PPP in Ports: Indian Experience

Commonwealth and BOI Workshop on PPP for Infrastructure Development in Sri Lanka

India Country Office
World Bank

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Presentation Structure

- India’s Ports Sector
- PPP Developments
  - Landmark year for PPP – 1995
  - JNPT – P&O Experience
  - Mundra Experience
  - Going Forward – PPP Plans
- Current Concerns in Port PPPs
Total traffic handled was 520 mn tons in 2004-05
Double digit growth rates being experienced by the sector
There are 12 major ports (under the Central Government) accounting for roughly 75% of the traffic
There are 185 minor/intermediate ports (under state governments) accounting for 25% of the traffic
PPP Experience
Port Developments …1995

- World Bank report in 1995 identified a number of areas of improvement
  - Container handling and general cargo productivity
  - Shift towards the ‘Landlord port’ concept
  - Involvement of private sector
- GoI embarked on PPP in ports sector with the NSICT container terminal at Jawaharlal Nehru Port
- State Govt of Gujarat announced its Port Policy which had a strong focus on private sector participation –
  - Shift from only captive ports to commercially developed ports
  - Mundra, Pipavav were some of the first ports to be developed through PPP
Port Developments …

- **Major Ports - Govt. of India initiatives**
  - Privatisation Guidelines issued in 1996
  - Model Agreements prepared
  - Tariff Authority for Major Ports (TAMP) to regulate tariffs
  - Development Model – Development/ Upgradation of terminal capacity in existing facility

- **Minor Ports – primarily Govt. of Gujarat**
  - BOT Concessions
  - Development Model – Development of greenfield ports
  - State Maritime Board the nodal agency
  - Gujarat saw first projects for PSP – Mundhra and Pipavav

Overall 17 projects have been awarded in the major ports, 13 projects are under operation and 4 others under implementation. Barring Gujarat, the progress has been slow to non existent in the other states.
JNPCT vs NSICT Experience

- In July 1997, JNPT signed a 30 year BOT concession with P&O Australia for development of the Nhava Sheva Intl Container Terminal (NSICT)
- The project was completed ahead of schedule and commenced operations in April, 1999
- NSICT handled 0.342 mn TEUs compared to the expected 0.175 mn TEUs in the first year of operations, reaching 1.2 mn TEUs by the 6th year, by when it was expected to handle 0.50 mn TEUs
- By comparison the public sector JNPCT terminal took about eight years to construct and become operational
Container traffic has experienced double digit growth rates. Note the rapid increase in traffic especially after 1999-2000. NSICT is believed to have played a major role in accelerating the growth.
JNPT accounts for over 50% of India’s container traffic

The traffic in the publicly run JNPCT picked up once NSICT reached capacity

Gantry crane productivity at NSICT is the highest in the country and comparable to international levels.

The JNPCT also improved efficiency owing to NSICT competition

NSICT set new benchmarks for productivity and has positively impacted performance – had demonstration effect
Mundra Experience

- Mundra Port is a multi-terminal greenfield port developed through PPP by the state of Gujarat
- It commenced operations in 1999
- Traffic is at 8 MMTA
- Was one of the first ports to secure rail connectivity by putting up the investment for it – through PPP, compared to several public ports which continue to suffer due to poor hinterland connectivity
National Maritime Development Program

- In view of the rapid growth rates experienced in recent years the Government has launched the National Maritime Development Program
  - A 7 year program for the enhancement of port capacity and efficiency.
  - Rs. 55,000 crore (USD $13 billion) program, with a target of over 60% from private financing.
  - An accompanying draft Maritime Sector Policy is intended to enhance the regulatory and policy framework to enable private investment.
Key Concerns
Hinterland Connectivity

- While port terminal capacity is being ramped up, complementary enhancements will be required in road and rail connectivity.
- Several ports are suffering from severe congestion due to poor evacuation, leading to inefficient and costlier solutions and large losses to the economy.
- Coordination badly needed between the development plans of ports, rail, and highways.
- Railways plan for Dedicated Freight Corridor between Mumbai-Delhi-Kolkata would ease situation if built.

Lack of connectivity is dampening private sector interest in future projects.
Port Sector Organization

- GoI has adopted the ‘Landlord Port Model’, but Port Trusts (Authorities) operate terminals in competition with private operators.
- Corporatization of public ports has been a mixed success – Ennore has not done as well as private ports like Mundhra and Pipavav.
- Debate whether to unbundle the Port Trusts – Landlord and corporatized terminal operators.
- Corporatized operators could bring in strategic investors through equity sales.
Multiple & Conflicting Regimes

- While the 12 major ports are under the central government the minor ports are controlled by the respective state governments.
- Each operates under different laws and regulations leading to a lack of level playing field.
- While the major port tariffs are regulated by TAMP, it is not applicable to minor ports.
- Non-Compete clauses in concession agreements are limited to intra-port competition.
Regulation

- With the growing levels of private sector participation, ensuring competitive environment, and curbing anti-competitive behavior is critical.
- TAMP only regulates tariffs on a cost plus basis, which rewards inefficiency, and that too only for Major Ports.
- Technical regulation needs to be strengthened – dispute resolution, creeping expropriation, competition law framework.
Bidding Structure

- Present competition for concessions is based on the revenue share model
- Unclear whether this leads to the most efficient investments and level of service to shippers
- Port demand is largely inelastic due to near absence of inter-port competition
- Cost plus tariff setting and revenue share bidding promotes monopolistic behaviour
Thank You