

Chapter on Ports & Shipping

National Transport Development Policy Committee

Recommendations

the Chapter...in essence

Ports are stressed – Heavy detention, high dwell times, vessel turn-around etc.

Demand has clearly outpaced capacity additions

Need for greater private participation to ramp up investments and induce competition resulting in operational efficiency and price discovery

Need for gradual shift in the Port Governance Model

Need to build administrative and managerial capacity

Need to support growth of Shipping and IWT through tonnage growth, incentives and planned integration in overall logistics chain

Key Recommendations

PORTS

MEGA PORTS- STRATEGIC VIEW

REGULATORY FRAMEWORK

CAPACITY AUGMENTATION

PORTS

MEGA PORTS

Need for a strategic
View on Port
Investment

- Lack of comprehensive and coherent strategy for Port location or Investment
- Each of the world's major economies has a few Mega Ports
- Piecemeal investments in building transport links may be wasteful
- **Need to identify and develop 4–6 ports as Mega ports over next 20 yrs with superior Multi–Modal connectivity**
- *Mega Port – priority areas for development of hinterland connectivity*
- Either by transforming some of the existing major (or non–major) ports or by setting up completely new Mega Ports
- To be harmonized with plans for NHDP and DFC for efficient connectivity

Economies of scale would help:

- Reduce upfront Capital cost
- Reduce cost of operations

Sufficient Draft can be developed that allows larger ships resulting in savings in unit transport cost

PORTS

REGULATORY FRAMEWORK

Major Ports to Adopt
Landlord Port Model

- Port trusts to transform into **Corporatized Landlord Port Authorities**, under separate Incorporation Act
 - Model allows private capital inflow with desired govt. control
 - Independence in Investment Programs and Commercial orientation
- State Govts. to be encouraged for participation through substantial shareholding in Port Authority
- No direct involvement of Port Authority in terminal operations
- **Unbundling or Corporatization of Terminal Operations** – port authority or Govt. to retain majority shares (51%) offering remaining to strategic investor or Indian public
- Corporatized public sector terminal operator could gradually be disinvested and privatized later

Non-Major Ports to retain their governance structure - continue to be managed by the maritime states

Ownership of port land is not transferred to a private party, even temporarily (unlike as under BOOT system).

PORTS

REGULATORY FRAMEWORK

Move Towards Tariff
Deregulation

- **Role of Regulatory Authority (TAMP)**
- In short term (within a year) – build internal capacity for tariff setting
- Gradually (1–2 years), delegate tariff setting to port authorities
- Longer term (beyond 2 years) – With greater competition and allow market driven price discovery
- To gradually shift from **Tariff Regulator** to Competition Regulator

During the Transition, Tariff
fixation should be based on the
Normative approach (2008
guidelines)

PORTS

Capacity Augmentation



High-Power group to expedite port projects

- Monitor project portfolio and port trust performance (small number of large projects)
- Understand bottlenecks and collaborate on solutions for growing delays and over-runs
- Escalate inter-ministerial bottlenecks to relevant authorities and push for decisions.
- **Consultant selection** on Quality-Cum-Cost Basis (QCCB) for DPRs etc.
 - As against traditional L1 based selection
 - Has implications on time and cost over runs
 - In line with global norms, where **Past Performance** is a key criteria
- **Structured Formal Education**
 - Scant specialised, professional training at present
 - Need to conceive degrees and diploma studies exclusively structured on port management

SHIPPING

Increase National Tonnage

Policy Incentives

Administrative Capacity

SHIPPING

Increasing National Tonnage

- **Cargo assurance** through long term charters by PSUs – for critical energy

Incentives

- Ensure certain minimum service levels for coastal fleet in new container terminals
- Demand side - providing subsidy to the cargo mover instead of the vessel owner
- Separate wing in development financial institutions to fund coastal shipping
- Rationalize ship specifications

Suitably amend Merchant Shipping Act or enact separate legislation to provide different specifications and lower manning scales

Administrative / Managerial Capacity

- Administrative personnel brought in the Directorate for 3-5 years

Senior officers may be allowed to continue for a longer term 10-15 years

- Introduction of **Indian Maritime Services (IMS)** merits consideration

INLAND WATER TRANSPORT (IWT)

Navigational Infrastructure

Policy Parity

North Eastern Region focus

Modal Integration

IWT

Navigational Infrastructure

Development of **adequate depth for navigational** purposes (atleast 2.5m)

Air Draft – Special central fund for **raising bridges** to atleast 5m

Extension of [Inland vessel Building subsidy scheme \(IVBSS\)](#)

Special Purpose Vehicle (Inland Vessel Leasing Company) – to procure and lease out the IWT vessel based on market demand to lower entry barriers.

Policy Parity

In addition to IVBSS, provide **Freight subsidy** for longer term

Include vessel building under **priority lending** for infrastructure projects

Include inland vessels in **tonnage tax** regime

NER Focus - Setup terminals & cargo handling facilities at strategic locations

Modal Integration (connectivity of IWT terminals with Road and Rail)

Identification of potential multimodal corridors – Mapping of waterways and industrial clusters

IWT feeder routes – develop feeder routes on the water under jurisdiction of State to National waterways, for entire channel to be developed on the “fish bone structure”

Investment

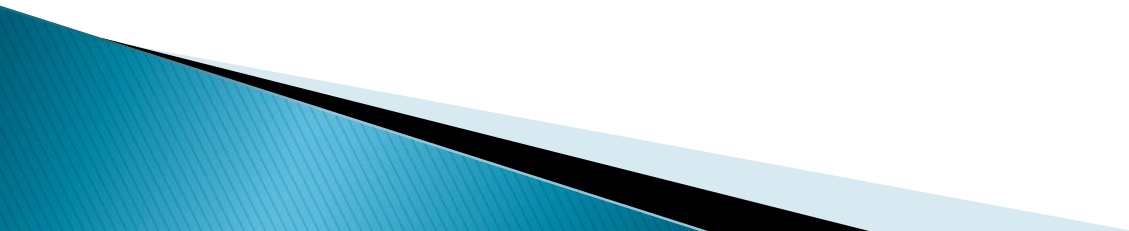
Public Investment - Need for a quantum leap

Encourage Private participation through:

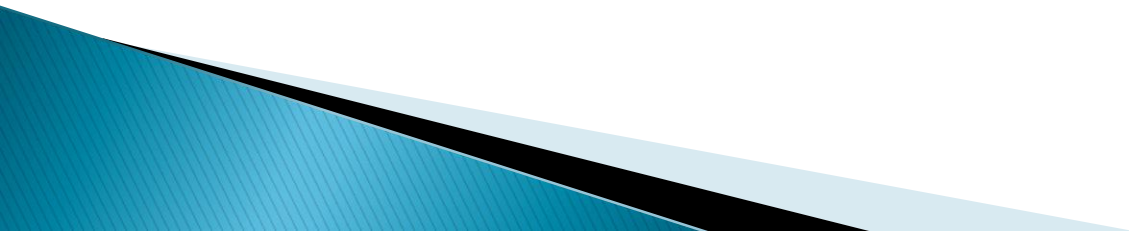
Long term cargo commitment on both ways – Policy interventions such as award of sea port / air port concessions during initial years

Commercially viable business volumes

Thank You!



Back up Slides

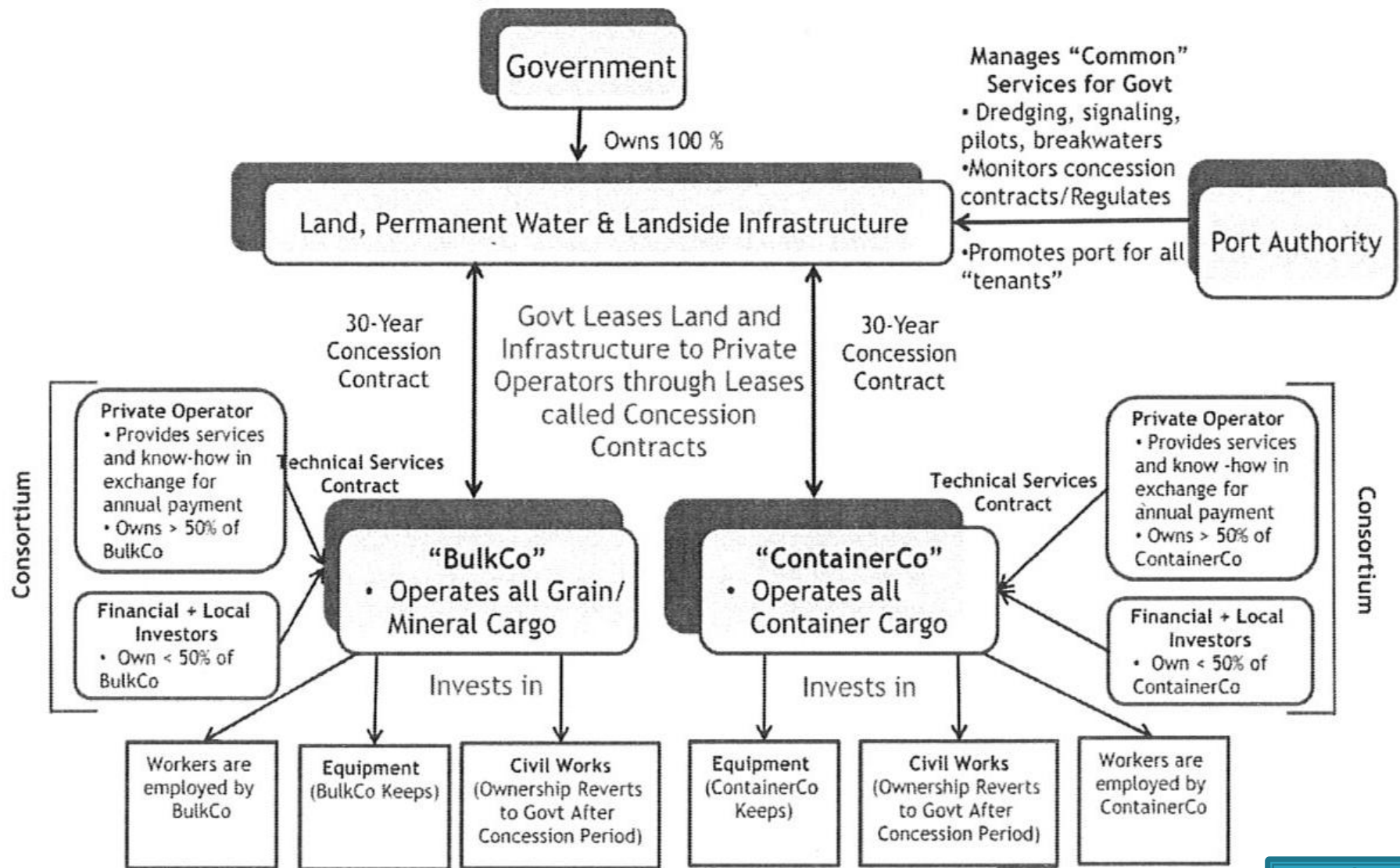


MEGA PORTS

- ▶ Shanghai, Shenzhen in China;
- ▶ Los Angeles, New York in US;
- ▶ Hamburg, Bremen in Germany etc.



Landlord Port – Typical Structure



Australia – Port Management

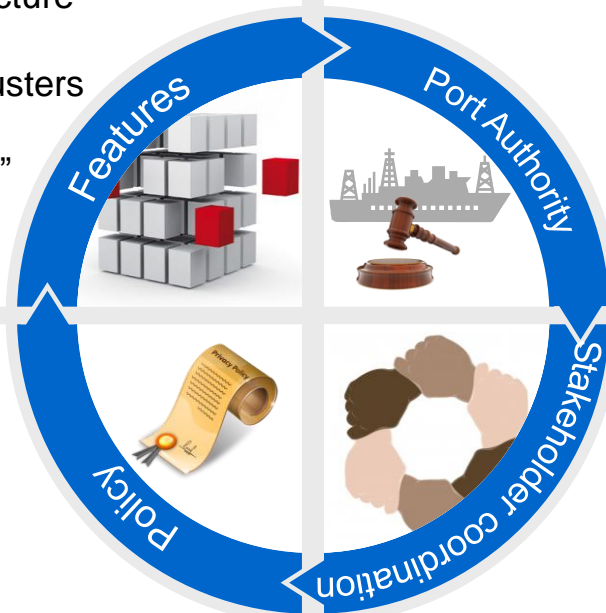
Key characteristics of Australian ports policy and management

- Dimensions
- Federal government structure
- Macro port zones and clusters
- Notion of “significant port”

- National transport policy
- Freight policy
- Ports policy
- State policies coherent with national policy

- Landlord
- Corporatized
- Municipal/regional level

- Ports and hinterlands
- Urban separation dedicated bulk-handling facilities
- City-port relationships, urban (re)development, port community



Functions of the Port Authority

Functions of port authority

Public functions

- Planning and administration of port land and waters
- Issuance of public licenses
- Regulation of port and terminal activities by issuing bye-laws within the framework of applicable law
- Construction and maintenance of basic port infrastructure and common areas
- Ensuring public order and safety in port area
- Protection of the port environment
- Representing the entire port community

Commercial functions

- Establishment of contractual (concession, lease) and other conditions (Public license) for private operator to provide marine or terminal services; application of transparent and open public tender procedures with clear and objective selection criteria
- Construction and maintenance of terminal infrastructure, across roads/ rail and port basins
- Re-development of existing port areas which have lost their port function, in conjunction with local and regional authorities



Functions of the Ministry

Functions of ministry in-charge of the port sector

Planning

- Planning and development of a basic maritime and port infrastructure comprising of coastline defenses (shore protection), port entrances, lighthouses and Aids to navigation, navigable sea routes and canals
- Planning and regulating port development (location, function, type of management)
- Planning and development of port hinterland connections (roads, railways, IWT, pipelines)

International relations

- Developing and executing national policies for furthering international transport capability of the country

Legislative functions

- Drafting and implementation of transport and port laws, national regulations and decrees
- Inclusion of international conventions (SOLAS, MARPOL etc.) into the national legislation

Financial and economic affairs

- Planning, financing and budget preparation of national plans and projects
- Evaluating socio-economic/financial feasibility of projects in relation to national policies in various sectors

Regulatory Authority - Principles and main Tasks

- ▶ The Competition Regulator shall not interfere at its own initiative in the tariff setting
- ▶ The functions of the Competition Regulator shall not apply to trans-shipment services.
- ▶ Grant of a concession or a lease by Ports Authority shall be largely administered by Port Authority

Main Tasks

- ▶ to investigate and make orders in relation to complaints (including tariff) concerning alleged anti-competitive practices or abuse of a dominant position;
- ▶ Or upon complaint of any port user prior to or upon such a merger, to decide whether the merger situation is incompatible with the promotion of competition and to make an order thereon;
- ▶ to review the draft of a concession agreement and suitably advise the Port Authority as and when sought
- ▶ to investigate whether the occurrence of cross subsidization exists from dominant services to contestable services

The Port Competition Regulator should be independent of any Government and have its own sources of income. **CCI may be instituted as the appellate authority.**

Not recommended to include the function of port competition regulation into those of CCI as the structure and characteristics of the port sector fundamentally differ from those of the telecom, electricity and railways sectors.



PORTS

Regulatory framework

Major Ports to move towards the more suitable and proven *Landlord port model* (Corporatization and Decentralization)

- ▶ Essentially mean privatising terminal services under a landlord port regime
- ▶ Three steps in shift towards the landlord port model;
 - Separation (or unbundling)
 - commercialization and
 - **disinvestment**
- ▶ Current **port trusts to become Corporatized Landlord Port Authorities**, under separate Incorporation Act (more room for socio-political objectives):
 - Shall have freedom to manage investment programs and have **access to capital markets**
 - **Commercial orientation** of port authority and terminal operations shall induce greater efficiency
- ▶ Port authority - shall be managed by Board of Directors nominated partly by the Central Government, partly by the State Government of the maritime state and if applicable, partly by the concerned Port City

PORTS

Regulatory framework

- ▶ No direct involvement of port authority in terminal operations - to undo any conflict of interest and help function as a neutral regulator.
Under the landlord port model, the port terminals including infrastructure are leased out to private terminal operators who:
 - Provide and maintain their own superstructure, including buildings
 - Install their own equipment such as quay cranes, transtainers, conveyor belts etc.
 - Employ stevedores (port and dock labour), at some ports labour is provided through a pool system

- ▶ In case of **Unbundling** – port authority or Govt. **should not** to retain 100% of the shares of the new corporatized entity, as it still gives full indirect control.
 - Should consider retaining majority shares (51%) while offering remaining either to a strategic investor or to the Indian public should be considered
 - Port authority or Government could gradually terminate its shareholding by selling to private parties

Ownership of port land is not transferred to a private party, even temporarily (unlike as under BOOT system).

PORTS

Regulatory framework

- ▶ Separation of responsibilities between MoS & Port Authorities
 - Distancing itself from port functions, **Ministry should play an enabler role** for various executive functions such as:
 - Shipping Inspectorate and Register of Shipping,
 - Navigational aid outside the port,
 - Marine Protection,
 - Coast Guard/Search and Rescue,
 - Maritime Education and Training
- ▶ **Non-Major ports** should continue to be performed by the maritime states, retaining their governance structure
 - State Govts. should be encouraged to have substantial shareholding in Port Authority to encourage their **participation in development and expansion of the Major ports.**

PORTS

Improvement of operational performance

Optimizing the vessel handling process end-to-end can reduce the port stay time of a vessel by up to 40 per cent

Stake-holder

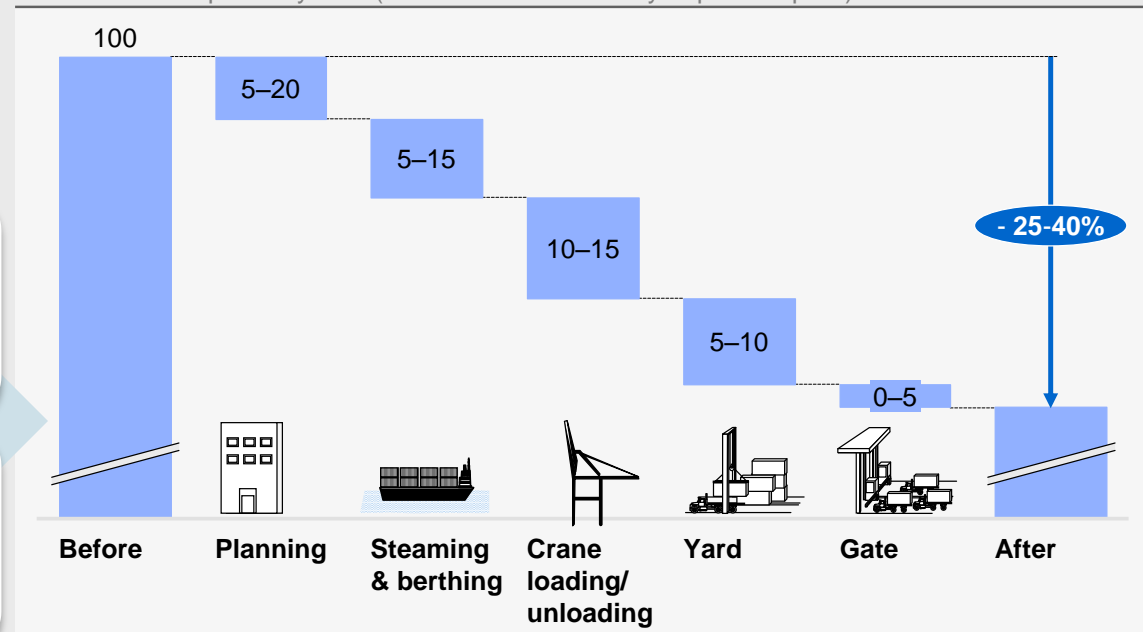
Collaboration to achieve this .



Total port stay can be cut by 25-40% across 5 main levers

Typical port stay reduction by areas

Per cent of total port stay time (from arrival at sea buoy to pilot drop-off)



¹ From typical very large vessel's port stay of 12-24 hours to 10-15 hours with move count over around 1,500 containers



Observations

Observations (1/3)

Particulars	Status / Argument
Weak coverage of Coastal Shipping	Substantiated based on inputs from INSA
Ministry cannot declare any port as a major port and investment proposals do not require the approval of the 11 th Finance Commission	Checked: Ministry can declare. Investment proposal require approval of PIB and CCA.
Consistency with WG on Bulk Energy in growth rates used for making traffic projections	WG Report on Bulk Energy is awaited. Consistency shall be ensured.
Basis of ideal share of Road and Rail	World Bank Report 2007
Recommendation on Mega Port should be consistent. Does capital outlay include investment.	<ul style="list-style-type: none">• Same source for the Groups• Capital Outlay included in investment projection
Should we not avoid micro-management of operations?	

Observations (2/3)

Particulars	Status / Argument
Check the four laning status indicated.	Checked with IPA. No change
Are we endorsing BKC Report?	<i>Building capacity for tariff in short-term is impractical</i>
Surplus capacity at CFSs unlikely?	No change
Cargo dwell time - Segregate pre-berthing and post-berthing detention.	Separate data not available
Is investment in higher draft worthwhile?	<i>Bigger ships and therefore reduced unit cost of transport benefits shipping line not the shippers</i>
Method of calculating capacity at Mumbai and Marmugao needs to be rechecked.	Checked. Data source: Profile of Major Ports 2010-11

Observations (3/3)

Particulars	Status / Argument
Reason for lower penetration of Coastal shipping is not convincing	<ul style="list-style-type: none">• <i>Almost half of the coastal fleet (are tugs, OSVs dredgers etc.) do not carry cargo</i>• <i>Just 5% of all cargo carried by coastal vessels is general cargo</i>• <i>Other links should back-up the water link</i>• <i>Land legs on either side to be necessarily smaller than sea link.</i>
Higher outlay for Inland Water Transport	<i>Unable to exhaust even meager budget provisions.</i>
Inland Water Transport	<i>Regular dredging must be part of NWT Programme</i>
Data consistency across chapters	

Key Decision Areas

Key Decision Areas (1/2)

Particulars	For Discussion
High Power Group	Another bureaucratic hurdle?
National legislation for Port Conservancy including non-major ports	Conservancy is a concern, even more at non-major ports
HR – Introduction of Indian Maritime Services (IMS)	Sector dependent on loaned administrative staff
Introduction of Second Register	INSA not in favor. Experts view it as having far reaching implications

Key Decision Areas (2/2)

Particulars	For Discussion
Separate Incorporation Act as against Companies Act	Companies act would ensure greater transparency and account keeping
Government must ensure that business decisions in respect of container handling in CFSs are taken by the real stake-holders, the shippers.	As of now, it is the shipping lines that choose the CFS based on attractive terms offered
Specifications for Coastal Ships leads to higher Capital Cost	Instead of 'Ocean-going' vessels, should be referenced to 'Near Ocean-going vessels'
Demand Side Incentives	For instance, tax breaks to shippers who use coastal shipping

Trivia

Marco Polo Scheme

Inland Vessel Building Scheme

- ▶ The scheme provided local inland water transport operators 30% subsidy on the ex-factory price of a cargo or passenger vessel bought from an Indian shipyard

