

Export cycle of a shipping line economics essay



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Shipping Industry has always been subject to vagaries of different factors, such as, ocean monsoon, political and economical factors etc. Nowadays when the world economy is undergoing recession, its all the more necessary to study this integral line of transportation, which connects the globe through water.

The objective of the project undertaken was to study the problems of the upcountry exporters with particular reference to ICD. When in late 70's and early 80's, the concept of " containerized cargo" and " delivery at doorstep" started getting popular the world over, a need was felt to set up an Inland Container Depot to cater to the needs of trade and industry of the Northern part of India. With this background in mind and with a view to bringing the facilities of transportation and Customs clearance of import and export cargo at the doorstep of importers and exporters, an Inland Container Depot was set up at Pragati Maidan in 1983 under the control of an Assistant Collector of Customs. Indian Railways were nominated the custodian of the goods. In 1984, a Container Freight Station (CFS) was also opened at Patparganj, which was an extension of ICD, Pragati Maidan, and Central Warehousing Corporation was nominated as its custodian. This was a new experience for the trade and industry of North India and the institution of ICDs caught their imagination. Soon, the importers/exporters who earlier used to clear their goods from one of the ports, started using ICD: Pragati Maidan and CFS : Patparganj for the clearance of their import and export goods. In 1988, a public sector enterprise, M/s. Container Corporation of India Ltd. (CONCOR) was set up which took over the responsibilities of custodian from Indian Railways for ICD: Pragati Maidan. Within a decade of its inception, the

volume of work at ICD had increased to such an extent that it became difficult to handle it at Pragati Maidan. It was then decided (in 1983) to shift the venue of ICD from Pragati Maidan to its present location i. e. at Tughlakabad. In 1995, the CFS : Patparganj was upgraded to a full fledged ICD with C. W. C. continuing as custodian of the goods. Movement of containers by road was also permitted in addition to the movement of containers by rail through Tughlakabad.

Almost all commodities are being imported through ICD, major items being machinery, electronic goods, plastic, chemicals, motor vehicles and parts and metal and metal scrap. On export side major items being exported through ICD are leather garments and leather products, readymade garments, machinery, agricultural products especially rice

The project was majorly focused on ICD and the problems faced by the exporters with reference to the ICD.

OBJECTIVE

To study the problems of the upcountry exporters with particular reference to ICD

To study the workings of the study.

To study the role of ICD in India.

To study the role of Multimodal Transport Operators in the International Trade transactions.

METHODOLOGY

DATA SOURCE:

The data was collected from primary and secondary sources.

Primary data was collected through interactive sessions with exporters & importers, Export & Import managers, Commercial managers, Managing Directors, General Managers, Logistics managers and Supply chain managers.

Secondary data was collected from internet, EXIM newsletter, Libraries and FIEO's directory.

RESEARCH APPROACH:

The approach adopted was survey of exporters and interactive sessions with various people. The presidential areas that were surveyed include Okhla Industrial area, NOIDA, Udyog Vihar, and Global Business Park etc.

RESEARCH INSTRUMENT:

Research instruments used were interactive sessions with various executives.

CONTACT METHOD:

Personal interviews were used to collect information because they are more authentic and the researcher can easily know and describe the attitudinal behavior of the respondents, which cannot be done by using other survey methods

LINER REPRESENTATION

THE LINER INDUSTRY'S CHALLENGE:

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There is no doubt that the challenges and opportunities facing the container liner shipping business get bigger as each year passes. As the years after 1999 passed half the way the future of those companies involved in providing container transport services seemed to hinge on two massive opportunities or challenges' securing cost advantage and satisfying the need of customers. The consensus is that failure to seize either or both of these opportunities will ultimately condemn carriers, whatever their specialist niche or global coverage to commercial oblivion in a trading environment that each year becomes ever more competitive.

The first analysis of the containerization international, published in May 1983 entrants which do not figure in the latest 1998 ranking, are Wilhelmsen Lines, Polish Ocean Lines, Hoegh Lines and Star Shipping, all of which unlike US Lines, are still operating.

Number one shipping line, Maersk was ranked fifth in 1983, Mediterranean Shipping Co., fourth in the year was nowhere to be seen. Of course, back then Nedlloyd and P&O (then called OCL) were listed separately, as were APL and CGM, while the companies, which have recently acquired them, respectively NOL and CMA, did not even make the top 20 in 1983. Neither did Ships, Safmarine/CMBT, nor any of the South Korean carriers.

What was also different was the number of non-cellular vessels and converted to cellular ships 1983 stop carriers had deployed. Only just over half their fleet in terms of TEU capacity were purpose-built, fully cellular ships. Also, most of their ships were less than 2, 000 TEU, the notable

exception being those of US Lines. It had 14*4, 4, 148 TEU ships in the pipeline.

Capacity growth is largely attributable to expansion by leading players. For, such is the maturity of the market and so high the price of entry that the days of major new operations appearing on the scene are long since gone. The problem of underutilization of assets also exists. This problem doesn't vary only from trade to trade, but also from route segment to route segment. Similarly its impact on pricing is patchy. Container liner services' rates continue to decline in real terms in many markets, despite considerable improvements in the level and range of services being offered by carriers. Some analysts suggest that rate levels will soon start to edge up in certain trades as carriers seek to recoup the substantial investment they have made in vessels, boxes and information systems. It is argued that there is a limit to how long they can continue to survive in such tight margins.

However, a rise in rates presupposes a level of discipline among carriers, which the industry has rarely displayed, often preferring instead to try and secure volume by buying market share. And with the conference system in terminal decline in the face of shipper and regulatory antipathy, there are few structures left to encourage price discipline within the industry.

Carriers will also continue to secure cost advantage by forming strategic alliances with other operators. Such partnerships are now a recognized means of achieving better results for carriers and their customers. On most trades such arrangements are now the norm and barring any regulatory ruling which might impede their progress they will continue to flourish.

One of the advantages of such alliances is that they enable participants to improve the coverage and service frequency they can offer their customers. Such considerations assume greater importance as lines seek to be more responsive to the needs of their customers. Increasingly operators are becoming less asset-focused and more customer-driven. This presents a host of opportunities for an industry which has only relatively recently realized it is in the service business. For the global operators the challenge is to think globally, but at the same time act locally, by providing services which are appropriate for local as well as global shipping needs.

WORKINGS OF SHIPPING LINE

Contract of shipment

Booking space in a ship.

Getting confirmation from the agent.

Picking up of the cargo (according to the terms of the shipment).

Warehousing, if required.

The carrier issues the bill of lading when he receives the goods.

Once the ship sails the master informs the agent.

Informing the principal about the shipment.

Delivery according to the terms of shipment.

Export Cycle Of A Shipping Line

Shipping line negotiates freight terms, etc with the client and upon finalization of deal; client agrees to use MISC for export shipment. The client then approaches the Shipping Line. Operations office/counter at the ICD for the allotment of the container. Container is allotted to the client upon the presentation of a copy of shipping bill/invoice. There are three modes of operation.

Factory stuffing:

If the container is being taken to the factory for stuffing, the client organizes his own transportation and removes the container for house stuffing.

After stuffing, the central excise puts a seal in the container and Line seal is also put by the shipper.

The container is moved to ICD, where a customs inspection takes place, and after inspection Customs seal is put.

After the sealing, the container moves to the railhead for further movement to Nhava Sheva.

ICD stuffing:

The cargo is brought to the ICD by the shipper and a container is allowed based on shipping bill a container is allotted.

Cargo is stuffed at ICD and after the seals are put in the container, the container moves to the railhead for further movement to Nhava Sheva.

CFS stuffing:

The cargo is brought to the CFS by the shipper.

After the customs formalities, the container is stuffed by the shipping line.

After stuffing, a line seal and customs seal is put, and the container is moved to ICD railhead for further movement to Nhava Sheva.

Many a times the shipper stuffs the container in his factory and instead of bringing it back to the ICD, hands it over directly to Nhava Sheva. Customs inspection of seal is done at Nhava Sheva.

Last but not the least payment is collected from the concerned shipper.

FLOW CHART OF THE EXPORT CYCLE OF A SHIPPING LINE

EXPORT

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FACTORY STUFFING

ICD STUFFING

CFS STUFFING

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BROUGHT TO FACTORY FOR STUFFING BY SHIPPER

CARGO IS BROUGHT TO ICD AND CONTAINER IS ALLOWED AGAINST S/B

CARGO IS BROUGHT BY THE SHIPPER TO THE CFS

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CENTRAL EXCISE AND LINE SEAL BY SHIPPER

CARGO STUFFED AT ICD

CONTAINERS STUFFED AFTER CUSTOMS FORMALITIES BY S/L

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CONTAINER BROUGHT TO ICD & AFTER CUSTOMS INSPECTION SEAL IS PU

PUTTING OF SEALS

PUTTING OF LINE & CUSTOMS SEAL

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CONTAINER MOVED TO RAILHEAD

CONTAINER MOVED TO RAILHEAD

CONTAINER MOVED TO ICD RAILHEAD

ICD TUGLKABAD

When in late 70's and early 80's, the concept of “ containerized cargo” and “ delivery at doorstep” started getting popular the world over, a need was felt to set up an Inland Container Depot to cater to the needs of trade and industry of the Northern part of India. With this background in mind and with a view to bringing the facilities of transportation and Customs clearance of import and export cargo at the doorstep of importers and exporters, an Inland Container Depot was set up at Pragati Maidan in 1983 under the control of an Assistant Collector of Customs. Indian Railways were nominated the custodian of the goods. In 1984, a Container Freight Station (CFS) was also opened at Patparganj, which was an extension of ICD, Pragati Maidan, and Central Warehousing Corporation was nominated as its custodian. This was a new experience for the trade and industry of North India and the institution of ICDs caught their imagination. Soon, the importers/exporters who earlier used to clear their goods from one of the ports, started using ICD: Pragati Maidan and CFS : Patparganj for the clearance of their import and export goods. In 1988, a public sector enterprise, M/s. Container Corporation of India Ltd. (CONCOR) was set up which took over the responsibilities of custodian from Indian Railways for ICD: Pragati Maidan. Within a decade of its inception, the volume of work at ICD had increased to such an extent that it became difficult to handle it at Pragati Maidan. It was then decided (in 1983) to shift the venue of ICD from Pragati Maidan to its present location i. e. at Tughlakabad. In 1995, the CFS : Patparganj was upgraded to a full fledged ICD with C. W. C. continuing as custodian of the goods. Movement of containers by road was also permitted in addition to the movement of containers by rail through Tughlakabad.

ICD : Tughlakabad (TKD) caters to the need of importers and exporters based in Northern India. It is situated near Okhla Industrial Area and is spread over 44 hectares of land. It has three storied Administrative block housing Offices of Customs, CONCOR, Bank, Shipping Lines, CHAs and Surveyors. Four full length rail lines are available in the Customs area which bring the containers by train from Gateway ports such as Mumbai, Nhava Sheva, Chennai, besides bringing the containers by road from other ports such as Haldia, Calcutta and Kandla, etc. ICD: TKD is equipped with most modern facilities such as rail mounted gantry of 40 metric empty lifting capacity, rubber tire diesel powered cranes, billoties and lift trucks, etc. two covered sheds, one for import and another for export with a total area of 16, 000 sq. mts. has been provided in the Customs area for stuffing and de-stuffing of import and export goods. With these ultra-modern facilities, ICD: TKD, New Delhi, has developed into the largest hub of multi-modal centre in the Indian sub-continent. Containers meant for ICDs: Patparganj, Faridabad and Gari Harsaru are first brought at TKD by rail and then transported to their respective destinations.

Almost all commodities are being imported through ICD, major items being machinery, electronic goods, plastic, chemicals, motor vehicles and parts and metal and metal scrap. On export side major items being exported through ICD are leather garments and leather products, readymade garments, machinery, agricultural products especially rice

The ICD Tughlakabad is the largest dry port in South Asia and the leading centre for importers and exporters of the Northern Region. This ICD began functioning at Tughlakabad in 1993, prior to which it was located at Pragati

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Maidan. The Custodian of this ICD is Container Corporation of India Ltd (CONCOR), which is the Public Sector Undertaking. CONCOR are also the carriers, through rail, of import and export containers between ICD Tughlakabad and the Gateway Ports of Mumbai, Nhava Sheva and Chennai. This ICD is the focal Port for the ICDs at PPG, Faridabad and Garhi Harsaru and the movement of the containers between the ICDs to and fro takes place by road. The Customs area houses two covered Sheds, one for import and the other for exports. The main CONCOR building houses the administrative staff of Customs and CONCOR as well as the offices of CHAs and Shipping lines. The staff working at ICD Tughlakabad is the regular Departmental staff and not on cost recovery basis. The traffic as well as the revenue from this port has been going up over the year which can be seen in the charts below:

Containers Handled:

CONTAINERIZATION INFRASTRUCTURE IN INDIA

Worldwide, the containerization of cargo has steadily been gaining popularity because of the several advantages it provides to manufacturers and exporters. Some of these are listed below:

Lower transit time

Safety of cargo from pilferage and in-transit damage

Ability to avoid sales tax and Octroi checks at each state border crossed.

In India, however, the proportion of total internal trade that is containerized is still quite insignificant. The total annual volume of internal trade is estimated to be 650 million tonnes, of which 250 million tonnes are moved

by rail and the remaining 400 million tonnes by road. The volume of containerized cargo movement is less than 5 million tonnes (of which 3-4 million tonnes are handled by the railways). There is thus substantial potential for growth in the containerization sector.

CONTAINER CORPORATION OF INDIA

The Container Corporation of India, or CONCOR, was established in 1987, under the Ministry of Railways. Its stated objectives were to promote containerization and thereby boost India's domestic as well as international trade. CONCOR is the monopoly service provider for containerization via railways.

Present infrastructure

Since taking over the Railways container handling facilities, CONCOR has developed a vast network of container terminals at prime locations across India. It has 31 Exim terminals. While most CONCOR terminals are rail linked, road is preferred in some cases depending on local conditions. (E. g.: some hubs like Tughlakabad are fed by satellite locations like Agra and Panipat by road).

Growth

As a pioneer in this field of containerized transportation, CONCOR has grown impressively since it was established in 1987. The cargo throughput has grown from only about 74, 890 TEUs in 1990-91 to over 8, 01, 000 TEUs in 1998-99. In the first ten years of its existence, its throughput has seen an average growth of 20% per annum.

EXIM traffic

Only about 30% of port traffic originates from and terminates at places within 300 km from the port. The remaining 70% is to and from the hinterland, representing a potentially large demand for CONCOR's services. CONCOR provides transport linkages between ports and the hinterland. Regular container trains are run to and from ports to CONCOR terminals in the hinterland. Some of these terminals are also served by road.

Future Terminal Development plans

Plans are afoot to embark on a large-scale terminal development programme. Region-wise plans have been drawn up. The 31 existing Exim terminals are to be increased to about 50 by 2002-03. CONCOR would then be located in almost all cargo receiving/generating areas of the vast hinterland. Terminals would also be expanded. Presence in the hinterland as also in the port towns would tie up both end-points of the shipment route, facilitating control over the entire logistics chain.

3800 high-speed flat wagons are being procured with the help of a US\$94 million World Bank loan. These wagons will be put to use in all EXIM streams and subsequently in domestic streams. As these container trains will run at the speed of mail/express trains, the transit time between ports and hinterland will be substantially reduced.

WORKINGS OF ICD IN INTRNATIONAL BUSINESS

ICD is a common user facility with public utility authority status, equipped with fixed installations and offering services for handling and temporary storage of any kind of good (including containers) carried under Customs

Control and with Customs and other agencies competent to clear goods for home use, warehousing, temporary admission, re-exports, temporary storage for onward transit and out right exports.

Facilities at a dry port :

Export and import warehouse: They are used for international trade and are located near dry ports. They are provided transit storage facilities for goods awaiting onward movement; separate provisions for break bulk, packaging inspection of goods, marking, etc.

Container handling equipment for ISO container.

Container yard (storage place of containers)

It is provides space of offices of the shipping agents, customs clearance and freight forwarder agents, banks, road vehicles operators(transporter), packing service, consolidation service, fumigation, weightage of cargo and marshalling and train information service etc.

Export procedure :

Export of goods from India moving in containers is usually done through road and rail from ICD to Gateway ports.

Types of shipping bill:

White shipping bill (for duty free goods)

Green shipping bill (for duty drawback)

Blue shipping bill (for duty entitlement passbook scheme)

Yellow shipping bill (for eatable goods. It depends on goods)

GRI (Guarantee Remittance Forms)

This is prepared in duplicate, the original is retained by the customs and the duplicate is sent to the RBI by the customs after processing of documents and finalization of shipping bill.

Type of bill of entry:

White bill of entry for home consumption goods.

Blue bill of entry for goods are to be deposit in a customs bonded warehouse

Green bill of entry fro goods are cleared from the customs bonded area

Yellow bill of entry for eatable goods.

Concept of customs :

Custom procedure through out the world is similar so it is a valuable e source of assistance of administration involved in the modernization of National Customs Legislation. Hence allowing easy identification of out of date procedure

Customs Act as a requirement for a financial guarantee to be established in the transit country by the party responsible for transit operation to meet possible claims by the customs.

Customs also acts as a watchdog as it physically examines the goods being exported or imported out/in the country for their quality and also appropriateness.

SHIPPING POLICY OF DEVELOPING COUNTRIES

Globalization of trade and industrial production on the scale presently observed is not only affecting maritime transport in different ways, but has also been decisively shaped by shipping developments. Globalization in the widest sense has dramatically changed the demand for transport and related services and has forced all transportation companies to better adapt the services rendered to the requirements of the trading community. At the same time, important technological developments in maritime transport created the precondition for the expansion of world trade based on an intensified international division of labor.

Changes in the provision of shipping services have been brought about by market driven forces, but their realization was largely made possible through policy reforms. Countries have relaxed or removed protective legislation and have started a process of renegotiating or renouncing bilateral agreements providing for market access restrictions. In parallel there has been a general move towards privatization of state-owned shipping companies and the opening of the market for shipping and related services to private sector competition. These policy reforms have been the more remarkable as shipping has been generally considered a strategic industry and lines a national asset. Liberalization of market access has led to increased competition among shipping lines and to greater commercial flexibility with regard to capacity management, pricing and entry into trade routes. At the same time, however, liberalization has also provided the basis for concentration processes, which perpetually change the structure of the industry.

A policy Environment Conducive to the Development of Shipping Markets:

In order to ensure that development objectives are being met, Governments must give higher priority to transport issues, must review and revise the regulatory framework to allow greater participation of the private sector, introduce reform measures to make providers of transport service more responsive to user demands, streamline administrative procedures, introduce a system of transport performance indicators, promote the use of information technology and strengthen training programs in this sector. At the international level, it is important that policies and regulatory regimes be harmonized and Governments be assisted in devising the necessary policy measures required to ensure that transport supply capacities in developing countries be created or strengthened and to ensure that traders be placed in a position to effectively take advantage of transport opportunities offered in liberalized and globalized ocean transport markets. While general frameworks are being elaborated at the global level, it is also important that parallel efforts are pursued by governments towards market and policy reforms in the context of regional integration arrangements.

Policy Principles:

Problems faced by developing countries relate both to supply-side dynamics and to protection of users' interests in transport markets.

In many developing countries shipping and transport were considered to be strategic industries calling for public ownership in line with generally pursued economic policies. In order to increase the efficiency of the sector in general, programs of commercialization, privatization and liberalization have been set

in motion. These programs are an integral part of a policy reform program which involves a shift in policies away from market access restrictions to a fleet development policy based on strengthening of commercial capabilities of national service suppliers and to support policies increasing the competitiveness of the maritime services sector. This shift is important to note, as it underlines the fact that shipping policy is not only a matter of market access policy. Market access is only one facet, with others, such as policies relating to fleet development and sector efficiency being equally important. This aspect is particularly relevant as it shows the need to complement WTO negotiations in the context of GATS. At the same time, developing countries need high-level and specific advice both in negotiating and implementing liberalization instruments.

Liberalization and privatization are the two main pillars of maritime policy reform programs of developing countries. While restructuring of State-owned companies is necessary to ensure market orientation, it may not be a sufficient condition for successful privatization. Support measures need to be put in place that would give a concrete meaning to the notion of progressive liberalization. These measures would aim at improving the capabilities of developing countries' operators to produce transport services and to create a level playing field enabling operators to compete successfully in the new transport markets.

For developing countries to gain or to maintain a significant position as producers of transport services in a competitive environment, where ownership and nationality are no longer central elements, it is crucial, that competitive and exportable services be produced that can be offered in an

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increasingly international market. In order to arrive at such a situation it is essential that policies are being pursued that aim at capacity building and removing obstacles for national operators. These policies of competitiveness and thereby of raising the efficiency are intrinsically linked to liberalization processes. At the same time it is important that local suppliers benefit from an environment that creates a level playing field and gives them a reasonable chance of success. This need for a level playing field, however, is not to be confused with a call for restrictive or discriminatory measures that would impede on the freedom of choice of the users of transport services. It does, however, call for a certain amount of harmonization of the administrative and regulatory environment, such as conditions for ship registration, taxation, labor movement, etc.

Modern and efficient ports are necessary and powerful tools of facilitating and fostering trade and development and more so at a time of globalization of trade. Nowadays, ports must offer efficient and reliable services to ships and cargo, including communication systems, documentation and customs procedures, to allow the timely flow of goods through the transport chain. To assist in this flow, some countries have developed distribution or logistics centers in the port areas, which are used for the storage, preparation and transformation of cargo. Therefore, ports are no longer simply a place for cargo exchange but are a functional element in the dynamic logistics chains through which commodities and goods flow. An efficient transport system is also a prerequisite to attract foreign direct investment. Ports can be crucial element in developing a competitive advantage for a country and therefore Governments and port authorities need to adopt suitable port policies to

allow the nation to reap this potential benefit. It is of the greatest importance that an environment is created where Governmental and intergovernmental activities on the legislative, regulatory and institutional fronts are discussed with the inputs of all users.

Market Access Policies-National Policies and GATS:

Maritime Transport-

The successful employment of larger vessels and fleets, be they single company fleets or joint ones in the consortia or other cooperative arrangements is dependent on the existence of and the unimpeded access to sufficiently large cargo flows. Such flows rarely exist in bilateral trades but can only be assured by a mix of home and cross trades. Rationalization of services thus achieved requires planning security based, inter alia, on a predictable regulatory policy framework. A high degree of liberalization of trade in maritime services and the existence of multilateral rules establishing the framework within which lines operate are clearly in the interest of these service providers. Similarly, the extension of activities into logistics services requires access to inland transport and so-called auxiliary services, either as service providers or as users with guaranteed and unconditional access to such services, which might raise a great deal of opposition. The General agreement on Trade in Services (GATS) partly addresses these issues in the sectoral agreement on maritime transport.

Port and Auxiliary Services:

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