

TO WAIVE 12% GST ON DREDGING FOR PORTS

Many of India's ports including state-run ports struggle to maintain the necessary depth at their ports due to high costs incurred on dredging. The imposition of tax puts stress on their operations and impact profitability adversely.

Ports accumulate silt quickly and require dredging throughout the year to maintain navigable depth. Ship sizes are also getting bigger as owners and shippers chase economies of scale so that larger quantities of goods can be transported at a time to save freight costs. This improves efficiency and brings cost down. However, this requires deepening the channels and berths to accommodate bigger ships. Essentially, dredging is a necessary infrastructural prerequisite to operate ports. The dredging services were first brought under the scope of service tax with effect from June 16, 2005. Post GST classification, the tax on dredging is fixed at 12%.

We refer to the above subject and would like to bring to your kind attention that the Tax (GST) levied on dredging activity (both capital dredging and maintenance dredging) in ports is part of its developmental plans is counterproductive. This needs immediate Government attention to bring relief to port developers and operators.

Capital dredging - necessary for port development

Capital dredging involves removal of materials previously undisturbed to facilitate new navigation canals or water projects. Such type of dredging is usually carried out before construction of any port or harbor.

Dredging is a highly specialized service with limited number of agencies possessing the knowledge and equipment which has led to substantial rise in the cost of dredging affecting the viability of new projects. This amounts to a substantial increase in development cost which is non recoverable. Under these circumstances and keeping in view the broad objective behind exemption of construction of ports, it is necessary that dredging services, especially capital dredging required for Green Field port projects should be exempted from tax to ensure their competitiveness.

Capital dredging and port infra development are an integral to the construction of ports. The Tax on dredging is an additional cost to the project and discourages investment in this sector. World over, capital dredging is undertaken by sovereign funds but in India there is no subsidy nor grant to major or non-major ports.

It would not be out of place to mention that the capital dredging forms a major component of the total project cost - almost to the tune of 40%-50% of the overall project cost depending on the location of the project.

Maintenance dredging - an essential requirement for port operations

The maintenance dredging is the routine periodic removal of materials from rivers, ports and harbors. The Government has also recognized the importance of creation and maintenance of necessary depths for port operations and has decided to create a minimum depth of 14m at all the 12 ports it owns, where depths range from 9-12m. The global average is 12-23m, enabling the latest generation container, tanker and dry bulk ships to come calling.

Tax is an additional cost to the project and discourages investment in this sector. Moreover the maintenance of dredging constitutes nearly 10% - 20% of the operating costs depending on the depth of the operating channel and location. The Tax should be waived off on dredging activities especially on non-

major ports as they cannot avail of any grant or subsidy for the same. In view of this we submit that it would be appropriate that “Applicable Taxes on dredging for and at ports” should be included in the Negative List.

The withdrawal of tax on dredging/port development for port activities would benefit the developers and will improve the competitiveness of ports in catering to larger vessels. Faster growth of ports shall benefit importers/exporters, reduce transaction cost and will ultimately augur to the regional development. This will in turn generate employment.

Worldwide, many European and Scandinavian countries provide relief to dredging activities. According to the Ministry of Shipping, around 95 per cent of India's trading by volume and 70 per cent by value is done through maritime transport. The Indian ports and shipping industry plays a vital role in sustaining growth in the country's trade and commerce. With the Government's ambitious Sagarmala and port-led development plans, the sector is looking forward to favourable policy intervention to boost development of this sector and is looking forward to contribute aggressively to India's GDP growth.

In view of this, we look forward to your valued consideration with regard to the withdrawal of tax on dredging for port activities as it would benefit the customers and in interest of the nation to improve competitiveness of ports.