Major financial model for minor ports

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Minor ports in India do not act as a growth engine unlike in developed countries. Mere development of infrastructure will not make them financially viable. Strategy must focus on creating economic epicentres around minor ports

India has a coastline of 7,500 km and is studded with 12 major ports and close to 200 minor ports. However, about 60 per cent of the total cargo traffic is handled by major ports and the rest by intermediate and minor ports. The volume of cargo within the intermediate/minor ports are also unevenly distributed — bulk of the cargo moves through a few ports while the rest of the ports are utterly under-utilised.

Of all the minor ports, only 61 handle export-import cargo and others are mainly fishing harbours. Even out of these 61, only six enjoy rail connectivity upto the port. Another eight to 10 need last-mile connectivity. Even road connectivity is a serious bottleneck. This highlights the necessity for an integrated planning for port location along with rail and road investments.

However, as revenue growth from cargo movement in minor ports are minimal/modest, operating surplus from minor ports are not large enough to justify large-scale infrastructure upgradation in minor ports when public resource is scarce. Thus, minor ports in India do not act as an engine of growth unlike global counterparts in developed countries or in fast growing countries.

In India, nearly whole of the revenue of minor ports comes from cargo movement. On the other hand, the successful business model for minor ports in developed/developing countries operates on the premises that this is only another source of revenue minor ports. These ports have drawn lessons from the technological changes in recent years in production and transport systems as a whole and maritime transport in particular. They have reoriented the working of minor ports in development and diversified the sources of revenue to meet the challenges posed by these new innovations. Let us elaborate on their business model.

In the light of the globalised world economy, the role of organisers, as well as providers of transport services, is changing. A special position in the integral global system has been acquired by logistics, which allows management of goods and information flows from the source of raw materials to the consumers of finished products.

The role of sea carriers is changing too. In addition to their conventional transport function, they are involved in organising the movement of cargo. Hand-in-hand with these changes, the role of ports is also subject to change: Apart from their conventional operations (such as loading,

transhipment and discharge), ports are developing into consolidation centres in which numerous other operations (tallying, sorting, refining/ improving the semi-manufactures and products) are performed. As a result of this altered role, ports are assuming the function of logistics and distribution, along with their traffic, commercial and industrial function, combining transportation by sea, road, railway, inland waterways and air, as the more recent development shows.

This development brings about a change in the traditional functions of seaports that have so far performed primarily the traffic, merchant and industrial functions. In modern logistics and supply-chain management, a new function — the logistical and distributional function — has joined the traditional group of functions.

Notably, the seaports are acting not only as the point of handling or reloading the goods on their transport route, but also as logistical and distributional centres that function as intermodal hubs in the supply chains, offering value-added and door-to-door service to the customers. The success of a port in this context depends to a great extent on its ability to attract global, regional and local centres for various types of activities.

These value-added activities in the port sector play an important role as the source of revenue and perform a key role in ensuring lasting economic growth of a port and its hinterland.

This trend is true even in the case of successful hub ports, like Rotterdam and Singapore, where they have realised that the presence of logistics centre goes a long way in increasing the competitiveness of the port. These ports regard the logistics centre function to be as vital as the traditional cargo-handling function in promoting the port as a full-fledged logistics hub.

Both logistics companies and shippers agree that value-added services in logistics centres are important in supply-chain management. The pressures of value added logistics (VAL) services in the logistics chain have increased the demands of logistics centre behind port areas.

This financial model is now being replicated elsewhere, particularly in case of minor ports in Europe and the United States. For instance, relatively smaller ports such as Le Havre, Rouen and Barcelona in Europe are developing themselves as regional logistics centres.

In the Port of Rouen, where most of the land set aside for logistics service has already been leased out, the logistics zone has attracted business rapidly by offering shippers savings on their transportation, storage and personnel costs.

Indeed, there are many opportunities for small ports to function as logistics centres by making extensive use of their location and land holdings. A number of smaller ports on the west coast of North America have grown by converting land no longer used for marine cargo handling into logistics centres and foreign trade zones.

The Port of Astoria, the Port of Longview and Port of Vancouver (in the United States, not in Canada) have drawn in multinationals by developing new logistics centres on land that was formerly used for commercial marine operations. As such, a substantial portion of their revenue now comes from property and facility leasing.

The Port of Olympia has also developed a logistics centre and is using it to its advantage. Though decreased ports-of-call means that fewer than three dozen ships call each year, business is booming. The same model is now being replicated in many minor/intermediate ports of the UN Economic and Social Commission for Asia and the Pacific (ESCAP) region, where emphasis has shifted from traditional cargo handling facilities to value-added logistics services, to remain competitive in the regional market.

With the Government having launched a series of measures, most notably the Sagarmala initiative, the focus is mainly on development of infrastructure at the ports. Since many of the non- major ports have large land banks, they are ideally suited to be developed as logistics hub. Mere development of the physical infrastructure or connectivity with hinterland will not make the minor ports financially viable. Right strategy would be to create economic epicentres around the minor ports with world-class infrastructure.

(The writers are associated with the National Council of Applied Economic Research. Views expressed here are personal)