Issue Brief

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ROLE OF MERCHANT MARINE IN MARITIME SECURITY

The Merchant Marine plays only a modest role in contributing towards securing India's maritime neighbourhood or for that matter for any nation. On the other hand, its indirect contribution to security- largely through the economic dimension is significant.

This paper seeks to explore the economic dimension of merchant ships and in doing so, endeavours to bring out the resultant contribution to maritime security.

With my domain knowledge I hope to cover global maritime, and its current scenario in India. I have spent 28 years at Sea of which 18 years in Command as Captain and an additional 25 years ashore in Senior Management positions. I have recently relocated back to India after 5 years in Sri Lanka and a year in Seychelles. So, I do consider it a privilege to share my experience.

Global Maritime:

Shipping is the life blood of global economy. Without shipping, intercontinental trade, the bulk transport of raw materials, and the import/export of affordable food and manufactured goods would simply not be possible. The international shipping industry is responsible for the carriage of around 90% of world trade. Seaborne trade continues to expand, bringing benefits for consumers across the world through competitive freight costs. Thanks to the growing efficiency of shipping as a mode of transport and increased economic liberalisation, the prospects for the industry's further growth continue to be strong.

There are over 58,000 merchant ships trading internationally, transporting every kind of cargo. The world fleet is registered in over 150 nations, and manned by over 2 million seafarers of virtually every nationality. Ships are technically sophisticated, high value assets (larger hi-tech vessels can cost over US $200 million to build), and the operation of merchant ships generates an estimated annual income of over US $1.2 trillion in freight rates.

Globalisation has had the effect of further propelling shipping to even greater prominence, that of a catalyst for world peace and prosperity. The reality, however is that ships operate in a very fragile marine environment with an inherent perilous nature, which creates social cost detractors of safety and environment protection.

Shipping is the least environmentally damaging form of commercial transport and, compared with land-based industry, is a comparatively minor contributor to marine pollution from human activities. The International Maritime Organization (IMO) tasked with the responsibility of minimizing the social cost of shipping, has established a clear mandate to strive for cleaner oceans and safer ships. Ships that operate outside these standards are deemed to be substandard and therefore pose the greatest risks. Flag state, port state etc, have the most stake in the event of a maritime catastrophe, and therefore along with the shipowners have an explicit legal responsibility to enforce the provisions of conventions.

The IMO has produced a profusion of regulations that have been tailored to promote quality shipping. However, there are several impediments. As has been observed generally there is knee jerk reaction on the part of some governments in the wake of a disaster caused by real or perceived public pressure. Added to this is the fact that few states confer nationality on vessels for the sole purpose of economic benefits – commonly referred to as “Flags of Convenience”.

Indian Merchant Marine:

The Indian shipping industry plays a crucial role in the Indian economy. Around 95% of India’s trading by volume and 70% by value is done through maritime transport. 40% of India’s GDP comes from Export-Import Trade – which primarily takes place over the sea. It is pertinent to note that only 8% of our Exim Cargo is carried by Indian ships. Hence, it is important to put this in the right perspective whilst deciding on future policies and more so whilst our “unaccountable” bureaucrats deal with prospective foreign investors and shipping lines. It is important for policies to be put into place, basing India as a country and not due to political or state compulsions. As the ex-Chairman overseeing India for a Multinational Ship Owning Container Line, which owned and operated 135 Container ships on worldwide trade, I was privy to painful experiences with our bureaucracy, that would easily deter any foreign investors from participating. Having said that it is heart-warming to see our Prime Minister trying to make changes in attitudes and on ease of investments, which I hope will take us to even greater heights.

India has a coastline spanning 7516 kilometres, forming one of the largest peninsulas in the world. It is serviced by 12 major ports, 200 notified minor and intermediate ports. More Ports and Terminals are being put into place. In 2022, Indian ports handled about 20 million TEUs of containers vis-à-vis about 296 million TEUs in China. Shanghai alone handled about 47.3 million TEUs in 2022.

Trans-shipment is the act of off-loading a container from a large container ship (generally at a hub port) and loading it onto a second, smaller feeder ship to be carried to the final port of discharge. Global vessel sizes have significantly increased in the last decade and most main liner vessels have capacities of 10,000 TEUs or more, with the largest vessel reaching a capacity of 24,000 TEUs. It is indeed tragic that despite consistent inputs from maritime professionals, urging India to focus on developing suitable transhipment hubs on both the East and West coasts, India continues to depend on transhipment ports like Colombo, Jebel Ali, Singapore etc. It is obvious that decisions made in developing ports and terminals are more due to state driven politics rather than country driven necessity.

Lack of consultation with professionals coupled with lack of understanding by policymakers has contributed to this lacuna. The only project that might be of any significance in the immediate future is Vizhinjam which is controlled by the State Government of Kerala and is being undertaken by Adani Ports. The advantage that Vizhinjam has over the other ports is the natural deep water with depths of 20 metres and hence can accommodate the largest container ships servicing global trade. It is indeed ironic that Colombo already has a Container Terminal (CICT) which can handle these mammoth carriers, which call regularly.

Large container ships need deep-draft ports offering a depth of around 18 metres at berth. India's terminals offer a maximum of about 14.5 to 15 metres depth on the berth – and that too only in a few terminals. A quarter of all containers are trans-shipped through ports in other countries. Colombo (Sri Lanka), Singapore and Port Klang (Malaysia) handle more than 80% of India's trans-shipment cargo. It is pertinent to note that over 70% of transhipment volumes handled (in/out) in Colombo is of Indian origin. It is interesting to note that Colombo achieved a throughput of over 6.86 million TEUs in 2022 – despite Covid. As you all are aware, Sri Lanka has very few exports and the Container Terminals rely heavily on transhipment, which is a huge source of revenue for them.

Trans-shipment adds to the cost of handling cargo because of the extra port-handling charges. It has been estimated that the Indian port industry loses up to Rs 1,500 crore per year in revenue on trans-shipment cargo that is either originating from or destined for India. The additional cost is about $80-100, or Rs. 6500-8,500, per TEU, which would not be incurred, if the container could be imported/exported directly from an Indian port.

Through its ambitious SAGARMALA project, the Indian government wants to transform the country's ports and reduce logistics costs for domestic as well as import/export cargo by optimizing infrastructure investment. Maritime Development Fund and Maritime India Vision 2030 are part of this focus.

Whilst the government is focusing in the right direction with SAGARMALA and Inland waterways, I take the liberty to offer possibly a politically unacceptable view – that though we have proposed and have set up numerous terminals, we have consistently ignored the connectivity to these terminals. Those in the shipping Industry are painfully aware of the congestion, bottle necks and lack of connectivity in the past – and above all the bureaucratic hurdles and the lack of understanding and support rendered by both bureaucrats and regulators. Why cannot professionals be given a free hand to make policy decisions and improve efficiency and performance?

I have no hesitation in stating that there has been very little understanding at the highest level which has led to high level of frustration amongst investors and operators. Let us never forget that International Shipowners have the *choice* to call ports that are commercially viable – more so during such challenging times. Vizhinjam port is about 225 km from the government-owned Kochi/Vallarpadam port, where the Dubai-based company DP World has been operating India's first container trans-shipment terminal for the last six years. I was on the Board of Cochin Port as a Trustee for 3 years during the development of this project and acutely aware of the efforts that the Port Management and the Board, had to endure to convince all concerned. It is beyond reason why India could not have concentrated on developing Vizhinjam port at least 10 years ago as competition to Colombo, which would have certainly benefited trade. We were instead permitting states to propose and allocate thousands of crores on terminals which could only eat into each other volumes and yet not offer facilities to accommodate the largest container vessels which would have avoided transhipments as far as possible.

For good order sake, I must clarify that it is envisaged that future growth in import/export volumes might offer sufficient volumes for not only Indian ports and terminals but also neighbourhood transhipment hubs. But the immediate focus should be on India overcoming the overdependency on transhipment ports like Colombo, Singapore, Jebel Ali etc.

Tariffs play an important role in our terminals being competitive and offering efficient service. Quick turnaround and above all minimum depths for mega carriers to call our ports directly should be a priority.

Though our transhipment tariff is lower than Colombo, the vessel-related charges or marine charges at Indian ports are four times more than in Colombo. For instance, the marine charges for a 24-hour stay for a 5,000-TEU capacity ship is about US $40,000 in India vis-à-vis US $10,000 in Colombo. The marine charges are low in Colombo because the Sri Lankan government funds basic infrastructure, including dredging – "unlike in India". The Indian government expects ports to pay for dredging, which is in fact a huge component of the tariff- and hence this is inevitably passed on to the end users. We need to make our tariffs practical for Shipping Lines to call our terminals and will consequentially result in lower costs to our shippers and importers, to compete globally. Existing ports offering high tariff and then offering discounts to Lines, does not make sense. Why not ensure that our Tariffs are in line - if not better than our competitors.

If coastal shipping is used to complement road and rail transport in India, it could therefore lead to significant logistics cost savings. It is heart-warming to observe that the present Government has realized this and is in the process of according priority to Inland Waterways, Coastal Shipping etc. The Government's proactive initiative in recently holding the Maritime India Summit 2021 will go a long way in improving logistic costs for trade. "Sangar Manthan", setting up of Mercantile Marine Domain Awareness Centre, Major Port Authority Act 2021, National Logistics Policy, Unified Logistics Interface Platform, Gatishakti etc, will all contribute to enhancing our growth and hopefully reduce logistics costs. It is pertinent to note that cost of logistics in India is around 14 % of GDP vis-à-vis Europe's 8% of GDP. However, the government is endeavouring its utmost to reduce to 8-9 % of GDP by 2030.

Utilising inland waterways would result in huge overall savings in logistics costs. India offers potential in Ganges – Bhagirathi Hooghly rivers, Brahmaputra, rivers in Goa, backwaters in Kerala, inland waters in Mumbai and the deltaic regions of the Godavari-Krishna rivers.

Having said that, the question to ask is whether the powerful road transporters lobby will permit this to succeed. We can expect them to resort to periodical strikes and hold the various governments to ransom. Besides from a political perspective, implementation of road infrastructure is more "visible" to the voters than improving inland waterways or terminals- so will the Government have the political "will" to expedite inland waterways projects and emulate projects such as in Belgium, Netherlands and rest of Europe? Only time will tell.

A cause of concern is that effective as of 1 January 2020, the IMO Marpol Annex VI regulation on limiting sulphur content of bunker fuel to a maximum of 0.5% entered into force. The global sulphur content cap on bunker fuel was at 3.5%, a level considered easy to comply with for vessel operators. This has brought significant increases in fuel prices and operating costs and consequential rise in freights correspondingly. Though COVID had initially exacerbated the maritime sector, the subsequent shortage of containers globally, had resulted in huge increase in ocean freights (freights at times have increased by four to seven-fold) which had placed the importers and exports worldwide in a very difficult situation.

However, this has dramatically changed in the recent past, with most container operators experiencing substantial Loss in freight revenues. Container Freight rates have fallen materially over the past 6 months and are now hovering at 2020 lows across several routes. Global demand has fallen away, congestion has eased, equipments are available and the macro-economic and geopolitical situations are to say the least, complex.

Regional Security:

Merchant Navy is traditionally considered as a second line of defence for a maritime nation – after the Navy. Merchant Navy also contributes in the economic defence of our nation.

The challenges facing maritime security in the Indian Ocean region, however, have significantly broadened. Traditional threats include the military presence of belligerent powers and the consequent strategic rivalry, as well as terrorism, piracy, and illegal smuggling; non-traditional threats include the challenges of climate change, such as increasing natural disasters and loss of traditional livelihoods. These disruptions severely impact the island nations in this part of the world. A close partnership between these island nations and larger littoral countries thus becomes a practical necessity and plays a critical role in maintaining stability in the region.

A strong governance and security architecture in the Indian Ocean is necessary and ought to be a global priority. New Delhi's Indian Ocean policy, enshrined in "SAGAR – Security and Growth for All in the Region," articulates India's vision for building a secured regional architecture, which includes "safeguarding mainland and islands, strengthening capacities of maritime neighbours and advancing peace and security" in the Indian Ocean Region. For a country like India, the island nations of the Indian Ocean hold immense strategic value in shaping the geopolitical contours of the region and ensuring maritime security and order.

The Indian islands of Andaman and Nicobar, as well as Lakshadweep, have significantly helped the country in enhancing its maritime capabilities. The Andaman and Nicobar Islands are positioned close to the Strait of Malacca and are less than 90 nautical miles from Aceh in Indonesia. This enables India to closely observe military and economic activities in and around the Strait of Malacca and also overlook the maritime entry point of western Pacific countries in the Indian Ocean. To its west, India enjoys rights over nearly 400,000 square kilometres of exclusive economic zone (EEZ) due to the Lakshadweep islands.

Farther west from India, the islands of Socotra (Yemen), Madagascar, Mauritius, and Seychelles have gained strategic importance, standing at the crossroads of Europe, Africa, and South Asia. While Socotra is strategically located at the opening of Gulf of Aden, which connects the Suez Canal with Indian Ocean, the maritime zones of Madagascar, Mauritius, the Maldives, and Seychelles span over 1 million sq. km, which allows them greater rights in ocean waters. However, it is with the island nations of Mauritius and Seychelles that India primarily seeks to bolster its economic and strategic relations in order to influence the dynamics in the Indian Ocean. Focus on QUAD has certainly improved the chances for the Indian Ocean Region to contain China. Involvement of India in the Chabahar Port Project in South Eastern Iran is a good strategic move as well.

There have been some positive developments during the recent QUAD meetings held in Tokyo. About 13 nations have joined the new Indo-Pacific Economic Framework – a new US led Asia-Pacific trade initiative, which is being positioned against China’s aggressive expansion in the region. The programme envisages integrating partners through agreed standards in Four main areas – digital economy, supply chains, clean energy and anti-corruption measures. More importantly, leaders of QUAD nations – Australia, India, Japan and the United States unveiled a Maritime Security Initiative that will allow member countries to monitor illegal fishing, track ships with their Automatic Identification Systems (AIS) switched off and other activities across the Indo Pacific Region.

The so-called Indo-Pacific Partnership for Maritime Domain Awareness (IPMDA) is expected to offer a near-real time, integrated and cost-effective maritime domain awareness picture and the partners to fully monitor the waters on their shores. It will allow tracking of dark shipping and other tactical-level activities, such as rendezvous at sea, as well as improve partners ability to respond to climate and humanitarian events and to protect their fisheries which are vital to many Indo-Pacific economies. It is pertinent to note that that because of its commercial origin, this data will be unclassified, allowing the QUAD to provide it to a wide range of partners.

Sri Lanka:

Sri Lanka presently has 3 container terminals in Colombo (JCT, SAGT & CICT) with Eastern Container Terminal and now Western Container Terminal (controlled by Adani Ports). They are also working on setting up additional infrastructure in Hambantota. Unable to repay its debt, Sri Lanka gave China a controlling equity stake and a 99-year lease for Hambantota port, which it handed over in December 2017. The economic rationale for Hambantota is weak, given existing capacity and expansion plans at Colombo port, fuelling concerns that it could become a Chinese naval facility. To the best of my knowledge, Trincomalee Harbour is earmarked for Bulk Cargo, Oil Tanks etc. and expect India and Japan to be more involved in projects associated with this Port.

Though India was initially accorded the East Container Terminal Project, based on a tripartite agreement signed between governments of Sri Lanka, India and Japan, it was shocking to see Sri Lanka renege on this due to pressure from Trade Unions and some local politicians, obviously at the behest of China – as ECT would have been in direct Competition to CICT – not only in offering depths that can accommodate the largest container vessels, but also possibly handle maximum percentage of Indian Origin Transhipment volumes as Adani Ports appointed by India was supposed to handle this project with its local partner John Keels Holdings of Sri Lanka.

Subsequently the Sri Lankan government tried to appease India by offering the West Container Terminal instead and strangely went ahead with direct negotiations with Adani Ports based on a BOT proposal for 35 years without the direct involvement of either the Indian government nor the Japanese government. This project is under construction with Adani Group owning 51 % stake, local partners John Keels 31% stake and Sri Lankan Port Authority will have the balance 15% stake. The project is expected to be completed by end of 2025.

Seafarers:

The worldwide population of seafarers serving on internationally trading merchant ships is estimated at around 1.89 million of which 857540 are officers and 1035180 are ratings. Interestingly, India supplies around 12.8% officers and 14.5% ratings to the World Seafaring Community. This means that merchant navy generates significant employment opportunities worldwide. Additionally, a career at sea pays much better than a career on shore and therefore, merchant navy further contributes to the global economy by increasing the purchasing power of those employed by it. The Shipping Industry and relevant stakeholders cannot expect there to be an abundant supply of qualified and competent seafarers without concerted efforts and measures to address key manpower issues through the promotion of careers at sea, enhancement of Maritime Education and Training worldwide and addressing the retention of seafarers.

Conclusion

In order to truly become a player of consequence, in regional trade and make any impact in the Indo-Pacific theatre, India needs a Merchant Fleet, competitive and commensurate in size to carry not only it’s national export trade, but also across trades of other countries, thereby earning freight income for India, while assuming the role of provider of those services. Indian Govt recently announced a New Scheme of providing Rs. 1624 crores over a period of 5 years, which is a great initiative and will enable better training and employment opportunities for Indian Seafarers besides enhancing Indian companies' share in global shipping.

One can only hope that the Indian government and its bureaucracy continue to remain focussed on improving the ports, terminals, inland waterways and coastal shipping and accord logistics costs the priority it deserves.

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