

Strategic Issues

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A) Trends in International Shipping

Key Issues

High Volatility & Declining Profitability of Shipping industry

- Major global shipping majors as also Indian shipping companies are at the receiving end market volatility.
- Worldwide shipping industry is in the throes of a transitional phase of re-adjustment and restructuring and is likely to witness significant level of consolidation through mergers and acquisitions and expansion to new regional trade hubs.

Environmental Safety & Standards in International Shipping

- Poor monitoring and compliance with international safety standards by Flag of Convenience (FOC) countries, coupled with recent ship accidents, the case of "Erika" and MT "Prestige" incident, off the Spanish coast still fresh in mind - the issue of environmental safety and standards is likely to be a major issue of concern to all national ship registries and is likely to make new stringent demands.
- Tanker shipping, which has major share of global fleet and seaborne cargo is going to be particularly affected
- International Transport Workers Federation (ITWF), Green Peace International and World Wildlife Fund have stepped up their campaign against what they call "sub-standard" shipping and have sought urgent UN intervention.
- The European Union has recently published a 'blacklist' of ships to be barred entry into the European ports.
- The incremental costs of a stringent international safety regime, administered on a multilaterally by a number of countries, is bound to further impact the operations of global shipping companies through added costs of redundancy and renewal of fleet.

The US Terrorism Act & Implications for Shipping

- Following the September 11 happenings, the worldwide concerns about national security have resulted in unprecedented demands on national ship registries and ocean liners to fall in line with series of new regulations and norms for port clearance of cargo.
- This is likely to substantially increase legal and insurance costs and other indemnity obligations and liabilities and build greater pressures on reorganization of terminal loading operations, which will affect shipping.
- The US Terrorism Act, which seeks to tightly regulate cargo movements into and out of

the United States, a major partner in world trade, now comes into force from December 2002 and is likely to seriously impact US-bound cargo logistics and trade supply chains across the world.

Economic Recession & Shifting Global Trade Patterns

- Economic recession in the developed economies and important shifts in global trade that have come about since the formation of WTO have thrown up a number of surprises for international shipping.
- Despite global merchandise trade volumes having increased, the shipping freight rates have come down, mainly due to many structural changes in the world trade.
- While developed industrial economies of Europe and North America still continue to drive the global merchandise trade, there has been significant growth of merchandise trade, especially in the Asian region led by countries like China and India.
- Restructuring of the world trade flows is leading to concomitant effects on the global shipping patterns.

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Future Prospects

Shipping fleet to become more niche-oriented

- Shipping industry worldwide is increasingly becoming globalised, notwithstanding the importance of national ship registries.
- While shipping tonnage will certainly carry national flag for purposes of international maritime administration, the fleet operations will be purely driven by global market dynamics.
- Shipping companies that have established themselves in different commodity and service trades and trading regions will however, have greater option to pursue their specialization and penetration, both vertically and horizontally in terms of niche marketing position.
- Tanker trade, major dry bulk trade, minor bulks, LNG, coastal trade, feeder service, container trade etc will grow into sizeable business and niche market opportunity in themselves.

Integration of shipping in logistics and global supply chains

- International shipping like other segments of the conventional transport industry is increasingly getting integrated in to the emerging global logistics and supply chain dynamics, owing to both external and internal dynamics.
- Major international shipping companies have themselves now started integrating their services into a broader spectrum of door-to-door delivery systems, incorporating rail-road haulage movements of cargo, thereby substantially supplementing their ocean freight income.
- Experience of recent freight depression has borne out that shipping companies have in

fact more to gain by undertaking logistic integration of their cargo operations than just handling oceanic leg of cargo haulage.

- With global trade supply chains set to further expand with growing customer demands on cargo turnover time and costs, the shipping industry is bound to go through a major re-definition as a part of a larger maritime logistics web.

Expansion and multi-polarity of global trade

- The expansion of global trade volumes and growing multi-polarity of trade flows is going to impact world shipping as profoundly as did liner shipping and containerized cargo, some fifty years ago.

- While earlier phase of trade growth, saw Trans-Atlantic and Trans-Pacific trade grow at a rate much more than any other trade, the future promises to encourage a much more distributed global merchandise trade that can engage not only mega ships but also medium and smaller ships on shorter regional and coastal trade routes.

- Increasing trade conferences and exchanges among Pacific-rim and Indian Ocean-rim countries that has gained acceptance promise to dispel any linear forecasts about larger and faster ships alone taking the prime spot eclipsing other segments of shipping trade.

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B) Trends in International Ports

Key Issues

- Multiple-Cargo, Common User Port to Specialist Terminal-based Ports

Ports have been historically viewed as one-stop omnibus solution for all requirements of shipping, in terms all loading and unloading operations for multiple types of cargo, on a common access basis. However, the worldwide trend in port development is now veering towards terminalisation of ports with focus towards freight specialization. LNG terminals, Container terminals that involve high capital costs and intensive deployment of cargo handling equipment and other facilities are some instances of what is likely to emerge as future trend in port development.

- Separation Of Port Authority And Port Operator

There is a global trend in the port sector towards growing separation of port authority from port operator impinging on all exiting institutional models of port organizations. Port organizations all over the world are experiencing wide ranging institutional reforms, as a part of the adoption to new demands of shipping and international trade. Port authority is increasingly getting focused on policy and regulatory role while a range of private port operators and port service providers are taking over a range of port related services.

- Inter-port Competition & Hinterland Access

There is an increasing trend towards redundancy of monopolistic structures of port access in regional and national port systems, with the growing trend towards multiple port

system. Increasing customer pressures towards logistics rationalization of cargo movement between the cargo hinterland and ports, is leading to new ports being developed with consequent shift in movement of cargo out of the erstwhile single dominant discharge or load ports. The shift of cargo from Mumbai port to Nhava Sheva port, or from major ports to new minor ports in the Indian port sector signifies the trend. A similar phenomenon is seen in international transshipment ports like Singapore, Tanjung Pelepas and Colombo.

- Growing clout of port users

The balance of power in the maritime trade, which traditionally was weighed in favour of the shipping line has now decisively shifted in favour of the shipper, whose cargo is being moved. In turn, the freight service providers have become a significant part of the value chain.

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Future Prospects

- Privatisation Of Ports And Terminals

The port sector all over the world is increasingly veering towards greater involvement of private sector participants in creation and management of various port assets and services. The privatization of ports is taking place in terms of both part privatization of existing public ports and terminals and other port related services as also new terminals and Greenfield port projects.

- Emergence Of Global Port Developers & Operators

With the development of liner shipping and container cargo trade, the demands on port infrastructure have become quite intensive both in respect of level of capital investment as also highly sophisticated technology for container handling. Leading international shipping lines like P&O, Maersk, Sealand and APL have thus, long since diversified into managing the port operations at several locations, especially in regard to container terminal operations, combining the advantage of themselves being in the container line trade. Today, port developers and operators work on a global scale and are likely to dominate much of future port development.

- Significant Use Of Information Technology

Growing importance of information technology promises to make port operations highly cost-efficient and substantially improve cargo handling turnaround times. EDI and MIS systems using a range of customized software and network technology make shipping and port operations highly standardized and customer friendly.

- Integration Of Ports In Logistics Value Chain

Like in case of shipping lines, the port operations too are likely to become increasingly part of a common logistics value chain that extend from point of origin of cargo to the final destination of cargo - in terms of a door-to-door delivery cycle. Ports have to increasingly strive to facilitate in expediting the movement of cargo by ensuring that ships enter their berths to unload cargo and leave them after loading cargoes in minimum

possible time and cost. Inability to deliver customer expectations is bound to shift the cargo to another port in the fast emerging competitive market framework.

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C) Development of Private Ports in India

Greenfield Private Ports

While several Greenfield port projects at Pipavav, Mundra, Dhamra have been proposed and taken up by private port developers, the experience of developing these ports has borne out that several contentious issues need to be resolved, before these projects really become viable. So far except Mundra port, all other Greenfield ports projects have not managed to achieve significant traffic as envisaged.

Key Issues

Cargo Traffic Demand

Greenfield port projects need to clearly establish the possibilities of generating a stable and growing volume of cargo that has distinct advantage in moving to the proposed Greenfield port location, in terms cost of landed or loaded freight, compared to their movement through the existing gateway port.

Logistics Linkages

Greenfield port projects need to offer a clear logistics advantage in terms proximity to cargo hinterland, rail-road connectivity and other facilities for handling cargo. The success of a Greenfield port project thus hinges on the extent of collaboration between wide range of institutions, including maritime development boards, railways, state governments and other service providers, who between themselves have to share the responsibilities, under a commonly agreed port development plan.

Preference of Shipping Lines and Shippers

Development of a new port implies that shipping lines see a rationale in operating their services to the new port and that economies of scale to operate their services are supported by critical threshold level of cargo volumes and parcel sizes.

Environmental Issues

Many a potential port projects, Tadri, Vardhaman etc have ended up in finally losing steam because of environmental objections. Greenfield port projects need to be backed up a comprehensive national port development plan, based on intensive environmental impact surveys by Nautical Advisor to the government. Port developers can in turn purely focus on developing the port and other facilities without having to obtain environmental clearance on a case- to-case basis.

Bankability of Greenfield port project: The litmus test of a Greenfield port project consists in the bankability of the project in terms of the expected returns on the potential business likely to be generated by the port. Effective risk mitigation strategy need to be in place in terms of role and responsibility of different players or stakeholders under a common consortia arrangement, as equity partners or guarantors of the project. The State Maritime Boards or the government needs to provide collateral support.

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Privatisation Of Port And Terminal Facilities

Institutional Models of Port Organization (as articulated by World Bank). Following are some of the key modular structures of port organization in different countries.

- **Service Port Model** - where port authority & operator are one and the same (The Major ports of India)

- **Landlord Port Model** - where the port authority only own all the port assets and leases them out to private operators (JNPT)

- **Tool Port Model** - where the port authority selectively engages private operators in areas where they do not wish to operate.

- **Private Services Port** - Where the private port developer owns all the port assets and operates the all services. However, there are very few ports where the port operator owns the port land and sea front and these are only made available on long-term lease basis. However, minor ports in India have been developed as private services port model though land and marine front is obtained under long-term lease.

The Indian port sector is overwhelmingly under the influence of the "Services port model", with port trusts acting as port authority as well as a port operator. However, in recent years, there is a gradual movement towards acceptance of "landlord port model" with granting of certain terminal concessions and of other port-related services in major ports like Tuticorin, Chennai, Visakhapatnam and JNPT.

Some key questions the port regulators and developers need to ask

How to build common institutional and regulatory norms for different players in the port sector?

Tariff regulation has been one of the key policy instruments for defining competition policy so far. The Tariff Authority for Major Ports (TAMP) orders and guidelines however, only pertain to tariff issues of major ports and while the competitive framework of port business, now encompass a broader arena of activities, comprising minor and intermediate ports. The competition policy has to be thus, much broader in scope and force application. The regulatory authority also needs to be armed with powers to implement and enforce its decisions.

How to bring down costs of port operations and cost of freight to shippers?

The competition in the port sector is all about bringing down the costs and improving efficiencies. However, a common framework of rules that attempts to provide an even playing ground between different port players - public as well as private, major and minor ports needs to be put in place, doing away with the current legal misnomers like "major ports" and "minor ports". In fact, minor and intermediate ports can give an effective competition to "major ports" also as demonstrated by the GMB ports, which now almost handle 25 % of total national seaborne cargo movement.

How to channelise investment in the port development sector, given the resource limitations of government?

The government needs to aggressively promote private sector investment in port sector through a second-generation reforms in the port sector, that considerably amplifies on the definition of port, including therein a whole range of activities associated with the working of ports.

D) Major Ports in Transition: Strategy for Reform

Key Issues

- The port trusts formed under the Major Port Trust Act lack teeth and suffers from limitations on their power and authority. The port trusts need to compulsorily obtain the sanction and concurrence of the government while taking important decisions, involving use of financial resources available with them as cash reserves.
- Being a trust form of organization, under the 1963 act, the major port trusts have lacked an explicit commercial orientation to management of port operations and have concurrently followed revenue-expenditure based accounting practices, which is not consistent with the stringent corporate accounting norms followed by other public and private sector undertakings.
- Under the 1996 guidelines of the Central government on private sector involvement in the port sector, the major port trusts were allowed to explore private sector investments in creation of port-related assets and other services, through the open tender route. However, necessary financing arrangements for port privatization projects, under the Major Ports Trusts Act 1963 had to be cleared by the Central government at various levels.
- Under existing provisions of the Major Port Trust Act 1963, while major port trusts can undertake considerable degree of privatization of port-related services, it does not allow for complete privatization of a major port, as the Central government retains many of the residual powers as defined under the Indian Ports Act 1908 and Major Port Trusts Act 1963. The port trusts under the port laws continue to be subject to the authority of the government, despite considerable operational autonomy.
- The policy of corporatisation of major ports is primarily seeking to convert the port trusts into deemed companies, under the Companies Act of 1956. However, such a far-reaching change in the structure of port administration calls for crucial amendments to Major Port Trusts Act.

Port Reforms Initiatives

- **India's First Corporatised Public Port** The port of Ennore has been the first corporatised port to be established in India as a Greenfield port. The process of corporatisation of other major ports is however; likely to encounter many more complex issues arising out of past legacy. The corporatisation of JNPT is presently under the active consideration of the government.
- **Privatisation Of Terminals & Other Port Services** - The government's policy of encouraging competition & minimizing monopolies has resulted in several major ports

choosing to co-opt the private sector in development of terminal and other port related services.

- **Ensuring Better Returns On Current Investment:** Major ports need to build an effective time-bound strategy to improve the efficiency and maximizing the returns on existing investment through modernization of port equipment and other marine infrastructure facilities, besides improving work processes, through increased intensity of IT usage.

- Effective Regulatory Framework is needed to streamline the working of major ports in India in terms of their operations & tariff levels. The creation of a National Maritime Regulatory Authority is presently under study is expected to provide the regulatory policy and institutional framework.

- **Need For A Competition Policy:** The regulatory policy towards the port sector needs to articulate a comprehensive competition policy vis-à-vis the working captive and common user minor ports.

- **Labour Reforms Initiative:** Major ports need to accelerate the pace of labour reform process, with a clear view to bring down the level labour force in ports and thereby bring down the expenditure.

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E) The Future of Ports & Shipping in India - Need For Vision

- Articulation of vision alone is not adequate. The vision should be followed by mission, objectives and goals, with a clear time-bound agenda of action and allocation of requisite human and financial resources to achieve desired goals.

- The vision needs to encapsulate the idea of India, fast emerging as a major economic power within the broader phenomena of assertion by Asian economies. India is becoming the epicenter for all multinational companies for expansion of business, manufacturing, trade and outsourcing their key business processes, given India's advantages in software and IT-enabled services

- The stakeholders, in the vision need should comprise of all the players in the maritime domain including industry players -national and international, government, NGOs, port authorities and operators, logistics service providers etc.

- It should minimizing the areas of conflict of interests between these different stake holders and amplify the space for collaborative growth for all players, in their respective areas of specialization.

- A large wealthy and highly educated Indian Diaspora is influencing major business and political policies in favour of India and this could have key implications in promoting the future growth of Indian maritime sector.

- Ports in India like their counter-parts elsewhere in the world are likely to become logistics hubs facilitating trade regional development and acting as economic multipliers accelerating growth through value enhancement in the logistics chain.

- A liberalized economy based on public-private sector collaboration, with greater linkages with global economy for bringing in capital, technology and modern management practices.