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PORT ADMINISTRATION: PUBLIC VS PRIVATE SECTOR

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Governments around the world are improving the operational efficiency of national ports through institutional reform, changing the role of port authorities and increasing use of the private sector.

Many governments have begun to deregulate economic activities and decentralize decision making, with the objective of increasing financial viability and productive efficiency in the public sector. In this context, governments worldwide are presently reformulating the way they control, regulate, and manage ports, with the general principle of reducing direct intervention. Where feasible, the use of the private sector for typical port operations is being introduced. At present, a wide variety of institutional structures can be found. On one extreme there are ports like Dar-es-Salaam, Tanzania, where the port authority is responsible for all port activities as a parastatal body, and on the other, typical US landlord ports which do not engage in any operational activities. There is also the example of Southampton, UK, which is now a totally private common user port. The most important issues relate to the degree of centralization and government control and the role of the private sector.

In the past, advice from the Bank has been mixed, but tended to promote centralized port authorities at the national level. Recently, however, the trend has been to encourage decentralization and the privatization of port activities. When considering port reform, there are three institutional issues which must be examined: the role of the national port authority, the role of the local port authority, and the role of the private sector.

THE ROLE OF A NATIONAL PORT AUTHORITY

Bank lending operations in the past have often encouraged the establishment of autonomous national port authorities, which were judged to be the most appropriate form of administration during periods of heavy port investments. Unfortunately, they often grew out of control, became overstaffed and over-regulated the ports under their jurisdiction (Brazil, for example, prior to reform). The current belief is that the role of a national port authority should be reduced to a few major tasks and the staff kept to a minimum. Appropriate tasks are: (a) to coordinate port investments so as to avoid wasting scarce resources to ensure that sufficient capacity exists to meet the country's trade needs; (b) to guarantee an adequate quality of service; (c) to exert some control over pricing of port services (to ensure government receives a return on its investments and port profit levels are not excessive); and (d) to act as the body representing the ports industry in discussions with government, port users and the public.

LOCAL ENTERPRISE REFORM AND THE ROLE OF THE PRIVATE SECTOR

At a local level, the first major step in reform is to establish the port as if it were a commercial enterprise. The port enterprise which is created needs to be carefully structured and balanced, and it must be both responsible and accountable for its actions. Essential elements are the freedom to recruit staff at competitive salaries and the existence of responsible financial management and accounting practices.

The second step is to divide port functions into a number of areas -- safety, security and environment; investment and maintenance of major infrastructure (berths, breakwaters, channels, etc.); superstructure investment and maintenance (workshops, equipment, lighting, etc.); port operations (cargo handling, berthing, etc.); and pricing -- and to retain in the public sector only those areas necessary to ensure the safe functioning of the port (harbour master's activities, vessel traffic control, maintenance of navigation, oil spill contingency, etc.).

The apparent superior efficiency of private sector operations has to do with constraints imposed on public sector ports through long established rules, traditions and practices which are difficult to change. Since most ports are monopolies, simply transferring their activities to private enterprise without carefully designed, appropriate regulations could easily be against the public interest. However, it is probably easier to control private sector participation especially where competition can be developed than to try to motivate the public sector to operate efficiently.

Where the private sector is being introduced for the first time, caution is advised in preparing the lease or operating agreement for negotiation or bidding with potential operators while private monopolies should be avoided. Many ports throughout the industrialized and developing world have learned bitter lessons through not paying sufficient attention in the preparation of bid documents (Tacoma, USA).

For those ports currently carrying out all tasks a logical first step is to consider the use of the private sector for stevedoring (general cargo); the provision of floating craft (tugs, mooring boats, work boats, pilot boats); certain aspects of port maintenance ([See Infrastructure Note PS-1](#)); and electronic data processing systems. A second step is to use the private sector for container and bulk terminal management and operation. Eventually, with growing participation by private sector companies, the port will retain only certain key activities - a good example is the role of the harbour master and his office (responsible for the safety of navigation, hazardous vessels, traffic control, and other important tasks); another example is the responsibility for maintaining dredged depths and channels (not doing the actual dredging but managing the task and its implementation). Canada and New Zealand offer examples of ports that have reached this stage.

GUIDELINES

When a port invites the private sector to manage and operate a major element of the port there are a number of key factors to be considered. Some of these are:

- Ownership of all land should preferably be retained by the port authority so as to permit some measure of future government control over the operating monopolies.
- Great care and consideration needs to be given to the terms of concessions and their future impact on the public and private returns on investments. Too often ports have found that they have leased the profit centers to others, leaving themselves with seriously depleted revenues (Malaysia, Port Kelang, for example).
- If the private operator is responsible for the maintenance of both infrastructure and equipment, the port should ensure that his standards are adequate and that the facility does not deteriorate. If the port is responsible it should avoid confrontation and claims when equipment is not available. (USA, Tacoma and Canada, Vancouver, have good examples of contracts).
- The port must be sure that the quality of service provided is adequate to maintain or enhance its reputation and that the pricing structure is appropriate. Measures must be included in the agreements enabling the port to control both and to terminate (or extend) the operating leases.
- The agreements must include clauses terminating the agreement if the operator is taken over by an organization that could threaten the freedom of the common user facility (i.e. by a shipping line or a major freight forwarder) or introduce other forms of discrimination.
- An overriding requirement is that port labor be involved in the decision-making well in advance. Labor redundancy schemes or other similar programs will probably be necessary if a smooth transition from public to private sector is to be achieved.

TO LEARN MORE

Richard A. P. Douglas, "Port Administration: A Review of the Structural and Legal Aspects", INUTD, April 1990.

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T. J. David, "US Container Terminal Leasing and Pricing", Maritime Policy Management, Vol. 11/4, 1984.

ECLAC, "The Distribution Chain and the Competitiveness of Latin American Exports: Port Modernisation in Chile", December 1989.

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Zvi Ra'anan, "Should Public Ports Be Privatized?" - INU Technical Discussion Paper (forthcoming).