Chapter 1

Introduction

MAJOR PORTS


KANDLA PORT
KOLKATA PORT
MUMBAI PORT
JAWAHARLAL NEHRU PORT
PARADIP PORT
VISAKHAPATNAM PORT
MORMUGAO PORT
NEW MANGALORE PORT
KAMARAJAR PORT
CHENNAI PORT
COCHIN PORT
V.O. CHIDAMBARANAR PORT

CHAPTER 1

Introduction

1.1 Profile of Port Sector

India is a major maritime nation with a long coast line of around 7517 kilometer. 95 *per cent* of India's international trade takes place through her 12[1], Major Ports[2] and 200 Non-major Ports. All the Major Ports, are administered by Government of India (GoI) through Ministry of Shipping (MoS) (Ports Wing). 11 of the 12 Major Ports are regulated by the Major Port Trusts Act, 1963 and one Major Port, namely, Kamarajar Port Limited (KPL) is a company registered under the Indian Companies Act, 1956. The Non-major Ports are under the jurisdiction of concerned State Governments and Union Territories.

1.2 Organizational Set-up

The 11 Major Port Trusts are administered by their respective Board of Trustees[3], headed by the Chairman. The members of the Board are nominated by Government of India from various stakeholders of the port such as shippers, ship owners, government departments concerned and port labourers. Day-to-day activities of ports are managed by the Chairman assisted by Deputy Chairman, Traffic Manager, Chief Engineers, Financial Advisor and Chief Accounts Officer (FA&CAO), Secretary (Administration), Deputy Conservator, and Chief Vigilance Officer.

Details of traffic handled by all the Ports and share of Major Ports as well as performance of Major Ports for the five years ended 31 March 2014 are given in Table 1.1 below:

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Total traffic handled by all Ports (MMT)	849.95	884.88	913.33	933.92	972.71
Total traffic handled by Major Ports	561.09	570.03	560.14	545.79	555.49
Percentage traffic handled by Major Ports	66.01	64.42	61.33	58.44	57.11
Capacity of Major Ports (MMTPA)	616.73	670.13	696.53	744.91	800.52
Capacity Utilization (in percentage)	90.98	85.06	80.42	73.27	69.39
Operating Income (₹in crore)	7262.84	7649.89	8095.63	7927.64	9162.80
Operating Expenditure (₹in crore)	4884.29	5089.26	5524.26	6120.21	6643.90
Operating Surplus (₹in crore)	2378.55	2560.63	2571.37	1807.43	2518.90
Operating Ratio (in percentage)	67.25	66.53	68.24	77.20	72.51

Total traffic handled by Major Ports was 561.09 Million Metric Ton Per Annum (MMTPA) in 2009-10 which reduced to 555.49 MMTPA in 2013-14, while the traffic handled by Non-major Ports increased by 44.44 *per cent* from 288.86 MMTPA (2009-10) to 417.22 MMTPA (2013-14). This would show that Major Ports are losing traffic to the Non major Ports.

---

1 KPT, MbPT, JNPT, MPT, NMPT, CoPT, VOCPT, ChPT, KPL, VPT, PPT and KoPT.

2 Major Port means any port, which the Central Government may by notification in the Official Gazette declare, or may under any law for the time being in force have declared, to be a Major Port. (Section 3 (8) of the Indian Ports Act, 1908.)

3 Not more than 19 persons in case of Mumbai, Kolkata and Chennai and not more than 17 persons in case of other Ports. In case of Kamarajar Port Limited, Ennore, the day to day activities are managed by the Board of Directors headed by the Chairman cum Managing Director assisted by various functional Directors.

The Major Ports face a serious challenge to modernize operations to be globally competitive by addressing constraints like old and inadequate infrastructure, low draughts, inefficient cargo handling systems, poor hinterland connections, absence of night navigation facilities, high turnaround time for vessels, etc.

1.3 Public Private Partnership (PPP) Projects

With a view to harness the potential of the private Sector, Government have formulated policies to attract them for infrastructure development through PPP. 'PPP is a project based on a contract or Concession Agreement (CA) between a Government or statutory entity on one side and a private sector company on the other side, for delivering an infrastructure service on payment of user charges'[4]. The usually adopted PPP models are BOT, LOT, BOOT and DBFOT[5]. The concessionaire collects revenue generated from the Project Facilities and Services based on the Scale of Rate (SoR)/ Tariff fixed by the Tariff Authority for Major Ports (TAMP) and shares the agreed percentage of revenue with ports.

1.4 PPP Projects-Operational Framework

Private sector participation in infrastructure development requires a framework that would enable the private sector partner to secure a reasonable return, assure the user of adequate service quality at an affordable cost and facilitate the Government in obtaining value for public resources. This is expected to be achieved by establishing clear and transparent norms for the PPP and by entering into unambiguous and specific contractual relationship. GoI, with the above objectives, initiated various measures such as:

- Issued (October 1996) Guidelines to be followed by Major Ports Trusts for private sector participation in the Major Ports;
- Approved (July 2005) a Scheme for Financial Support to Public Private Partnerships in Infrastructure to be administered by MoF from the budgetary provisions in the Annual Plans on an year-to-year basis. The quantum of financial support in the form of capital grant also known as Viability Gap Funding (VGF), is subject to a maximum of 20 *per cent* of the total project cost;
- Set up (November 2005) Public Private Partnership Appraisal Committee (PPPAC)[6] constituted by the Cabinet Committee on Economic Affairs (CCEA), to be serviced by the Department of Economic Affairs (DEA) to fast track the appraisal and approval of PPP Projects of all sectors, where the capital costs of the assets are ₹250 crore or more;
- Notified (January 2006), Guidelines for Formulation, Appraisal and Approval of PPP Projects;
- Prescribed (December 2007), Guidelines for Bidding Process for PPP Projects for selection of the bidder for award of the project;

[4] Defined by Secretariat for the Committee on Infrastructure, Government of India.
[5] Build Operate and Transfer(BOT), Lease Operate and Transfer (LOT), Build Own Operate and Transfer (BOOT) and Design Build Finance Operate and Transfer (DBFOT)
[6] Members consist of – Secretary, Department of Economic Affairs (in the Chair); Secretary, Planning Commission; Secretary, Department of Expenditure; Secretary, Department of Legal Affairs; and Secretary of the Department sponsoring the project.

- ❖ Evolved (January 2008) a Model Concession Agreement (MCA) for private sector projects in Major Ports containing provisions aimed at safeguarding the interest of the Government and other stakeholders; and
- ❖ Prescribed (May 2009) Guidelines for Monitoring of PPP Projects, approved by the Committee of Secretaries in April 2011. Accordingly, the project authorities may create a two-tier mechanism for monitoring the performance of PPP Projects consisting of:

  (i) PPP Project Monitoring Unit (PMU) at the project authority level; and

  (ii) PPP Performance Review Unit (PRU) at the Ministry or State Government level, as the case may be.

1.5 Audit Objectives

Audit of the PPP projects of Major Ports was conducted with a view to ascertain whether:

- The PPP projects were taken up as envisaged in the National Maritime Development Programme (NMDP) and Maritime Agenda;
- The PPP projects were formulated, appraised and approved in accordance with the guidelines notified by Ministry of Finance (MoF);
- The PPP partners were selected transparently through competitive bidding as prescribed in the guidelines issued by MoF;
- The PPP projects were implemented within the specified timelines and, on completion, resulted in improvement in services/efficiency;
- Major Ports and the Ministry had appropriate project monitoring and review set up to plan and implement PPP projects, and
- The user charges were fixed by the Regulator i.e. TAMP and the revenue was received by the Ports as per the revenue sharing arrangements.

1.6 Audit Scope and Methodology

The sample selected by Audit for scrutiny includes all projects[7], with cost above ₹100 crore each, taken up during the period up to 31 March 2014 by Major Ports. Audit thus, covered 61 projects (67.03 *per cent*) with estimated cost of ₹55764.59 crore (87.52 *per cent*), out of total 91 projects with total estimated cost of ₹63712.95 crore sanctioned up to 31 March 2014. Of the 61 projects, 27 were sanctioned under BOT, 21 under DBFOT, one under BOOT, two on nomination basis and decision on the mode of implementation of the balance 10 projects are yet to be finalized ***(Annexure I)***.

The methodology adopted involved explaining audit objectives to Port management through Entry Meetings (June to July 2014) at each port, scrutiny of records at administrative office of the ports, interactions with the officials, conducting site inspections, analysis of data with reference to audit criteria, raising of audit queries, and issue of draft audit report to the Management for comments. In addition, data available on the website of MoF, MoS and other recognized public domains related to PPP projects on port sector was utilized for effective audit understanding and conclusion.

[7] Excluding projects undertaken by Public Sector Undertakings.

Audit findings were discussed during the Exit Conference on 12 October 2015 in which Additional Secretary, MoS and other senior officers of MoS and Ports were present.

1.7 Audit Criteria

Audit criteria adopted for assessing the performance of PPP projects were taken from the following sources:

- Guidelines for Formulation, Appraisal and Approval of PPP Projects;
- Guidelines for Monitoring of PPP Projects;
- Recommendations of PPPAC;
- Guidelines for Pre-qualification and Financial Bids of Bidders for PPP Projects;
- Strategic /Perspective Plans prepared by Major Ports;
- Feasibility Study and Detailed Project Report (DPR) conducted by Major Ports;
- Board Agenda and Minutes;
- Tender documents;
- Memorandum of Understanding and Concession Agreements (CA) and
- Model Concession Agreement (MCA) for ports.

1.8 Audit Findings

The audit findings are organized in the following chapters:

Chapter 2	Planning
Chapter 3	Selection of PPP Partner
Chapter 4	Implementation and Monitoring of Projects
Chapter 5	User Charges and Revenue Sharing
Chapter 6	Conclusion and Recommendations

1.9 Acknowledgement

Audit acknowledges the cooperation extended by the Management of Major Ports and the Ministry of Shipping during the course of this audit.