India at a glance: emerging opportunities in a growing market

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March 1999 saw a ship called *Wan Hai Venus* call at India's first privately funded container terminal at Nhava Sheva International Container Terminal, within Jawaharlal Nehru (JN) Port at Mumbai. This was indeed a momentous event, signifying the commencement of the private sector port business in India. During the 12 years since, no less than 50 privately funded ports have been conceived in India, and some 20 are either actually operating or are at an advanced stage of construction. With these figures in mind, it would certainly seem that the introduction of Public Private Partnerships (PPPs) for ports has succeeded well beyond anyone's expectations.

In particular, the state of Gujarat has led the way with fully operational PPP ports at Mundra, Pipavav, Dahej and Hazira, all of which deal with diverse cargoes ranging from containers, POL, LNG, coal and cars. Where the Government has been unable to provide basic connecting infrastructure, the private developers have extended the PPP model to the railway lines and have therefore driven through development. Gujarat, recently referred to as "India's Guangdong" by *The Economist* magazine, has shown that ports attract industrial investments, which in turn feeds the ports with cargo.

PPP ports in India

Greenfield PPP ports have also been constructed in the states of Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra and Orissa. In addition, almost all of the 13 Government-run 'major' ports have leased out assets to the private sector in return for a share of the revenue, following a business planning exercise in 2006–2007.

The private sector in turn has responded with enthusiasm. With ongoing port projects at Vizag, Hazira, Dahej and Goa, the Adani Group currently leads the market with the largest private port in India, situated at Mundra which has continued to expand its facilities. As a result, traffic has increased at an average rate of 35% since 2006. International operators such as PSA, DP World, AP Moller and TCB are also very active in the market. Indian companies owning port assets include Tata, Jindal, Larsen & Toubro, Essar and Gammon.

The port assets that have been developed through private finance are of a generally high standard with efficient operating parameters, and are an improvement on the Central Government-run 'major' ports. The difference between public and private management was starkly demonstrated when former owner P&O (now DP World) took over a container terminal at Chennai Port. Despite having to use the decrepit container cranes that they had inherited, the new owners were able to reduce the vessel waiting time from a very high 21 days to zero within a month of taking over the terminal.

New opportunities

The opportunity in India is obvious. An economy with a population of 1.2 billion people growing at close to 10% per annum is placing an increasing demand for goods and services and leading to growth in exports and imports. India's port throughput has been rising at an average rate of 14% per annum in the past five years, with Gujarat accounting for a third of this growth. Container trade has also been growing at a rate of 15% per year, with containerization also on the up.

This doesn't mean that more cannot be done in order to further develop the ports industry in India. Although the private sector has risen to the challenge of owning and operating port assets, there is still much work to be done by central and state Governments in order to provide a realistic overall policy framework for the development of ports in India. Since taking the major step of opening up to PPPs, further progress has been limited. Gujarat has certainly encouraged private investment, but it also needs to do more to help reduce the opportunity costs for developers.

Private sector investment in Indian port development has been hampered by bureaucracy although this has not deterred investors.

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The difficulties stem from having an unnecessarily complicated institutional framework, which needs to be simplified. India has 13 'major' ports which were created through central planning in the 1950s and are operated by the central Government. This still leaves some 200 'minor' ports in the jurisdiction of the states within India's semi-federal structure.

Investment in ports generally takes two forms: firstly, leasing of assets such as berths to private developers by the 'major ports', which retain conservancy rights. Secondly, concessions for development of entire ports, 'minor' ports or completely new greenfield port locations are approved by the states, where the developers are also granted port conservancy rights. This is further complicated by the power of the states to grant rights to industry to develop 'captive' marine infrastructure facilities for individual industries for their own cargo.

Potential problems

The Tariff Authority for Major Ports (TAMP) oversees the 'major' ports and sets the ceiling on tariffs on the basis of "*normative cost plus return on capital employed*". However, PPP projects leased by the states are able to set market specific tariffs. This can often skew the business in favor of 'minor' ports, some of which now have a higher throughput than most of the 'major' ports, resulting in the latter missing out on much needed development, whilst huge investments are made in new greenfield ports.

There is too much uncertainty, which the private sector has to deal with. When bidding competitively for port project leases that require capital investments upwards of US$1 billion, often the private sector are not given even the basic site information. They are then left to grapple with an unnecessarily complicated and costly environmental approval process, which can delay the investment considerably, without actually protecting the environment. The irony is that the developers are being granted port concessions by one arm of the Government, only to be stopped in their tracks by another – the Environment Ministry.

Another major concern is the land acquisition process for projects. Despite delays on many projects, no clear guidelines have been developed by the central Government. Although a policy is being developed now, early signs are that it could make it harder for infrastructure developers, who will have to pay landowners unrealistically high compensation. At present, some of the more progressive states assist with land acquisition at different levels; however, populist short-term opportunism by politicians still dominates this issue. Many projects have been stalled due to land acquisition issues and some have been stopped completely.

Despite these difficulties, the private sector has not been deterred and continues to express interest and bid for projects. Projects have ranged from the sublime to the ridiculous, with developers sometimes proposing completely unsuitable sites lacking any of the marine features necessary for a suitable port.

The huge interest in owning port concessions has led to a scrum with many large companies jostling each other and projects have often been held up in the courts, with bidders contesting the legality of the bid process. Unrealistic royalties have been bid on PPP projects only to find that the project cannot then move ahead.

Indian Ports Global

A recent move by the Government of India was to form Indian Ports Global to develop projects outside India. It's arguable that this is best left to the private sector and the Government needs to focus on resolving the issues facing Indian Ports.

Challenges for the future

The challenge for the Indian Government is to push through the radical measures to simplify the institutional and legal framework and make it more market-friendly. For example, ownership of the major ports could be transferred to the states, followed by complete privatization. Since each Indian state is about the size of a European country, this would allow the appropriate degree of strategic planning without making the exercise too unwieldy. It would also allow healthy completion between states. Each state needs a strategic maritime plan where the number of ports that need to be developed is set through robust economic projection, and site selection allows for the development of a planned number of ports. A far more robust site selection process with appropriate studies is needed before inviting bids for private sector participation.

Furthermore, attention needs to be paid to back-up infrastructure such as railway lines, availability of railway wagons and connecting roads. The law governing land acquisition needs to be sensible and practical so that the country's development is not held to ransom by special interest groups. A balance needs to be struck between the needs of the local stakeholders and the country's need for infrastructure. Finally, the environmental clearance process needs to be reasonable, quick and transparent.

We have arrived at the 20th anniversary of the liberalization of India's economy and much has been achieved in the ports sector. The Government, through opening up the sector to private investment and providing a legal framework, has enabled this. The private sector has risen to the challenge of developing PPP ports; however, it is now time for a second set of reforms to address the above issues so that the growth seen in India's ports is not just maintained, but accelerated and the processes made more efficient.

ABOUT THE AUTHOR AND COMPANY

Suren Vakil has been in the engineering consultancy industry for 27 years, including 13 years in the UK and 14 years in India. Suren holds a Bachelor's degree in Civil Engineering and a Masters in Environmental Engineering from Leeds University, UK. He is a UK Chartered Engineer and Chartered Environmental Manager, as well as the regional country representative for the Institution of Civil Engineers, UK and visiting faculty at the CEPT University in Ahmedabad.

BMT Consultants India provides expertise in port planning, engineering and logistics. The company has experience in a wide range of maritime engineering work, including feasibility studies, design and project management for container, bulk, liquid and gas terminals and coastal environment modeling. The company also provides services in traffic forecasting and planning of Inland Container Depots, Logistics Parks and Container Freight Stations.

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