

Review of Tariff Guidelines 2005

Executive summary

In the Indian port sector, different regimes are followed for the determination of tariffs. The first tariff guidelines for the port sector were introduced in 1998 under which tariff caps were set on the basis of a cost plus approach for services provided by the ports and the private terminals. The cost plus approach was continued in the subsequent guidelines introduced in 2005. The government allowed royalty/revenue share to the terminals whose bidding process was completed before July 29, 2003 to avoid a likely loss to the operator on account of the royalty/revenue share not being taken into account subjected to a maximum of the amount quoted by the next lowest bidder. This resulted in creating two categories of private operators under the 2005 tariff regime— pre July 29, 2003 and post July 29, 2003.

Further, the Government in an attempt to move towards a normative approach brought in a new set of guidelines (GL) dated February 26, 2008. The introduction of 2008 GL created a third set of private operators. It also stipulated that the norms set will be reviewed every five years and if any changes are introduced, these revised norms will be applicable for the prospective bidders. This implies that the tariff regime would change every five years and there would be terminals operating in India under different tariff regimes.

Even today the tariffs are set under different regimes using very different methodologies. There has been a growing feeling that tariff setting should be on a normative approach and the tariff norms should be uniformly applied to every possible extent. In order to bring about a normative approach to tariff determination, the Ministry of Shipping (MoS) felt the need to assess the feasibility of moving players under the existing cost plus tariff regime of 2005 to a normative cost based regime. The MoS commissioned TERI to review the 2005 GL and recommend a normative approach following the approach used in the 2008 GL.