Essay

Strategic Maritime Trade: Lessons not Learnt from History

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Abstract

Container shipping is essential for global commerce, accounting for over 80 percent of merchandise by volume. It has revolutionised trade, enabling efficient logistics and rapid globalisation. India's economic growth and its aspiration to become a global manufacturing hub hinge on its ability to efficiently ship goods worldwide. Container shipping supports India's import-export activities, generates employment, and drives investment in infrastructure, which is crucial for maintaining domestic supply chains and fostering regional economic integration. The article emphasises the historical and strategic dimensions of maritime trade. It traces the evolution of maritime warfare and illustrates how maritime strategies have been used to disrupt enemy economies without direct military engagement. India's container shipping capacities grew substantially with investment and policy support until 2017. However, a policy change in 2018 diluted licensing requirements for foreign ships, leading to a decline in Indian container fleet investment and increased dependency on foreign shipping companies. The document highlights the significant profits of major container shipping companies, their minimal tax contributions, and their successful tax planning strategies, which exempt them from the global minimum tax. There is an urgent need for India to develop its container shipping capacities, reduce dependency on foreign companies, ensure competitive export-import logistics, and enhance its strategic and economic security.

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Sometime in March 2022, the members of the Indian Foundry Association took steps to ensure that its workers and staff would have the necessary permits to travel to work in the face of the coronavirus epidemic. They were also able to source the raw materials for their foundries. However, after jumping through all these hoops, they found themselves facing an entirely new problem — the inability to export their products to Europe. Why, you may ask? Simply because they were unable to find shipping containers to carry their products and where they did, they could not find slots on container vessels. Those, who were fortunate to find the space, noted that the freight charges they paid had touched the skies! All this while their peers in China did not face this problem. Why, you may ask again? That's because the Chinese manufacturer had at least three Chinese container shipping companies with sufficient containers to package and transport the produce of Chinese companies.

Container shipping forms the backbone of global trade, carrying over 80 percent of global merchandise by volume. The standardised containers revolutionised trade by enabling efficient stacking, loading, and unloading across various transportation modes. The reduced costs and faster shipping times fuelled globalisation, allowing diverse goods to reach new markets. It also spurred manufacturing shifts, with developing countries specialising in producing for global consumption. The modernised supply chains rely heavily on containerised shipping, enabling "just-in-time" production and lower inventories. The rise of mega-ships has further optimised capacity while presenting challenges to port infrastructure.

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Prime Minister Modi has said India is witnessing rapid economic growth, including in the manufacturing sector, because his government's policies are "stable, predictable and futuristic." It is clear that India is positioning itself to be an alternative to China as the manufacturing hub of the world. However, while the Government of India provides the Product Linked Incentive (PLI) scheme and other incentives to attract investment in manufacturing, its growth as a manufacturing hub for the world is linked to its ability to be able to ship in and ship out cargo to various parts of the world. Container shipping is one important vertical of shipping with over 25 percent of its maritime trade volume being transported in containers, enabling Indian exporters to reach their manufactured goods, textiles and agricultural produce into global markets, competitively. It is like a growth engine that drives India's trade, fuelling its economic growth.

The industry also generates significant employment in shoreside services such as freight forwarded, warehousing, logistics and in ports, contributing to the national workforce. It leads to investments in modern container terminals and infrastructure boost for coastal development, leading to improved connectivity and regional prosperity. As India relies heavily on imported raw materials and finished goods, efficient container shipping is crucial for maintaining its domestic supply chains and growing demand. In an increasingly services-oriented economy, the rise of e-commerce fosters demand for smaller, faster container shipments, necessitating agile and adaptable containerised logistics.

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Container shipping is also vital for India's trade within its immediate neighbourhood and the rest of the world — enabling regional economic integration and cooperation. Given this background, it is easy to conclude that becoming a key player in global container shipping is of vital importance to India. Thus, container shipping is crucial for India’s commercial security and its importance will continue to grow as the Indian economy grows. In time the ability of the Indian economy to flourish will be strategically dependent on its ability to ship in and ship out its containerised cargo. Its shipbuilding and naval capability would also add heft to India’s international relations and diplomatic edge.

Strategic Dimension of Shipping

“*The only thing that ever really frightened me during the war was the U-Boat peril*.”

—Winston Churchil.

Maritime trade has always been the focus of warfare since ancient times in various forms. Maritime warfare was a critical aspect of ancient Greek history from the Bronze Age through the 4th century BCE. Maritime and naval power enabled Spain, Portugal, Holland, France and finally Britain to dominate trade and build world-wide empires that have left their lasting impact on the world. Naval warfare during World War I was characterised by significant developments and strategies that shaped the course of the conflict. Strategic Blockades and Economic Warfare continued to be part of strategies applied in World War II. Naval forces of Indian kings played an important role in protecting and expanding their territories and trade interests. According to ancient sources, Indian kings such as Chandragupta Maurya, Ashoka, Samudragupta, Rajendra Chola and others maintained large fleets of ships that could carry troops, chariots, elephants and horses across the seas. These ships were also used to combat pirates, rival kingdoms and foreign invaders. Some of the notable naval battles in ancient India include the conquest of Sri Lanka by Rajendra Chola in the 11th century CE, the defeat of the Portuguese by the Zamorin of Calicut in the 16th century CE, and the victory of Shivaji over the Siddis of Janjira in the 17th century CE. The naval armies of Indian kings were well-equipped, well-trained, and well-organised, and they demonstrated their prowess and skill in various maritime expeditions and wars.

The aim of maritime trade warfare until the twentieth century was to attack or neutralise the commercial shipping of one's enemy. The effort was to disrupt the enemy's economy, making it more difficult for him to continue waging war. It also involved disrupting the enemy's military supply chain on the sea. Blockading an enemy's port or destruction of an enemy's port infrastructure to prevent the loading or off-loading of commercial vessels was another common goal to prevent the movement of the enemy's commercial shipping. In the 20th century, with the introduction of new technologies such as the torpedo, submarine, and airplane, distant blockades far away from the enemy's coast became the standard practice. The latest is the use of sanctions by prohibiting 'unfriendly' countries from accessing certain services that are at the core of maritime trade.

To hurt the commercial interests of an enemy nation, countries have adopted the strategy of covert actions and shipping is no exception.

Shipping Strategy Today

While these are all overt actions to hurt the commercial interests of an enemy nation, countries have also adopted the strategy of covert actions and shipping is no exception. Bearing in mind how interconnected the world has become following the liberalisation era in which what gets consumed in one part of the world gets made in another part one would think that maritime commercial warfare is not without its perils for those who attempt to engage in such combat. However, while definitely more difficult it is certainly not impossible or unknown to impose actions that would impair the merchant marine ability of nations. The attempts of the Western alliance to hurt the exports of Russia is a glaring example despite many western countries themselves having to bear the brunt of these actions. There are military scholars and experts who promote the use of maritime trade warfare and emphasise that modern navies need to plan from both offensive and defensive perspectives. Therein lies the role of the merchant marine.

A realistic view would be that in today's world there are tactics in place that can effectively strangle an enemy's economy effectively without the use of a bomb or military action. The weaponisation of global container shipping is one such tactic. In order to 'punish' Russia, global container shipping companies decided to stop calls at Russian ports, thereby crippling the movement of containerised exports and imports.

Thus, it is not unknown for major shipping powers to attempt to influence government policies in the developing world or of countries heavily dependent on imports in a manner so as to make their economies completely dependent on foreign shipping fleets for transport of their basic bread and butter needs, so to speak. This has the dual benefit of not only securing new corporate and national clients for their service but also have the ability to bring the recipient to its knees when needed owing to its dependence on foreign ships for transportation of its cargoes.

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India's Container Capacities

As ports in India began to see the increased arrivals of container ships which would bring in imports, Indian companies realised that this could be a vertical for investment. In the early 1960s, companies such as India Steamship invested in container ships and were soon followed by the state-owned Shipping Corporation of India (SCI) leading the pack. Other factors that contributed to the growth in containerisation were the increased awareness created by the government on the need to use ships as the preferred mode of transportation given the economic and social benefits, and the government's efforts to induce public sector undertakings (PSUs) to use coastal shipping. Container shipping received a boost with Indian companies commencing feeder operations to transshipment hubs in the region. Soon these Indian companies introduced transshipment of India's Export-Import (EXIM) cargo at Indian ports such as Jawaharlal Nehru Port Trust (JNPT now JNP Authority). This was followed rapidly by the introduction of transport of domestic cargo in containers. As a result these Indian companies expanded their services from the ports on the western coast of India to the eastern coast. Several companies began connecting the ports in the west coast with the east coast, thus, providing an additional transport option for the Indian consumer and producer of goods. Multimodal transport of domestic cargo had come to stay. Indian container fleet saw a growth of about 8 percent each year, which beat the growth of container fleet worldwide. The addition of new commodities in the kitty of coastal ships and the frequency of sailing services pushed up commodity volumes on the Indian coast.

The container industry in India notched a milestone in 2017 when trans-shipment at Indian ports increased by 19 percent while trans-shipment at foreign ports had fallen by 2 percent, according to the Indian Ports Association (IPA) data. This buoyancy in the sector was further supported by the Ministry of Shipping's progressive position in obtaining a waiver of custom duty/excise duty on imported and domestic fuel used by EXIM and coastal Indian flag container ships in the country.

Container shipping in India witnessed a lot of positive and proactive changes upto 2017. Foreign shipping lines found that it was cheaper to move cargo between two Indian ports via sea and Indian companies were providing these connections on the country's coast. This not only promoted transhipment at Indian ports, but also ensured that part of the export costs was saved and invested back into India through these Indian container shipping companies. This also fitted in nicely with the stance of the Modi government which seemed to provide a thrust for growth of the national industry.

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Having realised that a significant share of the freight that it was charging the Indian exporter was being retained back in India for the purposes of feedering of containerised cargo and looking at the profitable model of usage of empty containers for transport of domestic cargo by sea, the foreign shipping companies decided that it was time to stop this 'leakage' to Indian firms. Thereafter, one witnessed an increase in 'voices' calling for relaxation of licencing rules for foreign ships to carry their own cargo under the guise that this will reduce the cost of repositioning of empty containers and increase transhipment of cargo over Indian ports. Newspaper articles began to speak of how Colombo was the adversary and was taking away all our cargo to their report. All these commentaries refused to recognise the simple fact that cargo, like water, will find its most efficient route, come what may. These cacophonies ignored the basic fact that Jebel Ali, Singapore or Colombo became transhipment points due to their having own cargo and being geographically on the main trunk routes. Countries where cargo originates and arrives are Gateway ports and most large importing and exporting countries concentrate on making their ports competitive, not snatching transhipment cargo from transhipment points.

In May 2018, the Ministry of Shipping, without consultation with the industry or the trade, decided to unilaterally dilute the licencing requirements to carry cargo on the Indian coast. What this effectively did was to hand over, one fine day, all the cargo that Indian companies were carrying over to the foreign shipping companies and left the Indian container companies standing as mute spectators to the complete takeover of Indian container trade by foreign shipping lines. What was worse was that this had happened during the tenure of the Modi government which prided itself on promotion of Indian industry and would later coin the term 'Atmanirbhar' Bharat. It was shocking to see how misdirected bureaucrats could turn the Indian container trade into 'para-nirbhar.'

The action of May 2018 had ensured that Indian container fleet froze and is now shrinking, while global container companies have consolidated their hold on the Indian market.

Soon after the government's new policy stance, one saw frequent increases in the ocean side charges by the global container shipping companies. Indian trade began bearing the brunt of phenomenally high freight rates and the uncertain sailing schedules of global container companies. There was now no viable Indian alternative that could be used given the almost nil Indian container capacity.

The action of May 2018 had ensured that Indian container fleet froze and is now shrinking, while global container companies have consolidated their hold on the Indian market and expanded their market shares the world over. Indian container fleet began diminishing and saw ZERO investment post-2018 and carries less than one percent of India's EXIM cargo. This only ensures that Indian export and import cargo is entirely at the mercy of foreign container shipping companies. The rot had set in.

Global Container Shipping Sector in the pre-COVID Era

The increased focus on the shipping industry and on container shipping, in particular, is to be understood given the importance of global shipping to the supply chains that underpin economic activity across nearly all sectors. Prior to 2000, the global container shipping market was dominated by a large number of container shipping companies. However, over a period of time, the industry has consolidated and the smaller lines have been taken over by the larger ones. Currently, the world has just about 12 container shipping companies. It is no coincidence that a majority of these companies are beneficially owned by residents of OECD countries. China is the exception. They had seen this threat and had successfully created capacities with leading companies such as China Ocean

Shipping Company (COSCO) Shipping Lines, China Shipping Container Lines (CSCL), Orient Overseas Container Line (OOCL), SITC International Holdings and others.

The global container shipping industry has been accused of increasing costs of transportation and having domestic manufacturing industries across the globe who need to export goods at their mercy through their non-transparent methodology of charging and profiteering. In addition to the freight, they impose the trade detention charge, demurrage, bunker surcharge, peak-season surcharge and a host of other fancy charges that are a guise for more and more money. Charges of handling cargo atterminals and inland haulage are padded up. Shippers have to compulsorily use the services of the agents of container shipping companies if they wish to move cargo. If the importers refuse, their containers remain unmoved. This delays the supply chain for the importer and also makes him 'liable' to pay to the container company ground detention charges! Apart from freight, most other charges are arbitrarily levied and are not declared upfront before the carriage of goods. This had outraged several governments across the globe to vigorously form regulations that would prohibit these unjust and unreasonable practices in relation to "detention and demurrage" fees and other such charges.

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Given this backdrop, the Directorate General of Shipping (DGS) had made an attempt to control the practices of the global container shipping companies in India by setting up a committee (notification SD-11018/4/2015-MD dated 5th February 2016) on transparency in transaction costs. The committee comprised various industry stakeholders to identify and examine the grievances reported in 2015 and gave their recommendations. However, this Committee was doomed to fail since the exporters and the importers could not openly complain to the DGS Shipping without facing the wrath of the container shipping companies. Additionally, the global container shipping companies refused to comply with the suggestions of the DGS that would have ensured fair freight pricing for Indian trade since it was clear that the DGS lacked the mandate in law to enforce such a direction.

Feeding the Growth of Global Container Shipping

In the second week of October 2023, it was reported that Mediterranean Shipping Co. (MSC), which holds around 20 percent of the global market share in container shipping, has clocked revenues of EUR 86.4bn (Rs. 7,60,320 crore) with a net profit of EUR 36.2bn

(Rs. 3,18,560 crore) across business segments in 2022. MSC's reported astronomical profits surpass those of major tech giants like Facebook, Amazon, Netflix, and Google! MSC is a privately held company.

The results of the other top three container shipping companies are no surprise either. The revenues and earnings of the four leading shipping companies are shown in the Table below.

Table

A.P. Moller - Maersk Vs. CMA CGM Vs. Hapag-Lloyd AG on Q1-2024

MARITIME ANALYTICA	MAERSK	CMA CGM	Hapag-Lloyd
GROUP CONSOLIDATED PERFORMANCES - Q1/2024			
Revenue	$12.4 billion	$11.8 billion	$4.6 billion
EBITDA	$1.6 billion	$2.4 billion	$0.94 billion
EBITDA Margin	12.9%	20.2%	20.4%
Net Profit	$210 million	$785 million	$325 million
LINER SHIPPING - Q1/2024			
Revenue	$8 billion	$7.9 billion	$4.5 billion
EBITDA	$956 million	$1.9 billion	$906 million
EBITDA Margin	11.9%	24.8%	20%
Volume TEU	5.9 million TEU	5.6 million TEU	3 million TEU
Sea-Freight/TEU	$1.184	$1.401	$1.359
LOGISTICS - Q1/2024			
Revenue	$3.5 billion	$3.9 billion	
EBITDA	$266 million	$361 million	
EBITDA Margin	7.6%	9.3%	
TERMINALS - Q1/2024			
Revenue	$999 million		$107 million
EBITDA	$348 million		$35 million
EBITDA Margin	34.8%		33%

*Source: Companies' Financial Reports

While the profit numbers are amazing, they really aren't surprising. What is astonishing, however, is that these global container shipping companies who carry almost 100 percent of India's export and import container cargoes pay almost no taxes in India. It is reported that their India offices which are essentially marketing offices, repatriate the entire freight earned in India.

The COVID-19 period saw container freight increase exponentially. The freight rise was so significant that the *Economic Survey of India* (ECI) released on January 30, 2022, made a reference to the steep increase in freight costs faced by India. The cost of transportation services grew by 40.7 percent in the first half of FY22 to USD 14.3 billion due to increase in cross-border trade activity and the shortage in shipping containers, impacting transport costs (See para 3.31, Economic Survey, pp 21-22).

Globally too, the problem of higher container freight rates was so acute that the Organisation for Economic Co-operation and Development (OECD) has begun tracking how much container shipping is factoring in global inflation since October 2021. While the pat answers of these container companies is that the impact of COVID-19 led to the rise in freight rates, the issue is not so simple. While container companies would have us believe that freight rates had increased due to lower availability of capacity, disruptions to sailing patterns and rising bunker fuel prices, the undeniable fact is that container shipping companies took advantage of the disrupted market and choked the supply of empty containers. This led to 'blanked' sailings, which was a good way to say that 'I am not going to provide you a ship.' All of this increased the costs of shipping services. This was proven when the top ten global container shipping companies generated a record operating profit (Earnings Before Interest and Taxes-EBIT) of around USD 202 billion or (Rs.16,56,400 crore) in 2022, up from an estimated USD 110 billion or (Rs. 9,68,000 crore) in 2021. To put this into perspective, for the entire period of 2010 to 2020, the global container industry is reported to have made a total profit of USD 37.5 billion.

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What is even more stupefying is their successful tax planning. Their advocacy to get "international shipping income" excluded from the ambit of the Global Minimum Tax has been successful and they will, therefore, continue to operate tax free, globally for the foreseeable future!

On October 8, 2021, 136 countries agreed to the OECD- G20 Domestic Tax Base Erosion and Profit Shifting Project (BEPS) recommendation to implement a 15 percent Global Minimum Tax rate, since the existing international tax rules do not fit the current era of digitalisation. The tax would work on a two-pillar system in which Pillar One would redistribute excess profits of multinational enterprises to jurisdictions where its consumers or users are located, regardless of whether they have a physical presence in that location or not. Admittedly, base erosion and profit shifting by multinational enterprises exploit gaps and mismatches in tax rules to avoid paying tax. BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax and particularly from multinational enterprises. This would have been a boon for India. Yet, what is telling is that the global shipping industry is exempted from this tax!

A quick look at the shipping matrix will highlight the inherent unfairness of this proposal. Global container companies are carrying 100 percent of India's export, import and coastal container cargoes with zero contribution to the Indian economy. The second issue is that more than 50 percent of the global cargo emanates from Asia while the top 10 multinational shipping companies are housed in Europe and other G7 countries. These companies will continue to thrive on the carriage of Asian cargoes and, of course, tax free! India continues to dither on the strategic decision to grow its own container fleet, and thereby feeding the unhindered gobbling of freight by Global Shipping companies.

India must learn from the problems faced by Russia despite Moscow having a fleet far larger in size and breadth than India's.

While the post-Covid period has seen some flattening of container freight rates, the action of the Houthis in the Red Sea has provided another excuse to global container shipping companies to charge additional freight for the 'longer route' that they have to take via Cape of Good Hope. The container liners have also pushed up freights on the excuse that this longer route has led to a shortage of space. Indian EXIM trade continues to be at the receiving end of the stick, which is wielded severely and freely.

Conclusion

For a country having such a large EXIM trade, it would seem natural to have a national fleet that would be commensurate with the size of its international trade. China saw the need and planned several years ago. However, the size of the Indian fleet has diminished over the past several years. Industry specialists have blamed lobby groups of foreign shipping companies—who are very active in India—in successfully ensuring that the status quo continues. Often, when beneficial policy-making efforts are close to fruition, they seem to inexplicably halt. However, it is clear that India's national fleet has eroded.

It seems that India does not seem to have a clear idea of what it must do to protect its interests. It cannot continue to be blind to the ongoing extraordinary upheavals in the maritime space that are affecting and will continue to affect India. As the fight to garner, procure and transport resources and search for customers intensify, it would likely lead to perhaps stiffer geo-political conflicts. In such a scenario, India will not be able to afford the predatory freight pricing offered by global shipping companies to import its core and critical cargoes.

It is obvious from the diminishing national fleet that there is absence of strong growth-oriented policy steps that would incentivise growth of Indian shipping. The small size of the Indian national shipping could also put in peril the fate of the Indian nation in terms of energy security, food security and commercial/strategic clout of country so far as the sea lanes are concerned. It is clear that the growth of a country's shipping and security policy are inter-linked. Lack of pro-growth policies is a serious issue for any nation and India is no exception. India must learn from the problems faced by Russia despite Moscow having a fleet far larger in size and breadth than India's. The country needs to have a clearer idea on what it must do to mitigate risks, protect its supply lines, its strategic interests in the subcontinent and become more aware of the ongoing extraordinary upheavals in our immediate subcontinental neighbourhood. As the fight to garner, procure and protect transport resources will intensify, it would likely lead to perhaps stiffer geo-political conflicts and India should find itself ready and prepared. However, the status of India's readiness is dismal. As the *Economist*, dated March 30, 2013, succinctly says, "India exhibits a striking lack of what might be called a strategic culture," and that "India lacks the culture to actively pursue a security policy."

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The fact is that the world shipping market alone cannot be counted on to cater to and supply India's growing market. Supplies are subject to disruptions from numerous geopolitical risks, and the only way to ensure reliable logistics and supplies is through the physical control of the supply chains not just for India's containerised cargo but also for its energy needs (crude oil, gas) and food security. India seems to be inching towards securing the sources of critical commodities such as crude oil through ventures such as ONGC Videsh Ltd., and other Indian investments. But what about the shipping of such commodities to the shores of the nation if national policies are increasingly aimed at disbanding Indian flag fleet?

To overcome such a complex problem, the first step seems to be pretty simple — expand India's own merchant fleet. Unless the country makes a focused and determined effort to build national shipping tonnage, she will be left to the mercy of foreign controlled tonnage. Is this something that the nation can afford? The obvious answer is NO. Any dreams of chasing a respectable GDP growth will be brought to nought if India does not prepare to bring in critical energy commodities on our own might. At the same time, India also needs to ensure that she has the capability and the wherewithal to carry finished products out to her international trading partners.

In this backdrop, the time has come for India to plan to create its own container shipping companies so that in the next 10-15 years, India and its cargoes will not be at the mercy of the foreign container shipping firms. Like China, Korea and Japan, India too will need to have at least one, if not more, national container shipping companies. It is time to push for the BEPS regime—aimed to thwart tax avoidance strategies of global corporates—to apply also to shipping freight. It would find sufficient support from other Asian nations as well as Australia.

Interestingly, public and private practises and policies continue to exercise a significant influence on maritime transport. Private anti-competitive practices seem to have a stronger influence on prices than public restrictions.