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Title : Loads of trouble for govt ports
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The shipping ministry under Nitin Gadkari is pushing for easier tariff guidelines for its ports, but that may not be enough to stem the rot
Last year, Mundra Port, run by billionaire industrialist Gautam Adani, shot past central government-con trolled Kandla Port to become India's largest port in terms of cargo handled. Mundra also loaded more than 100 million tonnes (mt) of cargo, a coveted milestone that only a select club of ports globally can boast of.

These are no trifling accomplishments. It took Mundra about 13 years since inception to earn these landmarks. Mundra trumped a competitor that has been around way longer -56 years actually. (It loaded 101.12 mt of cargo compared with Kandla's 87.01 mt in 2013-14).

Both ports are located just 60 km apart on the Gulf of Kutch in Gujarat. But they are worlds apart in terms of attractiveness for shippers. As an ET report last year highlighted, Kandla had eight dry cargo berths -large platforms adjacent to the sea where ships can dock and then load and unload cargo -in 1997 but added only four more and another six for liquid cargo (oil) since then. Mun dra, in comparison, expanded from zero to 28 dry cargo berths and four liquid cargo terminals in almost the same period (see Different owners, different fortunes).

The Adani port also owns Asia's largest coal and fer tilizer import terminals.

Kandla's slow capacity addition has almost ren dered useless its inherent advantages -69 km of coast line and 244,000 acres of land. Shipping companies typically pass through seaports that help them quickly load and unload cargo. Mundra's superior infrastructure -reliable berths and terminals as well as draft (water depth) that enable bigger vessels to dock, double that of Kandla's -offers its customers a turnaround of just 2-3 days compared with its government competitor's turnaround of nearly 11 days, according to Mantrana Maritime Advisory, a consultancy based in Mumbai (Kandla's turnaround is a more respectable 5 days, according to shipping ministry data).

Public vs Private

Today, Mundra loads nearly seven times more cargo a day than Kandla. The Adani port's dependable facilities allow it to charge customers up to five times more than Kandla and it has used the revenues to periodically modernize infrastructure.

Wouldn't high charges turn away shippers?
Not really. Shippers are no doubt price-sensitive but port tariffs constitute only 3-4% of the total transportation cost. An exporter who may have hired a ship would be worse off paying huge hiring charges if the vessel faces longer queuing hours.

As an example, assume that the ship hiring (charter) costs are at $90,000 a day. If a shipper were to save six days in turnaround, he would save around $0.5 million.

Which port do you think will an exporter seek out? Carmaker Maruti once used Jawaharlal Nehru Port Trust (JNPT) in Mumbai for all its exports. Today, half its shipments have shifted to Mundra.

Anand Sharma, director, Mantrana Maritime Advisory, said what matters to shippers is a port that provides efficient service. “Shippers choose to go to a port with higher charges but better infrastructure than a port that is cheaper but is saddled with poor infrastructure. A cheaper, but clumsy port would eventually make shippers pay more in total endto-end logistics cost,“ he said.

How did Kandla lose out to Mundra in infrastructure? As a central government port, Kandla's tariffs are regulated, read fixed, by a statutory body called the Tariff Authority for Major Ports. (Tamp also regulates tariffs for 11 other ports under central government control, known as major ports.) Kandla does not have the money to ramp up its infrastructure due to the curbs on tariffs.

Mundra has no such worries. The Gujarat government owns the port and gave it to Adani Ports and Special Economic Zone Ltd (APSEZ), 77.5% owned by Adani Enterprises Ltd, the flagship company of Adani Group, to develop and operate on a 30-year contract when Prime Minister Narendra Modi was Gujarat chief minister. Mundra and other private ports as well as those run by state governments -known as non-major ports -do not come under the ambit of Tamp and are free to charge as they please.

Mundra's ascent and Kandla's decline are a commentary of the shifting Indian port landscape. The 12 central government ports (all but Ennore Port in Tamil Nadu are run as trusts; Ennore is a limited company) today account for only a shade over 50% of India's external trade through sea. Despite their longer existence, they have been steadily losing the share of cargo to non-major ports.

Wave of Discomfort The lion's share of the cargo handled by nonmajor ports has been cornered by Adani Group. Less than 3 years ago, Mundra was APSEZ's only operational port. Its presence in ports has since expanded to eight other locations such as Hazira, Dahej, Dhamra, Goa, and Visakhapatnam across the Indian coastline. Two more terminals are about to be commissioned at Tuna Tekra, located at, well, Kandla Port, and Ennore.

“If you look at our growth story, you will see how the development of a network of deep draft, super-efficient ports, along with additional services in the form of warehous ing, rail and air connectivity etc has made us more attractive to shipping lines as well as end customers,“ said a senior executive of Adani group, who did not want to be named.

The growth of Adani and lack thereof of central government ports boil down to existence of a tariff regulation mechanism for the latter. As if Tamp wasn't bad enough, central government ports and private companies that run terminals under their roofs have to also follow a set of rules called the `2005 Guidelines', where tariffs are based on operating costs and a 16% rate of return (known as the cost plus return approach to fixing tariffs).

Government ports and foreign players that operate terminals on a revenue-share basis under the public private partnership (PPP) model in these ports have long bemoaned what they see are restrictive guidelines. Particularly galling for these operators is that the tariffs do not factor the revenue they have to pay the government (see The Drawbacks of the 2005 Guidelines...).

That's not all. During the last review of tariffs, Tamp concluded that the cost estimates of seven PPP operators warranted a reduction in charges. All the seven operators, including Gateway Terminals India Pvt Ltd (GTIPL), a joint venture between APM Terminals of the Netherlands and government-run Container Corporation of India at JNPT, and Chennai Container Terminal, run by Dubai's DP World, have obtained a stay on the Tamp order at their respective High Courts.

“The 2005 Guidelines penalize efficiency through tariff cuts,“ said GTIPL chief operating officer Rajieve Krishnan.

Unfair to Major Ports Foreign operators say in unison that the 2005 Guidelines have smothered the creation of capacity at major ports. A senior executive of a foreign terminal operator who spoke on the condition that his and his company's names will not be revealed, said the 2005 Guidelines regulate tariffs by means of mathematical calculation not taking into account the realities of the logistics business. "It is an arbitrary calculation by the regulator that does not take business environment, capacity and competition into consideration," he said.

The government has not been altogether tone deaf to the pleas of operators. Dismayed that cargo share of its ports has been slipping away to private ports, it realized it had to act.

In 2012, an inter-ministerial taskforce recommended that tariffs need not to be regulated in major ports due to sufficient competition in the sector. It suggested that the shipping ministry amend a law framed about five decades ago called the Major Port Trusts Act, 1963 so that tariffs at major ports are determined by market forces.

The move was radical by government standards. So as an interim measure, it declared a new set of tariff rules called the 2013 Guidelines for its ports. These rules, which came into effect on July 31, 2013, offer some flexibility to PPP operators in major ports in determining tariffs, though they are subject to a ceiling (see And the Advantages...).

Charting a New Course Industry welcomed the new rules. Private investment in the port sector tripled to `18,640 crore in 2031-14 from `6,183 crore the previous year. The shipping ministry also awarded projects worth a record `20,709.93 crore in

2013-14. "The 2013 Guidelines are a step towards creating a level playing field among terminal operators," said GTIPL's Krishnan.

The executive who sought anonymity said having the freedom to set tariffs according to business environment would greatly improve the profitability of terminals and "ultimately help us improve the technology and the services we give to our customers".

Problem is existing PPP players such as DP World, APM Terminals and PSA International of Singapore are governed by the 2005 Guidelines. They have demanded migration to the 2013 Guidelines. Fortuitously for them, the shipping ministry is seriously considering acquiescing to their demand, according to executives of these companies and shipping ministry officials. "Our faith in the judiciary and the fact that the ministry of shipping is now working towards migrating all operators to the 2013 Guidelines have allowed us to maintain our current levels of service and capacity," said Krishnan.

Even if the government agrees to the migration demand, PPP terminals would still be feckless against private port operators like Adani. That's because there is a cap on the tariffs they can charge.

Stamp out Tamp Doing away with tariff checks is another longstanding demand of major ports. It appears to be a just demand.

India's ports were once controlled and operated solely by the government. In 1996, the government decided to develop the first private terminal in India at JNPT through the PPP route. Since then, more ports have moved towards this intermediate public-private "landlord port" model.

This model has worked well in foreign countries. The government is content owning land and water access, leaving private firms to bid for and run terminals and accompanying infrastructure such as towboats, cranes and warehouses under the build, operate and transfer (BOT) model. Operators who promise the government the highest revenues win bids and are leased infrastructure for 30 years.

The PPP model should have made government ports better -shorter queuing times, efficient container movement, and higher capacity utilization.
But what is happening is quite the opposite (see Deep Water).
In other words, Tamp has ruined the objectives of the PPP model. "Tariff regulation is hurting government ports because they have no money to modernize. PPP operators are unable to invest in improving operations because rules do not reward those i who bring in efficiency," said a shipping ministry official asking not to be named.

The foreign terminal executive who sought anonymity said tariff regulation has punished efficiency, hindered business, hurt profits and hence affected the capacity to invest in improving technolo gies and services. "Tamp has impacted the trade undertaken by the country."

For India's trade to improve, both govern ment and private ports must offer quality ser vices. But Tamp has, perhaps inadvertently, skewed the game in favour of private ports.

When Tamp was formed in 1997, major ports collectively handled more than 90% of the total cargo traf fic. In 2013-14, their share fell to 52% of the total traffic.

Terminal operators and trade experts said Tamp is filled with chartered accountants who are clueless about the logistics market. "They are numbers guys. Transporta tion is not their cup of tea," said an operator, requesting anonymity.

Globally, tariffs are seldom regulated; governments leave them to market forces and have the results to show for. Ports like Rotterdam, Singapore, Shanghai and Hamburg, which do not have a tariff regulator, have grown in capacity due to competi tion. The gap in cargo traffic between Indian and foreign ports, as one would expect, is dreadful. In 2013-14, India's largest container port JNPT handled 4.1 million TEUs (a measure of cargo capacity) compared with Shanghai's 33.6 million TEUs.

Tamp was created in 1997 so that private operators do not exploit exporters through their tariffs. But the ports sector has changed radically since --competition has intensified between terminal operators, negating the need for a tariff regulator.

"The purpose of creating Tamp was to prevent ports from making windfall gains by creating a monopolistic market. However, with the opening of ports to the private sector (automatic 100% FDI is permitted for port development projects) and development of several private and state government-owned ports outside the purview of Tamp, major ports have become weak," said Mantrana's Sharma.

NN Kumar, chairman of JNPT, said Tamp has outlived its relevance. "Who are they protecting? If our tariffs pinch, exporters will simply shift to another port or terminal."

Tamp is actually hurting exporters, according to Kumar. "Terminals in JNPT have reduced throughput, resulting in congestion. As a result, foreign shipping lines have imposed congestion charges on exporters," he said.

Regressive Rules The least the shipping ministry can do under these sorry circumstances is to migrate to the 2013 Guidelines. But even that has been hanging fire.

JNPT's Kumar said migration will not be easy as the ministry is in a dilemma. "Revenue share has been fixed for 30 years. Revisiting those terms and conditions in the bidding process is not easy," he said.

The abject surrender of cargo share by major ports does not offer solace to operators seeking a migration to the new tariff rules. "If it was the private sector, many officials would have been fired for their incompetence," said the shipping ministry official.

The government, the official said, is not equipped to take on private firms in ports.
"Two or three officials who come to work from 9 am to 5 pm are competing against private companies who deploy the best technology and hire the best minds in the business."

Given this backdrop, should the government run ports? That would mean IAS officers who are at the helm of major ports ceding control. "It is a no-brainer," said the shipping ministry official. "Such a proposal would never see the light of day."

The Drawbacks of the 2005 Guidelines...

Tariff high during initial phase of a project. But as volumes build and depreciation kicks in, ***unit cost falls,*** necessitating a ***cut in tariff***

Tariff ensures a ***16% rate of return*** on capital employed. But if an operator actually earns more than 20% of this 16%, ***50% of the incremental return*** (half of actual return- 16% rate of return) goes to the government

Tariffs do not factor in ***revenue share*** to the government

Discounts given by an operator to users are ***not recognized***

No revision in tariff for three years

No focus on performance and quality of service

.... And the Advantages of the 2013 Guidelines

The ***highest tariff*** for a commodity at any government-controlled port and ***indexed to inflation*** becomes the reference tariff

A private operator can ***charge up to 15% over and above*** the reference tariff if it achieves performance standards committed

The guidelines ***reduce the time required*** for finalization of bids

"That the shipping ministry is working towards migrating to the 2013 Guidelines has allowed us to maintain our levels of service"

Rajieve Krishnan, COO, Gateway Terminals India

Deep Water

How central government-controlled ports are faring

CARGO HANDLED (MILLION TONNES)

	2009-10	2010-11	2011-12	2012-13	2013-14
Central govt-controlled ports	561.09	570.09	560.19	545.83	555.5
State govt-controlled & private ports	288.94	315.36	353.74	387.92	420.24

PERFORMANCE INDICATORS

	2009-10	2010-11	2011-12	2012-13	2013-14
Cargo Vessels Sailed	22047	22022	21163	19851	NA
Avg Turnaround (Days)	4.63	5.29	4.56	4.29	3.87
Avg Pre-berthing Detention (Days)	2.16	2.32	2.05	1.79	0.29

NA: Not Available Source: Ministry of Shipping

CARGO TARGETS vs ACTUAL CARGO HANDLED IN 13-14 (MN TONNES)

Port	Actual Cargo Handled	Target	Shortfall (%)
Haldia	28.51	34.5	-21
Kandla	87.01	100	-14.9
Visakhapatnam	58.5	67	-14.5
Mormugao	11.74	13.35	-13.7
Cochin	20.89	23.6	-12.9
Tuticorin	28.64	32	-11.7

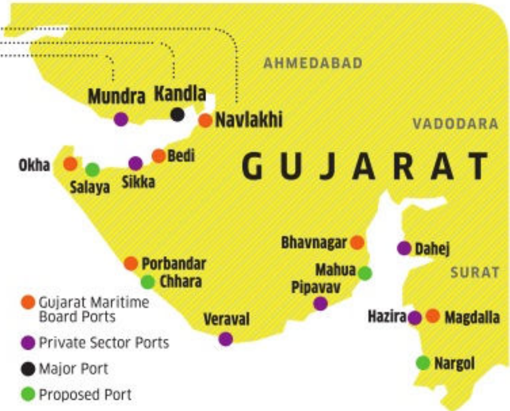
CAPACITY UTILIZATION DURING 2013-14 (MILLION TONNES)

Port	Traffic	Capacity	Capacity Utilization (%)
Mormugao	11.74	36.65	32
Cochin	20.89	49.66	42.1
New Mangalore	39.37	77.77	50.6
Haldia	28.51	49.75	57.3
Chennai	51.11	86.04	59.4

Takeaway: **On most counts, central government-controlled ports are losing ground to nimble-footed private rivals**

Different owners, different fortunes

	Mundra	Kandla	Navlakhi
Port owner:	Adani	Central govt	State govt
Tariff Regulator:	Nil	Yes	Nil
Draft (Water depth):	17.5M	9M	6.5M
Handling Rate Tonnes/day:	80,000	12,000	12,000
Turnaround Days:	2-3	9-11	8-10
Volume million Tonnes/year:	36.2	4.5	6.5
	Mundra trumps the other ports in infrastructure, which explains its better performance (turnaround) and volumes	*Government ports cannot set tariffs they prefer, due to a regulator, which hits investments*	*A private port can charge more – exporters don't mind as they are worried about turnaround time*



"Shippers go to a port with higher charges but better infrastructure than a port that is cheaper but is saddled with poor infrastructure"

Anand Sharma,
director, Mantrana Maritime Advisory

Ports like Rotterdam, Singapore, Shanghai and Hamburg have grown in the absence of a tariff regulator