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SSCP inspires debate on what is public purpose

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Whether it is the opposition parties asking for the justification of the public purpose behind the land acquisition at Singur, or the Supreme Court querying the largescale acquisition of land from farmers, the meaning of public purpose is today under scrutiny.

Traditionally, the public purpose doctrine has been for public infrastructure projects like electricity, roads, railways and other projects that were deemed to be of strategic or particular importance. The Sethusamudram Shipping Canal Project (SSCP) is similarly justified, with project proponents stating that it would save up to 36 hours of shipping time.

However, the detailed project report (DPR) itself states that the biggest saving will be for journeys from Tuticorin to Chennai, and it will, in fact, be 30 hours and not 36 as frequently claimed. Recently, many naval experts have repeatedly stated that with the exception of voyages from ports on the Indian west coast to the Indian east coast, there are unlikely to be any significant gains for ships that are making the voyage through the Sethusamudram canal.

This information is not reflected in the L&T Ramboll DPR, as it assumes that voyages for all ships begin either at Tuticorin or Kanyakumari. The savings for these ships may be acceptable: a reduction in time between 10 and 30 hours.

In dollar terms, a 20,000 dead weight tonne (DWT) ship save about \$17,962 per voyage as per DPR. DPR hopes to charge 50% of this amount (\$8,981) for ships using the canal. This represents a saving in time charter and fuel costs for ships using the canal. For ships coming from places like Europe and Africa, the average savings is just 8 hours!

A journey from Mauritius to Kolkata would actually be longer by nearly four hours for an average ship. The average savings for a 20,000 DWT ship, making a voyage from either Europe or Africa, is just \$3,989: just 22% of the savings projected in DPR. The lack of gains for ships from Africa and Europe may not have been significant had it been a part of the project design and factored in the risks of the project.

However, 65% of the voyages (and hence revenue), as per DPR, originate from Africa, the Middle East and Europe. For ships from Africa and Europe, using the canal would mean making a loss of \$4,992 on every voyage at the proposed tariff structure. Ships could be incentivised to use the canal (by reducing tariff rates).

The catch with that scenario is that the pre-tax IRR of the project then falls to just 2.6%! This is a level at which even public infrastructure projects are usually rejected. The project rests on a set of assumptions that are fundamentally flawed. It assumes savings for all ships are the same while they are actually very different. The public purpose of a reduction in shipping time is, in fact, not valid for most of the ships using the canal.

Neither does the project provide revenue for the government. If the aim of the government is to boost shipping along the peninsula, there are very good alternatives. The annual interest savings of the project could provide a subsidy of around Rs 250

crore that could be spent on upgrading the ports in Tuticorin and Chennai, as well as providing a subsidy to all ships calling at these ports.

Central to the debate on the public purpose of SSCP is the idea of public purpose itself. While projects are routinely justified on the grounds of a larger public purpose, there is little scrutiny or accountability to the public purpose that has been used to justify it.

If SSCP does not benefit the number of ships outlined in DPR, what are the mechanisms to ensure that the country at worst cuts its losses and at best penalises the project promoters? Building in an accountability mechanism to make sure that projects like SSCP do not prove to be a constant drain on the economy is an important step that we need to take to scrutinise the very generously overused terms of public purpose.

It will help build realism into the project design unlike the present where there is an incentive to exaggerate the benefits while neglecting or minimising cost.

(The author is a Chennai-based infrastructure economist)

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