Introduction

India and Bangladesh signed an ‘Agreement on Coastal Shipping’ on June 06, 2015. The Standard Operating Procedure (SOP) between the two countries was also signed on November 15, 2015, to implement the Coastal Shipping Agreement. The agreement seeks to promote two-way trade between India and Bangladesh through their respective ports.

Earlier shipping cargo used to ply between the countries through Colombo/Singapore/Klang ports. But this agreement has enabled the direct regular movement of ships between India and Bangladesh and reduced delivery time from 25 to 7 days, with an estimated savings of approximately US$300 per container, which was observed in the case of Chittagong-Krishnapatnam container service. This is because of the new protocol routes under the agreement, the distance reduces significantly (as depicted in Figure 1).

Figure 1: Old and New Shipping Routes between India and Bangladesh

Source: https://thewire.in/diplomacy/coastal-shipping-could-reinvigorate-bilateral-ties-between-india-and-bangladesh
There are four agreed routes under the agreement for the movement of vessels. Those are:

a) Chennai-Krishnaptnam-Kakinada-Visakhapatnam-Paradip-Haldia-Kolkata-Mongla-Paira-Chittagong;
b) Chennai-Krishnaptnam-Kakinada-Visakhapatnam-Paradip-Haldia-Kolkata-Mongla-Khulna;
c) Chennai-Krishnaptnam-Kakinada-Visakhapatnam-Paradip-Haldia-Kolkata-Paira;

Table 1: Ports of Call

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<thead>
<tr>
<th>Port of call in India</th>
<th>Port of call in Bangladesh</th>
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<tr>
<td>Chennai</td>
<td>Chittagong</td>
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<tr>
<td>Krishnaptnam</td>
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<td>Kakinada</td>
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<td>Visakhapatnam</td>
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<td>Paradip</td>
<td>Narayanganj</td>
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<tr>
<td>Haldia</td>
<td>Pangaon</td>
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<td>Kolkata</td>
<td>Ashuganj</td>
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Figure 2: Ports of Call under the India-Bangladesh Shipping Agreement

Source: Developed by author
On March 23, 2016, coastal shipping commenced when the container vessel M V Harbour 1 was sailed from Chittagong Port in Bangladesh and reached Krishnapatnam Port on India’s east coast on March 28, 2016, to carry cotton from Krishnapatnam port.

The coastal route is primarily used by Bangladesh to import a significant portion of its raw cotton requirement, from India for its garments industry.

**Basic Features**

India and Bangladesh shall render the same treatment to the other country’s vessels as it would have done to its national vessels used in international sea transportation.

Use of vessels categorised as River Sea Vessel (RSV)-IV for India-Bangladesh coastal shipping. The RSV category was agreed upon by both the countries because of its lower construction and operation costs without compromising on the safety of the vessel. Vessels classified as per RSV III equivalent standards or above may operate between Bangladesh and Kolkata/Haldia (India) ports.

However, such operations are subject to permission and certification by the Government of the People’s Republic of Bangladesh with respect to trading area, requisite insurance and fair weather period of operation.

The provisions of the agreement include removal of bank guarantee requirement by the Bangladesh Government on each consignment of transit cargo.

The agreement allows vessels up to 6000 Gross Tonnage (GT). For the vessels bound to Pangaon Container Terminal (Bangladesh) the maximum principle dimensions of the vessels are to length (LAO) 75.0 m, breadth (molded)-13.5 and draft 4.0 (as applicable to domestic container vessels).

Both the governments shall share the carriage of inter-country trade and cargo on an equal tonnage (50:50) basis as far as practicable by the vessels.

The freight operators in both countries will charge uniform rates for both inter-country trade and transported cargo (to the extent practicable).

**Complementary Initiatives**

The agreement complements India’s Sagarmala programme which was launched in 2015. The project embraces, national coastlines, rivers, roadways, railways into an integrated national deployment model. Port-based industrialisation, hinterland connectivity and multimodal logistics to optimise cost and time of cargo movement are a few of the identified goals of this project. Sagarmala action plan identified that significant savings can be achieved by transporting industrial commodities through waterways.

Haldia port has been declared as a Trans-shipment Port for containerised cargo originating from/destined to Bangladesh to attract more cargo movement through sea-route. This port is also linked with railway connectivity and a separate multimodal terminal is also under construction to cater to Bangladesh bound cargo.

Bangladesh is also undertaking various port development projects, such as modernisation of port facilities including container delivery yards; constructing six-lane road connectivity from Mongla port, establishing a railway connection from Mongla port, and automatic radiation detection facilities; conducting dredging on the outer harbour of Mongla port to increase the draught capacity from 7.5 to 10 meters, etc.

**Benefits**

The scope of direct container shipping services between India and Bangladesh will reduce India’s dependency on third-country ports. India has been spending billions of dollars to build trans-shipment ports to cut its dependency on neighbouring hubs. About 2.8
million TEU, or one-quarter of India’s container trade, are trans-shipped via Colombo, Singapore, Port Klang, Salalah and Jebel Ali. As per the agreement, sea transport from India to Bangladesh is treated as coastal movement, making it eligible for 40 per cent concession on vessel-related and cargo related charges. Ships operating under the agreement will be charged port dues and other levies as applicable to local vessels of the respective countries solely plying on domestic routes, which are lower than the rates collected from foreign-going ships. They also get priority berthing. This, in turn, reduces the total logistic cost.

Coastal shipping reduces shipping time between India and Bangladesh significantly from 25-30 days to 6-10 days depending on the ports between which the vessels are plying, therefore reducing overall cost.

Traffic congestion at Petrapole-Benapole Land Customs Station (as 90 per cent of the trade with Bangladesh takes place through this port) has emerged as one of the biggest impediments to the movement of EXIM cargo. Due to adequate infrastructure at Benapole, Bangladesh accommodates a lesser number of trucks per day than Indian exporters can export. Thus, it takes a minimum of 12-15 days for an Indian truck to complete the entire export procedure and return to the country, which, in turn, incurs a huge amount of detention cost for the exporters, thereby decreasing their margin of profit.

For the Kolkata-Petrapole-Benapole-Dhaka corridor time taken to travel one km by truck is 19.64 minutes and the cost incurred per km is US$6.15. One way to address this was by transporting commercial cargo through coastal shipping. This will reduce pressure on both existing LCS and roads and reduce shipment time and cost.

It is an environment-friendly mode of transport as it is fuel-saving over road and rail and leaves a lesser carbon footprint than other modes. As this agreement will reduce the overall cost of trade between India and Bangladesh it would, in turn, facilitate more trade between them though coastal waterways. Increased activities will lead to the development of ports of both the countries and respective shipping industries.

The agreement will also complement the development of different industrial corridors, such as the Delhi-Mumbai Industrial Corridor, Amritsar-Kolkata Industrial Corridor and Chennai-Bengaluru Industrial corridor.

The agreement, Protocol on Inland Water Transit and Trade (PIWTT), to use inland waterways to transport cargoes between India and Bangladesh exists since 1972. But barges of capacity 800-1200 tonnage can only ply through these routes as draft availability in these routes is limited to 2.5-3 metre which is not economical for traders exporting/importing large consignments.

Moreover, these inland routes are not suitable for container movement. Coastal shipping opens up scope for large traders and also connects eastern ports of India with Bangladesh which was absent in PIWTT.

This agreement has facilitated the direct movement of containers from eastern ports of India (Industrial zones) to Bangladesh’s manufacturing hub Dhaka, by moving the container vessels directly to Pagan. This has helped the importers to avoid road congestion between Chittagong and Dhaka.

**Socio-economic Impact**

Ports are a vital part of a country’s economy and a crucial link for integration in the expanding world economy. Historically ports have created employment through backward and forward linkages like freight forwarders, agents, shipping agencies, banking and insurance business.
Therefore, the benefits of investing in transport infrastructure are not limited to travel-time saving (Banister and Berechman, 2001).\textsuperscript{13}

Induced benefits can also be assessed from an environmental perspective where less pollution such as noise, particulates and carbon that accrue as social benefits in terms of quality of life and healthcare costs.

Due to reduced logistic cost, incomes to industries trading through these routes increases and also creates employment opportunities in these industries. Such incomes generate in turn re-spending which further induces employment and income through the economic multiplier effect leading to economic growth.\textsuperscript{14}

**Issues and Challenges**

RSV class of vessels is not available in Bangladesh. Bangladesh has foreign going vessels of higher technical and manning standards which are not cost-effective for the coastal voyage between the two countries.\textsuperscript{15}

The coastal shipping pact currently permits vessels of up to 6,000 gross tonnage (GT) to ply due to size restrictions mandated by the RSV rules. But often it is observed that using these small low capacity boats is not cost-effective for longer stretches such as from Chennai to Chittagong.

This Agreement is limited to bilateral trade between India and Bangladesh and cannot be used for India to India trade (transit trade), i.e. to connect mainland India to North East India.

A separate agreement was signed on the use of Chittagong and Mongla Ports for the movement of goods to and from India by using Chittagong/Mongla to Agartala, Chittagong/ Mongla to Dawki, and Chittagong/Mongla to Sutarkandi routes.\textsuperscript{16}

This enabled the movement of cargo to the North East through coastal shipping up to Chittagong and thereafter by road/inland waterways/rail. The SOP of this agreement was finalised in 2019. The first trial container ship from Kolkata to Agartala and Karimganj through Chittagong port shows that this route drastically cuts short the distance between Kolkata and Agartala via Assam from about 1600km to just about 450 km.\textsuperscript{17,18}

Due to inadequate demand and lack of return cargo from Bangladesh, vessel service is available between Kolkata/Haldia and Chittagong and but not between Kolkata/ Haldia and Mongla. Shipping lines are also reluctant to provide vessel service till Pangaon due to a lack of return cargo.

The roughness of the sea in the Bay of Bengal during the monsoon season from April-October becomes a risk for plying coastal vessels (RSV IV) due to their small sizes.

The present trade pattern is largely in favour of India and cargo ships and containers mostly return empty from Bangladesh to India. As a result, freight cost increases and often become non-viable for low-value cargoes. For example, for each container customer pays $700 from Kolkata to Pangaon port apart from other ancillary costs as they are charged for both ways haulage.

High fuel cost - as governments apply excise duty on fuel cost which is about ₹50 per litre which often makes coastal shipping less cost-effective.

The predictability of the delivery time of the cargo in Bangladesh is also a major issue due to congestion at the Chittagong port. Chittagong port is the prime maritime gateway and deals with more than 90 per cent sea-bound trade, with a steady growth of 8-12 per cent every year. This port handled three million containers in 2019. At present, on an average, ships have to stay 2.5 days to load and unload at Chittagong Port.\textsuperscript{19}
Moreover, the maximum draft of the port is 9.5 meters - definitely not deep enough for many modern container ships. Therefore, many mother vessels can not enter the main port jetty. The containers are being transported by lighter feeder ships and the process is both time-consuming and costly.20

Chittagong Port Authority controls the barge schedule at Chittagong Port using a 'lighterage' mode of operations. This erratic barge schedule leads to a lack of clarity about the arrival of cargo in Pangaon port (from Chittagong) for both Shipping lines and importers, and this also removes commercial consideration between cargo operators and shipping times.

This erratic schedule of barge availability based on import also makes it difficult to attract export cargo (from Dhaka) which requires fixed sailings. Due to this reason, even shipping lines are reluctant to provide export services from Dhaka to India. Therefore, the barges carrying goods import cargo to Pangaon port from Chittagong have to return empty, and to meet their cost, they charge premium rates.

There are a smaller number of RSVs in India as banks do not provide loan to shipbuilding companies considering floating vessels as collateral. Shippers often have limited cargo volumes and cannot fill a complete vessel. There is a lack of third-party logistic service providers in India and Bangladesh who will aggregate small consignments to fill a vessel.

The coastal route is new and still unknown to many exporters/importers and seems complicated to them, whereas hiring a truck is easy and readily available.

Waterways do not provide first and last mile connectivity and at present, there is no single document rule for multimodal connectivity between India and Bangladesh. A different set of documents need to be prepared for each mode which complicates the process and increases cost.

Conclusion and Recommendations

Though this agreement is very important in terms of increasing connectivity between India and Bangladesh, reducing transportation costs, and strengthening their relation this initiative has failed to utilise its full potential. Presently, this route is used to export cargoes from India to Bangladesh till Dhaka (Pangaon port).

Return cargo from Bangladesh is negligible; therefore, it is often not cost-effective for exporters/importers to use this coastal route for trade. As a result, the only handful of traders are using this coastal route. Ensuring both ways cargo and taking other initiatives to reduce this logistic cost will incentivise exporters/importers to use this route.

There should be fixed barge schedules from Chittagong port to Pangaon/Narayanganj port as it will attract some cargoes from Dhaka and containers and cargoes do not have to return empty from Pangaon to Chittagong/Indian ports. This will reduce the overall logistic cost for exporters as well as importers in both India and Bangladesh.

Restriction on vessels (size) plying between India and Bangladesh under the coastal shipping agreement should be removed. Vessel size should be dictated by the route itself (based on the depth of the ports and route) and not separately by tonnage. For certain routes and consignments, it is more cost-effective to deploy large ships.

As a result, large vessels continue to ply as foreign going vessels using the traditional international water route. Shippers have already appealed to both the governments to remove this restriction.

The issue of return of empty cargo from Bangladesh can be resolved if Bangladesh allows third-party EXIM cargo transportation from Bangladesh through these coastal routes. The Government of India has proposed amendments and additions, respectively, to the
Coastal Shipping Agreement to allow third-party EXIM through the proposed ports (Chattogram, Mongla, Pangaon ports of Bangladesh and Kolkata, Haldia, Visakhapatnam, Krishnapatnam ports of India) under the existing framework.

The Indian side sees the opportunity of exporting Bangladeshi products, especially RMG to the USA and EU, through the proposed ports and aims to explore the potentials of the Pangaon port as most of the RMG factories are located around Pangaon. The idea of the Indian side was to avoid congestions of the Dhaka-Chittagong highway and to export RMG items from Pangaon to the EU or USA, via the proposed Indian Ports.

Additionally, it would bring about a significant reduction in logistics cost and faster delivery of Bangladesh export cargo. Bangladesh has agreed to hold stakeholder consultations and revert on the matter.

India also wants Dhamra Port, V.O. Chidambaran Port Trust (formerly Tuticorin Port Trust) and Kamarajar Port Ltd to be included as ports of call under the agreement so that India can make third country export of Bangladesh consignments.

However, Kolkata and Haldia ports are unable to receive mother vessels. The maximum capacity of a mother vessel is 80,000 tonnes whereas the maximum capacity of Haldia and Kolkata port are 30,000 tonnes, and 10,000 tonnes respectively. This is similar in the case of Chittagong and Mongla port of Bangladesh.

Additionally, the frequency of vessels calling on the proposed Indian ports is much lower than that at the ports like Singapore, Colombo and Port Klang. Therefore, exporting through these ports might lead to the addition of another port and these factors might increase the cost and time for Bangladeshi exporters.

However, many Indian and Bangladeshi exporters have urged the government to allow third-country export under this agreement.

The upcoming deep-sea port at Matabari which is expected to open its container terminal in 2023 is expected to reduce congestion at Chittagong port and thereby reduce transport time. Funded by Japan International Cooperation Agency (JICA), Matarbari Port is 150 kilometers south of Chittagong and the container volume of Matarbari port will eventually be 490 million TEUs (20-feet equivalent) whereas the capacity of Chittagong is 175 million TEUs.

There is a need to generate awareness among exporters and importers in India and Bangladesh about the prospect and benefit of utilising coastal routes to trade between India and Bangladesh. It is also important to show the overall cost-benefit of utilising this route as generally while comparing the total cost with roadways, exporter from India considers the cost from the origin point to the Benapole border, not till Dhaka, its final destination.

Different incentives should be introduced to facilitate the movement of freight through coastal routes, such as exemption of duty on the fuel of vessels.

Connecting these ports with other modes, improving transshipment facility, increasing loading and unloading efficiency of ports can also incentivise exporters/importers to use these coastal routes. The concept of third-party logistic providers should be promoted so that they can consolidate small consignments to fill a full cargo container/ship.

There is a need to identify potential products that could be exported from Bangladesh to India through the coastal route. Also, the feasibility of utilising Bangladesh’s seaports for India’s third country import could be explored. Chittagong along with Matabari is/will be a maritime hub for the entire region.

The protocols of the agreement should be revised in such a way that it ensures the overall benefit of economies of both the countries and is not limited to the concerns of any specific sub-sector/player.
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Endnotes


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6 Supra Note 3


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