

# Down To Earth

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## Headline : Sethusamundram project is unviable

### Intro:



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The Sethusamudram Ship Canal Project's (SSCP's) documents concluded that it was going to be a financial white elephant. Many contended otherwise. They claimed that SSCP would benefit not just the company undertaking the project, but, more importantly, ships traveling around the Indian peninsula. SSCP's detailed project report promised a maximum saving of 36 hours for these ships. It was claimed that, on an average, ships would have 335 nautical miles less to travel. The government agreed and the project has gone ahead.

But the promises might not materialise. Surely not for all ships. Vessels originating from Kanyakumari and Tuticorin might get a decent cruise. Their average voyage length is likely to go down by 297 and 373 nautical miles, respectively. But ships from destinations in Europe and Africa will not save much on the commute: on average 215 and 148 nautical miles, respectively.

SSCP's detailed project report (DPR) calculates distance savings from Tuticorin and Kanyakumari. But most ships from foreign ports do not need to come this far before going around Sri Lanka. Their voyages deviate just after the Maldives or Lakshadweep. DPR says that nearly 60 per cent of the total traffic on the canal will originate from similar foreign destinations.

The report states that by using the canal, a ship saves on both fuel and hiring costs (time charter). It claims that a 10,000 deadweight tonnage (DWT) ship saves 20 hours and US \$11,850 by using the canal. This is an exaggerated figure. For voyages from Africa and Europe, the distance and fuel savings are not significant. A ship traversing the canal will consume more fuel (as it travels at a lower speed) and use a more expensive fuel. A 10,000 DWT ship will spend an extra US \$514 on fuel to navigate the canal. On average, such a ship will save a total amount of US \$4,365 and less than ten hours: barely 30 per cent of the estimated savings.

DPR proposes to charge such ships US \$6,063 (around 50 per cent of the estimated savings). At this tariff rate, ships from Europe and Africa will spend more money by using the canal. Ships will therefore not use the canal unless SSCP lowers its tariffs significantly. They could use the canal if tariffs are lower: maybe 15- 20 per cent of the estimated savings in the DPR. But at these tariff levels, the pre-tax returns on investments on the project will fall to around 3 per cent, making the project even more unviable than stated in the DPR.



But for argument's sake let us accept that ships would use the canal even for meager gains. Will that make SSCP viable? Not exactly. Let's, for instance, understand how the project's DPR factors in debt servicing. It estimates that US dollar loans will have to be repaid at an interest rate of 4 per cent, and rupee loans at an interest rate of 8 per cent. These rates might have been accurate when the DPR was prepared. But today lending rates hover around 8 per cent for dollar loans and 13 per cent for rupee loans. The cost of credit has been underestimated and if current figures are used, the project is likely to constantly drain the Indian economy.

But what if SSCP is able to get dollar loans at 4 per cent interest rates and rupee loans at 8 per cent interest rates? Even then the project might not be viable. DPR states that there is no maintenance dredging necessary. But an open sea canal is almost certain to be silted up regularly and will constantly need to be dredged, further increasing the cost of the project.

A project like SSCP, should either be a revenue earner for the government or serve some larger public purpose (like roads contribute to infrastructural development). As many others have stated, ships (especially from Africa and Europe) are unlikely to use the canal. Likewise, the 17th chapter of DPR concludes that "the project is not sufficiently attractive and it requires further capital infusion". Surely, a review of this project even at this late stage is essential given its costs.

*Jacob John is a Bangalore-based economist who analyses infrastructure projects. This article is based on a report on the Sethusamudram Canal Project*

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