

8. *The recent Union Budget has proposed corporatizing at least one major port. In this context, highlight the benefits of a corporatized port, as compared to ports run by public authorities. (150 words) 10*

Approach:

- List down the benefits of corporatized ports, as compared to ports run by public authorities.
- Mention some challenges that may be encountered while corporatizing ports.
- Conclude by suggesting suitable reform measures.

Answer:

Existing ports in India are primarily owned and controlled by the government. Currently, 11 of the 12 ports owned by the government are run as trusts. The management and operations of these ports is inadequate to meet the current requirements for quick turnaround and handling of increased volumes, lowering the efficiency and productivity of vessels. Some ports are not designed to cater to large or ultra large vessels, which have to be parked at a distance and cargo fed or evacuated through smaller vessels leading to huge inefficiencies.

Corporatization of port authorities is, therefore, considered a critical reform for improving port governance and efficiency. The most commonly pursued route for corporatization of ports includes an autonomous, government-owned port authority with terminal operations under private companies.

The benefits of corporatized ports include:

- **Market orientation:** Corporatized ports, compared to ports run by public authorities, derive benefits from stronger **market orientation**, allowing ports to transition into more commercially driven ones.
- **Demand-driven infrastructure investments:** It can reduce risks of politically motivated investments, promote maximum utilization of existing port assets and facilitate development of new port infrastructure based on commercially sound criteria. In addition, the corporation's improved levels of financial credibility increase the port's attractiveness to private investors.
- **Revenue maximization from available assets:** It can effectively and innovatively exploit port's land and maritime assets to create value for its clients and for port users while capturing value through efficient pricing.
- **Rationalization and improved control of operating costs:** In contrast to practices under public sector port authorities, which are limited by mostly budget constraints and hence lack real incentives to reduce operating costs, corporatized entities are accountable to independent and professional supervisory boards to tightly control operating costs.

However, corporatized port authorities would still be government owned, and thus face the same risks experienced by all state-owned enterprises. The most important of these is continued political control, and the state's need to balance the port company's commercial interests with the interests of the public.

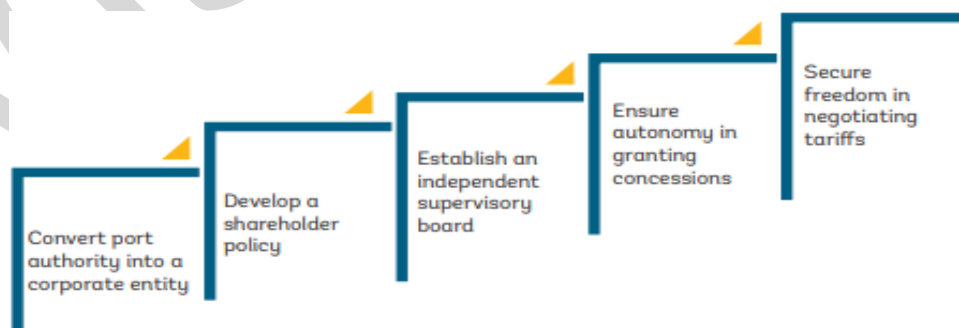


Fig: Corporatization Reform Process

As reform measures, the port authority company should be established not under a special legislative act but as a company falling under the provisions of the existing corporate legal and regulatory framework. This would guarantee independence and autonomy of its executive board. A formal shareholder policy would address key issues regarding corporatized port authority such as land use and transfer, traffic management, sustainability, and innovation.