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**TARIFF AUTHORITY FOR MAJOR PORTS**

**No.228**

**New Delhi 9 October 2002**

**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 Chennai Port Trust for revision of rates for handling of iron ore as in the Order appended hereto.

**( S. Sathyam )**

Chairman

**Tariff Authority for Major Ports**  
**Case No. TAMP/67/2001-CHPT**

The Chennai Port Trust (CHPT)

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Applicant

**ORDER**

(Passed on this 5<sup>th</sup> day of October 2002)

This case relates to a proposal received from the Chennai Port Trust (CHPT) for revision of rates for iron ore handling activity.

2.1. Citing a huge revenue deficit in iron ore handling activity and based reportedly on an advice given by the Ministry of Shipping, the CHPT initially proposed an upward revision of the existing tariffs for iron ore handling by 125%. The CHPT was advised to submit cost statements in the prescribed proforma to facilitate an objective appraisal of its proposal.

2.2. In the meanwhile, the proposal of the CHPT was circulated among concerned users/representative bodies of port users for their comments. A joint hearing was also held on 18 December 2001 at the CHPT.

2.3. Despite several reminders and its emphatic assurance made in the joint hearing, the CHPT did not furnish requisite cost statements in the prescribed proforma. In the absence of cost details, this Authority could not decide on the tariff increase since reasonableness of different cost items and flow of cross-subsidisation between various activities could not be assessed. In this backdrop, this Authority passed an Order on 25 February 2002 to close this case for want of information, after allowing a final opportunity to the CHPT to submit requisite details by 22 February 2002.

3. Subsequently, the CHPT vide its communication dated 6 March 2002 requested this Authority to reconsider its decision and submitted cost statements for all activities. Bearing in mind the fact that the CHPT has furnished the requisite details, this Authority decided to take a lenient view of the matter and to reopen the case. Accordingly, an Order was passed on 11 March 2002 to re-open this case for consideration on merits.

4. It is noteworthy that the CHPT has simultaneously submitted a proposal for general revision of its Scale of Rates, which is being processed separately.

5. The proposal of CHPT was again circulated among relevant users/representative bodies of port users for their comments. In view of the interrelated nature of the issues involved, this case has been processed together with the 'general revision' case. A joint hearing was set up in this case on 17 June 2002 at the CHPT premises. At its request, a copy of the general revision proposal and revised SOR was forwarded to the Federation of Indian Mineral Industries (FIMI) to enable them to furnish their comments comprehensively.

6. The CHPT has made the following main points/arguments in support of its proposal:

- (i). There is a revenue deficit in the iron ore handling activity.
- (ii). Special Quay Dues levied based on the quantity of iron ore loaded has been proposed to be merged with berth hire charges in the revised Scale of Rates.
- (iii). Benefit of cross-subsidisation shall not be extended to the iron ore handling activity since this cargo is likely to be shifted to the Ennore Port by 2005.
- (iv). There is no idle capacity in the ore handling plant since it handles around 7.5 million tonnes of ores against the assessed capacity of 7 million tonnes.

- (v). Since iron ore traffic will shift to Ennore after 2 or 3 years, any fresh investment to modernise or replace the ore handling system is not financially viable.

6.2. The users have furnished the following main comments:

- (i). The quality of cost estimates furnished by the CHPT is doubtful. Income is understated; expenditure is inflated. Allocation of common expenditure has not been made scientifically.
- (ii). Allowing a ROCE of 18.5% to the CHPT is unreasonable in the context of falling lending rates in the market.
- (iii). Only emphasising on tariff increase is not good. There has to be emphasis on performance also.
- (iv). The users are ready to take on lease the entire ore handling system, if the CHPT is not willing to carry out maintenance and improvements.
- (v). Window berthing allowed to liquid cargo vessels at the iron ore berths reduces the iron ore handling capacity by about 2 million tonnes per annum.
- (vi). There is no justification for any increase in port tariffs for iron ore handling.

6.3. At the joint hearing held on 17 June 2002, the Hindustan Chamber of Commerce proposed to send an innovative proposal for handling iron ore at the CHPT. We have not received any such proposals from the HCC so far.

7. Subsequently, the CHPT has revised its earlier cost statement and proposed to increase iron ore tariffs by 95%.

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

- (i). The issue of revision of iron ore tariffs has been analysed as a part of the general revision proposal of the CHPT. This has been done not only due to interrelated nature of the issues involved but also to facilitate a comprehensive appraisal of the financial position of the port with a detailed scrutiny of allocation of costs between different activities. Considering the comments made by the users in this case, the cost statements of the port as well as the iron ore handling activity have been modified in our analysis relating to the general revision case. Hence, the details are not repeated here.
- (ii). The CHPT has insisted that cross-subsidisation benefit cannot be extended to this activity since this traffic is likely to shift to Ennore shortly. It is noteworthy that the benefit of cross-subsidisation had been allowed to this activity while determining the quantum of tariff increase ordered at the time of last general revision of tariffs at the CHPT. The stated position of this Authority (and, indeed of the Government also) is against cross-subsidisation. Nevertheless, this Authority has not yet taken a final view on complete elimination of cross-subsidisation. It has already been decided to engage a reputed financial advisory organisation to go into this issue. Till a final view on elimination/phasing out of cross-subsidisation is taken commonly for all the major port trusts, it has to be continued at the existing level. The proposal of the CHPT tantamounts to complete elimination of cross-subsidisation benefit from the iron ore tariffs. This Authority is not inclined to take such a decision in respect of a Port Trust in isolation and that too in respect of only one of the activities in that Port. That being so, the benefit of cross-subsidisation will flow to the iron ore handling activity also like other activities depicting cost deficits. The modified cost statement considered in the general revision case take into

account cross-subsidisation between different activities including the iron ore handling activity.

- (iii). The cost statement for iron ore handling activity furnished by the CHPT reckons with the income from iron ore handling only, but the expenditure estimate includes all costs relating to the iron ore berths. Pointing out the fact that liquid cargo vessels are also berthed for about 50 days in a year at the iron ore berths, the users have demanded that the cost estimate should include income from POL vessels also. Since the cost position for the Port as a whole has been considered in the general revision case to decide on the quantum of revision required, the omission of the Port by not including the relevant income or not segregating expenditure not directly relevant to the iron ore handling activity in the relevant cost statement may not be of any consequence.
- (iv). Considering the overall revenue position and recognising flow of cross-subsidisation between different activities, this Authority has decided to revise the existing tariffs for iron ore handling at the CHPT by 15% even though this activity in isolation discloses a deficit of around 70.7%.
- (v). In its Order relating to the last general revision of tariffs at the CHPT, this Authority suggested merger of Special Quay Dues with berth hire charges. It is noteworthy that this charge is being levied on ship owner/agent. In the general revision proposal, the CHPT has proposed revised berth hire charges for iron ore vessels by merging the Special Quay Dues with them. It may be relevant here to mention that a similar rationalisation has been made by this Authority at the VPT also. Since the revised berth hire charges for iron ore charges is approved by this Authority in the general revision case, the entry relating to levy of special Quay Dues stands deleted from the revised Scale of Rates.
- (vi). The handling charge for iron ore prescribed in the Scale of Rates of the CHPT is a composite rate which covers all operations relating to receiving and shipment of the cargo. Based on a proposal of the CHPT, this Authority had already approved a rebate of Rs.20 per tonne over the composite handling charge when iron ore is manually unloaded from wagons at the Royapuram Railway Yard and inter-carted to the mechanical ore handling plant for shipment at the cost of exporters. This rebate has been allowed since the Port's receiving system (like wagon tippler and stacker) is not used. It may be reasonable to extend such a rebate in all cases where the Port's receiving system is not engaged instead of limiting it to only in the case of inter-carting from the Royapuram Railway Yard. The existing conditionality in this regard in the Scale of Rate is modified accordingly and included in the Revised Scale of Rate to be notified in the general revision case.

9. In the result, and for the reasons given above, and based on a collective application of mind, this Authority decides the proposal of the CHPT as disposed off in view of the Order passed by it in the general revision case.

( **S. Sathyam** )  
Chairman