

Newsletter for the week ended February 13, 2005

Berth privatisation at Visakhapatnam

A few private companies have shown interest in investing at Visakhapatnam port, following which the port trust has invited bids for its recently constructed Western Quay-7 (WQ-7) berth in its inner harbour. Visakhapatnam Port Trust has invested close to Rs 40 crore to complete the civil works and the berth can handle up to 60,000 dwt (dead weight tonnage) vessels in the inner harbour.

LNG terminal at Ennore

The storage terminal for liquefied natural gas (LNG), jointly promoted by the Indian Oil Corporation (IOC) and Chennai Petroleum is being set up in Ennore and is likely to be completed in 2009. The initial storage capacity would be 2.5 million tonne. Subsequently, the storage capacity would go up to 5 million tonne. The LNG stored in the terminal would be imported. IOC holds a 51.8 per cent equity stake in the company. The National Iranian Oil Company controls about 15.4 per cent of the equity.

Mumbai Special Economic Zone

The Asian Development Bank (ADB) and the International Finance Corporation (IFC) have in-principle agreed to fund the Mumbai Special Economic Zone (MSEZ) to the tune of \$75 million each. The Gujarat Positra Private Infrastructure Ltd. is developing the MSEZ. The MSEZ has picked up 74 per cent equity in Navi Mumbai SEZ Development Co Pvt Ltd. and the remaining 26 per cent is with the Maharashtra government. The first phase of this project will require an investment of Rs 2500 crores.

PSA acquires stake in HK ports business

NWS Holdings agreed to sell part of its assets in the Hong Kong Ports to PSA International, the Singapore state-owned port operator. NWS had sold its 54 per cent interest in Asia Container Terminals (ACT), a small port operator in the territory, and a 33 per cent stake in Container Terminal Three (CT3), to PSA.

GAIL stakes claim at Ennore LNG Terminal

The Gas Authority of India Ltd (GAIL) has staked its claim to become the lead promoter in the 2.5 million tonne per annum (MMTPA) LNG Terminal at Ennore. The company has disputed the venture between Indian Oil Corporation (IOC) and its subsidiary Chennai Petroleum Corporation Ltd. (CPCL) citing its past experience in LNG business. GAIL had originally mooted the idea for the LNG project way back in 1995 and a consultant roped in by it had zeroed in on Ennore after examining different locations.

Changes in terminal operators' eligibility

The Shipping Ministry has decided to extend 'two-terminal-per-operator' cap to an adjacent major port as well, such as Chennai and Ennore ports, Jawaharlal Nehru Port and Mumbai Port or Kandla and Haldia Ports as opposed to the initial plan to impose this cap to just one major port. This will bring in both inter-port as well as intra-port competition so that users have a choice not only among ports but even amongst operators within the same major port. Moreover, the existing private terminal operators would have no rightful claim for any additional quay length if the present quay length in their existing terminals is less than 1000 metres.

Increase in Indian tonnage continues

Indian Shipping Companies are busily adding tonnage encouraged by the good results despite the volatile freight market in the last quarter. Shipping Corporation of India has drawn up a massive \$1 billion capital expenditure programme to acquisition of new vessels and

Great Eastern Shipping plans to invest about \$350 million. Mercator Lines attributes its performance during the year on fleet expansion.

Switch over from royalty to revenue sharing at Tuticorin port

PSA-SICAL Terminals Ltd. the private entity operating a three-lakh twenty-foot equivalent unit (TEU) capacity container terminal at Tuticorin Port has requested for a switch over from the existing royalty format to a revenue sharing arrangement with Tuticorin Port Trust. A section of the Shipping Ministry is of the opinion that the shift from a royalty to a revenue share format mid-way through the concession and licence agreement period would create problems in the absence of a benchmark.

Kochi port reminds IRS about Steamer watchmen

The Kochi port authorities conveyed to Indian Registry of Shipping to reconsider its earlier direction of discontinuation of the service of steamer watchmen and they may be permitted to continue as watchmen on board the ships while the ships were anchored in the berth. The port had earlier made a representation to IRS in August 2004 to review its recommendation of discontinuing the service of steamer watchmen and decided to reduce the number of watchmen by offering a voluntary retirement scheme (VRS) in which 72 people opted for VRS leaving a balance of 40, who desired to continue in employment. Despite reduction of number of persons, IRS stuck by their original recommendation of discontinuing the service of watchmen.

Tuticorin port's plan for outer harbour

Tuticorin Port Trust's (TPT) plan to develop the outer harbour at a cost of Rs 2,150 crore has been approved by the Government. The outer harbour would have a draft of 14 to 16 metres for container handling and bulk cargo with private sector participation. TPT is preparing a feasibility report on the project, for seeking Government approval taking up this project under BOT (build, operate and transfer).

Adanis into shipbuilding

Gujarat Adani Ports Ltd (GAPL), a joint venture of the Adani Group and the Gujarat Government that runs the Mundra Port, is planning to enter into the shipbuilding, repair and breaking business. The proposed shipbuilding and repair yard will have the capacity to take up to 100 vessels for repairs or breaking in a year. The yard will be equipped with modern ship-lifts, laterally moving winches and dry docking facilities. It would also build vessels as and when the company gets orders.

Uncleared coal import at Paradip

Paradip Port Trust (PPT) may impose a penalty on nearly two lakh tonnes of imported coal, both coking and non-coking varieties, lying uncleared within the port premises for more than 45 days. This accumulation is mainly on account of traders who find it unremunerative to shift the coal out of the port premises due to low market prices. PPT is planning to use the stackyard (capacity of 6.5 lakh tonnes) adjacent to its mechanised coal handling plant for the purpose of stocking other minerals including imported non-thermal coal.

Juicy Bits

- Mercator Lines will issue foreign currency convertible bonds (FCCB) or global depository receipt (GDR) to raise \$60 million to set-up or acquire an overseas subsidiary after seeking approval by the Board this week.
- Paradip Port handled more than one million tonnes (mt) of iron ore for export in January 2005, the highest-ever iron ore throughput achieved in any month.

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Dubai Ports International to commence operations at RGCT next month

Dubai Ports International (DPI) is expected to commence operations at Rajiv Gandhi Container Terminal (RGCT) latest by April 2005. The first phase of the new terminal Vallarpadam Transshipment Container Terminal (VTCT) will have a capacity of 1 million twenty foot equivalents (TEU) and cost approximately \$135 million and will be completed in four years. It will consist of 600m of quay, six super post Panamax quay cranes and on dock railhead serviced by rail mounted gantry cranes. The total cost of the project estimated at \$500 million will be funded by DPI through non-recourse debt funding.

Kandla port to privatize two berths

Three companies have been shortlisted through a bidding process for privatizing two berths at the Kandla port. The project cost is estimated at Rs 200 crore. The private operator, who takes up the berths will be responsible to build a container terminal at the site on a BOT basis. The operator will pay a sum of Rs 40 crore every year, including an upfront fee, lease rent and other charges, to KPT for a period of ten years. Berth numbers 11 and 12 have been identified for the terminal with a designed draft of 13.5 metre, supported by an operational area of 40 hectares of land around the berths.

Cabotage laws to be revisited

As part of the new maritime policy the government is open to allowing vessels of neighbouring countries like Pakistan, Myanmar, Dubai, Sri Lanka and Bangladesh to sail in India's coastal waters through a relaxation in the Cabotage law. At present, only Indian flag vessels are allowed to sail in coastal waters. This will increase competition in coastal shipping and also improve trade with these countries. The shipping ministry intends to insist on a reciprocal relaxation from these countries.

Wartsila in LNG carriers' technology

Wartsila India plans to enter the LNG shipping fray by providing dual fuel engine technology and machinery for LNG carriers. The company's immediate focus would be on those shipping companies that are expected to participate in the upcoming tender from Petronet LNG for three to four LNG carriers. Wartsila's dual-fuel engines with an electric propulsion system, will enable LNG carrier operators to get more out of their LNG carrier than with the traditional steam turbine installation. It increases the efficiency of operations and the ship's cargo carrying capacity. Also, the exhaust gas emissions are very reduced and machinery redundancy is much improved.

Chennai Container Terminal faces problems of small sorts

Management meeting at Chennai Container Terminal came to an abrupt halt when four workers disrupted the meeting, by threatening the management with dire consequences. Notice of suspension have been issued as the four employees had indulged in gross indisciplinary behaviour, defiance of authority and disruption of CCT's chief executive officer, Ennarasu Karunesan's management meeting. As per the provisions of the long term settlement signed with the union on August 2, 2004 before the Regional Labour Commission, the union had agreed not to resort to any go slow or strike tactics. But the terms of the agreement have been violated several times since then.

Shipping Ministry criticizes imposition of congestion surcharge

The government on Monday criticized the move to impose \$14 per TEU (twenty foot equivalent units) from March 1 at JN Port by container shipping lines under the India, Pakistan, Bangladesh, Ceylon conference (IPBCC) from March 1 on the grounds that it was not justifiable as there is no congestion. Though IPBCC had suspended congestion charge of \$20 per teu imposed in February, the member lines have proposed to impose \$14 per TEU

handled at ports of Mumbai region from March 1 following a review on additional cost incurred.

SEZ investment made attractive

In order to make it attractive for investors the government is set to include SEZs in the list of specified ports for import and export and treat supplies to SEZs as physical exports instead of deemed exports. The directorate general of foreign trade (DGFT) has issued a public notice making amendments in the handbook of procedures, including the existing SEZs at Santacruz, Kandla, Kochi, Vishakhapatnam, Chennai, Kolkata, Surat and NOIDA as specified ports for import and export. For the amendment, SEZs stand notified as ports for buyers to avail the benefits of advance licence and export promotion capital goods schemes for purchases made from SEZs. The revenue department has issued a notification stating that supplies to SEZs would be given the status of physical exports, and suppliers would be able to collect drawback payments as per the existing guidelines.

Minor ports to get attention

Laying the foundation stone at the Vallarpadam Container Terminal, Prime Minister Dr. Manmohan Singh has said that the Centre is actively considering the Union shipping ministry proposal to provide financial assistance for the development of minor ports. The more-than-150 minor ports spread across the country can be effectively developed to bring about the competitive advantage and provide a boost to Indian trade in the global market. Besides, development of ports also boosts the internal economy in terms of generating more employment, directly and indirectly through activities like road transport, warehousing, repairs, training and related activities.

Different schemes being planned out to woo mainline vessels

The National Maritime Development Programme (NMDP) is planning to include providing differential levels of tariff for different sizes of vessels or for different cargoes to attract mother ships to berth at Indian ports, rationalisation of port dues and increasing the draft available at Indian ports. This might reduce India's dependence on neighbouring ports such as Colombo, Singapore, Dubai and Salalah for transshipment of in-bound and out-bound cargo. Transshipment of cargo outside India leads to delay in cargoes reaching their final destinations besides entailing extra costs, eroding India's competitiveness in global trade. Differential tariffs are being proposed to reverse this trend and make it attractive for mother vessels to dock at Indian ports.

Tuticorin port may handle large container vessels

The Tuticorin Port Trust (TPT) will be submitting a Detailed Project Report to the Shipping Ministry before March 31 for deepening the draft at the harbour basin to a depth of 12.8 metres. This will help in handling larger vessels. There is also a proposal for the construction of berth No. 9 and conversion of berth No. 8 into a container berth. The Central Government has already accepted the proposal to develop the outer harbour facilities at a project cost of Rs 2,150 crore, including a draft of 14-16 metres for container and bulk cargo handling.

Transworld to take up stake in India Gateway Terminals Pvt Ltd.

The Transworld group may take a 4-6 per cent stake in India Gateway Terminals Pvt Ltd. the special purpose vehicle (SPV) floated by Dubai Ports International (DPI) to develop and operate the proposed international container transshipment terminal at Vallarpadam near Kochi port. The shareholding structure of India Gateway Terminals will have DPI holding a majority stake of 74-76 per cent, Concor having 15 per cent and local steamer agents Chakiat Agencies Pvt Ltd holding 5 per cent, besides Transworld's holding.

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SCI for JNPT's fourth terminal

Shipping Corporation of India (SCI) is planning to bid for the proposed fourth container terminal at Jawaharlal Nehru Port Trust (JNPT), but as a minority stakeholder. The company would tie up with some of the international terminal operators for bidding and be a minority stakeholder. The project cost for the fourth container terminal is varying from Rs 2,500 crore to Rs 4,000 crore. JNPT has not yet firmed up the project details for the upcoming container terminal.

Chennai Container Terminal counters the go-slow tactics of the workers

The Chennai Container Terminal Private Limited (CCT) has brought in 10 crane operators from the Jawaharlal Nehru Port-located Nhava Sheva International Container Terminal (NSICT) to counter the go-slow tactics adopted by its workforce. The Madras High Court, had on February 16, 2005, granted an interim injunction restraining the workmen from resorting to go-slow tactics or going on strike. As permitted by the Madras High Court, CCT is arranging contract labour who are being trained in both yard and yard crane (RTG) operations.

SEZ in good favour

The finance ministry may grant income tax exemption to units in special economic zones for 10 years. There is also a suggestion that duty forgone should be paid as countervailing duty along with Customs duty at the time of a sale from an SEZ unit to a DTA unit. At present, a SEZ unit buying inputs from the DTA does not have to pay any excise duty. Therefore, the unpaid amount on purchase from the DTA is termed duty forgone.

Taxation on port cargo likely

The Finance Minister may impose a cess of 5 per cent on cargo handling. A scheme has been designed to propose joint venture between minor ports and major ports without tender and between major ports and companies following tender invitations. This is within the overall scheme for developing the port infrastructure in the country.

Shipping agents to be regulated

The Shipping Ministry is proposing a bill to regulate the shipping freight forwarders and the agents. The bill proposes to make it mandatory for the shipping agents to register with the Directorate of Shipping. If passed, the bill will make it mandatory for freight forwarders and consolidators to arrive at the rates charged from exporters only after consulting with them in advance.

Maritime Commission

The Shipping Ministry is contemplating setting up of a Federal Maritime Commission for regulating shipping agents on the lines of a similar body existing in the US. The Commission will be vested with the powers to impose sanctions on other countries. This is a long term measure. To begin with, the Ministry is looking at formulating the new Shipping Trade Practices Act.

Congestion at Kandla port

The DGFT has issued a new mandatory pre-inspection norm following discovery of ammunition in containers loaded with ferrous scrap meant to be sent to a steel maker. Due to this, the custom authorities are delaying handing over scrap shipment to the traders. The related industries have hence been affected. This norm is uniformly imposed on both ferrous as well as non-ferrous metals. The dealers argue that both these types of metals cannot be packed together and to prepare an ammunition one requires ferrous metal compulsorily. But all the containers have been resorted to this check, resulting in congestion.

Kolkata Logistics Hub

The West Bengal Government plans to float global tenders for a logistics hub near Kolkata by way of public-private partnership. This will be the first of its kind in the country. The main objective of launching the project is to rid the city of the heavy movement of goods transport and create an enabling atmosphere for wholesale and retail trade in the periphery of the metro area. The project, with a built-up space of 4.5 million square feet will be complete with a truck terminal, modern and specialised warehouses with `reverse logistics' facilities, parking space, wholesale and retail trading platforms, office and institutional space, accommodation and facilities for repairing and refuelling of the trucks.

Alternative methods for dredging suggested

Two suggestions were made at the `Indo-US Summit on Partnership in Building India's Infrastructure' in Delhi held on February 9 and 10. The first was to adopt the annuity concept for dredging works (both capital and maintenance) at major ports and, the second was to have a variable revenue share for building and developing cargo-handling terminals at major ports. The annuity method involves payment of a fixed semi-annual sum to the project operator to compensate for the capital costs, operation and maintenance expenses plus a certain percentage of returns. The private operator is paid the annuity amount if he operates and maintains the facility as per standards specified in the concession agreement. Under this concept, the private operator quoting the lowest annuity amount is awarded the contract.

IOC gets the upper hand

The high-level Committee of Secretaries (CoS) has agreed to allow Indian Oil Corporation (IOC) to make its own shipping/chartering arrangements directly for crude oil imports for a period of one year on a trial basis without going through Transchart, the centralised chartering wing functioning under the Shipping Ministry.

Star Tarck at Dadri commences operations

Star Track Terminals Pvt Ltd, a container freight station jointly developed by Maersk India Pvt Ltd and Container Corporation of India Ltd within the inland container depot (ICD) complex at Dadri in Greater Noida, Uttar Pradesh, has commenced full-fledged operations as a common user facility. The CFS occupies 45,000 sq mt of the ICD Dadri Complex with a capacity to accommodate 75,000 twenty-foot equivalent units (TEUs) per annum in the first stage. The company has the right to develop a further 20,000 sq mt and expand the station which will increase the total capacity to 1,25,000 TEUs. The CFS is fitted with modern infrastructure for container handling and Custom-bonded warehousing.

Juicy Bits

- The Kerala state government has appointed IL&FS Infrastructure Development Corporation (IDC) to examine economic and technical proposals for the development of Bepore, a minor port located near Kozhikode.
- Modern Terminals (MTL), the second largest operator at Hong Kong's Kwai Chung container port, is planning to spend HK\$1.2 bill (US\$154 mill) to upgrade its older facilities and increase handling capacity by 25 per cent.
- GE Security and China International Marine Containers (CIMC) have successfully completed the first commercial field test of the Tamper. Evident Secure Container (TESC), which integrates GE's Commerce Guard container security device into a standard marine container

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Dhamra Port

The Rs 1700-crore Dhamra port project, being developed by L&T and Tata Steel as a 50:50 joint venture might see its financial closure in May. L&T is restructuring International Sea Ports (India) Private Limited, a joint venture among L&T, Precious Shipping Company Ltd of Thailand, and Stevedoring Services Associates (SSA) Inc of the US, a wholly-owned subsidiary of the Singapore-based ISPL, which was the original promoter of the port development project. Precious Shipping and SSA had walked out of the project in 2002 citing undue delays in finalising the concession agreement. As per the variable revenue sharing model, the L&T-Tata Steel combine will have to share five per cent of the annual operating gross revenues with the Orissa Government for the first five years after commencing operations at the port. The revenue share percentage will increase to eight per cent from the sixth year onwards till the 10th year, after which it will rise to 10 per cent till the 15th year. The revenue share will be 12 per cent from the 16th year onwards till the remainder of the concession period of 34 years.

Marine Insurance

The government-owned general insurance companies are not too keen on the free pricing of the marine hull and machinery insurance. They argue that the deregulation should not be on a selective basis. They want free pricing to be introduced simultaneously for all regulated insurance schemes. But the shipping companies are trying to push it as their current insurance cost is 25-30 per cent higher compared to that of their competitors abroad.

Concor Coimbatore ICD area is Customs notified

The Central Board of Excise and Customs (CBEC) has declared Irugur village near Coimbatore, where the Container Corporation of India (Concor) is setting up a new inland container terminal complex, a Customs notified area. Estimated to cost Rs 2 crore in the first phase, the Irugur complex will be operational by March-end or early April.

Gateway Terminals achieves financial closure

Gateway Terminals India Pvt Ltd, a special purpose vehicle floated by Danish shipping and oil conglomerate Maersk A/S and railway PSU Concor, for building and operating a new box terminal at the premier Jawaharlal Nehru Port, has reached financial closure of the over Rs 1,000-crore project. ABN Amro Bank has agreed to roll the debt component of the total project cost. Maersk holds a majority stake of 74 per cent in the SPV while the remaining 26 per cent is with Concor. Gateway Terminals is planning to raise about Rs 700 crore from banks and financial institutions to fund the project.

Vizhinjam Container terminal project

The Kerala Ports Department has floated a fresh tender inviting bids for developing the container terminal at Vizhinjam. So far five companies has asked for the request for proposal (RFP) to submit techno-economic bids and more have sought information on the project. A pre-bid meeting is scheduled to be held in March during which the project structure will be discussed. The last date for submitting the bids has been tentatively fixed as April 20.

GE Shipping bags deal to supply crude for MRPL

G.E. Shipping has won a one-year deal, beginning April 1, 2005 worth around \$50 million to ship crude oil for Mangalore Refinery and Petrochemicals Ltd (MRPL), a subsidiary of ONGC Ltd., amidst stiff competition from Shipping Corporation of India, Mercator Lines Ltd, India Steamship Company Ltd and a few foreign lines. The deal involves shipping four to six parcels of 85,000-95,000 tonnes each of crude oil per month at a charter rate of around \$30,000 per day from Ras Tanura in Saudi Arabia and Kharag Island in Iran to MRPL's refinery in Mangalore. Mercator Lines had shipped crude for MRPL for the last two years

beginning 2003-04. Prior to that, GE Shipping had shipped crude for MRPL for four years in succession.

Maritime community's mixed reactions to the budget

With the reduction of corporate tax rate, effective tonnage tax for shipping industry will also reduce. Also, with the Government identifying the port sector as one of the four sectors to be supported through SPV for infrastructure projects, investments in ports and port-related projects are expected to get a boost. Although the dredging sector has been brought under the tonnage tax regime, inland vessels have been left out. Though the Budget proposal did not offer any major direct benefits to the shipping industry, it, however, did provide in various measures for the development of the industry, which could benefit shipping in some ways. While including dredgers under the tonnage tax levy, dredging services at rivers, ports, harbours, backwaters and estuaries have been brought under the service tax net.

Tax treatment for sale of ship

Shipping companies selling ships that were acquired through funds built up with benefits accorded under Section 33 AC of the Income-Tax Act will have to pay tax on the sale proceeds only on the amount utilised from the reserve account for buying such ships and not on borrowed funds. The sale proceeds which represent the amount credited to the reserve account and utilised for acquisition of the ship would be deemed to be the profits and taxed. This amendment will take retrospective effect from April 1, 2004 and will accordingly apply in relation to the assessment year 2004-05 and subsequent years. Under Section 33 AC, shipping companies could transfer an amount equivalent to twice the aggregate of the paid-up share capital, the general reserves and the share premium account to a separate reserve account without paying any tax if the fund so set aside was used exclusively for new ship acquisitions.

Mumbai Port's box terminal

The Mumbai port recently launched fresh efforts to attract foreign and Indian port terminal operators to take up the box terminal project. With enquiries continuing to stream in from different prospective investors, both domestic and foreign port operators, the port authorities have once again extended the deadline for submission of RFQ document from February 14 to March 11. The interested parties include P & O Ports, United Liner Agencies of the JM Baxi Group, Dubai Ports International, Maersk India, Hong-Kong based IHCL, Evergreen Marine Corporation of Taiwan, L&T, ABG Heavy Industries, Adani Port and Afcons. The port has assured to improve the cargo evacuation facilities by providing better rail and road linkages. The cost of deepening of the channel to 15 mts at the berth side will not be burdened on the investors. The port is also willing to offer CFS space to the successful bidder if they want to set up their own CFS, apart from additional stacking space. The operator will be entitled to collect stevedoring charges and to set down its own tariff subject to approval of TAMP, apart from the port ensuring adequate evacuation facilities.

National Waterways-III to be opened to cargo traffic soon

In view of the increased movement of cargo through NW-III to 12.62 lakh tonnes from 11.88 lakh tonnes in 2002-03, IWAI has proposed to spend Rs 65 crore to widening and deepening of the channel by 2010 to make the Kollam-Kottappuram stretch fully operational by March. A 12-km stretch between Alappuzha and Kollam has to be developed before the entire NW-III was thrown open to cargo traffic. For widening the channel in this area, IWAI had acquired 21 hectares of land at a cost of Rs 10 crore. The authority is also planning to set up an inland container depot at Kottayam, which had a projected potential of up to 1,200 containers per month.

Juicy Bits

- ❑ The Government has cut customs duty on specified machinery/equipment for use in inland container depot (ICD)/container freight station (CFS) from 20 to 10 per cent.
- ❑ The Government has raised the excise duty on ships meant for breaking from 12 per cent to 16 per cent as per the Finance Bill, 2005.
- ❑ The Chennai port has crossed the target of 39.17 million tonnes set by the Union Shipping Ministry for fiscal 2004-05 by handling 39.19 mt on February 27, a month ahead of schedule.