Port Management Models and Port Reform Processes

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Major port functions

- Landlord function
- Regulatory function
- Planning function
- Nautical function
- Port marketing and promotion function
- Cargo handling function
- General functions
port functions

port management model

best model? strong and weak points

changing boundary conditions:
- performance
- finance
- competition

wish to change
- management and/or
- ownership and/or
- operational system

port reform modalities

service port tool port landlord port

improvement of port administration

liberalisation or de-regulation

commercialisation

corporatisation

privatisation

port reform tools

- contracting out/management contract
- concession
- lease
- bot schemes
- full privatisation
Port management models

Basically four types

➢ Public Service port
➢ Tool port
➢ Landlord port
➢ Private Service port
Port management models (cont’d)

Distinction between types principally in:
- Ownership of infrastructure
- Ownership of superstructure
  (in particular ship-shore handling equipment)
- Employment of stevedoring labour
Basic Infrastructure Components

- Entrance channel
- Breakwaters
- Quaywalls
- Port land
- (Terminal paving)
- (Buildings, sheds, warehouses)
Operational Infrastructure Components

- (Terminal paving)
- (Buildings, sheds, warehouses)
Superstructure Components

- Terminal Equipment
- (Terminal paving)
- (Buildings, sheds, warehouses)
## Port management models

<table>
<thead>
<tr>
<th>Type</th>
<th>Infrastructure</th>
<th>Super Structure</th>
<th>Stevedoring labour</th>
<th>Other functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public service port</td>
<td>Public</td>
<td>Public</td>
<td>Public</td>
<td>Mainly public</td>
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<tr>
<td>Tool port</td>
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<td>Landlord port</td>
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General arguments in favour of (national) public port ownership

- Avoidance duplication of facilities
- National economy interests
- Protection of environment and safety
- Avoidance monopoly situation of private sector
- ( Possible ) short term horizon of private sector
- Difficult co-ordination public/private
General arguments against national public port ownership

- Political control may interfere with (overall) management decisions
- Restrictions of management to take immediate market and/or pricing decisions
- Restrictions to hire and fire by performance
Reasons for change

- General reasons
- Administrative/managerial reasons
- Financial reasons
- Employment reasons
Port Reform modalities

- Improvement of port administration
- Liberalisation or de-regulation
- Commercialisation
- Corporatisation
- Privatisation
Examples Improvement of port administration

- Corporate planning
- Career planning and management development
- Computer application and MIS
- Electronic Data Interchange
Liberalisation or de-regulation or: Introduction of competition

Basis: Allow private and public entities to operate in same environment

- Objective: Increased efficiency and improved port user response
- Legal framework required to allow private sector to provide facilities
- Public port organisation is forced to compete effectively with private sector
Commercialisation

- Often first step to privatisation
- Change of management system of public enterprise to system similar to private enterprise - but still public!
- Commercialisation always together with liberalisation
- Commercialisation includes elements such as
  - Introduction of de-centralised decision making
  - Relaxation of hierarchy, including re-structuring of organisation introducing
    - Responsibility
    - Accountability
Corporatisation

- Transformation of public enterprise into share company
- Shares owned by state
- Transfer of all assets and liabilities (together with appropriate contracts) to limited liability company
- Share company operates as private company with remote public control, including adoption of private sector attitudes and management methods
**Privatisation**

- **Investment:** to invest = to spend
- **Divestiture:** to sell = to earn
- **Privatisation = Divestiture process**

  Transfer of ownership of assets from public to private sector, or

  Application of private capital to fund investments in port facilities, equipment and systems

*(De Monie 1998)*
Port Reform tools

- Contracting out / Management contract
- Concession
  - Lease
  - BOT schemes
- Full privatisation
Contracting out

Instead of executing certain functions ‘in house’ these may be contracted out

- If executed against lower price
- In case of sufficient competitive bidding
- Especially for ‘non-core of the business’ activities such as
  - Dredging
  - Repair and maintenance
  - Engineering services, etc.
Contracting out (cont’d)

Possible pitfalls of contracting out

- Limited number of capable bidders
- Monopoly of contractor
- Cartel formation
Management contract

- Entire (or sector) of port is temporarily handed over to private party against management fee

- Possible model:
  - Private company provides managers for certain activities and receives ‘royalty’ for the activities (for instance royalty payment per move or TEU handled)
  - In addition: Payment of bonus in case of higher throughput or financial result or penalty in case of lower results
Concession

Three forms of concessions

- Lease
- BOT schemes
- Franchising (not used in ports)
Leasing

Objectives
- Reduce commercial risks of large investments
- Attempt to make users more loyal to port
- Improve efficiency

Lease systems most used
- Flat rate lease
- Shared revenue lease
Leasing - Flat rate lease

Characteristics

- Specified sum of money (usually for infrastructure) is to be paid for specified period of time
- Lease is fair return of value of property
- Inflation adjustment of lease is optional (but recommended!)
Leasing - Flat rate lease Example

Total lease revenue (mio US$) vs. Throughput (moves/year)
Leasing - Shared revenue lease

Characteristics

- Lease is computed on basis of minimum lease plus compensation (often referred to as ‘Royalty’) per move (preferably) on decreasing scale

- Lessee guarantees minimum annual compensation
Leasing - Shared revenue lease

Example

Total lease revenue (Mio US$)

Throughput (1,000 moves/year)
Leasing (cont’d)

Most suitable lease partners

- Shipping lines
- Stevedoring companies
- Importers and exporters
- Inland transport companies
Top 5 Operators 2003

- Hutchison Port Holdings: 41.5 mio TEU
- PSA Corporation: 28.7 mio TEU
- APM Terminals: 21.4 mio TEU
- P&O Ports: 16.0 mio TEU
- Eurogate: 10.8 mio TEU

Total: 118.4 mio TEU

Or: 62% of the World Top 25 Operators
Dubai Ports International 2005
DPI and P&O Ports

- DPI
- P&O Ports
Leasing - Monopoly situations

- Leasing may present monopoly situation of operating company
- Some form of control required to prevent operating company from over-charging for captive traffic in particular
- Regulation is essential
Regulatory Function

- Some form of regulation essential
- High level authority to control articles of agreement between public and private parties
- Not complying: Penalties
- Involves intervention in functioning of markets in terms of setting or controlling tariffs
- Also deals with control of market and fair and competitive behavior and practices
- Regulation essential in case of monopoly or significant market power
Build/ Operate/ Transfer (BOT)

- Basic definition: Private company responsible for construction, financing, operation and maintenance of port facility (including equipment, buildings and quays)
- Intermediate agreements possible
- Private company owns and operates facility during concession period and collects revenues to repay financing and investment costs
BOT (cont’d)

➢ Role of Port Authority often reduced to regulatory body and landlord, responsible for
  - Port planning
  - Navigational items
  - Safety and environment

➢ BOT items can be
  - Fairways
  - Terminals
  - Port complexes (unusual)
BOT (cont’d)

- BOT period normally at least 20 years
- At end of BOT period private company returns fixed assets to Port Authority (usually) at written-down value
BOT models

- BOT (Build/Operate/Transfer)
- BOO (Build/Own/Operate)
- EOT (Equip/Operate/Transfer)
- BTO (Build/Transfer/Operate)
- BOOT (Build/Own/Operate/Transfer)
- BBO (Buy/Build/Operate)
Full Privatisation

- United Kingdom and New Zealand
- Requires new legislation
- Incompatible system with regard to national and regional interests in most countries
- UK experience does not provide many arguments supporting full privatisation by sale of land and transfer of public functions to private sector
Port reform processes and port labour

- Major reason for initiation of processes of change related to reduction of surplus labour and/or reduction of restrictive labour practices
- Labour Unions afraid of losing jobs and influence
- If labour problems in port (due to processes of change) are passed on to other areas of national economy: creation of new (social) problems
Port reform processes and port labour (cont’d)

Redundancy payments could provide solutions but must be

➢ Allowed/possible under national labour laws and/or

➢ Negotiated prior to initiation of selected process of change and/or transfer of enterprise to private sector
Possible port labour reform guidelines

- Clear statement by government
- Address labour issue first
- Involve high ranking politician(s)
- Timing
- Ban on recruitment
- Redundancy payment fund
- Reduce on all levels
- Reform in stages
Possible port labour reform guidelines (cont’d)

- Outplacement office
- Involve Unions in process
- Good arguments
- Industrial democracy
- Good communication / avoid polarisation
- (Re-)Training facilities / programmes
- Job creating projects
- Port labour should profit from port reform
Conclusions

- Obviously in many ports requirement of certain level of autonomy
- Level of autonomy critical success factor for port re-organisation
- Institutional change exceedingly complex issue
- Much confusion about success of specific experiences with changes
- Limited solid evidence about effectiveness of the various strategies
- Existing situations will not automatically improve when applying any of processes mentioned
Thank you for your attention
Examples of Reforms
Recent examples of port reform

Sri Lanka 2004

➢ The new coalition Government announces to discontinue port privatization (considered as strategic state enterprises)

➢ The previous Government privatized Colombo’s QE Quay by leasing it to a P&O Ports led Consortium in 1999

➢ The Government will establish the Strategic Enterprises Management Authority to run state organizations more efficiently to compete effectively with the private sector
Recent examples of port reform - 2

Jordan 2004

- Agreement between Aqaba Development Corporation and APM Terminals to manage the container terminal for a period of 2 years (MT)
- APM will upgrade the terminal’s infrastructure, develop a computer system and boost the terminal capacity
- Jordan Shipping Agents Association complained that the Government had not given local companies the chance to run the terminal
Recent examples of port reform - 3

Vietnam 2004

- Plan to develop a new river container terminal, as recommended by JICA
- The total investment costs: US$ 23 million
- Investors: Local companies 80%; remainder to come from the foreign private sector
Recent examples of port reform - 4

UAE 2004

- Kuwait company KGL Port Management Company was awarded a US$ 45 million contract to build and operate a container terminal at Mina Saqr
- 21 year BOT concession
- KGL will invest US$ 15 million in two new berths, US$ 4 million to reconstruct 3 berths, US$ 3 million in new facilities and US$ 23 million in new equipment
Recent examples of port reform - 5

Brunei July 2004

➢ The Government announced plans to develop Pulau Muara Besar container transshipment terminal

➢ Total investment cost: US$ 1.7 bio(!)

➢ The terminal will be developed in 2 phases; first phase to cost US$ 400 million

➢ Funding: 70% from Brunei Government and 30% from the private sector (the new manager of the facility)
Recent examples of port reform - 6

Morocco 2004

➢ The Government announced the reform of the port system to come into force in the first half of 2005

➢ The reform will involve redefining of the role of the current National Port Operations Office (ODEP) and the creation of a National Port Agency
Recent examples of port reform - 6/2

Morocco 2004

- Government wants to take the opportunity of the new Tangiers Med BOT contract with APM Terminals to enhance cost efficiency of the other main ports in Morocco
Recent examples of port reform - 7

Malta 2004

- Shipping Company CMA CGM signed a contract with the Maltese Government to control Malta Freeport Terminals
- P&O Ports will manage the port on behalf of CMA CGM
- The concession period is 30 years and the Government will receive in total US$ 421 million
- CMA CGM plans to invest US$ 7 to 12 million on the short term for new equipment and will retain the present labor force