MEMORANDUM

PRESENTED TO

Dr. MANMOHAN SINGH

HON'BLE PRIME MINISTER OF INDIA

BY

KALAIGNAR M. KARUNANIDHI

HON'BLE CHIEF MINISTER OF TAMIL NADU

AT CHENNAI

ON 3.11.2006

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I. **Colachel Port**

Colachel, a minor port used mostly by fishing boats/vessels is strategically located at the Southern tip of India in Kanyakumari District of Tamil Nadu on the South West coast of the Peninsula along the major shipping routes, making it an ideal trans-shipment hub of the future.

Port traffic in India has risen significantly. The demand was projected at 325 million tonnes in 2000 and 540 million tonnes in 2005, while the capacity in 2000 was 215 million tonnes only. Thus there is a huge shortfall in the handling capability of Indian ports. The percentage of the containerised cargo has been increasing from 0.2% in 1980 to 14% in 2005. With the containerisation at 14%, India's potential is still not fully realised when compared to the world average of 75%. This expected increase in containerised cargo would definitely require more state-of-the-art container handling facilities.

India does not have a container hub port. 87% of containers handled are trans-shipped through trans-shipment hubs such as Colombo, Dubai and Singapore. This means a loss of revenue to India as a whole. Against this background, there is a strong case for a container port at Colachel.

Colachel is strategically placed to serve as a model deep water container port. The advantages of Colachel as a container port are as follows:

1. It is located along major shipping routes requiring minimum detour for mainline ships. The Sethusamudram Ship Canal between India and Sri Lanka will further reduce travel distance by 450 nautical miles.

2. It boasts of deep water close to shore (17 metres less than 2 k.m from shore) which would attract larger vessels.

3. Located at the tip of the Indian peninsula with almost no littoral drift, maintenance dredging is negligible and this results in low maintenance cost.

4. Located in the centre of Asia, Colachel could be the gateway between the East and the West.

By positioning itself as the next regional hub, much of the cargo that is trans-shipped out of Colombo, Singapore and Dubai can be redirected to Colachel, bringing revenue to the State.

In 1998, TACID, a Tamil Nadu Government company, submitted a feasibility report involving a financial outlay of Rs.2251 crores. However, due to non-availability of funds, further action on the TACID report was not pursued. Meanwhile in April 1999, the Hon'ble Chief Minister of Tamil Nadu visited Malaysia and held a discussion with the Malaysian Government regarding development of Colachel port. Based on the discussion, the Malaysian Government commissioned a feasibility study through the Construction Industry Development Board of Malaysia and they presented a Detailed Feasibility Report for developing Colachel port with an outlay of Rs.2518 crores. However, the Government of Malaysia raised certain issues on the financial investment and regretted their inability to take up this project due to the large investment required and the long gestation period involved for the return of the investment.

Both the feasibility reports indicated that the economic potential for development of Colachel port is quite high. The development of Colachel port project could be taken up by Government of India on the lines of the

Sethusamudram Ship Canal Project, since its viability would be even better after the completion of the Sethusamudram Ship Canal Project. The Colachel port would contribute greatly to the development of southern districts of Tamil Nadu which are industrially backward.

The above facts were highlighted by the Hon'ble Chief Minister of Tamil Nadu during his visit to New Delhi, to the Hon'ble Prime Minister. As a follow up, the Hon'ble Minister for Shipping, Road Transport and Highways, Government of India, visited Colachel on 18.7.2006 and instructed the CMD, Sethusamudram Corporation Limited, to prepare a Draft Feasibility Report (DFR) and Detailed Project Report (DPR). Following this, the Tamil Nadu Maritime Board formally requested Sethusamudram Corporation Limited to prepare the DFR and DPR.

The Government of Tamil Nadu urges the Government of India to take up the development of Colachel port as a Major Port on completion of Draft Feasibility Report / Detailed Project Report by Sethusamudram Corporation Limited.

II. Compensation for VAT Implementation

In its first budget after assuming office, this Government announced the introduction of Value Added Tax in Tamil Nadu from 1st January 2007. Tamil Nadu is a State with a large manufacturing and exporting sector and a higher tax base and therefore implementation of VAT will result in significant loss of revenue during the initial years. The difficult decision to introduce VAT was taken by this Government despite this large loss of revenue, in a positive spirit of full cooperation with the Union Government in its efforts to evolve a uniform structure across the country. The decision was taken in the firm hope that Union Government would, in the same spirit of cooperation, provide appropriate compensation.

In the first year of introduction of VAT, the State may incur a loss of revenue of the order of Rs.2600 crores. Under the present scheme of compensation for loss of revenue under the VAT regime, the Govt. of India will provide only 75% compensation in the first 3 months i.e. January 2007 to March 2007, and 50% during April 2007 to March 2008. Hence, the present compensation formula will very adversely affect the resources of the State when the new Government is implementing its new welfare programmes. The Hon'ble Chief Minister of Tamil Nadu has already addressed the Hon'ble Prime Minister and Hon'ble Union Finance Minister to consider the calendar year 2007 as the first year for the purpose of 100% loss compensation, instead of the financial year 2005-2006. This Government again reiterates its request that Tamil Nadu should be given the compensation for loss of revenue at the rate of 100% for the calendar year 2007, 75% for the calendar year 2008 and 50% for the calendar year 2009.

There may be an apprehension that such a formula could cause a large burden to the Union if extended to other States which also implemented VAT only in 2006. However, most of the other late entrants are not as industrialised as Tamil Nadu and hence are unlikely to suffer revenue loss. Thus they are not likely to be eligible for any compensation. Therefore, there will not be any significant outflow for the Union even if the same compensation formula is extended to them.

It is also to be noted that the State will suffer greater stress on the revenue side in the financial year 2007-2008 and coming years because of the proposal of the Government of India to phase out the Central Sales Tax with effect from April 2007. The State will lose revenue of the order of Rs.1250 crores in 2007-2008 on this account, in addition to the loss due to the implementation of VAT.

This Government took office only in May 2006 and immediately decided to implement VAT, whereas the existing compensation formula was decided much earlier. Therefore this Government wishes to reiterate that the revised compensation package suggested above should be considered positively in a spirit of reciprocation, to enable Tamil Nadu to join the national mainstream on VAT without jeopardizing the welfare schemes for the benefit of the people of Tamil Nadu. Otherwise, it would amount to penalizing the new Government for its positive commitment to nation-wide tax reform.

III. Central Assistance for establishment of zero discharge reverse osmosis plants for tanneries, dyeing and bleaching industries in Tamil Nadu

Leather and Textiles are two important industrial sectors of Tamil Nadu. These two sectors contribute significantly to generation of employment and a host of allied economic activities. The total export from the leather sector in Tamil Nadu is about Rs.4325 crores. Similarly, the total exports from the textile sector in Tamil Nadu is about Rs.15,000 crores. The small town of Tiruppur, known for its hosiery and knitwear products, alone has an export performance of about Rs.8000 crores per year. Further, after the implementation of the WTO agreement, the textile sector is rapidly growing in this area.

Proper treatment and disposal of effluents from leather and textile units is essential for the prevention of environmental degradation. There are already 760 functioning tanneries which are connected to 16 Common Effluent Treatment Plants (CETPs). Of these, 4 CETPs have received financial assistance from the Department of Industrial Policy and Promotion, Government of India, for setting up Reverse Osmosis (RO) Plants and Secure Land Fill (SLF) system for which Government of India has provided 75% of the project cost as financial grant. Of the remaining 12 CETPs, 2 CETPs are yet to furnish full-fledged project proposals for setting up RO plants and SLF. In respect of the remaining 10 CETPs covering 483 tanneries, the State Government is taking action to provide SLF under the ASIDE scheme. These 10 CETPs urgently require Reverse Osmosis Plants. A project has been prepared for constructing RO plants for these 10 CETPs. The total cost is estimated as Rs.116.16 crores. Following the earlier precedent, it is requested that Government of India may extend 75% of the project cost, i.e. Rs.87.12 crores as grant for putting up RO plants in these 10 CETPs.

As regards the dyeing units, there are at present 8 existing CETPs at Tiruppur requiring upgradation to provide Zero Discharge System. The total project cost for this is estimated at Rs.264 crores. There is also a need for setting up 11 new CETPs together with provision for Zero Discharge System. This would cost Rs.329.27 crores in addition. Thus, the total financial requirement is estimated to be Rs.593.27 crores. It is requested that the Government of India may come forward to provide financial assistance on a 75:25 sharing pattern (similar to the CETPs for leather units) for implementing these schemes.

The request of the State Government to assist in setting up RO plants to ensure zero discharge of effluents and SLF in the CETPs for leather and textile units which have large export potential will serve the cause of preventing environmental degradation. The Hon'ble Prime Minister is requested to consider this favourably and help in this endeavour of the State Government.

IV. Central Assistance for Desalination Project

The Government of Tamil Nadu decided to install a 100 MLD capacity Sea Water Desalination Plant on DBOOT basis following the PPP mode. An agreement was entered into between the Chennai Metrowater and M/s. Chennai Water Desalination Limited, the private DBOOT operator during 2005 to implement the Project. Earlier, the Government of India had indicated its support for desalination plants for Chennai.

It is estimated that on account of implementation of this Project, Chennai Metrowater will face a Viability Gap of Rs.1481 crores for a period of 10 years. The Government of India may consider extending Viability Gap Funding for this DBOOT Project to the extent of Rs.1481 crores for a period 10 years as a special dispensation as this project was initiated prior to the creation of the Viability Gap Fund Scheme by the Government of India.

V. Excise & Customs exemption for Free Colour Television Scheme

With a view to enabling the women in the State to acquire general knowledge and providing them some source of entertainment at home, the Government of Tamil Nadu has launched a scheme of providing free colour television sets to those families in the State who do not own colour televisions. As per the household census, approximately 80 lakh households will be provided colour TV sets under this scheme in a phased manner. In the year 2006-07 approximately 25,30,000 colour TVs will be procured and distributed. As this scheme involves huge expenditure, the Government is trying to keep the cost of the scheme at the minimum level through better competition among manufacturers across the world. The Hon'ble Chief Minister has already addressed the Hon'ble Union Finance Minister to grant exemption from excise and customs duty on the colour TV sets under this scheme. The Government has procured 30,000 sets of colour TVs at a rate of Rs.2,965/- which will include the excise duty at the rate of 16.32%. At this rate the total liability on account of excise duty for about 80 lakhs colour Television sets will be of the order of Rs.335 crores.

Since this Government has taken sincere efforts to educate and spread awareness among the deprived sections of society at a huge outlay, the Union Government should join with this Government in successfully implementing this novel scheme by exempting the colour TVs procured under this scheme from Central Excise Duty / Customs Duty and other levies.

Though the Union Finance Minister has replied to the letter written by the Hon'ble Chief Minister, he has stated that it would be difficult to grant exemption from customs/excise duty and other levies as this would lead to similar request from other States and has instead suggested to seek Additional Central Assistance for implementing the colour TV scheme.

The total Additional Central Assistance has already been fixed by the Union Planning Commission and accordingly in the Revised Budget 2006-07 necessary expenditure provisions have been made under the various plan schemes. It is not possible for the State to change any of these schemes at this juncture. Therefore this Government again urges that the request of granting exemption from customs/excise duty and other levies should be considered positively.

VI. Modernisation of Chennai Airport on the Delhi- Mumbai Model

Tamil Nadu is on a high growth path and Chennai has become the fulcrum of this fast economic growth. The key to continued development is the upgradation of infrastructure to meet future requirements. A large number of foreign investors like Hyundai, Saint Gobain, Nokia, Motorola, etc., have made Chennai their production base. The State is now experiencing an upsurge in investment in sectors like manufacturing, automobiles, electronic hardware, IT, Services, etc. Besides, Tamil Nadu is also an important destination for foreign tourists. To sustain and accelerate this trend and to attract more foreign direct investment, airport infrastructure is critical.

Creating a modern and efficient airport with adequate capacity therefore constitutes an important task before this Government. Chennai Airport with its strategic location has the potential to become a hub for connectivity to the Middle East, Far East and Australia. It would therefore be in the national interest to expand and modernise the Chennai Airport. In recent years, Chennai Airport has recorded significant growth in both passenger traffic and cargo movement. In 2005-06, Passenger traffic in Chennai Airport grew by 17.3% while cargo movement went up by 11%. It has been forecast that passenger traffic at Chennai Airport could touch 9.9 million in 2010 and 18.8 million in 2020. The Government of Tamil Nadu is therefore keen that the passenger handling capacity as well as the cargo handling capacity be augmented significantly.

Against this background, the modernisation and expansion of the Chennai airport is very urgent. This Government therefore requests that the modernisation of Chennai airport be taken up immediately in the same manner as the Delhi and Mumbai airports, rather than through the route currently proposed.

VII. Bullet Trains from Chennai to Coimbatore and Chennai to Madurai

The Ministry of Railways is contemplating the introduction of high speed “bullet train” services in the country in a phased manner. These services are primarily aimed at catering to the need for high speed passenger transport systems in high density corridors connecting important urban centres. Being a highly urbanised State with two important rail corridors connecting the State capital with the main Tier II urban centres, Tamil Nadu is best suited for the introduction of these services.

The two important rail traffic corridors in Tamil Nadu, the Chennai - Coimbatore corridor and Chennai - Madurai corridor, are ideal for these services. They connect the rapidly developing urban centres in the Western and Southern hinterland with the State capital and are very much in need of such high speed transport systems. They have very high passenger traffic density and this is exemplified by the fact that the Chennai - Nagercoil segment (Chennai - Madurai corridor's extension) is the highest passenger revenue earning segment in the Southern Railway Zone. Hence it is requested that these corridors should be selected for the early introduction of this service.

In this regard, the Hon'ble Chief Minister has already addressed the Hon'ble Minister for Railways, Government of India (copy of the letter is enclosed).

M.KARUNANIDHI
CHIEF MINISTER

SECRETARIAT,
CHENNAI-9

D.O.Letter No.18708/I2/2006, dated:09-10-2006

Dear Lalujee,

I take this opportunity to congratulate you and your officials in turning around the Indian Railways. For the first time, the Indian Railways has earned profit and I hear that this is going to touch Rs.20,000 crores by next year.

2. No doubt, you, with the help of your officials, have already taken significant measures to streamline and improve, and in a few cases, even introduce new, passenger-friendly services, apart from upgrading and extending railway connectivity. It is in this regard, that I hear that you have plans to introduce fast train services like Bullet trains, which can run at an average speed of 350 kms per hour, in a phased manner. Such train services should, in my opinion, connect the State headquarters with important cities for fast and easy mobility. As far as Tamil Nadu is concerned, the two most important rail corridors i.e. Chennai – Coimbatore and Chennai – Madurai could be considered for introduction of Bullet trains.

I sincerely hope that you will consider this proposal favourably and give the travelling public of this State the benefit of services of Bullet train at the earliest.

Kind Regards,

Yours sincerely,

Sd/- x x x

(M.KARUNANIDHI)

To

Thiru Lalu Prasad,
Minister of Railways
Government of India
New Delhi – 110 011.