

# ARSHIYA INTERNATIONAL ELICIT 2009

A Consumer Connect Initiative

## STRAIGHT TALK



Space has been our biggest challenge over the years. But, with the advent of container cargo we have discovered ways of growing with the minimal space available.

CAPT. SUBHASH KUMAR, CHAIRMAN,  
CHENNAI PORT TRUST



Thousands of warehouses are being built in India today, but they are going to be in the wrong places three years from now. The answer has got to be hubbing, using the IT skill that the country has in abundance.

PAUL BRADLEY: MEMBER, GLOBAL ADVISORY BOARD, ARSHIYA INTERNATIONAL, VC-SUPPLY CHAIN ASIA & INTL. CONSULTANT



Integrating of supply chain solutions on an IT platform ensures data accuracy and transparency for the logistics service provider as well as the client, in this whole orchestra of material movement. Formulating logistics solutions without IT is like leaving a surgeon without his surgical equipment.

DEVRAJ KUMAR: HEAD-MATERIALS  
MANAGEMENT, NOKIA INDIA



Logistics is said to be the second oldest profession. but it has never been the manufacturer's cup of tea. Partnering with It has come as a boon for them today

SUDHIR GOEL: CHIEF OFFICER-SUPPLY CHAIN MANAGEMENT,  
ACER INDIA LTD.

Niranjana Ramesh  
Chennai

Ten years ago, logistics was not a prevalent term in Indian industry. It was definitely not used widely for operations ranging from transit of raw materials and products between source and manufacturer and consumer, to putting together of software applications as a functional solution.

Despite India having a centuries old history on cargo handling through ships, only now have we realized the role that logistics plays in our costs and earnings. Organised by The Economic Times in collaboration with Arshiya International, ELICIT 2009, a Convention on Emerging Logistics in India, Changing Infrastructure & Technology was held on 16th July in Chennai. The forum discussed not only about the importance and efficiency of logistics in a country as big as India, but also envisioned the development of the country's great coastal region into a global logistics hub. The forum put together a food for thought: Is India suited for facilitating the development of logistics as an industry in itself in the country, thereby automatically making the supply chain efficient for Indian industry?

It was a study of contrast between Capt. Kumar narrating the inadvertent growth of the Chennai port into one of the largest and most efficient container and cargo terminals in the country over the years to Arshiya International's presentation of its free trade warehousing zone (FTWZ) on the country's west coast, developed in three years on the basis of government policy on special economic zones.

"The man-made harbour of Chennai port has been perpetually short of space, with the sea on one side, the marina on the other and a bustling city on the third side," Capt. Kumar said. "Space has been our biggest challenge over the years. But, with the advent of container cargo we have discovered ways of growing with the minimal space available."

He narrated how they discovered that the Jawaharlal Nehru Port (JNPT) happens to be the largest handler of container cargo thanks to its connectivity with the hinterlands. Chennai Port, hence, is in the process of developing two transshipment corridors - a 19 km long elevated corridor connecting the port to Maduravoyal on the city's western outskirts, and a four lane connectivity to Manali in the industrial North Chennai.

Truck drivers and fleet owners have often complained about the poor connectivity in these areas leading to loss in time, money and resources. This is how, it seems, India spends 14% of its GDP on logistics! In times of recession, it is essential to minimize these transit costs.

Thus began a dissection on the state of inland connectivity by the panelists in the forum. Though the nation is famed for its all pervading rail network, it turns out 68% of the cargo in India is carried on road. Consequently, 40% of any company's logistics costs is on transport.

"Railways, though capable of providing a superior network, has limitations in terms of flexibility of size of cargo handled and routes," said Acer India supply chain management chief officer Sudhir Goel.

"Hence, it is difficult to market that mode of transit, however much it can be advanced technologically.

Case in point as 2% of Indian roadways are national highways, which carry 40% of the country's cargo. "At this rate, not only would we need roads and rails, but also inland waterways to keep up with the industry," Capt. Subhash Kumar said. "There is tremendous opportunity for coastal shipping development, across the 50 minor ports that have come up on our shores in recent times."

Nokia India materials management head Devraj Kumar seconded the point saying, "It is easy to im-

bing as a solution to the problem of choking in India highways. He gave the example of Nike which used to have 360 warehouses to serve 380 cities, but now, has just two hubs serving all its markets.

The discussion took a new turn when the moderator intervened that India, one of the fastest growing economies in the world, has a container throughput that is just a fraction of the same in Singapore and Dubai, which are much smaller countries. India processes 6.5 million TEUs of containers in a year, while Dubai processes 12 million and Singapore 23 million. China processes 186 million TEUs annually.

## Logistics hubs - the new supply chain solution



From Left to Right: Capt. Subhash Kumar, Chairman, Chennai Port Trust; S Ravichandran, President, TVS Logistics Services Ltd; Sudhir Goel, Chief Officer-Supply Chain Management, Acer India; Devraj Kumar, Head-Materials Management, Nokia India; Paul Bradley, Member Global Advisory Board, Arshiya International, Vice Chairman, Supply Chain Asia & Intl. Consultant

port our raw materials into the country. But, while transporting them inland, they get stuck in a myriad of regulations and limitations which hike the time and cost to consumer." He added an interesting consumer angle to the issue. "To the consumer, logistics is just a hidden enabler for his goods. He doesn't know or care about it. It is for the industry to strive and achieve efficiency in it."

Arshiya International Asia supply chain vice chairman Paul Bradley summed it all up saying, "With the rise of Asia as a manufacturing hub and consumption market, the population, demographics and geography of this region should redefine the way cargo moves. It should restructure logistics for the ground scenario. We cannot import our logistics solutions from the west."

He proposed the idea of integrated logistics hubs. Going by Mr.Devraj Kumar's advice of fusing warehousing with cargo movement, he proposed hub-

India has gained a global industrial recognition because of the value it adds to goods and services rather than the volumes it handles. But, perhaps, for logistics, government policy and the industry seems to favour volumes. "The target fixed by the central government for the ten major ports in the country is 1000 million metric tonnes of cargo by 2012, the end of the current five year plan period, pointed out one of the panelists. That is doubling of our present tonnage of 550 million.

Hence, unlike other industries where different entities compete for market share, the ports, as a group, are scouring for increase in volumes of cargo. "As the industry grows, the ports will all grow along with them, though the rate of growth will differ based on the inland connectivity that each port can access," he said. Mr Sajal Mittra, CEO, Rail Infrastructure, Arshiya International, made his opening remarks at the second session.



It is not the end of the search for a logistics solution. But, Arshiya International's strategic initiatives Head Nijay N Nair had a point when he introduced the concept of free trade warehousing zones (FTWZ) as a start to all the innovations that were discussed in the panel. "Building on the ideal that logistics solutions for Asia should come from within, we believe in the integration concept discussed in the panel," he said. "For us, integration is all about using information technology to control your products, and build infrastructure in few strategic areas so as to cut down working capital requirements for operations."

His ideas seemed to converge on one superstructure, or rather hub infrastructure - FTWZ. The Government of India introduced the free trade warehousing act as part of its foreign policy in 2004, and subsequently amended it in 2005. It was supposed to be a logical follow up on its special economic zone act.

Mr B Sriram, Associate director, Tax & Regulatory services, Ernst & Young, providing a consulting perspective on free trade warehousing zones in India, explained the tax provisions for operating in the zones.

For a logistics hub to gain an FTWZ status, it has to have a minimum area of 100 acres, with a built up area of 1 lakh sqm. An SEZ can also encompass an FTWZ, provided it doesn't exceed 20% of the total processing area of the SEZ. The zone would be considered a foreign territory, exempt from Indian taxes on import, export, services and value addition. "Apart from the employment and development that FTWZs generate, they become centers where value addition can be done on goods in transit using the country's skilled workforce," Mr.Nair said. "Often a transit hub automatically becomes an assembling unit for many manufacturing companies."

The intention of the government, when introducing this act, was to encourage the development of giant storage and transit infrastructure. However, for many companies, this presents a value proposition in terms of the value addition that can be done within. "For many companies, there are issues with sticking MRP labels on products manufactured in India, locally, because it attracts a host of taxes, duties and regulations. So, they take their products to another location just for labeling," Mr.Nair said.

But, companies will now be able to do this within FTWZs. "These zones also become hubs for trade of raw materials between companies, which would otherwise attract duties," Mr.Nair said. "In other words, what we are talking about is a trade hub, where goods in transit stimulate trade, value addition and employment."

"It is also a boon to OEMs like auto manufacturers and electronics OEMs, who need to stock spares in India for the sake of service and maintenance," he said. "Companies save on wastage of material, as they can do quality control for products inside these zones, without attracting duty even for those units which are not certified eligible for the market."

Arshiya International global CEO Michael Christensen summed it up when he concluded, "This initiative is step one for India to take up its logistics challenge, and regain the position it had in history as a global trade hub!"