



LOGISTIC PARKS : THE GAME CHANGERS

Background

India ranks 54th in Trade Logistics Performance across Globe World Bank. The World Bank in its report *Connecting to Compete 2014: Trade Logistics in the Global Economy*, shows the performance of countries across the world on the basis of Logistics Performance Index (LPI) which is an indicator of on-the-ground efficiency of trade supply chains, or logistics performance. The index ranks 160 countries on a number of performance parameters of global trade, including customs performance, infrastructure quality, and efficiency of cargo movement to reflect on the logistics efficiency within the country.

According to the report, high-income countries dominate the top 10 rankings. Germany is reported as the best performing country followed by Netherlands, Belgium, United Kingdom, Singapore, Sweden, Norway, Luxembourg, United States, and Japan.

With an overall rank of 54, India is ranked 3rd amongst the lower-middle income countries. India is also reported as the over performing trade logistics performance amongst the non high-income economies. The other over performing non high-income economies are Malaysia, South Africa, China, Thailand and Vietnam. However, India's trade logistic performance has exhibited a fall since the year 2010.

Overview of Indian Logistics Industry

The Indian logistics industry was valued at an estimated US\$ 130 billion in 2012-13. It has grown at a CAGR of over 16 per cent over the last five years. The industry comprises the following main segments:-

- Freight and passenger transportation via road, rail, air and water.
- Warehousing and cold-storage.

The contribution from the movement of goods including freight transportation and storage is about 90 per cent. Aggregate freight traffic is estimated at about 2-2.3 trillion tone kilometres. Road dominates the mode of freight transport mix and constitutes about 60 per cent of the total freight traffic. Rail and coastal shipping account for about 32 per cent and 7 per cent, respectively, while the share of inland waterways transportation and air is less than 1 per cent each.

Warehousing encompasses both industrial and agricultural storage. Of the total warehousing space of about 1,800 million sq ft, the industrial and agricultural segments constitute about 86 per cent and 14 per cent, respectively. Government organisations including Food Corporation of India, Central Warehousing Corporation and the state warehousing corporations account for about two-thirds of the agricultural warehousing segment. Warehousing also includes cold storage, comprising over 5,300 units; most of which are concentrated in the states of Uttar Pradesh, Punjab and West Bengal. According to the Ministry of Agriculture, at present, the cold chain capacity is about 9 million tones.

Government Initiatives: The Government has initiated several policy measures and programmes to attract investments in developing the logistics infrastructure of the country. Some of the key reforms undertaken include the following:-

- **FDI Regulations:** The government allows 100 per cent FDI under the automatic route for all logistics services, except air cargo and courier services. For air transport services including air cargo services, the limit was increased from 49 per cent to 74 per cent in 2008.

Also, FDI of upto 100 percent is permitted for courier services, subject to Foreign Investment Promotion Board (FIPB) approval.

- **Greater Investments In Development Of Logistics Infrastructure:** The government has significantly increased the allocation for the development of logistics infrastructures including ports, airports, national highways, logistics parks, freight stations and corridors.
- **Private Sector Partnerships:** Several measures have been undertaken by the Government of India to encourage private sector participation in the logistics industry across all modes. These measures include increasing targeted contributions of private players in the investments set aside for the development of logistics infrastructure, tax exemptions and duty free imports. Apart from speeding up capacity creation, this is also aimed towards incorporating latest technologies and better management practices.
- **Streamlining Indirect Tax Structure:** The proposed introduction of the Goods and Services Tax (GST) is expected to significantly bring down the total costs of the logistics industry. At present, most companies have set up multiple small warehouses of size 4,000-10,000 sq ft across the country to save taxes on inter-state movement. But with the implementation of GST, the need to have several small warehouses is likely to be selectively mitigated in favour of larger and consolidated warehouses at strategic locations with multimodal means of transportation.
- **Outsourcing Of Logistics:** The logistics industry stands to benefit from the increasing trend of outsourcing the logistics and warehousing function to third party service providers. This function was traditionally performed by the organisations themselves. However, corporate entities recognise the benefits associated in engaging a third-party logistics provider for integration of information flow, material handling, production, packaging, inventory, transportation, warehousing and often security. This allows corporate entities to concentrate on their core business and also avail of significant discounts through outsourcing.

Logistic Parks: Strategic Growth Enablers

Growth of the Industrial Sector: A glimpse into various industrial sectors highlights the anticipated upsurge in trade and commerce and the consequent growth in the need for a strong logistics industry:-

India's nominal GDP could grow from the current USD 1.8 trillion to USD 3.6 trillion by 2020 at an annual growth rate of 9 percent.

By 2030, India's crude steel production is expected to witness a four fold increase.

The demand for cement in the country is expected to double by 2030.

Agricultural output, although reduced in size as a percentage of the economy, is expected to increase from 207 million metric tonnes (MMT) to 295 MMT by 2020.

The Indian textiles industry is expected to triple from USD 78 billion currently to US\$220 billion by 2020.

The share of organized retail is expected to increase from 5 percent currently to 24 percent by 2020.

India's industrial energy consumption is expected to double by 2020. In this scenario, the country will need to mine 2 billion tonnes of coal by 2030 and transport 75 percent of mined coal. Further, around 30 percent of total transported coal will have to be imported through ports.

Overall export-import (EXIM) cargo at Indian ports is projected to increase to around 2,800 MMT by 2020 from approximately 890 MMT currently.

Finished consumer goods, both imported and those produced in India, will have to be transported to the country's middle-class consumers, which, by 2030, are expected to increase fourfold from the current middle class population of 160 million.

Thus, to sustain and drive economic growth, the movement of goods associated with a mature economy will require a vastly superior service sector as well as physical logistics infrastructure. The transformation of India's logistics landscape needs a clear, long-term and sustainable vision encompassing initiatives that are

proactive rather than reactive to leverage India's economic potential in future.

Logistic Challenges in India: There are some ground level challenges that are being faced. Some suggestions for ameliorating the problems are as follows:-

- Trade performance and economic growth: Increase in organized retail sector, FMCG, textiles, consumer durables sector, auto and auto components (Auto Logistics) and India's share of global trade.
- Focus on Supply Chain management: Increased usage of third party logistic, Warehousing / storage companies by traders, manufacturers & EXIM cargo ensuring just in time delivery to the customer and reduced time for movement of goods.
- Government thrust on Infrastructure Development: Indian Railways investment of Rs. 100,000 cr. over the next 5 years for dedicated freight corridor (N-S & E-W), improved port connectivity and PPP for warehousing and storage facilities on vacant RLDA land.
- Congestion of the land transport accesses to ports, resulting from retention in ports of certain container handling/processing activities, such as container stuffing/stripping and customs inspection.
- Poor rail (and sometimes road) access to ports, often resulting in extra container or Cargo handling.
- Poor coordination of rail and road loading/unloading activities in ports.
- Institutional blockages to the free flow of transit vehicles and cargo in the hinterland.
- Incompatible customs and immigration procedures on either side of land borders.
- Lack of a single transport authority document for door-to-door consignments involving more than one mode; and
- A fragmented approach to railway tariff-setting in international transport corridors, putting rail at a

competitive disadvantage with other transport modes and encouraging the use of less efficient modes.

Why Logistics Park? In this modern age of logistics, businesses are under pressure to reduce logistics costs and improve serviceability. This translates to reduction in truck turnaround time and goods damage, storage of more and more goods in the same space and serving the markets as fast as possible. All these requirements have put tremendous pressure on today's stand alone warehouses. The modern Logistics Park offers many features to meet today's warehousing requirements.

Logistics Park offers:

- Strategic location with good road, rail and air connectivity.
- Large amount of warehousing space at a place.
- Space for multiple clients and industries and for future expansion.
- Ample truck and office parking space.
- Utilities like weighbridge, commercial complex and diesel generator (DG).
- Secured place with CCTV, high compound wall, lightning arrester, boom barriers and fire protection systems.
- Integrated park management taking care of general maintenance, landscaping, security & waste management.

Given the paucity of infrastructure in the country, Logistics Park is definitely the solution not only for the interim but also for the future as far as freight is concerned, especially in a country like India, having a vast coast line; it makes a great opportunity for Logistics Parks which are linked to ports. However, the concept of logistics park has not met with success as it should because of firstly, there are not many logistics parks that are good at value added services, and only if these parks shift from being looked at as a mere warehousing approach to value added services initiative, then definitely logistics park would be a great success in India.

The Government has come up with many incentives with the intentions to set up multi modal logistics park, small, medium and large are mostly going to be rail linked. For logistics park success in India, the approach should be take on ports to be partner of logistics parks, link a port to two or three Logistic parks.

The key features of these parks will be:-

- They will be over 100 acres in size
- Integrated systems accessible by multiple modes of transport
- Container terminals
- Bulk/break- Bulk cargo terminal
- Warehouses
- 3rd Party logistics players
- ICD/CFSs
- Banking and Insurance
- Office space
- Facilities for manufacturing, packaging, parking, mechanized handling, inter-modal transfers, sorting and grading.
- Cold chain center
- Aggregation/disaggregation to handle domestic and EXIM Freight.

The key benefits of these parks are that they are cost saving through economies of scale and growth, reduced transit time and processing time, optimal use of all modes of transport thus reducing overall cost, easy access to value added logistics services, Improved service levels, professionalism, reduction in inventory and damages.

Setting up of Logistics Parks at optimal locations will result in savings of US \$13-16 Billion in Logistics costs in India. Based on the learnings of successful Logistics Parks around the world, the following guiding principles can be considered:-

- Developing a clear value proposition of potential logistics savings for the customer.
- Identifying the appropriate location of the park.
- Conducting a detailed analysis of the catchment area and demand potential.
- Providing seamless multi-modal transportation solution.
- Providing flexible options for the customer in terms of financing and space planning.
- Ensuring that all basic amenities are available.
- Providing world class service standards and a professional environment.

Logistics Park - Indian Scenario Key Trends In Logistics Industry

• **Entry Of Global Players:** Several global players view the Indian logistics market favourably and have announced intentions to increase their capacity of transporting goods from/to Indian markets. Several large global logistics companies have entered India by the way of mergers with or acquisitions of Indian logistics companies and joint venture agreements.

• **Increasing Number Of Multi-Modal Logistics Players:** The demand for multi-modal transport services by the end users is increasing, because it results in the reduction of overall transportation costs and quicker movement of cargo. It also requires less documentation. Several Indian logistics companies have formed joint ventures with other global and local players so as to provide multi-modal logistics services extending to air, rail, road and water. For example, Container Corporation of India has around 12 strategic joint ventures with companies including Maersk, TCI, Halcon, DPI, APM, Gateway Rail and Allcargo.

Government has to focus on improving the management and efficiency of the transport sector as well as recognise the value of integrated logistics to domestic companies in improving their profit performance. Integrated logistics is generally a new concept to overcome all the above limitations in Asia and other parts of the world. It is recognized that in utilizing logistics to create value, domestic firms will also improve their international competitiveness. This is critical in underpinning a country's planned future economic growth. Rapid development of the logistics industry improves the quality and structure of the national economy. In order to accelerate the development of efficient multimodal transport and logistics operations, government should enable the private sector towards capacity building in multimodal transport operation which will aid the management and operation of container terminals. The Indian economy is the twelfth largest economy in the world by nominal value and the fourth largest by purchasing power parity (PPP). The country began to experience rapid economic growth, as markets opened

for international competition and investment. The GDP has been growing between 7% and 9% over the last 6 years. According to a report compiled by the Confederation of Indian Industries (CII) the unprecedented growth is holistic and contributed by all sectors such as industries, agriculture and services.

The national economy has grown since the 2009 at a rate better than that of economy of USA & other European countries. It has to be observed that, post economic liberalization the GDP growth is sustained or not? India's GDP shall grow four times by the year 2020. A good infrastructure growth is necessary for all around development of the country and the government of India has also realized the importance of infrastructural developments to sustain competitiveness.

The various five year plans by the Planning Commission of India also lays the importance to the growth on the transport sector has been visualized by the Planning Commission and is reflected in the increased outlay for the growth of the sector. It is necessary that infrastructure policy should be so developed so as to make the transport sector more efficient as well as to decrease the transportation cost.

Logistics Park - Global Scenario

Global market become so competitive that, there is an ever increasing demand and need for logistics and supply chain management which, could meet the cost reduction goals, time saving and service enhancement. As effective logistics management system can provide vital global competitive advantage. Logistics is now a strategic variable, a value added process which ensures credibility of product, non wastage of product / commodities, punctuality, time saving in pick, pack and delivery of product.

Multi modal logistics parks are very popular in western & other developed countries due to its obvious advantages. To meet the growing demand effectively at the best possible cost, various countries have created multi modal logistics park in 1980-90s. The Dallas

Logistics Hub in Kansas City of North America a multimodal logistic park developed by the Allen Group coasted an estimated \$68.5 billion. Northwest Ohio Logistics Park in US had also emerged as an international transportation, logistics, and distribution center. The region is endowed with strategic geography and the convergence of major highway, rail, sea, air, and pipeline transportation assets. The Seagate Logistic Park is being constructed on the industrial area Plassendale in the port of Oostende, Belgium, accessible by rail, road & waterways. Argusa Logistics S.A. is developing the Alianza Multi-Modal Logistics Park in Buenos Aires. Xiamen in China has a major multi-modal logistics hub which is served by rail, road & air transport.

Benefits of Logistics Park

The biggest beneficiary of this service would be the government and the country as a whole. After liberalization, the country's economy and GDP has grown at very good rate translating to a commensurate healthy rate of development & growth of transport sector. Unfortunately the transportation and logistics cost in the country are still very high as compared with the developed countries like France, USA, Denmark etc. We take more time in processing of EXIM containers, documentation, handling of cargo etc. By developing logistic parks, the government can bring in a sea change in the way the business is handled currently. Logistic parks can also bring optimization of resources, amongst the many benefits to the government. These can be summarized below:

- **Direct Revenues:** As a multimodal logistics park developing agency, the Government will be entitled to collect the usage charges by the perspective customers of these services.
- **Indirect Benefits:** According to the recent study done by RITES Ltd, the nation is currently losing approx Rs 40,000cr annually due to improper modal choice.
- **Socio-economic Benefits:** Transport sector play a vital role just not only in the movement of goods from the manufactures to the end users, but also in the life of the common people. By promoting the Logistic