# CHAPTER XVIII: DEPARTMENT OF SHIPPING

## The Shipping Corporation of India Limited

### *18.1.1 Loss due to delay in decision making*

**The Company incurred an avoidable loss of Rs.17.82 crore due to delay in taking a decision to terminate the loss making India – US IDX service.**

The Shipping Corporation of India Limited (Company) entered (April 2006) into Vessel Sharing Agreement with Emirates Shipping Lines (ESL), Zim Lines and Mac Andrews to commence a India-The United State of America(US) weekly service to take benefit of growing US containerised trade. The new marketing venture was conceived assuming a growth of India-US containerised trade at 15-17 *per cent* annually. In the cost benefit analysis, the Management had a pessimistic profit projection of Rs.2.78 crore and optimistic projection of Rs.28.87 crore based on estimated 85 *per cent* capacity utilisation (95 *per cent* during peak season of June-October) of west bound traffic and 60 *per cent* east bound in the first year of operation. The service was launched on 25 May 2006 with eight vessels {the Company two vessels inchartered for 35/37 months, ZIM three vessels (subsequently reduced to two), ESL two vessels and Mac Andrews one vessel} having capacity of 2500 to 2600 TEUs[♣] each.

Mac Andrews, a partner in the service, withdrew from the IDX service in January 2007 after eight months of operation due to mounting losses. Two new lines, Orient Overseas Container Line Limited (OOCL) and Italia Marittima were inducted into the consortium with one vessel each.

As per Article 7.5 of the Vessel Sharing Agreement, the service could be terminated at any time by unanimous written consent of the parties. As the service was making huge losses, an emergency Principals meeting was held on 16 July 2007 wherein the partners opined to terminate the service in view of the adverse market conditions. The Company proposed rationalisation of the service to reduce costs and to wait till situation improves. The Company desired to continue the service till alternate arrangements were made to serve the India US market. As the service was making huge losses, it was proposed (July 2007) for withdrawal/termination of the service as early as possible, stating that since the time of starting the IDX service, three other lines/consortiums started services from Indian sub-continent to USA, resulting in operational loss of Rs.33.53 crore during the year 2006-07 as against projected profit of Rs.2.78 crore and for the year 2007-08 the anticipated loss was Rs.41.31 crore. In the proposal, it was foreseen that (i) the lead time required for repositioning of containers already in pipeline was around three to four weeks, (ii) notice period to be given to terminals (iii) to put into operation the evacuation plan for evacuating the residual empties and (iv) alternate plans to use the in-chartered ships for other services. However, the proposal was not approved by the Company

[♣] ***TEUs-Twenty foot equivalent units*** stating that in liner business continuity in a service was very vital and it would be a loss of face for the Company, the national carrier, to get into a liner trade and walk off it again. The request of the partners was agreed to with a condition that the Company would have the right to sue the partners for damage particularly if there was any NYSA-ILA pension liability on the Company.

Another meeting of the partners was held on 17 October 2007 wherein the partners stated that they were forced to continue in the service due to the conditional approval of the Company and wanted unconditional consent to terminate the service. The partners further stated that they would be forced to withdraw their vessels to cut losses in case the Company maintained their conditional consent. In view of the stand taken by the partners, the Company considered (October - November 2007) another proposal wherein it was foreseen that the service would be terminated in a planned phased manner enabling all partners to give sufficient notice to the trade and customers. It was decided (12 November 2007) to terminate the service. Accordingly, the service was withdrawn gradually by January 2008. During the operation of the service from May 2006 to January 2008, it incurred a loss of Rs.74.46 crore which included loss of Rs.23.15 crore incurred from August 2007 to January 2008 after the Company decided to continue in the service. Out of the loss of Rs.23.15 crore, loss of Rs.17.82 crore pertained to the period from November 2007 to January 2008. This loss could have been avoided had the Company decided to terminate the service in July 2007 and gradually completed it by October 2007 as the normal cycle of the service was three months.

The Management contended (July 2009/November 2009) that:

- Excess tonnage in the market and drop in the freight rates/high bunker cost resulted in the operation incurring losses. Also, the trade growth to the US suddenly slowed down.

- Company wanted to be sure that there would not be any repercussions on earlier withdrawal and was of the view that continuity in a service was very vital and entering and exiting from a particular service or region only leads to a loss of face for the National Line.

- There was a large inventory lying in the US which had to be brought back. No line was willing to offer any slots on their service (as the vessels were coming full EB) to Company to bring back their empty containers.

- The Company had signed agreements with the terminals and had to look into the repercussions, if the contract was terminated before the expiry.

- The Company would have to pay for the NYSA-ILA Pension Trust Fund.

- The Company had signed service contracts with the clients for the whole year and terminating the services without any notice might result in having to pay penalties for not providing service to them.

- The service cannot be terminated in the middle of a cycle as there were issues about slot exchanges, payouts in case of vessel skipping a call, etc. The cycle in the IDX service was of about three months.

- It would have incurred additional cost of Rs.50.80 crore (Rs.22 crore towards premature withdrawal of two vessels and Rs.28.80 crore towards build down and repositioning cost of empty containers) in case of unconditional termination in July 2007.

The reply of the Management is not convincing on account of the following:

- At the time of taking decision to continue the service in July 2007 or to terminate the service in November 2007, there was no reported change in the position of the service. Almost all the implications of termination of the service remained the same in July and November 2007. The delay in taking decision to terminate the service resulted in avoidable loss of Rs.17.82 crore.

- The Company had proposed utilisation of the two in-chartered vessels for other services both in July 2007 and November 2007. The Company had also utilised the two vessels in other services w.e.f., November 2007 and March 2008 and redelivered these vessels only after completion of the charter period on 2 October 2009 and 5 November 2009 respectively. Since the vessels were effectively utilised in other services, the loss of Rs.22 crore estimated by the Company for premature withdrawal of the vessels did not occur. Further, even if the vessels were not utilised in other services of the Company, the vessels could have been chartered out at charter hire rates of US$24,000 to US$28,000 per day per vessel, which were the charter hire rates of similar vessels prevalent in the market.

- Regarding build down and repositioning cost of empty containers estimated at Rs.28.80 crore, the Management itself stated (November 2009) that there was no empty evacuation after the termination of the service as all the containers were repositioned using the Company's service. Had the Company taken the decision in July 2007 also, the Company could have utilised its service till October 2007 (cycle period of three months) for repositioning the containers.

- The pension fund liability still exists and the Company had made a provision of Rs.17.87 crore towards this liability in the accounts for the year 2008-09.

- While taking the decision in July 2007 to continue the service or in November 2007 to terminate the service, cost implication of Rs.50.80 crore for withdrawing from the service as stated by the Company in November 2009 had neither been worked out nor reported to the Management to enable it to take a considered decision. How the Company has now worked out such a probable loss and if it was a fact, then why such a vital information was kept away from the Management remained an enigma.

Thus, delay in terminating the service resulted in an avoidable loss of Rs.17.82 crore. The Company should streamline the decision making process to safeguard its financial interests.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).