

Evaluating Recent Policy Changes on Coastal Shipping

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Introduction

Coastal shipping is a characteristic observed in coastal and island countries for centuries as compared to other modes of transport. It is an energy-efficient, environment-friendly and inexpensive mode of transport. A key component for the development of domestic industry and trade, coastal shipping is largely used for transportation of goods, followed by passengers. In India, the history of coastal shipping dates back to the third century BCE, when the Indus Valley civilization initiated maritime trade. Since then, coastal shipping has been an enduring feature of the Indian seaborne trade. At present the share of coastal shipping in India's GDP is around six per cent.

This issue brief aims to review the recent developments in the sector, evaluate the challenges faced by coastal shipping in India, and its future prospects. It focusses on changes in the previous policies and new initiatives adopted for the sector.

Institutional Reforms

The Indian Coastal Conference (ICC) was formed in 1951 by 13 leading Indian shipping companies as a platform to facilitate growth of the Indian coastal shipping trade. It was later registered as 'ICC Shipping Association (ICCSA)' under the Society Registration Act, 1860. The Directorate General of Shipping is an attached office of the Ministry of Shipping, Government of India and deals with all executive matters relating to merchant shipping. The role of DG Shipping is to seamlessly integrate seaborne trade from inland waters to coastal waters and vice-versa. The Directorate deals with implementation of shipping policy and legislation so as to ensure the safety of life and ships at sea, prevention of marine pollution, promotion of maritime education and training in coordination with the International Maritime Organisation, regulation of employment and welfare of seamen, development of coastal shipping, augmentation of shipping, examination and certification of Merchant Navy officers, supervision and control of the allied departments and officer

under its administrative jurisdiction.¹ In 2008, the DG Shipping constituted a committee to address and resolve technical and operational hurdles that impeded the growth of coastal shipping in India.

Policy Reforms

Due to the efficiency and ecofriendly characteristics of coastal shipping, the Indian government has taken various initiatives to promote the sector. The Merchant Shipping Act, 1958, considered as the 'Bible' for the shipping industry, has been amended 17 times till 2014. On November 23rd 2016, the Cabinet passed another amendment to the Merchant Shipping Act and the number of sections was reduced to 280 for streamlining.² In December 2016, in an interview the Minister for Road Transport and Highways and Shipping, Nitin Gadkari, stated that a new law dealing with the shipping sector would replace the existing Merchant Shipping Act.³ This new law might prove to be a game changer and may revitalize the shipping industry.

In September 2015, the government relaxed the Cabotage Law, which opened doors for the international companies to contribute to coastal transportation. Initially, foreign vessels were not allowed to carry cargo from one port to another within the country. The government has partially relaxed the Law for special vessels like Roll-On Roll-Off (Ro-Ro) vessels, Ro-Ro cum passenger vessels, car and truck carriers, Liquefied Natural Gas (LNG) vessels, and over-dimensional cargo carriers for a period of five years, as these vessels are in short supply in India.⁴

However, many industry experts believe that the law should be relaxed without a timeline as followed in countries like Netherlands and South Korea. However, such a situation might lead to a monopoly as the first entrants would benefit from the head start, making it difficult for new companies to gain advantage over them. On the contrary, if the relaxation stays as it is, i.e. limited to five years, there would be an intense competition among companies, as their performance would decide the renewal of contracts. Due to this, they will have to be at their best to serve the industry, indirectly contributing to the country's economy. Thus, cabotage law should be relaxed for a specific period of time, keeping the industry at par with the growing economy.

The proposed New Port Act will abolish the present tariff structure providing a sense of relief for the vessel operators. Ports, on the other hand, would have more autonomy to take decisions.⁵ The Cabinet is presently deliberating the new Act, which will take into consideration essential changes in consonance with the changing maritime environment.

Port Connectivity Reforms

The economy of India's nine coastal states largely depends on coastal shipping. In fact, each state is now shifting its focus towards enhancing their ports and the industries for improving coastal shipping. Project 'Sagarmala', the most substantive initiative of the government, aims at port-led development for enhancing India's economy. Port-led development includes economic and social development of ports and their connectivity with the hinterland.

The port modernisation initiative would shift the traffic to minor ports, making it easier for the vessels to trade. It includes capacity enhancement projects for the existing ports, and new ports are proposed keeping in mind the increasing traffic and management of the cargo.

Similarly, connectivity of the ports will contribute towards effective and efficient movement of cargo. The government is increasingly engaging to enhance coastal shipping and inland waterways to develop transportation of cargo via water. Furthermore, effective road and rail connectivity is of utmost importance in terms of first and last-mile connectivity. The connectivity towards the last-mile comprises a key stretch in the entire network and ensures minimum costs. Business houses aim to cut the cost to the minimum while giving best services, however, lack of a business model makes it difficult for them to perform business activities. Also, location of industries in the hinterland increases the costs for the last-mile connectivity, thus, making it difficult for the business to keep the costs low.

The upcoming Coastal Economic Zones (CEZs) in various coastal states will curb the costs for industries and help in further development. The opportunities for business houses in terms of coastal shipping are endless. Due to various relaxations provided by the government in recent times, these companies would find coastal shipping as highly beneficial. Once their supply chain is in place and logistics costs are reduced, the goods would comparatively be more cost-friendly than they are at present. The first CEZ has recently been declared to be housed in the state of Andhra Pradesh, which will be rich in labour-intensive and export-oriented manufacturing industries.

The sub-projects under Sagarmala, which are complementary in nature, are slowly being realised, but the pace has to be in line with the increase in traffic. During the Maritime India Summit 2016, Mumbai, a total of 141 MOUs and business agreements were signed by various players in the maritime sector for its development. The summit attracted an investment of \$60 billion. Coastal shipping will significantly increase once the ports are enhanced with state-of-the-art facilities.

Coastal shipping, being the most economical mode of transportation, is an attractive proposition for companies to ship their cargo through the seas. Iron ore, coal, fertilizers, petroleum, oil, and container cargo are few products which are transported by coastal shipping. Recently, Ro-Ro vessels have caught the eye of automobile companies like Renault, Ford, Hyundai, Toyota and Honda, which have expanded their supply chain network by transporting via coastal shipping. This shift might be a reaction to the government decision of hiking the discount on Ro-Ro vessels to 80 per cent, for two years at all major ports.⁶

According to estimates, the coastal vessels in India spend about 70 per cent of their time in ports and only 30 per cent of their time in transit. Also, the 12 major ports handle 75 per cent of the total cargo leading to problems of congestion and inordinate delays.⁷ This is a major cause for delay in shipments and slow growth in the shipping sector. The average turn-round time of vessels in India's major ports is nearly four days.⁸ The government, through its initiatives mentioned above, has begun to target these challenges in the supply chain network, but a lot has to be done on ground.

Freight transportation will make a big shift after the above projects are in place. The logistics costs would come down making it the most feasible mode of transport for all kinds of cargo movements. There has been a recent increase in the tonnage available for shipping. A further increase of 100 per cent is visualized by experts in the container traffic, 20 per cent for the bulk cargo, and 15 per cent for the liquid cargo.⁹

Neighbourhood Cooperation in Coastal Shipping

India has consistently engaged its neighbourhood in bilateral trade along the coastline. The burgeoning trade between India and Bangladesh has led to a congestion on the land route and has prompted the two governments to move towards enabling coastal shipping, leading to introduction of Direct Shipping in March 2016.¹⁰ India and Bangladesh have a Bilateral Protocol on Inland Water Transit and Trade (PIWTT) for operation of inland vessels on river routes. In November 2015, a Standard Operating Procedure (SOP) has also been signed between the two, to move commercial cargo through the Bay of Bengal. To facilitate easy bilateral trade, the two countries have waived many conditions, such as, the vessels of both countries upon entry into India and Bangladesh are treated as domestic vessels and not foreign going vessels.¹¹ The coastal vessels operate between the Indian ports on the eastern coast and Bangladeshi ports and carry cargo like raw cotton, textile machineries, food, cars and tractors.

Conclusion

Coastal shipping volumes could grow to nearly six times of current levels leading to saving costs of about ₹ 25,000 crores per annum. There is a need to develop a multimodal solution with coastal linkages, as coastal shipping cannot stand alone. Considering India's geography, there is a need to integrate coastal shipping into the transport network, in a way where inland waterways supplement road and rail transport, making it an easier and cost-effective solution for both, the companies and the end-users. The recent changes in policies, along with the fiscal incentives and state-of-the-art infrastructure, is likely to act as a major stimulant for the growth of coastal shipping in India.

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Notes and References

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² PTI. "Cabinet Approves New Merchant Shipping Bill." Economic Times, November 23, 2016, Shipping and Transport section.

³ Sisir Pradhan and Deepika Amirapu, "Charting a New Course", Maritime Gateway, December, 2016, p.27.

⁴ Ritu Gupta, "Partially Relaxed", Maritime Gateway, November, 2015, p.32.

⁵ Sisir Pradhan and Deepika Amirapu, "Charting a New Course", Maritime Gateway, December, 2016, p.27.

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⁷ Editorial Team, "Cabotage Relaxed for Special Vessels", Maritime One, Oct-Dec edition, 2015, p.6.

⁸ Open Government Data Platform India. Catalogs. Average Turn Round Time of Major Ports. <https://data.gov.in/catalog/average-turn-round-time-major-ports> (accessed 13 December 2016).

⁹ Deepika Amirapu, “Indian Tonnage Growing on the Coastal Route”, Maritime Gateway, October, 2016, p.30.

¹⁰ Deepika Amirapu, “Short sea shipping – History in the making”, Maritime Gateway, April, 2016, p.38.

¹¹ Ibid.