PORT GOVERNANCE: NEW CHALLENGES FOR PORT AUTHORITIES

Recent structural changes in maritime transport and new port management developments are driving a revision of the basic functions and roles of port authorities.

At the same time, privatisation trends force a debate about the appropriate degree of port authorities’ involvement in port management and operations.

In the light of the changing economic and political environment, it is necessary to find out the right equilibrium between the public and the private sector, in order to reach an efficient port management. It should be kept in mind that ports have a dual nature, representing a mixture of public and private goods.

The aim of this paper is to focus attention on the institutional and managerial assets, examining governance structures which enable ports to be more competitive and reactive to market changes. It will investigate the complex and shifting boundaries between the public and private involvement in the port industry.

Keywords:

Port authorities, port governance, privatisation, port reform, public-private paricipation, port community.

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1. INTRODUCTION

Like most other activities responding to collective needs, the port sector represents a mixture of industry and service, since it is characterised by the coexistence of basic infrastructure with a defined public utility and all port related services generating pure commercial activities.

Regarding its public nature, provision of “public goods” in seaports is strongly linked to some probability of market failure thus requiring the involvement of a public entity. The need to ensure a basic level of services, even in the absence of profit margin, when these kinds of goods and services cannot be provided sufficiently or satisfactorily in a competitive environment, implies a second best solution driven by a public authority.

At the same time, commercial activities in order to respond to new market requirements in term of efficiency, flexibility, reliability, are increasingly opening to private intervention.

This dual connotation stimulates new challenges and goals for port governing bodies, responding to both private and public interests.

In a context of privatisation pressures and changing governance structures, port authorities are forced to revise their missions and reformulate their strategies.

2. MODERN PORT ADMINISTRATION AND MANAGEMENT IN A COMPETITIVE ENVIRONMENT: OPPORTUNITIES FOR PRIVATE INVOLVEMENT IN PORT INDUSTRY

Port development is quite heterogeneous worldwide since it is strongly influenced by the specific local environment. Historical traditions, geographical position, political, social and economic factors determine different policy goals, management and administration models, ownership structures, regulation and governance dynamics.

If the traditional port management model usually refers to a central public entity running all assets and services, thus providing not only long run planning and regulatory functions but
also operational activities, in the present scenario the port industry has witnessed a consistent trend in restructuring of port administration and management. The main problem was that the public control of port management and operations had compromised their financial viability, and deteriorated infrastructure and equipment.

In the last decades, the port sector has experimented dramatic structural changes linked mainly to the changing global economic system and the accelerated advances in information technologies. These factors have increased the competition between ports and stimulated the demand for adequate port facilities able to deal with new generation vessels and handle various forms of packing cargo.

Therefore, most ports are responding to the changing needs of shipping services and port users by restructuring along commercial lines and bringing in the private sector for more service provision. Ports are not anymore a mere place of interchange of goods but they represent fundamental links in the global logistic chain.

These developments have influenced the port organisational and regulatory structures encouraging private participation in port activities at different levels.

Private involvement in the port sector started to become significant in the 1980s, following the challenges offered by the technological revolution. The increasing competition and innovation pressures stimulated new potentials for private intervention. By this time ports suffered from bottlenecks in the distribution chain mainly because the public port control showed lack of flexibility and responsiveness to market demand. The centralised port running was characterised by rigid and bureaucratic structures unable to provide efficiency in operations and to increase service levels. Government ownership and management of infrastructures resulted also in inadequate maintenance, waste, and the misallocation of costs, resources and price. Hence the replacement of public involvement by private companies represented a necessary shift towards concern for port efficiency and dynamism.
Public administration had to deal, first of all, with restrictive labour practices affecting public work organisation, often characterised by low productivity and inefficient work practices. The need for reducing the labour force in an increasingly capital-intensive sector and for upgrading skills in order to support the modernisation of port operations struggled with labour unions’ demands.

In addition, the shortage of public funding and sometimes the unwillingness to spend huge amounts of money on modern port infrastructures (specialised terminals, logistic facilities, etc.) stimulated an external support.

In particular, technological innovations have more and more stressed the attention on terminals, which have to be highly specialised to meet cargo handling and competitive throughput requirements. Therefore, the growing private interest arose especially in terminal control. Indeed, according to the new global port strategies, terminals, rather than ports, represent fundamental factors of competitiveness (Heaver 1993).

Furthermore, the concentration trend in the shipping industry both in terms of number of ports of call and in terms of demand for port services, has even more encouraged the shipping companies’ investments in port operations.

Finally, the opening up to private investors succeeded both in keeping ports more independent from state budgets and in promoting diversification of risk investors and port operators.

The growing presence of private sector in port business imposes a redistribution of responsibilities and roles between the private and the public actors and a shift in the boundary line searching for the appropriate port framework.

Given the high number of players involved and activities performed, the coordination task appears even more relevant and port authorities have the institutional function to regulate all facilities and activities which take place within the port, even if it does not in any way mean that it must necessarily play a part in performing them. In addition, port authorities must likewise ensure that these activities are carried out according to the laws
and regulations and reflect the national port policy.

2.1 Public-private participation in port management

The degree of involvement of public authorities in the provision of services influences the port administration model. Port organisation differs widely around the world even if it can be clearly linked to four main schemes generally accepted in the literature: public service port (or operating ports), fully privatised port (or private service port), tool port, landlord port (See Table 1).

Table 1: Public-private roles in port management

<table>
<thead>
<tr>
<th>Port Activity</th>
<th>Public Service Port</th>
<th>Private Service Port</th>
<th>Tool port</th>
<th>Landlord Port</th>
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<td>Port admin</td>
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<td>Nautical infrastructure</td>
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<td>Port infrastr. General</td>
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<td>Super structure buildings</td>
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<td>Super structure equipment</td>
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<td>Cargo handling</td>
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<td>Pilotage</td>
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<td>Towage Mooring</td>
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<td>Dredging</td>
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<tr>
<td>Other functions</td>
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- Public responsibility
- Private responsibility
- Mixed public private responsibility


The most evident characteristic is that service and tool ports both have a strong public influence, with the port authority owning all the assets in both cases, but allowing private enterprises to provide some services only in the second case. In the
service port, public interest prevails and the port authority acts also as operator, maintaining direct industrial and commercial relations with port users, but retaining at the same time its governmental powers.

Differently, the port authority can finance, build or purchase the works and equipment and make them available to operators under short term contracts which usually incorporate public service obligations. In this case the port is generally defined as a "tool port", since it has made the "tool" available, without operating it.

In these two models, port authorities can be defined as "comprehensive", since they carry out all or nearly all activities within the port areas, including the handling of cargo on the ships and ashore. In some cases they go still further and operate terminals for other modes of transport.

Moving towards a greater private involvement, the "landlord" model, characterised by a mixed public-private orientation, allows port authorities to retain the ownership of land and facilities, renting or giving them in concession to private operators. Authorities ensure port safety, being responsible for the security of vessels within the port and implementing safety standards on ships and their crews and pollution control.

The extreme form of private involvement in port administration can be represented by the fully privatised ports, where the public sector lets both ownership of land and management functions to private operators, allowing ports to be self-regulating in some cases.

The above classification of port organisation models illustrates clearly that in most cases public sector and private involvement coexist and the present trend indicates the landlord model as the most widespread worldwide.

3. PORT GOVERNANCE SYSTEMS

Port governance systems vary greatly from country to country and sometimes also within the same country. Even in the presence of a single set of rules, the institutional context regula-
ting the managerial and operational organisation of port activities differently defines the competences and responsibilities of the port-governing institution.

There are historical, geographical, economic, political and cultural factors influencing port management. Namely, different social and economic environments originate different legal frameworks and administrative schemes for seaports. It is possible to count at least five different forms of port governance (Op de Beeck 1997):

- State-governed ports;
- Municipal-governed ports;
- Self-governed ports;
- Corporate ports;
- Privately-managed ports.

The state-governed port system is characterised by poor decision-making and financial autonomy of the port governing body. In particular, port revenues are not kept and reinvested within the port, but are channelled directly into state coffers, often determining an inefficient port management. A possible strength of this model of governance might consist in a well-integrated port development within the national port policy.

Moreover, a highly-centralised governance structure could produce a homogeneous policy, unable to understand local needs and to exploit the potentials of individual ports. In addition, a central government involvement generates political interference in the decision-making process and in the selection of managers. Actually, such an administration system is often characterised by slow managerial procedures, due to the rigid bureaucratic structure and to scanty managers' skills.

Differently, in municipal-governed ports, if bureaucratic constraints and political interferences still persist, the local administration is able to quickly meet specific port needs and to respond rapidly to the market structural changes. A weakness of this port governance model can be found in the limited financial port autonomy and in a distorted resources allocation that sometimes does not generate direct benefits on port development.
Liberalisation and privatisation processes have recently caused a reorganisation of port governing bodies, based on new requirements, such as independence, flexibility, and pro-active management, allowing port authorities to gain more decisional power.

A self-governing port is a quasi-governmental organisation set up by an Act of Parliament. It is a non-profit-making organisation that offers a unified functional administration over a functionally defined area. A port managed under this model is still a public utility. However, this body can be considered as "autonomous", because the Representative Boards have wide decision-making and financing independence. These self-governing public companies have their financial accounts separate from capital accounts, which remain funded by central authorities. The main advantages of this port governance structure are based on larger decision-making autonomy and flexibility and less governmental intervention and bureaucratic inefficiencies.

A self-governing port is often transformed into a corporate port, a legally and financially independent body with its own Board of Directors. In this case, it is fully autonomous and can respond efficiently to market requirements. These entities can even seek commercial funding for investments, borrowing on their own assets.

Furthermore, corporate ports are expected to generate dividends and to increase shareholder's value over time. The real strength of this governance model is that the management is independent, without the direct control of central authorities, with managers accountable for their own performance.

Privatisation is actually the most complex port reform. It is based on the involvement of the private sector, either in the ownership of port land and infrastructures or in the utilisation of port assets. A partial privatisation is characterised by a landlord port authority, that owns land and port infrastructures and grants assets through concessions to private enterprises, while in a full privatisation the private sector represents both the owner and the manager within the port area. The latter option
(widespread among English ports) is rarely applied, because generally some basic functions, such as strategic planning, control, security and protection are preferably left under public control.

4. THE NEED FOR PORT REFORM

Although there is currently a tendency towards “privatisation” of entire ports or parts of ports, in most countries the port owner is still the governmental authority, whether national or regional or local. This happens because some port functions strictly linked to social utility would be preferably managed by the public sector, while operative activities would be better performed privately. Therefore, the prevailing scheme indicates the “government” as a facilitator of port operations, a coordinator of long-term port planning, and a regulator of market mechanisms, letting private operators act as services provider and sometimes developer of highly sophisticated port facilities.

The growing private investment in and control of a significant number of terminals worldwide during the 1990s, forced the strategic port management to cope with the increased shipping lines’ fast changing demand.

Globalisation of terminal operations put pressure on public port institutions often suffering from lack of managerial skills and funding capacity to restructure and modernise port infrastructures and equipment.
Table 2: Reasons for change in management and/or ownership of ports

<table>
<thead>
<tr>
<th>Reasons for Pursuing Port Reform</th>
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<tr>
<td><strong>General Reasons</strong></td>
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<tr>
<td>• Improve port efficiency</td>
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<tr>
<td>• Decrease costs and prices</td>
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<tr>
<td>• Improve service quality</td>
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<tr>
<td>• Increase competitive power</td>
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<td>• Change the attitude with respect to port clients</td>
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<tr>
<td><strong>Administrative/Managerial Reasons</strong></td>
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<tr>
<td>• De-politise the public port administration</td>
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<td>• Reduce bureaucracy</td>
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<tr>
<td>• Introduce performance-based management</td>
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<tr>
<td>• Avoid government monopolies</td>
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<tr>
<td><strong>Financial reasons</strong></td>
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<tr>
<td>• Reduce public expenditure</td>
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<tr>
<td>• Attract foreign investment</td>
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<tr>
<td>• Reduce commercial risks for the public sector</td>
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<tr>
<td>• Increase private sector participaion in the regional or national economy</td>
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<tr>
<td><strong>Employment reasons for change</strong></td>
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<tr>
<td>• Reduce of the size of the public administrations</td>
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<tr>
<td>• Restructure and retrain the port labor force</td>
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<tr>
<td>• Eliminate restrictive labor practices</td>
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<td>• Increase private sector employment.</td>
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Source: Port Reform Toolkit, World Bank.

The need for port reform is to be found mainly in the environmental and structural developments at global level which imposed improvements in the existing institutional frameworks and in managerial assets.

"Most port reforms, however, tend to introduce private sector characteristics in port operations. There are many ways of doing this, ranging from changing port administration and improving competitive conditions up to the more drastic and complex divestiture programs. [...] The challenge for port policy-makers engaged in structural adjustment is to find a proper mix and time-path for the various intermediate processes on the way to privatisation".

Port reform modalities can support improvements in port management and working practices without affecting the existing legal and policy framework. In this case, a modernisation

of administration is pursued through various forms of managerial restructuring, including the development of corporate planning strategies and of training programs for employees, the adoption of modern management and administration techniques (such as computer applications and management information systems – MIS -, electronic data inter-change – EDI -), etc.

A pure liberalisation process can be achieved through a partial revision of government regulation, in order to enable private participation. To be successful, this kind of reform should guarantee a clear distinction between functions and roles, ensuring fair competition and public responsiveness.

Moving towards an increased commercial environment and business-like approach, port reforming through commercialisation allows port authority to become more autonomous and makes port management accountable for overall performance. If on one hand this stage follows market requirements and customers’ needs, on the other hand some central interferences still affect fair competition. In some cases public organisations acquire a legal status of independent private companies, gaining in terms of administrative and financial flexibility and thereby meeting even more market principles (corporatisation). However, port management is still strongly influenced by the government, that keeps on exerting a monopoly power, holding the majority of shares. Therefore, in spite of the corporate legal status, the port governing entity cannot really act as a private enterprise since some matters are still subjected to political interference.

The strategy to achieve “corporate capacity” seems to be more respondent to the need for implementation of commercial behaviour and of financing techniques, encouraging private capital suppliers to invest in ports. Nevertheless, the protection of the public interest should remain one of the major priorities, taking into account that ports have a considerable impact on the local and regional economy.

"In order to improve the policy-making process, an accurate definition of port policy objectives and the development of an appropriate institutional structures is a prerequisite. Decisions on three important
issues are to be taken as soon as possible. These issues are the new management structures for local port authorities, the future financing of strategic port projects, a clear-cut definition of the respective tasks of central government and local port authorities”2.

5. NEW ROLES OF PORT AUTHORITIES

Among the various institutional and managerial models which can be found in the opening up to privatisation and liberalisation process, the landlord scheme seems to be the most appropriate to combine properly public and private roles in the port industry. It makes it possible to benefit both from an increased efficiency in operations performed by the private sector and a public involvement in the defence of common user interests of customers and other important stakeholders (see, for example: Saundry and Turnbull 1997; Suykens and Van de Voorde 1998).

Developments in global maritime scenarios and their impact on port organisational structures lead to major changes in public port authorities’ attitude and role. Nowadays port authorities are becoming the hub of a composite set of interactions, involving complex relations with multiple players. Global operators, local communities and institutional bodies have their own often conflicting interests, which need to be composed in a coordinate way by a responsible port developer.

The degree of harmonisations and interaction between the port authority, the port community and the local institutions becomes a crucial factor of competitiveness. The greater is the port authority’s ability to coordinate the diverging interests, the greater can be the performance achieved by the “enlarged” port environment.

A modern port authority, therefore, should pursue a revised landlord concept aiming at the optimisation of a network of activities instead of a mere management of port infrastructures. Its core activities could be summarised by the following functions (De Monie 2004):

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• the landlord and performance monitoring function;
• the policy-making, planning and development function;
• the control and regulatory function;
• the marketing and promotion function;
• the human resources development function.

The leases or concessions of the port’s domain increasingly require performance targets, so that the authority can supervise the correct implementation of all leased activities. In some cases, restrictions applied to the leasing concessions can even include the possibility of the revocation of the lease itself. At the same time the port authority is involved in setting specific targets in line with the wider national port policy and macroeconomic orientation, acting also as developer of infrastructural improvement programmes, seeking for funding opportunities. It performs specific marketing strategies through the implementation of research and development (R&D) activities, even in cooperation with the port community and in some cases with the support of qualified universities and research centres. Closely related to the R&D capabilities there is a need for an upgrading of human resources through specific training programmes in order to create a favourable environment for information exchanges and to stimulate useful knowledge interactions among the individuals. An important part of the training agenda is focused on the safety and security of port operations, in other words the regulation and surveillance functions for which the port authority is responsible and accountable.

6. CONCLUSIONS

There is a wide variety of institutional and managerial assets among ports. They are the result of several environmental factors and global structural transformations still in progress in the world economy. Economic globalisation, the growth of international trade, the liberalisation of capital flows, the advances in information technology, have modified port evolution according to new infrastructure and managerial requirements which emerge from the market.
In a context of privatisation and liberalisation, it is necessary to find the right equilibrium between the public and the private sector, in order to reach an efficient port management.

Among the previously considered port governance and administration models it is not possible to identify the one which can be successful everywhere. Every model could be valid according to the port environment to which it is applied. Indeed, historical tradition, political environment, cultural influences and economic situation have a strong impact on determining the appropriate port strategies and structures.

In the deeply modified scenario of the maritime industry, port authorities’ missions and roles need to be reformulated trying to compose long term local development and private sector's global interests. The challenge is to sustain public interest objectives ensuring fair competition and efficiency in operations rather than to pursue mere profit-seeking goals.

The goal of a port authority becomes more complex and implies additional strategic functions. New multi-dimensional marketing and planning functions, R&D activities and human resources development programmes are required, in order to maintain the port’s competitive position.

In particular, the public bodies are called on to ensure the control, the stability and the equilibrium between all interests which gravitate around the port community.

The increasingly competitive global setting, with the evolution of new vertical and horizontal relationships in the shipping industry, places ports in a wider transport network and forces them to higher levels of competitiveness.

However, in order for ports to be efficient and competitive, it is necessary not only to revitalise governance structures but also to modify port authority’s attitude, overcoming the constraints of an over-regulated, bureaucratic and state-controlled management.

While in the past ports have mainly been administered, nowadays modern ports should be managed in a flexible and market-oriented way.
REFERENCES