

**REPORT OF THE WORKING GROUP ON EFFICIENCY LINKED TARIFF  
SCHEME FOR CONTAINER OPERATIONS AT PORTS.**

**INTRODUCTION:**

In 1997, the Government of India constituted the Tariff Authority for Major Ports (TAMP) under the Major Port Trusts Act to fix the tariff of the Major Port Trusts in an objective manner and to provide a level playing field to the private operators who were being encouraged to invest in the port sector by the privatisation policy formulated by the Government of India. At present it is the TAMP that is authorised to fix the tariff for the Major Port Trusts and for the private operators licensed by the Major Port Trusts. One of the stated objectives of the TAMP is to leverage the tariff mechanism to promote efficiency in the ports. It has therefore sought to reward Port Trusts and operators who are efficient and to penalise those whose service levels are not up to the mark. The scheme formulated for Mormugao port wherein the efficiency of port operations determines the tariff relating to berth time charges and anchorage charges, was an early example of this approach. This was accomplished by TAMP order No.TAMP/18/99-MOPT dated 31.08.2000. Under the terms of the scheme, the Port Trust would need to work to a specified bench-mark of efficiency. The port is rewarded whenever the efficiency level rises above the bench-mark by way of supplementary berth time and anchorage charges and similarly, the port has to give a rebate on these charges whenever the terminal's efficiency falls below the bench-mark.

Encouraged by the success of this scheme, the TAMP ventured to introduce an efficiency linked tariff scheme for container operations in Navasheva International Container Terminals (NSICT) in November 2000. Container

operations being more complex, there were some bottlenecks in the implementation of the scheme. The TAMP then requested the NSICT to formulate a suitable scheme to achieve the same purpose. The NSICT also put forward two alternative proposals and at the time of considering these proposals the TAMP decided to constitute a working group to look at these proposals and to formulate a suitable efficiency linked tariff scheme for container operations in all the major container ports in India.

The composition of the working group, its scope of work and its terms of reference may be seen in the Annexure(1) to the report.

#### **WORKING GROUP'S APPROACH:**

It is against this background that the Working Group commenced its task of determining the suitability, practicality and advantages of an efficiency linked tariff scheme for container operations. At the end of each meeting, the Working Group also held internal meetings to collate the observations, findings and views of the various terminals and users. Extensive discussions were held with users, ports and terminal operators at all ports covered by the Working Group.

A detailed questionnaire was prepared on the basis of the deliberations which the Working Group had with the Chairman, TAMP on 27th May 2002. The questionnaire and the responses received are shown in Annexure (2) and (3).

The Working Group visited the following ports.

#### **Domestic:**

- 1) Cochin
- 2) Vizag
- 3) Tuticorin

- 4) Haldia/Kolkata
- 5) JNPT
- 6) Chennai

**International:**

- 1) PTP Malaysia
- 2) West Port Malaysia
- 3) North Port Malaysia

During the visits to the ports the Working Group assessed the equipment available at the site, observed the ship side, yard side and gate side operations and held detailed discussions separately with the port officials, terminal operators and representatives of a wide cross section of user agencies. The Working Group also benefited from a presentation made by NSICT that contained the details of the alternative proposals that NSICT had prepared in response to the request of TAMP.

**PRESENT SCENARIO:**

All the major ports of India except Ennore Port handle containers. However, significant volumes are handled only at Kandla, Mumbai, JNPT, Cochin, Tuticorin, Chennai and Haldia/Kolkata. There are three private container terminal operators licensed by the major port trusts. These are M/s. NSICT at JNPT, Mumbai, M/s. PSA SICAL at Tuticorin and M/s.CCTL at Chennai. The container terminal in Vizag was being privatised at the time of the working group's visit to that port. In the other ports, container terminal operations are being managed by the respective Port Trusts. The facilities offered by the terminals, the method of operations, the range of services rendered by the

operators vary from port to port. In JNPT, one of the terminals is operated by M/s.NSICT, a private company and the other terminal is run by the Port Trust. In all other ports, a single operator undertakes the container operations.

Dedicated container terminal facilities with shore equipment are available at JNPT, Cochin, Tuticorin, Chennai and Haldia, whereas in the other ports, container operations are being carried on with the help of ship equipment at general berths.

In some ports there are off dock container freight stations which help to decongest the container yard, whereas in the other terminals, all the containers are stacked within the port limit. The "buffer yard" facility is available only at JNPT whereas other terminals permit the containers to be brought within the port limits even before they are declared "out of charge" by Customs department. It is only recently that the volume of transshipment containers has picked up in JNPT. At Chennai Port also transshipment of containers takes place to a limited extent. In other ports there is hardly any transshipment of containers. The treatment of transshipment containers also varies from port to port. In Chennai, the document for processing the containers from Inland Container Depot (ICD) is treated as a transshipment application whereas at JNPT, only the ship to ship boxes are treated as transshipment containers.

Most of the modern terminals cater to the requirement of the trade with respect to onboard stowage planning, monitoring of reefer containers, handling of out-of-gauge cargos, on land data transmission to the port users and electronic billing. The container terminals run by the Port Trusts have not made significant progress in catering to these basic requirements of container trade.

The approach of the terminal operator and the Customs authority towards the disposal of abandoned containers differs from port to port. The problem of abandoned containers was acute in some of the terminals whereas in some of the ports the Customs department and the terminal operator took steps to promptly dispose of abandoned containers. Some of the ports are not following the stipulation of the TAMP that ground rent should not be charged for more than seventy five days in case of abandoned containers.

The TAMP fixes the tariff for container handling on a cost plus formula with a 19% return on capital employed. In some of the terminals, tariff is fixed as a composite box rate for different sizes of containers. In others separate charges are fixed for various services rendered by the terminal. While a particular service is Dollar denominated in some ports, it is Rupee based in some other terminal.

#### **RECOMMENDATIONS:**

##### **1) Efficiency Linked Tariff Scheme**

The main task of the Working Group was to formulate an efficiency linked tariff scheme for container handling operations in ports. This involves the identification of a productivity parameter, fixation of a benchmark that reflects the "normal" achievement on this productivity parameter and linking the actual achievement to this benchmark in such a way that whenever the achievement exceeds the benchmark, the terminal operator is rewarded by a higher tariff and whenever it falls below the benchmark, the terminal is penalised by way of lower tariff. Since the infrastructure and the superstructure available in ports vary, this benchmark will vary from port to port. Similarly, since the size, the age and

design of ships vary, the productivity at the ship side operations which is a key parameter of productivity at terminals is also bound to vary from ship to ship.

The Working Group spent a lot of time in discussing the feasibility of implementing an efficiency linked tariff scheme as outlined above not only among its own members but also when the Group met all those who are involved in container operations in the ports. There was general consensus on the following points:

- i) The productivity of a container terminal depends on a variety of factors all of which may not be under the control of the terminal operator or vessel operator.
- ii) The universal practice is for ports to enter into bilateral agreements with the shipping lines on the schedules to be maintained, the volumes guaranteed, the discounts on tariff, etc. and these bilateral agreements govern the relationship between the terminal operator and the shipping lines. An efficiency linked tariff scheme was not in force in any of the terminals.
- iii) The Working Group found that the users are not willing to pay for higher efficiency and the terminal operators were highly reluctant to agree on penalties for poor performance.
- iv) The general opinion was that the competitive nature of shipping and the pressure of market forces should eventually lead to efficiency.
- v) There was also a general agreement that the formulation of an efficiency linked tariff scheme, its implementation and monitoring could be quite a laborious process. The efficiency of a terminal would vary from ship to ship and therefore, ship wise productivity will have to be benchmarked and compared with the actual productivity every time the ship calls at the port. Besides, new ships may be

introduced and some of the shipping lines might move out of a particular terminal. Therefore, in such a dynamic situation the introduction of a relatively static scheme that links efficiency to tariff could pose more problems than what it would solve.

Having regard to the above factors, the Working Group recommends that ELTS as envisaged by TAMP is not a viable proposition and that we should move towards a market driven tariff by other policy measures that encourage competition.

It is also recommended that the terminals and users may enter into bilateral agreements, which will cater to the efficiency requirements of the users. The TAMP may in its hearings satisfy itself to the existence of such bilateral agreements. The TAMP may also ensure that a system is in place to enforce minimum levels of performance as agreed.

## 2) Maintenance of minimum levels of efficiency at container ports

Although the Working Group has not favoured the implementation of an efficiency linked tariff scheme, the Working Group is concerned about the efficiency levels of certain ports which need to be improved so that these ports are attractive for the user Lines. In order to achieve certain basic levels of efficiency, it is recommended that where bilateral agreements are not in existence, the TAMP may in consultation with the terminals and the shipping lines fix certain basic levels of efficiency both for gate side operations and vessel side operations. In the case of private terminals who are operating under

Concession cum Licence Agreement (CLA), the licensee should meet at least the efficiency parameters stipulated by the CLA.

It is also recommended that TAMP should fix penalties for non-performance/under performance by the port operated terminals with respect to agreed performance indicators.

### 3) **Planned / Unplanned Interruption**

If a terminal plans to interrupt any of its services or if any of its major equipment is placed out of commission, it must inform the customers by way of public trade notice. In the case of unplanned interruption, all efforts must be made by the terminal to keep the users informed about the interruption and the period for which the services are not available.

### 4) **Single Composite Box Rate**

Based on interactions with both trade and terminal officials, the Working Group concludes that charging a single unified box rate is not a practical option for all Indian terminals. A container terminal offers a wide variety of services and the requirement of the trade is also varied. Not all the services are required by all the users. But it may be possible to group only a few basic services, such as lift off/lift on from the ship, lift off/lift on at the yard, movement to and from the ship and charge a composite rate for these basic services.

It is encouraging to note that some of the terminals are providing all the services required in-house and they would like to charge a composite rate for



handling a box through the terminal. This is desirable. It is therefore recommended that terminals which are in a position to provide all the services can charge a composite rate. However, they should specify the refund amount they would give in case a particular service is not provided by the terminal either due to non-availability of such service at that point of time or due to shippers/consignees request.

For other terminals where services are being provided by different agencies, service-wise tariff may be specified.

The Working Group was not mandated to submit any specific tariff recommendations. For this reason, the Group did not go into any detailed findings on the issue of ratio on charges between 20' and 40' containers or between empty and laden containers. Based on interactions with various user groups and terminal operators, it has been observed that the general opinion seems to veer in the direction of present practices towards levying the charge for 40' containers to be 1.5 times the charge of 20' containers while the rate for handling empty containers to be 50% to that of laden containers. It is however emphasised that this is not a conclusive finding and the views reflected on the subject are merely a reflection of the current practice and opinion and not a detailed conclusive finding.

The Working Group also felt that there should be as far as possible a standard structure in laying out tariffs. While the tariff structure presently prevalent at JNPT was found the closest to a good model, it was recognised that replication of this structure may not be readily possible due to numerous local

variances and peculiarities. Nonetheless, the Working Group felt that the long term objective should be to have a standardised tariff structure as possible with minimum deviation to cover local issues.

The Working Group also recommends that the container terminal tariff for handling containers should be based on box rate for different sizes of containers. On the same basis, the box rate should be fixed for empty containers. /

### **5) Transshipment boxes**

The term "transshipment" seems to be used at different terminals to have different meanings. For example in Chennai even boxes destined for ICDs are subject to a Transshipment application (TSA) where as in JNP boxes destined for ICD require only a Sub Manifest Transit Permit (SMTP).

The term "transshipment" should only apply in cases where a container is discharged from a vessel and placed in the custody of the terminal for the purposes of shipment on another vessel. The transshipment manifest should clearly indicate the ultimate port of destination.

Inland Transit: It is recommended that this term be applied to those boxes which are imported into or exported from the ICD locations either by road or by rail.

The Working Group recommends that the transshipment rate for box should be based on the composite rate and should be commensurate to the service provided by the terminal.

**6) Free Days**

The Working Group recommends that free time applicable may not be standardised for all ports and should be governed by local requirements taking into account the commercial as well as efficiency/space requirement of the terminal. Further it is also recommended that for the import boxes, the free time should start from the time the last container has been discharged from the vessel. Similarly, for export boxes, free time should commence from the time the container enters the terminal.

**7) Abandoned boxes**

Prompt clearance of import cargoes and frequent and regular auction of abandoned cargoes are prerequisites for a decongested terminal. A decongested terminal is the basic requirement for efficient terminal management.

It is recognised that customs directly have little at stake in ensuring frequent auctions. Hence the following recommendations are made:

- a. The cargo should be automatically treated as abandoned if it is not cleared within 30 days unless the consignee has requested to the contrary in writing. In such cases the consignee should be held liable for all charges even if he subsequently abandons the cargo.

- b. There should be a statutory time limit before which the Customs department should set the value for the abandoned goods and conduct an auction. A list of containers which are lying outstanding for over 30 days should be forwarded to the Commissioner of Customs both by the terminal operator. The recommended time limit for fixation of value for the goods is 45 days from the date of landing of the cargo.
- c. If a particular cargo is not auctioned off, the custodian should make all efforts to de-stuff the box, store or destroy the cargo and return the empty containers to the shipping line. The port or custodian, as the case may, should not charge more than 60 days ground rent to the shipping lines even if the containers are not freed in 60 days.
- d. The Commissioner of Customs should form a Standing Committee which shall meet once a week and fix the floor price for the cargo. If the cargo does not fetch the floor price in two auctions, the third auction should be organized within a week and the cargo should be auctioned without a floor price.
- e. Requisite statutory changes should be made to implement the above recommendations effectively. It is recommended that if the cargo is not satisfactorily disposed off within 75 days from landing, the terminal operator/Custodian may be authorised to de-stuff the container and auction the contents.

## 8) Decongestion of Terminals

It is universally accepted that a decongested terminal is more efficient than one that is congested.

The following measures are recommended, in case a terminal gets congested or is likely to get congested:

- a) Lines/Terminals may arrange for enmass movement of boxes to off dock CFS and the cost of such movements should be borne by the consignees.
- b) The shipping line should be given the option of enmass movement of imports in normal circumstances, if there is a likelihood of the terminal getting congested. In such a situation, the choice of the CFS should be left with the line. However, the cost of movement shall be borne by the consignees.

## 9) On board stowage

Currently only a few terminals are offering vessel stowage planning service. It would be desirable if all terminals can provide this service. The on board stowage plan should be decided in coordination with the lines central planner and approved by the ship's master. The cost of providing this service should not be charged extra to the Lines but should form part of the composite rate.

**10) Reefer cargoes**

At different terminals different components of reefer operations are being handled by the terminals as well as several private operators.

The terminal should handle all aspects of reefer monitoring, power supply and also offer repair service. The option of utilising yard's repair engineer or utilising direct vendors should be left to the Lines.

All such vendors should fully adhere to Yard's procedures for security and access.

**11) Minimum Terminal Equipment:**

The terminals must ensure that they are suitably equipped to maintain the requisite efficiency parameters as prescribed by them at the time of fixing of tariff.

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