EFFECT OF CABOTAGE POLICY ON COASTAL SHIPPING

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Abstract

India is emerging as a modern economy and about 95% of India’s EXIM cargo trade by volume and 70% by value is transported by sea. At present India’s foreign trade represents less than 3% of global trade and the National Maritime Agenda set a target of 5% of global market share by the year 2020. Coastal shipping has a significant role to play in supporting Indian economy to achieve this ambitious target.

Despite having a great Maritime tradition and a long coastline of about 7517 km studded with 13 major and 185 Non-Major (Minor / Intermediate) ports, the potential of coastal shipping has not yet been fully exploited in India.

This paper outlines the current status of Coastal Shipping in India, provides an overview of Coastal traffic, explains how containerization serves as a driving force for coastal shipping and makes a case for relaxation of Cabotage policy for the growth of Coastal Shipping in India.

Key words: Cabotage policy, Merchant Shipping Act, 1958, Ro-Ro, Lo – Lo services, Containerization, Transhipment, Hub Port, Multimodal transport

Cabotage Policy

Cabotage means carriage of cargo between two ports within a Country, along the coast line, by a vessel or vehicle registered in another Country. This occurs when a foreign ship is picking up or unloading cargo in two or more ports in the home Country. Permission to engage in cabotage is, in general, strictly restricted in every Country.

Cabotage policy has an important bearing on the coastal shipping of a country. Most of the maritime nations like the USA, China, Indonesia etc. have placed restrictions on the
movement of cargo along coastal ports of their Country (absolute Cabotage) by their own flag vessels.

By definition, coastal vessel means a vessel of Indian registry with exclusive Indian crew, engaged in carriage by sea of cargo or passengers, from one Indian port to another port or place in India, and/or any other vessel having specified period of license for engagement in coastal trade issued by the Director General of Shipping, Govt of India.

In India the Cabotage, which is provisioned in section 406 & 407 part XIV of Merchant Shipping Act, 1958, is not absolute. According to this law, only Indian flag vessels can carry cargo from one Indian port to another Indian port. However, permission can be granted to foreign flag vessels to carry cargo between Indian ports, in case Indian flag ships are not available.

The Indian National Ship Owners’ Association (INSA) considers the absence of absolute cabotage the major reason for low investments in coastal shipping and strongly oppose the move of relaxing the cabotage law arguing that this will not give a level playing ground for Indian bottoms.

On checking the past records of coastal trade, it is evident that the present cabotage policy did not boost coastal trade to the desired levels. The percentage of coastal shipping in India is only 7% of cargo traffic against 43% in Europe.

Coastal Shipping - Present Status

Economic reforms in India have triggered a high rate of economic growth in the country and this in turn has led to an increase in transport demand. This demand is being met mainly by the rail and road transport systems. About 50-55% of the freight traffic is carried by road, 30-35% is by rail and only about 7% by coastal shipping (Ref. Fig-2).

Fig. 2 Modal share for inland cargo movement

Though the number of coastal vessels and their tonnage increased from 244/60mt in 2001 to 682/1.0 mgt in 2010, actual number of cargo carrying fleet is very small. The major percentage of fleet comprises of passenger - cum - cargo vessels, passenger vessels, dredgers etc (Ref.Chart-1). And the average age of the coastal fleet is much higher compared to that of overseas fleet with over 60% of its tonnage already overdue for replacement.

Chart-1 Coastal Vessels and GRT

According to Alphaliner report given below, the world liner fleet of container vessels has crossed 15 million TEUs now.
Effect of Cabotage Policy on Coastal Shipping

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Note: The total existing cellular fleet (all sizes / all positions) stands at 4,923 ships for 15,172,974 TEU

Chart-2 Operated fleets

Whereas only 16 Indian container vessels as listed below with about 2200TEUs capacity only are available for coastal run at present (Ref. Table-1 below).
**Table-1** Indian ships for Coastal run

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Name of Indian-Flagged Container Ship on Coastal Run (entitled to Cabotage Benefit)</th>
<th>Capacity (TEUs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCI</td>
<td>RAJIV GANDHI</td>
<td>1869</td>
</tr>
<tr>
<td>SCI</td>
<td>INDIRA GANDHI</td>
<td>1869</td>
</tr>
<tr>
<td>SCI</td>
<td>LALBAHADUR SHAHSTRI</td>
<td>1869</td>
</tr>
<tr>
<td>RELAY SHIPPING</td>
<td>OEL SHREYAS</td>
<td>1280</td>
</tr>
<tr>
<td>RELAY SHIPPING</td>
<td>OEL TRUST</td>
<td>1050</td>
</tr>
<tr>
<td>RELAY SHIPPING</td>
<td>OEL VICTORY</td>
<td>501</td>
</tr>
<tr>
<td>GATI</td>
<td>GATIMAJESTIC</td>
<td>841</td>
</tr>
<tr>
<td>GATI</td>
<td>GATITRIDE</td>
<td>841</td>
</tr>
<tr>
<td>SEAWAYS</td>
<td>SEAWAYS VENTURE</td>
<td>1020</td>
</tr>
<tr>
<td>SEAWAYS</td>
<td>SEAWAYS VALOUR</td>
<td>1100</td>
</tr>
<tr>
<td>JINDAL</td>
<td>JINDAL MEENA KSHI</td>
<td>600</td>
</tr>
<tr>
<td>JINDAL</td>
<td>JINDAL KAMAKSHI</td>
<td>600</td>
</tr>
<tr>
<td>CARAVAL</td>
<td>CARAVAL PRIDE</td>
<td>585</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>32156</td>
</tr>
<tr>
<td>SCI</td>
<td>SClCHENNAI</td>
<td>4400</td>
</tr>
<tr>
<td>SCI</td>
<td>SClMUMBAI</td>
<td>4400</td>
</tr>
<tr>
<td>RELAY SHIPPING</td>
<td>UNITY</td>
<td>1021</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>9821</td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td>21977</td>
</tr>
</tbody>
</table>

(Source: Draft Report of Sub-Group No.VI on Infrastructure to Support Coastal Shipping, Cruise Shipping and Development of Ship Repair, page.11)

Sufficient Ro-Ro or Lo-Lo services, which can carry trucks from one port to another to reduce the cost of double handling, are not available along the Indian coast at present. Introduction of such efficient multimodal transport system will make coastal shipping more attractive. As Indian shipping is not in a position to bring in such multimodal transport systems at present due to various reasons, foreign shipping should be permitted to operate.

**Coastal Traffic – An Overview**

The commodities carried by coastal shipping are mainly bulk and break bulk cargo. The passage of cargo to both directions are not equal in coastal shipping and this leads to imbalance. This is because the cargo movement pattern and magnitude is mostly dependent on the production/ availability, consumption/ demand and the distance separating production centre from points of destination.

The commodity wise split of costal cargo for 2005-06 and 2009-10 are in the following figures. Though the POL products have the highest share, it is to be noted that the share of liquid/dry bulk cargo has reduced from 94% (2005-06) to 87 % in 2009-10. There has been an increase of 7% in the share of “Others” (food grains, automotive spares, automobiles, steel, cotton yarn, other containerized cargo etc) due to increase in containerized cargo movement. (Figs. 3 & 4)
Previous studies and surveys reveal that, foreign shipping is more cost effective and technically advanced compared to coastal shipping. This is another reason why foreign ships to be permitted to carry Indian coastal cargo, this policy change can do wonders in reducing logistics costs and enhancing efficiencies. Also it would boost multimodal transportation trade and there is huge business potential waiting to be tapped in India.

**Containerization - Driving force for Coastal Shipping**

Containerization density in India is lower (18%), compared to the world average, though rising containerization is one of the key trends expected to drive coastal shipping to higher levels. Positive upward trend in containerization is evident in the chart given below, an increase of 3.2% from FY04 (14.8%) to FY10 (18%) - Ref. Chart-3.
The commissioning and successful implementation of India’s first International Container Transhipment Terminal at Vallarpadam, Cochin and the proposed Vizhinjam International Transhipment Terminal are expected to catalyze the growth of coastal shipping further as container volumes are projected to grow much higher from all Indian ports. Presently about 70% of the Indian containerized cargo is getting transshipped at Colombo, Dubai, Singapore and Salalah. The dependence on foreign transhipment ports makes the import and export of India expensive and less competitive in the international market.

The cabotage restriction has an adverse effect on the growth of India’s first and only transhipment terminal, ICTT-Vallarpadam, which is in its infancy. This is a classic example of the necessity of relaxing the existing Cabotage restrictions for the promotion of shipping trade in general and coastal shipping in particular. For the success of a hub port, good connectivity (sea/river, rail, road) is required to pool cargo from other Indian ports/ overseas and to deliver the cargo to final destinations. From Colombo, shipping lines are free to feeder in/out container to any Indian ports without any difficulty and this increases the acceptance of Colombo as a preferred hub port.

The cargo carrying capacity of ships is several times greater than that of rail wagons or trucks and therefore, coastal shipping offers the benefit of low transport / operating & logistics costs to the trade and industry.

The Department-Related Parliamentary Standing Committee on Transport, Tourism & Culture in their 170th Report on Modernization of Major Ports presented to the Rajya Sabha on 11th August 2011 says this on cabotage, vide Section 346. “In view of the critical implication of this regulation in the successful implementation of the ICTT project and in the larger interest of economic self-reliance of the Indian EXIM trade, it is imperative that the Cabotage Law is relaxed to enable transhipment of containers through foreign flag vessels from ICTT, Cochin. The Committee, therefore, recommends that the Government should immediately undertake a review of the Cabotage law and take appropriate decision in consultation with all the stakeholders involved”.

Also, the Director General of Shipping is planning to recommend in the draft of the Coastal Shipping Policy, “a nuanced approach towards transhipment cargo would require opening it up to foreign flags so as to boost containerization and the requisite infrastructure and practices”.

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**Chart-3 Coastal container freight**
According to INSA this move will adversely affect the growth of Indian coastal shipping. They also argue that the foreign liners have only short term interest and the Indian shipping companies are equipped enough to cater to the expected increase in demand for more feeders. However, it is difficult to foresee the acquisition of sufficient container ships by Indian companies. Though it is argued that the relaxation would hurt the growth of Indian tonnage, in long run, by creating demand for the coastal shipping, it would be beneficial.

Relaxation of Cabotage Policy by other Maritime Countries - An Overview

Malaysian Government has relaxed their cabotage law in 2009 in respect of transport of containerized transhipment cargo to promote Port of Tanjung Pelepas and particularly to help Malaysian Shippers. Relevant text is reproduced below:

MERCHANT SHIPPING ORDINANCE 1952
EXEMPTION FROM SUBSECTION 65 KA(I)

In exercise of the powers conferred by section 65(u) of the Merchant Shipping Ordinance 1952 (Ord. 70/1952), the Minister exempts non-Malaysian ships from the provisions of subsection 65KA(I) of the Merchant Shipping Ordinance 1952 in respect of the transport of containerized transhipment cargo for the sectors between the Port of Sepangar and the Port of Klang and vice versa, between the Port of Bintulu and the Port of Klang and vice versa, between the Port of Kuching and the Port of Klang and vice versa, between the Port of Sepangar and the port of Tanjung Pelepas and vice versa, between the Port of Bintulu and the Port of Tanjung Pelepas and vice versa and between the Port of Kuching and the port of Tanjung Pelepas and vice versa, with effect from 3 June 2009.

Dated – 1 June 2009

DATO’ SRI ONG TEE KEAT
Minister of Transport
Govt. of Malaysia

The Malaysian Government’s policy succeeded and within a span of 10 years PTP handled 6.53 million TEUs in 2010 and got itself placed at 17th position among the top 30 container ports of the world. Interestingly, 95% of the total containerized cargo handled is transhipment cargo. (Source - Cochin or Colombo - Which One Should Survive? an article by Dr Jose Paul published in “Business Line”)

Also, in the USA, Senator John Mccain has proposed alternative legislation to the Jones Act, which required that all goods shipped among US sea ports be carried by US built, flagged, operated and crewed vessels. According to the senator, this 1920’s law hindered free trade and favoured labour unions over consumers. He added that US economy could benefit by as much as US$ 1 billion annually from repeal of the Act citing a 1999 US International Trade commission Economic Study which suggested that liberalizing domestic shipping would reduce costs by approximately 22%. (Source – Relaxation of Cabotage law - How will it benefit container transhipment trade? by Dr. Jose Paul, published in “Business Line”,)

The recent ‘Marine Highways’ initiative of the U.S Government to get a sizeable portion of its container transport from road ways to coastal shipping and river systems deserves special mention. An amount of US$ 30 million under the “Transportation Investment Generating Economic Recovery (TIGER)” has been sanctioned by the US Government as federal grant. Similarly, the European Union is
making available EUR 450 million over the next 3 years on its “Marco Polo Motorways of the Sea” initiative to divert road traffic to coastal shipping (Source- Containerization International- London, October 2010).

**Key Advantages of Coastal Shipping**

It is estimated that the nation would save ₹ 15-20 billion through diversion of 5% of cargo from road apart from a reduction in pollutants by 6% and savings in fuel. India’s transportation sector relies heavily on petroleum as its chief energy source, thereby dominating the country’s oil consumption.

Indian marine highways are a vital national resource currently not being used and India should develop a vibrant system of sea highways connecting a network of major/minor ports and the Inland water Transport system which would complement the land bound network. A well developed coastal shipping will substantially help reduce road accidents, fuel conception and will prove to be an environmentally friendly mode of transport.

Also, various studies in India and abroad have proved that Coastal shipping can reduce green house gas emission considerably. This makes all the more important that India should look closely at the potential of the coastal shipping transport systems to ease the pressure on surface transport modes and arrest the continuous damage caused to environment.

India should reduce the stress on road and rail and also on environment by diverting a sizable percentage of cargo moved by rail and road to coastal shipping. A relatively modest investment in coastal sea routes with appropriate policy changes would bring substantial benefits by reducing burden on present transportation system, traffic congestion and pollution.

**End Notes - Policy Change, a Prerequisite for Coastal Shipping Growth**

When the gates of Indian economy were opened to the international competition as a part of globalization in 90’s, there were huge cries to protect Indian industry from global competition. Contrary to the earlier belief, we have seen Indian industries such as automobiles, telecommunication, aviation, I.T, banking etc. emerging successfully with new vigor and made sparkling performances compared to their foreign counter parts.

Economic logic suggests that wherever monopoly and restrictive practices prevail, growth gets retarded and full potential of that sector of the economy remains untapped.

Huge waves of changes have been taking place in shipping industry, particularly in the container shipping trade, globally and in India too. Since Indian Merchant Shipping Act 1958 was enacted 53 years ago there is a compelling need to amend the clauses relating to cargo reservation to Indian ships with a view to procuring India’s foreign trade.

Indian shipping lines cannot afford to remain always under the comfort of cargo reservation by virtue of statutory protection. The coastal trade, especially the container shipping sector, should be thrown open to international companies for the benefit of the exim trade as competition is expected to bring in service reliability, quality, speed of delivery and cost reduction.

The Government is empowered to grant relaxation regarding Licensing of ships for coasting trade in terms of Section 407, sub section (3) of the Merchant Shipping Act, 1958. The relevant provision is quoted below:

“The Central Government may, by general or special order, direct that the provisions of sub-section (1) shall not apply in respect of any part of the coasting trade of India or shall
apply subject to such conditions and restrictions as may be specified in the order.”

When the coastal container trade is open to international competition, it would create an enabling environment for faster growth of transhipment traffic. The present annual volume handled at Colombo port is around 3.80 million TEUs, of which roughly 75% (2.85 million TEUs) is transhipment. Of this, about 70% (1.99 million TEUs) per annum is transhipment from Indian Ports, and out of which, 60 % (1.19 million TEUs) is to and from South Indian Ports; which could be the potential business for ICTT Vallarpadam. (Source - Report of Parliamentary standing committee on transport, tourism & culture, 107th report on modernization of Major ports presented to the RAJYA SABHA on 11th August 2011)

With the relaxation of cabotage law, more number of feeder vessels would be calling at Indian ports with greater frequency and efficiency which in turn will be beneficial to Indian shippers and consignees. In a market environment with enhanced shipping services, reduced cost and frequent sailing opportunities there will be greater chance for transport mode change of containers from road / railways to coastal shipping.

Indian container shipping lines should compete with the foreign shipping lines on service quality, pricing and operational performance and there would be enough room for both to provide a truly competitive, cost effective and efficient shipping service to support India’s economic development.

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