

Ports as Logistics interfaces: The (de)regulatory challenges

Thanos Pallis

Department of Shipping, Trade & Transport,
University of the Aegean, Greece



ΠΑΝΕΠΙΣΤΗΜΙΟ ΑΙΓΑΙΟΥ
ΤΜΗΜΑ ΝΑΥΤΙΛΙΑΣ &
ΕΠΙΧΕΙΡΗΣΙΑΚΗΣ ΛΟΓΙΣΤΙΚΗΣ



“A port authority is a public and non-economic entity”.

“A port authority should be excluded from the application of Article 45 of the European Treaty that provides for the free movement of persons within the EU”

Regional Administrative Court of Puglia,
26 June 2012,
‘The Brindizi case’

In certain respects Europe needs to resolve the basics:

The function of Any Port is an economic activity

Game changers (organisational structures)

1. Operational & Spatial Expansion

- hinterland regionalisation
- foreland regionalisation
- Ports in Proximity

2. Supply Chain integration

- Industrial **clusters around the port** (maritime + non maritime)
- co-ordination, cooperation, vertical and horizontal integration
- Information technologies and smarter IT, linking actors

3. Specialisation

- Terminalisation

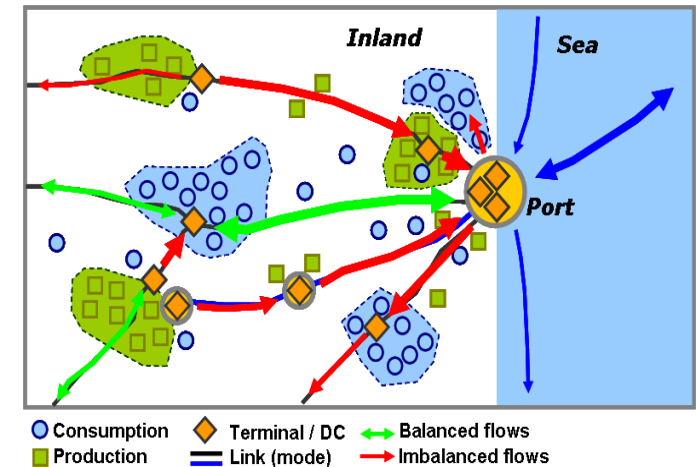


Figure: Rodrigue and Notteboom, 2007

Game Changers (new market structures)

4. Users markets concentration

- Few alliances control the shipping market – some linked with ITOs
- Bigger - more sophisticated ships (inter-continental trades; for all sectors (cargo, cruise, etc..; for intra-EU exchanges)
- Logistics: key players add pressure to 'ports' (*issue undermined up to now*)

5. International terminal operators (stevedores)

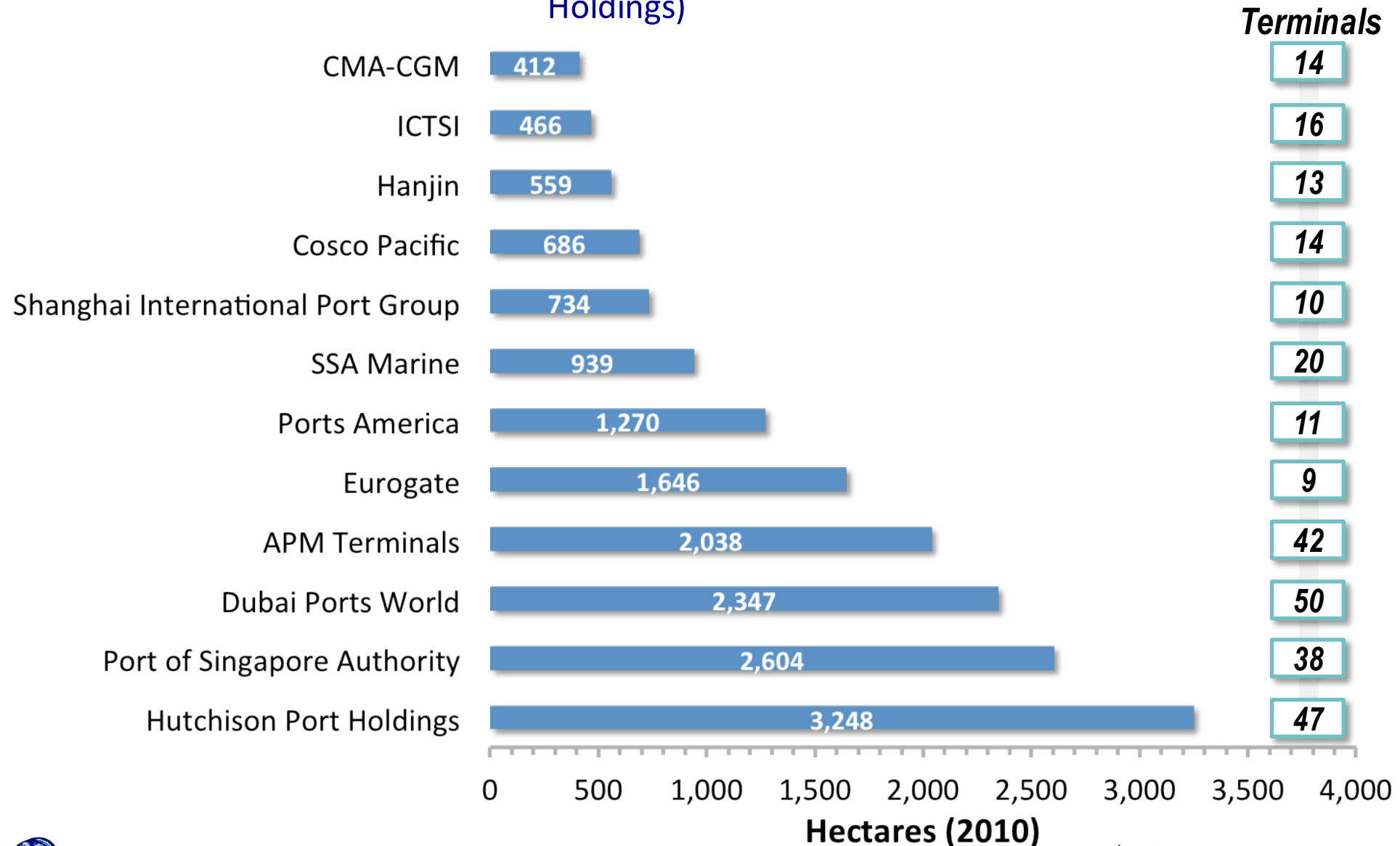
- consolidation vs. market openness
- Financialisation

6. Environmental & societal pressures

- Co-existence
- Operational/shipping related
- Local/global

Acknowledging market concentration

(example. Containers – Terminals & Hectares Controlled by the 12 Largest Port Holdings)



Source: Rodrigue and Notteboom, 2011

Typology of Global Port Operators

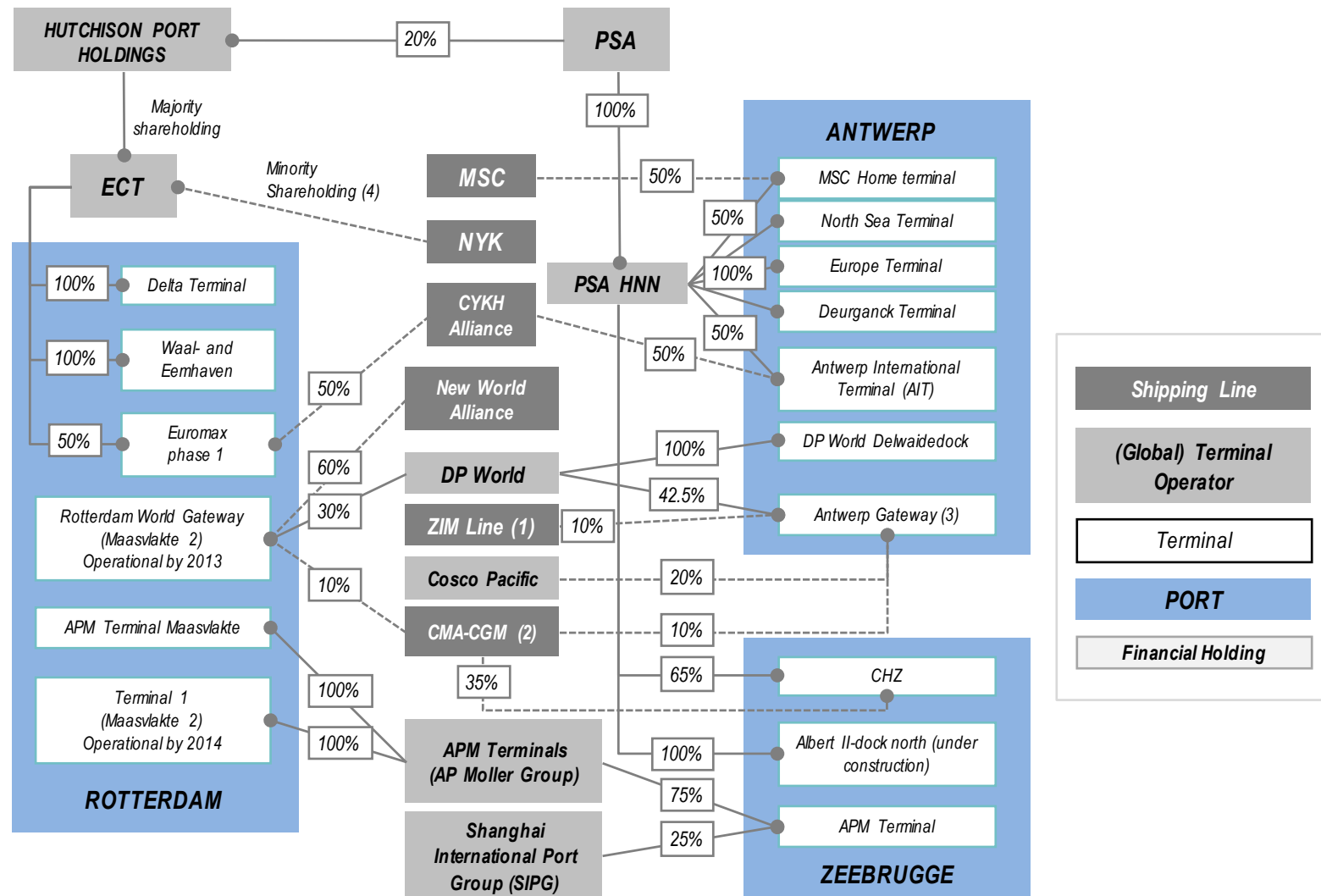
Process	Main Points	Ownership	Examples
Horizontal Integration (Stevedores companies)	Port operations is the core business; Investment in container terminals for expansion and diversification.	Public (Government, Port authorities)	DPW, HHLA, PSA
		Private	Eurogate, HPH, ICTSI, SSA
Vertical Integration (Container shipping companies)	Main business is maritime shipping; Investment in container terminals as a support function.	Public	None
		Private	APL, Evergreen, Hanjin
	Creation of a parent company specializing in container terminals.	Public	COSCO
		Private	APM

Source: adapted from T. Mori (2006)

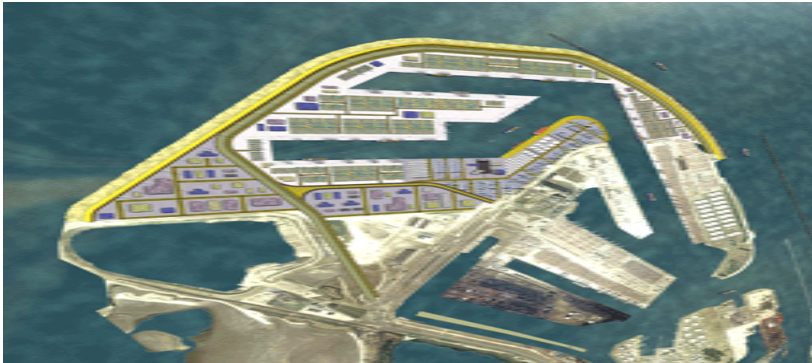
The Financial Playground (1997-2008)

	At least 246 terminals acquired via M&A (some examples)	
New Comers (financial institutions)	Goldman Sachs	Wall Street Bank
	Deutsche Bank	Prudential
	AIG	Borealis (Canadian pension fund)
	Ontario Teachers Pension Fund	Babcock & Brown Infrastructure
	Macquarie Infrastructure	Mantauban SA
Sovereign Funds	GIC (Singapore government co)	Dubai Ports World
Players from within the sector (Stevedores & Shipping Companies)	CMA-CGM	Eurogate Holding
	Eurokai	Hesse Natie
	Hutchison Port Holdings	PSA Corp.
	Maersk Line	Neptune Orient Lines
	Nippon Yusen Kaisha	P&O

Inter-firm Relationships in the Three Main Container Ports of the Rhine-Scheldt Delta, 2010



Challenge I: Balance Actors relationships



Rotterdam



Piraeus

- What do Rotterdam & Piraeus have in common?
 - Recent awarding of rights to operate terminals under European Commission scrutiny
 - Relations between PA & ITOs (Masvlaakte II awarding)
 - Relations between the state & ITO (Concession to COSCO)
- Shifting balance of power
 - from PAs /governing bodies/policy-makers
 - to (a) port service providers – also : (b) shipping lines; (c) shippers/logistics
 - PAs start “feeling uncomfortable”

The Strategy: Increase market contestability

- **Importance of reducing entry barriers* in seaports:**
 - Regulatory,
 - **geographical** (locational)
 - **economic** (absolute cost advantage ; switching costs; Sunk costs)
- **Why?**
 - Increase the level of **intra-port competition**.
 - Faster implementation of **new business models** (reallocating resources)
- **More complex than in the past:**
 - multifaceted entities embedded in supply chains
 - parts of multilayered networks with multiple entry-levels

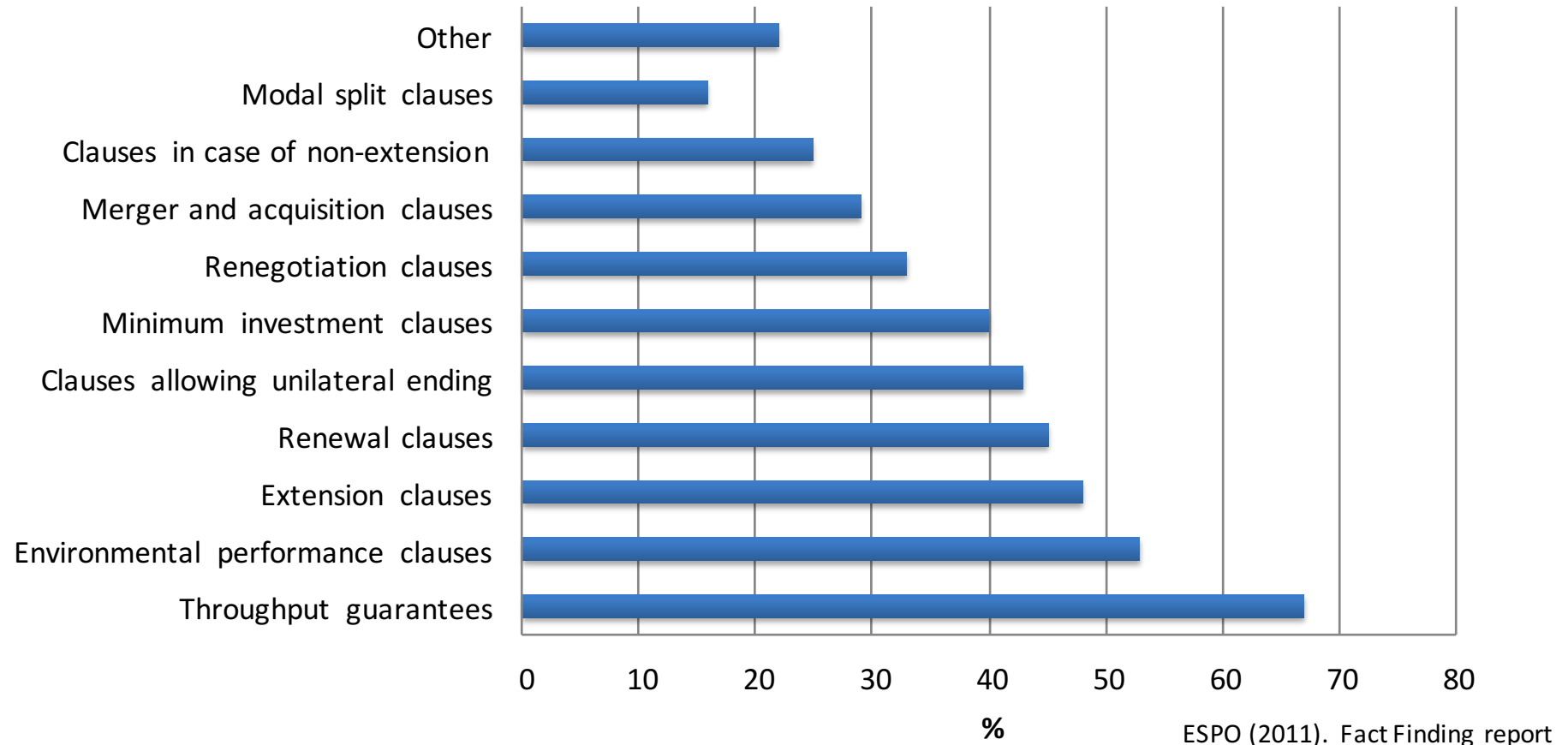
*** Entry barrier:** *'anything that prevents an entrepreneur from instantaneously creating a new firm in a market, while a long run barrier to entry is a cost that must be incurred by a new entrant that incumbents do not (or have not had to) bear'*

Carlton & Perloff, 1994

Regulatory & Institutional Entry Barriers in Seaports

- Limitation of the number of providers
- Discrimination when granting authorisations
- Provisions in leases, concessions and other operating agreements, particularly those involving investment (i.e. exclusive rights)
- State port authorities:
 - enjoy an implicit state guarantee (i.e. predatory pricing is possible)
 - create entry barriers to collect economic rents
- *Related (de)regulatory debate: Single Market for port services*

Clauses generally applied in major contractual arrangements

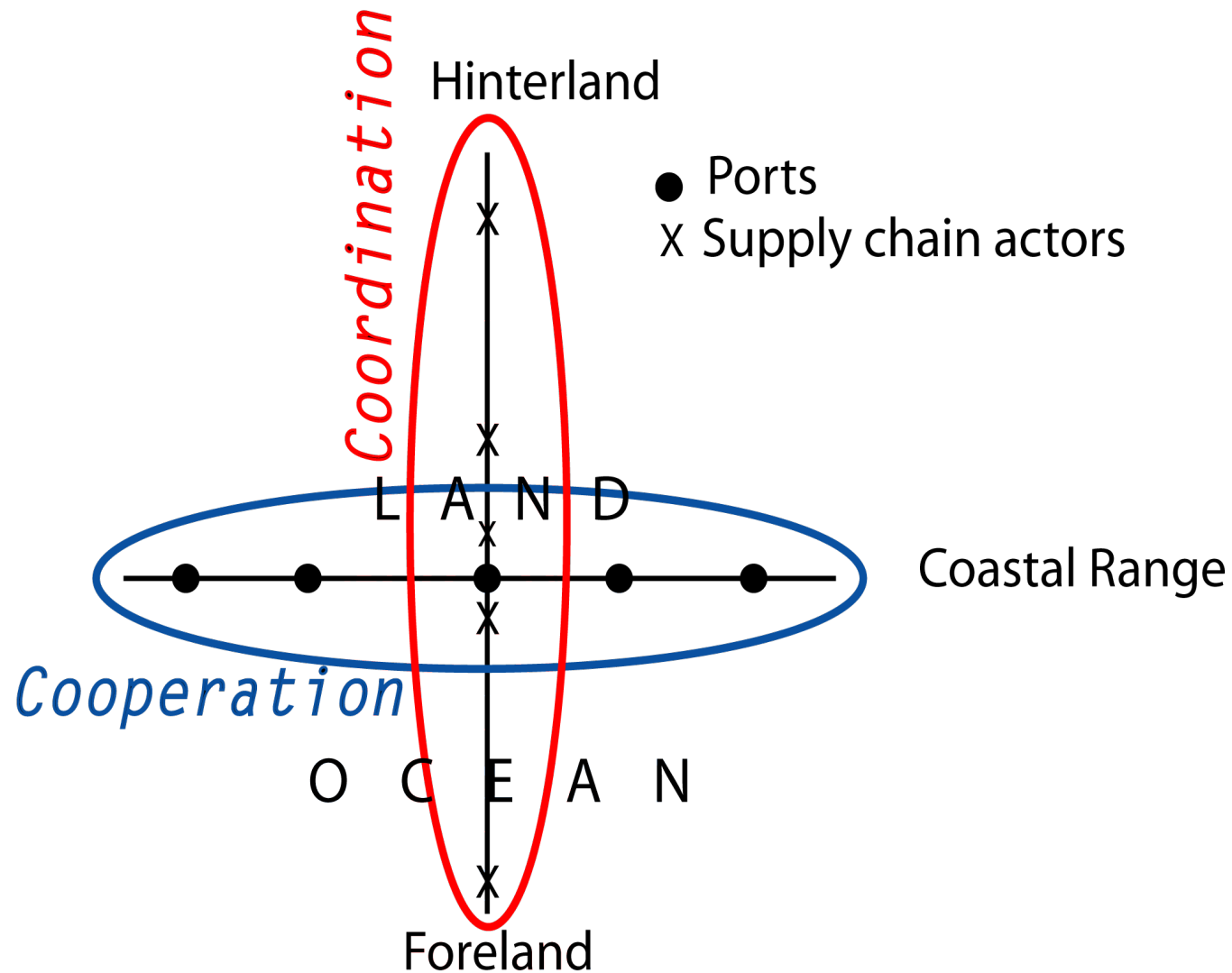


Key issues: *Duration-fees determination-guarantees-performance incentives-renewal-role of PAs*

Challenge II: Transparency

- Incumbents benefiting from
 - accumulated public investments
 - Better location in the port
 - Larger scale of operations with associated scale economies
- Capital expenditure is not an entry barrier but there are costs for new entrants that incumbents have not had to incur due to public sector involvement
- The Transparency challenge to avoid distortions of competition:
 - Financing (how? / what?)
 - Charging
 - Accounts

Challenge III: Cooperation & Coordination



Port Cooperation in Europe

- **Acknowledgement of the need**

“Cooperation between ports and especially between those close to each other is most welcome, as it can lead, inter alia, to specialisation in cargo or ship types, and organisation & pooling of hinterland transport facilities. It would certainly lead in many cases to an improvement in output”

EPP Communication - 18.10.07

Vs.

- **Limits to co-operation**

- Concentration in the cargo handling market
- EU Treaty rules on competition impose limits on co-operation between ports / between port operators
- Relations with neighbouring non-EU ports

Challenge IV: Co-existence



Venice

Port & the City
(port activities)

Different sectors
(i.e. containers/cruise)



Los Angeles

Challenge V: Address the Long List of 'Green' Issues

- **Cargo Handling operations**
 - Land take
 - Congestion
 - Noise
 - Emissions
- **Port maintenance /expansion activities**
 - inland expansion
 - maritime expansion (dredging)
 - management of disposal
- **Recreational activities**
- **Port Refuge**

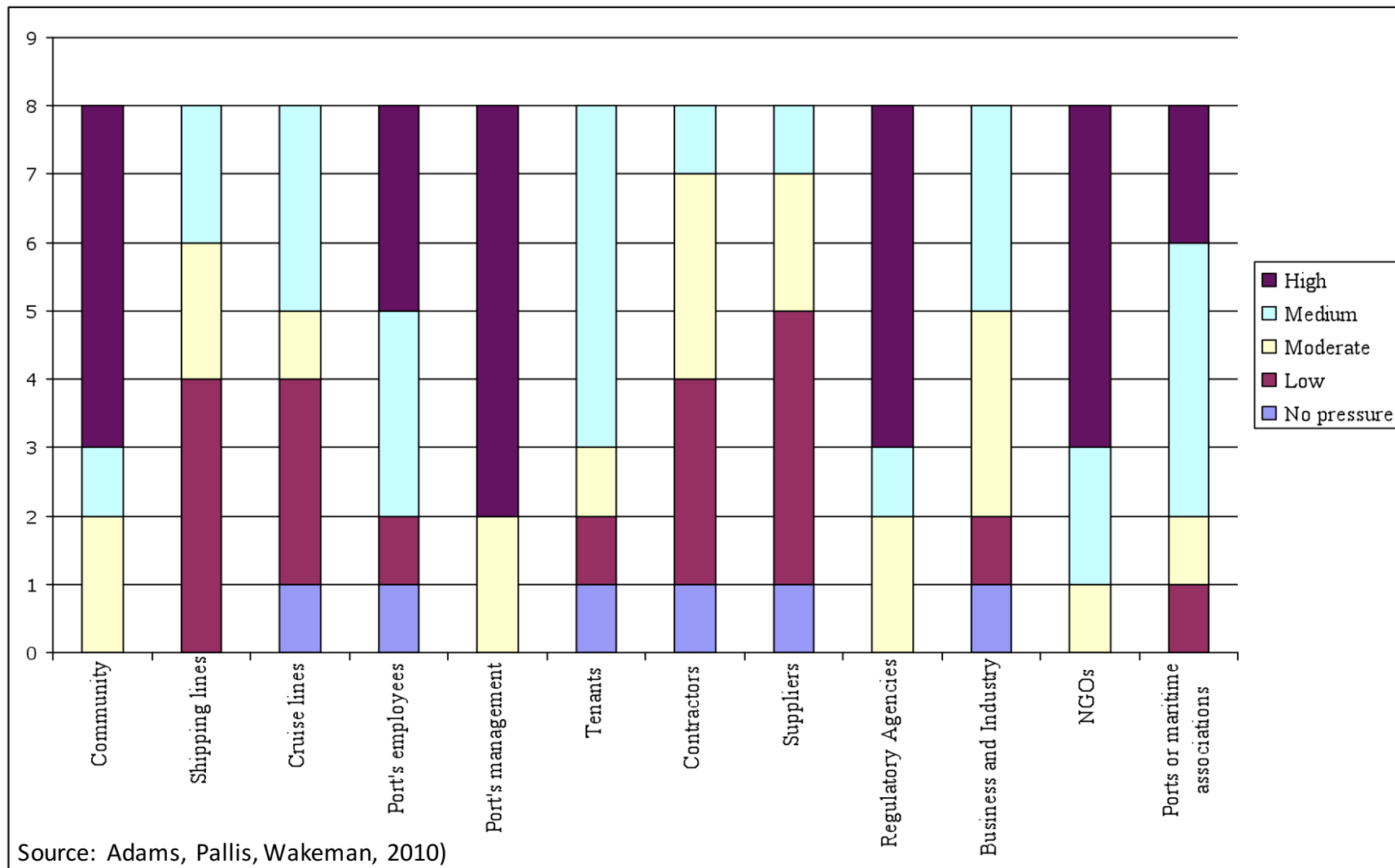


Conflict between port needs and the application of 'green rules'

- **Difficulties in carrying out projects**
 - Conditions: agreement between port promoters and authorities that the impact on the local area is adequately catered
 - Large number of competent authorities don't carry out the assessment process in a simple & transparent manner
- **Lack of integration between transport & environmental policies**
 - i.e. Promotion of SSS (environmentally friendly) vs.
 - Environmental legislation impedes certain necessary infrastructural works in ports

A port's 'license to operate' is associated to its environmental performance than before

(Level of Stakeholder Interest in Port Environmental Performance)



Challenge VI: Ports and the City

- Should initiatives to sustain co-habitation with local communities go as far as regulation?
 - focus on avoiding negative (pollution, congestion, etc.)
 - stimulating positive externalities (hard & soft values).
- Especially in case of secondary ports (stronger links with local communities)
 - Local societies and the ‘age of discontent’ with port expansion
 - Ports as money generators “to be lost by the arrival of privates”: (*‘I want my port back’*)

Challenge VII: Safety (& Security)



Costa Concordia disaster

Q. At which level to regulate?

- Local
- National
- Regional
- International (IMO and/or else)

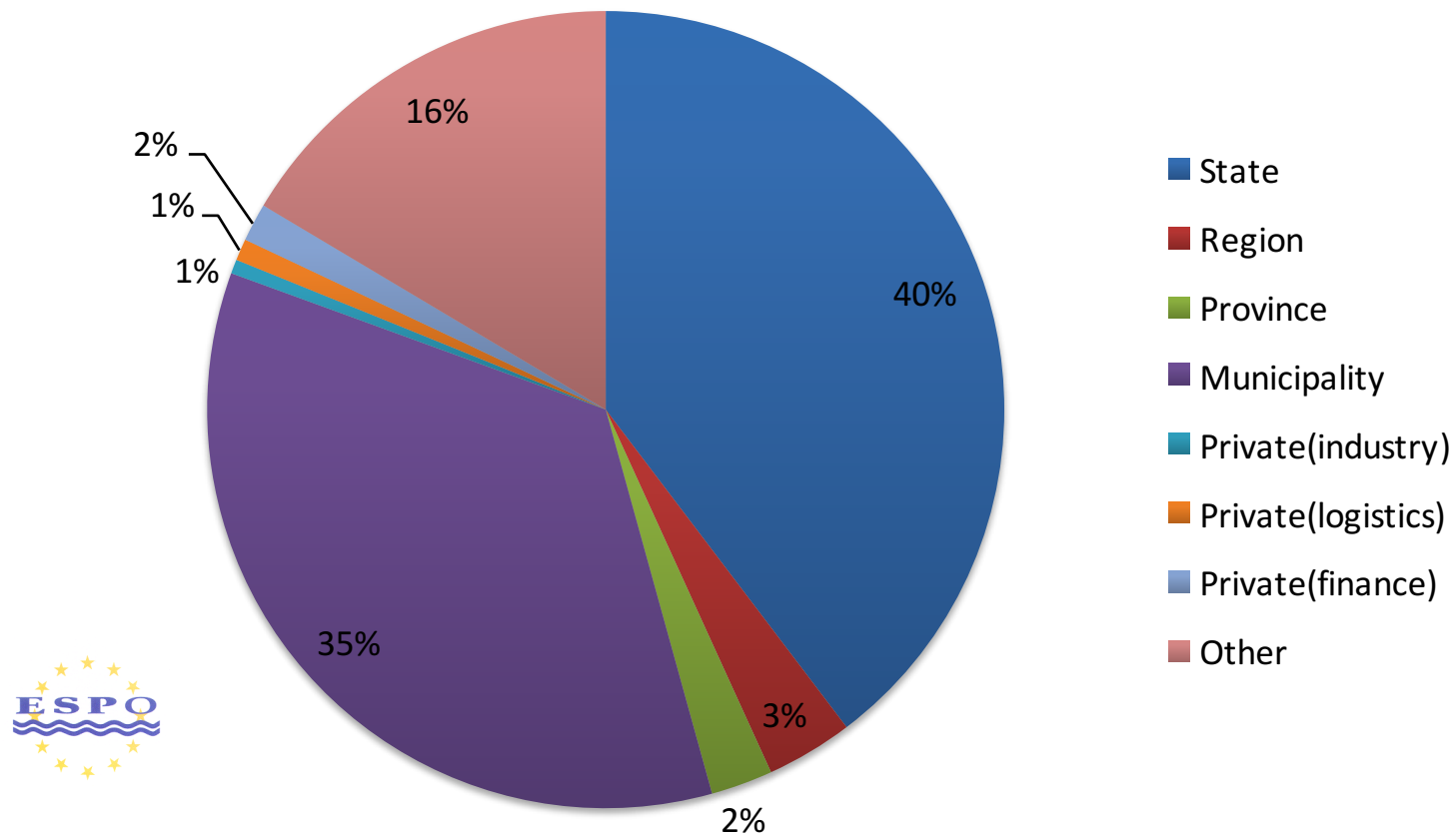
The Q: What about Labour?

- In the supra-national (i.e. European) agenda:
 - (a) organisation of labour market
 - (b) training and
 - (c) health and safety
- *The key Question: Are port workers different from other workers?*
 - due to (ir)regularity of demand?
 - due to the transformation from unskilled work to multi-skilling?
 - due to the different occupational risk levels?
- Answering the Q. would help to decide on (de)regulatory necessities

Conclusion:

It is not a question of ownership but one of strategy

- Ownership of port authorities in Europe (2011)



Source: ESPO, 2011

Thank you

Thanos Pallis

apallis@aegean.gr

