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TARIFF AUTHORITY FOR MAJOR PORTS

G. No. : 107

New Delhi, 16 July 2005

NOTIFICATION

In exercise of the powers conferred by Section 48 of the Major Port Trusts Act, 1963 (38 of 1963), the Tariff Authority for Major Ports hereby disposes of the proposal of the Paradip Port Trust for fixation of wharfage for manual shipment of iron ore as in the Order appended hereto.

(A.L. Bongirwar)
Chairman

Tariff Authority for Major Ports
Case No. TAMP/50/2004 - PPT

The Paradip Port Trust

Applicant

ORDER

(Passed on this 15th day of June 2005)

This case relates to a proposal received from the Paradip Port Trust (PPT) for fixation of wharfage for manual shipment of iron ore.

2. The main points made in the proposal are as follows:

- (i). PPT handles iron ore shipment with the help of Iron Ore Handling Plant (IOHP). The iron ore is handled by the port in the manual / conventional methods since 2001 – 02 due to demand of iron ore in the international market. The following are the details of quantity of iron ore handled by mechanical and manual methods:

(In lakh tonnes)

Year	Mechanical	Manual	Total
2001 – 2002	34.93	0.53	35.46
2002 – 2003	39.92	5.33	45.25
2003 – 2004	41.98	17.35	59.33
TOTAL	116.83	23.21	140.04

- (ii). In the absence of a specific rate of wharfage for manual handling of iron ore, the PPT initially levied Rs. 50/- per MT as a minimum charge as per clause 3.1 (22) of the PPT Scale of Rates, which reads as under:

3.1(22) other general cargo (bulk and break bulk)

(i) In case of import 0.5% (CIF value)

(ii) In case of export 0.5% (FOB Value)

(Subject to minimum of Rs.50/- and maximum of Rs. 400/- per MT)

- (iii). This rate was reduced to Rs. 34.50 per MT and again reduced to Rs. 17.25 per MT. All these concessions lapsed at the end of financial year 2003-04. The PPT has, therefore, based on its (separate) proposal for amendment to clause No. 3.1(22) of the Scale of Rates filed with TAMP, started levying Rs. 60/- per MT on provisional basis for manual handling of iron ore from 1 April 2004.
- (iv). Since the users represented to extend concessions in the rate of wharfage, as were given to them in the past years, the PPT in consideration of the slump in demand for iron ore in the international market and keeping in view the projected target fixed for the financial year 2004-05, has decided to reduce the wharfage rate to Rs. 34.50 per MT for handling iron ore from 1 April 2004 and refund the excess amount collected from the users.
- (v). Since no additional investment has been made in this regard and the cargo will be handled in the existing berths of the port using the existing facilities, cost details for the proposal in reference are not furnished. The proposed rate of wharfage is at the same level as applicable for handling iron ore through IOHP.
- (vi). The Board of Trustees of PPT has approved the proposal in its meeting held on 30 July 2004.

2.2. In this backdrop, the PPT has requested this Authority to approve a wharfage for handling iron ore by manual method at Rs.34.50 per MT with effect from 1 April 2004.

3.1. In accordance with the consultative procedure prescribed, the proposal was forwarded to users / representative bodies of port users for their comments.

3.2. A copy each of the comments received from the users was forwarded to PPT as feed back information.

4. As the proposal was not backed up by any costing details, the PPT was requested to furnish the basis of arriving at the proposed rates and to clarify whether the services provided by the PPT at the berth for manual handling of iron ore are comparable to the services provided at the mechanical berth and to list out the services provided at the berth for manual handling of iron ore. The PPT has furnished the following response:

- (i). The port has not ascertained the cost details to arrive at the proposed wharfage rate of Rs. 34.50 per tonne for manual handling of iron ore. Since a similar rate is in vogue for loading of iron ore handling through IOHP, the port has decided to adopt the same rate for manual handling of iron ore also. Since substantial quantity of iron ore is handled in manual method it is felt necessary to prescribe a separate rate for the same.
- (ii). The FOB value of iron ore in the market varies between \$ 50 to \$70. The price realization being so high, the Port Trust has decided to realise wharfage at Rs. 34.50 per tonne as is being realised for iron ore shipments handled through Iron Ore Handling Plant (IOHP)
- (iii). As per the present Scale of Rates, shipment of iron ore through IOHP has a sliding rate of Rs. 34.50, Rs. 29.50 and Rs. 24.50 for shipment up to 1 million tonnes, 1.5 million tonnes and above 1.5 million tonnes respectively. The proposal of the Port, however, is to adopt Rs. 34.50 only without any sliding scale for iron ore shipments handled manually.
- (iv). The manual operation of iron ore involves unloading of iron ore through wagon tipping which costs Rs.30/- per tonne towards tipping charges. If the iron ore is moved in BCN wagons (covered wagons), the unloading of iron ore from wagons is undertaken manually at a higher cost. Iron ore moved by trucks is unloaded manually for shipments. The iron ore is transported by loaders and dumpers from plot to the vessel side and then loaded to the vessel with the help of slings/ grabs. Separate rates now exist for grabs and slings.

5. A joint hearing in this case was held on 24 May 2005 at the PPT premises. At the joint hearing, the PPT and the concerned users have made their submissions.

6. Proceedings relating to consultation in this case are available on records at the office of this Authority. An excerpt of the comments received and arguments made by the concerned parties at the joint hearing will be sent separately to the relevant parties. These details are also available at our website <http://tariffauthority.gov.in>

7. With reference to the totality of information collected during the processing of this case, the following position emerges:

- (i). The existing prescription in the SOR of PPT for levy of wharfage on iron ore is with reference to mechanical handling of iron ore through the Iron Ore Handling Plant (IOHP). In view of the surge in the export of iron ore, the PPT started handling iron ore manually also by deploying its labour force since 2001-02. The PPT had been realising wharfage for iron ore handled manually at its facilities by applying a rate deduced from the wharfage prescribed for unenumerated cargo. Since the port expects to handle iron ore manually for some more years in future and significant volume is anticipated, it has proposed a separate rate for iron ore handled manually. This Authority has always endorsed the approach of branching-off from the unenumerated category, when significant volume of a commodity is anticipated to be handled. But fixing wharfage rate in such cases should follow an analysis of cost of handling the relevant cargo.

- (ii). The users have objected to the proposed rate of wharfage. They have cited the additional cost associated with manual handling of iron ore. In fact, the Gita Sales Corporation has produced a detailed cost breakup for handling the cargo by mechanical vis-à-vis manual method. The port concedes the points made by the users about higher cost. But then, as pointed out by PPT, the capacity limitation of the mechanical plant needs to be recognised.
 - (iii). The PPT proposal is not cost based. It has proposed to adopt the existing rate of wharfage prescribed for mechanical handling of iron ore. The rates at two facilities cannot be similar unless the services provided and the facilities offered besides cost of providing the services are comparable. Even though the PPT has not pointedly responded to our query in this regard, the differences in performance and productivity are obvious. The users have correctly brought out this aspect.
 - (iv). This Authority follows a “cost plus” regime of tariff setting. No costing details in support of the proposed rate is furnished. According to PPT, if the relevant costs are apportioned to the manual handling activity, the total cost of providing services will be more than the proposed rate. Firstly, this claim of PPT cannot be verified in the absence of any cost details made available. Secondly, it is also necessary to assess the flow of cross – subsidization across different activities. While the port may like to have the rate fixed in this case based on its assessment of ‘what the traffic can bear’, it may not be possible for this Authority to be solely governed by that principle without an appraisal of cost position. That being so, the proposed rate cannot be approved even though it may appear to be a case of reduction of rate. It is noteworthy that the apparent reduction of rate is not a result of any cost analysis but arises due to clubbing of the relevant commodity under the omnibus ‘miscellaneous’ category.
 - (v). This Authority passed an Order on 10 September 2003 relating to a proposal received from the PPT for rationalising the tariff structure for container handling and fixing tariff for some newly introduced cargo. The proposal filed by the PPT included, *inter alia*, reduction in the (then) existing tariff for manual handling of iron ore at the PPT. With reference to that proposal of PPT, this Authority observed that the PPT itself can decide on the level of tariff within the ceiling level prescribed in the SOR, in view of such flexibility available as per the policy decision of the Government. The position is same even now. Since the proposed rate cannot be approved for reasons given above, the PPT itself can operate a suitable rate for this commodity for the time being within the ceiling levels prescribed for the miscellaneous category. While doing so, it will be reasonable for PPT to recognize the differences in the performance levels of manual and mechanical handling and fix rate for manual handling accordingly.
 - (vi). The SOR of the PPT in respect of both vessel related and cargo related charges was last revised by this Authority in April 2000; and, PPT was also to submit the other proposals relating to the asset rentals including rentals for properties in operational area, equipment hire charges, charges of Paradip Phosphate Ltd., (PPL) captive berth. This Authority in its Order dated 15 March 2005 relating to a proposal received from the PPT for tariff of its Mechanical Coal Handling Plant (MCHP), has already advised the port to formulate a comprehensive proposal for review of its SOR and file its proposal by 30 September 2005. The PPT can include a specific proposal for fixing separate cost based wharfage for iron ore handled manually in the general review proposal so that cost details can be scrutinised closely and cross subsidisation issues can be tackled more objectively.
8. In the result, and for the reasons given above, and based on a collective application of mind, this Authority remits the proposal back to PPT for a suitable decision at its level by exercising the flexibility already granted to Port Trusts for reducing tariff.

(A.L. Bongirwar)
Chairman

SUMMARY OF THE COMMENTS RECEIVED FROM THE PORT USERS / DIFFERENT USER ORGANISATIONS AND ARGUMENTS MADE IN THIS CASE DURING THE JOINT HEARING BEFORE THE AUTHORITY

F. No. TAMP/50/2004-PPT - Proposal from the Paradip Port Trust for fixation of wharfage for manual shipment of iron ore.

1. The comments received from the port users / representative bodies of port users are summarised below:

Gita Sales Corporation (GSC)

- (i). The per tonne cost is Rs.34/- for ship-loading through mechanical means, while it is Rs.99.50 per tonne for ship-loading by manual means thereby causing severe financial hardship on exporters particularly when the iron ore price has slashed down drastically.
- (ii). While the cost for rake handling by mechanical means is Rs.38.13, it costs Rs. 68.13 per tonne for handling manually, which is about 80% more. This is because there is no plot available for individual exporters for mechanical handling.
- (iii). The handling cost is already exorbitant and any step to further increase the wharfage charges will be a big blow on the exporters who may be discouraged and ultimately the traffic may shy away from the Port owing to high handling costs.
- (iv). The exporters who are making shipments through mechanical means are able to export higher volume of cargo and making higher profits while the manual iron ore exporters are losing heavily because there is abnormal difference in Port charges between mechanical and manual handling.
- (v). The following requests may be considered to grant natural justice to the manual iron ore exporters:
 - (a). Nominal wharfage charges for manual handling of iron ore to maintain parity. Alternatively,
 - (b). Charge @ Rs. 17.25 per tonne towards wharfage, even which, if extended by the Port, will be on the higher side.

Essar Steel Limited (ESL)

- (i). Rate of wharfage for manual loading should be kept lower than mechanical loading rate of Rs.34.50 pmt, since cost involvement towards intra-port

transport and labour wages are very high at Paradip. Moreover, rate of loading for manual shipment is much lower than mechanical loading.

- (ii). A special category of rate for wharfage to be specified separately for export and coastal shipment for manual shipment of iron ore. And obviously substantial discount is to be given for coastal shipment, to encourage the iron ore end users within the country.
- (iii). The PPT's sudden increase of the rate of wharfage by 100% i.e. @ Rs. 34.50 pmt from Rs.17.25 pmt w.e.f. 1.4.2004, needs a review.
- (iv). Wharfage rate for manual shipment may be fixed at a lower tariff.

Gimpex Limited

- (i). We have been allowed to export iron ore only through manual loading, as mechanical loading facility is already used by other exporters.
- (ii). It may not be judicious to charge same wharfage for manual loading and for mechanical loading, as mechanical loading has more advantages and benefits leading to faster loading.
- (iii). Wharfage for manual loading should be substantially less than the wharfage charges for mechanical loading.

Exfin Shipping (India) Limited (ESIL)

- (i). Apart from the wharfage, shippers have to pay for intraport transportation and stevedoring charge. Movements of iron ore mainly from the mines to Paradip are also costly. It is, therefore, imperative that the wharfage proposed by PPT at Rs. 34.50 from 1 April 2004 for manual loading, should be reasonable.
- (ii). The proposed rate should be reduced to Rs. 30/- per Tonne from 1 April 2004 onwards and refunds/ adjustments may be made to shippers accordingly.

NSIL Exports Limited (NEL)

- (i). The prices of Iron Ore have fallen drastically in China during the last few months and the margin of exporters have reduced. The PPT was charging Rs. 17.25 per MT as wharfage.
- (ii). Manual shipment is costing more to the Exporters as compared to the mechanical shipment and also considering the reduced margin of exporters, the tariff for wharfage should not be increased. The wharfage for manual loading should be 50% as compared to the mechanical loading.

VISA Industries Limited (VIL)

- (i). The Handling of cargo through mechanised process is quite faster as compared to manual handling of the same, resulting in increased burden of demurrage payment by the port users. Moreover, mechanical plot holders are earning incentives in the event of dispatch of cargo prior to the loading schedule.
- (ii). In view of the above, 50% concession in wharfage should be extended to the manual plot holders considering the fact that Port Authorities are not able to provide Mechanical Plots to all the port users. 50% concession will be in conformity with the resolution no.6/2002-03 dated 25 April 2003 taken by PPT.

TM International Logistics Limited (TMILL)

The proposed rate of Rs.34.50 per MT is quite reasonable and justified. Infact, the fixation of such justified rate would further boost the export of iron ore through PPT and the trade will be benefited.

2. A joint hearing in this case was held on 24 May 2005 at the PPT premises. At the joint hearing, the PPT and the users made the following submissions:

Paradip Port Trust:

- (i). In 2004-05, we handled around 3.8 million tones of iron ore manually.
- (ii). We handle about 12 million tones of different cargo by manual method. Iron ore constitutes about 30%.
- (iii). Because of high volumes, we now propose a separate wharfage rate for iron ore (manual). Residual category is only for cases of sporadic nature.
- (iv). The concessional rate given earlier was a one time promotional measure because FOB prices of iron ore plummeted to a lower level.
- (v). Separate costing details for manual handling of iron ore is not possible. On an apportionment basis, the rate should be around Rs.60/- pmt
- (vi). The boom in iron ore is expected to continue for another 2-3 years. Thereafter our mechanical plant would be sufficient to handle normal volumes.
- (vii). Manual handling may be costlier to users. But our IOHP has capacity limitations. If users want, we can handle all iron ore by mechanical means. But then, there will be congestion and waiting time will increase inevitably which the Trade does not want. Hence, it is advantageous for users to continue with manual method of handling even at a slightly higher handling cost.

Phulchand Exports Limited and Gita Sales Corporation:

- (i). In manual handling, we incur about Rs 90/- per tones additionally. Manual stevedoring alone comes to Rs 65/- per tonne.
- (ii). Earlier PPT has given a rate of Rs 17.50 PMT. Let it continue.

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