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TARIFF AUTHORITY FOR MAJOR PORTS

G. No. 103

New Delhi, 24 June, 2003

NOTIFICATION

In exercise of the powers conferred by Section 49 of the Major Port Trusts Act, 1963 (38 of 1963), the Tariff Authority for Major Ports hereby disposes of the proposal from the Visakhapatnam Port Trust for extending concession in vessel-related charges to container vessels as in the Order appended hereto.

(A.L. Bongirwar)
Chairman

Tariff Authority for Major Ports
Case No. TAMP/20/2003-VPT

The Visakhapatnam Port Trust (VPT)

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Applicant

ORDER

(Passed on this 5th day of June 2003)

This case relates to a proposal received from the Visakhapatnam Port Trust (VPT) for extending concession in vessel-related charges to container vessels.

2. The VPT has made the following main points in support of its proposal:
- (i). It is predominantly a bulk cargo handling port; no exclusive container handling facilities exist at the port. In consonance with the changing requirement, it has taken a view to develop container handling facilities at the outer harbour to handle the container cargo. A deep draft berth has been built in outer harbour capable of accommodating mainline vessels upto 14.9 mtrs. draft.
 - (ii). Since development of container handling facilities requires huge investment, and also keeping in view the guidelines issued by the Government for privatisation, it has signed an agreement with the Visakha Container Terminal Private Limited (VCTPL) to develop container handling facilities at this berth on BOT basis for thirty years.
 - (iii). The port dues and pilotage for different sizes of container vessels at the VPT are much higher compared to the tariffs for similar size of container vessels at the competing port, i.e., Chennai Port.
 - (iv). The Tuticorin Port has proposed to give concession in the vessel related charges to mainline container vessels and the same has already been approved by the Authority recently. The Chennai port has also proposed for a similar concession for main line container vessels. In this backdrop, the vessel related charges for container vessels at the VPT which are already high compared to the existing tariff at the Chennai port, need to be reduced to attract more container vessels for the proposed Container Terminal.
 - (v). It has also given a comparison of the port dues and pilotage fees applicable at the VPT vis-à-vis the CHPT to substantiate its claim. It has pointed out that the aggregate of Port Dues and Pilotage is higher by 8% for 10,000 GRT vessel, 2% more in case of 20,000 GRT vessels and 11% more in case of 27,000 GRT (after considering 10% discount already in force at the VPT). For vessels more than 27000 GRT, the difference is in the range of 24% to 100%.
 - (vi). Since the Chennai Container Terminal Limited (CCTL) has got an assured throughput of 4,00,000 TEUs, a well established infrastructure facilities and a natural positional advantage of well developed port, it will be more appropriate that the vessel related charges for containers at the VPT are less than the tariff applicable at the Chennai Port to attract container vessels.
- 2.2. In this backdrop, the VPT has proposed the following concessions in vessel-related charge for port dues and pilotage for container vessels:
- (i). To extend 35% discount in the sum of port dues and pilotage instead of the existing 10% discount for container vessels upto 27000 GRT.

- (ii). To extend 25% discount in the sum of port dues and pilotage for container vessels of more than 27000 GRT with an upper limit of US \$ 12,500.

3.1. In accordance with the consultative procedure prescribed, the VPT proposal was forwarded to the VCTPL and concerned user organisations for their comments.

3.2. A joint hearing in this case was held on 8 May 2003 at the VPT premises. At the joint hearing, the VPT and the concerned users have made their submissions. At the joint hearing, the Visakhapatnam Steamship Agents' Association (VSAA) have also filed a written submission.

4. The 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 will be sent separately to the relevant parties. These details will also be available in our website www.tariffauthority.org.

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

- (i). The existing Scale of Rates prescribes a concession of 10% in port dues, pilotage and berth hire for all container vessels. The proposal in hand is to further liberalise the existing discount scheme for container vessels. The intention of the port is to attract container trade and make better utilisation of the dedicated container terminal developed under the BOT arrangement. The analysis furnished by the VPT shows that vessel related charges for container vessels even after the 10% discount allowed now are more than the neighbouring container port. In this backdrop, the proposal of the VPT is to be seen as setting promotional tariff so that it can find a place in the competitive container market. It is noteworthy that not only the VPT but even established container terminals at CHPT and TPT are offering discounts to container vessels to remain competitive.
- (ii). There can be an opinion that the regulator should not have any objection to approve proposals for allowing discounts which may allow the service provider a flexibility in marketing and benefit the user community. While this position is generally accepted, care should be taken to ensure that discount allowed to one segment of traffic should not in long run increase the burden on other segments. If volume remaining more or less static, discount allowed at one place will have repercussion on other activity/segment in the cost plus model of tariff setting being adopted now. In the VPT case, however, the port anticipates growth in container traffic. The private terminal operator has also echoed similar views. The users have welcomed the proposal. Further, the VPT has indicated that even after the proposed discount, it will recover variable cost of operation, though this statement is not substantiated by any cost analysis. Since such an analysis may not be carried out in isolation for only one category of tariff, it can be conveniently done at the time of the next general revision of tariff exercise. Till such time volume builds up to off set the revenue loss on account of the proposed discounts, the VPT must adjust such loss from the return on capital employed allowed to it in the last general revision of tariff; it cannot seek tariff increase elsewhere to compensate the drop in revenue in vessel-related activity on account of the proposed discount.
- (iii). This Authority has already approved a discount scheme for mainline container vessels at the TPT. A similar proposal made by the CHPT has also been approved by this Authority recently. Unlike the CHPT and TPT, the VPT has proposed to extend the concession to all container vessels without restricting it to mainline vessels only. It has even conceded to the demand of INSA and SCI to allow such concessions to combi-vessels which handle 150 TEUs taking import and export together. Viewing the proposal as the commercial judgement of the VPT, this Authority has no reservation to approve it.

- (iv). The proposal is to allow discount on the sum total of port dues and pilotage. The INSA has requested to allow the discount on individual components as there can be some rare case where one of the two charges may not become chargeable. This request is found to be reasonable and hence allowed
- (v). Ordinarily, an amendment in vessel related charges comes into effect 30 days after its notification in the Gazette of India. Since this case is not for increasing the charges but to allow discount and put a ceiling on the chargeable amount, the scheme is made effective from the date of notification of the Order in the Gazette of India. Significantly, the dedicated container terminal is proposed to be commissioned with effect from 11 June 2003 and hence early implementation of the Scheme may be beneficial to the Trade.

6. In the result, and for the reasons given above, and based on a collective application of mind, this Authority approves the following:

- (i). 35% discount in the sum of port dues and pilotage instead of the existing 10% discount for container vessels upto 27000 GRT.
- (ii). 25% discount in the sum of port dues and pilotage for container vessels more than 27000 GRT subject to a maximum levy of US \$ 12,500.
- (iii). The discount will be applicable to dedicated container vessels as well as combi-vessels which handle more than 150 TEUs taking import and export together.
- (iv). When either port dues or pilotage is not leviable, the discount shall be allowed on the chargeable component of tariff.

7. The VPT is directed to include these provisions in its Scale of Rates appropriately.

(A.L. Bongirwar)
Chairman