

'Indian logistics industry is at the turning point of its development'



The Logistics sector is rapidly evolving in India and forms the backbone for some key sectors like retail, automobiles, pharmaceuticals, etc. But the sector, as a whole, is facing a lot of inefficiencies like transportation, poor roads, poor warehousing and storage facilities, a complex tax structure and low rate of technology adoption. **Vineet Agarwal, Managing Director, Transport Corporation of India (TCI)**, details on key issues/challenges faced by the industry and existing tax regimes & future demand drivers for the growth of logistic industry in the country. He also recommends effective solutions & reforms in policy regimes to make the sector competitive as par with International Standard, in an email interaction with **Rakesh Roy**.

What are the challenges currently faced by the logistic industry in India?

Logistics cost in India is about 13-14 per cent of the GDP, as against 7-8 per cent in developed countries. The sector faces multiple challenges due to poor conditions of storage infrastructure, inefficiencies in transportation, poor roads, a complex tax structure and low rate of technology adoption. Pending issues with GST is also hampering growth.

The sector, as a whole, is not very organised and the work is competitive, especially in the big cities, where there are a vast number of unorganised small truck owners and service providers providing stiff competition at razor thin margins. Technology adoption in the sector is also very low which is leading to lower efficiency and unlike European countries.

Overloading of trucks is the cause of enormous rate of death since logistics service providers do not consider investing in security measures due to cost reasons. The sector also faces storage and warehouse related risks as the fragmented private logistics companies do not interface with logistic chains. The sector is also in need of skilled manpower as truck drivers face difficulty in accurately logging delivery records, understanding delivery documents, negotiating for return business, handling queries and so on.

Please brief us the existing warehousing & storage systems in India which is called the catalyst to logistic industry.

Good storage and warehousing facilities are essential to the growth of the logistics industry. The sector, however, faces major challenge because of

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poor warehousing and storage facilities which is leading to high levels of loss, damage deterioration of stock, especially of perishable items.

Insufficient specialist equipments like proper refrigerated storage and containers and poor training are also to blame for the damage of goods. This needs to be changed and firms associated with logistics will have to give a lot of importance to enhancing warehousing facilities as there is massive rise in the transportation of perishable products. Warehousing also need to go to the next level in the wake of just in time manufacturing, global procurement and new models of sales and distribution.

Please elaborate us the existing tax regimes and suggested reforms in tax that could boost the industry.

Following tax reforms should be undertaken to boost the growth of the sector:

- I. Multi-modal policy for the domestic market to encourage adequate linkages of different modes of transportation and uniformity and rationalisation of taxes across modes to promote optimum utilisation of all modes of transportation.
- II. Tax benefits for expenditure on skill development, logistics infrastructure up-gradation, CENVAT credit for road transport services and coastal shipping services and relaxation in norms for payments by Goods Services Transport Agency (GTA).
- III. Treatment of warehousing for non-agricultural commodities at par with infrastructure projects to encourage investment in warehousing industry.
- IV. Implementation GST to enable the creation of the common market and permit free and unimpeded movement of goods and services across the country.
- V. Access to cheap ECB borrowing to fund capital expenditure plans of logistics firms.
- VI. Enhancement of the existing limit fixed under Sec 40 A (3) of the Income Tax Act 1961 for payment of expenses from ₹ 35000 to 75000 as it is difficult to keep expenses in the existing range when transporters are plying vehicles across the country.
- VII. Modification in the law of abrogation to protect the interest of logistics service providers as currently transporters are made liable for goods for which they are paid only freight charges while Insurance companies charge a premium from the client for insuring goods.

What are the future demand drivers that will enhance the sector?

We anticipate economic recovery in the coming years and believe that Indian logistics industry is at the turning point of its development. The sector is likely to see demand to come from e-commerce and other consumption driven

sectors with growing disposable. The trend of increased outsourcing of logistics services by non-traditional industries is also one of the prominent growth drivers for the company which is now witnessing demand for services like order processing, kitting and packaging.

We are hopeful that implementation of GST will lead to rationalisation of taxes on production, distribution and inventory management leading to the creation of a common market, increased demand for warehouses / hub centres and multi-modal movements between hubs.

We also foresee bulk multi-modal movement and reduction in unit cost of transportation due to speeding up of movement by rail and road with the upcoming dedicated freight corridors and diamond quadrilateral project.

Your suggestion on effective solutions & policy regimes, etc to make the sector competitive as par with International Standard.

We expect the following policy initiatives to make the sector competitive:

- Industry Status: A separate ombudsman on the lines of TRAI, or industry status to address sector issues effectively.
- **Multimodal Policy:**
 - I. A national level policy to define the blueprint of infrastructure development to encourage adequate linkages of different modes of transportation and hence achieve holistic and balanced multimodal mix.
 - II. Uniformity and rationalisation of service taxes across modes to promote optimum utilisation of all modes of transportation.
 - III. Development and integration of multimodal logistic parks to improve storage facilities, reduce transport costs, and enhance efficiency of the entire logistics network of the country. Large scale projects such as the development of large container terminals should be integrated with hinterland connectivity projects and emphasis should be placed on last-mile connectivity network. We also recommend continued privatisation of container operation by Indian Railways.
 - IV. Comprehensive policy framework for the air freight sector to meet the growing demand and improve efficiency of off-airport facilities for cargo processing, handling for clearance and customs procedures.
- **Regulatory Framework**
 - I. Tax benefits for expenditure on skill development for skill set like driving, loading, picking, packing, etc. logistics infrastructure up-gradation,

- II. Currently there is a high duty for liquid bulk tanktainer which needs to be reduced.
- III. CENVAT credit for road transport services and coastal shipping services and relaxation in norms for point of taxation for payment of service tax by Goods Services Transport Agency (GTA).
- IV. Enhance the existing limit fixed of cash payments under Sec 40 A (3) of the Income Tax Act 1961 for payment of expenses from ₹ 35000 to 75000 as it is difficult to keep expenses in the existing range when transporters are plying vehicles for long distances across the country.
- V. Treat warehousing for non-agricultural commodities at par with infrastructure projects to encourage investment in warehousing industry.
- VI. Implement GST to enable the creation of the common market and permit free and unimpeded movement of goods and services across the country.
- VII. Service Tax - Reverse Charge Mechanism should be applicable only in the case of Import of Services from outside India.
- VIII. PAN no. should be mentioned in RC, Permit and Insurance for transporter to save time in engaging vehicles.
- IX. Working GPS & Speed Governors should be mandatory in all vehicles.
- X. High Security Registration plate should be made compulsory in all states.

• **Infrastructure Focus**

- I. Create multi-modal logistics' hubs to give transporters the choice of best modes.
- II. Man inter-state check post adequately and create government warehouses to ensure safe custody of goods which are not allowed to enter into states due to sales tax documents.
- III. Separate warehousing space for cargo handling and storage apart from vehicle waiting facility at airports.

• **Long Term Planning and Financing for the Sector:**

- I. Access to ECB borrowing to fund capital expenditure plans of logistics firms.

• **Law of Subrogation:**

- I. Modify law of subrogation to protect the interest of logistics service providers. Currently, transporters liability is fixed under Carrier Act and they are made liable for goods for which they are paid only freight charges while Insurance companies charge a premium from the client for insuring goods. 📍

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Thank you,
Regards,

Rakesh Roy

Features Writer

Jasubhai Media Pvt Ltd

Tel: +91 22 4037 3636 (Dir: 40373678)

E-mail: rakesh_roy@jasubhai.com