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Vasan's move on port tariff will hit exporters

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The Shipping Ministry is freeing major ports from tariff control, a move that could put exporters at a disadvantage. The Ministry is planning to strip the powers of the Tariff Authority for Major Ports (TAMP), which regulates tariffs at major ports, to boost private investment in the port sector and to make it attractive for private terminal operators to get return on their investment.

The government is mulling over the idea of getting out of tariff control and leaving the tariff settings to terminal operators. The Ministry in an advanced stage of announcing major policy changes, which are feared to make exporters and importers vulnerable to market forces.

Union Minister for Shipping G.K. Vasan said recently in Mumbai that the government would free all future major port projects from the TAMP and a decision would soon be taken on the existing ports as well.

He said the government would issue new guidelines on tariffs. Currently the TAMP regulates tariffs at 12 major ports, including the private terminals located therein. These ports handle 60 per cent of the business.

"In-principle" decision

Shipping Secretary P.K. Sinha said the Ministry had taken an 'in-principle' decision to abolish the tariff-setting regulator's oversight for new projects.

Clarifying, he said that unlike today where the operators were being regulated by the TAMP, the new operators would be free to fix their own tariff and in the process the government would come out with a new policy for the TAMP, which would not fix tariff.

This would encourage more players to come into the port capacity building plan, he said at a maritime conference in Mumbai recently.

However, analysts and exporters believe that in an unregulated scenario, market forces would take tariffs north. There is an apprehension that freeing private and port terminals, especially container terminals from tariff regulations, could result in an increase in tariffs and the transaction costs for India's exporters.

They feel that ports are essentially service providers and tariff should not be viewed as a source of profit. What is important is that the transaction costs for Indian exporters and importers should be kept at low and competitive levels.

"This move will severely impact India's exports which are already down 6 to 7 per cent. The cost for exporters will go up as there would be no control over port tariffs. Port is a monopoly and it should not be allowed to operate without controls. We have not come to a stage where competition should dictate the pricing. Once allowed to operate independently, ports will increase the prices, which is not good for trade," said Vijay Aggarwal, chairman of Creative Garments and past chairman of the Apparel Export Promotion Council (AEPC).

"Since enough infrastructure is not there, people without controls will charge more and this will further aggravate India's balance of payment position. The government must not free ports from the control of the TAMP," he added.

However, Federation of Indian Export Organizations (FIEO) president Rafiq Ahmed said efficient ports with higher tariff would be fine. "I feel new ports should be given freedom to fix their tariffs for limited period of two to three years so that they recover the cost and after that they should be brought under the government's tariff regulations. I would like more ports to come up and this will not happen with pricing controls," he said on the phone from Chennai.

"The proposed policy will benefit the ports with better operational efficiency and would force others to improve on the same. Yes, for near monopoly kind of ports, like JNPT in Mumbai which is the only port available in Mumbai, the exporters and importers would be at loss if prices are increased because of operational issues of the port," said Rajesh Mokashi, deputy managing director, CARE Ratings Ltd.

Thumbs up from port operators

Port operators have, however, welcomed the proposed move. "I welcome the proposed changes. But it will be unfair if existing ports and terminals are not allowed to fix their own tariffs. The TAMP is slowing the progress of ports and its pricing policy is outdated. Even government owned ports are suffering and have no money to modernize. The TAMP policy is such that it discourages efficiency that is why business is moving to non-major ports which are now handling 40 per cent of volume. If a private terminal charges more money, then ultimately the landlord port would also command better prices," said Rajiv Agarwal, managing director, Essar Ports Ltd.

"It will be a very good move. I am not against the TAMP, but its model. The TAMP formula punishes the efficient. So the whole policy must change. If investors do not make money then capacity will not be created. Freedom from the TAMP will not affect exporters because port tariff constitutes only 5 per cent of the total transportation cost. People will not mind to pay little more to avail better service. Port operators should be allowed to make reasonable returns. Now everybody is losing money. There will be some pockets where monopolistic situation could arise, but that can be tackled through regulations. The operator with higher productivity and connectivity will command the price. It is better for market forces to determine the tariff rather than imposing pricing controls to restrict the market," Prakash Tulsiani, managing director, Gujarat Pipavav Port Ltd.

Echoing the sentiment, Dighi Port chairman Vijay Kalantri said: "The current tariff regime is hindering investment in the port sector. There is a need for deregulation and whatever the government is planning is good. Freeing the ports will improve efficiency and with competition, tariffs will come down which will benefit traders."

Several experts also feel that the government should get out of the business of running ports and without deregulation private investors would not put money in port infrastructure and India would lag behind.

TERI advice ignored

Of late, the TAMP has come under intense criticism for its faulty pricing formula that hinders efficiency. To overcome the anomalies, the Shipping Ministry had commissioned the TERI to suggest measures to bring about uniformity in and normative approach to tariff determination. Now it is believed that the TERI's recommendations have been bypassed. The TERI whose study was restricted to the review of the 2005 cost-based tariff guidelines had recommended a move from the cost-plus regime to the one based on norms. In recommending a normative approach, the TERI addressed the lacunae in the TAMP's methodology for tariff setting.

The TAMP's methodology in tariff setting is wrong as it does not allow for efficiency improvements, and investments that would become necessary during the concession period to address technological changes, said an expert.

"That TAMP's methodology is wrong is not a sufficient reason for not regulating tariff if there is not adequate competition. What needs correction is TAMP's approach," said an expert.

The TERI had suggested that a competition assessment must be made before any major decision was taken to free terminals from tariff regulation. If tariff regulation is to be removed then arrangements must be put in place for the TAMP to act as an appellate authority and intervene in case port operators charge exorbitant rates.

Experts also point out that in assessing competition, it has also to be noted that the companies who own the private terminals in the major ports also own and operate terminals in the non-major ports. DP World, Dubai, for example, owns terminals both at JNPT and Mundhra; Maersk at JNPT and Pipavav; Port of Singapore Authority (PSA) at Tuticorin and Singapore.

Care has to be taken that abolition of tariff regulation is not implemented without adequate mechanisms to ensure that these terminal operators do not resort to anti competitive practices, such as usurious pricing to drive traffic to their preferred terminal.

While freeing the terminals from tariff regulation and allowing them to compete is desirable, steps should be taken with caution, said experts.

This should be done only in respect of terminals like container terminals, where there is some level of competition and not in respect of specific cargo handling terminals where there is no competition.