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Ports Update

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The volume of cargo traffic handled at the government-run Indian ports has witnessed a decline in the current financial year, owing to the disruption brought about by the pandemic.

There has however been a progressive improvement in the volume of cargo traffic at the major and non-major ports from the lows of April-May'20. The recent surge in Covid -19 infections and the consequent reimposition of coronavirus restrictions in various regions viz. Europe and the US have raised concerns over the sustainability of the rebound in cargo volumes. At the same time, there is growing optimism over the vaccination programme-led economic recovery that is expected to lead to a rise in trade across economies and thereby cargo traffic at ports.

Prevailing Scenario

- Cargo traffic at the government-run major and non-major ports in the current financial year (FY21) has been 7% lower than a year ago, owing to the contraction in the volume of traffic during the six-months of Mar-Aug'20.
- The volume of traffic at the major and non-major ports in recent months have shown improvements on an annualized basis even as they saw a moderation on a sequential (month-on-month)basis
- The traffic at major ports returned to growth (y-o-y) since November'20, following eight consecutive months (Mar-Oct) of contraction while that at the non-major ports rebounded from September'20, after a gap of six months.
- The major ports witnessed a renewed contraction in traffic volumes in February'21, following eight months of sequential improvement.
- The non-major ports have also seen a contraction in the monthly cargo volumes in January'21.
- Among the major ports, only Paradip and Mormugao ports handled a higher volume of cargo during the first 11 months of FY21, over the same period of FY20.
- Odisha and Goa were the only two states that witnessed annualized growth in traffic handled at the non-major ports during the first ten months of FY21.
- Cargo volumes of petroleum and coal have been lower so far in FY21 v/s the corresponding period of FY20, while that of fertilizers and iron ore has been higher.
- There is a global shortage of shipping containers which has led to a surge in freight rates, resulting in price pressures across products.
- Project timelines for the Sagarmala Programme are likely to have been pushed forward on account of the invocation of the 'force majeure' clause as well as the restrained investments by the private sector.

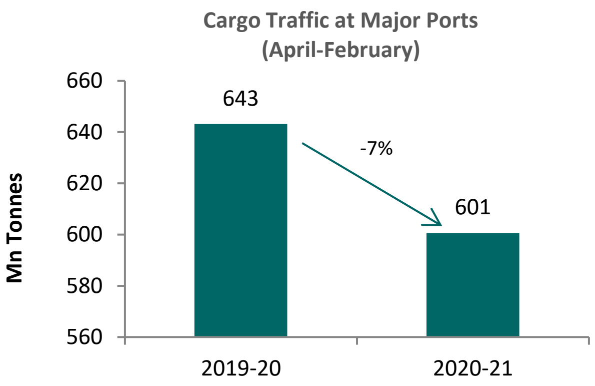
Tempered Recovery in cargo traffic at the Major and Non-Major Ports

Major Ports

Cargo traffic at India's 12 major ports, which handled a little more than half (53%) of the country's total cargo volumes, has declined by 7% to 601 mn tonnes during April to February of FY21, compared with 643 mn tonnes in the year-ago period.

Following the sharp contraction during April-May'20 i.e the period of the nation-wide lockdown, there has been a sequential as well as an annualized pickup in traffic at these ports following the unlocking of the economy.

After a gap of eight months, traffic volume registered year-on-year gains from November'20, growing in the range of 2% to 4% in the subsequent four months. This improvement coincides with the pick up in the economic activity and trade, domestically as well as globally. There has however been a moderation in the monthly growth of cargo traffic in February'21, after rising on a sustained basis for eight months since June'20. Traffic volumes were 9% lower than that in January'21 and can be attributed to the renewed restrictions amid the surge in Covid-19 infections, especially in the advanced economies.



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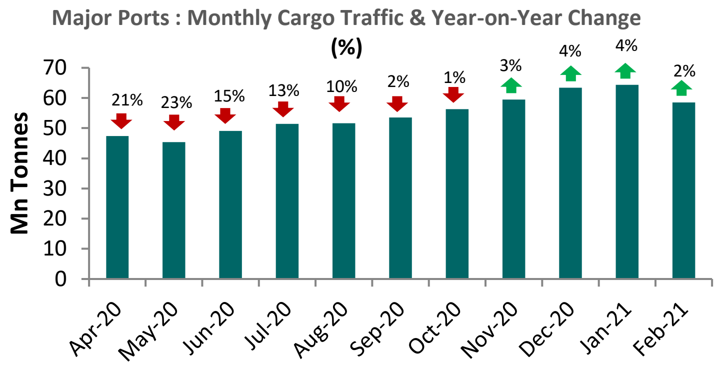

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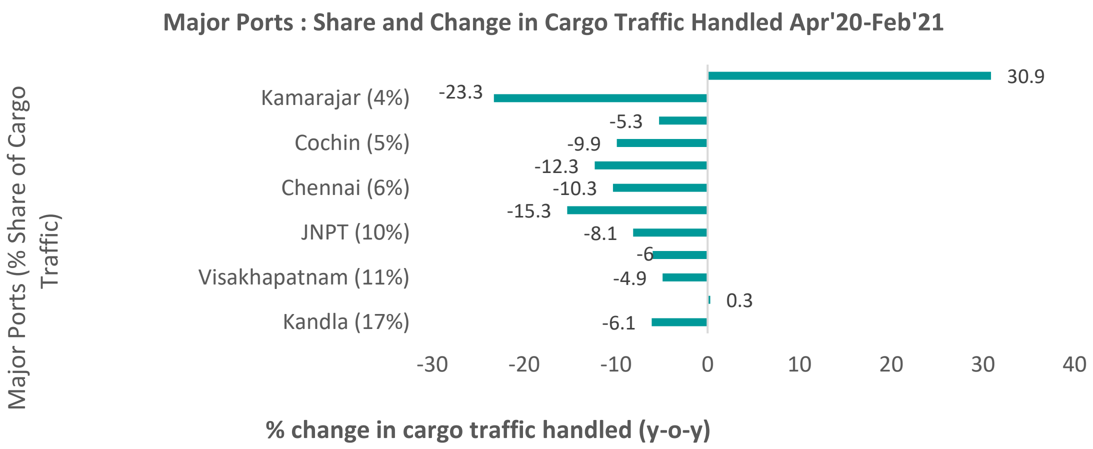
Amongst the 12 major ports, Deendayal Port (Kandla) and Paradip ports handled the highest volume of cargo so far in FY21 (April-February) with a share of 17% each in total traffic. The cargo of 105 mn tonnes handled at the Kandla port was however 6% lower than in the year-ago period.

Barring Paradip and Mormugao, all other ports saw a decline in cargo traffic during April – February of FY21. Paradip port saw a marginal increase of 0.3% (103 mn tonnes) in cargo traffic in this period while Mormugao Port, which handled 3% of the cargo traffic, saw the highest annual growth in cargo volumes at 31% to 19 mn tonnes.

The sharpest fall in cargo traffic was at the Kamarajar Port (by 23%), followed by the Mumbai Port (15%), Mumbai Port (-19%).



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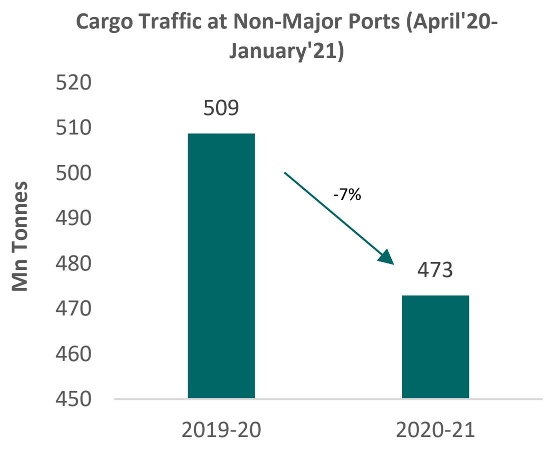
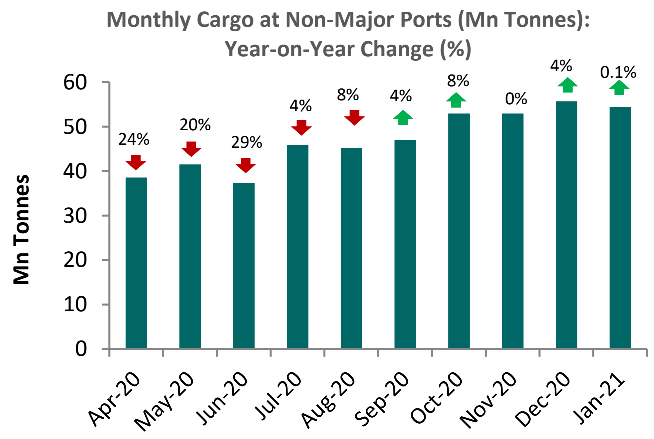
Non- Major Ports

The cargo traffic handled at the non-major ports which number 200, has fallen by 7% to 473 mn tonnes during April-January of FY21 when compared with the same period of FY20 (509 mn tonnes). Non-major ports accounted for 47% of the total cargo traffic at Indian ports in the first ten months of FY21.

There has been a notable increase in monthly cargo traffic at these ports from the lows of April-June'20. Cargo traffic at the non-major ports returned to growth (year-on-year) since September'20, two months ahead of that at the major ports. There has however been a moderation in the month-on-month pickup in cargo traffic at these ports in January'21, which was 2.4% less than that in December'20 and can be put down to the fresh lockdown and pandemic restrictions in trading partner countries.

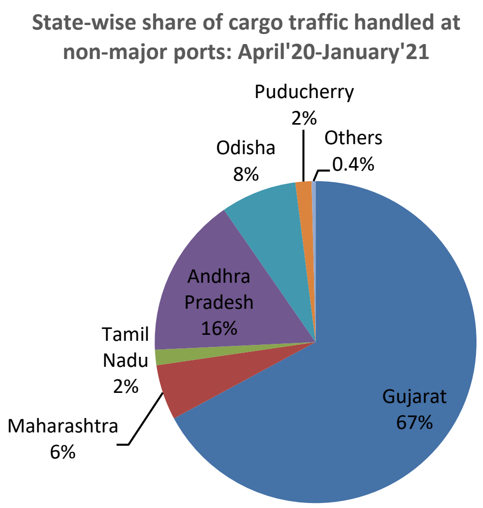


Source: Ministry of Shipping

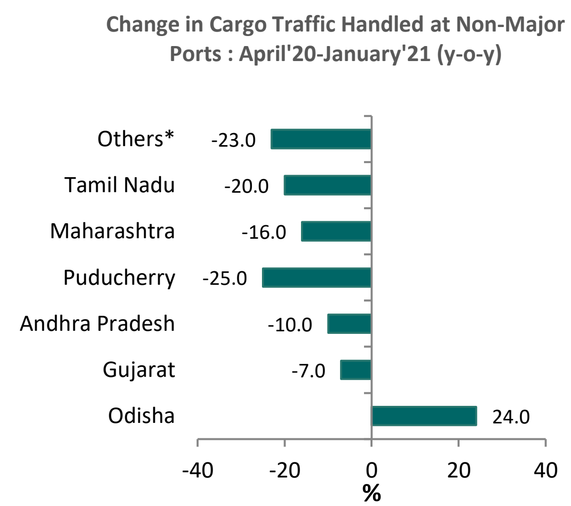


Source: Ministry of Shipping

In terms of cargo traffic at non-major ports, Gujarat has handled the highest volume of cargo traffic of 318 mn tonnes which is 67% of the total cargo traffic at these ports during April'20-January'21. It was nevertheless, 7% lower than a year ago. Barring Odisha (24% growth) and Goa, the non-major ports across states saw a decline in cargo traffic during April- January of FY21 from that in the same period of FY20.



Source: Ministry of Shipping

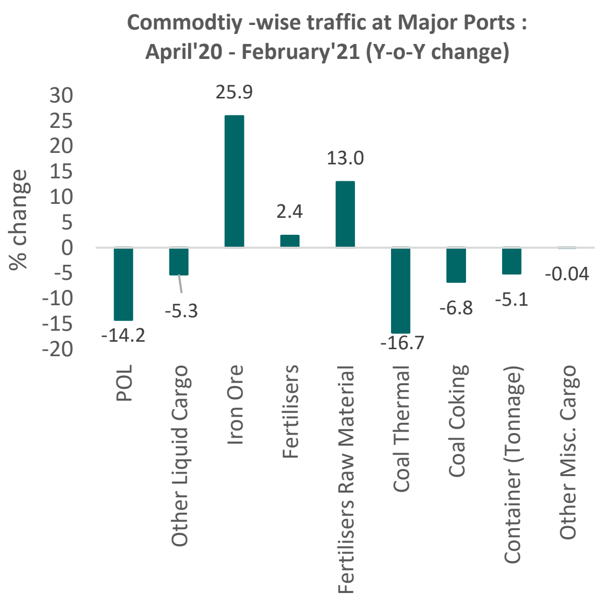


Source: Ministry of Shipping* includes – Goa, Karnataka, Kerala and A&N Island

Reduced volumes of energy products and containers cargo

Cargo volumes of POL, coal, and containers, which together accounted for 76% of the traffic at the major ports have declined while that of fertilizers and iron ores increased from a year ago during April'20-February'21. The year-on-year contraction has been the highest for coal at 17% followed by POL at 14%. Container cargo traffic has seen a decline of 5% during this period.

A similar trend was observed in the case of the commodity-wise cargo traffic handled at the non-major ports. Here too, the cargo volumes of POL, coal, and container cargo declined while that of fertilizers and ores increased during April-January FY21 from the same period of FY20. Among the other commodities, cargo volumes of food grains (excluding pulses) and sugar have risen in the current financial year.



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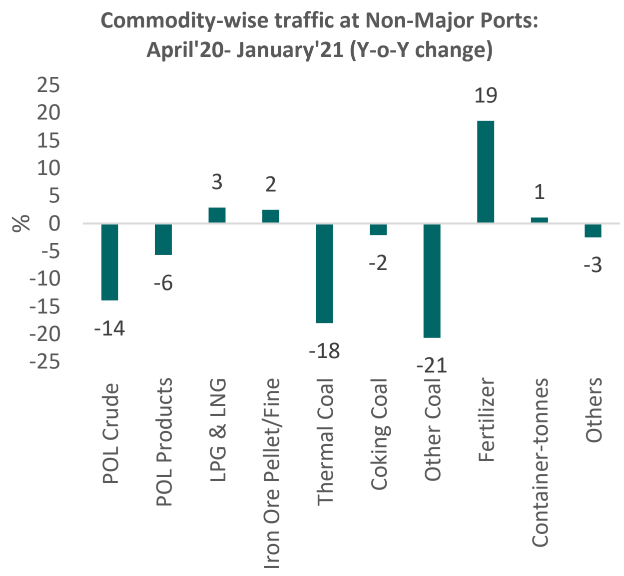

Source: IPA

Shortage of containers and higher freight rates

The disruptions caused by the pandemic to the global supply chains have resulted in an imbalance in the supply of shipping containers. The unforeseen and uneven rebound in trade across regions, the delays and congestion at ports, and the re-routing of container ships have led to a worldwide shortage of shipping containers. This has in turn pushed up freight rates and has raised worries about the increase in the cost of inputs/goods and inflation. Shortages in raw materials and inventories on account of shipping constraints are adding to price pressures.

The shortage of containers has also been impacting India's exports even as overseas demand revives, while the increase in freight rates is weighing on the competitiveness and profit margins of the exporters.

Container freight rates have surged since May'20 as has been highlighted by the movement of the composite World Container Index (WCI) by maritime research firm Drewry. The index captures the freight rate movement on eight major routes to/from the US, Europe, and Asia of 40 ft containers. The WCI as of 4 March'21 is 233% higher than a year ago and stands at $5,121 per 40 ft container.

As per market sources freight rates of containers from India to the US and Europe have increased by 300% and by 400% to Asian countries during November'20- February'21.

The Baltic Dry Index, which is a key indicator of freight rates for dry bulk goods has increased by 144% during April'20 to February'21.

Sagarmala Programme

The Sagarmala programme of the Union Government (launched in April'16) which aims at reducing the transportation and logistics costs for domestic as well as overseas trade and thereby facilitate a port-led economic development in the country comprises 504 projects comprising 211 port modernization projects, 199 port connectivity projects, 32 port-led industrialization projects, and 62 coastal community development projects. As of February'21, 159 projects have been completed.

The estimated infrastructure investment for the projects under the programme is Rs. 3.55 Lakh Crores.

During July 2019 – October 2020, 20 Sagarmala projects worth Rs. 4,543 crores have been completed which comprise 9 projects of Port Modernization (worth Rs. 1,405 crores), 7 Port Connectivity projects (worth Rs. 2,799 crores), and 4 Coastal Community Development projects (worth Rs. 339 crores).

Andhra Pradesh has the highest number of projects at 96 under the Sagarmala Programme followed by Maharastra which has 90 projects and Tamil Nadu which has a total of 87 projects.

Implementation of these projects is being done by the Central Government, State Governments / Maritime Boards, and SPVs through the Public-Private Participation (PPP).

The invocation of 'force majeure' clause by the Ministry of Shipping at end of March'20 coupled with the lower investment appetite of the private sector amid the weakness and uncertainty in the economy is expected to have pushed forward the timelines for the project completion, implementation, and development by at least 1 to 2 years.

Recent Key Policy Announcements

- The Union Budget announced the privatization of the operations of seven major ports worth Rs.2,000 crores in FY22. This is expected to improve operational efficiency at these ports and get them to be at par with global standards.
- The Major Port Authorities Bill,2020 was passed by the Parliament (on 11 Feb'21). The bill aims at improving governance at the major ports by decentralizing decision-making and infusing professionalism. The governance model is being reoriented to the landlord port model that is expected to bring transparency in operations as well as efficiency on account of full autonomy in decision making and modernizing of the institutional framework of Major Ports. The key features of the bill are
    - The number of sections has been reduced to 76 from 134
    - Composition of the Board of Port Authority has been reduced to 11 to 13 members from 17 to 19 earlier. The compact board is expected to strengthen decision making and strategic planning.
    - Port Authority has been given powers to fix tariffs which will act as a reference tariff for purposes of bidding for PPP projects. PPP operators will be free to fix tariff- based on market conditions. The Board of Port Authority has been given the power to fix the scale of rates for other port services and assets including land.
    - An Adjudicatory Board has been proposed to be created to look into disputes between ports and PPP concessionaires, to review stressed PPP projects and suggest measures to review and revive stressed PPP projects and look into complaints regarding services rendered by the ports/ private operators operating within the ports.

- The Boards of Port Authority have been given full powers to enter into contracts, planning and development, fixing of tariff (except in national interest), security, and emergency arising out of inaction and default.

Going Forward

The improvement in the port sector would be dependent on the pace and extent of the economic recovery, domestically as well as globally. The reimposition of pandemic restriction in various regions has raised worries about the vulnerability and uncertainty in trade flows between regions. Nevertheless, there is growing optimism about the strengthening of the global economy with the roll-out of the vaccines that is expected to lead to a rise in trade across economies and thereby cargo traffic at ports. At the same time, the constraints facing the global maritime industry viz. shortage of shipping container, bottlenecks at ports, and elevated freight rates are expected to prevail and normalize gradually.

The volume of cargo traffic at the Indian Ports for the financial year 2020-21 would be lower than the previous financial year by 5 to 7%.

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