

# Signs of Recovery

## Traffic picks up gradually at ports

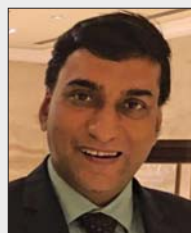
Covid-19 struck at a time when the maritime sector was already experiencing low activity levels due to disruptions in international trade and poor domestic performance. Despite being allowed to operate, the port sector experienced severe setbacks in the form of reduced cargo handling, revenue losses, labour shortages, unclaimed import cargo lying at ports, and additional delays due to adherence to physical distancing norms, among others. While the sector has started witnessing early signs of recovery with a deceleration in the rate of cargo contraction, it is expected to remain under pressure, at least during the current fiscal year. *Indian Infrastructure* presents views of leading experts on the impact of Covid-19 on the sector's performance...



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### What has been the impact of Covid-19 on the sector?

#### Rajiv Agarwal

The Covid-19 outbreak has impacted the whole world with unprecedented implications on the global economy and has brought normal activities to a standstill. Among the many sectors and industries facing the burden and consequences of the pandemic, the port sector too felt its repercussions.

Even though ports remained operational, the lockdown imposed limitations on the smooth movement of cargo, impacting business operations. Handling of bulk cargo such as iron ore, coal, and oil and gas during this period was smooth at facilities that had a high level of mechanisation as compared to those that handle cargo in conventional ways. Due to the lockdown, there has also been a sharp reduction in demand. This resulted in some of the ports

declaring force majeure, as their scope of operations was restricted.

In the first quarter of 2020-21, which saw the maximum impact of the lockdown, the port sector witnessed a substantial decline in cargo traffic, in the range of 15-20 per cent, on account of a demand and supply mismatch. However, at Essar Ports, we have seen an appreciable increase in cargo handling numbers at our facilities after an initial dip in April 2020. For 2019-20, we registered a growth of about 23.5 per cent in cargo throughput. In the month of July 2020, we reached almost 95 per cent of our normal volumes, registering a growth of 74 per cent over April 2020. The recovery has been quick owing to increased demand from the power, steel, mining and oil sectors. Our terminals along the western and eastern coasts are already performing at pre-Covid levels. They have adjusted to the new normal admirably, taking all opera-

tional and safety precautions while maintaining a smooth supply chain.

#### Venkata Ramana Akkaraju

In the case of New Mangalore port, the immediate effect has been minimal as compared to the overall negative effect on the other major ports of the country. The reason behind this is that 90 per cent of the port's cargo, which comprises essential commodities such as petroleum, oil and lubricants (POL), crude, petroleum products, liquefied petroleum gas, edible oil and coal, is handled completely mechanically. Besides, the evacuation of these commodities is through pipelines and rail. However, cruise traffic has been badly affected due to a ban on the entry of cruise vessels from mid-February 2020 as per the Directorate General of Shipping's (DGS) guidelines. However, cruise handling at the port is expected to resume by the beginning of the current cruise season.

“The measures announced by the government have provided the much-needed stimulus to ensure the revival of the economy in a structured manner.”

Rajiv Agarwal

### Devdatta Bose

The outbreak of Covid-19 has affected the Indian maritime sector in a significant way. While the port sector was classified under essential services and was allowed to operate even during the lockdown, the pandemic impacted the sector in multiple ways – subdued global trade, unclaimed import cargo lying at ports, limited workforce availability, shortage of dock workers and harbour service providers, restrictions on vessels arriving from infected countries, delays due to compliance related to sanitation, cancelled cruise calls, etc. Most of the private ports and terminals also invoked the force majeure clause. A number of major global container shipping lines started skipping the country's container gateways due to disruptions caused at the major ports by the lockdown.

As a result, cargo handled at major ports during April 2020 declined by 21 per cent as compared to the corresponding period of the previous fiscal year. It further declined by 23 per cent year on year during May 2020. All commodities, except iron ore and raw fertilisers, witnessed a decline during the months of April and May. With respect to non-major ports, cargo handled declined by 24 per cent in April 2020 and 20 per cent in May 2020, year on year.

### K.K. Krishnadas

The impact of the coronavirus was evident in every corner of the economy, and the supply chain sector was no exception. With a marked decline in manufacturing, exports and overall

global commerce, shipping, transportation and logistics networks were being tested. This led to over 150 blank sailings across the country by various vessel operators. Imports suffered significantly across the country. With muted domestic demand, exports witnessed a sharp recovery, especially since July 2020, which is traditionally the beginning of the high season for demand. However, the deployed capacity still fell by approximately 25 per cent year on year.

With capacity constraints, a rise in ocean rates was inevitable as the trade competes for limited space, and cargo roll overs became the order of the day. Long hauls routes like Asia-US East Coast and Asia-North Europe and even shorter hauls are seeing rate hikes like never before. On the flip side, some complaints from the users include falling service levels with the cut ship sailings and off timings.

### What has been the overall response to the pandemic?

### Rajiv Agarwal

On account of the pandemic, the sector has faced issues such as a demand-supply mismatch, burgeoning inventory at ports, hampered operations on account of manpower and cargo movement restrictions, liquidity crunch on account of fall in revenue and high fixed costs, insufficient cash flow and delays in project execution.

Despite all these issues, the industry's response has been very heartening. The sector has ensured that operations have continued

and that supply chains have not been impacted. The industry ensured operations with the highest levels of safety and compliance. The use of technology while working from home has ensured seamless connectivity while meeting all safety parameters.

With the “un-lockdown” happening across the country in phases, India's port sector has already observed a spike in traffic and is on the path to recovery. However, an overall revival in cargo volumes will depend entirely on how fast the gap between demand and actual consumption is bridged.

### Venkata Ramana Akkaraju

The port officials have identified three different points of contact where the disease can potentially spread to inlanders. First, it could spread through pilotage activity, where the pilot boards the inbound vessel at the anchorage, acting as the first point of contact with the master and the crew members. Strict guidelines have been formulated and mandated for pilots so as to minimise the risk of transmission. Second, the virus can spread through the Port Health Organisation's (PHO) survey, where the medical officer is susceptible to catching the disease while conducting the survey. The PHO is also taking precautionary measures in this regard. Finally, it could also spread through the shore pass availed of by crew members, wherein the disease can be transmitted to anyone they come in contact with. Subsequently, the shore pass privilege has been suspended for foreign crew. Moreover, the arrival of Indian crew has been strictly regulated. In this way, appropriate precautionary measures have been put in place at all three points of contact to minimise the chances of importing the disease.

Recently, the New Mangalore Port Trust (NMPT) has started conducting the Covid test for all the employees of the port including contract labour, outsourced manpower, employees of all the agencies associated with the port's operations, port security personnel and residents of the port colony. All those who tested positive are isolated and proper medical treatment assured.

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**Devdatta Bose**

The Ministry of Shipping (MoS) was quick to respond to the changed requirements. The MoS advised shipping lines not to impose any container detention charge on export and import shipments of containerised cargo or any other new or additional charge. Indian ports were also advised that no penalties, demurrage charges, ground rent beyond the free period, storage charges, additional anchorage charges or berth hire charges should be levied on any port user. Further, the ministry has stated that the minimum guaranteed throughput obligations will be computed for the year under consideration, without considering the lockdown period.

The Central Board of Indirect Taxes and Customs also issued guidelines to reduce the impact of the pandemic. Key among these were clearance of goods on the basis of understanding (not bond) and acceptance of electronic country of origin certificates instead of physical certificates, electronic communication of PDF-based final electronic out-of-charge certificate and copy of bill of entry, and issuance of eGate-pass to reduce the interface between customs authorities and importers/customs brokers.

**K.K. Krishnadas**

While the JM Baxi Group too had its initial share of difficulties during these unprecedented times, the company continued to break records in terms of volumes and productivity across verticals. The agency vertical, the flagship business of the group, witnessed record crew changes during the period. Logistics, in terms of projects and bulk, also saw record volumes with a robust exports in agro, steel and metal, complemented by pulses and fertiliser imports. The infrastructure business grew multifold with increased rail-linked volumes especially on the east coast of India and, therefore, the overall business was not impacted during the lockdown period when the transport industry suffered the most.

Our group's focus has been on cargo-driven niche markets. The hinterlands of our terminals are naturally rich in metals and minerals and they are further supported by the pharma, seafood and agro-based industries which fall under essential commodities. Hen-

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ce, businesses across the terminals operated by the group along both coasts have only grown during the pandemic, leading to the commencement of new shipping services and augmented capacities.

**What is the outlook for the sector?****Rajiv Agarwal**

As we face this pandemic along with an economic slowdown, the recovery of the underlying economy is expected to be gradual. The measures announced by the government have provided the much-needed stimulus to ensure the revival of the economy in a structured manner.

The key objective will be to ensure a balance between demand and supply. Even with the alarming surge in Covid cases, businesses are eager to boost productivity. The port sector will surely be burdened with challenges for a while but demand is bound to revive as the world will eventually emerge from this crisis. India's massive population and huge domestic consumption are its strength and with the festival quarter approaching, the sector can expect a boost in business going forward.

With India moving towards "atmanirbharta" and positioning itself as an alternative for global manufacturing, the sector is steeped in opportunities going forward.

**Venkata Ramana Akkaraju**

New Mangalore port registered a decline of 4.6

per cent during the first four months of the current fiscal year (2020-21) as against the negative growth of 18 per cent in the port sector at the all-India level. The extent of the impact will be dependent on the duration of the slowdown in consumer demand and industrial activity due to Covid-19 and the subsequent pace of recovery. Even though ports are working round the clock without any disruption in operations, imports/exports depend upon supply and demand. Production in industries has slowed down, which in turn will adversely affect export-import (exim) trade.

**Devdatta Bose**

Recovery in the sector will depend on the pace of recovery of domestic industrial activity as well as global economy activity. While the recovery for cargo segments like coking coal and containers may be long drawn out, it should be relatively faster for essential products such as POL and thermal coal.

According to credit rating agency ICRA, general cargo throughput may witness a 5-8 per cent contraction in 2020-21. Commodity-wise, the container segment is expected to contract by 12 per cent during the current fiscal year.

Overall, the country is expected to have a U-shaped recovery from the crisis. Further, the country requires greenfield ports, maritime clusters and manufacturing hubs to provide a boost to the maritime sector. The government

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has also been working aggressively to attract companies from China.

### **K.K. Krishnadas**

The second quarter results so far have been certainly stronger than the first quarter of this fiscal year, and we reckon that this is the road to recovery. While imports are resuming gradually, services are being reinstated on a weekly frequency by carriers too. Economic activities in the country are picking up across the board, reflecting the improved business sentiment on the back of easing of lockdown restrictions now. Exports therefore will continue to hold their dominant streak, with the country remaining a net exporter of total finished steel in April-June 2020 and a similar trend being witnessed in July as well.

In other segments, the strong demand for agro commodities is expected to continue till the year end, on the back of a good kharif crop, thanks to the good monsoons across the country. Defying trade relations between India and China, exports continue to surge and, in tandem, new international markets are also emerging. So, the overall outlook appears robust for the second half of the year.

From the JM Baxi Group's perspective, while the rise in cargo demand will continue to be catered to through our logistic services, we are also seeing the need for capacity augmentation across our terminal infrastructure. We expect to enhance our rake capacity over the next 12 months to cater to the rising demand on both coasts.

### **What will be the key priority areas in the post-Covid world?**

### **Rajiv Agarwal**

Infrastructure is the backbone of any economy and plays a pivotal role. It enables trade and businesses to flourish, connects workers to their jobs and creates opportunities for employment, healthcare and education. India plans to spend more than \$1.4 trillion on infrastructure by 2025 for projects identified under the National Infrastructure Pipeline. These projects will help the country realise its vision of becoming a \$5 trillion economy and this will enable the country

to continue on an escalated growth trajectory until 2030. In the coming era of supply chain disruptions and the advent of new technologies, infrastructure growth will have to keep pace with the exponential trade requirements. In particular, port infrastructure investments have a significant influence on GDP and need to increase rapidly to cater to growing global trade requirements. The government has been playing a significant role in boosting the maritime sector. It has taken several measures to promote port efficiency through various policy initiatives and the Sagarmala and Bharatmala programmes.

Strategic trade location, a high level of mechanisation and operational efficiency will be key focus areas for the sector. The emphasis will be on reducing logistics costs and enhancing efficiency, thereby improving India's competitiveness in the world economy and making it a global manufacturing hub.

### **Venkata Ramana Akkaraju**

The Covid-19 scenario has once again underscored the significance of logistics and supply chains. Everyone has to get used to the new norm. Multimodal transport systems should be given priority so that dependence on road transport alone can be reduced. More cargo movement should be through pipelines, conveyor systems, rail, river transport, etc., so that any future threat with respect to evacuation of cargo through road transport can be averted.

### **Devdatta Bose**

The crisis has painfully demonstrated that many ports are still lagging behind in terms of electronic commerce/data exchange. Acceleration of digitalisation must therefore be a top priority in the post-Covid-19 era. Technological advancement will no longer be a game chang-

er but rather a business necessity.

The pandemic has resulted in accelerating the move towards digitalisation at Indian ports. It needs to be implemented at every level of the exim value chain along with elimination of unnecessary intermediaries. All the brownfield projects for digitalisation of port and terminal operations, upstream and downstream supply chain integration, digital customs clearance, e-berthing and e-bunkering at ports, etc., need to be taken up on a priority basis.

Improving operational and financial efficiency of existing port infrastructure is a low-hanging fruit that can create approximately 10-15 per cent more port capacity and provide a great boost to the sector.

Multimodal logistics would be the future with digital/automation technology. Industries will have to diversify their supply chains. Future supply chains would be shorter, more diversified and regional. This transformation would be supported by advanced automation, which would reduce labour costs and increase dependency on digital connectivity.

### **K.K. Krishnadas**

India is well placed to reap benefits from the global supply chain realignments currently under way. Therefore, self-reliant India in the true sense would be key in our becoming an export-driven economy. Digitalising overall business processes and creating single-window systems and user-friendly interfaces would be the first steps towards this large transformation.

At the JM Baxi Group, while we have embraced the new norms, our efforts to meet business continuity needs and understand the customer's requirements at the national level are relentless. Bringing all the stakeholders under the port continuity system to become completely paperless in the port and terminal sector are some of the key priority areas in the post-Covid world, besides our customer-focused approach to make it simplified and seamless. ■

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