maritime gateway
EVENT NEWSLETTER
MARITIME PPP CONCLAVE AUGUST 18-19, 2022 BHUBANESWAR

INAUGURAL SESSION

Maritime PPP Conclave - 2022

"The Public-Private-Partnerships increase access to capital, encourage innovation and help share risks. The principal objective for encouraging PPP in the Port sector is to fulfil the requirement of creating infrastructure and operating them smoothly."

- Shri Shantanu Thakur
Hon'ble MoS, MoPSW

Shantanu Thakur, Hon'ble Minister of State, MOPSW, Govt of India, addressing the gathering through a video message.
L to R: **A K Bose,** Dy. Chairman, Paradip Port Authority; **P L Haranadh,** Chairman, Paradip Port Authority; **Sharad Kumar Srivastava,** General Manager, East Coast Railway; **Hemant Sharma,** Secretary Industry, Govt of Odisha; **Bishnupada Sethi,** Principal Secretary, Commerce & Transport, Govt of Odisha.

If Air India was the only airline to serve the entire country, it would have been impossible for the airline to manage and serve this huge population. In the 1960s, air travel was a luxury, but today with private budget airlines around, we are able to put a ticket in every man's pocket. This is the beauty of privatisation.

The same applies to the Indian ports sector that is celebrating silver jubilee for successful two and half decades of public private partnership across the country. The Maritime PPP Conclave at Bhubaneswar echoed the success of private participation and liberalisation of the Indian ports sector.

"Paradip port has been envisioned to become 750+ MTPA capacity by 2047. Around 80 MTPA capacity addition projects has been identified to be taken up in recent 4-5 years period."

P L Haranadh, IRTS
Chairman
Paradip Port Authority

Shri Shantanu Thakur, Hon'ble MoS, MoPSW, addressed the gathering through a video message. At the outset **P L Haranadh, IRTS, Chairman, Paradip Port Authority** in his presentation highlighted the striking growth achieved by the ports sector in the past 25 years, which has in turn contributed to the economic growth of the country. Emphasising on the contribution of the private sector he said that India is witnessing unparalleled economic growth which reflects in the burgeoning exim trade of the country, which cannot be handled by the major ports alone. Thus, private ports and concessionaires operating terminals at the major ports do have a major role to play in serving the rising trade of the country. India is moving ahead from being a $2.7 trillion economy to become a $5 trillion economy by 2024 – 25. An in-depth analysis of the past five year data reveals the direct correlation between India's GDP growth and the growth in ports traffic, which have been growing parallel.

Today, combined traffic at both major and private ports stands at 1.25 billion tonnes. This movement of cargo is forecast to increase to about 2.5 billion tonnes by the time India rings the bell upon becoming a 5 trillion economy. In the coming 15 to 20 years, the Indian ports traffic is expected to grow at a CAGR of 5.6%. This growth will be mostly driven by coal, POL, Iron ore and fertilizer which will account for 50% of the total traffic handled in the coming years.

The combined major ports capacity currently is around 50-55 million tonnes and a similar

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capacity has been developed by the private ports. Weighing the forecasted rise in cargo traffic against the present port infrastructure (both major and private ports combined) we have an infrastructure deficit for about 1.8 billion tonnes at the ports.

This infrastructure gap has to be covered by the major ports in collaboration with the private sector, because today they have the funding and technology for developing world class logistics infrastructure. Today, the Sagarmala programme has 1,537 projects under implementation at a cost of Rs.6.5lakh Crores. The Maritime Vision 2030 foresees an investment of Rs.3.3 lakh crores in the port's sector.

Currently, the major ports have 86 projects worth Rs.55000 crore which are already approved. About 37 projects are at various stages of implementation, of which 17 projects have a valuation of Rs.6000 Cr, while 20 projects have a valuation of Rs.10,000 Cr.

Mr. Haranadh asserted at the need for offering flexibility to private concessionaires operating at major ports such that they have a level playing field compared to private ports. His suggestions included allowing private terminals to handle multiple commodities, enabling them to adjust their tariffs as per the market conditions and keeping the concession period extendable. These facilities are offered by the MCA 2021 which has helped in bringing the logistics cost down and improving efficiency at major ports. The Paradip International Clean Cargo Terminal, New Iron Ore Terminal and Paradip East Quay Coal Terminal are examples of such successful PPP operations at major ports.

Mr. Haranadh announced at the platform that projects worth 80 million tonnes capacity will be awarded by the Paradip Port by 2025, offering huge opportunities for private sector to participate.

By 2050, the major port plans to increase its cargo handling capacity to 750 million tonnes.

For port-led industrialisation, 700 acres land has been allotted in Odisha by Paradip port. Industrial belts of Talcher, Jharsuguda and Angul have been provided excellent rail connectivity. Inland waterways are connecting from Jokadia/ Pankapal near Kalinga Nagar industrial hub to Dhamra and Paradip ports. In Phase-II, the stretch between Talcher and Jokadia (131 km) will be developed.

Mr. Hemant Sharma, Secretary, Industry, Govt of Odisha, brought forward the good governance and pro-industrial atmosphere offered by Odisha government. He said, industrialisation is essential for ports to survive and grow. These industries need to be supported by good rail/road logistics mechanism. Today Odisha is defined by its stable government structure and favourable policies that respond to the needs of the industries. This reflects in the value proposition of Odisha i.e., industrial output contributes about 60% to the state GDP, while the remaining 40% is contributed by the agri sector. The GSDP growth of the state is higher than the national average.

The state has a single window system for the benefit of investors. A functional incentive system wherein if other states are offering "x" incentives then Odisha offers "X plus" incentives. The ports of Dhamra, Gopalpur and Subarnarekha are excellent examples of successful PPP projects. Riverine ports are also being expanded on Mahanadi to add 60-80MTPA capacity and this will enable the hinterland better connect to the ports.

Mr. Hemant said while the government is advocating port-led industrialisation, but there needs to be a push in the form of incentives and tax breaks. The missing connectivity links need to be put in place. He explained about the upcoming Biju Economic Corridor to be created along Sohela, Padampur, Paikmal of Bargarh district, Nuapada & Sinapali in Nuapada district and Golamunda in Kalahandi. A 450km long highway will be developed connecting across 9 districts. Industrial plots are being developed across the corridor.

Mr.Bishnupada Sethi, Principal Secretary, Commerce & Transport, Government of Odisha, elaborated on the connectivity initiatives of the state government. Small airports are being planned at crucial business hubs and port development works are being fast tracked. The focus is to make Odisha gateway to South Asian countries. 14 locations have been identified for non-major ports, of which, Subarnarekha and Astaranga are in advanced stages of development. Bichitrapur Port with a capacity of around 55MTPA is to be developed as an all-weather deep water port in the northern side of Subarnarekha River at Talashari in Balasore district. A deep-sea port at Palur off Ganjam cost Is being planned with a 3000 Cr investment potential.

India has the fourth biggest railway network in the world and East Coast Railway is the biggest zonal railway in the country, informed **Mr. Sharad Kumar Srivastava, General Manager, Eco. Railway,** as he set into context the contribution of rail logistics in movement of exim cargo. The zonal railway had moved 230MT of cargo in the year 2021-22. All ports are connected by railways that move 70% of the throughput. Dedicated rail sidings have been provided at coal mines, iron ore mines, cement industries for seamless movement of cargo. Coal is being moved from mines in Talcher to Paradip Port, while iron ore is being moved to Gangavaram and Visakhapatnam Ports. CONCOR is coming up with new terminals at Haridaspur and Paradip.

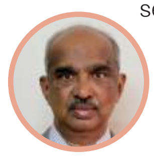
Opportunities and challenges of PPP model in Indian ports sector

Key dignitaries at the dais

Moderating the second session of the day, **Mr. Santosh Kumar Mohapatra, IAS, ex-Chairman, PPA,** got back to the genesis of globalisation and privatisation in infrastructure that started in the 1990s. Gujarat was the first state to debut privatisation in the country with the formation of Gujarat Infrastructure Development Board (GIDB) and the Gujarat Maritime Board was well positioned to rope in the private sector. Bringing out the distinct role of private sector in moving the cargo he said, 50% of the total cargo in India is moved by the major Ports, while the remaining was moved by the private ports. Even among the major ports, 50% of the cargo is moved by private terminals. Thus, 75% of cargo in India is moved by the private ports, which demonstrates the success of PPP. India is bound to grow on the manufacturing side, because there is a limit to the extent services sector can grow. In the near future carbon footprint is going to be a major factor for the projects, hence waterways need to be developed in a big way.

30 years back 100% of Indian cargo was moved by the public sector, today 75% is moved by the private sector, this shows how dramatically PPP has progressed in India, underscored **Mr. Arun Maheshwari, JMD & CEO, JSW Infrastructure.** The new Model Concession Agreement has removed a lot of ambiguities, but there still remain certain concerns - the royalty due will increase yearly in line with the rise on the basis of the wholesale price index (WPI). After one or two decades, revenue will not grow due to competition, but royalty will continue to grow and may exceed revenue generated. He suggested that the MCA should be a flexible guideline and not rigid, because the logistics sector is highly dynamic and a single rule being applied for 25-30 years doesn't work. What is good for one port may not apply for others.

Mr. B K Joshi, Advisor, KICT, shared some vital facts about Paradip Port. The major port has been consistently moving above 100MT for the past 5 years. It also has the highest capacity for liquid bulk cargo. About 100 million tonnes capacity has been added at the port by private players.



Nhava Sheva International Container Terminal was the first PPP project in Indian ports sector, established in 1997, said **Mr. Ravi Kumar, Senior Vice President, JM Baxi.** Since then the ports sector has come a long way. Initially TAMP was set as the authority for setting the port tariffs, but subsequently over the years as the market dynamics changed the Modal Concession Agreement was introduced, TAMP was abolished and the Major Ports Act 2021 came in offering tariff freedom to concessionaires.

In the year 2019-20 around 37 PPP projects saw an investment of 29000 Crores. The main advantage of PPP is latest technologies are introduced, infrastructure is developed which increases the productivity and logistics cost reduces. However, PPP do face certain challenges in the form of environmental clearances, over optimistic projection of cargo which sometimes results in non-realisation of traffic, aggressive bidding which results in royalty exceeding the revenue share. Another issue with PPP is inequitable distribution of risks among stakeholders, absence of level playing field between old and new private partners, availability of land at nominal rates for expanding infrastructure, Over the past decade the ports sector has not even grown at an annual rate of 10%, remarked **Manoranjan Kumar, ED, AMNS (a joint venture between ArcelorMittal and Nippon Steel).**

Ports, seaways, waterways are sovereign resources. When their use is liberalised the cost of usage or tariffs come down, which acts as a catalyst in the growth of the coastal areas. However, he added a caveat that there needs to be a strong monitoring body in place as we progress with PPP, because breaking the monopoly of a government is easy, when compared to a private monopoly. Leasing out a sovereign resource is easy but getting it back is very difficult, for which the sanctity of the concession agreement has to be very strong. There is a need to review the terms and conditions of the concession agreement and qualification criteria, which has not been done for the past 13 years.

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Reducing logistics cost in the maritime sector: Role of PPP

In the next 15 years, more than Rs.35,000 Cr investment will be required in infrastructure to service the logistics needs of growing cargo. PPP will step in to bridge this investment gap, shared **Mr. Indranil Mitra, Director Finance, NRL**.

But a private concessionaire does not bring along 100% of the investment. He may personally fund around 30% while the remaining 70% has to be brought in through financial institutions. Here bankability of the PPP projects becomes a major concern. As the PPP concession period is long – 15-30 years, uncertainties arise due to market dynamics, hence there should always be a gap for relooking and revising the clauses of the agreement.

Port related charges in India are 15-18%, while in China they are 8-10% and in the US they are 12%, compared **T S Balasubramaniam, Member Finance, TAMP**.

In India, vessel related charges are the lowest at JNPA. India is aspiring to be a transhipment hub in this region, but the vessel and cargo related charges at our ports are higher than Singapore. All the ports in India need to be made deep draft for which government should arrange loans at 5-6% interest rates for dredging needs. Port operations need to be further streamlined for reducing the port tariffs, but at the same time there is also need for bringing transparency in the charges levied by shipping lines.

Even after 25 years of privatisation in the ports sector still the logistics cost in India is high, remarked **Dr. Unnikrishnan, Former CMT, JNPA.**

The cost of moving a container from JNPA to any port in the US is less compared to the inland movement cost in India. Further, vessel related charges vary from port to port. Most of the exports from India go in 20 feet containers but imports arrive in 40 feet containers as a result there is a mismatch in demand and supply of 40 feet containers. Employee productivity at major ports needs to be improved.

A major advantage of privatisation is fast execution of infrastructure projects which results in large savings in cost, emphasised **Mr. A Balasubramaniam, Advisor.**

With PPP large queues of ships waiting at the ports have been reduced. With more terminals being operated by concessionaires, today ships are not waiting for berths, but berths are waiting for ships. Efficiency of ports has increased, which means faster turnaround of ships, which inturn reduces the operating cost for ships. With lots of cargo to offer and reduced tariffs more ships will be tempted to call at Indian ports. Port tariffs should not be cost based, but based on the value generated for shipping lines. PPP brings in inter-port competition which reduces the cost and improves performance. Inter-port competition also removes captive cargo.

Sharing details on the cargo handled by private players, **Surja Sahu, Indian Private Port & Terminal Association** said,

major ports handle 55% of the total Indian cargo, while private ports handle 45%. Again private terminals handle about 50% of the cargo at major ports. Thus, private players handle 75% of Indian cargo. Major ports have a capacity of 1500 million metric tonnes but their utilisation rate is 48%. Private ports have a capacity of 1000 million metric tonnes with an utilisation rate of 60%. Estate related charges and vessel related charges at major ports are higher than private ports. Thus PPP can increase productivity, reduce logistics cost, reduce turnaround time of ships and pre-berthing delay, resulting in faster evacuation of cargo. **Capt. Manish Varma, Vice President, Samsara Shipping,** focused his discussion on Customs. Today paperless Customs (EDI) has brought in significant cost savings and efficient Customs can enable faster turnaround of ships. Still Customs has not become 100% paperless as IGM and EGM still involve a lot of paper work.

Key trends and developments in port sector – Stakeholders perspective

A Balasubramaniam, Advisor, took a quick review at the 25 years journey of the PPP. Guidelines for PPP were drafted in the year 1996-97. In those days only concessionaires with prior experience in the ports sector were allowed to bid for PPP projects. Today the entry barriers have been lowered and anybody with experience in infrastructure development can bid for the projects. Earlier the criteria for selection of a private partner was based on royalty offered, which in the year 2000 has transformed into revenue sharing basis.

In the 1980s share of major ports in total cargo handled was 80%, which has now reduced to 55%. The new Modal Concession Agreement (MCA 2021) has been developed more as a business plan for private players and not as a sovereign document. MCA offers a conciliation and settlement committee in place for resolution of disputes. The concessionaire can announce force majeure if his business turns unviable due to change in laws, market dynamics and the scenario will be vetted by the committee. Minimum guaranteed throughput has been linked to royalty. Risk of bankability and risk of financial closure has been extended to 270 days from 180 days.

Today, MCA provides remedies for change in law, it ensures a level playing field for all concessionaires in a port, supports infrastructure at the port and enhances the timeline for financial closure.

The government wants competition so that tariffs remain under control, but the concessionaire wants protection. It is the responsibility of the port authority to provide a level playing field. Private players should focus on achieving consumer surplus rather than profitability.

To make a terminal successful port authority should increase captive cargo, attract bidders and ask high royalty from them. To increase productivity, compensation to employees should be linked to commercial objectives. Major ports can collaborate with smaller ports along the coast to create a string of ports, which can form a cargo corridor.

Challenges of port authority

- The port authority will become too dependent on royalty.
- Investments made in the port infrastructure are long-term and have a long payback period
- Income tax liability on port authority – The tax exemptions to private ports should also be allowed to major ports

Challenges for concessionaire

- Growing competition impacts profitability which becomes a commercial risk for bankability.
- The royalty payable by concessionaire is indexed at 100% to Wholesale Price Index (WPI) which becomes unsustainable to the investor in the long run.
- The concessionaire cannot create charge on the assets created by him.
- An unpredictable working environment

A K Bal, Ex-Dy Chairman, Mumbai Port Authority took a futuristic vision at the infrastructure needs that will arise 20 years down the lane. He said, by 2047, the present capacity at ports should increase by around six times to meet the then traffic requirements. PPP will be the driving force for this capacity upgrade. The two major milestones in the history of Indian ports sector are:

- Transformation from port trust to port authority
- The release of MCA 2021

The transformation from Port Trust to Port Authority has brought the much needed flexibility and freedom, while the MCA 2021 has transformed tariff setting, risk sharing, dispute resolution. The port sector has moved from a cost based approach to a market based approach in setting the tariffs. Ports should be proactive and resilient, rather than being reactive.

Manas Bose, Executive Director, SAIL, introduced his organisation as the biggest and oldest customer of Paradip Port and has also been a great beneficiary of the PPP at the port. Competition in the port sector has increased heavily and the role of the port sector has also increased manifold. He recalled that the first project on PPP basis in India for coal handling was at Haldia. In addition to privatisation of ports, the transition from geared vessels to gearless vessels has brought in huge cost savings for the steel sector.

Taking a look at the current scenario in the steel sector he said, global annual steel production is around 1.9 billion tonnes. India stands at the second position with an annual output of 118 million tonnes, a growth of 18% over the previous year. China leads the world in steel production with 1033 million tonnes per anum production, while the rest of the world produces 917 million metric tonnes. Iran is fast growing as a major steel producer. Growing spending on infrastructure, rail, defence, automobiles and capital goods will create more demand for steel. In the domestic market more demand in future is expected to come from Eastern India.

Coming to the logistics part, he said, evacuation of cargo at the ports remains a concern. Unloading and evacuation are not being done at the same speed. About 50-60% of the total steel movement is through rail and so the government should also consider PPP in building the rolling stock. Coastal shipping and inland waterways are not preferred due to high cost and last mile delivery issues. In the near future, movement of

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PARADIP PORT COMPLETES SEVERAL PPP PROJECTS WORTH OVER RS 3K CR

Paradip Port has been at the forefront in successfully completing several public private partnerships (PPP) projects worth over Rs 3,000 crore. These PPP projects have led to capacity addition of 55 MTPA at the port. As a part of Vision India 2047, Paradip port will evolve as a world class mega port with over 750 million tonnes per annum (mtpa) capacity by 2047. The port has recently awarded the western dock project of 25 MTPA capacity at a cost of Rs 2,392 crore. The first phase of this project for 12.5 MTPA capacity will be completed in 3 years and the overall project in 5 years. On completion, this will enable Paradip port to have facilities to handle large cape size vessels upto 18.5 meters draft, said a port official.

P.L. Haranadh, chairman of Paradip Port Authority said that aiming for a $5 trillion Indian economy in 2025, the port sector will grow to 2.3 billion tonnes per annum (BTPA) traffic by 2026. Haranadh further said that Paradip port has been envisioned to become 750+ MTPA capacity by 2047. Around 80 MTPA capacity addition projects have been identified to be taken up in the recent 4-5 years period. Further capacity augmentation projects are being explored, driven by port-led industrialisation and adequate port connectivity.

Eastern India has a lot of growth potential in steel, polymer, and plastic. Ports at Dhamra, Gopalpur, Subarnarekha and Paradip including the upcoming Mahanadi Riverine Port have huge growth potential, said Hemant Sharma, principal secretary, industries department.

The PPA is determined to cross 120 MMT of cargo handling this fiscal. The port destined to not only be a mega port but also a clean and green port in future. Consecutively for the last 5 years, the PPA has been handling more than 100 MMT mark and continuously improving its productivity parameters like berth productivity, vessel turn-round time, pre-departure detection to reduce logistics costs to the customers. With more than Rs 10,000 crore investment opportunity lined up under the Maritime Vision India, 2030, the Paradip Port is now the main driver for economic growth in Paradip region. Over Rs 3,500 crore worth of projects for port modernisation have been implemented, Harandh said. As per Maritimi Vision, the entire port will be mechanised by 2025. The PPA aims to plant 1 million trees by 2025, he said.

Going ahead, the port has laid down sustainable eco-friendly development as the forward strategy to success. Along with it framework have been laid upon to reduce pollution, implement waste management and recycling of dredge material at the port. Several green initiatives are underway at the port such as increasing the port power usage to solar energy, adopting to multi-clean fuel vehicles such as LNG and electric vehicles in the port, dust and pollution control as a part of corporate environment responsibility (CER) and driving greenification of the port, said Harandh.

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iron ore through slurry pipeline at the ports will be a major transformation in the logistics mode.

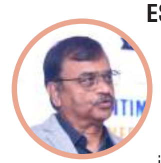
Anthony Raja, Director, APGENCO, detailed on the thermal coal logistics. APGENCO sources thermal coal from Singareni colleries, of which, 8.8 million tonnes is sourced via sea and 8.3 million tonnes is sourced via rail, annually. The cost of sourcing via rail is cheaper as compared to sea. Moving coal via rail costs Rs.2,622 per metric tonne and by sea costs 2,937 per metric tonne. Due to shortage of rakes, rail – sea – rail mode is being used for moving coal. APGENCO uses Krishnapatnam Port for moving coal. Recently the waiting time for vessels at the port has increased from one day to four days because even power stations in Karnataka are using Krishnapatnam port for moving coal. Vessel handling charges at Krishnapatnam port are Rs.615 per metric tonne, while it is Rs. 250 per metric tonne at Paradip Port. Even at JSW Port, the terminal charges and handling charges are higher as compared to Paradip Port.

Ports need to develop complete mechanisation of coal handling as it will reduce cost and also prevent deterioration of quality of coal. Silo loading of rakes should be used to prevent under loading or over loading of rakes.

Tata steel has a vision to increase its production from 23 million tonnes currently to 50 million tonnes by the year 2030 and

PPP will be a major enabler in this expansion, said **Shantanu Varma, Chief Shipping Services, Tata Steel. Land logistics** cost for steel has been brought down by PPP. Maintaining quality during transit is a major concern for steel producers. The quality of the steel at loading port should match with the quality at the discharge port. Storage and evacuation of steel were a big concern that has been resolved through PPP. Currently steel movement is happening from the east coast to Chennai and further to west coast via coastal shipping. Tata Steel plans to move 2 million tonnes via coastal route annually. Exports to Bangladesh are growing via the protocol route. Through the land port the waiting time at the border is about 30-40 days, hence Tata Steel is moving its cargo via barges. Currently steel is being moved from Paradip to Visakhapatnam Port via road for exports, but this mode doesn't appear to be feasible and needs to be addressed through PPP. Even though Paradip, Haldia and Dhamra ports offer priority berthing to Tata Steel, but still the company has to pay around Rs.100Cr in demurrage charges annually. This issue also needs to be addressed.

Future ports will have to plan better productivity within limited space available, because in future space availability for expanding port operations will be a concern, said **S S Mohanty, ESSAR Minmet. Logistics** is a challenge for production units because delay in movement of raw material causes production issues. Cyber frauds will also be a major risk for upcoming ports as we go paperless.



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