

A Draft Bill that Cuts Maritime States Adrift



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Fishermen in Kakinada are overawed at the large ocean liner unloading coal at the Kakinada Port. The draft Indian Ports Bill, 2021, aims to centralise the administration of India's 212 Non-Major Ports, most of which are fisheries harbours. File photo: The Hindu BusinessLine

In most developed countries, ports are managed by municipal or provincial governments, with the federal government overseeing only border control, competition policy, port security, environment protection and hinterland connectivity. In India, Major Ports come under the exclusive jurisdiction of the central government and Non-Major ports under the respective State governments.

The recent history of India's port sector shows that Non-Major Ports have fared much better than Major Ports and are perceived as more business-oriented and customer friendly. According to the World Bank, this is because unnecessary regulatory and financial burdens were being imposed by the central government on Major Ports and their concessionaires. The last thing to be done, therefore, is saddling Non-Major Ports with the same handicaps as Major Ports. However, the draft Indian Ports Bill, 2021, does precisely that. Some of the maritime States, notably Gujarat, had successfully come up with novel initiatives on their own to attract huge private investments in portled development long before the Centre did so. The draft Bill will stifle such initiatives in the future.

In this article, K. Ashok Vardhan Shetty, former Vice Chancellor, Indian Maritime University, Chennai, and a retired officer from the Indian Administrative Service (IAS), highlights the core inadequacies of the draft Indian Ports Bill, 2021. The disagreement by maritime States over the intrusion into their powers, the overarching nature of the changes proposed which would centralise decision making and hamper the development of Non-Major Ports, and a flawed move away from the administrative principle of subsidiarity, are some important reasons why the draft Bill should "go back to the drawing board". In keeping with port reform strategies worldwide, any proposed changes, he emphasises, should move towards less centralisation and less regulation, and not more as proposed by the draft Bill.

I. Introduction

"If it ain't broke, don't fix it."

- Bert Lance (U.S. Politician, 1931-2013)1

n June 10, 2021, the Government of India put out the draft of the Indian Ports Bill 2021 for public discussion². This was the third time since July 2, 2020, that the Bill has been sent for consultation with stakeholders. The draft Bill continues to flounder in the choppy waters of India's politics and law-making as it has failed to win support not only from the political leadership of

the country's maritime States but also from sections representing trade and commerce.³

The larger objection is that despite the legalese that the draft Bill seeks "to empower a national council fostering structured growth and development of the port sector"4; its real aim is to curtail the freedom and powers of the maritime States to develop and administer their ports. In its own way, the draft Bill is a throwback to central planning and inspector raj in the port sector. This, despite international experience and India's own history having proven that such moves are self-defeating. Moreover, certain provisions in the draft Bill are likely to choke future port capacity addition, thereby hampering India's economic development. It is, therefore, not surprising that the draft Bill has been objected to strongly by all the maritime States.

India's 7,516.6 km-long coastline⁵, is home to a total of 224 ports. Of these 12 are Major Ports and 212 are Non-Major Ports⁶. Most of the Non-Major Ports are small fishing harbours and only 65 of them cater to international shipping². Maritime transport through these Major and Non-Major Ports accounts for about 95 per cent of the country's foreign trade by tonnage.

Major Ports are listed as item number 27 in the Union List and Non-Major Ports as item number 31 in the Concurrent List in the Seventh Schedule to the Constitution of India. While Major Ports come under the exclusive jurisdiction of the central government, Non-Major ports are under the respective State governments, with the Centre wielding overriding legislative and executive powers.

The State-wise breakup of Major and Non-Major Ports is given in the Table below:

<u>Table</u>
<u>Number of Major and Non-Major Ports in Maritime States</u>
(As on March 31, 2019)

[As on March 31, 2019]			
State / Union Territory	Number of Major Ports	Number of Non-Major Ports	Total Number of Ports
WEST COAST			
Gujarat	1	48	49
Maharashtra	2	48	50
Goa	1	5	6
Daman & Diu	-	2	2
Karnataka	1	12	13
Kerala	1	17	18
Lakshadweep Islands	-	10	10
EAST COAST			
Tamil Nadu	3	15	18
Puducherry	-	3	3
Andhra Pradesh	1	13	14
Odisha	1	14	15
West Bengal	1	1	2
Andaman & Nicobar Islands	-	24	24
Total	12	212	224

Source: Basic Port Statistics of India, 2018-19. Transport Research Wing, Ministry of Shipping, Government of India. 2020. (Table 1.1) p. 1

The terms 'Major' and 'Non-Major' are historical baggage; they are misnomers now because some Non-Major Ports like Mundra, Sikka, and Pipavay – all of which are located in Gujarat - have higher levels of investment and greater cargo volumes than Major Ports such as Kolkata, New Mangalore and Tuticorin.

The legal architecture of India's ports

Two key Union legislations governed the port sector: (1) the Indian Ports Act, 1908, which is common to all ports and deals with port conservancy, port charges,

The terms 'Major' and 'Non-Major' are misnomers the Major Port Trusts Act, 1963, now because some Non-Major Ports have higher levels of investment and greater cargo volumes.

pilotage services, etc., and (2) which is specific the governance of Major Ports.

Seven maritime States have enacted legislation creating their State Maritime Boards - Gujarat (1981), Tamil Nadu (1995), Maharashtra (1996), West Bengal (2000), Karnataka (2015), Kerala (2017) and Andhra Pradesh (2018)8. Each Maritime Board serves as a State-wide Port Authority which develops, regulates, and oversees the management of Non-Major Ports. Recently, the Major Port Trusts Act, 1963, was repealed and replaced with the Major Port Authorities Act, 2021. The Indian Ports Bill, 2021, proposes to do the same with the Indian Ports Act, 1908, and subsumes the State enactments on Maritime Boards.

II. Cross Country Comparisons

The principle of *subsidiarity* holds that public functions should be performed by the lowest possible tier of government, as long as they can be performed adequately. In other words, a central authority should have a subsidiary role, performing only those public functions which cannot be performed adequately at a more local level. If ports can be managed well by municipal and regional governments, then it is best done by them and not by the federal government. This

is the port governance model found in most developed countries vide the World Bank's report "Reforming India's Ports Sector" (2013)9.

The document devotes considerable space to port governance, provides international examples¹⁰, and goes on to make the point that

"Worldwide, port authorities at the local or regional level seem to be best placed to deal with, the roles of landlord and regulator. First, they are also in a better position to execute enhanced functions such as the shaping of supply chains with the hinterland, involving hinterland intermodal corridors and inland terminals. Secondly, they are also taking responsibility for the planning and financing of port development, port-related industrial development and port-related urban (re)development."

International experience is also in contrast to the centralising tendency reflected in the draft Bill. Consider, for instance, the case of China, a country that evokes popular images of a state with far-reaching centralised powers. Till 1984, China's Ministry of Communications owned and managed the ports, with central control of planning and determination of infrastructure priorities. However, from 1984 onwards, China began to decentralise control of its ports, and at the same time attract private investment including foreign investment in a big way. By the late 1990s, local authorities obtained primary responsibility for port development. Today China's central government does not own the ports, which are all managed at the municipal level, with the local authorities having a substantial stake in corporatised ports. For example, the Port of Shanghai is managed by Shanghai International Port Company Limited, a public listed company, of which the Shanghai Municipal Government owns 44.23 per cent of the outstanding shares¹².

Likewise in the U.S., most ports are owned and managed by counties and municipalities (local governments), but port operations are largely in the hands of private enterprise. In Canada, the federal government owns the port lands and

infrastructure of the ports but leaves administration to local authorities. In Australia, port corporations are owned by State Governments, and a few have been privatised.

In Europe, ports are owned and managed at the municipal level in Sweden and Finland; at the municipal and regional levels in Germany, Denmark, and Belgium; at the municipal and national levels in Greece and Poland; and at the municipal, regional and national levels in Netherlands and the UK. In the UK, 15 of the 20 largest ports (by tonnage) are in private ownership.

So, the port sector in India needs less centralisation, not more. Maritime States and port cities should have a substantial stake in the development, functioning and

expansion of even the Major —
Ports. Port management,
though not very complex (not
more complex than other —

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logistics segments such as running a big lorry goods yard or an inter-State bus terminus or a Metro Rail system), requires to be headed by those who are both close to the terrain and are empowered with the requisite administrative powers and understanding of the host State. Across India, therefore, Major Ports are usually run by officers from the Indian Administrative Service (IAS) drawn from the respective maritime State who are on deputation to the Union Ministry to officiate as the Chairman and Deputy Chairman of these ports. Moreover, the negative externalities of a port¹³ are experienced mostly by the citizens of the cities in which they are located. Hence, there is a good case for entrusting the management of Major Ports to the concerned States or even, go a step further, as in the case of the Port of Shanghai, to the city municipal corporations. The Union government should limit itself to the 'higher' functions of border control, competition policy, port security, environment protection and hinterland connectivity for all ports.

III. Non-Major Ports have fared better than Major Ports

Although there has been a significant improvement in the performance of Indian ports over the past 30 years due to a series of reform measures, it is still below that of the leading ports in Asia such as Shanghai, Shenzhen, Singapore, Port Klang, Colombo, Salalah, Jebel Ali and others. Among Indian ports, the performance of Non-Major Ports under the control of the maritime States has been more impressive than that of Major Ports under the control of the Centre. Between 1993-94 and 2020-21, the cargo traffic of Non-Major Ports increased from 14 MT to 575 MT while that of Major Ports increased from 179 MT to 673 MT (MT-million tonnes)¹⁴. During this period, the compound annual growth rate (CAGR) of cargo traffic of Non-Major Ports (14 per cent) was nearly three times that of Major Ports (4.8 per cent), and Non-Major Ports' share of the cargo moved went up from 8 per cent to 46 per cent. Non-Major Ports are not only well set to overtake Major Ports in a couple of years, but they are also faring better than Major Ports in many port productivity parameters.

States to the fore in port development

How did the maritime States do this? They set about developing Non-Major Ports almost entirely through private investments, with business-friendly policies and without too much red tape and regulation. Gujarat, which saw the potential for port-led economic development way back in the 1980s, was the trend setter. The Gujarat Maritime Board (GMB) was the first to announce a Build-Own-Operate-Transfer (BOOT) policy [which is a kind of temporary privatisation] for the development of captive/commercial ports and jetties with a concession period of 30 years after which the land and facilities are to revert to GMB. The concessionaires were free to set their own tariffs. GMB developed India's first private port at Pipavav (with APM Terminals Rotterdam); India's largest captive port at Sikka (with Reliance Industries); India's largest commercial

multipurpose port at Mundra (with Adani); India's first two LNG Terminals at Dahej and Hazira; and India's first dedicated chemical port terminal at Dahej¹⁵. Other maritime States – Maharashtra, Andhra Pradesh, and Tamil Nadu – followed suit. These four maritime States account for nearly 90 per cent of the cargo moved through Non-Major Ports.

The shackling of Major Ports

In contrast, the Major Ports operated as "Service Ports", performing the various port functions with their own staff and equipment. Lack of commercial orientation, low labour productivity in a public enterprise environment, sluggishness in adopting innovations, constraints on public budgetary support, and excessive supervision by the Union Ministry of Shipping had negative consequences. The Ministry's nominees in the Port Trusts called the shots, and fear of adverse fallouts from Comptroller and Auditor General (CAG), Central Vigilance Commission (CVC), and the Central Bureau of Investigation (CBI) resulted in tentative and defensive decision making.

From 1996 onwards, the Union government decided to shift to the "Landlord Ports" model in which the Port Trust continues to own the land and basic port infrastructure while port operations are contracted out, and the creation of new port facilities given in concession to private enterprise [usually on Build-Operate-Transfer (BOT) basis]. Thus, Major Ports began to increasingly resemble Minor Ports. But the transition to the Landlord Port model was slow. The Centre's Model Concession Agreement (MCA) took final shape only in 2008, almost 10 years after Gujarat had issued its professionally structured MCA. The process of awarding concessions was also slow.

Making matters worse was the Tariff Authority for Major Ports (TAMP) which was set up in 1997 to determine both vessel-related and cargo-related tariff schedules

for Major Ports. Its aim was to safeguard the interests of port users while providing a fair return to Port Trusts and their concessionaires. Major Ports were shackled by the TAMP regulation, which did not allow them to respond quickly to changing market conditions. It was a stumbling block to attracting private investment. The Non-Major Ports had no such problems as they were not subject to its authority. All told, it is surprising that Major Ports were able to achieve as much as they did despite the very difficult institutional and legal environment in which they function.

A 2011 World Bank Report titled "Regulation of the Indian Port Sector" observed:

"It must be pointed out here that the Major Ports, despite recent improvements, still rank low in terms of the enabling nature of their business environment while it is generally felt that unnecessary regulatory and financial burdens are imposed upon Port Trusts, private terminal operators and investors. The Non-Major Ports are being perceived as more business oriented, customer friendly, cheaper and in general more efficient. It is therefore not surprising that they are more successful in attracting private investments than the Major Ports." 16

The recently enacted Major Port Authorities Act, 2021, has abolished TAMP and given Port Authorities and future concessionaires the freedom to set their own tariffs based on market conditions. It has corporatised the Major Ports by converting them into statutory authorities (as opposed to a 'company' under the Companies Act, 2013, like Ennore Major Port) to provide more room for sociopolitical objectives rather than just maximisation of shareholder value. In theory, this should give greater operational autonomy and flexibility to the Port Authorities, but it is doubtful if it will be realised in practice. In the 76 sections of the new Act, the expression "Central Government" appears 146 times! The Centre is clearly loath to let go!

If there is an important policy lesson from the foregoing discussion, it is that India's port sector needs less regulation, not more. The argument that Non-Major

If there is an important policy lesson from the foregoing discussion, it is that India's port sector needs less regulation, not more. Ports are cannibalising the businesses of Major Ports, and this calls for suitable regulation is absurd. In a highly competitive

sector and with overlapping hinterlands, it is only natural that some business will shift from a less efficient Major Port (such as Kandla or Mumbai) to a more efficient Non-Major Port (such as Mundra or Pipavav). The solution is to provide a level playing field by freeing Major Ports of their regulatory handicaps and not impose the same on Non-Major Ports. If North European ports like Hamburg, Bremen, Rotterdam, Antwerp and Le Havre can all function successfully thanks to their rich overlapping hinterlands, there is no reason why Indian ports cannot similarly coexist and thrive.

IV. The Good, the Bad and the Ugly of the Indian Ports Bill, 2021

The Indian Ports Act, 1908, was obsolete in many respects and needed a complete overhaul. India's obligations under various international Maritime Conventions needed to be written into national legislation to ensure compliance. For instance, the *International Ship and Port Facility Security (ISPS) Code (2004)*¹⁷, developed in the aftermath of the 9-11 terror attacks, is a set of measures to enhance the security of ships and port facilities. The *International Convention for the Prevention of Pollution from Ships (MARPOL) (1983, 2005)*¹⁸ covers prevention of pollution of the maritime environment by ships due to operational or accidental causes. It mandates that port authorities must provide adequate 'reception facilities' to ships to dispose of their waste. The *International Ballast Water Management (BWM) Convention (2017)*¹⁹ aims at preventing the spread of invasive aquatic species and potentially harmful pathogens in ships' ballast water when it is released into a new location.

The draft Bill fills the legal gap through Chapter IX (provisions for safety and security of ports) and Chapter X (provisions for the prevention and containment of pollution at ports). These provisions will apply to all ports throughout India, Major or Non-Major, public or privately owned. Every port must prepare a 'security plan' and a 'waste reception and handling plan' and will be subject to periodic audit by the Central Government to verify compliance. These provisions represent 'good regulation', but they should not apply to the vast majority of Non-Major Ports which are small fishing harbours and do not cater to international shipping.

The Bill's troublesome Chapters

What makes the draft Bill controversial are the provisions of Chapters II and III relating to the *Maritime State Development Council* (MSDC). The MSDC was created by an executive order in 1997, with the Union Minister of Shipping as chairperson and the Ministers in charge of ports of the Maritime States/Union Territories as members, and with the Union Ministry of Shipping providing the secretarial services. It served as an apex *advisory* body for the coordinated development of Major Ports and Non-Major Ports. MSDC has met only 17 times in the last 24 years²⁰.

The draft Bill proposes to make MSDC a *permanent body* with its own office, staff, accounts, and audit and gives it wide-ranging powers and functions (vide Section 10). MSDC is empowered to formulate a National Plan, to be notified in the Official Gazette, for development of Major and Non-Major Ports, for both existing ports and new ports, and revise the plan from time to time. It can monitor the development of Non-Major Ports to ensure their integrated development with Major Ports and the National Plan. If any port contravenes the National Plan, then the MSDC can order an appropriate enquiry. The Union government has the power

to make a port non-operational if it is not in consonance with the National Plan (vide Section 17(c)).

What is alarming about the Bill are the draconian penalties proposed in Section 83 for ordinary administrative lapses on the part of Port Authorities, port officials and other persons. For instance, for non-compliance with MSDC's directions to furnish information or produce books of account, the penalty is a fine of up to ₹one lakh! For failure to obey MSDC's directions pursuant to an enquiry, the penalty is a fine of up to ₹two lakh or imprisonment up to six months or both! The Bill is pioneering a dangerous new jurisprudence wherein mere administrative lapses are criminalised.

This is a replay of the socialist-era follies of central planning and inspector raj. History has shown that central planning never works even when state resources are involved. It has no place in a market-oriented economy where Non-Major Ports are developed almost entirely through private investments. Nobel Laureate Friedrich A. Hayek called central planning "the fatal conceit". An empowered MSDC is less about efficient allocation of resources and more about control by the Centre.

Since Non-Major Ports come under the Concurrent List, the Centre is always at liberty to convert any Non-Major Port into a Major Port if deemed fit. For instance,

Paradeep, Tuticorin and New Mangalore — were Non-Major ports before they were upgraded as Major Ports. There is really no need to impose such an overly —

It will stifle novel initiatives by the maritime States and curtail competition to the benefit of the existing players.

intrusive regulatory regime upon all Non-Major Ports, the vast majority of which are small fishing harbours. It will stifle novel initiatives by the maritime States like what Gujarat did on its own long before the Centre. It will also curtail competition to the benefit of the existing players.

An unwelcome tethering

The Rakesh Mohan Committee's "India Transport Report" (2013)²¹ had projected port cargo traffic to reach 3,068 MT by 2031-32, to handle which the total port capacity required would be about 4,000 MT. As of 2020-21, the total capacity of Indian ports was 2,490 MT (Major Ports – 1,500 MT, Non-Major Ports - 990 MT). Port capacity needs to be augmented by 1,510 MT over the next 12 years calling for huge investments, most of which must come from the private sector. The new overly regulatory regime is likely to choke future development of Non-Major Ports leading to serious shortfall in port capacity by 2031-32, with adverse consequences for the Indian economy. This is as worrisome as the draft Bill's anti-federal features.

Even the composition of MSDC as per the draft Bill is overly weighted in favour of the Centre. Like the GST Council, MSDC should consist only of the concerned Ministers of the Union and Maritime States/UTs, with the Secretary, Shipping of GOI serving as Secretary to the Council and other connected civil servants as special invitees. The draft Bill includes the Secretary, Shipping and seven Joint Secretaries of GOI as members but excludes the Secretaries in charge of ports in the Maritime States/UTs. Even if the latter were included, in the event of a division of votes, the vote of an official would count the same as the vote of a Minister which is a bad precedent.

V. Concluding Remarks

The main elements of port reform strategies worldwide are decentralisation, deregulation, corporatisation and private sector participation. What the Indian port sector needs is less centralisation and less regulation. The draft Indian Ports Bill, 2021, seeks to do the exact opposite. It ignores international experience and India's own past history. By weaponising MSDC and introducing more and more

control elements over Non-Major Ports, the draft Bill, in its present form, is poised to kill the goose that laid the golden eggs.

It is therefore recommended that Chapters II and III of the draft Bill relating to MSDC, and the draconian penalties in Section 83 for non-compliance with MSDC's

Chapters relating to MSDC and the draconian penalties for non-compliance should be scrapped entirely, and small fishing harbours should be exempted.

directions should be scrapped entirely.
The MSDC should remain an apex
advisory body as before. It should
consist only of the concerned Ministers
of the Union and Maritime States/UTs

and no officers. The small fishing harbours that do not cater to international shipping should be exempted from the provisions of Chapters IX and X. The draft Bill needs to go back to the drawing board.

Note: A shorter version of this article was published on August 6, 2021, under the title, *Indian Ports Bill 2021: Back to central planning and inspector raj?*_at: [https://www.deccanherald.com/opinion/panorama/indian-ports-bill-2021-back-to-central-planning-and-inspector-raj-1016793.html].

Also by the Author

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- 6. **Seventh Schedule, Constitution of India.** The term 'Major Ports' is derived from the wording of Item 27 of the Union List: "Ports declared by or under law made by Parliament or existing law to be major ports, including their delimitation, and the constitution and powers of port authorities therein". Similarly, the term 'Non-Major Ports' is derived from the wording of Item 31 of the Concurrent List: "Ports other than those declared by or under law made by Parliament or existing law to be major ports." The term 'Minor Ports' which was in use in the past is no longer used.
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- 10. **Ibid**. Please see 2.4.3 *Lessons from Port Governance in selected countries* (pages 51-55) and *Annexure 4* (pages 105-107).
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13. The benefits of a port are distributed globally throughout the economy whereas the negative externalities affect the local residents' wellbeing. The negative externalities include the displacement of families due to land

acquisition; adverse impact on fisheries; air, water and noise pollution; road traffic congestion; higher rates of crime; land reclamation from the sea affecting nearby beaches and marine currents; visual impact due to loss of traditional waterfront, etc.

14. The cargo traffic figures of Major and Non-Major Ports for 1993-94 were taken from World Bank's "India Port Sector Strategy Report" (1995) available at [https://documents.worldbank.org/en/publication/documents-reports/documentdetail/956041468752788607/india-port-sector-strategy-report].

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