

Shipping sector: Swim or sink



Mr G.K. Vasan, Union Minister for Shipping escorted by Mr M. Rafeeque Ahmed, President, FIEO (extreme right) and Mr Walter D'Souza, Regional Chairman, FIEO(SR) (extreme left).

FIEO organized the National Conclave on Shipping at Chennai on June 18, 2012. Deloitte was the Knowledge Partner and "The Hindu" was the Media Partner for this programme. The National Conclave was supported by Chennai Port Trust, APM Terminals, Container Corporation of India and Canara Bank. It was attended by more than 200 participants from the exim community, shipping lines, CHAs, freight forwarders etc. Mr G.K. Vasan, Union Minister for Shipping, was the chief guest. The main objective of the conclave was to flag the various issues concerning impacting port functioning, such as:

1. The plethora of legislation:

IPA, MPT, STPA, MMTG etc.

2. Development of port infra-structural facilities and services for multimodal transport.

3. Impetus to coastal shipping and integration of transfer nodes.

4. Policy on rail connectivity.

5. Setting up of an Infrastructure Ministry to rationalize and coordinate the transport policies through a closer relationship between the different players.

6. Simplification of Customs procedures and formalities which would enable a better understanding of the

constraints faced by businesses across the board.

Mr Walter D'Souza, Regional Chairman, FIEO (SR) while delivering his initiation address highlighted the economic slowdown and said India's exports declined by 4.16 per cent to \$25.68 billion in May 2012 due to the unabated slump in global demand and the slowdown in domestic industrial growth. Imports dropped by a sharper pace of 7.36 per cent to \$41.9 billion, signaling weakening of the economy especially with regard to fresh investments as inward shipments of plant and machinery fell by 8 per cent, according to provisional data released.

Since the early 1990s, India's

growing economy has witnessed a rise in demand for transport infrastructure and services. However, the sector has not been able to keep pace with rising demand and is proving to be a drag on the economy. Major improvements in the sector are therefore required to support the country's continued economic growth. India has 13 major and 199 minor and intermediate ports along its more than 7500 km long coastline. India's seaborne foreign trade being 90% by volume and 70% by value, the ports play a very significant role in improving foreign trade in a growing economy. Over the last decade, the average annual growth rate of port cargo volume has been about 10%. The future potential for port sector, particularly container ports is huge considering that the container traffic is projected to grow to 40 million TEU by 2025. Inland water transportation also remains largely undeveloped despite India's 14,000 kilometres of navigable rivers and canals.

Exporters in southern India largely depend on Chennai port, especially the exporters in Karnataka, Andhra Pradesh as well as from Tamil Nadu. However, today the situation has reached a serious turn and most of the exporters are forced to divert their cargo to other ports which causes delays and additional expenditure. Most of the issues are related to outside the port over which the port is not having any direct control. There was a strike at CCTL last week and another strike notice has been given by the trailer operators. Currently, an ongoing issue is there is a heavy backlog of containers at the port and terminals due to the recent protests over bad condition of roads connecting to the port. There are inordinate delays in delivery of the containers at CFSs. Even for bringing the container for Customs examination, there seems to be severe traceability issues. Unlike in other countries where containers are kept in order in the stack yards and their locations are fed in to central com-



Mr M. Rafeeque Ahmed, President, FIEO (extreme left) presenting a bouquet to Mr G.K. Vasan, Union Minister for Shipping. At extreme right is Mr Walter D'Souza, Regional Chairman, FIEO (SR).



Mr M. Rafeeque Ahmed, President, FIEO addressing the participants. On the dais from left are Mr Ajay Sahai, Director General & CEO, FIEO; Mr G.K. Vasan, Union Minister for Shipping; Mr Walter D'Souza, Regional Chairman, FIEO(SR); Mr Atulya Misra, Chairman, Chennai Port Trust; and Mr N Muruganandam, Jt. Secretary, Ministry of Shipping.

puters, at CFSs it is rather a labyrinthine process to search, identify and deliver them. No one knows where a particular container is stacked, the FIEO Chairman said. There are also severe space constraints. Above all, exporters are made to pay for the demurrage

charges both to the CFS operator as well as the steamer line for these delays which resulted because of the inefficiencies of CFS and other infrastructure providers.

While discussing the possible solution to these issues, Mr D'Souza



LEFT: President FIEO, Mr M Rafeeqe Ahmed addressing the gathering. **RIGHT:** A view of the participants.



LEFT: Mr G.K. Vasan, Union Minister for Shipping addressing the participants. On the dais from left are Mr Ajay Sahai, Director General & CEO, FIEO; Mr S. Velumani, Chairman, Ennore Port Trust; Mr M. Rafeeqe Ahmed, President, FIEO; Mr Walter D'Souza, Regional Chairman, FIEO(SR); Mr Atulya Misra, Chairman, Chennai Port Trust; and Mr N Muruganandam, Jt. Secretary, Ministry of Shipping. **RIGHT:** A view of the Media.

said a regulatory authority has to come into picture to control these CFSs. For major ports, there is TAMP regulating them. But there is no single authority to control CFSs. Recently, the Government of India introduced the Cargo Handling Act to control the CFSs. This Act clearly mentions the infrastructure to be maintained, equipment to be provided, so on and so forth. But nothing has been followed at the ground level. Steamer agents, on the other hand, cannot be controlled under any Act currently. The Shipping Trade Practices Act is still doing the rounds in Parliament and no one knows when it would be passed. Poor

road access to the port had caused container trucks to form slow-moving queues of several kilometres and miss scheduled vessels. The problem took a turn for the worse around July-August last year prompting container carriers to levy trade recovery surcharges. The need of the hour is to expand and develop the minor ports and improve the infrastructure facilities in the port. Congestion in the major ports resulting in heavy demurrage and loss in foreign exchange has become a major cause of concern, Mr D'Souza added.

Mr M. Rafeeqe Ahmed, President, FIEO, in his welcome address

said the aim of the National Shipping Conclave is to focus on this vital segment of export infrastructure. In the fiscal year 2011-12, Indian exports have registered \$303.7 billion, logging an annual growth of 21%. Imports have grown to \$488.6 billion with 32.1% growth. This rapid growth in trade can be sustained only if the port infrastructure keeps pace with the increasing volumes of cargo, the FIEO Chief said. Road and rail connectivity are an integral part of the port infrastructure as inefficient evacuation of cargo can mar the entire operation of a port. In particular, containerisation of cargo presupposes a seamless link with the



LEFT: The Union Minister for Shipping Mr G K Vasan addressing the gathering.
RIGHT: Mr Ajay Sahai, Director General & CEO, FIEO addressing the gathering.



Mr G.K. Vasan, Hon'ble Union Minister for Shipping (4th from left) releasing the "Knowledge Paper". On his right are Mr M. Rafeeque Ahmed, President, FIEO; Mr S. Velumani, Chairman, Ennore Port Trust; and Mr Ajay Sahai, Director General & CEO, FIEO. On his left are, Mr Walter D'Souza, Regional Chairman, FIEO(SR); Mr Atulya Misra, Chairman, Chennai Port Trust; and Mr N Muruganandam, Jt. Secretary, Ministry of Shipping.

road and rail network in an 'end to end' transport system.

With infusion of new technology and capacity building, the cumulative/total capacity available at ports at present matches the current requirement. However, ports are unable to handle additional traffic because of slow evacuation of cargo from the ports. Thus, despite having adequate capacity and modern handling facilities, the ports are not able to ensure a quicker turnaround of ships. Present average turnaround time at major ports is 3.42 days. This undermines the competitiveness of Indian ports vis-à-vis other ports

in the region. Therefore, it is important that connectivity of major ports with the hinterland is augmented not only to ensure smooth flow of traffic at the present level but also to meet the requirements of projected increase in traffic.

Indian ports handled 9.7 m TEU in 2011 which represents only 8% of the global benchmark ratio for economic output. This indicates that for an economy which is the world's third largest after the US and China, limited port capacity/congestion may be impeding trade growth as it ranks 13th and 21st globally for imports and exports. FIEO has already sub-

mitted a report highlighting the projected shortfall in port capacity in view of our long-term EXIM target to reach 4% of world trade. The government had identified 42 projects for capacity addition in ports in 2012-13 fiscal, of which 29 projects would be through PPP and would boost capacity by 244 million tonnes at an estimated cost of Rs 14,500 crore.

A conducive environment for large investment to build better logistical infrastructure and additional handling capacity is vital. The industry's present focus on making logistics activities leaner and greener by reducing and compensating the car-

bon footprint left on the environment needs to be encouraged and incentivized by the Government. Regulations need to be put in place to consider shifting to coastal shipping and inland waterways, both of which were cost-effective and environment-friendly. In times to come, growth at the non-major ports is expected to outpace that at the major ports, with the former commanding a 51% share of the total cargo in a decade's time. As India slips to the 46th rank in logistics performance index, from the 39th rank five years ago, some quick thinking is required to ameliorate the situation.

While highlighting the grievances of the exporters, he said certain practical issues like connectivity and congestion faced by the Chennai port. In order to solve the problems arising out of these issues, the Government needs to take urgent efforts to speedily execute various projects which are under implementation and the setting up of an integrated dry port and multimodal logistics hub at Sriperumbudur for creating off dock space for handling and storing of cargo, especially for containerisation. Due to the very complex operation in Chennai, many a time it is observed the port operations are hindered or disrupted for a variety of reasons and often hindrances are due to issues outside the port. It is high time to put a full stop and urge up on the Minister who has already taken a lot of initiatives in this direction to have a special cell for development of connectivity issues of all ports. For solving this issue the approach should be take the port as a partner of logistic initiatives and link two or three ports with good connectivity including rail and road.

Mr Vasan in his inaugural address highlighted following initiatives taken by him related to port connectivity which the FIEO President had put forward earlier:

- The Chennai-Ennore Port connectivity is not only important



Mr G.K. Vasan, Union Minister for Shipping addressing the Press. On his right is Mr Atulya Misra, Chairman, Chennai Port Trust and on his left is Mr M. Rafeeqe Ahmed, President, FIEO.



Technical Session in Progress: On the dais from left, are Capt. K.R. Sundaram, Dy. Dir. General (Tech), Mercantile Marine Department; Mr Srinivasagopalan, Exe. Director, Indian Port Association; Mr V. Kalyana Rama, Chief General Manager, CONCOR; Mr N Muruganandam, Jt. Secretary, Ministry of Shipping; Mr Saibal De, Chief Executive- Ports, IL & FS; Mr Gandhi Rajan, Chief Operating Officer, L&T Port, Kattupalli; and Mr Hemant Bhattabhatt, Sr. Director, Deloitte.

- for Chennai Port or Ennore Port but for entire Tamil Nadu.
- The Chennai-Ennore Port Connectivity Project is being implemented at a cost of Rs 600 crore. Currently 30% of the project has been completed and the project will be fully completed by June 2013.
- The Minister is closely monitoring the project and has requested the Union Road Transport Minister for review of the project for early completion.



Mr Hemant Bhattabhatt, Sr. Director, Deloitte addressing the participants in the Technical Session. Sitting on the dais from left, are Mr Elvis Dacruz, Vallarpadam Container Terminal; Mr Pankaj Malviya, Managing Director, Pipavav Railway Corporation Ltd.; and Mr M K Palanivel, President, Merchant Shipping Services Pvt. Ltd.

- The issues related to the project investment cost have been resolved and the Department of Shipping has agreed to invest.
- The shops affected by the project have been identified and currently 80 have been relocated to new locations. The rest of the affected will be relocated by the end of the week.
- All the issues related to the project implementation have been resolved and the National Highways Department, Government of Tamil Nadu and port officials are working together to complete the project on schedule.
- The Minister will review the project once in three months to ensure the project is completed on schedule.

During his address, the Union Minister for Shipping appreciated FIEO for its efforts to organize the National Conclave on Shipping wherein it brought together policymakers, experts, exporters, port users and all other stakeholders. While highlighting the importance of the shipping industry, Mr Vasani said ports play a critical role in facilitating external

trade. The development of the port and shipping sector will therefore be crucial if we aspire to achieve the higher levels of economic growth witnessed until a few years ago. The Ministry of Shipping has been proactive, coming out with policy initiatives to promote the development of port infrastructure. It brought out a document titled Maritime Agenda 2010-2020 last year in the month of January, which outlines the roadmap for the development of the maritime sector over a period of 10 years. The objectives of the Maritime Agenda include creation of port capacity of about 3,200 million tonnes from about 1,000 million metric tonnes to handle the expected traffic of about 2500 million metric tonnes by 2020 and bringing our ports on par with the best international ports in terms of performance and capacity. For the shipping sector, the agenda envisages enhancement of tonnage under the Indian flag and improve from 10 million gross tonnage to 43 million gross tonnage. The Ministry of Shipping is actively engaged in the pursuit of achieving the objectives contained in the Maritime Agenda. The capacity of Indian ports went up to more than

1200 million metric tonnes by 31.03.2012 from about 1100 million metric tonnes per annum at the end of the previous financial year.

The award and implementation of projects to create and add capacity have been affected by factors such as security clearance of bidders, environment clearance, land acquisition issues, litigation, etc. The Ministry of Shipping has been in constant dialogue with all the agencies concerned like the Ministries of Defence, Home Affairs, External Affairs, Environment and Forests and also the Prime Minister's Office, Cabinet Secretariat and Planning Commission to remove all bottlenecks in the way of award and implementation of projects. The Shipping Ministry has recently come out with new guidelines to streamline processing security clearance proposals expeditiously without compromising on security aspects. For the year 2012-13, after a review of the infrastructure sector by the Prime Minister, a target has been set for award of projects of 244 million tonnes of capacity spread across 42 projects at an estimated cost of Rs 14,500 crore. The target also includes obtaining approval of establishing two new major ports – one in Andhra Pradesh and another in West Bengal. This indicates the faith reposed by the Prime Minister on the Ministry and also taking into account the crucial role of the port sector in the economy.

The Minister of Finance has in his Budget speech this year, extended the tax-free bond scheme for one more year to enable ports to raise funds to the tune of Rs 5000 crore for various projects. He has also reduced the rate of withholding tax on interest payments on external commercial borrowings from 20 per cent to 5 per cent for a period of three years for ports and shipyards. These two announcements and a few other incentives offered in the Union Budget would certainly provide an impetus for the growth of the port sector in our country. In 2010, a

comprehensive Land Policy aimed at optimal use of land was issued. The Policy is being revised further to bring in more transparency. In order to give a fillip to Indian shipping, the Government had introduced tonnage tax in the year 2004 to provide a level-playing field for Indian shipping to become internationally competitive. After the introduction of the tonnage tax regime, the sector which was stagnating around 6 million gross tonnage for a decade has witnessed a steady growth to reach 11 million gross tonnage by the end of 2011. From time to time, the Ministry of Shipping has also been taking up with the Ministry of Finance the need for exemption of Minimum Alternate Tax (MAT) on the book profit on sale of qualifying ships and its inclusion within tonnage tax regime. The inclusion of interest income on funds deployed out of tonnage tax reserve within tonnage tax regime is also among the various other issues that are being taken up with the Ministry of Finance.

India's external trade, as a proportion of GDP has more than doubled in the last 10 years and is close to 40%. The bulk of this international trade is carried through shipping. One can imagine the importance of the ports and maritime sector for India, when 40% of the GDP is linked to external trade. We also expect that in future, high demand for energy will result in increased import of coal and oil. Similarly, the container volumes in India are expected to witness high growth in the years to come. The Government is taking various initiatives to rapidly modernize and develop the ports and maritime sector so that it can sustain and accelerate the current growth momentum on the path carved by the Maritime Agenda. To tide over the shortcomings on the way to achieving the goals, Mr Vasan welcomed the collective thoughts of all stakeholders and sought suggestions for improving the efficacy and efficiency of the governing and oper-

ating systems.

Mr Ajay Sahai, Director General and CEO, FIEO, while proposing the vote of thanks highlighted the initiatives taken by the Shipping Ministry for improvement in infrastructure and said that FIEO has submitted a report on port connectivity issues for consideration of the Government. India has one of the largest fleets and is ranked 16th in the world. The total fleet size of the Indian shipping industry is 10 million GT. Still it forms a marginal share of only 1% of the global fleet. India's seaborne trade has been growing at a rate of over 12% in the last 10 years. The reason for this declining share is the slow growth in its fleet size. The Government has envisaged an ambitious plan to grow the Indian shipping fleet from 10 million GT to 40 million GT by the year 2020. The logistics industry in India, Mr Sahai said is evolving rapidly and it is the interplay of infrastructure, technology and new types of service providers that will define whether the industry is able to help its customers reduce their logistics costs and provide effective services. Changing government policies on taxation and regulation of service providers are going to play an important role in this process. Coordination across various government agencies requires approval from multiple ministries and is a roadblock for multi-modal transport in India. At the firm level, the logistics focus is moving towards reducing cycle times in order to add value to their customers.

TECHNICAL SESSION - I

The first Technical Session was moderated by Mr D'Souza, on Policy and Regulations. The Regional Chairman, FIEO (SR) while initiating the session highlighted the need for investments for port connectivity, modernization of terminals, etc. in the major ports and suggested that ports also should consider investing as stakeholder in projects outside the ports with the focus on connectivity. He also highlighted the need

for connecting 2 to 3 ports together so that the trade can decide on where to send the goods. It will improve the efficiency of ports.

Mr R. Venkatesh, Vice President, Western India Shippers Association, spoke on Shipping Trade Practices Act. Following are the major points discussed by him:

India ranks amongst the countries with the highest transaction costs and the Government's liberalization efforts have not changed this. The costs which go into calculating transaction costs are neither transparent nor are they accompanied by justifiable service commitment. The shipping trade while largely well managed is being maligned by operators without any investments who operate in the shadows. The shippers have been left high and dry with nowhere to go when faced with shipping problems and claims. Shippers have been foisted with sudden hikes and new surcharges which were never part of original cost estimates. Service providers have similar issues with user ignorance and lack of proper shipping information, there is a need for Shipping Trade Practices Act.

STP Act is a proposed legislation which aims to bring transparency in the maritime trade by registration of the service providers, publication of charges, defining the rights and responsibilities of the service providers and users, and most importantly creating a dispute resolution mechanism by establishing a Tribunal. The proposed bill underwent many changes and drafts between 2002 till date. Many meetings were held to decide if such an Act is required. The Government finally felt a real need to regulate this segment. A Working Group of stake holders was notified in 2010 to study the proposed draft and submit their comments. A Drafting Committee submitted a draft in 2010 to the DGS acceptable to all stakeholders. The biggest reason why this reg-

ulatory authority is required is the fractured state of the shipping industry. With 100% FDI permitted in this industry, there has been no control over what is termed as fly-by-night operators. Transparency has been lacking in both service guarantees and charges by service providers. And also as importantly the need for clarity in user responsibilities.

As per the suggested act, every shipping service provider is required to be registered with a local presence, provide monetary guarantees when registering, publish their tariff in a public domain, and give 15 days notice for revision, changes or addition of any charges. Further, it draws clear guidelines on responsibilities and liabilities for both providers and users. Most importantly it creates a tribunal where disputes can be settled, avoiding costly legal action. Shippers or shipping users now have an obligation to also become transparent; information vis-à-vis the nature of the cargo must be accurately given; packaging of the cargo must meet international norms and special conditions; carriage related information must be accurately provided to shipping service provider and action against the shipper can also be brought to the tribunal for defaults.

It is to be noted that it has been 10 years since the first draft but still the Act is only being considered and discussed. It is imperative the collective lobbying is to be done by shippers to ensure the Act is passed as quickly as possible. There is a need to create awareness across the entire EXIM trade about their responsibilities as this will only make them more secure.

Mr Atulya Misra, Chairman, Chennai Port Trust, spoke on Chennai Port - Tackling Challenges. The following points were discussed by him:

Out of 55.71 Mt cargo handled by the Chennai Port during the year 2011-12, containers contributed 53%,

POL 24%, and coal was 6%. Following are the challenges faced by the port:

Evacuation issues (road and rail), restriction imposed by the High Court on handling coal and iron ore, inadequate storage space (city-locked port), poor productivity, inadequate drafts at berths and approaches, competition from new ports, high expenditure on salaries, and traditional transaction systems.

Tackling challenges of the port are: Four-lane road connectivity through EMRIP and elevated port link to Maduravoyal for evacuation of container trailers and cargo trucks with an estimated cost of Rs 600 crore with a network of 30.1 km; another project of elevated 4 lane road connecting Chennai Port & Maduravoyal (initially part of NMDP of ChPT and later transferred to NHDP 7 of NHAI-4) with a cost of Rs 310 crore to tackle the problems of evacuation. The port also initiated actions in the following areas:

- Reducing traffic congestion by transit parking at Tiruvottiyur Yard.
- Two exclusive lines for port through Chennai Beach Railway Yard.
- Introduction of private container train operators.
- Land on lease from SIPCOT for dry port and multi-modal logistics hub.
- Backup area for berths by reclaiming land from sea.
- Project for deepening channels and basins, upgrading old berths for minimum draft of 14 metres.
- Improving the internal roads for smooth traffic flow.
- Improving productivity by installation of conveyor system, new cranes and augmentation of port crafts.
- Reduction of manpower through Spl VRS.
- Improving efficiency by moving to landlord system, corporatization & PCS.
- Increasing container handling capacity from 3 M TEUs to 7 M TEUs.

- Increasing car handling capacity from 2.7 lakhs units to over 5 lakhs units in the next 5 years.
- Transition to handling clean cargoes.
- Long term vision of handling containers, cars, cruise and other clean cargo.
- Better utilization of existing resources through PPP schemes.

For improvements to rail connectivity, the internal rail lines are being augmented and strengthened as a part of port modernization. The 3rd and 4th lines being developed by Southern Railway will significantly improve rail connectivity to the hinterland. The capacity will increase from 10 rakes to 27 rakes per day in 2014. Four container train operators in addition to CONCOR have been permitted to operate inside the port to increase rail movement of containers. These initiatives are expected to improve rail share of containers from 7% to 30% and enhance the overall efficiency of the port. The ports road expansion work in the pipeline are road from INS Adyar to SQ II road junction, widening of concrete road from West Fire Service Station to First Container Terminal, widening the existing Ore Berth Road from First Container Terminal IN Gate to 33KV sub-station near Ore berth and development of six lane road adjacent to CFS near Gate No.1. He requested the Ministry of Shipping to take up the issue with the Ministry of Petroleum to advise the oil companies to effect payment of their share to Chennai Port to update the oil spill combating capability.

Mr N.J. Kumaresh, Additional Commissioner of Customs, Tuticorin, in his talk on Trade Facilitation highlighted various initiatives taken by the Department for speedy clearance of cargo. He said vide Finance Act, 2011, 'Self-Assessment' has been introduced under the Customs Act. Under 'self-assessment', responsibility of filing correct declaration lies with the importer or exporter. The

declaration filed by the importer or exporter may be verified by the proper officer when so interdicted by the Risk Management Systems (RMS). CBEC has finalized the 'Authorized Economic Operators' (AEO) programme for implementation to secure supply chain of import and export goods. This programme has been developed pursuant to guidelines of WCO adopted in SAFE FoS (Framework of Standard) in 2005.

Accredited Client Programme facilitation has been introduced by Central Board of Excise & Customs (CBEC). The defining feature of Accredited Clients Programme (ACP) is assured facilitation. This means that in most cases, except in a small number of occasions when the consignments will be randomly selected for checks by Customs officers, the Indian Customs EDI System would accept the declared classification and valuation and assess duty on the basis of importer's self-declaration; implying thereby that the import consignments of ACP clients will not be subjected to regular and routine examination. The "Know Your Customer (KYC)" guidelines have been drawn up for Custom House Agents (CHAs) so they are not used intentionally or unintentionally by importers/exporters who indulge in fraudulent activities. Accordingly, CHALR, 2004 has been suitably amended to impose certain obligations on the CHAs to verify the antecedents and correctness of the Import Export Code (IEC) number, identification of client and the functioning of the client in the declared address by using reliable, independent, authentic documents, data or information.

Mr Dinesh Lal, Chairman, Gateway Terminals Pvt Ltd, Navi Mumbai, spoke on Container Terminal Investment, Policy Framework issues. The following are the major points discussed:

There is an urgent need for Indian container terminals to upgrade the facilitates for the next phase of

economic growth. The constraints of Indian ports are lack of capacity to accommodate growth, congestion at main hubs as terminals operate at their limits, low efficiency compared with regional peers and hinterland connectivity issues. The container terminal capacity at India's ports needs significant growth to facilitate trade and economic growth of the country. The fact is that India's port infrastructure is not fully prepared for the future with lack of capacity and congestion, productivity below world-class benchmarks, and over-regulation, which discourage investment and innovation. It is estimated that \$31 billion is needed for accommodating the volume growth. The Government needs to improve the environment that encourages investments and cooperation with private operators. It has been observed that the current TAMP regulations work against this goal. There is no uniform regulation applicable. TAMP tariff guidelines apply to major ports and private terminals operating in major ports. Different guidelines apply to different ports/terminals based on the period they were set up such as pre 2003, 2005 and 2008. 2005 Guidelines issued with an initial validity of 5 years have been extended 3 times to June 30, 2012.

It has been pointed out that the current policy on major ports regulates only 2.5 % of the costs in the

logistics chain. For example, elements of the costs involved in moving a 20' laden container from Delhi to New York are 58% ocean freight, 15% destination delivery charges, 15% other surcharge during road and ocean transport, 5% road transport, 2.5% container handling charges at port, 2.5% Suez surcharge and 2% for stuffing and CHA charges. While arguing in favour of increasing in tariff for better infrastructure facilities, he said that a 10% increase in tariffs of a terminal will result in increase of \$6 to \$8 per 20' container on a total \$3000. A 10% decrease of tariffs of a terminal will result in congestion which costs \$60 to \$80 per 20' container. Hence decrease in tariffs will be loss to the exim trade, he argued. Mr. Lal urged for the following actions by Government:

Next 60 days: 2005 tariff guidelines need to be revised along the principles of the 2008 tariff guidelines. Efficiency needs to be rewarded and not penalized as the case is today.

Next 6 months: Investment/market driven tariff.

TAMP - The authority must be a competition regulator, encourage and promote fair competition, dispute redressal, advise government on promotion of competition and investment, monitor and report performance.

TRAFFIC AND CAPACITY PROJECTION IN 12TH 5 YEAR PLAN 2012-2017:
(in tonnes)

	Major Ports	Non Major Ports	Total
Optimistic Traffic	943	815	1,758
Optimistic Capacity	1,229	1,060	2,289

INVESTMENTS

(Rs in crores)

	GOI/State Govt.	PPP	Total
Major Ports	27,011	40,068	67,079
Non Major Ports	2,025	104,808	106,833
total	29,036	144,876	173,912

Capt S. Bhardwaj, Vice Chancellor, AMET, in his talk on Port Infrastructure - Skilled Supply Chain said that there is shortage of skilled manpower in the shipping sector across India, and foreign exchange is flown from India for education purposes which needs to be diverted by providing world class manpower training facilities.

TECHNICAL SESSION -II

The second Technical Session was moderated by Mr N. Muruganandam, Jt. Secretary, Ministry of Shipping, who spoke on port connectivity and shortfalls. While talking on the external connectivity Mr Muruganandam said port traffic within India is carried largely by railways and road transport and their modes such as IWT are undeveloped.

Rail connectivity: Rail transport is primarily used for low value commodities where transport costs are an important component. Except coal, most other commodities are beginning to shift to roads owing to the shortage of rail capacity. High value cargo such as containers, are also moving away from rail transport. The key to improve port connectivity will be enhancements in rail connectivity and capacity, which requires as much as 400% increase over the present levels of port traffic carried by railways. The impact of inadequate connectivity are:

Delhi-JNPT: Most highly congested traffic corridor. Average line capacity is 50 trains per day and handles 67 trains per day, of which 40 are passenger. Only one-third of containerized cargo goes through rail and 9000 loaded trucks move everyday.

Paradip: Ideally located for mineral exim trade. Single line rail connectivity – can handle only 18 trains a day and cargo is being diverted to Vizag. Extra cost for coal transport to south Rs 278 per tonne. Talcher-Paradip, 200 km, Rs

194 per MT and Talcher-Vizag, 560 km, Rs 472 per MT.

The main reason for the railway's declining share are inadequate investments in capacity, high freight charges, poor quality of service and slow response, non-availability of wagons, no separate freight corridor, shortage of rakes, etc. By 2015 large rail capacity shortfalls are expected in the Mumbai cluster, Tuticorin, Kochi and Mangalore.

Policy initiatives taken by railways: New container train policy allowed private operators to operate container trains – 16 private operators given licenses to run trains. Dedicated Freight Corridor (DFC) of 1483 km between Delhi and Mumbai has been undertaken covering 6 states of India. There is a proposal for a 'Logistics Corporation of India' to be created jointly by SCI, CONCOR and CWC. PPP policy measures to attract private sector investment in rail connectivity projects, such as Dhamra port, connectivity.

Road connectivity: Road transport is the predominant mode of inland transport for port cargo. It is more cost effective for shorter leads and smaller packages. There is significant improvement in road infrastructure after the launch of the National Highway Development Programme (NHDP) in form of SPVs at 12 major ports. The other factor favoring road transport is the convenience of door-to-door transport for high value goods which are increasing as trade in finished and intermediate goods increases.

Policy initiatives: Four lane road connectivity for every major port; budgetary assistance, or viability gap funding in case of PPP projects maybe considered for projects having a lower rate of return. NHA shall undertake port connectivity projects (less than 50 km) and hinterland connectivity highway projects on BOT basis. Need for active

participation of State Governments, major ports and NHA in case of land acquisition, utility shifting and RR matters.

The issues needing to be attended are: Rail connectivity need to be strengthened; pressure on road transport with negative externalities – pollution, carbon footprint; focus on inland waterways, coastal shipping, more dedicated freight corridors; railways need to plan for last mile connectivity to major and non-major ports.

Mr Gandhi Rajan, Chief Operating Officer, L&T Port, Kattupalli, in his presentation highlighted the overall scenario of ports in India and said India with a total coastline of over 7517 km shared by 9 States having 12 major ports and 1 corporatized port handled 570 MMT cargo during the year 2010-11 and 187 minor major ports handled 314 MMT cargo. Tamil Nadu with a coastline of 1076 km having 3 major ports (Chennai, Ennore, Tuticorin) and 22 non-major ports (Government ports – 7, captive ports -1, operational -5, new ports under approval - 4). The present capacity of ports in India is 970 MTPA (major ports - 630 MTPA and non- major ports - 340 MTPA). The estimated capacity requirement by 2014 -15 for the projected traffic of 1600 MTPA is 2000 MTPA.

The Maritime Agenda for 2010-20 aimed for major capacity creation in non-major ports through the PPP route and expansion in major ports. There are also proposals for development of two new major ports one each on east and west coasts, and full mechanization of cargo handling and movement; major ports will have draft of not less than 14 metres and hub ports 17 metres; identification and implementation of projects for rail, road and inland waterway connectivity to ports; shifting of trans-shipment of Indian containers from foreign to Indian ports, etc.

For successful PPP projects, the following suggestions were made:

- Speedy approval/ clearances from Central and State Government Authorities – through single window clearance.
- Improvement in port connectivity: road and rail (existing and new connectivity), integrated plan is to be developed and executed on priority.
- Freedom to fix tariff, based on market conditions.
- Soft loans and tax incentives for PPP projects in the port sector.
- Policy on co-operation and competition among Indian ports.
- Holistic view while planning for capacity expansion in major and non-major ports.
- Social infrastructure development in the region.

Mr Saibal De, Chief Executive-Ports, IL&FS, spoke on Port Projects in India- Issues & Way Ahead. The following are the major points discussed:

The development related issues are implementation timelines – Budgeted vs Actual, Approvals – time and cost overruns, change in scope, dredging – need for adequate data, avoid repetitions, scope enlargement with change in timelines, land procurement (cost increases), last mile connectivity – for realization of projected revenues.

Issues related to financing are Standard Concession Structures, Regulatory Risks, Nodal Agency empowerment, State Support Agreements and Equity Exits.

Policy related issues are Regulation – Tariff, Concession Structures, flexibility, Planning, Approvals – security clearance, environmental, connectivity and delay in decision making.

Mr Srinivasagopalan, ED, Indian Port Association, in his address on Port Financing said private sector

participation and joint ventures are permitted under Major Port Trusts Act. A new Model Documents (RFQ & RFP) and Model Concession Agreement (MCA) finalized and adopted to ensure uniformity in bidding documents. The system has been devised for upfront tariff fixation by TAMP before the projects are bid out.

PPP is required in the port sector to build port infrastructure commensurate with fast increasing seaborne trade to mobilize private sector resources – financial, managerial as well as technical; to improve efficiency, productivity and quality of services; and to achieve optimum utilization of public funds. The PPP policy allows 100% FDI for construction and maintenance of ports and harbours and well as BOT/joint venture/collaboration with the port. In the guidelines, areas have been identified for PPP, licence period – 30 years, Revenue Share Model/Royalty Model, Greenfield Projects – no minimum guarantee, port labour not compulsory, etc. are included. The maritime states are allowed to frame their own flexible modal documents.

At present, 30 PPP projects or projects on captive use basis are operational at a cost of Rs 9,447.40 crore and capacity of 204.65 Million Tonnes Per Annum (MTPA) have been added. 23 PPP projects are under various stages of bidding at an estimated cost of Rs 16,813.6 crore for creating an additional capacity of 231.63 MTPA. 18 projects have been identified for the year 2012-13 at an estimated cost of Rs 67,498.92 crore which are expected to add a capacity of 103.30 MTPA.

Improvements suggested in PPP projects are allowing duty-free imports of equipment, allowing higher levels of depreciation, allowing higher energy use at industrial rates rather than commercial rates and concessions for energy-saving

measures/equipments. There was also suggestions for uniform regulatory framework for the entire port sector, tariff may be left to market forces as in case of seaborne trade with regulatory intervention only to prevent monopolistic exploitation, tariff fixation could be based on normative approach with provision for periodic reviews and the operator may be allowed to retain the benefit of efficiency gains.

TECHNICAL SESSION-III

The third Technical Session was moderated by Mr Hemant Bhattabhatt, Sr. Director, Deloitte, who spoke on requirements and challenges for international trade. The following are the gist of his presentation:

India has one of the largest fleets and is ranked 16th in the world. The share of India's vessels in carrying the country's cargo has been declining and is currently only around 8%. The total fleet size of the Indian shipping industry is 10 million GT. Still it forms a marginal share of only 1% of the global fleet. India's seaborne trade has been growing at a rate of over 12% in the last 10 years. The reason for this declining share is the tardy growth in its fleet size. The Government has envisaged an ambitious plan to grow the Indian shipping fleet from 10 million GT to 40 million GT by the year 2020. The major reasons for under performance are capacity constraints, inefficient cargo handling, productivity, inadequate drafts for larger vessels, poor connectivity, cumbersome institutional and regulatory arrangements, etc.

The overall progress in the ports sector has been much below expectations. The investments during the Eleventh Plan are now projected at a level of Rs 40,647 crore which is less than half of the original projection of Rs 87,995 crore. Private investment in the port sector is also expected to be almost 40.31 per cent lower as compared to the projections made at

the beginning of the Plan.

On the other hand, lack of proper connectivity has affected the growth and prospects of many ports. Despite having proper depth and adequate facilities, these ports are stranded for want of containerized cargo, while the other ports are burdened with excess traffic they can't handle. The private players (coal traders, other manufacturers and exporters/importers) give considerable weightage to connectivity at the proposed port while considering a stake in port development. Connectivity should not be restricted to rail and roads alone. India has navigable inland waterways of almost 14,500 km, of which 5,200 km of major rivers and 500 km of canals are suitable for mechanized crafts. Currently inland waterway transport (IWT) handles only around 1% of total inland cargo transport. Around 5% of iron ore and 15% of the fertilizers are transported via the IWT route. "There is potential for other cargo such as coal, dry and break bulk and containers to be transported economically and effectively through IWT. Inland waterways are environment-friendly and low cost. It has higher fuel efficiency than road/rail transport," Mr Elvis Dacruz, Vallarpadam Container Terminal said on the Scope & Viability of Cost Efficient Hub Port of South East Asian Region. Following are the major points discussed:

The Indian container trade is 9 million TEUs per annum. Presently all Indian ports are utilizing 95% capacity. Our container growth rate is 10 to 12 % year on year. Volumes (2011) are approximately 9 million TEUs with a growth of 10 to 12% over 2010. India does not have any trans-shipment terminal except ICTT. The major trans-shipment port for India is Colombo and its throughput is 4.2 million TEUs. It is

to be noted that Colombo handles 75% Indian containers and 60% of it comes from south India.

Advantages of Hub Terminal in India are minimum deviation from trade routes, cost advantage to shipping lines, cost and time advantage to trade (no trans-shipment/scheduled delivery), better freight rates, revenue earned stays within India, etc. ICTT Vallarpadam is the first trans-shipment terminal in India and the first container terminal to operate in an SEZ with a capacity of 1 million TEUs. It is under BOT agreement for 30 years with Cochin Port Trust. The terminal is having container yard with the size of 2500 TEU ground slots with two rail tracks and 450 Reefer Points. As far as productivity is concerned, it is having national record for the highest gross crane rate of 51.2.

Key issues and challenges faced by Vallarpadam Terminal are restrictions due to present Indian Cabotage rules. The private sector has invested more than Rs 10,000 crore in the Indian port industry. The Government believes that 64% of proposed investment planned in major ports will come from the private sector and there is an investment need to \$13.5 billion (Rs 60,750 crore) in the major ports in the country. The Government budget includes 21 projects worth Rs 12,000 crore for ports and nothing has materialized so far. Efficient processes for faster and cost effect transactions by Customs, PHO, PQ etc. are below expectations. Rail and coastal connectivity frequency and network increase need to be addressed.

Expansion of the Panama Canal in 2014 will change the dynamics of current trade routes – existing ships deployed on trades through the canal will either be scrapped (reduction of capacity will improve freight rates), or cascaded down into other trades (new capacity will erode freight rates on those sectors) .

Intra Asia trades will flourish, ship owners and charterers will be under tremendous pressure to redeploy ships coming off charter in long haul routes, hence charter capacity will be used with short sea and regional trades at low rates. Unless India takes bold steps in this direction, we will lose our competitive advantage over China, Russia, Africa, South America and South East Asia.

The following are the major suggestions discussed:

- Revisions in maritime policy guidelines to facilitate usage of capacity created (eg: relaxation of Cabotage law to enable larger ships to call Cochin port's trans-shipment terminal, creating avenue for trade growth)
- Review of current tariff regulation regime, which currently disincentivizes port and terminal operators to improve efficiency in their operations.
- Open up activities currently handled directly by Port Trust to PPP, thereby bringing in world class expertise and standards.
- Improve basic marine infrastructure (eg: dredged depth in approach channels, and at port) to be able to cater to new tonnage shipping lines are bringing on board.

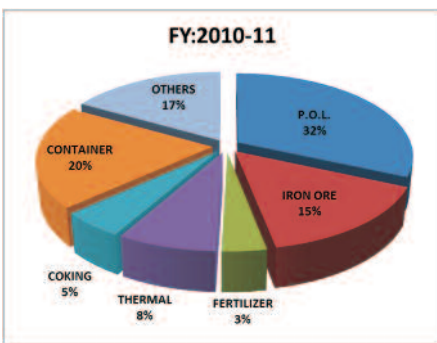
Mr M.K. Palanivel, President, Merchant Shipping Services Pvt Ltd, spoke on Deficiency in Indian Shipping Infrastructure: Benchmarking and the Way Forward. The following are the major points discussed:

The global seaborne trade was about 8,400 million tonnes (8.4 billion mt) in 2010 and the cargo group-wise break-up is (billion tonnes) Oil - 2.75, main bulks - 2.33, other dry - 3.32; of this, the Chinese account for over 2.0 billion mt, a 23 % share.

Developing countries continued to account for the largest share of global seaborne trade (60% of all goods

CARGO HANDLED BY MAJOR PORTS – COMPOSITION OF CARGO

Port	Cargo handled 2010-11 (Mn.T)
Kandla	81.88
Vishakhapatnam	68.04
JNPT	64.29
Chennai	61.46
Paradip	56.03
Mumbai	54.58
Mormugao	50.02
Haldia	34.89
New Mangalore	31.55
Tuticorin	25.73
Cochin	17.87
Kolkata	12.54
Ennore	11.00
All India	569.90



loaded and 56% of all goods unloaded), reflecting their growing resilience to economic setbacks and an increasingly leading role in driving global trade. Developed economies' shares of global goods loaded and unloaded was 34% and 43% respectively. Despite an economic slowdown

the world shipping fleet is on the rise with 10 per cent growth over the year (as of January 2012). The total tonnage reached the 1,534 million DWT (1,000 million GRT) mark with about 56,000 seagoing commercial ships in service. In this rapidly changing environment, transport connectivity seems key in determining the extent to which cost savings derived from economies of scale are passed on to importers and exporters.

Mr Pankaj Malviya, Managing Director, Pipavav Railway Corporation Ltd, spoke on Port Connectivity: The Case of Pipavav Port.

PRCL has a defined objective to construct, operate and maintain BG rail line to serve the port. The project is now equipped to deal with 21 trains each way per day. GPPL guarantees PRCL minimum quantity of cargo, i.e. 1 million tonnes for the first year (2003-04) of operations, 2 million tonnes in the second year, and 3 million tonnes from the third year onwards.

However, the following are the problems faced by this project:

- Port traffic did not materialize as projected, as GPPL focused on container traffic, affecting revenue stream.
- Assured supply of wagons not received, as guaranteed by IR.
- Manpower reduced, but still there is scope for further rationalization.
- Delay in decision making due to layers of hierarchy - MOR, WR HQ, Division and Construction Organization.
- Inhibiting viability by denying level playing fields.
- There is no provision of deficit financing; MOR should bridge the gap for initial years.

Capt. K.R. Sundaram, DDG (Tech), Mercantile Marine Department, spoke on Transformation of Indian Ports to World Class Facilities – And Role of PPP. He said the average dwell for dry-bulk cargo at Rot-

terdam is just 14 days whereas it is 38 days in major ports of India. This necessitates development of road/rail connectivity from/to all major and non-major ports of India. He made following recommendations of the Working Group for the Ports Sector for the 12th Five Year Plan 2012-2017.

More attention should be paid to port productivity through modernization, and introduction of sophisticated cargo handling equipment.

- Privatization of handling operations
- Maintenance and increase of drafts in major and hub ports
- Reduction in pre-berthing detention and improvement in turnaround times by minimization of port and non-port related factors.
- Draft enhancement in all ports to at least 14 metres
- Flexibility in the Model Concession Agreement to bring in more technology rather than focus only on financial aspects
- Reduction in pre-berthing detention
- Promotion of Coastal shipping wherever viable.

Mr Ajay Sahai, Director General and CEO, FIEO, before concluding the meeting with a vote of thanks, said the recommendations and suggestions discussed in the conclave will be flagged and will be taken up with the Department. DG& CEO said that ports play extremely important role in EXIM trade as each day delay at the port add to 0.5% of the fob value to exporter/importer. Mr Sahai suggested to form a Ministry of Logistics so that a single agency not only look after the Ports development but also its connectivity with roads and railways. The intervention of the Ministry was sought to push for Shipping Trade Practices Act so that role and responsibility of each stakeholder is clearly defined and delinquency on the part of any of them can be suitably addressed. ■