

FUTURE TRENDS OF MARITIME ACTIVITIES
AND
SRI LANKA'S POTENTIAL

GLOBAL IMPACT FROM MARITIME INDUSTRY

Shipping has been an important human activity throughout history, particularly where prosperity depended primarily on international and interregional trade. In fact, transportation has been called one of the four cornerstones of global business development, along with communications, international standardization, and trade liberalization. Due to a number of technological, economic, and socio-cultural forces, only the rare country can keep itself fully isolated from the economic activities of other countries. Indeed, many countries have seen astonishing economic growth in the recent past due to their willingness to open their borders and markets to foreign investment and trade. This increased flow of knowledge, resources, goods, and services among our world's nations is now called globalization, formally defined as the development of an increasingly integrated global economy marked especially by free trade, free flow of capital, and the tapping of cheaper foreign labour markets.

Global goods movement is a critical element in the global freight transportation system that includes ocean and coastal routes, inland waterways, railways, roads and air freight. In some cases, the freight transportation network connects locations by multiple modal routes, functioning as modal substitutes. A primary example is containerized short sea shipping, where the shipper or logistic provider has some degree of choice how to move freight between locations. However, international maritime transportation is more commonly a complement to other modes of transportation. This is particularly true for intercontinental containerized cargoes and for liquid and dry bulk cargoes, such as oil and grain. Here, international shipping connects roads, railways and inland waterways through ocean and coastal routes.

At present over 90% of the world's trade is carried by sea. The transportation in general and shipping in particular have been and remain key ingredients in fostering global economy. In fact, the maritime industry has transformed its technologies, national registries, and labour resources over the past decades to serve the dynamics of ever changing global business environment.

REGIONAL HISTORY OF MARITIME ACTIVITIES

History reveals that the maritime transport is a vital economic activity that had been conducted between countries in the different parts of the world. It is also evident that Indian Ocean routes have been used for this purpose for many centuries in the past.

Recorded Maritime History of Indian Ocean runs to the time of 3rd millennium BC, when denizens of the Indus Valley set into trading with Mesopotamia. World's first dock, a tidal dock, believed to have been built at Lothal 2300 BC, during Harappan civilization, near the present day Mongrol harbour on the coast of Gujarat.

By the 7th Century, spices from the Indian subcontinent became main export to the merchants of Arabia and Persia. The Indian Ocean supplied Europe, during the heyday of the Roman Empire, with spices, perfumes and jewels. It was also the source of Chinese Silk, for which rich Romans would pay fabulous prices.

After the collapse of Rome, the global balance of wealth and civilization shifted to Indian Ocean region for 1000 years. Scholars in Baghdad and other great cities ruled by the Muslim caliphs translated and studied the literature of Greece, Persia and India.

When Pope Alexander VI divided up the known world between Ferdinand and Isabella of Spain and King Manuel of Portugal at the end of 15th century, Manuel was thrilled at getting the better of the bargain. For him it was the opulent Indian Ocean, with all its spices, jewels and gold. The Spaniards were making do with some seemingly barbaric and barren lands found by Columbus while trying to reach what is now called the Pacific Rim. King Manuel proudly declared himself Lord of the "navigation and commerce of Ethiopia, Arabia, Persia and India"; the bountiful lands where fortunes were waiting to be made.

The Portuguese were the leading maritime power in the world during the 15th and 16th Centuries. They dominated the Asian Sea routes in 15th and first half of the 16th centuries. However they came to realize that they could not compete with Arab, Indian and other South East Indian traders in the Indian Ocean. Therefore they sought to destroy that trade by force. No Asian ruler had warships or big guns as used by the Portuguese. While the Asian rulers were strong on land they were helpless at sea. Trade with certain ports and in certain commodities (chiefly spices) was declared to be Portuguese crown property. Asian shipping was allowed to ply, provided that a Portuguese license was taken out as payment. The Portuguese were replaced by the Dutch, French and the British in the 17th century in the Indian Ocean region who were competing for their share of trade in the Indian Ocean region by establishing Dutch East India Company, French East India Company and English East India Company respectively.

However by early 19th century the British rule was dominating the majority of countries. When World War I broke out, the British, in addition to thinking of defence of India, had another reason for securing their control over the Persian Gulf. Since 1904 the British Navy had gradually turned toward oil as the fuel for its ships. The British Admiralty was the principle shareholder of the Anglo-Persian Oil Company.

To safeguard the flow of oil from its main source, the Persian oil fields, units of the British -Indian Army occupied the mouth of the Shatt-el-Arab, including the town of Basra. British dominated the Indian Ocean region until 1960s.

Since British's left the Indian Ocean, USSR navy made its presence briefly and withdrew from the Indian Ocean after Soviet Union's withdrawal from Afghanistan in 1980s, thereby creating a power vacuum in the Indian Ocean region.

SECURITY OF SEA LINES OF COMMUNICATIONS (SLOC's)

At the beginning of the 20th Century, the famous Poet Rudyard Kipling said about maritime security. I quote:

“For the bread that you eat, biscuits you nibble, the sweets that you suck and the joints that you carve, they are brought to you daily by all of us; big steamers, and if anyone hinders our coming, you'll starve”.

Rudyard Kipling (1865 - 1936)

Unquote

Absence of proper maritime safety mechanism in the region and due to many other factors, LTTE's maritime terrorism was active in the region in general and in and around Sri Lanka and Indian waters in particular since mid 1980s until it was eliminated by the Sri Lanka Navy during the period from 2006 to 2009. Apart from the LTTE, there are other Non-State actors such as Pirates in Somalia and Malacca Straights creating maritime terrorism & piracy in this ocean. Although Sri Lanka was grappling with maritime terrorism for more than 20 years, no country in the region considered this threat seriously until the Mumbai terror attack on 26th November 2008.

Since there were always fears of the seas being used for acts of terrorism since 9/11, US government initiated the requirement for security for ports and as a result, International Ships and Port facility Security (ISPS) Code came in to force in 2004 under the guise of International Maritime Organization (IMO). In Mumbai attack, sea passage of well trained terrorists on a commandeered vessel and the subsequent attack against the commercial capital of India brought out the aspects of 'real and ever present' danger.

The number of pirate attacks worldwide has tripled in the past decade and new evidence suggests that piracy is becoming the nightmare of mariners and law

enforcement agencies. With the quantum of ransom money being negotiated and paid, it has become an easy source for the pirates particularly on the east coast of Africa in the IOR. The pirates are venturing out to high seas hundreds of miles from the coast seeking lucrative juicy targets thus increasing the nature of threat and challenges of countering such threats. There is also concern about possibilities of nexus between Jihadi terrorists and maritime criminal elements. It is not uncommon for large quantities of explosives, natural gas and other fuels to be transported by sea. Hijacked ships could be used for weapons-smuggling or as 'floating bombs' to attack ships or ports. Potential targets include oil tankers, major shipping choke points and port cities.

NEED FOR COHESIVE EFFORT

Proper maritime control at sea ensures the safety and security of shipping and permits countries to pursue their maritime interests and develop their marine resources in an ecologically sustainable and peaceful manner in accordance with international law. Lack of good order at sea is evident if there is illegal activity at sea or inadequate arrangements for the safety and security of shipping.

At present we lack maritime policing in Indian Ocean Region. Problems in regional waters include piracy and armed robbery against ships, the threat of maritime terrorism, illicit trafficking in drugs and arms, people smuggling, pollution, illegal fishing and marine natural hazards, such as Tsunamis and cyclones. Managing these problems requires regional cooperation, as well as cooperation between agencies at a national level. Much progress has been made, particularly in the Malacca and Singapore Straights, and recently in and around the Gulf of Aden off Somalia by EU Naval Force. However, present levels of cooperation fall short of what is desirable.

The lack of maritime control in the region is due to several factors. Difficulties arise in combating illegal activity at sea due to inadequate resources, ineffective national and regional legislation, poor coordination between national and regional agencies, and a shortage of trained personnel. The lack of maritime boundaries in parts of the region further complicates the situation.

In recent years, maritime security has been high on the agenda in the region. There were many workshops, forums and conferences held in this regard to create awareness. This has resulted in exchange of ideas among regional maritime experts, not only on maritime security issues but also on the other broad, cross-cutting issues, such as the protection of the marine environment, illegal fishing, smuggling and maritime transportation.

Indian Ocean Region is a distinctively maritime region. Most regional countries have extensive maritime interests. Maritime issues are major factors both in relations between regional countries and rest of the world. These factors are also apparent in the size of regional merchant shipping fleets, the dependents on sea borne trade and seafood, and emphasize on maritime capabilities in military forces, and the attention given to offshore sovereignty and maritime jurisdiction.

GLOBAL TRENDS

The global trends clearly shows that Asia is becoming increasingly active in terms of economic activity and available indicators points out that this trend will continue to the foreseeable future.

- a. Population in Asian Countries has increased from 58% in 1975 to 63% in 2010 of the World Population in the last 35 years whilst it has decreased in the North America and Europe.
- b. Asia's share of global economic activities has increased from 16% in 1975 to 25% in 2010 in making substantial contribution to the global economy.
- c. Supply chains are relocated by companies to Asian countries such as China, India, Vietnam , Indonesia, and Bangladesh etc;
- d. Increasing Private Sector participation for expansion and development of Ports.
- e. Global Apparel trade has made a paradigm shift to Asia due to its cost effectiveness thus increasing demand for maritime transportation.

SRI LANKA'S MARITIME POTENTIAL

Sri Lanka's geo-strategic advantage of it being located right on the circum navigation route would definitely help her to exploit the full potential of the Sri Lanka's maritime activities. This position further complemented by it being in the mid point in the Indian Ocean of the East - West sea route enabling Sri Lanka to serve as a hub port for East Africa, Middle East, Indian Sub Continent, and Far East in addition to catering for main liners plying Europe and North America.

More than 95% of the World's general cargo is now transported in containers. Half of the world's container ships, bulk carriers and tankers carrying two thirds of world oil

shipments pass through Indian Ocean, which is a life line for international commerce with nearly \$ 1 trillion in global trade and \$300 billion in intra regional trade. Containers make low cost frequent service available to shippers of all sizes. This simplicity has led to huge increase in world trade. Sri Lanka's opportunity lies in the container transshipment as most of the countries in the Asian Region accounts for more than 60% of the World's population and many of these countries are emerging economies with high GDP growth rates, India and China recording 8% and 10% respectively. Ever increasing Per capita income in the countries in Asian Region ranging from \$ 520 in Bangladesh to \$ 38,130 in Japan will facilitate increasing trends in business and trade activities in the region. It is also pertinent to note that Asian economies had minimal impact from the global economic down turn.

A recently carried out survey by the Ocean Policy Research Foundation of Japan revealed that GDP growth rate of that country is directly proportional to the growth in container cargo business. Container Cargo segment is growing at 9% per annum in the global context. Although Colombo Harbour throughput in respect of container handling has increased to 2.7 million over a period of 30 years, the competitors in the region has increased their throughputs to 10 million in Dubai and 23 million in Singapore. Failure to capture the increasing market share by the Colombo port is largely due to limitations in depth and room for maneuvering within the harbor, inefficiencies in servicing, inappropriate pricing & other strategies and increase in insurance premiums with war risk due to the security situation that prevailed in the country. Presently Sri Lanka's international port efficiency ranking is 28th in the world where as Dubai ranks No. 6 and Singapore ranks No. 1 port in the world. In 1910, Colombo port was the 3rd leading port in the British Empire and 7th busiest port in the world. In 1980's soon after the commissioning of Jaye Container Terminal, Colombo port was ranked 18th in the world. The major reason for Colombo port's decline is due to not adopting timely strategies and not catering to increasing demands in the maritime industry. In the contrary, "Tanjung Pelepas" a port in Malaysia which commenced operations in 1999 has set a world record as the fastest growing port with 1 million containers handled after 571 days of operations. During the year 1999, she handled 20,696 TEU's and by 2007 her throughput has increased to 5.5 million TEU's within a matter of 8 years. This accelerated growth hinges on the port's proximity to busy sea lanes on which the port of Singapore derived its growth and sustainability for nearly two centuries. This growth was largely possible as "Maersk Sealand" the world's largest containership operator took a 30% equity stake in the Port's holding company effectively shifting all Maersk's operations to the new port from the Singaporean port by end of the year 2000. This shift represented 10% drop in business in the Singaporean Port.

With the growth of containerization, the size of the container carriers have been increased drastically to cater to the present day demand and to achieve economies of

scale. In this exercise Container ships have gone through six generations from their purpose built second generation ships which were capable of carrying 1000 to 2500 TEUs in 1970's to sixth generation ships which are capable of carrying 14,000 plus TEU's at a speed of 20-25 Knots in 2010. The ships have increased in size despite the restrictions in Panama Canal from Panamax Class to New Panamax Class container carriers. Although economies of scales were achieved by these vessels, sheer size of these vessels prohibits them entering some of the present container hub ports due to their limitations such as draughts, turning circle and non availability of state of the art speedy loading / unloading facilities. The new Panamax class ships cannot cross the Panama Canal at present and will not be able to cross even after 2014 once the dredging of Panama Canal is completed. This restriction on Panama Canal will force most of these large vessels to proceed east bound passing Colombo to reach West coast of Americas or round South American continent.

In order to capture this growing opportunity and to create a positive impact in the Sri Lanka's economy, we should ensure comprehensive service facility in both Colombo South Port and Hambanthota Port which are under construction with sufficient depths and room for maneuvering. These two ports will be able to accommodate 6th generation New Panamax Class container carriers.

In addition to transshipment of containers, our thrust areas should include ship repairs, dry docking and bunkering to a certain extent. Enhancing ship repair facility in Colombo Port is limited due to non availability of sufficient land and other logistical issues. Sri Lanka is enriched with technically competent experienced local expertise in the field of ship building and ship repairs. In order to optimally utilize these resources and to capitalize the opportunity that lies before us, Sri Lanka should ensure that adequate ship repair, dry docking and bunkering facilities to be built at the Hambanthota port particularly in view of it's proximity to main East - West shipping route. Since we are in the process of constructing the Hambanthota Port, we are in a position to address the current constraints to suit the changing demands of the maritime industry.

CONCLUSION

It is essential for all stake holders to have the latest qualitative analysis on the scope and utilization of all aspects of maritime surveillance for achieving complete domain awareness. It should provide a detailed analysis of the threats and nature of the challenges that face by the marine industry in both conventional and asymmetric environments.

Sri Lanka need to capture this growing opportunity by adopting appropriate pricing and other requisite strategies and offering good quality service coupled with comprehensive product portfolio that is required by the maritime industry to out sweep the regional competition and to gain a sizable return on this investment, to foster Sri Lanka's economy.