Corporatisation of Major Ports in India- the game changer
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Abstract: Ports in India can be broadly classified into major and non major ports (minor). The major ports are governed by the Central Government and the minor ports are under the jurisdiction of the respective State Governments or Maritime Boards. The minor ports have been developed mostly on PPP models and therefore they are more vibrant. Of late the performance of major ports has taken a backseat due to intense competition from minor ports and the government is seriously considering the option of corporatisation in order to strengthen them. Corporatisation has been on the government agenda for almost a decade but could not be achieved due to opposition from interest groups. Under such circumstances this article discusses if it is a suitable option for India.

Key Words: Corporatisation, Port efficiency, Public limited companies

I. Introduction
Ports play an important role in the economic development of a country. The efficiency of ports determines the foreign trade prospects of a country. In India there are about 13 major ports and 176 non major ports [1]. After liberalisation India’s burgeoning foreign trade has put lot of pressure on ports. To cope with this several ports have gone for expansion plans. Privatisation and FDI was allowed into the port segment. The Indian government has allowed FDI up to 100% for construction and maintenance of ports. In addition, the government provides a 10-year tax holiday for companies that undertake port projects [2]. So far, there are 34 projects on Public Private Partnership (PPP) mode in operation in major ports with an investment of Rs.11,524.42 crore [3]. Despite the port promotion measures, Indian ports, particularly major ports are severely lacking in terms of efficiency when compared to international standards. The factors that have led to inefficiency of the sector are:

- Most major ports were originally designed to handle specific categories of cargo, which have declined in time while other types of cargoes gained importance. The ports have not been able to adjust to the categories of cargo which grew the most. There are, thus, several berths for traditional cargo, which are underutilised, and only a few for new cargo, which are over-utilised.
- Over staffing at Indian ports remains rampant and productivity indicators in respect of cargo and equipment handling continue to be poor.
- Documentary procedures relating to cargo handling such as customs clearance requirements are unduly complicated and time consuming.
- Port access facilities and arrangements for moving inbound and outbound cargo are inadequate and unsatisfactory.
- Average draughts available at major ports are much below the international standards and therefore they are not able to handle bigger size vessels.
- Inter-port and intra-port competition, which has been much conducive to productivity increases in other countries is absent in India due to poor inland connectivity and a policy regime that has protected domestic ports against competitive pressures.

The impact of these shortcomings has been severe on the Indian economy. Many large liner ships are not willing to call on Indian ports as they cannot afford to accept the long waiting time. Indian container cargo is transhipped in Colombo, Dubai or Singapore resulting in additional costs and transit times [4]. Therefore there is an urgent need to restructure the port sector particularly the major ports in order to improve efficiency and reduce costs.

II. Port administration in India
India has a federal structure under which maritime activities are governed both by the Central and the State governments. The major ports are under the Ministry of Shipping, Government of India and are administered by the Major Port Trust Act, 1963. As per the act, each major port is governed by a Board of Trustees appointed by the Government of India. The Minor ports are placed under the jurisdiction of the respective State Governments.
or Maritime Boards and are governed by the Indian Ports Act 1908[5]. At the State level, the department in charge of ports or the State Maritime Board is responsible for formulation of water front development policies and plans, regulating and overseeing the management of state ports, attracting private investment in the development of state ports, enforcing environmental protection standards etc. Maritime boards have so far been constituted in the states of Gujarat, Maharashtra and Tamil Nadu. Between the major and the minor ports, the minor ports in India have better operational efficiencies as they are under the state governments and have been developed mostly on Public Private Partnership (PPP) models. They are more modernised and customer oriented. The major ports which are under the Central Government have serious issues such as capacity constraints, lack of modernisation etc. The Expansion plans of these ports also have hit a roadblock due to lack of interest from private port operators and inefficiency by port officials [6]. In recent years the major ports are facing stiff competition from non major ports. According to a recent Citi report, the market share of major ports has dipped from 93% in FY1990 to 57% in FY2014, whereas the share of non major ports have increased from 7% in 1990 to 43% in 2014.


In cargo handling also the major ports are losing their share to non major ports. The following table shows the year wise traffic handled at the major and minor ports. The total traffic volumes of non-major ports continued their upward trajectory with 42.89% share in traffic handled at Indian ports in 2013-14, which was only 25.08% in 2001-02. The non major ports had a share of 74.92% in 2001-02 but dropped to 57.11% in 2013-14.

### Table -1

<table>
<thead>
<tr>
<th>Year</th>
<th>Major ports</th>
<th>Non major Ports</th>
<th>Total</th>
<th>% Share Major ports</th>
<th>% Share of non of major ports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2002</td>
<td>287.58</td>
<td>96.27</td>
<td>383.85</td>
<td>74.92</td>
<td>25.08</td>
</tr>
<tr>
<td>2002-2003</td>
<td>313.55</td>
<td>105.17</td>
<td>418.72</td>
<td>74.88</td>
<td>25.12</td>
</tr>
<tr>
<td>2003-2004</td>
<td>344.79</td>
<td>120.84</td>
<td>465.63</td>
<td>74.05</td>
<td>25.95</td>
</tr>
<tr>
<td>2004-2005</td>
<td>383.75</td>
<td>137.83</td>
<td>521.58</td>
<td>73.57</td>
<td>26.43</td>
</tr>
<tr>
<td>2005-2006</td>
<td>423.56</td>
<td>145.53</td>
<td>569.09</td>
<td>74.43</td>
<td>25.57</td>
</tr>
<tr>
<td>2006-2007</td>
<td>463.78</td>
<td>186.12</td>
<td>649.93</td>
<td>71.36</td>
<td>28.64</td>
</tr>
<tr>
<td>2007-2008</td>
<td>519.31</td>
<td>203.62</td>
<td>722.93</td>
<td>71.83</td>
<td>28.17</td>
</tr>
<tr>
<td>2008-2009</td>
<td>530.53</td>
<td>213.20</td>
<td>743.73</td>
<td>71.33</td>
<td>28.67</td>
</tr>
<tr>
<td>2009-2010</td>
<td>561.09</td>
<td>288.86</td>
<td>849.95</td>
<td>66.01</td>
<td>33.99</td>
</tr>
</tbody>
</table>
Various models of corporatisation of port constitute a corporate restructure and relate exclusively to the port authority. A public limited company is established by legislation replacing the statutory authority, essentially to undertake landlord functions. Private sector business principles are adopted and, in most instances, commercial operations in the port are transferred to the private sector.

Corporatisation is therefore a change in the legal structure of the body and its presence in the port is maintained, although much reduced. A government owned corporation is established by legislation replacing the statutory authority, essentially to undertake landlord functions. Private sector business principles are adopted and, in most instances, commercial operations in the port are transferred to the private sector. Corporatization is therefore a change in the legal structure of the body [9].

The expected benefits of corporatization would include

- Functional Autonomy
- Increased Productivity and Efficiency
- Quicker and Timely Decision Making and
- Accountability of Management.

Countries across the world have adopted various models of port administration to make them more competitive. Various models of corporatisation have been adopted to infuse efficiency and professionalism into ports. The primary objective of all these models is to distance government involvement and to promote commercialisation.

The port of Rotterdam and Amsterdam, the two prominent ports in Netherlands have been converted into public limited companies and their experience throws light on the effectiveness of corporatisation which is discussed below. The available data on these two ports show that there has been considerable improvement in their performance after being corporatized.

<table>
<thead>
<tr>
<th>Year</th>
<th>Non Major Ports</th>
<th>Major Ports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-2011</td>
<td>570.03</td>
<td>314.85</td>
</tr>
<tr>
<td>2011-2012</td>
<td>560.13</td>
<td>353.02</td>
</tr>
<tr>
<td>2012-2013</td>
<td>545.79</td>
<td>387.87</td>
</tr>
<tr>
<td>2013-2014</td>
<td>555.50</td>
<td>417.13</td>
</tr>
</tbody>
</table>

Source: e magazine, Nov 2014, Indian Ports Association

In growth terms too, cargo volume at non-major ports has increased in double digit percentage terms for each of the past five five-year periods starting since 1990 while for major ports it is growing in single digits. The following figure gives the growth rate of cargo for major ports and non-major ports.
A. The Port of Rotterdam

In 2004, the Port of Rotterdam was transformed from a municipal department to an independently operating company. The port authority is an independent governmental public limited company with the municipality being the sole shareholder. The Port showed significant performance improvements after corporatisation. Port efficiency indicators such as market share, turnover, operating costs, profits, and investments improved considerably after corporatisation. Market share, a key indicator of competitiveness had declined from 38.6% in 1997 to 35.1% in 2003 prior to corporatisation. But after corporatisation, it has increased from 35.4% in 2005 to 37.0% in 2011 [10]. Reports show that prior to corporatisation, Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) had declined and net profit remained stable, but after corporatisation both indicators have improved significantly. Over the period from 2005 to 2011, EBITDA rose by 50% and net profit by 140% [11]. From 1997 to 2003, the organization grew in terms of staff but declined in terms of investments made in the port. This trend also has been reverted after corporatisation, since investments have grown very rapidly from about 150 million euro in 2005 to nearly 500 million euro in 2011[12]. Port dues and land rents, the two key revenue streams also increased considerably after corporatisation. Apart from performance indicators other developments such as increase in the volume of leased land and number of ship visits also portray the positive impact of corporatisation [13].

B. The Port of Amsterdam

The Port of Amsterdam was officially corporatized on April 1st 2013 as a public limited company with a single shareholder, the Municipality of Amsterdam. The move was made to help the port to grow and perform more efficiently and to boost economic activity of the region. After a year, the CEO of the Port of Amsterdam, proudly says that there has been an increase in the throughput of 1% to 2% [14] and that the corporatised status has given the port the opportunity to shift gears and enter into new collaborations. He said that the port has now become the Port of Partnerships which enables them to mobilize joint innovative forces and create value for their customers and environment. [15]

The Port of Amsterdam has achieved a turnover of EUR 143.3 million in 2013, after corporatisation, an increase of 3% compared to 2012. EBITDA in 2013 was EUR 89.4 million. The principal sources of income for this port are the port and harbour dues and the leasing of port sites. Income from port dues totalled almost EUR 50 million in 2013 and income from harbour dues was over EUR 6 million. At almost EUR 75 million, income from rents, ground lease and quayage contributed over 52% to total turnover [16].

While the above two cases present a positive picture about corporatisation, in most of the developed countries too the central government plays a limited role in port administration. It is generally left either to the state governments or local municipalities and the national government only plays a supportive role [17]. In US the government is involved in the dredging and maintenance of approach channels on a cost sharing basis with the concerned ports. In Germany the ports are under the respective city or state and the national government only takes up the responsibility of dredging and maintenance of approach channels. In Japan too there is greater involvement of municipalities and corporations. In UK the port sector is totally privatized and the government does not get involved in port development projects [18].

IV. Corporatization of major ports in India

The standard of major ports in India is much below the world average. Not a single port in India features among the top 30 largest container terminal ports of the world while China, the close competitor of India has been able to place 10 ports among the top 30[19]. The JNPT port which is supposed to be the high tech port of India was there in the list three years ago, but subsequently lost its status [20]. Under such circumstances, a model that would distance the government from day to day administration and pave way for commercialization is desirable. Taking a cue from the experience of the two international ports discussed above it would be appropriate if the major ports are converted into public limited companies. This would enable the ports to enter into partnerships and take up activities from a commercial perspective. The model would also give them more access to private investments as well as foreign direct investments which is the need of the hour. In addition the major ports should also be freed from tariff regulations and given the freedom to fix their tariff rates. However all this requires suitable amendments in law.

V. Conclusion

The major ports in India are plagued with high level of inefficiency. Internally also they are facing severe competition from non major ports and are losing their market share to them year after year. Given the increasing global competition in the port sector, it is imperative for these ports to re-invent themselves to keep ahead of competition. For this purpose the port management should be completely professionalized and truly autonomous. Operating as government owned trusts limits their abilities to meet the challenges of the market and severely restrict their responsiveness to market demands. Under such circumstances corporatisation can certainly give a thrust to these ports and help them become more vibrant.

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