Inputs from ICCSA on growth impediments in Indian (coastal) shipping

(Failure to achieve any significant "modal shift" from rail and roadways)

The percentage of waterways in domestic transport in India still hovers around 6% (coastal) and 1-2% (Inland waterways). The majority of cargo carried through inland waterways is "lighterage operation" on the coasts of Gujarat, Maharashtra, and West Bengal, which is necessitated essentially due to a lack of adequate infrastructure.

IMPEDIMENTS AND SUGGESTIONS:

Impediments to the "modal shift" have been identified in detail in various studies conducted by different agencies, along with recommendations. Direct (shipowners) and indirect (shippers) incentives have been suggested to plug the viability gaps. The truth of the matter is that the modal shift will be successful and sustainable only if it is viable. Some of the measures suggested below apply to Indian shipping in general, while others have specific relevance to coastal/domestic shipping.

1. CARGO CONNECT

a. A peninsular coastline is not necessarily conducive to the transportation of goods. Coastal transportation of goods needs to be reevaluated by dividing the coast into "short sea passages" of, say, 500 KM and working on a "hub and spoke" basis. EU states have successfully implemented this approach and have been highlighted in past studies conducted as well.

b. Additionally, the pattern of "production" and "consumption" in India is quite skewed. For example, ships may find sufficient load during the N-S league on WCI but struggle to get 50% load on the return passage. Cargo availability is key.

c. There is also a general lack of awareness in the industry (shippers) of the potential and possibilities of coastal transportation of goods in India.

d. It is recommended that a study be commissioned on the above subject, taking the ground realities into account. The study should give specific and practical suggestions on trading routes, nature of cargo, types/size of ships suitable for the trade, and the potential business partners.

2. HIGH CAPEX and SHORTAGE OF RIGHT-SIZE/TYPE VESSELS

a. The "modal shift" generally considers the use of smaller ships of up to 6-8000 DWT carrying capacity suitable for the coastal trade to maintain optimum draft. Over the years, the number of small "cargo carrying Indian ships" has hardly seen any growth except for the industries (steel, cement) with captive requirements. This has created a "chicken and egg" situation (ship vs cargo).

b. Therefore, it is suggested that

i. All Indian ships (as recommended by DGS) are brought under the ambit of HML. (infra-status)
ii. The SARFAESI Act is amended.
iii. 5% GST on ship acquisition is removed.
iv. Promote low-cost and collateral fee funding for ships engaged exclusively in domestic trade. (Indonesian model)

v. The GST regime on ship chartering needs to be rationalized.

3. HIGH OPEX

1. The waterways have an inherent disadvantage over rail and roadways in terms of first and last-mile connectivity. The only way to offset this disadvantage is to introduce Ro-Ro, which is a capital-intensive exercise. Besides, the rail and roadways have virtually "free run" when compared to laws governing maritime trade. Therefore, some of the suggestions are listed below to make the coastal shipping competitive:

a. Fuel under the GST regime

Bring the marine fuel used by coastal vessels under 5% GST. Indian ships consume about 1 to 1.5% of the total fossil fuel used by the entire nation. This suggestion has the support of MoPSW and needs to be taken up with the GST council.

Additionally, the shortage of biofuel in India is yet another impediment to the "greening" of ships engaged in coastal trade.

b. Dedicated jetties/berths for coastal trade

Despite various government pronouncements, the major ports and private ports, due to their huge investments, can only reduce their tariff to a certain extent. Besides, these ports are always "customs notified," which works as one of the biggest impediments to trade.

It is suggested that state governments be encouraged to allocate space and provide incentives to develop finger jetties/berths with adequate draft and connectivity to facilitate coastal trade. Also, the existing major and non-major ports are incentivized to allocate dedicated (preferably non-notified) berths to coastal ships.

c. Role of regulatory (non-marine) bodies

The immigration, customs, and port health authorities see no difference between a ship engaged in EXIM trade and an Indian ship engaged in coastal/domestic trade. The costs and delays due to this regulatory overreach are significant and benefit only the "middle men". Though often identified as "low-hanging fruit", the DGS/MoPSW, despite the best intentions, has not been able to convince the concerned ministries/agencies to adopt a more practical and realistic system for Indian coastal ships.

It is suggested that the representations by the NSB members be made to the respective agency/ministry to present our case and propose a substantially equivalent system of reporting, identification, and traceability, such as online reporting and updating of information.

d. Shortage of qualified officers

The gap between the demand and supply of officers to man coastal ships has worsened over the period due to increased local and overseas demand. The lack of supply has skyrocketed the operating cost. The tax on income as such always makes employment on Indian ships a "second choice" for Indian seafarers.

This situation is likely to persist and even worsen. Therefore, it is suggested that the officers holding CoCs under the IV Act are allowed to upgrade their knowledge and skills through additional training to create a larger pool of officers.

As an interim measure, the government may also permit Indian nationals holding a foreign CoCs to serve on Indian coastal ships.

e. Realistic assessment and application of conventions/codes to Indian ships engaged in domestic/coastal trade.

Many maritime states have established a separate legal framework for their ships engaged in domestic trade and have implemented it quite successfully. (for example, JG-Japan, ZC-China, and BKK-Indonesia). The policy intent in India has been to create synergy between coastal and inland trade.

The "Convention-minus" approach may need a relook. A holistic review of regulations applied to ships operating on the coast needs to be undertaken.

4. INLAND WATER TRANSPORTATION

a. The biggest impediments to the growth of IWT have been:
   i. Availability of sufficient water throughout the year in the waterways.
   ii. Inadequate marking of channels.
   iii. Limited night navigation facility.

b. Many more impediments can be listed here, but in the absence of the above infra support, the concept has not been put to the test fully.

5. NEIGHBOURHOOD OUTREACH

1. The Indo-Bangladesh trade agreement has largely helped the shipowners from Bangladesh, with hardly any Indian flag ships operating on the protocol route. The high operating cost makes Indian ships unviable.

India needs to enter into a similar agreement with Sri Lanka as soon as possible to integrate Indian coastal vessels operating between the ports on the East/West coasts of India with the ports in Sri Lanka (Colombo). Myanmar will be the next obvious choice.

With thanks and Regards

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