SHIPPING CREDIT MIASMA

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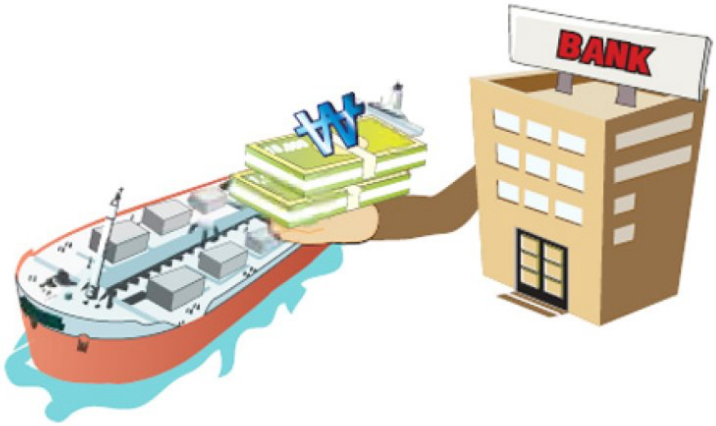

Misuse of credit and exploiting service providers down the line by middle men and users is a bane on the Indian trade, though it is essentially a boon to start up and continue enterprises staying solvent.
Apart from leveraging with equity, shareholders' funds, overdrafts, borrowings and debt, exploiting all in the supply-service provider chain is the name of the game, thus compounding logistics costs at every conceivable stage. From a fixed cost matter, it has evolved into an off-balance sheet working capital leveraging issue, to dress up accounts for all concerned. Thus regardless of international ranking on Ease of Doing Biz eased by Single Window clearances, Customs facilitations etc, Indian trade, not only export, but import too continue to suffer with financial mark-up disadvantage. It is the export value realisation that is impacted; likewise import land-in costs at factory gates. From LC to net realisation, it is a huge debit in profitability, reflected in competitive costing-quoting for trade.

Macro issues first. Developed nations with low interests may not feel the pitch; thus the spreading of prevalent practices. Cost of downstream funding in India for delayed payments of service/supplier credit, depending on the normal practices and exploitation thereof- can amount to say 10% of the value of service goods, especially when ad valorem rates are involved. When freight itself may only be 5% of FOB value (insurance omitted often for saving costs) and negative frequently in heavy repo-sectors, such add-ons should turn avoidable. It impacts the value and competitiveness of trade, for developing countries like India bolstering exports to balance high imports driven by huge population moving up the consumption chain with demographic dividend; forex inward remittances by diaspora and IT earnings not sufficing to fund imports. As such, what can be done soonest to fine tune need be considered. Minimising parasitic intermediaries for one; online Delivery Order like BLs; hence evolution of total end to end logistics chain (Straight BLs having run afoul of courts globally but).

Indian government is to provide 3% interest subvention** export subsidy to boost shipments; it will amount to about Rs 600Crs interest equalisation for pre and post shipment rupee export credit. These are for labour intensive sectors like agriculture, MSME, Textiles, Leather, handicraft and machinery. To what extend this and similar moves may sound alarm bells under WTO/GATT etc is worth the ponder. Therefore, it is imperative that those in the know and in service providing logistics chain –handling, documentary or otherwise- initiate timely measures on war footing.

Usually, ex-factory, after product and quality inspections, packing and marking, the main players involved are: hauliers, warehouses, handlers, tally/ stuffing/sealing, Surveyors, CHAs: Clearing &

Forwarding: documentary & physical, ICDs/CFS/Terminals, Stevedores, re-handlers in transit ports and similar process at discharge/receiving ends including multimodal-intra-modal transfers. As one can guesstimate, the process and handling involves quite a few, each carrying suspect insurance cover on back to back terms -subservient to the cash-flow in the chain to stay afloat and survive- adding to the inherent and hidden costs at every stage, for delayed payments specifically.

To cite an example, small truck owners are at the mercy of larger ones and agents who fleece them to get the best lowest rate, they having tendered and sealed valuable contracts. This is worse on the backhaul-empty legs. Yes, the truckers should learn to work smarter with better info gathering and exchange. But BUM –Book your movement- a platform developed by an enterprising shipping do-gooder professional, has failed to succeed. Perhaps FAK road haulage rates, like ocean freights –same rate for almost all cargoes- could be a game changer. Cash is king, like Uber and Ola drivers turning down trip bookings last minute -for want of liquidity- if customers not willing to pay in cash.

Compounding the debt burden for Service providers, GST has to be filed and paid, once Invoice is raised. A major well diversified corporate inserting 90days payment terms on critical sub-contracted work –and paying in 120days-is nothing but leveraging reputation and balance sheet, on accrual basis and not on cash paid/earned, without cash advances. Herein lies the pathetic example of how small intermediary contractors are exploited to the hilt –they having to borrow at high costs (mortgaging their treasures and silverware) to exist, survive and serve, till hopefully their invoices are paid in time without further grace period and imposition of conditionalities. Greasing –the *jugaad* to get things done, smoothly at per table or signature rate for approvals- is another matter, not implied here. That plus the facilitating charges levied directly or indirectly by the officialdom and others involved down the road, starting with nexus and politicians, including competing-tendering contractors to be kept at bay by pay offs, are further expenses to be hidden and recovered before net income and profitability can be arrived at.

Pray, what is the cure for such contagious epidemic of a malady, as, it is prevalent in all sectors of contracting and subcontracting involving industry majors. Taking a cue from China, cancelling licenses of non-compliant intermediaries and imprisonment may be the right dosage, after setting up a reliable complaint, whistle-blower system, as fines won't do –miniscule they are vis-s-vis wrong doing gains in all rules and regulations; auditors and lawyers masquerading as saviours of their clients, fighting tooth and nail to fix the system for the ones willing to protract such legal measures.

In the end, the pertinent question is who is paying for shipping-trade's vagaries and idiosyncrasies? Never mind. It will settle itself. It could be the banks that lend to shipping, consolidate, write off or resell to high risk taking investors; or global financial institutions – too big to fail- that are bailed out by governments with citizen's money, depreciating their currencies. In other words, all of us are made scapegoats for other's follies, irrational exuberance and insatiable optimism. Not to worry; digitalisation –with artificial intelligence algorithms on how the industry works and applicable norms- is around the corner. It will spare none. All process, procedures, commissions arising therefrom etc will be sorted out in one stroke, including deadlines to pay and noncompliance for corrective action.

** UNFAIR Contracts Act like in UK or Australia's Trade Practices Act –consumer centric though – need be replicated urgently to place the service providers at workable levels. Suicides of MSME promoters are said to be higher than that of Farmers!

** Per MSMED 2006 Act there is 5% interest subvention subsidy; Invoices are payable within 45days on which, as per the act –not withstanding anything contained in the agreement between the buyer and supplier or in any law for the time being in force- the buyer is liable to pay compound interest with monthly rests on the amount from the due date at thrice the bank rate notified by RBI. There is nothing to be vainglorious about this, as this may not easily executable for commercial reasons.