An analysis of the trend in concessions and privatisation in ports: the case of Kenya and Tanzania

Sudi Amani Mwasinago

World Maritime University

Follow this and additional works at: https://commons.wmu.se/all_dissertations

https://commons.wmu.se/all_dissertations/408

This Dissertation is brought to you courtesy of Maritime Commons. Open Access items may be downloaded for non-commercial, fair use academic purposes. No items may be hosted on another server or web site without express written permission from the World Maritime University. For more information, please contact library@wmu.se.
AN ANALYSIS OF THE TREND IN CONCESSIONS AND PRIVATISATION IN PORTS:
A case of Kenya and Tanzania

By

SUDI AMANI MWASINAGO
Republic of Kenya

A dissertation submitted to the World Maritime University in partial fulfilment of the requirements for the award of the degree of

MASTER OF SCIENCE
In
MARITIME AFFAIRS
(PORT MANAGEMENT)
2006

© Copyright Sudi Amani Mwasinago, 2006
DECLARATION

I certify that all the material in this dissertation that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this dissertation reflect my own personal views, and are not necessarily endorsed by the University.

(Signature): ..............................................

(Date): ..............................................

Supervised by:
Name: Pierre Cariou
Professor
Institution/Organisation: World Maritime University

Assessor:
Name: Shuo Ma
Professor
Institution/Organisation: World Maritime University

Co-assessor:
Name: Gary C. Crook
Institution/Organisation: Visiting Professor, World Maritime University and retired officer UNCTAD
ACKNOWLEDGEMENTS

I take this opportunity to thank the management of Kenya Ports Authority for nominating me for this very valuable and coveted programme, which could not have been possible without their initiation.

My heartfelt gratitude goes to the World Maritime University administration for offering me the crucial financial support through their special fund. Their financial and material support is a contribution in my academic and professional endeavour that I will never forget.

I wish to convey my deepest appreciation to Professor Ma, the head of the Port Management course, for his tireless efforts to make the course such a success. Also my thanks go to all World Maritime University professors who directly or indirectly contributed to the attainment of this coveted award. I am especially grateful to Professor Patrick Donner, Professor Takeshi Nakazawa, Captain Jan Horck, Mr. Eric Ponnert and Mr. Rajendra Prasad for imparting to us such very valuable knowledge.

I am greatly indebted to Professor Pierre Cariou, whose guidance advice and meticulous supervision have made this dissertation a success. His expertise and constructive comments will always be remembered.

My heart felt gratitude goes to all visiting Professors particularly Professor Gary Crook of UNCTAD for his very valuable assistance by taking efforts and forward to me the latest UNCTAD material all the way from Geneva that were very useful to the analysis of this work.

I am grateful to Ms Inger Battista for her expert linguistic supervision and the library fraternity notably Professor Patrick Donner, Ms Susan Wangeci and Ms Cecillia Denne who made sure that the material that is needed for this dissertation was available.
I am thankful to the student population and fellow classmates who made the environment conducive for this research.

I also convey my sincere gratitude to the port personnel who I met and interviewed in France, Singapore, the Netherlands, Kenya and Tanzania. Their inputs, data and statistical information are of great value to the success of this work.

I am also deeply indebted to my loving wife, Hawaa, who endured the long loneliness and still encouraged me to this successful end.

I thank God the Almighty for the endurance, courage and good health he bestowed on me all the way to this successful end. I am indebted to Him forever.
ABSTRACT


Degree: MSc

Privatisation and ports concessions are forging ahead all over the world, giving an enlarged role to the private sector in the management and operation of port facilities. This dissertation analyses the trends that privatisation and concessions are taking in world ports with a view to identifying the methods and reasons governments are increasingly adopting this concept. At the same time its significance in port competitiveness is assessed while taking into account its efficacy as a universal panacea of problems in public ports.

The author starts by analysing the concept “sea port” and defining the controversial term “privatisation”. Institutional reforms in the port industry are analysed pointing out the changes that have taken place during pre privatisation and post privatisation era and their reasons. This culminates into a sequential analysis where present trends featuring port administrations and governments seeking bids from global private terminal operators and major ocean carriers are made. Global operators’ dominance in port privatisation and a comparative study of Kenya and Tanzania container terminals is discussed in details. This scenario is evident in almost all privatisation initiatives done through mainly concession and lease contracts.

The conclusion shows that there is still room for privatisation in ports as more governments and port administrators are seeking international bids for port concessions and lease contracts; thus the trend is bound to continue in the foreseeable future. While the analysis shows that port privatisation is a concept that has evolved to facilitate trade in a world where competition has become the universal norm, it is neither a universal panacea nor peril.

KEY WORDS: Port Privatisation, Concessions, Lease Contracts, World Ports.
TABLE OF CONTENTS

DECLARATION.............................................................................................................. ii
ACKNOWLEDGEMENTS .............................................................................................. iii
ABSTRACT .................................................................................................................... v
TABLE OF CONTENTS ............................................................................................... vi
LIST OF TABLES......................................................................................................... viii
LIST OF FIGURES....................................................................................................... ix
LIST OF ABBREVIATIONS.......................................................................................... x

1 INTRODUCTION........................................................................................................ 1
1.1 Background ......................................................................................................... 1
1.2 Definition of the research problem .................................................................... 2
1.3 Objectives and scope ....................................................................................... 3
1.4 Study Methodology: ......................................................................................... 4
1.5 Limitations of the Study .................................................................................. 4
1.6 Summary .......................................................................................................... 5

2 PORT INFRASTRUCTURE AND INSTITUTIONAL DEVELOPMENTS .............. 7
2.1 Introduction ....................................................................................................... 7
2.2 Concept of a seaport ....................................................................................... 7
2.3 Port Infrastructure ......................................................................................... 10
2.4 Port Superstructure ....................................................................................... 11
2.5 Ports economic activities ............................................................................. 11
2.5.1 Core services ........................................................................................... 12
2.5.1 Value added services ........................................................................... 12
2.6 Port assets and functions ............................................................................. 13
2.6.1 Regulatory Function ............................................................................. 13
2.6.2 Land owner ........................................................................................... 14
2.6.3 Operations ......................................................................................... 14
2.7 Port administration models ......................................................................... 15
2.7.1 Service port model .............................................................................. 15
2.7.2 Tool port Model .................................................................................. 16
2.7.3 Landlord port Model .......................................................................... 16
2.7.4 Private port Model ............................................................................. 17
2.8 Pre and post privatisation era in ports ......................................................... 17
2.9 Institutional reforms and regulations of ports ............................................ 20

3 PORT PRIVATISATION AND CONCESSIONS IN THE WORLD .................... 24
3.1 Introduction ..................................................................................................... 24
3.2 The privatisation concept ............................................................................. 25
3.3 Objectives of privatisation and concessions .............................................. 26
3.3.1 Why is there port privatization explosion? ........................................... 26
3.3.2 Impetus behind full port privatization in the UK: A Case study. ........... 29
3.4 Impact of dock labour in privatisation ....................................................... 30
3.5 Global trends in concession and privatisation in ports ............................... 31
3.5.1 Privatization trends by region ............................................................... 31
LIST OF TABLES

Table 1: Growth in World trade against GDP .............................................................. 8
Table 2: Examples of global stevedores ...................................................................... 27
Table 3: Spectrum of port reform tools ...................................................................... 41
Table 4: Waiting time at Jeddah Port 1996-1999 (Hours) .............................................. 48
Table 5: Mombasa Container traffic (TEUs) 2001-2005 ............................................. 67
Table 6: Dar es Salaam Container traffic(TEUs) 2001-2004 ...................................... 67
Table 7: Comparative crane performances .................................................................. 69
Table 8: Ship traffic in Mombasa and Dar Salaam ports ........................................... 70
Table 9: Mombasa container terminal occupancy .................................................... 71
LIST OF FIGURES

Figure 1: Growth in World trade against GDP............................................................. 8
Figure 2: Growth in World trade against GDP............................................................. 9
Figure 3: Global representation of port ownership....................................................... 22
Figure 4: Public and private port participation............................................................ 22
Figure 6: Privatization revenues in developing countries, by region, 1990-1999..... 32
Figure 9: Waiting time at Jeddah Port 1996-1999 (Hours)........................................ 48
Figure 10: Landscape of Mombasa container terminal.............................................. 55
Figure 11: Location of Kenya ................................................................................ 56
Figure 12: Location of Tanzania.............................................................................. 63
Figure 13: Mombasa containerised cargo (TEUs) From 2001-2004......................... 68
Figure 14: Dar es Salaam containerised cargo (TEUs) from 1998-2004............... 68
Figure 15: Comparison of trends in the ship traffic .................................................. 70
Figure 16: Mombasa container terminal occupancy ................................................. 71
Figure 17: Dar es Salaam container terminal occupancy ........................................... 72
### LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABP</td>
<td>Associated British Ports</td>
</tr>
<tr>
<td>ABS</td>
<td>American Bureau of Shipping</td>
</tr>
<tr>
<td>BOO</td>
<td>Build Own Operate</td>
</tr>
<tr>
<td>BOOT</td>
<td>Build Own Operate Transfer</td>
</tr>
<tr>
<td>BOT</td>
<td>Build Operate Transfer</td>
</tr>
<tr>
<td>BTDB</td>
<td>British Transport Docks Board</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CMA-CGM</td>
<td>Compagnie Maritime de Affreightement-Compagnie Generale Maritime</td>
</tr>
<tr>
<td>COSCO</td>
<td>China Ocean Shipping Company</td>
</tr>
<tr>
<td>DGPE</td>
<td>Department of Government Investment and Public Enterprise</td>
</tr>
<tr>
<td>DRC</td>
<td>Democratic Republic of Congo</td>
</tr>
<tr>
<td>EAR&amp;S</td>
<td>East African Railways and Harbours</td>
</tr>
<tr>
<td>ECT</td>
<td>Europe Combined Terminals</td>
</tr>
<tr>
<td>EDI</td>
<td>Electronic Data Interchange</td>
</tr>
<tr>
<td>ESTU</td>
<td>Executive Secretariat Technical Unit</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>HHLA</td>
<td>Hamburger Hafen und Logistik AG</td>
</tr>
<tr>
<td>IAPH</td>
<td>International Association of Ports and Harbours</td>
</tr>
<tr>
<td>ICD</td>
<td>Inland Container Depot</td>
</tr>
<tr>
<td>ICTSI</td>
<td>International Container Terminal Services</td>
</tr>
<tr>
<td>KPA</td>
<td>Kenya Ports Authority</td>
</tr>
<tr>
<td>Mini-Max</td>
<td>Minimum-Maximum</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>MPA</td>
<td>Maritime and Port Authority of Singapore</td>
</tr>
<tr>
<td>MSC</td>
<td>Mediterranean Shipping Company</td>
</tr>
<tr>
<td>OSC</td>
<td>Ocean Shipping Consultants</td>
</tr>
<tr>
<td>P&amp;O</td>
<td>Peninsular &amp; Oriental Steam Navigation Company</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>PSA</td>
<td>Port of Singapore Authority</td>
</tr>
<tr>
<td>PSRC</td>
<td>Presidential Parastatal Sector Reform Commission</td>
</tr>
<tr>
<td>SSG</td>
<td>Ship to Shore Gantry Crane</td>
</tr>
<tr>
<td>TEU</td>
<td>Twenty foot Equivalent Unit</td>
</tr>
<tr>
<td>THA</td>
<td>Tanzania Harbours Authority</td>
</tr>
<tr>
<td>TICTS</td>
<td>Tanzania International Container Terminal Services</td>
</tr>
<tr>
<td>TPA</td>
<td>Tanzania Ports Authority</td>
</tr>
<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>WMU</td>
<td>World Maritime University</td>
</tr>
</tbody>
</table>
CHAPTER ONE

1 INTRODUCTION

1.1 Background

Consistent with the worldwide trend to privatise the operation and often the ownership of airports, highways, water supply, and wastewater treatment facilities, governments in developed and developing countries are turning over port operational responsibility and port assets to private enterprises. In most cases, the public sector retains responsibility for essential statutory functions such as general navigational safety regulations and contract monitoring and enforcement. In the global environment, the role of government is waning while that of the private sector is waxing.

Port operations in developing countries have a history of being inefficient due to centralized bureaucratic management, high labour costs, obsolete equipment for handling high volumes of cargo, and various financial problems. Pervasive inefficiencies in public ports in contrast to striking performance records of privately run terminals have gradually induced governments to reconsider the organization and management of their national port systems. Governments of developing nations have eventually come to realize that the port-as-a-business concept can positively and significantly contribute to the national economy.

Privatization of ports has increased competition in costs and encouraged autonomous investments and operations. This has cemented the conviction that private participation is a universal panacea. However, defining port privatisation is seldom easy and requires careful analysis. This is because the extent of private sector involvement within ports can vary.
1.2 Definition of the research problem

Concessions and privatisation of public service ports is a vexed subject. However, there are widespread trends of global strategies in vertical and horizontal integration evolving around port ownership and operations undertaken by a variety of market players, both within and outside the international shipping and logistics markets.

Despite recent evidence of declining public support for privatization, the trend shows resounding success of privatisation in competitive sectors. The author uses bids and awards of concession and lease contracts by governments and port administrators to global private terminal operators and shipping lines as indicators of privatisation activities.

It is worth noting that the market environment in which ports operate has changed significantly. Globalisation of trade and economies of scale have enticed shipping lines to opt for mega ships. Also in order to improve terminal operation performance and to integrate door-to-door transport, many shipping lines want to expand their scope to include terminal operations.

Since carriers view ships’ time at ports as an expensive activity, the speed of container handling and consequent vessel turnaround time is a crucial issue in terms of competitiveness for ports. This is very important because ship owners have put to service mega ships like the current world’s biggest container ship, the *MSC Pamela*, of 9,200 TEU capacity (Reinikainen, 2006, p. 10). News has it that from September 2006, Maersk will smash the world record with a new containership named *Emma Maersk*. The real intake could be as much as 50% greater than the biggest ships now in service. With seven tiers stacked on deck, and allowing for visibility rules, the ship could carry around 13,500 TEUs (Porter, 2006, p. 1)

The potential trend for further significant port privatization programmes is also likely to fuel the continuing participation of shipping lines into container handling via the investments they are continuing to make in dedicated and multi-user terminals. This is currently seen from shipping lines like Maersk line and others like CMA-CGM and MSC. The continuation of the globalization policies of the major container terminal
operators like Hutchison, PSA and Dubai Ports World and the further concentration of the sector are also likely to feature prominently in the industry’s future.

The trend that port privatisation is taking can be clearly manifested by the apparent active participation of these global terminal operators. Global terminal operators have taken advantage of liberalisation of the maritime sector to gain foothold in otherwise difficult markets through acquisitions and concession contracts. DPWorld for example initially managed ports in the Middle East, Europe and India. Its first project was at the Jeddah Port in Saudi Arabia, where it collaborated with local partners on the operation of the South Container terminal. Its involvement with Djibouti followed in January 2005 catapulting it on the world stage. It later gained a foothold in Hong Kong, Tianjin and Yangtai in China and South Korea at the Pusan New Port, Australia, Germany, Venezuela and the Dominican Republic. Its ambitions like many other terminal operators and major ocean carriers continue to grow as will be revealed in the forthcoming chapters.

The fundamental rationale for the trend however, is the emergence of logistics and supply chain management as mainstream concepts in business and the role of ports and transport generally being part of the link within the wider framework of a supply chain.

1.3 Objectives and scope

The purpose of this study is to highlight, analyse and offer recommendations on the trend of concessions and privatization of ports and the competitiveness that comes with it. Critical analysis of the past, present and forecast for the future are made where the author believes concessions and privatization will be a common phenomenon. In the research pertinent questions on the contemporary situation are posed in order to address the topic exhaustively. These include:

1. Is privatization and concession a solution for the present and the future? Is it the universal panacea?
2. Are labour unions a bottleneck for port efficiency and private sector participation?
3. What role are global terminal operators and major ocean carriers playing in port privatisation today?
4. What does the future hold for privatization and port concession?
5. Is there a place for port authorities in privatised ports?

1.4 Study Methodology:

For materials gathering, analysis and data collection, the research relies heavily on literature survey and interviews conducted during port visits.

The author depended entirely on literature searches, drawing from published material, networking with regional experts and Internet searches. Much of the published literature presents specific country experiences, which are not directly comparable with global practices due to varying social, cultural, institutional and economic factors. Instead, the findings are analysed and distilled into 'best practice' recommendations, which are applicable under broad conditions.

Statistical analysis of data obtained from textbooks and World Bank privatisation database, peer reviewed literature and information from port visits were used to support the qualitative judgements. Case studies are used to highlight specific country situations. Visits to the European ports of France and Netherlands, Asian Port of Singapore and East African ports of Tanzania and Kenya laid the groundwork for a wider comparative analysis of the levels and trends of privatisation.

1.5 Limitations of the Study

Efforts have been made to have a global representation of the literature and situations, and interviews at ports done during field study visits. However as this work deals with worldwide assessment, it cannot pretend to be exhaustive. There were difficulties in acquiring comprehensive data held by private port operators owing to official privacy and confidentiality.


1.6 Summary

In order to take fully into account the complexity of the trends in privatisation and concessions and the controversial viewpoints that will inevitably be encountered, this study uses a gradual approach, consisting of six interrelated chapters. The first two chapters clarify the precise context in which privatisation and concession schemes are conceived and implemented. This is done through an overview description of the concept “seaport”, highlighting its functions, activities and model management systems applied in ports in the world.

Chapters 3 to 5 endeavour to elicit the critical factors, principles and the status quo in the port industry. This is tackled through a detailed analytical discussion of the subject in a sequential analysis of trends in institutional framework changes, with specific examples of past and contemporary situation featuring port administrations and governments seeking bids from global private terminal operators and major ocean carriers. Viewpoints from both proponents and critics are analysed and cases for and against the trend floated. This part shows the reasons behind the great changes behind port management and operations. It also critically tackles trends in port privatisation. Case studies and country experiences are given to show the uniqueness of situations and approaches as well as to give further support and paraphrases of facts.

While the author mainly relates to the question of the trend in port concessions and privatisation, it is worth noting that the participation of the private sector in the port industry proceeded at a pace adapted to the economic, political and social situation of given countries. For example, the Kenyan and Tanzania cases are considered because of the much-contrasted paces in privatization taking cognizance of the fact that they are competing neighbouring ports. Port performance indicators are used to illustrate and offer a comparative analysis.

Ultimately chapter 6 arrives at a conclusion drawn from the empirical analysis of the research in light of the past, current and future prospects in the trend in privatisation. Though the recommendations should not be interpreted as an infallible set of recipe to be applied without due consideration, they are a guidance for port administrations
and governments willing to involve private participants and also offer clarities of the port privatisation trend. To take off one should as a prerequisite acquaint her/him by bearing in mind what the concept seaport means. What is a seaport? The next chapter describes this and its attributes.
CHAPTER TWO

2 PORT INFRASTRUCTURE AND INSTITUTIONAL DEVELOPMENTS

2.1 Introduction

Chapter one has given an overview of the need that has driven administrations all over the world today to opt for privatisation, but privatisation will not be a success without the means and tools to offer those private services. This chapter will therefore analyse the infrastructure and superstructure available in ports and how various types of port management models operate in the process of offering port services. The transition between public to public/private partnership is analysed showing the rationale and trend.

Due to the growth in competition between ports, governments are reorganizing the way ports are run and permitting more private ownership and service delivery. The potential for competition in providing these services depends largely on the assets required to provide them. The economies of scale obtained by the transport of large quantities of containers have led to the building of larger and more specialized ships that require substantial port investments in new infrastructure and equipment to serve them. But to start with what is a seaport?

2.2 Concept of a seaport

Article 1 of the Geneva Convention on the international regime of maritime ports of 9th December 1923, gives the definition “All ports which are normally frequented by sea-going vessels and used for foreign trade shall be deemed to be maritime ports”.

Professor Alderton defines a port as a ship/shore or a maritime inter-modal interface. Ports are areas where there are facilities for berthing or anchoring
ships and where there is the equipment for transfer of goods from ship to shore or shore to ship (Alderton, 1999, p. 2).

A port is not only a tool, an interface between sea and land but also a logistical platform where many tasks are performed (Francou, 2003, p. 2). Ports are vital in many aspect of our day-to-day life and a vital element of a national transport infrastructure. They play a great role in trade. World trade is growing faster than World GDP as shown in Table 1 and Figure 1 and 2, and since 90% of this trade is carried by sea, ports are indispensable tools to sustain it.

Table 1: Growth in World trade against GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise Exports Growth (%)</td>
<td>6.4</td>
<td>4.2</td>
<td>-0.5</td>
<td>4</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>GDP at Market rate (%)</td>
<td>2.5</td>
<td>2.5</td>
<td>1.3</td>
<td>1.8</td>
<td>2.5</td>
<td>3.8</td>
</tr>
<tr>
<td>GDP at PPP (%)</td>
<td>3.4</td>
<td>3.6</td>
<td>2.4</td>
<td>3.0</td>
<td>3.9</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: WTO and UNCTAD 2005
From the statistics in Table 1 above, world economy deteriorated in 2001, particularly in the aftermath of the tragic events of 9/11. Consumer and business confidence weakened everywhere, and global growth declined. As the slow down affected nearly every major region of the world, it was accompanied by a substantial decrease in trade growth. The above data and subsequent graphs shows clearly and paraphrase the fact that ports are very vital points along the logistics chain and are indispensable for world trade and economy thus they have to be synchronised with these two developments.

Ports are the points where all the major technological revolutions in the maritime sector started or were influenced and are likely the place where future innovations will take place. For example, it is where Malcolm Mc Clean containerisation concept started on the 26th April 1956, when a converted tanker was loaded with 58 modified, 35-foot truck containers and sailed from Newark to Houston.

Many scholars have placed immense importance in ports. When Professor Gary Crook of UNCTAD was asked for a suitable title for professor Alderton’s book “Port Management and Operations”, he suggested “ports: the misunderstood key to prosperity” (Alderton, 1999, p. V). In his key note address at the IAPH’s world port conference in Kuala Lumpur in May 1999, Dr. Mahathir, the then Prime minister of
Malaysia clearly contended that, no matter how information technology advances, world trade cannot be materialised without ports. This is why every country needs to develop much more advanced and efficient ports for its prosperity (Ports and Harbours, 2000, p. 3).

Ports usually have a governing body referred to as the Port Authority, Port Management or Port Administration. “Port Authority” is used widely to indicate any of these three above terms. The term "Port Authority" has been defined in various ways. A sufficiently broad definition of a Port Authority given in 1977 by the Commission of the European Union as; a Port Authority is a state, municipal, public or private body, which is largely of port facilities and, in certain circumstances, for security.

Port authorities have responsibility over some of the maritime access infrastructure such as breakwaters, navigational lights and markers and buoys and all elements within the port area. However connections in the land network and other forms of marine access are owned and maintained by the government. If the port authority is the stevedore under The Hague rules it has the same duty of care as the ship owner to handle the cargo properly and carefully (Scobie, 1976, p. 165).

### 2.3 Port Infrastructure

Ports have specially-designed equipment to help in the loading and unloading of vessels. Private interests or public bodies may provide cranes and refrigerated storage.

There is infrastructure outside the port useful for the port in terms of fluidity and hinterland connection; this includes the roads, rail, air and inland waterways. Seaport infrastructure can be basically categorised into the following; port area which is defined as a complex of berths, docks, and adjacent land where ships and cargoes are served, maritime access infrastructure which includes channels and approximation zones, sea defence (breakwaters, locks) and signalling (lights and buoys), port infrastructure which includes berths, docks and basins, storage areas
and internal connections (roads and others) and land access infrastructure consisting of roads and railways and inland navigation channels.

Port infrastructure has traditionally been designed and maintained directly by port authorities except for the few fully privatised seaports. Public funds were used to finance the building of new infrastructures. It was argued that these assets should be in the public sector, to avoid the risk of monopolization by private firms. There is, however, at present a global trend toward revising this model. Particularly there is a move toward increasing the participation of private capital in the building of infrastructure, generally through the use of concessions.

2.4 Port superstructure

Port superstructure is divided between the fixed assets built on the infrastructure and mobile and fixed equipments including mobile plants and other types of cargo handling equipment that facilitate operations at the shore side.

2.5 Ports economic activities

In this global economy and a shrinking world, ports play an increasingly vital role in the nation's economy. They help ensure the unfettered and efficient movement of goods. They are the gateway for raw materials that feed the nation's manufacturing sector, supply high-tech electronic components, and fill the shelves of retail stores with products that define our lifestyles.

Many ports have become the location for industrial clusters. Several notable port centred industrial clusters have developed over the last 50 years including those in Rotterdam, Yokohama, Marseilles and Houston.

Ports directly or indirectly provide jobs. More of port city's jobs are linked to ports. Port activities as well as services have been changing with time as the practice of doing trade changes. Containerisation, which led to emergence of door-to-door logistics, is by far one of the biggest influences of the radical changes ports has had.
More than 60% of world general cargo trade moved by sea is carried in containers. This is a remarkable market penetration for a technology that dates only from the mid-1950s. Since then there has been a continual increase in both number and average size of containerships. These many and mega ships expect efficient and effective services from the ports.

In general, modern ports offer two kinds of services: core and value added services (World Bank, 2001, p. 9).

2.5.1 Core services
The core services include but may not be limited to the following: marine services which are services like access and protection, pilotage, towage, vessel traffic management, fire protection service and ship chandler; terminal services which are such services like vessel tie-up services, container handling and transfers, container stuffing and stripping and cargo storage.

Ports offer repair services in dredging and maintaining channels and basins, lift equipment repair, dry dock ship repairs and container and chassis repairs. Others are estate management services and information management services. A number of these services can be outsourced to specialized private sector service providers.

2.5.1 Value added services
Additionally ports are delivering non-traditional services to their customers. These non-traditional services typically expand the role of port service providers in the supply chains of shippers. These services allow ports to participate in specialized port service niches and to differentiate themselves from competing ports by means other than price and turnaround times. They include services like reaffixing the seats and installing automated dim light on ignition of imported cars done at the port of Malmo in Sweden. Improving logistics in ports is now a widely accepted means to improve their competitiveness.
Having looked at the elements that defines a port and the activities within it, the next section will highlight how private participation in ports entails, basing the argument above on the discussion on services offered by ports and with reference to which assets are involved and can feasibly be privatised. This is important because the mode of operation of a port will greatly determine the type and quality of services offered and thus the need to privatise.

2.6 Port assets and functions

Port privatization is emerging as an international trend, with a number of countries moving ahead with plans to privatize ports despite protests in some instances by unionized port workers. This section looks at the assets and functions of a port that can be feasibly privatised because though there are many assets and departments within a port that can be privatised, not all are feasible.

There are three essential elements of a port, which can be privatized either individually or collectively: port land, port operations, and port regulations. The extent of privatization within ports can differ depending on which of these elements are transferred from public to the private sector.

2.6.1 Regulatory Function

The port as a regulator element, combines a mixture of duties and responsibilities, most of which will have been established by the law of the country. This regulatory role is somewhat appropriately reflected in the port authority function.

Typically a port’s regulatory duties and responsibilities include the following; Maintaining the conservancy function, ensuring navigable approaches to the port are well maintained and improved where necessary and that conservancy fees are collected from port users: enforcement of applicable laws and regulations particularly on matters relating to health and safety and which may also include control of pollution within the port estate.
Also important is safeguarding port users' interests against the risk of monopoly formation, and the controlling of natural monopolies. The regulatory element of the port is rarely privatised because of the aforementioned attributes.

### 2.6.2 Land owner

Land is another element, which can be privatised in a port. It is a very important asset because it is where all the other assets rest. Ports are very often the largest landowners within a city apart from municipalities. Port estates can be very significant indeed, as in Antwerp where the port authority controls some 125km of berth length and occupies a land area in excess of 14,000 hectares.

The key tasks a port landowner will need to undertake include; managing and developing the port estate, implementing port policies and development strategies, supervising major civil engineering works, providing and maintaining channels, fairways and breakwaters, providing and maintaining locks, turning basins, berths, piers and wharves and, providing road access to the port complex. In view of the strategic significance of port land, it is rarely privatised because of its intrinsic value and scarcity.

### 2.6.3 Operations

Operations refer to the physical transfer of goods and passengers between sea and land. Traditionally this has meant stevedoring services but ongoing shipping industry changes have led to the intrusion into this area of the business by specialist terminal operators, and a number of shipping lines, especially in the container and ferry industries, who now attend to their own landside operations.

Operations may also include a range of added value activities within the port estate, such as warehousing, storage and packaging. This element, as will be seen later is the mostly targeted area for privatization. This is because it is in this part of the transport chain where bottlenecks are and has triggered enormous concessions. This is one of the main causes why the trend in privatization is steady.
Having looked at the elements in a port that can be privatised the question is to what extent? The next section will look upon the extent to which the elements discussed above are incorporated in the private sector control giving rise to multifarious models on port management as seen next.

2.7 Port administration models

Indeed the popularity of privatization as a scheme towards port reform has inevitably altered the governance of ports around the globe. This notion was supported by Mary Brooks (2000) in a research forum in Canada when she contended that the recent trend towards devolution in the port industry has spawned considerable variety in the types of governance structures now in place around the world. The nature of private sector involvement in port is guided by the adoption of a specific management model amongst the different models in place.

Management of ports vary worldwide depending on numerous prevailing factors including the socioeconomic structure of the country, the historical developments and the types of cargo handled. The common port administration models are; the public service port system, the landlord port system, the tool port system and the private port system. Within these models many options are available as regards the specific private participation a port desires.

This section looks at these models in order to offer an overview of the characteristics associated with each because it is through the model applied in a port that the scope and impact of private sector involvement and participation will depend.

2.7.1 Service port model

Here the public port authority provides all services within the port including ownership of labour. The port authority owns the land and all the available fixed and mobile assets. Service ports generally prohibit intra-port competition and are monopolistic with negative effects on efficiency and performance. This type of port administration is mainly used in ports in Singapore, India, Israel and some
developing countries. The notable exception about this port administration model is that despite it being touted as the crudest way of port management, the port of Singapore using this system through Temasek, the Singaporean government investment arm, is the busiest and one of the most efficient ports in the world as shown in appendix A.

2.7.2 Tool port model

In this port management model the port authority owns, develops and maintains the port infrastructure and superstructure including cargo handling equipment. The equipment operators in this system are port authority employees but other operations are performed by private cargo handling firms onboard as well as on quay. Examples of tool ports can be found in the United States, the Philippines, Australia, Spain, Italy, Portugal, Mexico, Argentina and Chile.

2.7.3 Landlord port Model

It is one of the most common growing forms of port operation and its application is on the upward trend. In this model, the port authority maintains ownership in the port while the infrastructure is leased to private operating companies. The private operating companies that lease from the port authority provide and maintain their own superstructure, purchase and install their own equipment and provide their own dock labour. In this system the responsibilities of the port authority as a landlord include economic exploitation, long-term development of the land and the maintenance of basic port infrastructure approaches, basins and berths.

Also the port authority is responsible for the landlord function, such as asset management, partnership with private sector, and monitoring of fair competition, regulatory function such as navigation control, safety and security, and environment protection and facilitation function such as provision of port EDI, inter-port cooperation and strategic marketing. This type of port arrangement model is common among European ports.
2.7.4 Private port model

This model, as noted earlier in this study, is the system mainly used in the UK. Here, the public sector no longer has any interest in port activities. Port land is owned by the private sector. The private companies perform all regulatory functions and operational activities. This system has not received much support from port administrators mainly because the risk of abuse of the natural monopoly position, that ports enjoy, is very high.

After looking at the different forms of port administration in place, the next section will give an overview of the situation before privatisation and the post privatisation era and how most public port management models failed to meet the expectations of port users and governments.

2.8 Pre and post privatisation in ports

This section gives an overview of the chronology of how port privatisation evolved overtime with a view to highlight how the privatisation trend started and why it built to the status quo. This will give a suitable and necessary background on how the trend in port privatisation has evolved and the rationale behind it. It will in this case show why ports had to shift from the once proven model of total government ownership to the otherwise new and consistent trend of private participation in ports that is today.

As the saying goes, all great ideas go through three stages: In the first stage, they are ridiculed. In the second stage, they are strongly opposed. And in the third stage, they are considered to be self-evident. Now, privatization has reached the third stage (IAPH, 2001, p. 98).

The port sector has radically changed over the past two centuries. During the 19th century, ports tended to be instruments of state or colonial powers and port access and egress were regarded as a means to control markets. Competition between ports was minimal and port-related costs were relatively insignificant in comparison
to the high cost of ocean transport and inland transport. As a result, there was little incentive to improve port efficiency (World Bank, 2001, p. 1).

Private sector investment and involvement in ports emerged as a significant issue in the 1980s. By this time, many ports had become bottlenecks to efficient distribution chains of which they are an essential component. The factors that contributed to the gradual systematic breakdown of service quality as illustrated by port congestion and consequent chronic service failures include interalia these factors:

Labour unions often refused to accept reductions in the labour force and ignored the need to upgrade skills. Later, however, unions realized that port reform was a necessity.

Slow paced centralized government control prevailed not only as a norm in socialist economies, but also in many western and developing countries, where national port authorities were often promoted by international development banks (World Bank, 2001, p. 3).

Lengthy bureaucratic procedures and unnecessary state intervention prevented management from streamlining operations and reacting quickly to market needs, which often delayed the implementation of needed changes. Decision makers were often more responsive to a political or administrative hierarchy than to market requirements and thus were interested in non-commercial objectives.

In the 1980s the dismantling of communist systems and the increasing introduction of market-oriented policies on a worldwide basis opened the way for decentralized port management and for reduced government intervention in port affairs.

Another reason was the inability or unwillingness of many governments to invest in expensive port infrastructure or the wrong investment in infrastructure. During this period a number of beautifully constructed port complexes became useless when expected demand failed to materialize. Poor forecasts and inadequate planning and strategies contributed to this failure.
As a result of these failures in managing port development, governments have learnt to rely increasingly on private investors to reduce ports’ reliance on state budgets and to spread investment risks through joint undertakings. Questions therefore arose about the appropriate division of responsibilities between the public and private sectors.

In some administrations like in Britain, it became increasingly clear that large scale government involvement in port operations was counterproductive. The role of government in a market economy, they realised is to focus on monopoly abuse and barriers to entry and exit.

The result was that concessions began, and which have had a major impact on redrawing traditional boundary lines in ports. Some port terminals like in Singapore have become highly specialized in the cargo handling services they provide and manifest fewer of the characteristics of a public service sector raising a potential controversial situation of the privatisation trend.

The trend is that ports are being integrated into global logistics chains, and the public benefits they provide are taking on regional and global characteristics. Private port service providers have become increasingly global in their scope and operations.

Recently, a number of acquisitions, mergers and strategic alliances have been formed both within the global shipping industry and the port services industry. An example is the acquisition of the P&O Ports chain by Dubai Ports World (DPWorld) in March 2006 and the most recent 20% share purchase of Hutchison ports conglomerate by the port of Singapore Authority in May 2006.

Because of these global shipping and port service powers, port authorities will have difficulties in defending public sector interests which brings us to our next discussion on the trend in institutional reforms in today’s ports.
2.9 Institutional reforms and regulations of ports

In the last two decades, a number of countries have undertaken or considered institutional reform in the port sub-sector as a means to improve performance and to reduce the government's financial and administrative responsibility. The interface between the governments and the ports was too heavy and managers were unable to manage the ports commercially. Technological change has also helped to set the stage for reform because of the massive increases in labour productivity and in the increased capital requirements of the port. This has entailed the rethinking of national port development strategies, as well as far-reaching reforms in the legislative, regulatory, and managerial environment within which commercial ports have to operate.

Changes and major trends in the administration in the maritime transport industry can be attributed to two major technological changes during the last decade; containerization which influenced construction of mega ships and liberalization of world economies. These transformations have led to some new requirements for seaports to modernize their infrastructures and to buy new equipment in order to continue to be able to provide services to shipping companies.

Containerized shipping has brought profound changes to maritime transport, including a shift from labour-intensive to more capital-intensive activities. Hence revising the traditional organization of seaports was vital to prepare ports for a more competitive market and less financial dependence on governments.

In his speech during the marking of 50 years in container shipping at the World Maritime University on May 31, Mr. Gerald Malia, the representative of former Chairman and President of ABS, Dr. Richard T. Soper, Commented that world container shipping is growing at between 8% and 10% with China trade last year accounting for 37% of the global TEU volumes, a fact that is also accepted by a new report released by IBM Business Consulting Services which shows that near-term profits in the market for container shipping services are at an all-time high and the
market's growing at 8 to 10% per year. Forecasts also show that containerisation will continue rising (see appendix E).

These developments have precipitated the need for new institutional reforms to cope up with the new trends. Copying the old retrogressive habits and practices does not augur well for the new trends and developments operating in a totally new and different institutional atmosphere. Reforms in labour, operational and financial fields have been paramount to guarantee success. Laws regarding working times, remuneration and duties and responsibilities needed to be synchronized with the new trends in the industry.

Institutional reforms in ports basically involve two steps; identifying the critical basic public functions and responsibilities that will define the role of the national and local public authorities in charge of the public sector; and secondly, identifying the assets needed to support each function and category of services, assessing the adequacy of these assets, and determining which among these to tender to private operators/investors in to allow contestability. Ports and governments have been adjusting to these realities to sustain port competitiveness through fundamental regulatory and institutional reforms.

Supporting this argument, a global survey was conducted by IAPH on its members (ports) to determine the extent of institutional reforms and the private sector’s involvement in the port industry between 1998 and 1999.

There were 188 participating members, who represented 80% of the total ports fraternity. The vast majority of the 188 respondents indicated that their organizations were public corporations established by government. 92% of the respondents were public organizations. 71% of which were either a public agency or corporation and 21% were department of governments. 7% of the ports were private companies, and of these more than two thirds had a government shareholding ranging from 60% to 100% (Baird, 2005, p. 125).
The findings therefore suggest that the influence of private sector actors in ports is growing and the trend in institutional reforms is mostly favouring the port as a landlord model (partial privatisation) than comprehensive privatisation as shown in Figures 3 and 4. Figure 3 also shows that there is a transition from the pure public control to more private participation.

Regarding provision of stevedoring services, the private sector topped the Port Authority and public body, though still marginally as shown in figure 4. Private companies operated 36% of the container terminals while 34% by port authority or other public bodies (IAME, 2001, p. 253).
The survey further indicated that the involvement of private companies had increased especially in port operations within the last two years in 32% of the member ports. It was also expected to further develop in 26% of the ports in the next five years.

The main conclusions from the IAPH is that, it is mainly in port development and terminal operations that the private sector has significantly expanded their business, an area that is experiencing a greater role in private sector involvement. The role of the port authority/public bodies in this regard is still significant especially in many developing countries’ ports. The private sector now has an increasingly major role in provision of stevedoring services, although the port authority is also significant in this aspect as seen on Figure 4.

It should however be noted that, whilst the IAPH survey states that more ports are considering some form of privatisation over the medium term, this is expected to relate to private sector provision of port assets and port services, rather than outright transfer of port property rights as in the UK. This brings us to another question, what is the trend in port privatisation and concessions as actually seen in the contemporary maritime events?
CHAPTER THREE

3 PORT PRIVATISATION AND CONCESSIONS IN THE WORLD

3.1 Introduction

Over the last two decades, it can be inferred that the maritime sector has been characterized by three major trends: globalization, containerization and port privatization.

The prevailing process of change in international transport management from a segmented modal approach towards a much more integrated transport concept tailored to better meet the pressing needs of customer industries is resulting in an increasing pressure on seaports to adapt their role and function to this more demanding operational environment. In particular, there has been a need to define new partnerships between the public and private sectors in port operations, investment financing and asset management leading to a review of the respective roles of public and private actors.

Port authorities are now having a major role to play in fostering the development of an effective cooperation between interested public and private players, which will be required to make it possible to achieve the expected benefits of integrated transport and logistic operations.

This chapter gives light on what privatisation is and is not, why there is a privatisation revolution, where it is prevalent or whether it is a global phenomenon and which sector is mostly affected. Trends in privatisation will be analysed with specific examples. This in effect will highlight and give evidence as to the visible trends that are seen today with regards to the privatisation phenomenon. To start with, what is privatisation?
3.2 The privatisation concept

Privatisation is a term used to cover several distinct, and possibly alternative, means of changing the relationship between the public and the private sector. Defining port privatisation is seldom easy and requires careful analysis. This is normally because the extent of private sector involvement within ports varies.

There are as many views on privatization as there are port assets that can be privatised. According to UNCTAD, privatization is the transfer of ownership of assets from public to the private sector or the application of private capital to fund investments in port facilities, equipment and systems (UNCTAD, 1998, p. 1).

Privatisation can be either comprehensive or partial. The latter takes the form of a public-private partnership and is usually combined with the introduction of a landlord port authority. Comprehensive privatization remains an exception and is not a preferred option for major ports as earlier said.

Privatisation takes different variations, which include divesture, deregulation, and private ownership of operational assets with market based contractual arrangements. In developing countries, privatisation processes through concessions and management contract have been the most popular.

Privatization takes place only when there is a sale of public property to private individuals. It is therefore important to note that the increased participation by the private sector in the delivery of port services, without private investment, is not privatization but devolution.

In that respect, only the New Zealand and the UK, following its 1991 ports Act, actually privatized ports. In most if not all other countries, most so called privatization schemes were the development of private intervention in ports, something quite different from privatization, and which had been in existence for some time.
Privatization is as much a political process as an economic one and thus strong government commitment is an indispensable condition. In all successful experiences, whether in the UK or New Zealand, governments have had decisive roles, (UNCTAD, 1995, p. 18).

3.3 Objectives of privatisation and concessions

The most common aim behind a port seeking to bring in the private sector is to increase efficiency, consequently to lower port costs, expanding trade as a specific aim of privatisation and reducing the cost of investment to the public sector. Other reasons may be to obtain management know how and increasing the speed of developing new terminals, complying with ports and harbour legislation, developing a public-private partnership, and increasing port revenues.

3.3.1 Why is there port privatization explosion?

Hardly more than an academic concept two decades ago, privatisation has emerged within the past few years as one of the most significant challenges to public ports. In many countries port development and management were under the direction of public administrations with limited appreciation of changing market conditions and as a result, port performance was often not demand responsive. Pervasive inefficiencies in national ports in contrast to striking performance records of privately run terminals have gradually induced governments in some developing countries to reconsider the organization and management of their national port systems.

Providing further impetus to the so called “global stevedores” (Peters, 2000, p. 11) is the globalisation of production and the relentless pursuit of economies of scale within the container shipping industry, which as earlier indicated led to mega ships which in turn need larger scale port facilities that require private sector finance and management expertise. Global stevedores (Table 2) are increasingly meeting these requirements as the public sector continues to withdraw from cost-benefit style port financing and frontline cargo handling operations.
Table 2: Examples of Global Stevedores

<table>
<thead>
<tr>
<th>Pure Private Stevedoring Companies</th>
<th>Major Ocean carrier terminal investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>HPH</td>
<td>APMT</td>
</tr>
<tr>
<td>PSA</td>
<td>MSC</td>
</tr>
<tr>
<td>Dowered</td>
<td>CMA- CGM</td>
</tr>
</tbody>
</table>

Source: Fairplay, 2006

However, a decision to privatise ports can be driven by a variety of forces. The most common obvious is to relieve a financially strapped government by turning to the private sector for an infusion of capital required to modernise and sustain port operations, or to bolster the national treasury (Cass, 1996, p. 18). Government controlled ports resort to privatization as a means to seek economic benefits from improvement of operational efficiency by cutting labour costs, eliminating the public monopoly and reducing port labour force. This is the rationale that is driving public enterprise ports to be tempted into inviting private sector participation.

A study conducted by the World Bank in 1999 showed that the dominant motive of port reforms and privatization is the cost saving advantage achieved through efficiency provided by the private management as shown in figure 5.
Figure 5: Reasons for Privatization Activity (1993-1998)
Figure 5 clearly shows that the positive trend in port reforms is mainly done with the objective and reasons to cut cost from the public coffers.

However, the UK government, one of the pioneers of comprehensive privatization models had five major reasons for transferring state-owned port assets to the private sector. These were: to improve the management of the ports; improve efficiency; raise revenue for the government; encourage employee share ownership as this would help to further motivate port management and employees and; reduce the power of trade unions (IAPH, 2001, p. 98).

3.3.2 Impetus behind full port privatization in the UK: A Case study.

The UK is the only example of a country having lengthy experience with comprehensive port privatization though a number of ports still operate in the public domain.

As mentioned in the previous section, British port structures have evolved in order to respond to the needs of modernizing institutions and installations, many of which dated back to the early years of the industrial revolution and also to make them more responsive to the needs of users. It is argued that, the Ports Act 1991, which started the full privatization process, could be successful only after the abolition of the National Dock Labour Scheme in 1989. This Scheme had given port workers a virtual guarantee of lifetime employment, contributing heavily to inefficiency and subsequent poor financial performance in the port sector.

The composition of the boards in the trust ports in the UK was also a problem since they were mainly composed of port users who opposed any move that was against their interests. Tariff increases that were authorized tended to be offset by increasing labour costs, which increased steadily as a result of pressure from organized labour, supported by the National Dock Labour Scheme (World Bank, 2001, p. 67).

Actually privatization in the UK began before the ports Act 1991 when the Thatcher Administration privatized the British Transport Docks Board (BTDB) under the
Transport Act 1981. Subsequently, the Associated British Ports (ABP) was established, floating 49% of its shares in 1983. As a result of the perceived uncertainties associated with this process, only a few ports opted to pursue this course. ABP now operates 21 of the UK's 51 major ports. It handles nearly a quarter of Britain's seaborne cargo. This case gives an overview of the privatisation process in the UK and which acts as a benchmark for administrations trying to embrace comprehensive privatisation and why many governments have rejected the model.

3.4 Impact of dock labour in privatisation

Port labour with their strong dockworkers union has been a handicap in most privatisation processes as mentioned in the UK case. For example Spain's biggest dockers' union, the Coordinadora Union, called a five day strike across Spain from May 22 to 26, 2006 to object the manning changes proposed under a port bill to be voted on by the parliament. It represents more than one fifth of all the Spanish stevedores and the stakes are definitely high.

Other countries also had to adopt labour reforms for their privatisation processes to succeed. For example in New Zealand, in 1989, the employment minister introduced the waterfront industry bill. This was to normalise the employment conditions of dockworkers. In France in 1987, the Government commissioned a report, which called for the total deregulation of ports and an end to special dock labour laws. Dock labour reforms were therefore introduced in 1991/92 (Jangana, 2001, pp. 17-174).

Is there homogeneity in the trends in privatisation? This is yet another question that pops up that seeks to define the uniqueness of environments and therefore no universal solution.

After discussing why there is such an upsurge towards port privatisation the next section looks at the global trends in port privatisation seen to date. However in tackling this question it should be noted that privatization is an umbrella term
covering multifarious port reform models including concessions, lease contracts, and commercialization. A distinction between the different forms of privatization mentioned above arises through the scale and scope of private sector engagements, that is, the level between partial privatisation, encompassing concessions, and comprehensive privatization.

3.5 Global trends in concession and privatisation in ports

Participation of the private sector in the port industry proceeded at a pace adapted to the economic and social situation of given countries. It should be recalled from the previous discussion that privatization takes many forms from comprehensive privatisation, as is the case with the UK, to partial privatization in the form of leases and concessions. The trends in privatisation also differ regionally and globally. To discuss the trends the concept has taken, an analysis is done covering the regions and jurisdictions where the concept is marginal and those where it is prevalent thus answering the question “where”.

3.5.1 Privatization trends by region

From 1990 to 2000, about 50% of privatization activity took place in Latin America and the Caribbean. About 25% of the activities took place in East Asia and the Pacific. The Asian financial crisis slowed Asian privatization substantially.
As seen from Figure 6, Latin America and the Caribbean have been leading in the privatisation trend but Asia, Europe and Africa are coming up and emulating the ideology. This shows that it is emerging as a global trend that will enter every region of the world in the near future. It is however worth noting that it is not a blanket application of the concept since some sectors are more involved than others, as will be seen in the next section.
3.5.2 Privatisation trends by Sector

![Graph showing privatization revenues by sector, 1990-99 (US $b)](image)


As seen from Figure 7 the infrastructure sector has been the major contributor in terms of proceeds from privatization. Though in 1999, primary sector privatization overtook infrastructure privatization, the trend continues especially in ports.

In response to the concentration trend that is unfolding in container shipping, a number of terminal operators have opted for scale increases. This is because pursuing organic growth alone, container terminal operators realised is a lowest risk lowest rewards strategy. This trend as argued before is facilitated by the liberalisation of the port industry.

3.6 Analysis of trend in concessions in ports

Investments in ports and terminal-operating companies have never been as great as it is now. As one reporter, Neil Dekker in the Containerisation International Journal of February, 2006 puts it, ports have suddenly become “sexy” (Dekker, 2006, p. 60).

This brings us to the question: What role are global terminal operators and major ocean carriers playing in port privatisation?
This section in tackling this question, details the contemporary situation in the port sector as regards the trends in privatisation by giving current situation and projection taking cognisance the pledges and forecasts made by port authorities.

3.6.1 Global private terminal operators

Encouraged by the ongoing wave of privatisation of port facilities especially in container operation, global terminal operators have resorted to the pursuit of higher risk growth strategies and have progressed from being single location players into the global market, for example HPH and Maersk line amongst others.

A number of global port operators reported network expansion due to encouragement from the increasing port administrations opting to involve private participation in their port operations. Some more recent development and trends are cited below in the port sector between 2004 up to today which bolsters the notion that the trend is positive and is not seemingly going to slowdown.

The Port of Singapore Authority (PSA) started by building a stronghold at its home base in Singapore. Buoyed by the performance and profits it is establishing itself as an international benchmark and has started investing outside internationally. Recently in May 2006, PSA bought a 20% share in HPH for $4.388 billion further widening its international operation.

According to Fock Siew Wah, the Chairman of PSA, PSA is making long term investment in the maritime sector. The strategy is to expand globally and reach all possible markets to widen the customer base (Marle, 2006, p. 7).

International Container Terminal Services Inc (ICTSI) from the Philippines has completed an $80 million development of Gdynia, Poland and secured a lease to operate terminals 9 and 10 of the trans-shipment hub of Naha in Okinawa, Japan together with six Japanese stevedoring companies. Guam Container Terminal in the US territory is beginning negotiations with ICTSI to privatise its container facilities.
In mid 2004, the Russian government discussed the disposal of 20% of the public ownership for the ports of Novorossiysk, St. Petersburg, Murmansk and Tuapse. It was thought that it would relieve the burden of the public sector and improve efficiency in the public enterprises.

In Belgium, in April, 2004, P&O Ports (now DPWorld), which held 67.5% of the shares of Antwerp Gateway, added 3.5 million TEUs of capacity to its operations in this port by signing a 40-year concession for the east side of Deurganckdok.

More recently between 2005 and 2006 the following concessions and leasehold contracts took place, while some are even at the planning stages for the future, further confirming the continuity in the trend.

In Spain, Hutchison port holdings, (HPH) in May this year (2006), won a 30 year concession to build and operate Barcelona’s 93 hectare Prat Container Terminal. This concession according to the Managing Director of Hutchison Mr. John Meredith will be an investment of $854 million (€ 660m) and will bring to the port of Prat an annual traffic of over 4 million TEUs per year. Projections from this deal are estimated that 33 million TEUs will be brought between 2008 and 2022. Apart from this deal Hutchison also has gained central government approval for its bid for a 33% stake in Huizhou port Affairs Group, a state owned port business operator in southern China’s Huizhou City, in Guangdong province (Maritime Asia, 2006, p. 5).

It should also be recalled that HPH has concession holdings in Northern Europe in Rotterdam and also the UK in Felixstowe and Thames port. This is not the end of the story since Hutchison has future ambitions in Turkey and Egypt.

Many private terminal operators are trying to penetrate the Asian market since it is the biggest player especially China, with booming container trade and with most of the largest and most efficient ports in the world. In May Lloyd’s list published its top container 20 ports and 13 of the world’s top 20 ports were in Asia with the top six being Singapore, Hong Kong, Shanghai, Shenzhen, Pusan and Kaohsiung in that order (Maritime Asia, 2006, p. 2).
Another player which is fast coming into the scene is the Dubai based DPWorld. The Government of Pakistan for example opened its doors for concession bids from DPWorld that recently in February this year overpowered PSA to purchase the P&O ports conglomerate at $7.3 Billion. According to UAE Premier Sheikh Mohammed Bin Rashid Al Maktoum and Pakistani Prime minister Shaukat Aziz, DPWorld is investing $10 billion in ports related projects, two in Karachi and Gwadar. By virtue of purchasing P&O terminals, DPWorld is also in charge of port Qasim initially operated by P&O.

The main interest however of DPWorld is the newly constructed deep-sea port at Gwadar, Pakistani’s deepest port, which was funded through collaboration with China. It is expected to commence work by the middle of this year (2006). DPWorld has already been awarded a 30-year concession to manage the container terminal by the Pakistani Government. Interestingly, DPWorld was not bidding alone, there were other very serious bidders like HPH, PSA International, Globe Marine services of Saudi Arabia and Pakistan International Container Terminal.

In South Korea, the government awarded DPWorld a concession in conjunction with Samsung Corporation where it has invested in a new Pusan container terminal. In January 2006 the terminal was opened by the South Korean president, Roh Moo Hyun to a burst of fireworks (Marle, 2006, p. 38). This investment is seen as an answer to the Chinese big investment of the Yangshan container terminal.

It is also interesting to note that the Yangshan deepwater project has also been given to a private participator. The Shanghai municipal government in December 2005 selected a five strong consortium headed by HPH and APMT to build and develop the second phase of this project estimated to cost $850 million and scheduled to be completed by December 2006. In this consortium, HPH and APMT will both take 32% stakes, while the Shanghai International Port (Group) Co. Ltd. 16%, COSCO Pacific were awarded 10% and China Group 10% of the remaining shares (Kuai, 2006, p. 87).
In Yemen, June 2005, the government awarded DPWorld a 30-year contract to develop and manage the Aden and Ma'lla container terminals at Aden. This is in addition to another concession in May 2005 where it had taken over the management of UAE's ports, Mina Zayed and Fujaira (Stephannie, 2006, pp. 58-59).

According to Marcus Hand in Singapore, July 4 2006 in the Lloyd’s list, ICTSI is vying with DPWorld for a new US$200m container terminal in Surabaya, as well as issuing bonds to cover expansion in Manila. They are interested in constructing Teluk Lamong, says the Indonesian Minister for Transport Mr. Hatta Radjasa. According to press reports in Indonesia, the two companies have bid to build Teluk Lamong port, part of the expansion of Tanjung Perak in the eastern industrial city of Surabaya. The US$200m first phase would have a capacity of 1.3m TEUs. It should be remembered that, DPWorld runs the existing container terminal at Tanjung Perak, part of its acquisition of P&O ports.

The government of Brazil is increasingly involving private participants to the already big presence of global terminal operators like APM Terminals at Teconvi container terminal. For example a niche operator, the portonove Terminais portuarios de Navegantes has been granted a 25-year concession, with an option for a 25-year extension, for the portonave project of constructing a new container terminal on a Greenfield at Navegantes. Portonove Terminais portuarios de Navegantes has is to build a 900 meters long quay, 12 meters depth-30,000 TEU capacity terminals and is scheduled to open in August 2007 (Fossey, July, 2006).

The trend is such that the profit accruing from the business is luring more and more private investors both from the shipping and stevedoring companies. It is forecasted that if the trend continues like this by the year 2008 the first four top private operators will control over one third of the total container port capacity.

This clearly shows how much governments are considering private participation in the port sector all over the world and a confirmation of how the trends in concessions are climbing.
3.6.2 Major Ocean Carriers

As noted earlier on the trends in concessions governments and public run ports are inviting concession bids not only from private port operators but also vertically from shipping lines. Maersk line for example is already in Rotterdam delta terminal, Algeciras in Spain, Salalah Oman, US East, West and Gulf coasts, and Washington to name but a few. However, recently other players in shipping are joining the lucrative race.

In Germany, June 2004, MSC, one of the few large container carriers with few interests in container terminals, set up a joint venture with Eurogate called MSC Gate Bremerhaven to operate a dedicated terminal in this port. A similar previous deal involving Maersk highlighted this port’s strategy of having dedicated terminals (UNCTAD; 2005, p. 80). According to Emmanuel Schiffer, Chairman of the group management board at Eurogate, a joint venture between Eurogate and APM Terminals is set to take off for the new Eurogate Container Terminal at Wilhelmshaven expected to commence in 2010, whereby Eurogate will have 70% and APM 30%.

In Cameroon, July 2005, APM Terminals, Maersk’s subsidiary, reported adding new terminals to its portfolio for example, in Douala after winning a 15-year concession. In Nigeria, it has recently been confirmed that APM terminals has won a tender to run the Lagos container terminal in Nigeria (Robinson, 2006, p. 10).

In India, Maersk was awarded a 30-year lease jointly with Container Corporation of India for the third terminal of Jawarharal Nehru Port. In Italy, Maersk has emerged as the sole shipping industry bidder on a project to build and operate a major new container facility at the port of Savona. Maersk is part of a consortium that includes engineering and construction companies Grandi Lavori Fincosit and Technital. Those reported to have shown strong interest ranged from DPWorld to Contship to Hutchison. The new facility will take capacity to 1million TEUs per year, Savona port president Cristoforo Canavaro said.
In France, the Le Havre Port authority granted 36-years concession to Maersk’s subsidiary, the APM Terminals, along with the Perigault group to develop the second container terminal in Le Havre’s port 2000 basin. A two berth common user facility with a quay line of 700 meters with a draught of 16 meters and an annual capacity of 630,000 TEUs is scheduled to commence operation in 2007 (Hooper, 2006, p. 13).

The French owned CMA-CGM; the third largest liner shipping is also getting more into the Container business. According to the Senior Vice president container logistics, Jean-Francois Mahe during a conference on TOC in May, 2006 in Hamburg, the company is looking to establish an extensive global network within a couple of years in order to secure competitive operations. The company is investing in the Chinese Container terminal sector through investment in the ports of Tianjin and Shanghai.

In the US, CMA-CGM has signed a 10-year, $120 million contract with Virginia International Terminals (VIT), the Virginia port authority’s executive director Mr. Robert Bray has disclosed to Containerisation international. CMA-CGM has guaranteed an annual throughput of 100,000 TEUs (Fossey, July, 2006). The group also holds 10% to 100% shares through its subsidiary terminal link across Europe, Africa and America.

The above show how the trend in privatisation and concessions is headed even for further upward heights because lucrative port business coupled with inefficiencies in ports are driving governments and private terminal operators to tie the two. The realization of the concept of privatization requires the reliance of various modes of privatization. Chapter 4 deals with this subject.
CHAPTER FOUR

4 PORT PRIVATISATION: MODES AND METHODS

4.1 Introduction

Chapter 3 discussed the world trends in port privatisation from a historical perspective and through the status quo as it is today and showed that there are all the signs that the positive trend is poised to continue. In order to attain the goal of port privatization there are various methods or forms through which this concept is applied because no one port is similar to another.

4.2 Methods of port privatisation

There are multifarious forms of privatization (see Table 3), depending on port size, objectives of privatization and initial conditions ranging from leasehold contracts, Licences and Concessions, Build-Operate-Transfer (BOT), Build-Own-Operate (BOO) and Build-Own-Operate and Transfer (BOOT) arrangements (UNCTAD, 1998, p. 2). Others are service contracts, operation and maintenance contracts (IAPH, 2001, p. 100).

The most prominent and common amongst these models is contracting out which involves the awards of concession and lease contracts. These are forms of partial privatization whereby only part of the assets and activities of a public port body are transferred to the private sector. It is different from comprehensive privatization whereby a successor company becomes the owner of all land and water areas as well as of all assets within a port’s domain (UNCTAD, 1998, p. 2).
Table 3: Spectrum of port reform tools

<table>
<thead>
<tr>
<th>Public Management and operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing</td>
</tr>
<tr>
<td>Management contracts</td>
</tr>
<tr>
<td><strong>Lease and rent contacts</strong></td>
</tr>
<tr>
<td><strong>Full concession including BOT/BOOT etc</strong></td>
</tr>
<tr>
<td>Build, Own, Operate (BOO)</td>
</tr>
<tr>
<td>Divesture by sale</td>
</tr>
</tbody>
</table>

**Source:** World Bank port reform toolkit Module 3 (2001)

A study carried out by the World Bank revealed that the most popular forms of private participation in majority of public sector enterprises including ports are contracting out in the forms of concessions and lease contracts as shown in Table 3. It is such a popular strategy that it has become synonymous with any port privatization. Whenever a port reform project is underway the great majority of administrators will have concessions and lease contracts on their table as favourite alternatives. Figure 8 shows how a survey conducted in the US confirms this fact.
Figure 8 clearly shows how leasing and concessions are preferred more than any other methods of privatization.

There are two main forms of contracts used in ports today: A concession contract and a lease contract. A description of the various forms of privatization is given to highlight their attributes and explains why the trend is that these particular models are widely applied.

### 4.2.1 Concession contracts

Concessions are a centuries old system of operation of public utilities, inherited from Roman law (Cass, 1996, p. 44). Belgium, France the Netherlands and Spain are countries where concession of port facilities, on public land, under public control, has been the rule for many decades.
In concession contracts, the operator covers investment costs and assumes all commercial risks. Such contracts are often combined with specific financing schemes such as Build, Operate and Transfer (BOT).

According to the world bank, a port concession is a contract in which a government transfers operating rights to private enterprise, which then engages in an activity contingent on government approval and subject to the terms of the contract (World Bank, 2001, p. 52). A concession gives the private partner responsibility not only for the operation and maintenance of a utility's assets but also for investments. Asset ownership remains with the government, however, and full use rights to all the assets, including those created by the private partner, revert to the government when the contract ends, usually in about 30 years.

Concessions are often bid by price: the bidder that proposes to operate the utility and meet the investment targets for the lowest tariff wins the concession. They are governed by a contract that sets out conditions assigning the government two primary tasks: to ensure that the utility assets which the government continues to own are used well and returned in good condition at the end of the concession and, secondly through regulation, to protect consumers from monopolistic pricing and poor quality of service.

These characteristics distinguish concessions from management contracts on one end of the reform spectrum and comprehensive port privatization on the other. Concessions, by permitting governments to retain ultimate ownership of the port land and responsibility for licensing port operations and construction activities, permit governments to safeguard public interests. At the same time, they relieve governments of substantial operational risks and financial burdens. This is one of the reasons that make this model have the most positive trend amongst the family of private participation models.

Globally, concession agreements between port regimes and private companies are implemented through different modalities. The main schemes in use are BOT, BOO
and BOOT. Concession arguably is the most admired method of private participation in public assets as noted above.

4.2.2 Lease contracts

This involves modalities where an operator enters into a long-term lease on the port land and usually is responsible for superstructure and equipment. Lease contracts and concession contracts share the following same major characteristics; the Government or public port Authority conveys specific rights to a private company, have a defined term (10-50 years), and directly or implicitly allocate financial and operational risks.

In a lease contract a private firm is given a long-term lease to develop (within its own funds) and operate an expanded facility. It covers its investment plus a reasonable return over the term of the lease and pays a rental fee.

There are three basic forms of lease in use today: flat rate, "mini-max," and shared revenue leases (World Bank, 2001, p. 52).

Flat rate leases give the lessee the right to use a fixed asset for a specific period of time in exchange for periodic payments of a fixed amount. The main advantage of this form of lease is that both parties know the lease rent in advance. The flat rate lease also provides to the lessee the greatest incentive to fully use the available capacity of the terminal.

In the mini-maxi lease the lessor gives to the lessee the right to use a fixed asset for a specific period of time in exchange for a variable lease payment. There is a minimum and a maximum payment depending on the level of activity recorded.

In a shared revenue lease, the lessor gives to the lessee the right to use a fixed asset for a fixed period in exchange for a variable amount of money. As distinguished from a mini-max lease, in a shared revenue lease, there is a minimum payment regardless of the level of activity, but no maximum payment. The main characteristics of the shared revenue lease are that there is a minimum level of
compensation, there is no established maximum level, the only limit on the maximum compensation is the facility's terminal's capacity and that the minimum compensation may not fully cover the interest and amortization of the lessor (Port Authority) for the lease area.

The attributes of the above mentioned modes of privatisation either lures or scares port administrators because of their associated advantages and disadvantages. Is privatisation, in its different forms, a panacea for the myriad of problems in ports today? The next section discusses this question.

4.3 Advantages and Disadvantages of Privatization and Concessions

Having looked at the various trends sector-wise and regionally that port privatisation takes, the most preferred modes of attaining the privatisation goal, and the reason why perhaps the trend seems to incline on concessions and leases, this section will in turn seek to highlight the pros and cons of privatisation and how the port privatisation forms have fared on internationally with a view to show that despite it being on the rise there are no guarantees for success. However, it should be remembered that most of the privatization activities happening today in the ports are in the container handling business.

Is privatisation a panacea for the myriad of problems in ports today? This is one of the questions lingering in the minds of many governments and administrations faced with port reforms. Confusion has arisen in the maritime industry because of the contradictory perception by maritime experts and pundits. Cases of successful public run ports like the Port of Singapore against the notion that privatisation is the answer to inefficient public administration of ports have created a sort of quagmire.

There are numerous success stories where port authorities have transferred to the private sector operations previously performed by the public sector through concessions. Cases of success as well as failures are hereby given to show that though the process has generally succeeded in many ports, it is not a blanket success because the privatisation process proved in some cases a total fiasco.
Different authors and experts have different and divergent views about the privatisation concept and the best port administration models. For example, a paper published in the journal, Maritime Policy and Management by Saundry and Turnbull in 1997 indicated that the promises of greater competition, greater investment and improved commercial efficiency had not occurred in UK ports due to privatisation (Alderton, 1999, p. 93). That is to say privatisation per se cannot guarantee success.

Not everybody therefore in the maritime sector has supported this idea as a universal panacea. The perennial objection to privatisation by politicians and bureaucrats running public sector businesses is that they can manage as well as the private sector. This is today's version of the fatal conceit of central planning.

Some critics argue that ports are natural public assets and must remain in the public domain, as they are important to national security. In case of a war, the first targets are ports. Naturally, such strategically important assets must always be under the control of a public authority.

Critics opposed to the trend are like the vice president of Water Transport Workers federation of India, Mr. K.V.A. Iyer. This federation is one of the five major federations representing port and dockworkers in the country, and is spearheading the agitation against privatisation of ports.

Mr. K. V. A. Iyer, who spoke to Business Line in an interview on, August 29, 2005 says, “Privatisation does not promote the interests of ports or the country”. He advised the Association against transferring of public assets to private players for operating container terminals through BOT (Build-Operate-Transfer) route. Mr Iyer, who is also the Working President of the Cochin port Labour Union, strongly opposes transferring of ownership or control of ports to multinational companies.

Excerpts from the interview reveal that though he agrees with the findings from the IAPH study in 1999, which confirms that the influence of private sector actors in ports is growing, he insists that the role of public sector agencies also remains
significant, so ports must remain in the hands of the government and operated as public entities because the benefits from privatisation accrue to a very small section in society.

Another critic opposed to the trend is Ms Meritiria Turei, an MP of Green Party in New Zealand who was quoted in the article “Let failed bid be a sign - port should be retained by public” on 13th April 2006 in a press release of the Green party of Aotearoa New Zealand.

Ms Meritiria Turei says “Public assets like Lyttelton port must be retained in public hands. The returns from such assets, built up through investment of public funds, should be directed into the communities who support them.” She believes that if Lyttelton port is sold, even in part, to a private company, money will leak out of the community into overseas hands, which is unacceptable.

The interesting observation from some literature is that some public ports notably the port of Singapore, a world class government owned port, are doing extremely well that privatisation is sometimes seen as no panacea for the current problems facing the ports.

However, as Victor Hugo, the great French author once said, “An invasion of armies can be resisted, but not an idea whose time has come.” It is therefore difficult if not impossible for the critics to stop the idea of privatisation.

Despite the views from the critics and pundits of the trend, privatization in any of the forms mentioned above has the following advantages and disadvantages.

4.3.1 Advantages of privatization and concession: cases of success

Conflicting interest, national esteem, attitudes rooted in traditional values and misguided market assessment have been strong counter forces of privatisation, but as the effects of fiscal crises and deteriorating trade performances have become more pronounced, a growing number of governments have started to adopt
privatisation due to the benefits attached. This fact is supported by Cass when he says privatisation in certain circumstances holds the promise of stimulating economic growth particularly for those whose livelihood depends directly on port activity and trade (Cass, 1996, p. 5).

The benefits of privatisation and concessions in particular in the port sector include: Better and more efficient port operations performed by private operators. Giving contracts to experience and world-renowned operators like Hutchison will have a managerial input in the departments lacking the efficiency required. For example privatisation of the Jeddah port has remarkably reduced waiting time for container ships from 5.6 hours in 1996 to 0.4 hours in 1999 as seen in Table 4 and Figure 9 (Bakr, 2001, p. 52.)

Table 4: Waiting time at Jeddah port 1996-1999 (Hours)

<table>
<thead>
<tr>
<th>Year</th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waiting time(Hrs)</td>
<td>5.6</td>
<td>1.2</td>
<td>0.7</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Jeddah port (2001)

Figure 9: Waiting time at Jeddah port 1996-1999 (Hours)

Source: Jeddah Port (2001)
Privatisation allows application of private capital to socially and economically desirable projects, freeing up government funds for other priority projects and by so doing proper allocation of scarce resources is done. Concessions thus relieve the finances of the grantor. Concessions lead to transfer of risks for construction finance and operation of the facility to the private sector by the port authority engaging in other less risk departments and where it is needed most, like the regulatory function, is another attractive factor for privatisation.

Concessions lead to attraction of foreign investment and technology by the port authority. For example, under BOT the assets will be transferred after the end of the contract making the port better off than it was before the contract and acting as an indirect investment for the port.

Arising from these advantages, there are cases where privatisation was a great success as follows;  
In Argentina, the award of terminal concessions to four competing companies in 1994 in Buenos Aires brought down handling charges significantly through improved labour productivity.

In Panama, between 1995 and 1998, Panama transferred port assets in operations to the private sector and the result was an attraction of more than $380 million in investments for modernization and expansion.

In Saudi Arabia, the privatisation of the Southern Container Terminal, Jeddah in 1997 led to enormous improvements in both productivity and equipment fleet. Handling just under 1 million TEUs a year before, it is now one the biggest container terminals in the Middle East and among the top 50 worldwide. The award of the tender by the Saudi Government to DPWorld has solved problems of equipment, infrastructure and operations related problems. This led to a productivity gain of 33.5% in container handling by 1999 (Bakr, 2001, p. 104). This was an achievement to the Saudi economy and their central aim of privatisation, which was to increase the number of Saudis working in the ports industry, a policy they called “Saudisation”.

49
In the UK, the abolition of the National Dock Labour Scheme in 1989 and similar labour reforms in other countries for example in Italy, France and Spain has paved the way for the public sector to withdraw from port operations. If it were not for these port reforms, the UK case would not have been a success either.

In Kenya, there was some partial management transfer of the container terminal in Mombasa to a commercial terminal operator, the Hutchison’s Felixstowe port consultants, which resulted in a short lived replacement of outdated equipment, bureaucratic procedures streamlined and productivity of the terminal improved.

4.3.2 Disadvantages of privatization and concession: cases of failure

As already put forward by those against the trend, Ms Meritiria Turei of New Zealand and Mr. K. V. A. Iyer of India, who maintain that privatisation is not the universal panacea for the current bottlenecks in ports, there are associated drawbacks that inevitably threatens administrators who do not thoughtfully consider the concept.

Baltazar and Brooks (2001) contend that full privatization is not necessary and that alternative devolution models can be successful if the appropriate governance model is present. This view is not a radical one. As Caves and Boardman and Vining showed, the private sector does not always outperform the public sector (Brooks, 2004, p. 180). Privatisation in ports is criticised because of the following drawbacks:

There is a potential monopolistic tendency associated with privatisation schemes. Concessions have shortcomings and have not always been popular with all governments because of the dominant position of the concessionaire. They are perceived to have a considerable tendency to transform into an oligarchy of port service providers.

In developing countries, there is an unwelcome feeling amongst the populace that port privatisation will lead to few private firms taking control of the strategic economic units like the ports without due regard to the welfare of the nation. The general argument is that even if privatisation enhances ports efficiency, the bulk of
benefits will accrue to privileged few whereas the costs are borne by the many, particularly taxpayers, consumers and workers consequently reducing overall welfare. Thus it has negative distribution of wealth, income and political power. More disturbing is the fact that with little competition, the profit maximization drive of private ports could often result to price discrimination and expensive port services.

There are also complains that concessions lack transparency. As Cass puts it, the concessionaire is often subjected to pressure to employ staff designated by the Government or port authority or provides additional free services (Cass, 1996, p. 45). Therefore concessions have sometimes been breeding grounds for corruption and patronage.

Winning bids are sometimes based on unrealistic financial projections, placing the sustainability of the concession agreement in jeopardy. This is caused by some desperate investors who lack the vision and forecasts and place unrealistic bids only to fail within a short term.

There is danger that a concessionaire will not properly maintain the facilities under concession, returning them to the government in bad condition; or the danger that the concessionaire and the Port Authority disagree on the operational need for and financial feasibility of critical investments. A recent example involves a case in Indonesia where the government is threatening to buy back the 51% of HPH shares in Jakarta International Container Terminal (JICT) for alleged slow tracking (Rao and Mccawley, 2006, p. 12). HPH is criticised for using JICT as a mere feeder terminal for Malaysia and Singapore ports.

Some critics also argue that the private sector is not concerned with externalities, which are an important issue for many goods and services the governments provide. Externalities are an important factor in infrastructure projects or projects with environmental consequences. As Professor Ma of WMU contends externalities require significant consideration in a project’s cost benefit analysis. The problem is that polluters and sufferers are different bodies (Ma, 2005, p. 128).
Further buttressing the arguments against this concept are cases of failure that the critics base their support as below analysed to illustrate their ideologies:

According to Professor Meletiou, in a port privatisation conference in Portugal (2000), it was estimated that by 1998 there were 100 contracts for port concessions (most related to container terminals), for a total estimated private investment amount of $6.3 billion. Geographically, however, imbalances were significant with 42% of the projects signed were in Latin America and Caribbean region, 5% in the Middle East and North Africa region, 38% in East Asia and Pacific region and 4% in Europe, central Asia and other African regions.

However, there have been a number of incidents of privatizations involving ports that have not worked out; In Indonesia, the Koja container terminal under private management ran into difficulties and the public port company took back the facilities.

The city of Rostock, Germany demanded return of the terminal it contracted to a private group for operation, citing lack of compliance with the original contract.

Following a dispute with the port Authority of Trieste, the commercial terminal operator (Europe Combined Terminals - ECT) selected to operate the container terminal in the port under a 30-year contract withdrew from the contract after eighteen months. And unfortunately, the success story in Mombasa was reversed when the commercial terminal operator terminated its contract with the port as a result of breakdown of equipment that the government failed to refurbish or replace.

The above discussed are therefore the general pros and cons and cases of failure that motivate or militate against the prevailing port reform trend.

In summary, this chapter has discussed the essence of privatisation by tackling questions like why it is on the rise, where it is prevalent and how it applied in the world over. This is very important because it defines the modalities and shows the bases from which young developing nation can replicate and embrace in order to cope with the current wave of port privatisation. The analysis given in this chapter
also gives a wider spectrum of choice for ports in developing countries to make in order to avoid a future failure in an investment in a facility like port which involves a lot of fixed costs which are sunk costs.

The following chapter then discusses the port reforms taken by governments in Kenya and Tanzania and gives a comparison between the port of Mombasa and Dar es Salaam highlighting the advances made in each port with respect to the level of privatisation and the trends therein. This follows the argument from chapters 3 and 4 on the rationale behind privatisation and looks at a contemporary situation of seaport reforms in the two coastal states with sharp contrasts in their levels of privatisation and verifies the notion of whether privatisation has proved to be a solution for port operations or not.
CHAPTER FIVE

5 DEVELOPING COUNTRIES SEAPORT REFORMS: A Case of Kenya and Tanzania Ports

5.1 Introduction

Seaports systems in developing countries have been increasingly reflecting inter-port competition on an international basis and trends towards port privatisation. Kenya and Tanzania are two neighbouring port states with virtually the same level of port facilities but different levels of port reforms. The level of privatisation in the port sector in Tanzania is much advanced compared with its counterpart in Kenya. There is a very stiff competition for transhipment and transit traffic between these ports emanating from their strategic positions vis-à-vis the landlocked neighbouring countries of Uganda, Rwanda and Burundi. This has made these two countries an interesting and apt case study.

This chapter tracks the development of private sector initiatives in these respective maritime states through a comparative study of their level of port privatisation with a view to verify the otherwise universal standpoint of rising port privatisation. Port performance indicators are used to verify and confirm the arguments. An assessment of the present and future projection of the general trend of port privatisation in the world is also made.

5.2 Seaport reforms: the case of Kenya

5.2.1 Background of the Port of Mombasa

The port of Mombasa is managed by Kenya Ports Authority (KPA), a statutory body under the Ministry of Transport set up by an Act of parliament in 1978.
It is the largest in East Africa and serves, not only Kenya, but also the landlocked countries of Uganda, Rwanda, Burundi, the Democratic Republic of Congo, and Southern Sudan. With an average depth of 11 meters, it handles a variety of agricultural products in break bulk, containerized, and bulk form. It has 13 general cargo berths, 3 container berths with four 40-ton ship-to-shore cranes and 72 reefer points, and a 30,000-ton bulk grain receiving facility. Figure 10 shows a landscape map of the port.

Figure 10: Landscape map of Mombasa Container terminal

Source: KPA (2005)
As part of its modernization campaign, in 2005 KPA acquired new 4 panamax ship to shore gantry cranes from China's ZPMC, 12 new rubber tiered gantry cranes, 2 rail-mounted gantry cranes and 4 new reach stackers. Currently, there is government support to privatize stevedoring and container operations, but the process is proceeding slowly.

Figure 11: Location of Kenya

The port is the busiest on the East African Coast and a major port of call for international shipping lines. It is strategically located to serve the whole of the great lakes region and the horn of Africa.

5.2.2 Kenya’s Privatization Background

In 1991, the President of Kenya appointed a high level policy-making body, the Parastatal Reform Programme Committee (PRPC) to supervise and coordinate the parastatal reform program. The Executive Secretariat and Technical Unit (ESTU) acted as the secretariat of PRPC. A Department of Government Investments and
Public Enterprises (DGIPE) within the Ministry of Finance to represent the Government and to oversee the reform process of public enterprises was also established.

The key features of this macroeconomic and structural reform program were a reduction in the fiscal deficit and enhanced monetary discipline; liberalization of external and internal markets; initiation of parastatal reform based upon restructuring of strategic parastatals and divestiture of non-strategic enterprises; improved government management through reduction of the size of the civil service and reorganizing key ministries. The World Bank group, particularly the Private Sector Advisory Services (PSAS), provided active consultation to the GOK to conceptualize and articulate the overall strategy.

Kenya started to implement the Parastatal Reform Project in 1994. The objective of this project, financed by the World Bank, was to support parastatal reform as a means of reducing the Government’s role in the economy.

5.2.3 Restructuring Study for the KPA

During the last ten years the port of Mombasa has experienced acute problems in managerial and operational fields which have adversely affected the overall port performance. Operational performance declined to such an extent that major shipping lines imposed a surcharge on containers shipped to Mombasa. The imposition of this surcharge prompted the government to establish an inter-ministerial task force that led to increased productivity within the container terminal. The surcharge by shipping lines was a means to press for improvements. Some temporary measures were put in place in the form of memorandum of understanding (MOUs) between KPA and shipping lines in 1998 to use their own quay transfer and yard equipment for operations in return of tariff rebates. This brought short term relief. Before such temporal measures there were earlier on major restructuring steps taken by the government through consultants as follows:
In 1995 the Department of Government Investment and Public Enterprises of the Ministry of Finance commissioned a Kenya ports Authority restructuring study. The study was conducted by Hickling Corporation of Canada. The study proposed a restructuring plan with emphasis on four broad elements including the following; Introduction of new legislation to strengthen accountability of KPA, setting and monitoring targets of performance and implementation of restructuring plan through a performance contract between KPA and the Government, introducing changes in the financial structure of KPA including a reduction in KPA's planned capital programme, reduction of KPA's tariffs and payment of regular dividends and lastly reintroducing private stevedores, leasing the container terminal to a private operator and privatizing selected marine services of KPA.

The study recommended that the government should set and review port objectives through a Performance Contract. Since the worldwide trend is towards commercialization, the study recommended that the KPA should retain the core fixed assets, but private companies should participate in the management of the day-to-day operations of some aspects of the port. In this regard, the port should accelerate its transformation into a land-lord port but retain ownership of major port assets and either lease facilities or license private sector operations through a transparent and competitive bidding process.

If all the recommendations of the study concerning operational activities of the port were implemented, the move would confine KPA's role to regulatory issues and to the role of landlord, in effect removing KPA from operational activities and functions, which will be privatized. Unfortunately though the Hickling study was conducted with a very high degree of professionalism, the recommendations to date are unimplemented. However signs today are that the current government under pressure from World Bank looks serious to implement and has embarked on a serious reform programme and there is every indication that the government is seriously committed to restructuring the port services.
5.2.4 The trend of port reform at the Port of Mombasa

In Sub-Saharan Africa, Mozambique and Kenya had been the only countries to award private contracts for port operations. Mozambique awarded lease contracts for Maputo coal terminals in 1993 and container terminals in 1996. Kenya entered into a management contract for the container facility with an international operator (Hutchison’s Port of Felixstowe Consultants) in 1996 that was later cancelled because of lack of control as will be explained later in the study.

The World Bank supported the privatization process in Kenya through the Parastatal Reform and Privatisation Technical assistance Credit Programme with respect to the reform of the core and more strategic public enterprises.

The government however is pursuing a policy of economic reforms, which includes economic liberalisation and divesture from parastatal organization including KPA, but it is so slow that there are no any meaningful changes so far seen.

5.2.5 Bottlenecks to port privatisation in Kenya

On a global perspective private participation in the port sector has encountered myriads of resistance all over the world ranging from social, political and even security bottlenecks. A notable striking political and security example is the recent tussle between DPWorld and the US administration over the P&O US based assets after its acquisition of P&O Ports. Takeover encountered a lot of resistance from politicians on a security and political standpoint to the extent that DPWorld has decided to handover P&O American operations to a US entity to manage.

The same is now happening in India where Hutchison is facing security clearance problems in its bid to enter the India market due to delays from the Indian government in granting security clearance for the container terminal projects in Mumbai and Chennai. In the past, HPH has been denied permission to bid for port projects in India due to its perceived links with mainland Chinese authorities (Nadkarni, 2006, July, 14).
On the Kenyan perspective, the overall impact of the privatizations is rather modest, in relation to the potential. This is because the more ambitious privatization program adopted in 1997/98 is still largely at the level of intentions.

The World Bank’s Parastatal Reform Technical assistance Project had supported development of a performance contract to bring in new private management. This led to contracting of Hutchison Whampoa group in the Mombasa Port resulting in a notable increase in the ports throughput. However, eventually the managers withdrew at the end of their contract because of difficulties in achieving the level of day-to-day control from government for management which they felt was necessary to implement agreed improvements.

Labour unions also stand as a bottleneck to the port privatisation initiative. KPA employs nearly 5000 staff. So far the corporation is spending about 42% of its revenue on wages despite the recent introduction of financial discipline at the port. Overstaffing is evident, and a 50% reduction would be realistic. This has hampered the process of privatisation due to high labour costs eating into the meagre profits achieved. Both managerial staff and general workers are worried about a looming retrenchment programme, which is expected to reduce KPA’s bloated workforce to 3,500 workers.

While performance has improved a little, efficiency at the Port of Mombasa is still relatively poor. Delays of containers are substantial; the dwell time for containers cleared at the port averages over 18 days for domestic imports and almost 20 days for transit containers. Even containers moved directly to the Inland container depots (ICD) remain within the port area for almost eight days.

A key factor underlying the poor productivity is the low availability of cargo handling equipment: poor design, limited access to foreign exchange to fund spares, poor maintenance management, lengthy and cumbersome procurement procedures, and inadequate coordination between the supplies department and the maintenance department. This to a significant extent was responsible for the problems facing the
KPA contract with the port of Felixstowe of the UK, which was intended to improve operation efficiency of containerised traffic.

The poor state of the Mombasa-Nairobi highway, the major highway connecting the port and its hinterland, has also contributed to the problem as a result of freight delays between the port and the hinterland.

Customers are concerned about tampering and theft of goods at the port, processing delays, the dilapidated facilities and a controversy over different rates charged to companies handling similar commodities.

More significantly, the drop in volume of cargo loaded and unloaded has been associated with poor port management. “Highly politicised selection of managers, corruption, and disregard of professional standards and frequent changes of management has created weaknesses in KPA's performance,” as Otieno Kajwang, an opposition Member of Parliament lamented recently.

The vexed subject of privatisation generated a heated debate both in and out of Parliament with local leaders demanding that the government shelves the idea as this would alienate the local community and cause uncalled for redundancies of labour. Political and religious leaders have also opposed the privatisation saying it could fall into the wrong hands and lead to total degradation of the asset.

Privatisation is also thought of being resisted by a cartel of well-connected politicians and businessmen whose firms are contracted to the port. Most of these companies perform non-specialised duties that could be done by the corporation's workers at no extra cost.

These resistances are impacting negatively in terms of loss of transhipment and transit markets to the neighbouring port of Dar es Salaam. Kenya is paying the price for years of neglect to its port and road infrastructure as other ports on the eastern seaboard vie to pick up the business it is losing. Since the Concession of container terminal services in Dar-es-Salaam to HPH in 2000, Mr. Samson Luhigo,
the Tanzania Ports Authority Director-General, contends that, delays have been reduced and goods are reaching inland markets on schedule.

Kenya's Port of Mombasa is in danger of losing its historical dominance in the region to Dar es Salaam. Landlocked countries have traditionally used Mombasa as their port of choice for maritime freight services.

There are currently efforts and measures aimed at involving the private sector by the new government. However, those measures are likely to take time to come to fruition and any delays in the face of stiff competition are likely to cost Kenya dearly. Kenya needs a sustainable port policy in order to grow and become more efficient, but will need to overcome the current inherent political contradictions and confusion. To focus on improvement on the already inefficient public port management at the cost of prevailing port development of privatisation is short-sighted and politically bankrupt.

5.3 Seaport reforms: the case of Tanzania

5.3.1 Background of the Port of Dar es Salaam

The port of Dar es Salaam, located latitude 6.5 and longitude 39.17 east the major port in Tanzania managed by Tanzania Port Authority (TPA), [Originally Tanzania Harbours Authority, (THA)]. TPA presently owns Dar es Salaam, Tanga and Mtwara ports.
TPA is a public corporation established on 15th April 2005 following the repeal of THA Act No. 12/77 and enactment of TPA Act No. 17/2004 with the following mandate: to establish and coordinate a system of harbours, to provide facilities relating to Harbours and provide harbour services; with the approval of the minister, to construct and operate new harbours; to construct, operate and maintain beacons and other navigational aids, to carry on the business of stevedore, wharfage; to act as a warehouseman to store goods, whether or not the goods have been or are to be handled as cargo or carried by the authority; to consign goods on behalf of the other persons to any place either within or outside the United Republic; With the approval of the Minister, to act as carriers of goods or passengers by land or sea, and to provide amenities or facilities that the Authority considers necessary or desirable for persons making use of the facilities or services.

TPA has a workforce of about 4,000. Its major responsibilities include developing, managing and promoting the port sector in Tanzania. The Authority is being restructured to be a landlord port authority whilst most of the port operations will be
performed by the private sector. The programme is scheduled to be completed by the end of 2006.

5.3.2 Tanzania’s Privatization Background

Public owned organizations in Tanzania were a direct consequence of the country’s policy of socialism and self-reliance, which was adopted in 1967. This resulted in the nationalisation of all privately owned property in order to equally distribute wealth. Upon doing this, the government established State Owned Enterprises (SOEs). It was anticipated that faster economic development was forthcoming but did not work. The country’s economy continued to dwindle. Thus in 1992, the parliament passed the Public Corporations Act, and its amendments in 1993 opening up its doors for private sector participation in the economic development of the country.

Further development in this regard was in the establishment of the Presidential Parastatal Sector Reform Commission (PSRC) in 1993 under the Public Corporations Act (amendments) giving it the following powers; to specify corporations for restructuring and execute detailed plans of specified corporations. (Kakusa, 1999, p. 31)

5.3.3 Restructuring Study for the Tanzania Ports Authority

In 1994, THA in corroboration with the World Bank concluded a major development study for the port of Dar es Salaam. The study chartered a 10 years plan, which focused in improving physical, commercial, operational and financial efficiency of the port. In line with government resolve to transform THA into landlord status and giving to private operators all the operation activities of the port, the study recommended establishment of business units for concessions to private developers. The first candidate for privatisation was the container terminal business unit.

In 1996 the Government adopted a milestone decision to include utilities and infrastructure ventures in the privatisation agenda. Privatisation of utilities and other
major transactions was done with the assistance of transaction or investment advisors who were normally merchant banks and multinational consultancy firms. This led to the commercialization study for Tanzania Ports Authority.

5.3.4 Privatisation strategy for TPA

The objectives in privatising TPA include: improving efficiency of port operations and enhancing quality of services offered to customers, to improve the port's competitiveness over other regional ports, and to improve profitability of port operations.

5.3.5 Privatisation of the Dar es Salaam Container Terminal

According to the Presidential Parastatal Sector Reform Commission (PSRC), the Government of Tanzania has successfully completed the privatisation of the container terminal. After following an international competitive tender process, it selected the winning bidder as the consortium of International Container Terminal Services Inc, ICTSI International Holdings Corporation, both of Manila, Philippines and Vertex Financial Services Ltd of Dar es Salaam, Tanzania.

The consortium formed and registered a local company at the end of April 2000 called Tanzania International Container Terminal Services Ltd (TICTS) with International Container Terminal Services Inc. taking 51% of the shareholding, ICTSI International Holdings Corporation 24% and Vertex Financial Services 25%. The ten year lease contract was signed on 5 May 2000 and responsibility for running and operating the Container Terminal was handed over to TICTS on 10 September 2000. Subsequently ICTSI sold its shareholding to Hutchison International Port Holdings Limited (HPH). In 2005 the Government extended the period of the lease by a further fifteen years.

The privatisation process of the Dar es Salaam container terminal has bore fruit and has been envied by many ports in the region. This is quickly becoming a paradigm port in the region. The success seen from the Dar es Salaam example can be pegged against the slow pace at which its counterpart, the Mombasa Container
Terminal is dragging. A comparative study of performance between the Dar es Salaam container terminal and the Mombasa Container Terminal is done in the next section owing to their competitive situation and their different levels of liberalisation with a view to show competitiveness of privately operated container terminals.

5.4 Comparative study: Mombasa against Dar es Salaam container terminals

The container terminal at the port of Mombasa is a 3-berth facility with a quay length of 596 meters while that of Dar es Salaam is also a 3-berth facility but with 560 meters and both use the yard gantry system. The Dar es Salaam container terminal as compared to the port of Mombasa registered tremendous improvements from 2001 in productivity. According to the Director General of TPA Mr. Samson Luhigo, two factors have led to the 50% boost in productivity in recent years.

The first was a project completed in 2000 to deepen, widen and straighten the entrance channel and to install navigation aids to allow 24-hour access to the port. Average ship turnaround time was slashed as a result. This led to significant time and money savings to forwarders and ship owners.

Secondly, Dar es Salaam container terminal was contracted to the Hutchison port Holdings; as a result the port has the highest productivity rate in Eastern and Southern Africa with container handling rates reaching 23 moves per crane per hour (Luhigo, 2005, p. 18). This is different to the case of Mombasa as will be revealed by the details in various categories of indicators analysed below.

A comparison in terms of transhipment traffic flow is given between the two ports to show how this coveted traffic is shifting to the Port of Dar es Salaam due to the privatisation programme. Productivity between the ports is also compared to show why shippers and ship owners are getting attracted to the newly privatised container terminal of Dar es Salaam.
5.4.1 Transhipment Traffic

There is an apparent loss of transhipment traffic from the port of Mombasa to its competitor, Dar es Salaam, as shown in Table 5, 6 and Figure 13.

Table 5: Mombasa container traffic (TEUs) 2001-2005

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPORTS</td>
<td>134,497</td>
<td>143,359</td>
<td>173,39</td>
<td>203,918</td>
</tr>
<tr>
<td>EXPORTS</td>
<td>130,234</td>
<td>134,700</td>
<td>157,209</td>
<td>200,434</td>
</tr>
<tr>
<td>TRANSHIPMENTS</td>
<td>25,769</td>
<td>27,368</td>
<td>49,605</td>
<td>34,245</td>
</tr>
<tr>
<td>TOTAL</td>
<td>290,500</td>
<td>305,427</td>
<td>380,353</td>
<td>438,597</td>
</tr>
</tbody>
</table>

Source: KPA annual review and bulletin of statistics (2005).

Table 6: Dar es Salaam container traffic (TEUs) 2001-2004

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPORTS</td>
<td>68,921</td>
<td>73,090</td>
<td>90,135</td>
<td>105,594</td>
</tr>
<tr>
<td>EXPORTS</td>
<td>66,519</td>
<td>68,927</td>
<td>77,663</td>
<td>93,730</td>
</tr>
<tr>
<td>TRANSHIPMENTS</td>
<td>6,280</td>
<td>12,409</td>
<td>18,319</td>
<td>27,790</td>
</tr>
<tr>
<td>TOTAL</td>
<td>141,720</td>
<td>154,426</td>
<td>186,117</td>
<td>227,114</td>
</tr>
</tbody>
</table>

Source: THA port Statistical Unit (2005).
From Tables 2 and 3, transhipment cargo has slowly been shifting to Dar es Salaam after privatisation of Dar es Salaam terminal had started to be felt. This has apparently been brought by the better services shipping lines are getting from the port of Dar es salaam in the form of shorter port time, due to high productivity,
translating to reduced turnaround time and cost savings. Since transhipment in not captive to Mombasa the continued delay in privatisation will further dwindle and impact negatively on the port as seen from the sharp decline being experienced from 2003.

5.4.2 Ship performance

Ship performance has also improved since Hutchison took over the Dar es Salaam terminal with remarkable crane productivity never seen in any of the competing ports in the region. Crane productivity at the port of Dar es Salaam is revealed to be even double the one at the port of Mombasa as shown in Table 7.

**Moves/Hour (net-SSG)**

**Table 7: Comparative Crane performances**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mombasa Container Terminal</td>
<td>10.12</td>
<td>9.05</td>
</tr>
<tr>
<td>Dar es salaam Container Terminal</td>
<td>23.2</td>
<td>23.5</td>
</tr>
</tbody>
</table>

*Sources: KPA annual review and bulletin of statistics, 2005 and PTA statistical unit*

5.4.3 Ship Traffic

The improved productivity evidenced has led to an increase in the ship traffic at the Port of Dar es Salaam compared to the Port of Mombasa. This has contributed to a drop in the number of ships calling the Port of Mombasa citing congestion and poor services. This is evidently seen in Figure 15. The number of ships is gradually diminishing at the port of Mombasa in favor of Dar es Salaam terminal since its privatization.
5.4.4. Number of Ships Worked at Mombasa and Dar es Salaam terminals

Table 8: Ship traffic in Mombasa and Dar es Salaam

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mombasa Container Terminal</td>
<td>1,052</td>
<td>1,110</td>
<td>994</td>
<td>939</td>
</tr>
<tr>
<td>Dar es salaam Container Terminal</td>
<td>1123</td>
<td>1405</td>
<td>1502</td>
<td>1680</td>
</tr>
</tbody>
</table>


Figure 15: Comparison of trends in the ship traffic

5.4.4 Terminal Occupancy

The above mentioned indicators have ultimately resulted into a rise in the berth occupancy at the port of Mombasa suggesting a long waiting of ships and no rest periods of terminal quays, a recipe for poor performance. It is important to note here that the ship service time is too high and very significant that it outweighs the relatively reduced traffic thus affecting the terminal occupancy despite the reduction
in ship traffic. This is shown Table 9 and 10. The bottom line is the difference in the ship productivity between these terminals.

**Terminal Occupancy at the Port of Mombasa**

The terminal occupancy at the port of Mombasa is increasing despite the fall in the number of ship calls as shown in Table 9 and Figure 16. This can be partly attributed partly to the increase in size of the ships arriving mainly to the poor ship productivity while it is the other way round in the port of Dar es Salaam where the terminal occupancy is falling with increased ship calls. This is partly attributed to the new investment in channel straightening and installation of navigational lights and also due to the concession to Hutchison port holdings.

**Table 9: Mombasa container terminal occupancy**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy (%)</td>
<td>71.5</td>
<td>72.6</td>
<td>75.7</td>
<td>82.6</td>
<td>87.3</td>
</tr>
</tbody>
</table>

*Source: KPA Annual Review and Bulletin of Statistics (2005).*

**Figure 16: Mombasa container terminal occupancy.**

*Source: KPA annual review and bulletin of statistics (2005).*
Terminal occupancy at the Port of Dar es Salaam

Comparatively the terminal occupancy at the Port of Dar es Salaam is lower though fluctuating due to the relatively higher ship productivity as shown in table 7 and Figure 15.

Table 10: Dar es Salaam container terminal occupancy

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy (%)</td>
<td>45</td>
<td>43.5</td>
<td>47.5</td>
<td>48.5</td>
<td>43.9</td>
</tr>
</tbody>
</table>

Source: THA port Statistical Unit (2005)

Figure 17: Dar es Salaam Container terminal occupancy.

Source: THA port Statistical Unit (2005)

Again this manifests and buttresses the privatisation concept, and with the examples of the good news privatisation is revealing, the Port of Dar es Salaam act as an example to other ports and this in turn will likely lead to more privatisation schemes and thus a continued positive trend in concessions and privatisation. This then draws us to the question: What does the future hold for port concessions and privatisation in the world? This is the question that the next section seeks to answer.
5.5 What does the future hold for port privatisation and concessions?

The future is bright. As earlier on discussed in Chapter 3, port administrators and governments are increasingly opting for port concessions as a means to improve port productivity or as a means to invest in new container terminals on green fields through floatation of bids all over the world. In Spain for example, the Spanish government is under pressure to reform Spain’s commercial ports. According to the Barcelona Port Authority chairman, Mr. Coello, ports should be managed like limited companies (EaLes, 2006, p. 30). He is pushing the government to establish an independent management company for the port that would be neither dependant on Spain’s government port entity, Puertos del Estado, nor be controlled by the Catalan regional government.

The government of Pakistan also is seeking bids for a deepwater terminal. The Karachi Port Trust is looking for a terminal operator for its proposed Pakistan Deepwater Container port at Keamari, comprising 10 berths (Siddiqi, July 21, 2006). Private sector participation is proposed to be on a build-operate-transfer basis and 25-year renewable lease. The successful bidder will build and equip the 65-hectare back-up area as a high throughput terminal, including container yards, storage and transfer areas, operational buildings, cranes, gantries and supporting equipment to handle a minimum of 1.5m TEUs annually. The dissertation also gave many other cases of this kind replicating the situation of future investments in port with private participants in Chapter three. This shows that there is no sign of abating and the trend will continue.

Another testimony to the future prospects of port privatisation and concessions can be exemplified by the 40-year concession award to the German headquartered terminal operator Eurogate to run the proposed Jadeweserport container terminal development at the German port of Wilhelmshaven (Marle, 2006, p. 9). This is yet a project for the future thus offering support for the forecasts. The project is expected to begin operations in 2009.

Further cementing the conviction that the future for port privatisation is bright is an interesting study carried out by the UK-based Ocean Shipping Consultants (OSC),
which analysed the demand for container port through the dramatic development in container handling activities in the East Asian ports for the period up to 2020. The report highlighted the huge increase in traffic routed through Chinese ports whereby between 2000 and 2005, the regions share of container throughput advanced from 12.9% to 58.3%. The study revealed that the total container port demand is forecasted to increase by between 102% and 126% over the period 2004 to 2020 to a maximum threshold of 487 million TEUs (Fossey, July 2006). This clearly shows that more concessions will take place because as the demand for ports increases more and more governments and port administrators will look for avenues to improve capacity and efficiency as well as investments on new green fields mostly through private participation due to reasons earlier on discussed in this study.
CHAPTER SIX

6 CONCLUSION AND RECOMMENDATIONS

This chapter is drawn from the synthesis of the work done in this entire dissertation. It gives a standpoint reflecting the revelations and the future projection of the research question in light with the background and current situation.

6.1 Conclusion

From observations in this study, a supposition can be reached that the increased trend in transferring government port operations and assets to the private sector suggests that public ports can benefit from greater private-sector participation. Driving this trend is the growing realization that government control of port operations and often ownership of port assets is not consistent with efficient, market-responsive port management. Lacking exposure to full competitive pressures, publicly owned and operated ports have weaker incentive to efficiently allocate labour and capital resources and are more likely to be subject to extraneous political influences.

From the case studies illustrating the port privatization trend discussed, the study has also shown that the use of privatisation to accelerate port development or improve efficiency has proved to be of tremendous benefits in many areas of the world thus resulting in the current universal trend.

In addition, while governments, the world over face growing demands to develop transportation infrastructure as means of promoting trade and enhancing economic development, they lack the necessary resources to maintain and modernize these capital-intensive facilities. Therefore the privatization trend shows no sign of abating.
Also the study revealed that the most commonly adopted schemes for privatisation of port services are lease of port infrastructure, superstructure and equipment and concession arrangements in the form of BOT, BOO or BOOT. These are the recommended schemes since they do not involve the comprehensive sale of a port, but rather the partial transfer of port facilities to a private sector enterprise. However it was seen that it is advisable and should be required that the privatised facilities be managed and operated on a common user basis, and the private port operator should offer to use the privatised facility, with no discrimination whatsoever to allow flexibility to be preserved in order to avoid foreclosure.

The study also found out that since these concessions involve retaining of port regulatory function in the landlord status, port administrations have favoured this mode of private participation due to the advantage of avoiding a replacement of public with a private monopoly through clauses in the contracts encouraging competition and contestability. This fact is also emphasised by professor Cariou of World Maritime University (personal communication, July 2006) who contends that, the crucial element is not to reach to an agreement through a concession but to be sure that contestability is preserved in the long run.

Taking a purely economic standpoint, it can be concluded that port privatisation has contributed to improved efficiency in many cases. However, through a critical analysis of this study it has been observed that though the trend in port privatization is upward all over the world, there are publicly operated terminals that rival any private terminals for productivity and cost effectiveness. This has led to the conclusion that port privatization is neither a panacea nor a peril but a concept that has evolved to facilitate trade in a world where competition has become the universal norm.

6.2 Recommendations

International port competition is breaking out of easily defined boundaries and is becoming more complex. It is therefore not enough to keep pace with the slowest local competitor but one has to instead respond to the challenge of the fastest,
wherever he may be. This has resulted in Privatisation now becoming like a tidal wave; if you resist it you will be swept away and if you ride on it you will go far. However, riding on the privatisation wave without strategic plans and appropriate institutional and eco-political prerequisites could lead to a commercial and social fiasco or quagmire. To outline this point, the study revealed recent failures and success stories where either the right or adequate dose of institutional preparations, socio economic and political factors were ignored or were not prescribed at all.

It is therefore prudent upon port administrations and governments all over the world to be very careful when making decisions relating to inviting private participants in their port operations. It is thus recommended that a properly structured scheme for port privatisation should be put in place in order to realise increased productivity and lower costs to port users.

This is only possible through port administrators and policy makers seeking advice and inputs from logistics experts, trade economists and port management professionals from institutions like WMU, UNCTAD and the World Bank when strategising port privatisation initiatives. Their contribution is very vital as it will ensure creation of a policy development that is cognisant of the interrelationships of shippers and ship owners and other port users as well as implementation of methods guaranteeing maximum benefits to public and commercial interests. This is very vital because port investment is a long-term venture with a lot of fixed costs that are sunk.

It is also recommended that when awarding a concession, the private operator should be given the freedom to manage the facility in the way he/she sees fit but within the limits as deemed to be of the highest value to the government. Hence certain clauses and performance agreements should be built in the system, to trigger corrective action by the government or port administration when necessary. For example control from the port authority in the area of port pricing is fundamental. This is important to avoid cases of discriminatory pricing practices, to defend the interests of the cargo shippers and importers, to avoid monopoly pricing abuses and to control excessive price fluctuations as a result of extreme inter port competition.
Also very basic and important is the fact that the award of concessions and lease contracts should be a public and transparent process. This is vital prerequisite because it installs confidence in both the bidders and the general public who are traditionally sceptical. The private operator as a precondition should be a company with the necessary experience and should have proved its qualifications, expertise and experience in similar project activities in order to avoid novices who can ruin a well planned scheme.

Within the study questions were posed about whether a port authority is necessary after privatisation since private operators often argue that a port authority is just an institution representing another layer of bureaucracy without any benefits. The appropriate recommendation here is that. Yes it is. There is a strong case for retention owing to their control and long term planning capabilities that are lacking in the private sector, port promotion and training, setting national macro economic targets, policy formulation, and the fulfilment of the regulatory, supervisory and surveillance role. But it is also important as stated earlier that the privatisation reforms should not be a case where the terms and conditions are heavily in favour of the landlord port. This is currently causing hues and cries in India port privatisation reforms.

Privatisation especially in developing countries needs to take into consideration the human resource element. Privatisation success does not just mean handing over land, land equipment and operations to private companies. People are involved too, and their interests have to be taken into account and protected. The success of any port privatisation by a government MUST not be at the expense of the society through unnecessary redundancy and the addition of financial burdens on its citizenry without any benefits.

From the comparative study between the Mombasa and the Dar es Salaam container terminals with the key performance indicators it appeared explicitly that Dar es Salaam, where privatisation had taken place, is forging ahead in all departments relative to Mombasa. It is therefore recommended that Mombasa
should embrace port reforms before worse comes to worst as the privatisation trend shows no sign of abating.

The lesson learnt is that private sector engagement mainly affects three groups of people namely, the public, the private and the unions. The International Transport Workers’ Federation supports privatisation. For its part, the private sector must listen to demands of the union and, jointly with the public sector, find solutions for rightful labour demands. In any case, a public monopoly should not be replaced by a private monopoly. After all, the public monopoly is there to serve all, whereas the private one has only to serve its shareholders.
REFERENCES


Baird, A.J. (2001). Privatization trends at the world’s top-100 container ports. In *Proceedings of International Association of Maritime Economists Annual Conference 2001*, (pp.249-268). Hong Kong: Department of shipping & Transport logistics, the Hong Kong Polytechnic University.


In Mombasa performances are continuing to be gloomy.


APPENDICES

Appendix A: Port of Singapore Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2001</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Container throughput (000 TEUs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>15,571.1</td>
<td>16,940.9</td>
<td>18,410.5</td>
<td>21,329.1</td>
<td>23,192.2</td>
</tr>
</tbody>
</table>

Source: Maritime and Port of Singapore Authority (2006)

Port of Singapore was ranked first globally in 2005 in terms of containerised traffic, with 23.2 million TEUs handled. It handles about one-fifth of the world's total container transhipment throughput. The port is the world's busiest. The Singapore government corporatised PSA in October 1997 and assumed the structure and operations of a private company with the Singapore government as the single shareholder, through its investment arm, the Temasek holdings. Despite being still a public port it is one of the most competitive and efficient port in the world.
## Appendix B: Container Terminals in Singapore Port

<table>
<thead>
<tr>
<th>Port</th>
<th>Operator</th>
<th>Type</th>
<th>Berths</th>
<th>Quay Length</th>
<th>Quay Cranes</th>
<th>Area (Ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brani (BT)</td>
<td>PSA</td>
<td>Container</td>
<td>9</td>
<td>2,629</td>
<td>29</td>
<td>79</td>
</tr>
<tr>
<td>Cosco-PSA (CPT)</td>
<td>Cosco/PSA</td>
<td>Container</td>
<td>2</td>
<td>720 m</td>
<td>22.8</td>
<td></td>
</tr>
<tr>
<td>Jurong</td>
<td>JTC</td>
<td>Multi-Purpose</td>
<td>23</td>
<td>4,547</td>
<td></td>
<td>152</td>
</tr>
<tr>
<td>Keppel (KT)</td>
<td>PSA</td>
<td>Container</td>
<td>14</td>
<td>3,220</td>
<td>37</td>
<td>96</td>
</tr>
<tr>
<td>Pasir Panjang (PPT)</td>
<td>PSA</td>
<td>Container</td>
<td>6</td>
<td>1,885</td>
<td>19</td>
<td>71</td>
</tr>
<tr>
<td>Pasir Panjang (PPT)</td>
<td>PSA</td>
<td>Container</td>
<td>4</td>
<td>1,700</td>
<td>19</td>
<td>63</td>
</tr>
<tr>
<td>Pasir Panjang (PPT)</td>
<td>PSA</td>
<td>Container</td>
<td>4</td>
<td>1,246</td>
<td>16</td>
<td>56</td>
</tr>
<tr>
<td>Pasir Panjang (PPT)</td>
<td>PSA</td>
<td>Container</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pasir Panjang (PPT)</td>
<td>PSA</td>
<td>Container</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pasir Panjang (PPT)</td>
<td>PSA</td>
<td>Container</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pasir Panjang (PPT)</td>
<td>PSA</td>
<td>Container</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pasir Panjang Wharves</td>
<td>PSA</td>
<td>General</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sembawang</td>
<td>PSA</td>
<td>General</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tanjong Pagar (TPT)</td>
<td>PSA</td>
<td>Container</td>
<td>8</td>
<td>2,320</td>
<td>27</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: Port of Singapore (2006)
Appendix C: Map of East Africa and its landlocked neighbours

Source: African maps (2006)
http://images.google.com/images?hl=en&q=maps%20of%20africa&sa=N&tab=wi
Appendix D: Allocation of responsibilities under the World Bank models

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Service</th>
<th>Tool</th>
<th>Landlord</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>Public</td>
<td>Public</td>
<td>Public</td>
<td>Private</td>
</tr>
<tr>
<td>Superstructure</td>
<td>Public</td>
<td>Public</td>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td>Port labor</td>
<td>Public</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td>Other functions</td>
<td>Majority Public</td>
<td>Mixed</td>
<td>Mixed</td>
<td>Majority Private</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Service</th>
<th>Tool</th>
<th>Landlord</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages/Strength</td>
<td>1. Development and operations are the responsibility of only one entity, making for a streamlined and cohesive approach to growth.</td>
<td>1. Avoidance of duplication of facilities because investment in infrastructure and equipment is provided by the public sector.</td>
<td>1. The same entity both executes operations and owns the cargo-handling equipment; therefore, the planning is likely to result in better outcomes and be more likely greater responsiveness to changing market conditions.</td>
<td>1. This model often results in investment in port operations that are flexible. Port development and tariff policies tend to be market oriented.</td>
</tr>
<tr>
<td>Responsibilities/Weaknesses</td>
<td>Service</td>
<td>Tool</td>
<td>Landlord</td>
<td>Private</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------</td>
<td>------</td>
<td>----------</td>
<td>---------</td>
</tr>
<tr>
<td>1. Lack of internal competition can lead to inefficient port administration, or to a lack of innovation, and services that are not user-oriented or market oriented. Dependence on government for funding may lead to wasteful use of resources or under-investment.</td>
<td>1. Fragmentation in responsibility for cargo-handling can lead to conflict between small operators and between the stevedoring companies and port administrators. 2. There is also a risk of under-investment. Strong stevedoring companies are not developed as a local economic benefit.</td>
<td>1. There is a risk of over-capacity as more than one private operator may pressure for expansion. 2. There may be duplication of marketing effort as both terminal operators and the port authority visit potential customers; greater co-ordination of marketing and planning is required with this model.</td>
<td>1. This type of model may result in monopolistic behavior as well as a loss of public involvement in developing long-term economic policy and strategies.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from World Bank Port Reform Tool Kit, module 3, p. 21 (2001) and (Brooks, 2004)