Russia were at 54th, 65th and 90th positions respectively.

"The gap between the countries that perform best and worst in trade logistics is still quite large and the gap persists because of the complexity of logistics-related reforms and investment in developing countries, and despite the almost universal recognition that poor supply-chain efficiency is the main barrier to trade integration in the modern world," the report says.

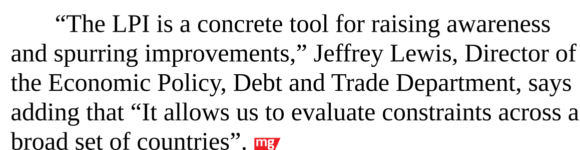
"In countries with high logistics costs, it is often not the distance between trading partners, but reliability of the supply chain that is the most important contributor to those costs," it says.

As with previous editions, the 2014 report finds that high-income countries dominate the world's top-ten performers. Among low-income countries, Malawi, Kenya, and Rwanda showed the highest performance.

The 2014 report finds that low-income, middle-income, and high-income countries will need to take different strategies to improve their standings in logistics performance. In low-income countries, the biggest gains typically come from improvements to infrastructure and basic border management. This might mean reforming a customs agency, it adds.

The report also adds that the middle-income countries, by contrast, usually have fairly well-functioning infrastructure and border control. They generally see the biggest gains from improving logistics services, and particularly outsourcing specialised functions, such as transportation, freight-forwarding, and warehousing.

In high-income countries, there is a growing awareness of – and a demand for – "green logistics," or logistics services that are environmentally friendly. In 2014, about 37 per cent of LPI survey respondents shipping to OECD countries recognised a demand for environmentally friendly logistics solutions, compared with just 10 per cent of those shipping to low-income destinations.



"The LPI is a concrete tool for raising awareness and spurring improvements," Jeffrey Lewis, Director of the Economic Policy, Debt and Trade Department, says adding that "It allows us to evaluate constraints across a broad set of countries". mg

# There are no prizes for coming SECOND

While India has done a lot of work to improve its port infrastructure and transport segment, the country needs to do a lot more in addressing issues related to rules and regulations, to stay afloat in a highly competitive world.

**Julien Michael Bevis**
Senior Director, Group Relations, South Asia, A.P.Moller-Maersk Group

I left India with my family in May of 2008 to go and live in New Zealand, where Maersk Line, which was then in throes of a reorganisation, had generously posted me to be the country manager. Leaving India, where I had by then lived for eleven and a half years, wasn't easy. To leave anywhere after so much time is a wrench. To leave somewhere as addictive as Mumbai is life changing. But leave we did, and ended up having nearly six most entertaining years at the other end of the world.

The world keeps changing and now I find myself back in South Asia again. This time, working for the Maersk Group which is the parent company of Maersk A.P.M. Terminals, Damco and others and being responsible for all our government and other regulatory relationships across the Subcontinent.

I am based in Delhi which is all new to me, so to add to the excitement of being back in the country of my mother's birth, I can explore the delights of a new city, or at least one that's new to me. I can also reflect upon what has changed in the shipping and transport scene in the intervening years since we left. Those years have not been without incident, and the great financial crisis of 2008/2009 has most certainly left its mark upon the shipping scene in India.

As with any business, while it is important not to spend too much time looking back, it is also essential to understand the past so that we in turn can understand what is happening now, and why and what we can do about it.

I think the issue that is probably pre-eminent in most sectors of the container business is the recognition of the fact that most lines have not been meeting their cost of capital. To put it rather more bluntly – they haven't been making enough to pay off the investments that their shareholders have made in them. This has driven two complementary patterns of behaviour. Firstly, everyone has been ever more conscious of the need to operate more economically. As

a result, costs have come under huge pressure. At the same time they need to balance that imperative with the need for customer service.

Lines have been putting all their subcontractors – terminals, railways, truckers and others – under pressure not just to reduce costs but to find ways to operate more economically. The reduction in unit rates is something that almost anyone can do. More intelligent operation is something that requires much more thought.

The lines have also been looking at in-house operations too to cut cost. Headcounts have come under pressure, organisations have been streamlined, and vessel schedules have been significantly changed. Now, it is all about finding economies of scale to achieve lower operating costs. This is what lies behind the increasing tempo of building larger and larger, and at the same time more efficient vessels. It is these same compulsions that have given rise to the creation of global alliances

"The world is a very competitive place and there are no prizes for coming second. We need to ensure that the rules around transshipment are addressed too."

like P3, which will combine service improvements with the scale of multiple operators to achieve operational savings.

While such consortia are not really new in principle, the scale both absolute size, global reach and their focus on customer service is certainly new to the sector. They need bigger hubs, bigger terminals and better landside facilities to serve them. In this regard, India has made great strides since that day in May 2008 when I left Mumbai airport. But the treadmill never slows down. While much has been done – for instance, the rise of the excellent ports in Gujarat as alternative gateways and the addition of extra capacity on the east coast – much more needs to be done and indeed can be done. If the country does not maintain the same momentum of this progress, the benefits that such changes can bring in will not flow through the market place.

We have to think in terms of inland infrastructure too. No longer can policy makers think of the ports in isolation. India has a huge and rapidly evolving inland market where cities that once were discounted as places that containers moved to and from must now be clearly taken into reckoning. The importance of rail and road connectivity and the provision of services to support these links are paramount and needs to be continuously upgraded and made more efficient.

Infrastructure is not just about steel and concrete; it's the legislative infrastructure as well. The rules and procedures that make the physical assets work are as essential as the physical assets – whether it is the customs procedures, the processes behind the movement of boxes off terminals or the pricing in terminals. All are critical and India here has much to do.

The world is a very competitive place and there are no prizes for coming second. The development of the physical assets in transshipment hub ports is laudable and eminently sensible but we need to ensure that the rules around transshipment are addressed too. India has a massive coastline with many ports in existence and more emerging, but the fact that so much of our cargo is transshipped elsewhere is a waste. We need to bring this business back here and that means taking a look at all the rules that govern transshipment – whether it be the merchant shipping act, the Customs Act or the Income Tax Act, not just in one port but nationally. The international carriers are not trying to sneak up on the domestic market. What they are simply trying to do is bring down their costs so as to serve India better. These benefits will inexorably flow through to the market where the real difference to the country's economic prosperity will be made.

These issues are not something for any one party alone to address. I cannot but feel that the oft heard call that the government does not understand is something that everyone in the industry – whether they are a shipper, a line or a port – needs to deal with. If someone does not understand something, then others in the same sector are duty bound to help explain it rather than just complaining. In such a competitive world, it is better we work together to make sure that some of these thorny issues are more widely understood and then addressed.

Looking back to the day when I left, it is clear that India has done much in the transport sector. This is a country with extraordinary potential – be it human, business or economic. But unrealised potential is worth little. Others are moving ahead and we cannot afford to be left behind. We need to pick up the pace and work together to improve our infrastructure both physical and legislative so that we do not lose out in the race to be the most competitive. And, to see that extraordinary potential is properly realised. mg

While the much-neglected coastal shipping segment received a shot in the arm with the Ministry of Shipping's approval for an incentive scheme, the sector needs further support from the government. Unless efforts are made to address infrastructure bottlenecks and cumbersome clearance issues, the sector will not gain much in the long run.

Sreekala G

# A job half-done

Coastal shipping segment in the country received a major boost in January this year when the Shipping Ministry approved incentives to manufacturers to shift the movement of their goods from rail and road to coastal shipping. The government is prepared to spend about ₹300 crore for the scheme as the fiscal incentives.

While announcing the scheme, Captain PVK Mohan, chairman of National Shipping Board had said the scheme would help augmenting the amount of cargo transported by sea by at least 25 per cent to 200 million tonnes by 2017.

India has a 7,500-km coastline, with around the 13 major ports and 180 minor ports spread over nine maritime states. But coastal shipping accounts for just about 150 million tonnes of cargo, which is about 7 per cent of the total cargo movement, one of the lowest in the world. Of this, petroleum and oil liquids (POL) accounts for 49 per cent of the cargo and coal 30 per cent, 10 per cent is contributed by iron ore and iron ore pellets.

Currently, the country has a coastal fleet of 870 vessels. Of this, only 140 are cargo carriers while the remaining are tugs, offshore supply vessels and port craft.

The government has identified nine commodities – steel, marbles, tiles, cement, automobiles, fertilizers, food grains, salt and sugar – for the incentive scheme and the scheme will be in force and under review till 2017.

Mohan said the scheme was offered based on a study done by consultancy firm KPMG. After analysing the cargo movement in the country through rail and road routes, the firm suggested measures to shift the cargo towards inland waterways and coastal shipping.

Under the new plan, bulk cargoes, all new cargoes on Indian flag vessels (with a fresh modal shift) will be eligible for an incentive of 50 paise per tonne per nautical mile (nm) up to a maximum of 500 nm. This incentive will have a ₹150-crore financial implication on the shipping ministry.

The ministry has also agreed to increase the rebate on vessel-related and cargo-related charges at the ports to 60 per cent from the existing 40 per cent, with the government reimbursing the difference of 20 per cent to the ports. This may cost the government about ₹130 crore per annum.

The government has also advised the seaports to develop dedicated infrastructure to cater exclusively to coastal cargo movement. Besides, the government has also advised state-owned enterprises such as Steel Authority of India and Rashtriya Ispat Nigam to significantly shift to coastal shipping for the movement of steel products.

"I feel that these norms will definitely improve the coastal shipping, which is in the nascent stages over many decades for want of a boost and fillip. These measures, apart from increasing the coastal trade, also foster

significant modal shift of cargo from other modes. I am sure these new norms will incentivise the trade to move cargo through coastal shipping," said Dr Vishwapati Trivedi, Shipping Secretary in an earlier interview.

In fact, 2013 was a busy year for the Shipping Ministry as far as coastal shipping is concerned. "We have taken a number of initiatives, mainly, related to legislation to strengthen the shipping industry. We have identified and notified inland vessel (IV) limits, which is a big benefit for coastal shipping. This was a long-pending issue and all the maritime states were asking for this legislation. This order is also unique as we have also delegated the powers to the individual maritime states. In those states, where maritime boards are not in place, we have delegated the powers to the state port officer. This has been received very well by the industry," said Mohan.

According to him, the government has also notified the new River Sea Vessel (RSV) rules. "This is again helpful for the coastal shipping industry. These classifications are helping lighterage operations and movement of cargo, especially in the Gulf of Khambhat and Gulf of Kutch, Goa and Kolkata-Haldia in the Sandheads region," he said.

"While the savings in transportation cost between rail and shipping modes of transport was not significant, the cost could come down as more routes were opened to coastal shipping."

The effect of these new rules is already visible. The Food Corporation of India (FCI), which has been moving huge quantities of food grains from one part of the country to another by road and rail so far, has decided to take recourse to transporting them by sea as well.

Following a nod from K V Thomas, minister of consumer affairs, food and public distribution, Mumbai-based Shreyas Shipping and Logistics has won the contract from FCI to move 20,000 tonnes of food grains every month by sea from Andhra Pradesh to Kerala.

Kerala receives boiled rice from Andhra Pradesh to the extent of 70,000 to 80,000 million tonnes per month and this will be the first time FCI would be moving food grains in containers by sea.

According to an FCI official, shortages of rakes and long detention periods at the unloading stations were the two main factors that persuaded it to explore the possibilities of coastal shipping. Coastal shipping is also expected to eliminate transportation loss of food grain significantly as it does not involve multiple handling.

While the savings in transportation cost between rail and shipping modes of transport was not significant, the cost could come down as more routes were opened to coastal shipping and more shipping companies enter the field.

European Union experience has demonstrated that cost of coastal movement was about 20 per cent and 40 per cent that of road and rail movement respectively. The Marco Polo scheme of the EU aims to free Europe's roads of an annual volume of 20 billion tonne-km of freight. China is also estimated to move one billion tonnes of coal, steel, grains

and fertilizers along its coast through about 12,000 specially-built coastal vessels.

FCI is looking at the Kakinada-Kochi route as a pilot initiative in use of coastal shipping, and based on the experience it will be extended to other regions as well. In the second phase, rice is likely to be brought by ship from Kakinada to Kollam and Vizhinjam.

This may prompt many others to take the coastal shipping route to transport cargo. SAIL for instance has approached the board for moving steel from Haldia to Kerala and Maharashtra along the coast. Rashtriya Ispat Nigam is also planning to buy barges for coastal transportation of its products.

This is good news from the consumers as it will help bring down the commodity prices in the market.

"Sky is the limit for Indian shipping that is underdeveloped in huge potential situation given 7,500-km coastline, 1400 km rivers for navigation. With no or little investment in shipping in last 40 years compared to road rail, there is easily need for injecting ₹500,000 crore. And, readily available in PPP and FDI mode provided by policy is right and 2012-17 plan period talks about the reforms to be undertaken. Indian shipping needs to carry 30-40 per cent of its EXIM trade and at least 10 per cent of its domestic trade, invest in small ports terminals every 200 miles and allocate funds for dredging to the tune of 20 million cbm. This is attractive indeed," said Capt SV Subhedar, President, ICC Shipping Association.

But he sees it as the governments' failure year on year to neglect shipping in the well-being of national economy.

"I blame the policy makers including Planning commission to have reached a state of almost no return for Indian shipping both of EXIM trade and domestic trade. India ranks nowhere, in spite of being a significant player in global economy. India carries less than 10 per cent of its EXIM trade in Indian ships and less than 2 per cent domestic trade compared to 30-40 per cent of USA, Japan, EU, and near Far East. This makes India as the costliest logistics cost county with very poor transport carbon foot print. This also drives pressure on Indian Rupee due to huge freight outgo in dollars and huge fuel bill. More domestic shipping could save India 30 per cent less fuel bill," he said.

He points out that DG order dated September 18 and 19, 2013 related to LV and RSV is still waiting for implementation because the Centre has not pulled up maritime state governments to do their bit.

"Coastal shipping in India is fraught with problems of Centre-State relationships with little happening in statutory bodies of MoS in NSB and MSDC. ICCSA only recently has started taking active part in NSB, which meets a few times a year but its only outcome is advisory. MSDC has failed to make Centre-State relations better for enhancing coastal shipping. Furthermore, there is no change in enabling provisions for attracting investment in RSV. And, until slew of reforms are commenced and FDI happens, SCI should take the lead in investing in RSV construction / acquisition," he said.

A related problem is that there is little shipbuilding expertise, capacity and wherewithal to deliver commercially viable RSV. Hence, there is a strong need for incentivising shipowners and operators, which should include reserving government cargo until RSV becomes choice of freight forwarders. On environment impact and CSR initiatives alone there is a case for more RSV operations in territorial waters of India. DG shipping and IRS / RO need to facilitate RSV conversion from existing IV and shipyards need to be given subsidy for Indian made ships to allow as much Indianisation as possible.

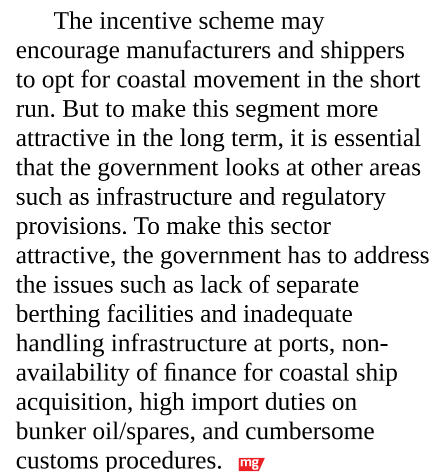
> "Coastal shipping needs further support from the government. There is a need to set up a separate Directorate, separate Act and enabling rules for this segment."

According to him, draft coastal shipping policy needs to be released with appropriate action time lines. "It is unfortunate that in the plan period document of 2012-17 there is little mention of shipping other than ports and expenditure on related civil works. Simple changes to insurance, trade practices, Free on Board (FOB) / Cost, Insurance and Freight (CIF) carriage will make large difference to make shipping services viable for the benefit of all," he said.

Coastal shipping needs further support from the government. There is a need to set up a separate Directorate, separate Act and enabling rules for this segment. Indian Maritime laws are very old and overdue for comprehensive revision.

The government should relook at tax policies that have negated tonnage tax provisions in the last five years. Coastal shipping and ICCSA on its behalf is only looking for level-playing field.

"New government should also look at calling this second arm of defence as mercantile marine and create separate ministry or bring shipping under the ministry of commerce, trade and industry and not surface transport where it gets second-class treatment compared to road, while Railways and Civil Aviation get due attention of special and independent minister of strong political backing. Above all, we need maritime constituency at work," said Capt Subhedar.



The incentive scheme may encourage manufacturers and shippers to opt for coastal movement in the short run. But to make this segment more attractive in the long term, it is essential that the government looks at other areas such as infrastructure and regulatory provisions. To make this sector attractive, the government has to address the issues such as lack of separate berthing facilities and inadequate handling infrastructure at ports, non-availability of finance for coastal ship acquisition, high import duties on bunker oil/spares, and cumbersome customs procedures. mg

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# 'Growth will come from increased coastal movement of cargo'

Shreyas Shipping is perhaps the only shipping firm in India to have all its six vessels flagged in the country and operating along the coast moving both coastal and transshipment cargo. Operating vessels everyday connecting major ports on coasts, **Captain VK Singh**, the firm's chief executive is cock sure about remaining in this business despite the odds. Shreyas carried 55 per cent of the coastal cargo and he says the increase in the volume of cargo transported along the coasts will help them grow in the coming years. Edited excerpts.

**Q What is your view on the new coastal policy the government brought about for RSVs?**

**A** It is helpful for small entrepreneurs. It was meant for the barge operators who can look forward to business along the coast. About 200 plus minor ports in India will stand to gain as companies owning small vessels who help in long haul transshipping will be able resume operations.

**Q Have you finalised the frequency of calls from Kochi to Kollam that you introduced recently?**

**A** We started operating the vessel because the kerala government has given us incentives to develop their coastal trade and their minor ports more so because the state has very bad roads. As for the frequency, we have not decided on that yet. The Kerala government is using two small vessels for their trade and once we have enough cargo to support the route, we could resume service.

**Q How many services do you run along the coast and can you tell us about the Food Corporation of India contract?**

**A** The government was planning a direct service from Kakinada to Kollam for transporting rice and since we operate along Indian coast linking all ports on the East and West, we bagged this contract. We have started shipping rice from Kakinada to Cochin in our smallest vessel so if there is a cargo volume is there to justify visit to other ports, we will call Kollam as well.

We have one vessel from Kolkata-Kakinada-Vizag-Chennai-Cochin and we have two vessels on a weekly basis that call from Mundra Kochi, Mangalore, Tuticorin and back to Mundra and we have another which is a feeder service from Hazira to Mundra via JNPT.

**Q Do you think there is a possibility to have special berths for coastal vessels at ports?**

**Captain VK Singh**
CEO, Shreyas Shipping

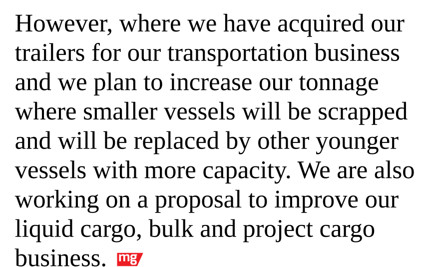
**A** Although many operators are talking about it, it will not really work in container trade because in non major ports, we are charged heavily. And in major ports, the discount we are eligible for is counter-productive. They make my vessel wait long and not berth us because other larger vessels are waiting to offload cargo. In case we get a berth outside the main terminal area, we have to use another barge to shift the cargo meant for transshipment to the mainline vessel. So, for companies like ours that engage in Exim trade and domestic cargo business, the idea of a special berth will not be viable.

**Q What kind of support are you expecting from the government?**

**A** We do not want the government to subsidize us. We want the bunker fuel to be made at par with foreign ports. Issues concerning tax on seafarers have to be resolved while there has to be a solution to customs problems we face at ports. An Indian flag coastal vessel like us is not allowed in the Chennai Port to load even one box from their port to Vallarpadam or vice versa because of the customs procedure. It is ironical that even empties are not being allowed for just operational upgradation.

**Q Could you update us on the progress on your green field projects you planned to develop?**

**A** We have not progressed much on expanding our warehouses because the economic scenario is not in our favour and we have taken a conscious call not to venture into other businesses such as developing a logistics park similar to our park in Jebel Ali.



However, where we have acquired our trailers for our transportation business and we plan to increase our tonnage where smaller vessels will be scrapped and will be replaced by other younger vessels with more capacity. We are also working on a proposal to improve our liquid cargo, bulk and project cargo business. mg

# A lost opportunity

Despite being a leading producer of foodgrains, India is unable to command a leading position in the international market due to inconsistent policies and inadequate infrastructure. But according to experts, the current inefficiencies can also create new opportunities for private entrepreneurs.

Sreekala G

Statistics can sometime unravel a mystery and elucidate facts. But sometimes statistics can be misleading and create confusion. Then it will require some soul searching to find out the real reasons behind a certain existing scenario. Statistics related to India's agricultural production and distribution belongs to the second category.

First the positives. India ranks fifth in the world in terms of in terms of arable land seventh in terms of actual physical area under cultivation. The country produces 250 MT of foodgrains, 76 MT fruits and 165 MT vegetables. It is the second largest fruits and vegetable producer in the world and has just overtaken Thailand to become the biggest exporter of rice. It is also the fourth exporter of wheat. Last year, India exported 24 MT of export, of which 20 MT was rice and wheat.

Then comes the baffling negatives. In 2011 global hunger index, India went down a couple of notches among the 81 developing countries. Countries such as Pakistan, Nepal, Bangladesh, Zimbabwe, Malawi, Uganda and Myanmar are better placed than India. The country is also grappling with high inflation for quite sometime now.

So, while the first part gives an impression that the country has plenty for internal consumption, the second part reveals truth at the ground level – the inadequacy on the part of the government to distribute and store agricultural produce among its citizens.

## Issues & disparities

"Despite having a prominent role in exporting foodgrains, our net average per capita consumption of foodgrain availability has been decreasing from 1995. We saw 444 g/per day capita of foodgrain availability coming down to 404 g in 2010. This is because we are woefully short of infrastructure when it comes to storage and transport of our agri produce. Our storage capacity is 110 MT for foodgrains and we waste 21 MT wheat annually," says Anjan Brahma, Manager, Global Strategy Group, KPMG.

This was wastage equivalent to the amount of wheat required to feed 90 per cent of our ration card holders. In fact, it is even bigger than the total production of Australia. About 40 per cent of fruits and vegetables are also wasted either due to lack of refrigeration capacity, poor roads, weather conditions and corruption.

Food Corporation of India, a state-owned enterprise, accounts for 50 per cent of the procurement of foodgrains. In 2006-07, FCI procured 34 MT, of

which its stock was 25 MT and had a storage capacity of 25 MT. In 2011-12 total stock with FCI was 82 MT, showing that the addition in capacity during the previous five years was just 8 MT.

Brahma points out that there is a big amount of disparity between production centres and storage centres and the consumption centres. "UP which has more than 20 per cent of the production has only about 12-15 per cent of the warehousing capacity. Punjab which accounts for 5 per cent of the production has 22 per cent of the warehousing capacity. In terms of cold storage, UP and West Bengal, the largest producers of potatoes, have 70 per cent of the cold storage facility, of which 80 per cent is used for potato storage," he says.

While this is not an ideal situation, it also opens a huge opportunity for private entrepreneurs. "These inefficiencies create significant opportunities. There is a sort of revolution in agri production with the use of mechanization. As a result, fertiliser subsidies are getting slashed. Growing exports also shows that there is growing global acceptance of our produce. So, we are staring an opportunity of 26.4 million tonnes capacity of addressable opportunity for good quality warehousing of foodgrains. This will go up in the next five years to 35 MT," says Brahma.

Considering the problems faced by the sector, the government has also taken some measures to address the issue. It has introduced the Warehousing (Development & Regulation) Act (WDRA), which considers warehousing receipts as negotiable instruments. In line with this, accreditation agencies have also being set up to certify warehouses. There are also subsidies and income tax holidays for the sector.

## Challenges

But WDRA also faces criticism from the industry. "It is a farce as there is no realistic approach to this. There is a total disconnect with WDRA. The problem is in the accreditation process, which is a nightmare. The Act has not yet found a way to counter the state policies. Every state has its own warehousing policy, which is different from the Centre. WDRA has not tacked the state warehousing licensing scheme, the permits etc. Besides, there is huge red tapism involved when one has to get warehouses accredited and listed at the WDRA. It takes months to get approvals," says Siddharth R Amin, Director, Dr Amin Controllers.

On the export front, inconsistent policy by the Centre is another major impediment that prevents Indian exporters getting good prices in the international market. "In terms of grain specifications, our wheat is as good as Australian prime wheat. But due to the presence of foreign matters owing to the fact that we transport wheat in jute bags and improper storage we are unable to get good price in the international market as international buyers are using Indian wheat just for blending purposes," says Rajiv Chaturvedi, Chief General Manager, PEC Ltd.

> "Last year for instance when PEC was asked to do large volumes, a lot of efforts were made for commercially selling the wheat. But it could not achieve a volume of 600,000 or 700,000 tonnes per month."

According to him, this scenario needs to change. "With the regularity of trade, if wheat exports continue for next couple of years, private interest will grow. They may put up good quality facilities. Then India should become the regular supply base. It should not happen due to some political reason we start exports and then suddenly ban it. This will force international flour millers to shift to wheat from some other country," he points out.

Last year for instance when PEC was asked to do large volumes, a lot of efforts were made for commercially selling the wheat. But it could not achieve a volume of 600,000 or 700,000 tonnes per month. "Our average was 400,000 tonnnes, which is very poor. We take knee-jerk reaction and create disparities in the international markets. We do not have consistent policies and trade base. We need to work out new models to sustain business," says Chaturvedi.

But it will not be easy to change the existing practices. Logistics facilities and quality of store space should be available in the country for agriculture produce. "We have severe issue of warehousing and the problem is accentuated by erratic warehousing policies. There is only talk going on

for the last five years for increasing warehousing capacity by 50 MT. But to achieve this, land is needed. A new disconnect comes with the latest land acquisition policy. As a result, land prices have hit the roof. The question is where do you connect land to invest in warehousing capacity which is going to yield remunerative rentals and remunerative occupation of at least 9 months of the year to create on the investment that has already been made. Besides, land requires further investment of leveling and flattening," says Amin.

## Port logistics

On the port front also there is a need to create dedicated clean warehouses for agri-produce. "It is time both private and public ports to set up dedicated clean warehousing. When you do not have a substantial throughput use this space for machineries or steel products that do not leave contamination behind," suggests Amin.

According to Brahma, gateway ports like Mumbai, Kandla and Cochin, Chennai, which have traditionally been handling foodgrains, need to implement positive measures and look at private partnership to improve the existing facilities. "In Mumbai, for instance, there is a whole set of warehouses that are defunct, lying idle and used by antisocial elements. We need to transform them. Kandla has a record of sort in handling foodgrain and the port has partnered with private parties for this. A new terminal for foodgrains has also come up in Kandla. These measures need to be replicated across the major ports in the country. Only then we will be able to improve our stature as a global exporter," he says.

## Clean wagons

With 30 per cent of rice and wheat movement handled by the Railways, it is time to come out with a new outlook on handling agri-commodities. Currently, railways does not provide dedicated clean wagons for handling agri-commodities. As a result, same wagons that carry cement, fertlizer and even coal are used for transporting foodgrains, significantly lowering the quality of the exporting commodity.

"Railways need to bring in dedicated traffic and make food wagons available to exporters," says Brahma.

Moreover there is a need to change the mindset and awareness that one cannot have the same rental for storing different commodities. Different food crops have different values and the rental should not be on a square foot basis but reflect the value or kind of goods stored. "These are the critical enablers that we feel going to transform the agri-warehousing space in the country," adds Brahma.

## Role of FCI

Modern technology and store management solutions can also bring about a positive change in quality staorge. Technology can provide a differentiating proposition for someone to use a certain service. However, to ensure higher rental and utilisation, FCI's cooperation is needed as it handles 50 per cent of the procurement. The corporation needs to understand this and either give off management of grains to private parties or start using more and more private players.

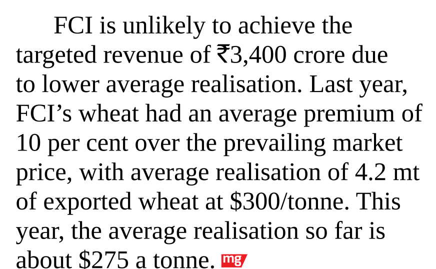
Even though this is slowly catching up through private freight terminals etc, it has not yet reached a critical mass. This is evident from the poor response FCI received for its wheat export tenders recently.

For FCI's recent tender of 110,000 tonnes through the Mundra Port, it received bids for 40,000 tonnes at $271 a tonne. Currently, negotiations are on with the bidder to lift the entire quantity.

For a tender of 70,000 tonnes through the Krishnapatnam Port, the FCI received bids for 35,000 tonnes at $275 a tonne. Since the government had allowed 2 million tonnes (mt) of exports in August last year, the FCI has exported 1 million tonnes.

Faced with massive stocks in warehouses and plinths, the government had proposed wheat be exported. Against the total requirement of 11.2 mt (8.2 mt of buffer stocks and 3 mt of strategic reserves), FCI currently has 24.2 mt of wheat at its warehouses.

India is even unable to take advantage of the rise in wheat prices in the international market due to restricted supply from Ukraine, the world's fifth-largest exporter by volume, owing to a stand-off between Russia and Western powers over that country.



FCI is unlikely to achieve the targeted revenue of ₹3,400 crore due to lower average realisation. Last year, FCI's wheat had an average premium of 10 per cent over the prevailing market price, with average realisation of 4.2 mt of exported wheat at $300/tonne. This year, the average realisation so far is about $275 a tonne. mg

# Zero-sum game for agri-producers

International market is witnessing a sharp rise in agri-commodities due to Russia's stand-off with Europe's breadbasket. Even though the crisis may offer opportunities for other countries to command high prices of their foodgrain produce in the short term, it will not be good for end consumers in Europe, who may see the cost of the loaves on their tables spiraling out of control in the long term.

Sreekala G

Escalating geopolitical tensions in Crimean Peninsula in Ukraine has fuelled a sharp rise in prices of various agricultural commodities and fertlizers in the international market. While the initial spiral in oil and gas prices in Europe due to Russia's dominant supply position and Ukraine's strategically important status as a major thoroughfare for the delivery of that energy did not last, news reports from various markets indicate that prices of corn, wheat and crop fertlizer continue to go up.

With Western Europe yet to approve sanctions against Russia, it was only logical that gas prices did not spiral out of control. However, the threat of disruption nevertheless remains as Deutsche Bank's commodities desk described the Crimea crisis as a "new event risk for commodity markets".

The US Energy Information Administration says Moscow dominates Europe's gas supply market, shipping 76 per cent of its exports of the heating fuel to the region last year. The UK, Germany, Italy and France were the main recipients of that gas.

In 2009, the last time Russia locked horns with Ukraine and disrupted gas piped to Europe, UK prices jumped by 17 per cent in just two weeks. Although stockpiles are now higher, the impact of Russia turning off the gas would still result in electricity prices rising overnight. A roll call of commodity price moves since Russia alarmed the Western world by stepping up its military presence in Crimea does show fear at work, but mainly in the soft commodities of wheat and corn, where prices have in the past week risen 9 per cent and 8 per cent, respectively.

Agricultural production is of vital importance to the Ukraine, accounting for 24 per cent of the country's total exports and bringing in more than 5 per cent of total gross domestic product annually.

### No easy gain for Australia

This rise in prices is expected to benefit Australia, the world's fourth-biggest exporter of wheat. According to ANZ's commodities desk, Russia and Ukraine – long referred to as the bread basket of Europe – are forecast to export 26.5

million tonnes of wheat in the 2013-14 marketing season, accounting for 17 per cent of world supply. And in corn, Ukraine itself is a top five corn producer, meeting about 16 per cent of global supply.

While no disruptions to exports have been reported, it is the potential for the increased military build-up in Crimea and the Black Sea in general that has commodity traders pondering about the future wheat exports. According to analysts tracking agriculture sector, it is a critical time of the year for Ukraine and the Crimean peninsula, where vast areas of wheat and other grains were due to be sown soon, now that winter is receding.

If less crop is planted than usual or is sown without fertilizers due to the ongoing political tension, future grain shortages could cause global food prices to soar in six months, as they did in 2007-08 after several concurrent crop failures. Some warn that it could even lead to political and civil unrest worldwide.

But the silver lining is that some other countries may find opportunity in this crisis and will be able to command good prices for their produce. Apart from wheat, Australia for instance will stand to gain from nickel prices as the world leading production of that mineral comes from Russia's mighty Norilsk.

Even though, there is no disruption to nickel from Russia, but prices for the steelmaking raw material have firmed by 7.5 per cent in the last week, albeit with the ban on laterite nickel ores from Indonesia being the main factor.

Russia is also the biggest producer of the crop fertilizer, followed closely by Canada. And in Canada, the market values of potash producers have been improving, due to the Crimean crisis and the prospect of a marketing war between Russia's two biggest producers coming to an end.

In an effort to maximise the gain, Australian company BHP has plans to make its Jansen project in Canada its fifth 'pillar' alongside iron ore, copper, coal and petroleum. It is a strategy based on the rising demand for more fertilizer from the countries with the world's biggest, second-biggest and fifth-biggest populations – China, India and Brazil. The thought that the long-term supply situation could be threatened by a prolonged crisis in Crimea would be a consideration in their long-term sourcing plans.

However, it will not be a smooth ride for Australia to gain from the Crimean crisis. The country has much more to lose in the bargaining game. The Australia-Russia Business Council has warned the government against joining any US and European-led trade sanctions against Russia over the crisis, saying more than $2 billion in bilateral trade was at stake. Another factor is that Australia meets its energy shortage by importing $700 million in petroleum products annually from Russia.

Another crop in distress is barley. Analysts have already flagged that prospects for spring plantings were being "penalised" nonetheless by financial worries. While Crimea hosts only small levels of spring sowings, accounting for less than 1 per cent of Ukraine corn area, it accounts for 6 per cent of winter wheat area and one-third of winter barley sowings.

Ag Growth International, Canada-based Ag Growth International, which makes grain storage bins and handling equipment, acknowledged that the Ukraine crisis has the potential to delay the shipment of committed orders and may defer new business. However, it said that 'to date there has not been an indication' that its Ukraine customers have revised investment plans.

### European consumers to suffer

Experts say cost of food across European market could shoot up should supplies from Europe's breadbasket be effectively choked off in the Crimea's strategic port of Sevastopol or the Black Sea port of Odessa.

Due to its major ports on the Black Sea, the Crimea retains the same kind of strategic importance for world powers that prompted Queen Victoria to dispatch Lord Raglan and the British army to challenge Russia in the region in 1854. Commodity-trade media recently reported that China signed a strategic deal in January to establish its port facilities to export grain from the region as part of Beijing's global push to secure agricultural and food assets.

Ukraine is expected by Macquarie to produce, in the growing season that will end in 2015, around 44.5 million tonnes of grain – mainly corn and wheat – nearly 16 per cent lower than last year. The Ukrainian ministry of agriculture forecasts the crop at 51.4 million tonnes but Macquarie expects corn output to fall, as it is no longer as profitable as in the previous season.

According to Macquarie, the increase in export prices, together with problems in Ukraine's bank financing of future deals, have weakened the foreign appetite for Ukrainian commodities, especially for corn. This has also contributed to higher than expected export demand for US-origin corn.

Prior to the downfall of Ukraine leader Yanukovich, Bloomberg had reported that spot corn prices climbed to about $225 (£134) a tonne in the Ukraine, about $7 higher per tonne than in the first week in February.

Despite concerns over Ukrainian supply and the security of Crimean ports, grain prices are still expected to fall on an expected surge in US output. Recently released official US government estimates have forecast that grains could fall to a 10-year low.

Meanwhile, as the worst floods on record ruined prime farmland across southern England, and Brazil is hit by drought, commodities analysts are revising their forecasts for 2014. Coffee prices have rallied almost 50 per cent in the past few weeks due to the drought in Brazil, which grows 40 per cent of the world's beans. mg

> If there is a stranglehold placed on that region, then it would have a very big impact on the global grains market.

**Kona Haque**
Head of agricultural commodities research at Macquarie

# Kamarajar Port joins hands with IOC, Adani Ports

Kamarajar Port Ltd is planning to expand its facilities. It is looking at setting up an LNG terminal with IOC and a container terminal with Adani Ports.

Kamarajar Port Ltd, formerly named Ennore Port Ltd, has signed agreements with Indian Oil Corporation Ltd, and Adani Ports and SEZ Ltd for developing port-based facilities. Together, the two companies have committed investments of ₹5,782 crore, for setting up the two different projects.

KPL signed a memorandum of understanding with IOC for an LNG terminal, and a concession agreement with Adani Ennore Container Terminal for the container terminal. The Salt Department of the Government of India handed over 647.8 acres land in Ennore to Kamarajar Port Ltd (KPL) to create these facilities.

According to G K Vasan, Union Minister of Shipping, the port plans to increase its capacity from the present 30 mtpa (million tonne per annum) to around 67 mtpa by the end of the 12th Plan (2012-2017) and will require around ₹9,000 crore of investment. "The signing of the agreements is part of the capacity enhancement of the project," he said on the sidelines of an event where the port signed agreements with IOC, Adani Ports.

While IOC will invest ₹4,512 crore in setting up an LNG terminal, Adani Ports will set up a container terminal at an estimated cost of ₹1,270 crore.

Earlier, the port had signed agreements including converting coal berth No 3 to ITD Cementation India Ltd at an estimated cost of ₹199 crore and a multi-cargo terminal by Chettinad Builders and SICL at a cost of ₹151 crore. Cumulative investments from these projects would be ₹6,132 crore.

A few more projects are also in the pipeline. Of the ₹9,000-crore investment, around ₹1,000 crore will be invested by Kamarajar Port, said N Muruganandam, Joint Secretary (Ports), Ministry of Shipping.

"IOC's LNG project will cater to all the southern states and it will be ready in the next 3-3.5 years. The project had secured environment clearance and would cater to industries and households. The company is setting up a 5- mtpa LNG Terminal," said A K Marchanda, executive director, I/C (Gas), Indian Oil Corporation.

According to Vasant R Murthy, chief executive officer, container ports and logistics, Adani Ports and SEZ Ltd, construction of the container terminal project will start in the next six months and operations will start in 20 months from the commencement of construction of the terminal.

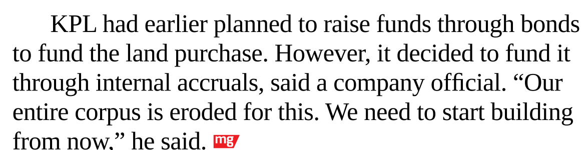
The company has floated a special purpose vehicle named Adani Ennore Container Terminal Pvt Ltd and the entire project will be funded through debt and internal accruals. Construction cost of the project is estimated to be around ₹1,270 crore.

Adani Ports emerged as the highest bidder to build a container terminal inside the port. The other companies that had shown interest included DP World which was the runner-up. Third company, Singapore Port Authority, did not participate in the final financial bid.

Adani offered a revenue share of 37 per cent beating DP World which offered 27 per cent. The official said that in all 11 companies had shown interest in the technical bid; however, only three companies offered to make a financial bid.

The Shipping Minister also handed over a cheque for ₹484 crore to EM Sudarsan Natchiappan, Minister of State for Commerce and Industry for the land. Although Kamarajar Port had suggested the allotment of land in 2002, there had been no progress till six months ago.

MA Bhaskarachar, Chairman and Managing Director, KPL, said a major chunk of the land will be put to commercial use for creating yard space to park cars for export and for free trade zones.



KPL had earlier planned to raise funds through bonds to fund the land purchase. However, it decided to fund it through internal accruals, said a company official. "Our entire corpus is eroded for this. We need to start building from now," he said. mg

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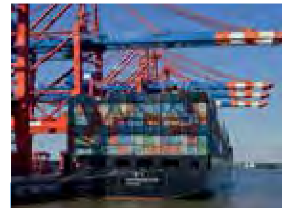

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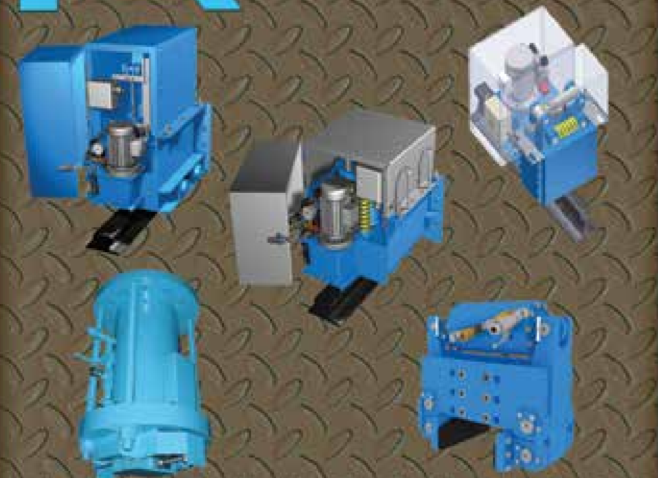


# Negative Outlook Continues

Rating and research agencies ICRA and India Ratings are upbeat about the early signs of stability emerging for the Indian shipping industry and expect a partial deregulation of tariffs at major ports. However, they say downside risks still remain as private shipping firms are weighed down by huge debts and little growth.

India Ratings & Research has revised its outlook on the shipping sector for FY15 to negative to stable from negative. Many shipping companies had embarked on debt funded capex plans in 2007-08. Since then, global freight rates have dropped considerably due to over-capacity across segments as well as moderation in demand growth which led to deterioration in the credit profiles of shipping companies globally. The agency believes that the credit profile of Indian corporate companies in the sector is unlikely to deteriorate further as the bulk of the ships owned by Indian shipping companies comprises of crude oil and product tankers (as on September 30, 2013: 61.9 per cent), a segment in which freight rates are likely to remain at around current levels in FY15.

Global trade volumes were muted in the first half of 2013 and only picked up tentatively in the second half led by an improvement in industrial activity in the United States and the European economies. Therefore, seaborne trade in 2013 is expected to have grown at a similar rate as the 4.3 per cent growth seen in 2012. The agency expects a similar growth rate for 2014. Bunker fuel prices continued to remain high in 2013, around the same levels as witnessed in 2012. The high rates continued to hinder the revival in the profitability of shipping companies globally even in segments where freight/ charter rates had somewhat stabilised.

The overall traffic at Indian ports (major & non-major) grew by a modest 2.2 per cent on a yoy basis in FY13 (FY12: 3.2 per cent). Shipments of crude oil and petroleum products, containerised goods and coal which together accounted for 71.8 per cent of the traffic at major Indian ports grew by 5.1 per cent in FY13 (FY12: 1 per cent). This was driven by an increase in shipments of crude oil and petroleum products as India's refining output grew and also due to an increase in inbound shipments of coal for electricity production and industrial activities. Container traffic (in teu), at major Indian ports remained subdued in FY13 and grew by a mere 0.8 per cent (FY12: 1.2 per cent) hurt by weak external demand for Indian goods as well as poor import demand due to the slowdown in the domestic economy. The modest performance continued in 1HFY14 as total traffic handled at major ports grew by 2.3 per cent (1HFY13: negative 3.3 per cent).

Tanker Segment: Per day charter rates across various vessel types in the tanker segment exhibited stability in the first half of 2013 and picked up in the second half driven by a rise in crude prices. Global fleet capacity (in dwt terms) in the crude oil segment increased by a mere 1.7 per cent in 2013 (2012: 4.1 per cent). Since the proportion of order book under construction at the end of 2013 declined to 17.3 per cent (2012: 29.7 per cent) and the global fleet order book continued to moderate, India Ratings does not expect a significant capacity addition in 2014-2015. As a result of this and the agency's base case expectation of brent crude prices between $104/bbl to $108/bbl, India-Ratings expects global charter rates to remain at around current levels in

FY15. Additionally, stable global oil consumption and continued demand from Indian oil refiners, as well as the reduction in the size of tanker fleets owned by Indian shipping companies, mainly due to scrapping of old vessels could stabilise operating margins for Indian corporates with a significant presence in the tanker segment.

Containership Segment: Container charter rates have broadly remained steady since the fourth quarter despite a significant moderation in global trade volumes since 2011 which may be attributed to cooperative capacity management by major players in this sector. India Ratings believes that the tentative demand recovery in Europe and the US could drive up global container trade as well as outbound container shipment volumes from Indian ports in 2014. On one hand while this would increase freight demand, the significant capacity additions over 2014-15 would keep international rates depressed at around current levels.

Dry-Bulk Segment: China's weakening import demand for iron-ore and coal is expected to keep pressure on dry bulk freight rates in the near term. Additionally, order book as a proportion of outstanding global fleet capacity at the end of 2013 was at the same levels as that reported in 2012 (19.4 per cent), suggesting that overcapacity is likely to continue in the near term. This will continue to pressure financials of Indian shipping companies with a substantial dry-bulk fleet size, in the near term.

Other Segments: Performance of the offshore segment (rigs and support vessels) is expected to be healthy as crude exploration activities increase and prices remain high. A few Indian shipping companies that operate on unconventional business models (such as on a cost-plus basis) are also likely to sustain their credit profiles at the current levels.

## What can change the outlook

Revision unlikely till FY16: India-Ratings believes that given the current order book in most segments and the unlikelihood of a rapid revival in seaborne trade, a meaningful improvement in freight rates is not likely in the near term. A sustained growth in international trade led by increasing demand from Europe and the US could lead to an improvement in container volumes, however likely capacity additions will keep freight rates under check. Global oil consumption is expected to remain at around current levels and therefore a rapid increase in rates in the tanker segment also seems unlikely. The dry bulk segment will continue to be influenced by demand from China, which has slowed down recently and the large capacity additions will keep the freight rates under pressure in the near term. Therefore, an outlook upgrade to Stable is unlikely at least for the next one year.

Aggravated demand supply mismatch: A higher than anticipated capacity addition in the tanker segment or a moderation in global trade activity could lead to the outlook being revised back to negative.

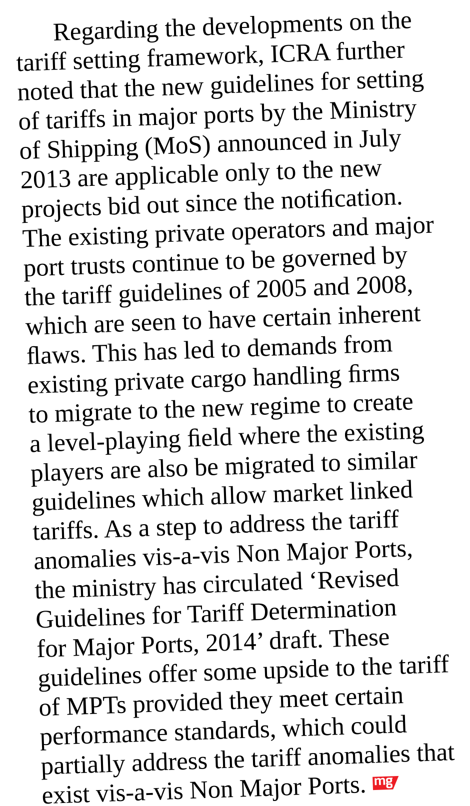
Fellow ratings and research agency ICRA paints a better foreseeing a partial deregulation of tariffs at major ports by the TAMP and an improvement in awarding projects.

It expects cargo pressure to continue at major ports, with iron ore and containers the main laggards. "Iron ore has been the main laggard in 9MFY14, registering a 18 per cent decline on yoy basis, as a result of the continued stalemate in domestic mining activities. Container volumes have also shown some slippage, declining by 4 per cent yoy owing to the lagged effect of slowdown in global markets and domestic economy setting in, according to ICRA.

"While near term outlook for revival in these cargo categories remains weak with economic slowdown and macroeconomic head winds, resumption of some iron ore mining activity following positive developments regarding resumption of mining activities based on the Honorable Supreme Court rulings on the subject in Karnataka could alter the outlook to some extent. However, given the recent imposition of 5 per cent export duty on pellets and the prevailing deficit in the domestic market and the continuing restrictions in Goa and Odisha, the revival of iron ore based exports is unlikely in the near term, " ICRA has noted.

> "India Ratings believes that the tentative demand recovery in Europe and the US could drive up global container trade as well as outbound container shipment volumes from Indian ports in 2014."

ICRA noted that the process of new project award by the Ministry of Shipping had picked up pace with many new project awards being finalised in the last few months. Overall, 23 projects for a total capacity addition of 116 MT out of the targeted 30 projects for 2013-14 have been awarded upto mid-February 2014.



Regarding the developments on the tariff setting framework, ICRA further noted that the new guidelines for setting of tariffs in major ports by the Ministry of Shipping (MoS) announced in July 2013 are applicable only to the new projects bid out since the notification. The existing private operators and major port trusts continue to be governed by the tariff guidelines of 2005 and 2008, which are seen to have certain inherent flaws. This has led to demands from existing private cargo handling firms to migrate to the new regime to create a level-playing field where the existing players are also be migrated to similar guidelines which allow market linked tariffs. As a step to address the tariff anomalies vis-a-vis Non Major Ports, the ministry has circulated 'Revised Guidelines for Tariff Determination for Major Ports, 2014' draft. These guidelines offer some upside to the tariff of MPTs provided they meet certain performance standards, which could partially address the tariff anomalies that exist vis-a-vis Non Major Ports. mg

# Efficient supply chain, the need of the hour for pharma industry

In India, several inefficiencies exist in the life science and healthcare (LSH) supply chain segment including inadequate and lack of modern transport infrastructure, insufficient regulatory support, low adoption of technology and low supply chain integrity.

Despite India being a key sourcing, manufacturing and distribution hub for the global pharma companies, the industry is facing with multiple logistics and supply chain challenges that hindering the growth of the sector.

A goods carrier crossing a state border in India may have to wait anywhere between two to 24 hours to get the necessary clearances before it can enter the next state. While, it takes only between 15 minutes to two hours to transit across borders in China and in EU the carrier does not have to wait for more than a few minutes.

When it comes to the carrier being a temperature-controlled vehicle carrying parcels of sensitive life sciences products including high-quality bulk drugs, formulations and vaccines, this prolonged transit time increases the logistics cost for the pharma producers along with it also poses a threat to the quality of the products.

Apart from these poor connectivity to the hinterland and inadequate transport infrastructure that hinders the growth of the industry, other challenges are poor temperature controlled warehousing facilities in the country for sensitive pharma products, shortage of skilled and sector-specific manpower, rapidly shifting business conditions, and increasing competition from generics, etc.

## Challenges

India has a strong base for manufacturing APIs and pharmaceuticals, with over 10,000 manufacturing sites and more than 125 US FDA-approved facilities. Over the last two decades, the country has been the preferred destination for clinical trials and research & development (R&D), and it is poised to be among the top 10 countries for pharma exports in the coming years. But in terms of logistics infrastructure, it is lagging behind its global counterparts.

> Logistics in pharma industry plays a very crucial role for providing the right medicine to the right patient at the right time, place and dosage and most importantly at the right price.
>
> **Diljeet Singh**
> Chief Sales and Marketing Officer, Gati-KWE

According to the World Bank's Logistics Performance Index (LPI) 2014, India ranked 54th with Germany leading the countries in logistics. The index evaluates the logistics performance of countries on the basis of six key dimensions such as Customs clearances, infrastructure, ease of shipment and tracking.

Globally, regulatory compliance, product security and cost management are the top three supply chain concerns, along with constantly evolving legislative and economic environment while addressing the complexities of entering new markets.

While in India, several inefficiencies exist in the life science and healthcare (LSH) supply chain segment including inadequate and lack of modern transport infrastructure, insufficient regulatory support, low adoption of technology, low supply chain integrity, along with fragmented and unorganised distribution system, inadequate infrastructure storage of drugs, too many transit points that lengthens the time taken and thereby makes the process cumbersome, quality of the cold chain infrastructure, difficulties in part load management especially temperature sensitive products, high cost of logistics, difficulties in monitoring the temperature throughout the supply chain etc.

India's cold chain market is still in developing stages and there is lack of temperature-sensitive services from the point of origin to the point of consumption. This compounded with India's average temperature of 30°C poses a challenge to providing temperature-controlled transport solutions, especially for this industry. Keeping ambient temperature, time sensitivity, visibility of product delivery are some of the other challenges faced in the logistics segment.

Along with these, there are several issues related to the EXIM cargo such as import licenses are mandatory for many shipments of drugs that come into this country and getting approvals for licenses can sometime cause delays that are fatal to the product. Increasing freight rates and accessorial issues are also posing challenge for the pharma logistics industry.

Another drawback is the high transportation cost. The average cost of transportation in the country currently accounts for almost 13 per cent of the Gross Domestic Product (GDP), which is much higher than the normal transportation cost of 9 per cent recorded in various other countries.

> "Supply chain management is expected to play a significant role in distribution of pharma products post GST (gross sales tax)and offer a value proposition to pharma companies."

"From the cost composition point of view, the major logistics costs in the pharmaceutical industry include packaging and distribution. Hence, logistics comprises approx 45-55 per cent of the costs in the pharmaceutical value chain," Singh said.

"Supply chain management is expected to play a significant role in distribution of pharma products post GST and offer a value proposition to pharma companies," he added.

### Importance of efficient pharma supply chain

"Logistics in pharma industry is very critical for providing the right medicine to the right patient at the right time, place and dosage and most importantly at the right price. In order to achieve all rights supply chain industry plays a vital role," said Diljeet Singh, Chief Sales and Marketing Officer, Gati-KWE.

The success of a pharmaceutical company largely depends upon the efficiency of its logistics and supply chain, which creates a link between the laboratory and market place. The supply chain involves not only effective transportation to carry vaccines, capsules and drugs for various pharma companies, but also infrastructure such as cold storages, temperature-controlled zones in warehouses, etc.

Special packaging, temperature monitoring devices, temperature-controlled transport and storage are the key ingredients for pharma logistics. Today, with the innovative strategies and technological advancements, logistics and supply chain providers offer makers of healthcare products a portfolio of services to meet the critical demands of time-sensitive delivery, accurate documentation, real-time visibility, along with product integrity from shipment origin to final destination.

### Market opportunity

The pharmaceutical industry is expected to grow at around eight per cent by 2015, taking India's share of the world's pharma market to just about two per cent. While, the pharmaceuticals export market of the country, which is currently one among the top five emerging markets globally, is expected to cross domestic by sales value by 2016.

"The growth in pharmaceutical exports will increase the need of value based logistics services for the Indian companies," Singh said.

### Infrastructure development

Most of the pharma players of the country have complex supply chains that are under-utilised, inefficient and ill-equipped to cope with the sort of products coming down the pipeline. In order to meet the demands of a fast evolving marketplace and the shift from patient to outcome, the pharma supply chain will need to undergo a radical overhaul.

Pivate players have started investing to develop the logistics infrastructure. For instance, India's first airport-based pharma zone, a dedicated cargo handling zone for pharma products, was set up by the GMR Group and UK-based Menzies Aviation at Hyderabad international airport – it is designed to handle a throughput of 30,000 tonnes annually.

Reliance Industries recently picked up majority stake in Deccan 360 to improve connectivity in the pharma cold chain segment, Lufthansa Cargo plans to add six MD-11 MF airplanes to handle pharma cargo by 2015, among others.

### Need of the hour

In pharmaceuticals, pipelines are thin, blockbuster drugs are debuting less frequently, and the duration of clinical trials has increased drastically. In this context, challenges are mounting and the barriers to profitability are stiffening for

> According to a research report done by DHL in 2013 on "Outlook on key logistics trends in the Life Sciences sector for 2020 and beyond", there are five key logistics implications and action needs for the industry that includes direct distribution to end consumers, increasing differentiation of supply chains, deepening access of emerging markets to tier-2 and tier-3 cities, rising importance of supply chain visibility to enable demand driven supply chains and process outsourcing, and the need for companies to keep their supply chain flexible to adapt to requirements of innovative products.

most life sciences companies. To combat this, globally companies are using logistics as a source of competitive advantage to accelerate their products' reach into the rural market. Indian life sciences logistics needs to focus on driving cost efficiencies and improving end-to-end supply chain integrity.

India should focus on developing dedicated pharma zone near airports and seaports, roads/ highways, good pharma hub connectivity, faster customs or DCGI (drug controller general of India) clearance etc. The pharmaceutical companies should invest in dedicated facilities such as the multi-zoned, temperature-controlled facility for the LSH sectors.

Also, there has to be a combined effort on the part of the industry and the government to cover the existing gaps in the healthcare logistics environment of India. While the government needs to focus on improving infrastructure, it is up to the logistics industry to step forward with solutions to meet the demands of the healthcare businesses.

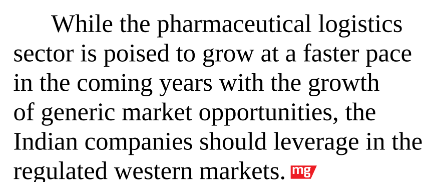
According to a research report done by DHL in 2013 on "Outlook on key logistics trends in the Life Sciences sector for 2020 and beyond", there are five key logistics implications and action needs for the industry that includes direct distribution to end consumers, increasing differentiation of supply chains, deepening access of emerging markets to tier-2 and tier-3 cities, rising importance of supply chain visibility to enable demand driven supply chains and process outsourcing, and the need for companies to keep their supply chain flexible to adapt to requirements of innovative products. The study is based current developments and megatrends in the life sciences logistics space across the globe.

Life sciences companies spend more time and effort on the commercial and research sides of the business

> "While the government needs to focus on improving infrastructure, it is up to the logistics industry to step forward with solutions to meet the demands of the healthcare businesses."

and, conversely, place a lower priority on supply chain improvements. For companies that need to pay duty and import sensitive products; any spoilt product means not just the waste of product associated costs but added to that, the duty and costs of an already expensive logistics solution. That brings us to the issue of the destruction of these spoilt or expired pharma products – that needs to be handled professionally and can become quite expensive and cumbersome for companies.

Companies need to adopt a demand-driven logistics strategy that maximises their responsiveness to changing business conditions, compliance with stringent KPIs (key performance indicators) and metrics-guided processes to ensure timely delivery of high-quality drugs, advanced distribution networks, management and inventory capabilities, etc. They should focus on supply chain planning or product life cycle management to avoid over- or under-stocking product and spending much on marketing.



While the pharmaceutical logistics sector is poised to grow at a faster pace in the coming years with the growth of generic market opportunities, the Indian companies should leverage in the regulated western markets. mg

# 'Core focus is to improve supply chain solutions & Services'

Logistics firm DTDC has grown over the last 24 years from being a door-to-door courier operator to now offering end-to-end solutions in the logistics business. With 6,500 partners across India, DTDC is second only to the Indian Postal Services bringing small towns and cities together. With a growing international freight forwarding and e-commerce logistics, **Abhishek Chakraborty**, the firm's Executive Director, says the firm's core focus is to look at the supply chain solutions and services. Raring to go, he is waiting to make a mark in the logistics space by conceiving new verticals and engaging with multi nation firms closely. In an interview with Deepika Amirapu, he speaks of how his firm will achieve the mission of clocking ₹5,000 crore revenue by 2020.

**Abhishek Chakraborty,**
Executive Director, DTDC

**Q Could you talk to us about DTDC's operational strategy and growth plans for the new divisions – Premium Express Products Division, Retail and DTDC New World and your international business?**

A The domestic business is our cash cow and core competency. About 70 per cent of our revenues are from domestic business. We expect that our domestic business will see a 15 per cent growth. Today it is about 20 per cent, but our base is larger. More clients are moving towards us as clients are moving towards companies like us who want the whole spectrum of services offered.

Comparatively, our international is in the nascent stage. This financial year about 8-9 per cent came from our Indian international business. With the dollar fluctuation, we have become an export oriented market and our freight forwarding segment has drawn clientele. In partnership with Geo Post, we will grow at 20-25 per cent this year.

In our retail business, we provide solutions to walk in consumers. Our flagship brand, DTDC New World is a concept store that is two years old. We have 45 stores across the country and offer travel, ticketing, stationery and concierge services at these stores in addition to couriering. We expect to grow at a robust pace growing at about 75 per cent and expect to open 80 stores by the end of this financial year.

**Q How GeoPost's stake in your company will help you gain access to European markets, your revenue expectations from other markets abroad and how does the German firm plan to gain from the alliance?**

A It's a critical strategic partnership that we forged in 2013. Geo Post is a leader in their market and has a presence in 180 countries thought they are dominant in Europe. They, like DTDC operate with partnerships in about 50 countries outside of Europe. For us, it is a way to get more presence in Europe since it was untapped for us and we were dependent on third party networks.

Geo Post realises that the size of demand in India is huge and the country is a key part of their growth plan. India will be one of their top three markets outside of Europe that will accentuate growth and we are the vehicle through which this objective will be achieved.

We are currently in the process of integrating both the companies' networks in terms of technology investments and in the coming three months we will have an end to end integration available to all our customers.

**Q What are your views on how 3PL logistics will shape the future of the country's logistics?**

A The way this concept is understood in India and at a global scale is quite different. 3PL is all about capability. In the strictest sense, organisations should be able to outsource their entire supply chain activities to one or two entities to handle their logistics and delivery operations, but in India, there are four players or so who handle their supply chain management.

But there are a few areas of 3PL such as warehousing, distribution, inventory

management that companies are outsourcing in India to other parties. There are some rare customers who are ahead of our times who ask us to do everything from picking packing to delivery as the clients in e-commerce who want the global practice to be implemented in India the way it is done abroad.

**Q DTDC had envisaged a Vision 2020 to achieve a turnover of ₹5,000 crore and consolidate its business. How close are you in achieving this goal?**

**A** It is a long-term plan and the revenue achievement is tied to our capabilities that we are going to build into our business. In the last two years, we have created new entities, acquired some other companies and have thus ensured the fundamentals are in place. Now, we have started building critical mass and next year we would be half way through our vision. We have signed a deal with a consulting firm to deal with this goal. We will now go into a rapid expansion phase.

On infrastructure, we have come half way and we have to upgrade the assets. We will automate our facilities to handle large scale of operations. We will also invest in equipment handling. By 2020, we expect to be in excess of ten thousand outlets in India and newer models will be crafted. The traditional partner outlets will be 10,000. New channels such as New World will grow up to 300 that might now be counted as part of the traditional outlets.

**Q Can we expect your company to forge new partnerships and introduce new services?**

**A** I think a number of services would be introduced in the premium segment to cater to the individuals, SMEs and corporate companies. Individuals will look for services where they would not want to step out of their homes, yet have their parcels shipped or collected.

SMEs will look for standard offering such as a plug and play model where their B2B and B2C model where they can come and leave their cargo at the fulfillment centre from where it will be delivered. Corporate entities will look for 360 degree solutions where you have to help them improve their efficiencies and optimise the amount spent. Because the cost of logistics as a percentage of their revenue varies between 15 per cent compared to the 7 per cent globally.

**Q Reverse Logistics as a concept has gained momentum in the last couple of years. How effective a model is it in the logistic and supply chain cycle?**

**A** Reverse logistics is also part of the larger 3PL story but today it is being considered as an isolated service. The same provider should be able to provide both reverse and forward logistics. In the classic sense, even as a parcel is ready or delivery, the requisite arrangements have to be in place for it to be brought back in case it is rejected or needs replacement for some reasons such as spares or repairs.

Forward and reverse logistics have to be seamless. That is the space in which organisations want to be in. For reverse logistics to work; one needs excellent technology with respect to visibility of their parcel and presence and understanding of this forward-reverse service as one unit.

**Q With e-commerce firms looking at formal tie ups with logistics companies, what would be your level of engagement with them?**

**A** E-commerce players look to us for client retention. Retention is dependent on logistics providers because once the payment is made online; the customer needs to be provided with the product as quickly as possible.

Where the new model will emerge is where customers would want to adopt this 'try and buy' model. So you don't take more than one stock keeping unit to the customers to try. Providing this option is something we would want to provide to the client because the store experience will have to be replicated. Another area could be how their fast moving goods are returned. Not every product would have to be returned to the main warehouse. Some products that take off the shelf quickly, the product can be delivered to a close location from where it can be shipped to any destination without much delay.

In e-commerce we have to now craft a solution to suit this requirement. Dot Zot, our firm to handle e-retail business will create those solutions.

**Q How has technology advancement in addition to GPS and SAP improved operational efficiency for your firm?**

**A** In the last three years there have been rapid changes in technology. Technology is the most prevalent catalyst in being the differentiator between players. Customers today are speaking the technology language today and cost and quick service are only other components of the total service provided to the customer.

There are two parts where we will deploy technology. We will deploy technology in operating processes and on the other hand we will be developing applications where consumers will gain access to information real time.

**Q How will the three main factors- changing demographics, evolving requirements of trade and an increasingly skewed modal mix- that determine India's changing logistics scenario affect/aid growth for DTDC?**

**A** Logistics is bound to improve and has come a long way from where it started 20 years ago. Logistics services will become modular where the clients requirements will be assessed before creating a service module for him from our exiting basket. Multi modal is going to remain as it helps you bring in right mix of service levels and costs.

**Q How will the setting up of logistics parks help you?**

**A** This is similar to the SEZ concept. As long as the industry remains fragmented, there will be inefficiencies. But with these parks coming up, there will a lot more shared services where every player in the industry can get access to a common infrastructure pool. The transport corridors can now be built along the logistics parks. The private players and the government have to work together to master this concept of the logistics parks and this model cannot be fruitful in isolation. mg

# DHAMRA PORT

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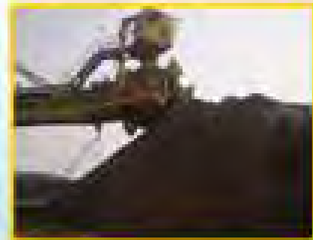

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# Technological Differentiators

APM Terminals Inland Services South Asia shows how RFID technology can be used to improve operational efficiency and achieve customer satisfaction.

Deepika Amirapu

Tracking of equipment and cargo in a transportation system is crucial in order to achieve operational efficiency. The RFID system developed by the company provides the means to identify and position these assets at high speed, with high precision and in the most demanding of environment.

APM Terminals Inland Services, South Asia, implemented Radio Frequency Identification (RFID) process at its CFS facility in Nhava Sheva. As part of this effort, all containers at the CFS facility are provided with RFID tags; tracking and delivery of import laden containers is done through RFID.

"The objective of RFID implementation in the yard is to reduce the man machine interface and improve customer satisfaction. All containers in the yard have been tagged and the yard was divided into various zones," says Ghosh, Managing Director APM Terminals India Pvt Ltd & Director, APM Terminals Inland Services South Asia.

According to him, the RFID technology implementation helped the company to track containers in the yard, by reducing man-machine interface. It also improved productivity of reach stackers, by reducing unproductive moves.

Customers using Container Freight Station (CFS) facilities have to deal with many challenges. These include locating containers in the yard. In the absence of a technology, the task will require manual intervention, where customers have to physically find the location of the container in the yard. This in turn will result in increased number of pedestrians in the operational area in the yard, leading to safety issues in terms of man machine interface. This can even trigger major safety hazards and accidents.

By implementing RFID technology, these challenges can be addressed successfully and thereby reduce turnaround time.

Rajeshwar Bhatt, Director, Suraj Informatics, that provides RFID and other port related technology to almost all major private terminals in India says,

"The most significant of all advantages of RFID systems is the non contact, non-line-of-sight nature of the technology. Tags can be read through a variety of substances such as snow, fog, ice, paint, crusted grime, and other visually and environmentally challenging conditions, where barcodes or other optically read technologies would be useless."

With a growing need to improve efficiency, automating supply chains and tracking valuable assets have become increasingly important. Suraj informatics has developed a series of long-range RFID solutions, making it possible to automate the identification process of moving objects.

The system provides accurate identification even in traditionally difficult environments where alternative methods can't meet the demand for speed and range. To achieve efficiency and optimise service delivery, APM Terminals Inland Services has also introduced a Token Management System to expedite Supply Chain and increase customer satisfaction.

"Earlier, whenever a customer representative – mainly the customs house agent (CHA) – the import counter for documentation process, he had to face a long queue, thereby delaying the documentation process resulting in significant amount of time being wasted and reduced customer satisfaction. This was a major challenge and we wanted to reduce the waiting time for our customers at the import counter,'' says Ghosh.

The company introduced a RFID-enabled container tracking solution. This was integrated with a touch screen customer service kiosk, similar to the kiosk in the retail banking industry.

RFID mapped to the container freight station (CFS) management system (CONTRACK) is linked to this customer service kiosk. The kiosk located in the customs area enables the custom house agent (CHA) to check the arrival status of the container at the CFS and the exact location of the container within the CFS. On entering container details the kiosk prints a token for the CHA on the arrival status which is then presented as part of the documentation process for clearance of container.

## How does it work?

- In the RFID enabled container tracking solution, all incoming containers get tagged at the time of 'Gate in' with RFID tags.
- Zone wise yard mapping is done with global positioning system (GPS) to replicate the location in the system.
- Reach stackers are mounted with RFID reader/ GPS and General Packet Radio Service (GPRS) combined device. As the container moves, the current position gets updated in the system in real time with the help of GPRS communication

"This helped decreasing in customer waiting time at the Import counter and offered real time visibility of each container location in the CFS. The system resulted in better queue management and significantly reduced pedestrians in the yard. It also improved operations planning and enhanced customer safety,"explains Ghosh.

As part of its technology drive, APM Terminals Inland Services, introduced another system, Mobile Container Tracking System, to reduce man-machine interaction in the Container Freight Station.

"The customer representatives – mainly CHA – had to physically arrive at the facility and check for the status and location of their containers through the RFID Mapping system. This would lead to visits to the container freight station, thereby increasing the man machine interaction, apart from increased effort and time consumption. We wanted to reduce man-machine interaction at the facility and customer waiting time and effort involved in the process," says Ghosh while talking about the reasons for implementing it.

According to him, with this innovation, the customer can check the exact location of the container inside the CFS and need not visit their facility only to check their location. The customer service kiosk is in the hands of the customer through his smart phone. While tracking the container through their smartphones, customers are provided with a map on their device with the help of which they can instruct the trailer driver, from the comfort of his office or before reaching the facility, on the exact location of the container in the CFS.

"This helped us reduce man-machine Interaction. It also provided real-time visibility and improvement in queue management. We also achieved high customer satisfaction with these efforts," he says.

Other private port terminals that have used RFID technology include DP World, Adani and PSA terminals. The unique id technology has helped optimise operations both at the entrance to the port and within the terminal. "Currently, if the gates are not automated, the transaction time is five minutes for a loaded truck. With automation, the transaction can be completed in 30-60 seconds. In the yard, automation in RTG crane operations will help in a 50 per cent time saving while ensuring safety and process improvement," Bhatt said.

Adani Port at Hazira opted to install the RFID system at the gate to receive real time data regarding truck movements using the Terminal Operating System (TOS) software. The trucks are patched with the readers while they enter and exit the gates of the port and their movement is monitored. The trucks are directed to the specific yard for the cargo to be containerised. The total marine market for passive and active RFID is projected to be worth around $100 million.

The port RFID based market is broadly categorised in to areas where the technology can be implemented for port related activities. The submarkets where RFID is used primarily include:

1. **Marine Terminal Operators**
2. **Intermodal Terminal Operators**
3. **Barge and Ferry Operators**
4. **Transport Services**
5. **General Cargo Facilities**
6. **Automotive facilities and processors**
7. **Chassis Pools**

Market Size: The overall marine segment for RFID is expanding by 12-15 per cent annually with different submarkets experiencing varying growth. The port and MTO segments are estimated to be the highest, enjoying 25 per cent year-on-year growth.

**Data collated from A PEMA Information Paper*

# ICDs & CFSs show a lot of promise

Twelve year old Suraj Informatics was set up by two young turks **Rajeshwar Bhatt** and Amit Gupta who started their company with the sole aim of catering to ports and terminals that they perceived as an underserved market. Today, almost every private terminal operator uses technology developed by their company. "But it took a long time for people to believe our technology can help them improve efficiency. In fact, when we spoke to our first client, we had to back our service with a bank guarantee that would cover the terminal operator in the event of a wrack-up," Bhatt said. He explains how his technology has helped the users. Edited excerpts in a chat with MG's Deepika Amirapu.

**Q What technology do you equip the ports and terminals with?**

**A** We offer information technology integration for all ports, the most important being Radio Data Technology that helps update and monitor all the movements happening in the yard from the vessel to the shore. This is a core operation. We also design data centres, bring about server sizing and also help build a network and finally help the terminals in automation. Then comes RFID-based automation. It is a unique id where vehicles are tagged and is used to track the movement of the vehicle in and out of the yard. The technology helps in speeding gate process vehicle turnaround time in the terminal. In addition, it also helps in improving the safety inside the terminal.

**Q How many terminals utilise technology provided by your company?**

**A** We provide this technology for all the ports and terminals managed and run by the Adani Group, the five terminals belonging to DP World and APM's Terminals and PSA's. We offer the entire catalogue of services to terminals from RDT, RFID, Optical Character Recognition, or OCR and Mobile Technology.

**Q What is the prevalence of technology usage in Indian terminals compared to their counterparts overseas?**

**A** We have only scratched the surface and are way behind other ports in China and Singapore. There are many processes that can do with improvement. The port sector requires huge investments in mechanisation and in India ports do not recognise technology as capital investment. This is because the world over, human capital is expensive than technology where as in India we employ more people than mechanise operations using technology and equipment. The other reason being India has not a single transshipment terminal. Technology is most useful in bigger terminals where efficiency in operations has a major role in a port's performance.

**Q What is the cost of implementing technology at terminals?**

**A** Comparatively, implementation of technology is cheaper in India once it is custom made for terminals. The cost of development of RFID technology and its application is a third of what it costs overseas. Similarly, we have developed OCR for a tenth of what is available in other countries. The ports do not understand that technology will help them improve the volumes they handle.

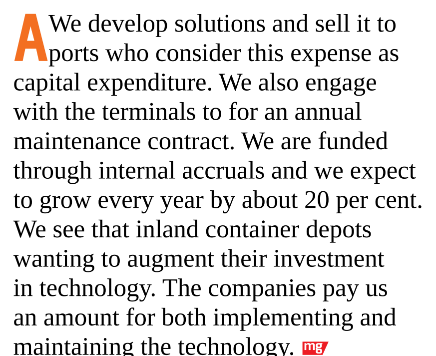
**Q Which segments do you see growth coming from and how many new clients are inclined to use your products?**

**A** We are trying to get the Jawaharlal Nehru Port Trust adopt this technology as the other major ports will soon follow. For JNPT, all of the CFS and terminals will have an RFID-based tracking where fleet management and gate automation will be part of this port-CFS community system. This will be implemented in the port in the coming financial year. Other than ports, we have designed technology to Concor, JM Baxi Group and the Central Warehousing Corporation as well.

**Q How does implementing RDT and RFID help in achieving operational efficiency?**

**A** It helps optimise operations both at the entrance to the port and within the terminal. Currently, if the gates are not automated, the transaction time is five minutes for a loaded truck. With automation, the transaction can be completed in 30-60 seconds. In the yard, automation in RTG crane operations will help in a 50 per cent time saving while ensuring safety and process improvement. In terms of cost saving, a terminal can recover money invested in technology within a year once it is applied at gates, yards and quays.

**Q How is your company funded and what is your revenue model?**

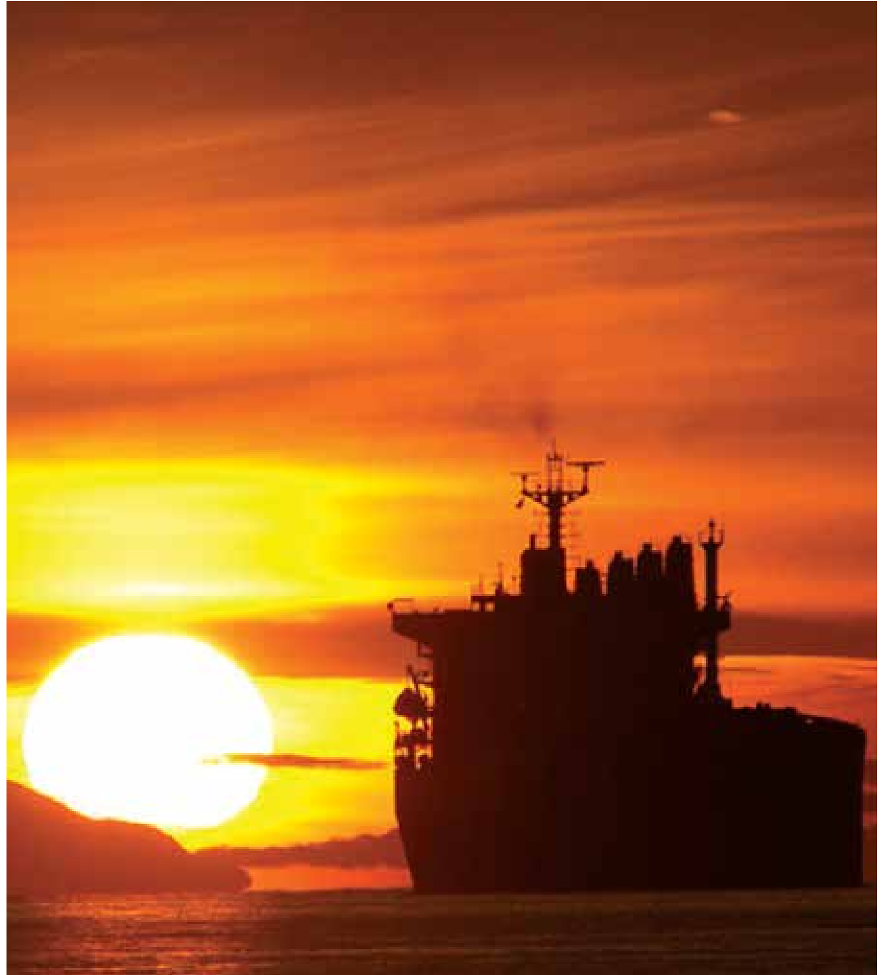


**A** We develop solutions and sell it to ports who consider this expense as capital expenditure. We also engage with the terminals to for an annual maintenance contract. We are funded through internal accruals and we expect to grow every year by about 20 per cent. We see that inland container depots wanting to augment their investment in technology. The companies pay us an amount for both implementing and maintaining the technology. mg

# Handling Charter Disputes
## Judgments and legal perspectives

**Capt AK Bansal**
A Master Mariner and Chairman & Managing Director, IWL INDIA Ltd

By citing three cases and related judgments, the article explains how courts handled charter disputes. Each of these decisions breaks new ground. While the first upholds the Master's duty to abide by charters' instructions the second judgment draws the line between sailing instructions by charterers and Master's prerogative to choose his own courses to navigate his ship and the third extends the effect of the Jordan II to clauses where shippers and consignees are not specified.



### Master's duty to abide by charterers' instructions

*Minerva Navigation v Oceana Shipping* - The Athena English High Court [2012] EWHC 3608 (Comm); 13 December 2012.

*MV Athena* was chartered by Minerva Navigation to Oceana Shipping, who sub-chartered her to Transatlantica Commodities. Both charter parties were on amended NYPE (New York Produce Exchange) forms. The off-hire clause in each was modified version of clause 15 of NYPE 1946 which said:

"… in the event of loss of time from ... default of Master ... or by any other cause preventing the full working of the vessel, the payment of hire shall cease for the time thereby lost ... and all extra expenses directly incurred including bunkers consumed during period of suspended hire shall be for Owners' account …"

*Athena* loaded wheat at Novorossisk for carriage to Syria. Bills of lading showed discharge ports as Lattakia or Tartous, both in Syria. Her cargo was rejected on arrival at Tartous on the ground that it was contaminated. Since Syrian law prohibited re-export of the cargo other than to its country of origin,

she sailed from Tartous on January 16, 2010, nominally for Novorossisk. Once out of Syrian waters, owners instructed the Master to proceed to international waters just outside Libya and wait for further instructions. But Charterers instructed *Athena* to anchor at Benghazi Roads to await further instructions. Instead, Master stopped his ship in international waters outside Libya under the owners' instructions. The charterers sent a message to the Master next day, saying the vessel was not complying with their instructions to proceed to Benghazi Roads and they would treat the vessel off-hire until she departed from the drifting position to proceed to Benghazi. *Athena* continued to drift in international waters for nearly 11 days after which she resumed her voyage to Benghazi where she discharged her cargo.

Charterers instituted arbitration proceedings claiming hire paid during the drifting period on three grounds: Hire was not due while the vessel was not at charterers' disposal during drifting period; the ship was off-hire during that period; damages were recoverable for breach of Clause 8 of the charter on the basis that the Master failed to prosecute the ordered voyage with utmost dispatch.

Arbitrators were divided as to validity of orders of charterers. The majority decided that charterers' orders were valid and should have been complied with. They unanimously noted that had the vessel proceeded directly to Benghazi she would have berthed no earlier than in fact she did, and that therefore breaches of contract by owners caused no loss to charterers. Arbitrators were unanimous in their conclusion in the context of claim for damages and awarded that on the footing the charterers' voyage orders were lawful, and the vessel was off-hire during the period of drifting as she did not perform the service immediately required of her.

A legal question arose whether it was loss of time in performance of service required when the ship was not working fully. Or does the charterer have to show that whole voyage has been prolonged? Is it "Loss of Time" or "Time Thereby Lost"? Another view is that because the ship did not make for Benghazi, she fully withheld her services to go to her ordered destination. Therefore, there was full loss of service for 11 days. Converse reasoning is that there was no "time thereby lost".

Owners challenged it as the ship did not berth at Benghazi later than she would have done without drifting.

Justice Walker allowed owner's appeal–(2012) 863 LMLN 2. He held that it was not sufficient for charterers to show lack of performing the services immediately required of the vessel. Charterers were only permitted to deduct hire to the extent that they could show that there was a "net loss of time to the chartered service." On arbitrators' findings that there was no net loss of time in that sense, the vessel was not off-hire during the period when the Master refused to comply with charterers' instructions.

### Charterers appealed

Court of Appeals held that off-hire clause was triggered by a cause preventing full working of the vessel which referred to her ability to do that which she was immediately required to do. The clause was concerned with service immediately required of the vessel, and not with "chartered service" as a whole or the entire maritime adventure or adventures which might be undertaken in the course of the chartered service.

> "As may be noted, under time charter, the Master is to be under orders of charterers as to employment of the vessel. In this case, charterers ordered the Master to go to Benghazi Anchorage. The owners may have had good reason to do this."

The clause concentrated on the period during which full working of the vessel was prevented. Question was what time had been lost during that period? Arbitrators had rightly focused on the service immediately required of the vessel whilst she was drifting in international waters. Whether the same amount of time would have been lost for other reasons at another stage in the chartered service was not a relevant consideration.

The clause was concerned to identify an actual period of real time during which time was being lost, not an identifiable length of time by which `the chartered service' could said to have been delayed.

The service immediately required of *Athena* whilst drifting in international waters was to proceed to the roads at Benghazi. It was nothing to the point in computing the time lost by reason of the Master's default that a similar length of time, although not obviously the same precise period of time, since the vessel had first to proceed to the roads, might have been lost had there been brought forward the moment at which the service immediately required of the vessel became not the sea passage but rather berthing and discharge.

Although clause 15 of NYPE form was a net loss of time clause, it was concerned only with time lost during the period of inefficiency.

Charterer's appeal was allowed.

### Comment

As may be noted, under time charter, the Master is to be under orders of charterers as to employment of the vessel. In this case, charterers ordered the Master to go to Benghazi Anchorage. Owners knew the *Athena* was not going to berth in Benghazi on arrival and ordered the Master to drift outside the territorial waters of that country. The owners may have had good reason to do this. Fact remains that the Master did not obey charterer's orders as to employment of the vessel. Charterers placed him on notice as cited above.

Owners may have had fears about allowing their vessel into territorial waters of Libya and told the Master

“They agreed that time is money in time charters and added that when “Master is to be under charterer’s orders ‘as regards employment,’ unless there is a real threat to safety of the ship and life on board.”

to drift till they knew that berth was ready for her. There were two important legal issues involved:

Whether the charterers lost any time due to the Master’s refusal to go to Benghazi Roads as the vessel would have waited there for the same number of days as she did, while drifting outside, in which case the ship would not be off hire.

Whether not obeying charterers orders amounted to breach of Charter Party and therefore the ship was off-hire during the time the Master did not abide by his duty to obey charterer’s orders regarding employment of the vessel.

Arbitrators unanimously awarded that the ship was off-hire.

In the court at first instance, Justice Walker took the view that even though there was ‘loss of time’ but there was ‘no time thereby lost’ to charters as the ship would not have berthed at Benghazi any earlier. Therefore the ship was not off-hire.

Court of Appeal reversed this decision on the ground that the Master was in breach of Charter Party provision to obey charterer’s orders as to employment of the vessel, regardless of whether the vessel could not have berthed any earlier.

There was another case decided by House of Lords in the UK on the matter of a Master not abiding by charterer’s orders as to employment of the vessel. In 1994, the Master of Hill Harmony, under time charter, sailed on rhumb line courses between Vancouver and Japan despite charterers’ orders to sail the Great Circle track, recommended by professional weather routing experts on both sides of the Pacific Ocean. During the same period between March 1 and May 31, 1994, 360 ships safely sailed the Great Circle track through the North Pacific under similar weather conditions and the same routing advices by professionals on both sides of the Pacific.

Charterers deducted over seven days hire due plus cost of extra fuel consumed. Owners claimed in arbitration and courts the choice of route from ports A to B was Master’s prerogative, as has always been the case in maritime history. Charterers counter-argued since ‘time is money’ in time charters they were entitled to order the Master to sail the Great Circle route and that order was order as to employment of the vessel, designed to achieve utmost dispatch.

The important issue was where to draw the line between sailing instructions by charterers and Master’s prerogative to choose his own courses to navigate his ship from Vancouver to Japan.

Arbitrators held charterers are entitled to order the vessel to sail on the Great Circle track and should be compensated for time lost due to the Master’s decision to sail the rhumb line track.

Justice Clarke in Commercial Court held that a Master’s decision relating to navigation of the ship took precedence, as has always been the case in maritime history. The UK Court of Appeals agreed with Justice Clarke and said the charterer’s order to sail a definite route disrupts Master’s prerogative to choose his own courses. House of Lords distinguished Master’s obligation to charterers and his responsibility to safety of his ship, crew and cargo, and unanimously reinstated Arbitrators award. They agreed that time is money in time charters and added that when “Master is to be under charterer’s orders ‘as regards employment,’ unless there is a real threat to safety of the ship and life on board, choice of route concerns ‘employment’ not ‘navigation’ and obliges Master not simply to proceed but to proceed with the ‘utmost dispatch’ to achieve maximum earning by the vessel subject to safety considerations.”

They added to operate as per charterer’s orders does not displace a Master’s duty to use his judgment and experience to navigate the ship safely. Decisions to avoid forecast bad weather is a navigation matter based on safety factors. In extreme cases Master is under an obligation NOT

to obey such an order. However, in this case, the Master gave no safety reasons for not obeying charterer's orders.

It is now established Law that if a Master has sufficient grounds through experience and available information (including weather forecasts and time of the year) to believe that it is unsafe for his ship to navigate a particular route, he can refuse the order. If he feels forced to accept the order, he should lodge strong protests with charterers, owners and P & I club on grounds of safety of life and give reasons why he finds the track unsafe. Chances are that if his reservations are warranted, owners and charterers would not ignore his protest. No commercial interests would risk to send a ship across the ocean when the Master has already expressed reasonable safety concerns and reservations.

***Yuzhny Zavoid Metall Profil vs. Eems Berheerder "EEM Solar" 2013***

The suit brings to question whether an owner is liable to Bill of Lading holder for losses due to movement of cargo during the voyage when there is effective transfer of responsibility for stowage under a charter party (C/P) and incorporated in the bill of lading (B/L). The damage was to 411 steel coils loaded in Xingang for Novorossisk aboard *Eems Solar*. B/L incorporated C/P which provided, "The cargo shall be brought into the holds, loaded, stowed and/or trimmed, tallied, lashed and/or secured by the charterers, free of any risk, liability and expense whatsoever to the owners."

Cargo was stowed by the charterer's stevedores. Some coils were damaged on passage during heavy weather. Russian B/L holders alleged the ship was unseaworthy as she was not equipped with additional lashing material. Following breaking of a strap during adverse weather, her crew failed to rectify basic errors in the stow.

The court found adequate inspections of cargo had taken place. The crew could not be criticized for failing to re-secure the cargo at sea, as each coil weighed four to five tonnes. Primary cause of damage was failure to use locking coils as per ship's Cargo Securing Manual.

Article III Rule 2 of Hague Rules provides, "Subject to provisions of Article 4, carrier shall properly and carefully load, handle, stow, carry, keep, care for, and discharge the goods carried."

Claimant receivers argued that clause 5 attempted to relieve owner of responsibility for carrying the goods under Article III Rule 2 and therefore should be struck down under Article III Rule 8 which provides: "Any clause, covenant or agreement in a contract of carriage relieving the carrier or the ship from liability for loss or damage to, or in connection with goods arising from negligence, fault, or failure in the duties and obligations provided in [Article III] or lessening such liability otherwise than as provided in this convention shall be null and void and of no effect."

Admiralty Court held that Article III Rule 2 does not impose a duty on the owner to undertake all listed acts but to undertake those acts which he has agreed to undertake. Parties must have intended responsibility for stowage to be transferred to shippers/cargo receivers as a natural consequence of the agreement that owners would not be responsible.

Clause 5 was not invalidated by Article III Rule 8 of Hague Visby Rules unless owner or Master had significantly intervened in loading of cargo.

As the ship sailed with stow as per stowage plan, the court held it to follow that it must have depicted the stowage plan which was actually provided by the ship to those ashore prior to loading. The court found that lack of locking coils was effective cause of movement and damage to the cargo. There was no evidence that stevedores had paid any attention to stowage plan provided. There was no evidence of significant intervention which would have operated to return responsibility for cargo stowage to owners.

'Where responsibility for stowage is contractually passed from owner to charterer or cargo owner, ship owner will not be liable for damage arising from improper stowage even if it renders the vessel unseaworthy. Unless it is established that bad stowage leading to damage arose from a significant intervention by ship owners or their Master.'

This decision breaks new ground by extending the effect of the Jordan II to clauses where shippers and consignees are not specified. It should accordingly be welcomed by owners and their P&I insurers. mg

*The author is a Master Mariner and Chairman and Managing Director, IWL INDIA Ltd. He serves as a Member, Board of advisors, AMET University Chennai and Board of Legal Studies, Indian Maritime University.*

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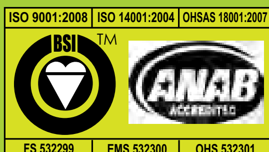


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# The Piracy Bill 2012
## A solution or mere paper tiger?

The Piracy Bill 2012 introduced by the Central Government in the Lok Sabha provides more clarity and sound basis for prosecution of pirates. While the Bill gives certainty and clarity in many areas, the research suggests several aspects that need to be addressed for maximum efficiency.

**Sanjeet Ruhal**

The United Nations Convention on the Law of the Sea (UNCLOS) states that all states are duty bound to 'cooperate' and do their best to counter pirate attacks. However, there is no legal obligation on the part of individual states to prosecute captured pirates under universal jurisdiction or under their domestic laws. UNCLOS does not lay down any stipulation regarding adoption of criminal laws by states and leaves it to the states to, lay down anti-piracy laws. As a result, many states treat piracy cases as certain ordinary criminal acts and not as *hostes humani generic*.

Today, prosecution of captured pirates is a serious challenge to the nations world over. It is reported that around 60–85 per cent of the pirates encountered are simply released. The lack of adequate and stringent laws is the biggest important reason for discharging of pirates. In light of the recent requirement for an anti-piracy law, an anti-piracy bill was tabled in the Indian Parliament in April 2012. The Bill is still in the pipeline.

This paper examines the efficacy of the Piracy Bill, 2012. For that purpose, this paper analyses several international conventions related to piracy, customary international laws, various Indian legislations related to jurisdiction, case laws of India and the reports of Law Commission of India and attempts to provide certain suggestions to strengthen the Bill.

## Piracy laws in India

India is playing a remarkable role to suppress piracy. However, India does not have any domestic legislation, which defines piracy and provides punishment. The Indian Penal Code (IPC), 1860 is the comprehensive criminal code in India and the pirates are being punished under IPC. In the *Alondra Rainbow* case, the Sessions Court of Bombaysentenced the pirates for the offences of dacoity and attempt to murder under IPC. The High Court of Bombay in an appeal upheld the charges but remitted the sentence.

The Suppression of Unlawful Acts Against Safety of Maritime Navigation and Fixed Platform on Continental Shelf Act, 2002 (SUA) is another statute to deal with maritime offences. It is limited in its application to *acts of terrorism* committed against safety of maritime navigation and fixed platforms on continental shelf extends to the whole of India including the limit of the territorial waters, continental shelf, the exclusive economic zone or any other maritime zone of India.

The old and obsolete colonial laws (Admiralty Offence Act, 1849; Admiralty Jurisdiction (India) Act, 1860; Colonial Court Jurisdiction, 1874) on maritime criminal jurisdiction, by virtue of Article 372 of the Indian Constitution, are valid and still in force.

## Critical appraisal of the new piracy Bill

The Bill is intended to address the immediate need of the hour for a domestic legal framework to prosecute and punish pirates. The objective is to make special provisions for the suppression of piracy, criminalise the act of piracy and to establish universal jurisdiction of Indian Courts. The Bill gives universal jurisdiction to the designated court (Sessions Court) for prosecuting pirates. The Bill contains 14 sections which broadly deal with definition clause, punishment, attempt, investigating agency, presumption of guilt, designated courts, bail provisions and provisions related to extradition.

It is a well known fact that piracy is no longer considered an offence in the traditional sense, i.e. sea robbery. Today, it involves crimes such as hijacking of entire ship, kidnapping of crews, extortion and maritime frauds. Further, the scholars have suggested that it also includes maritime terrorism activities as modern-day piracy is not only motivated by pure economic interests but also focus on threatening the economic interests of states and endangering the lives of their people.

> "The Bill defines piracy in traditional sense by neglecting related crimes. The definition of piracy under the Bill is based upon UNCLOS. This definition is criticised by jurists."

The Bill defines piracy in traditional sense by neglecting related crimes. The definition of piracy under the Bill is based upon UNCLOS. This definition is criticised by jurists as it presents an age-old approach to a newly emerged problem. The *modus operandi* of modern pirates and their propensity for attacking ships has led the United Nations to reevaluate its current definition of piracy.

The most controversial requirement of the definition of piracy in the Bill is that the act of piracy must be committed "for private ends." The problem occurs if a *political act* falls outside the definition's requirement of *private ends*. But an act or crime is hardly deemed *political*, simply because the perpetrator so characterises it. Nor is it logical that a person once labelled an 'insurgent' could never commit act for private ends.

The other requirement of 'two ships' under the definition of piracy in the Bill is controversial. According to the definition given in the Bill, the illegal act must be directed against another ship or aircraft. This requirement does not seem to be practical; more than one ship has to be involved in the action and at least one of the ships is a pirate ship. It does not appear to contemplate the internal seizure of ships or those instances, where one or more of ship's own crew or passengers take control, as was the case in the *Achille Lauro*. Thus, the crime of piracy under the Bill does not include cases of internal seizure, mutiny aboard non-state ships and larceny. While the motivation may be different, the end result is the same, i.e. theft of property, hijacking, loss of life or extortion.

Section 2 (iv) of the Bill appears to have been added as a residuary clause. It includes any act which is deemed piratical under customary international law. It is opined that the provisions of criminal law must be very clear without any ambiguity and lacunae, otherwise these provisions usually become 'a lawyer's laugh and jurist's weep'.

Section 6 (2) of the Bill gives universal jurisdiction to the Indian courts wherein piracy is committed by an Indian national or against Indian ship and in case of a foreign flag ship only when the assistance is requested by the government or any person on the board of the ship. This provision heavily curtails and confines the concept of universal jurisdiction.

Even the judgments of our courts confirm the broader area of jurisdiction in the case of piracy. The High Court of Bombay confirmed the rule of universal jurisdiction in Pride *Foramer v. Union Of India (UOI) And Ors*, and held that since historical times it has been recognised as universal in international law that any State may exercise that jurisdiction over a pirate irrespective of the usual considerations of territoriality which limit the penal jurisdiction. The opinion of high court of Bombay is further upheld by the Supreme Court in the case of *Aban Loyd Chiles Offshore Ltd. v. Union of India & Ors*.

According to Section 13(2) of the Bill, every state may seize a pirate ship or aircraft and the arrest seizure can only be done by warships or military ships or aircraft clearly marked and identifiable as being a government service and authorised to that effect.

Sections 3 and 4 of the Bill provides for punishment up to 14 years with a fine for the attempt or abetment to commit the offence of piracy. Further, the Bill provides the death sentence for causing death in committing or attempting to commit piracy. This provision of capital punishment would be problematic when cases require extradition of the accused. Western countries are not willing to extradite offenders where the offence involves death sentence.

## Conclusion

Introducing a new bill in the Parliament is a welcome step to address the problem of piracy. The Bill should however look into some issues highlighted below to tackle modern-day piracy through a stronger legislation.

Firstly, the obsolete colonial laws need to be repealed and amalgamated into one single law that would cover the whole ambit of piracy in a holistic manner.

Secondly, the definition of piracy suggested by the Bill based upon UNCLOS. The UNCLOS itself was a political compromise. It was necessary to exclude other forms of maritime violence from the definition of piracy to make a concession among the states. It appears that the Bill defines piracy from the perspective of sixteenth to nineteenth century view of piracy and is extremely restrictive if viewed from the modern perspective. Hence there is need for the Bill to define piracy covering all the sub-categories of modern-day piracy. A comparative study of various legislations of other countries should be conducted.

Kenya has become a universal centre for prosecuting the pirates because of its best legislation on piracy. Further an example Sri Lanka's law on Piracy can be taken into consideration. Sri Lankan laws on Piracy mentioned in Piracy Act 2001 defines piracy in quite appropriate. It defines piracy as "any person who dishonestly takes or appropriates any ship, by means of theft, force, intimidation, deception, fraud or by other similar means shall be guilty of the offence of piracy and subject to the provision of sections 8, 9, 10 of the Act with imprisonment…. whichever is the greater."

Third, the residuary clause under section 2 (e) (iv) seems to be more troublesome rather to provide any solution. The Bill is not clear on what constitutes piracy under customary international law. It is opined that the criminal laws must be very clear to avoid future problems of construction.

Fourth, the Bill restricts universal jurisdiction given by customary international law and UNCLOS to Indian courts. It confines the court's jurisdiction only to the cases of piracy against Indian ships or piracy committed by Indian nationals. Customary international law provides widest jurisdiction to courts to take jurisdiction of any pirates who are presented before the court. Even Indian courts have made it clear that in the absence of specific domestic legislation enacted by the Parliament, the customary international law is to be read incorporated in order to fills up of the gaps in the municipal law.

Fifth, the jurisdiction of piracy cases should be given to Higher/ Constitutional Courts since case involves the various aspects of international law.

Sixth, the provision of capital punishment in the Bill could be problematic for the purpose of extradition; so it should be removed.

After adopting new economic policy in 1991, the Indian foreign trade has peaked to great heights and is flourishing. Shipping plays a pivotal role in carrying out the international trade as approximately 90 per cent goods are transported by ships. Therefore, to cope up with this grave challenge, India needs a strong legislation which can cover all the present and future problems relating to piracy. mg

*The author is Research Fellow, Gujarat National Law University, Gandhinagar*

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# Dates for your diary

It's time for trade shows, exhibitions and conferences in the maritime sector. Here are a few events lined up for the coming months.

## Global Liner Shipping Conference (Middle East & Indian Subcontinent)

**April 28 – 29, 2014**

**Venue:** Madinat Jumeirah Mina A'Salam Hotel, Dubai

The 4th annual Global Liner Shipping Conference (Middle East & Indian Subcontinent) will focus on how will the P3 alliances and global consolidation impact trade in the Middle East and Indian subcontinent along with examine new business opportunities in the Indian Subcontinent.

**More information:**
www.informamaritimeevents.com

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## Containers India 2014

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**More information:**
vinod@gatewaymedia.in

## China International Marine, Port & Shipbuilding Fair (CIMPS) 2014

**April 9- 11, 2014**

**Venue:** Nanjing International Expo Center, Nanjing

CIMPS 2014 will attract more international anchor companies in the line of maritime and offshore by strengthening the cooperation with overseas partners to meet more local shipyards and expand the business in China.

**More information:**
www.china-ship.com

## TOC Container Supply Chain: Asia 2014

**April 8 – 9, 2014**

**Venue:** Marina Bay Sands Hotel, Singapore

TOC Container Supply Chain Conference is a forum for the major stakeholders of the supply chain to come together and debate critical issues affecting the time and cost effective transportation of containerised cargo from shipper to destination.

**More information:**
www.tocevents-asia.com

## LNG Terminal Expansion Asia Congress 2014

**April 14-16, 2014**

**Venue:** Bali, Indonesia

The event will bring together 200 plus decision makers from across the LNG Terminal value chain to debate on and share in-depth insights into the hottest topics in this region.

**More information:**
www.wispool.com

## 6th International Maritime Science Conference-IMSC 2014

**April 28-29, 2014**

**Venue:** Solin, Croatia (Hrvatska)

Faculty of Maritime Studies, Split, Croatia and Maritime Faculty Portorož, Slovenia re organising the 6th International Maritime Science Conference-IMSC 2014, which will see paper presentations and discussions on various topics including marine engineering, navigation, marine ecology, hydrography, marine automation & electronics and maritime health.

**More information:**
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