

# Port policy in Croatia

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Ports are of special importance in the world and for the national economies and international trade. Port activities reach deep into the background of every country, so that port activities have a powerful impact and influence on the economy of an entire country, even on other countries. The port is a part of the traffic system of a state and the junction location into which the traffic from all traffic routes and through all means of transport meets.

It does not belong to any single branch of traffic, but is within the traffic system the factor on which the proper and effective functioning of all other participants in traffic depends.

Seaports are not and can not be purposes within themselves; their assignment is to help expand economic activities by rendering optimal services.

With its authority and policy, and through the application of corresponding legal measures, the state is able to activate stronger or weaker development of the port system, or of individual ports within the mentioned system. The influence of the state on business operations and development of ports is absolutely necessary and justified, since the social advantages produced by the ports system in favor of the entire community are always much greater than the advantages begot by the ports themselves<sup>1</sup>.

The mode and magnitude of investment into the development of a port system is an indication of the treatment ports have in the various social communities, demonstrating the degree of orientation of the entire society towards the logistical, traffic and port policy of a maritime country. The feedback rendered by a modern and developed port and a harmoniously adjusted port system of a maritime country, is a stimulus for the economic development of the hinterland, and more exactly to the entire maritime state that invests into ports.

The influence of the state on business operations and development of ports in Croatia is at the very outset. In former Yugoslavia a united and integral approach of the

*A maritime state, with its influence and policy by means of legal measures and regulations, can and must follow and urge business operations and development of the national port system, in a word, of each single port within that system. The development of the port system has to be marked by a clearly defined port policy that is a constituent part of the economic and traffic policy of the country. Port policy is a set of legal regulations by which the state shapes and guides the development of ports in compliance with assessed needs. The state's influence on business operations and development of ports in Croatia is at the very outset. The new maritime legislation (Maritime Code and Seaports Act) in Croatia attempts to overcome and rectify the flaws taken over from ex-Yugoslavia and endeavors to organize and direct business and development of the port system more successfully and in compliance with other developed European maritime states. The acts that are now in the process of legislating are the basis for the making of a long-standing, integral and justified port policy in Croatia.*

state in its relation to the ports was lacking, the result of which is the numerous negative consequences regarding the condition and developmental possibilities of certain ports, and in other words of the total port system on the eastern coast of the Adriatic. The infrastructure of the new legislation that is coming into effect in Croatia is an attempt to overcome and rectify the flaws taken over from ex-Yugoslavia and an endeavor to more successfully direct the development of the port system as an exceptionally important factor for the development of the Croatian economy.

## **Port policy of the state: a precondition for business and development of the port system**

The development of a port system must not be

chaotic nor coincidental, but must be marked by a clearly defined port policy which is a constituent part of the economic and traffic policy of the maritime country. Port policy is the foundation for an effective development of the entire port system of a maritime state, or more exactly of the individual ports that make up the mentioned system.

Port policy can be defined as a set of measures, decisions, laws, regulations, planned concepts, financial actions, and the tax and tariff system in relation to ports, enforced so as to create positive effects on their development within the total economic and traffic system of the country. As a matter of fact, port policy is the means by which the shaping and guiding of port development is performed in accordance with the assessed needs<sup>2</sup>. This set of measure consists of two essential parts:

- defining the results that wish to be achieved
- determining measures by which the results will be achieved.

In order to attain the desired effects and avoid errors that might occur in the two mentioned parts of a port policy, it is necessary to come up attentively and in all segments with corresponding decisions which will be

carried out systematically and consistently. Errors might already arise on occasion of formulation of the assignment, if the results that are wished to be achieved are inadequately formulated. This means that the entire development is directed in the wrong direction. Even a greater error may be made in the formulation of measures by which the aims are to be achieved. Faulty measures, superficially selected decisions or elements of port policy or traffic policy that lack coordination, may seriously endanger the realization of even well formulated aims and assignments.

Port policy and its goals and measures may be decided by the state administration, by a political party, some highly influential social institutions, or by some big bank or monopolistic business establishment. The measures for the enforcement of port policy depend on the specific conditions prevailing in each particular country. For example, they may be acts of parliament and government decisions providing that they are in coordination with the measures of traffic policy, or various financial measures (subsidized interest, priority loan grants for certain investments, subventions, non-repayable share, priority share in international loan arrangements). The best results are achieved if the port policy is expressed clearly, realistically and far-sightedly and if several different but mutually coordinated measures are formulated for the purpose of achieving the goal. If the measures of port policy are brought forth without coordination, then we arrive at a situation when one measure acts against another, bringing about an exertion of efforts and spending of money, but without satisfactory results. Such a negative result also occurs when there is no port policy. In such a case decisions are brought personally, at random and without coordination, and personal solutions are sought in each single case. It is better to have a deficient but integral port policy, than no policy at all. Namely, an inadequate or deficient port policy can always be analyzed and rectified in the parts where the errors occur.

A maritime country expecting efficacious business results of its ports and their successful development, must have a corroborated and elaborate port policy which defines:

- 1) the location and importance of the port's structure in the total traffic, logistic and economic system of the country;
- 2) the importance of the position and scope of business of the port within the port system;
- 3) the relationship of the total port system and that of the individual ports towards port structures and ports;
- 4) the management in the ports;
- 5) the financing of the total port system and of the individual ports of the mentioned system.

If optimal aims of business and development of the ports of a maritime country wish to be achieved by means of port policy measures, such a policy has to be:

- defined in accordance with the aims,
- specific in details,
- sophisticatedly coordinated in relation to the total economy, in other words in accordance with the traffic system and the integral port system,
- permanent,
- consistently managed,
- in integrated phases of development.

### Port policy in the republic of Croatia

The development of Croatian ports within the structure of former Yugoslavia was unplanned, chaotic and accidental, without relevant measures of a port policy which would define the importance of ports and determine and equalize their position and financing. After World War II the development of ports in ex-Yugoslavia was conducted in two directions; on the one hand, old ports were restored, and on the other hand, new ports were built. Robert Bruce Oram, an OECD expert, after having made a round of the ports of ex-Yugoslavia in 1966, made the following note in his observations<sup>3</sup>:

"It seems that there is no general plan of the Yugoslav ports on which they could be based as vital parts of the economy. It seems that each port elaborates plans of development that have no connections with the plans of a neighboring port, and in most cases, neither with the anticipated cargo demands that may possibly be developed in the immediate hinterland. I was informed that the funds for developing regions mainly came from regional sources. Yugoslavia has six ports, and it seems that the main qualification needed for a port director is the ability to "create" money for the port; he is not expected to know anything about port operations. The result of such an unequal inflow of money into the ports makes possible the degree of development in Bar which could simply be called 'just a port, with very little volume of cargo', in contrast to what was described to me as the slow strangulation of Rijeka and Bakar, the former of which is the most effective port in the country. There seems to be pressure on the government for financial means to build the ports of Ploče and Bar, ports in which there is no berth congestion, nor any suitable cargo in the foreseeable future. I think it unrealistic to throw away money in order to develop a swamp in Ploče or to remove a hill in Bar, when this money could be put to much better use for the further improvement of the facilities of existing and well managed ports. According to information, not only are the sources of financing in Rijeka poor, but there is also strong opposition to any kind of improvement of railway connections with Rijeka. In light of their being of vital importance to this port, that is at the same time the best way to impair their development.

I found it impossible to learn who could prepare a general plan for all the Yugoslav ports. There seems to be an essential need for a body similar to the National Port

Authority to conduct a system of central planning. The commission's report on major British ports, known as the Rochdale Report, strongly supported the forming of a body that would take on the functions of control and coordination. On such a recommendation the government at the time formed a National Ports Council. This body is authorized to examine and reject any port development scheme that would cost more than half a million pounds. Thus a single central body controls planning and coordination of some twenty-odd ports in Britain. I am of the opinion that this kind of control is needed in Yugoslavia. Without it, the building of ports will be chaotic, regardless of the present needs, and even less in light of future needs."

The excerpts from a report by a world-known and recognized expert for ports, best illustrate the conditions in which Croatian ports during the past fifty-odd years worked and developed, and this caused and led to many negative consequences in the system of ports and the integral traffic system of Croatia.

The new and independent Croatian state, through proper measures and legislative regulations is endeavoring to set up new conditions and rules of business operations in seaports as vital segments of the systems of traffic and economics. The new approach in relation to the national port system on the one part tries to rectify and mitigate the errors of the past, and on the other part to create a proper legislative infrastructure that will guarantee optimal business operations and an effective future development.

In Croatia, the Seaports Act is in the process of enforcement and is expected to define the importance of ports in the economic system of a state. A demarcation line will be made to distinguish the place of the state in relation to private legal persons in the sense of ownership and management, and the enforcement of this act will be a prerequisite for the transformation of ownership patterns and the commencement of privatization in the ports. This act will also define the authorizations and obligations of the state in relations of management and finance, in accord with the importance that ports have for the total maintenance of the port and traffic systems of Croatia. In this way a foundation for a planned and appropriate development of the national port system and the individual ports within the system will have been laid.

The Seaports Act in Croatia has been composed on the model of port legislation in Italy, one of the leading European maritime countries that concentrates on business operations and supervises the development of its ports. The Seaports Act is based and extended on the provisions of the Maritime Code regarding the new legal system on maritime property. In conformity with this, the act sets apart maintenance and building of ports, coordination of work in the port area, handling of port policy and protection of ports from economic

usage of the ports (loading, unloading, warehousing), and the result of this is an increase of the level of port services, as well as creating of conditions for competition in compliance with the demands of contemporary traffic and logistic markets. The Seaports Act emphasizes the importance of the state and competent government-run services in management of the ports, and this is of utmost importance in light of the presently prevailing disorder in the port system of Croatia. Such a relationship towards ports is customary in most developed maritime countries, and a similar principle has also been adopted, for example, in some of the underdeveloped maritime countries of South America.

With the enforcement of the Seaports Act the basic principles of port policy of Croatia will be determined, in other words, it will define the assignments and aims for a long-term and justified development of the national port system: classification of ports within the port system, port management, financing of business operations, building and modernization of ports.

The implementation of legal provisions on all the ports and consistent adhering to these rules along with a proper coordination with the guidelines of the traffic and logistic policy of Croatia, should enable an effective evaluation of the ports within the national economy. Such are the prerequisites for the main ports to compete with neighboring North Adriatic ports, or more exactly with leading European ports on other traffic routes.

With this act Croatia will, for the first time on a state level, regulate essential matters connected to ports and port management. In almost identical circumstances, new acts in the maritime legislation of Italy and Croatia for merchant marine ports operating in the international legal system of North Adriatic ports are being prepared.

### **Classification of Ports**

The classification of ports in the legislative proposal of the Seaports Act was implemented on basis of various criteria:

- according to public traffic ports are categorized as ports open to public traffic and special-purpose ports;
- according to their scope of activities ports are categorized as commercial (trading) ports, passenger ports, ferryboat ports, industrial ports, fishery ports, tourist ports (marinas), naval ports and ports of the internal affairs services;
- according to their importance for the Republic of Croatia, the ports are divided into 4 categories: ports of importance for the security of the Republic of Croatia, ports of international economic importance for the Republic of Croatia, ports of inter-municipal and municipal importance and ports of local importance.

A novelty in the maritime legislation of Croatia and a basis for defining a national port policy is the classification in accordance with economic importance and security importance for the Republic of Croatia. The catego-

rization of the ports regulates the essential problems of business operations and developmental tendencies (defining of port areas, port management, maintenance and building of port areas and ports' infrastructural and suprastructural facilities, and regulating of order in the ports). The standards for the classification of ports (with the exception of ports of importance for the security of the Republic of Croatia) were the total traffic of each port during the last two-year period and its characteristics, the capacities of the ports and degree of utilization, traffic connections of port with its hinterland, the port's foreland development, physical and economical possibilities for further development, in other words all relevant logistical factors that define the port's importance within the national traffic system. Thus the legal provisions define and systemize the main ports of the Croatian port system and determine their position within the traffic system of the country, in other words their status in relation to the other ports. Ports of international economic importance for the Republic of Croatia are cargo ports, passenger ports and industrial ports with the greatest total traffic of cargo and passengers and with a large traffic of transit cargo or passengers in the international navigation during the period from 1980 to 1989.

According to processed indicators and on basis of proposed criteria by the Ministry of Maritime Affairs, Transport and Communications<sup>4</sup>, cargo ports are Rijeka and Ploče, whereas Omišalj is an industrial port and passenger ports are Zadar, Split and Dubrovnik. The state will play an important role, either directly or through its representatives in the management bodies of the ports, in determining of port areas, appointment of boards of management, financing of construction of port buildings and of erecting port facilities and equipment.

Upon request of the ports administration, such a classification made on basis of operations of ports during the past decade can be changed after two years from the date of enactment of this decision, if it is estimated that the results of business operations are such that they enable a transfer to a new category.

### Management of Ports

The management of ports is separately regulated for ports open to public traffic and ports for special purposes. In the ports for public traffic the management of the port area is entrusted to the port administration (the establishment and system of a port administration depends on categorization in accordance with its importance for the economy of the Republic of Croatia), or decisions are brought on the allocation of concessions for usage of maritime property or a port area. The bodies of the port administration in ports open to public traffic are the board of management and the director. The assignments, obligations and rights of the bodies of

the port administration are regulated in the Seaports Act, and the legality of the work of the port administration is supervised by the competent ministry.

Companies can perform port activities within the port area only on basis of concessions administered by the port administration and which are given on the grounds of assessment of the plan and operational program of the applicant requesting the concession. The act of concession, both in theory and practice, is a novelty in the Republic of Croatia. The defining of this institution will cause initial difficulties and vagueness. The aim that should be taken as a priority in the allotment of concessions should be the increase of port traffic and improvement of the quality of services, and these are the prerequisites for effective business operations and successful development. A healthy competition within the port between two or more companies that have been granted concessions for the performance of one or several port activities, shall enable optimal adaptability and a satisfying of market demands. On allotment of concessions it is necessary to professionally, in detail and appropriately define the activities for which the concessions have been given, their number and term of duration, as well as the amount of compensation which should be of a nature that will synchronize and stimulate their activities.

According to the legislative proposal of the Seaports Act, the Council for Ports will act as the coordinator and advisor for the regulation, operation and development of the national port system, and is to be established by the Ministry of Maritime Affairs, Transport and Communications of the Republic of Croatia. This is a government body that will prepare two-year plans of work and development of the Croatian port system, the construction of guidelines for determining the advantages in the restoration and development of ports, the preparation of attitudes regarding general port policy, and will come out with proposals regarding the organizational structure and functioning of the ports. For the first time a body is being established in Croatia on a state level to supervise and guide the development of the national port system, to observe from a single spot the importance and position of all the ports, and to coordinate the development of the port and traffic system of Croatia.

### Financing of Ports

The financing of ports is defined in the legal provisions, and in such manner that the realized incomes in the ports open to public traffic, which are incomes of the state, are wholly surrendered to the port administration and are intended for<sup>5</sup>:

- the construction and maintenance of port infrastructure and suprastructure,
- the foundation of companies,
- the operational expenditures of the port administra-

tion.

The incomes realized by the port administration through the use of state property in the port, are as follow: port charges, compensations from concessions to perform port activities, compensations from concessions from maritime property, land and building leases, rental fees from buildings of the port's infrastructure and suprastructure, compensations for usage of port facilities and equipment, and contributions from the state, municipality, town and county.

Port charges are paid by the ship for utilization of wharf, berth or for demurrage, and the criteria for the charges is regulated by the competent minister on basis of proposal of the port's board of management.

A particularly important item of port income will be the compensations for concessions of maritime property and for performance of port activities. The amount of the compensation is to be determined by the minister of maritime affairs, transport and communications together with the minister of finance and the ministers in charge of the economy and building and protection of the environment. On determination of the amount of compensation for concessions, the following should be taken into consideration:

- anticipated investments, value of the area, the utilization level of facilities;
- presumed profit;
- mode of activity (capital investment, labor, costs and incomes of business operations, the number of allotted concessions for a given activity);
- the duration of a concession (if allotted for a longer period of time and a sizable investment on the part of the holder of a concession, the first years should not be charged, whereas later on the amount should gradually be increased; for short-term concessions, without any separate investments there should be no compensation relief);
- the number of workers employed (especially in the beginning of transformation of ownership patterns);
- the influence on the environment;
- the magnitude of the realized traffic.

The business transactions of the holder of a concession, the execution of plans and programs of activities, and the determination of measures for charging the concessions are monitored by the port administration who accordingly reports to the Council for Ports. A novelty in the Seaports Act is that the ports administration prescribes the maximum tariffs that companies are allowed to charge for the performance of various port activities, for the purpose of maintaining and stimulating competition within the port. If the port administration estimates that there are objective circumstances pointing to non-competitiveness between the companies performing port activities, decisions may be brought which will obligate these companies to lower or coordinate their tariffs. For nonadherence of the maximum prescribed

tariffs, the port administration may deprive a holder of a concession of his concession. The influence of the state and its services on the business transactions of private business operators in the port is apparent in these provisions and the aim is to optimize the organization of port operations and of the port system.

### Conclusion

The making and enforcing of the Seaports Act that regulates and defines the basic factors of operating and developing the national port system, represents the foundation for enforcement of a long-term, integral and justified port policy in Croatia. The new legislation in Croatia (Maritime Code and Seaports Act) on a state level regulates and optimizes the business operation and development of the Croatian port system, defines the rights and obligations of the state towards the ports and forms the legislative basis for privatization of the ports. These legislative documents are an endeavor to coordinate the operations of Croatian ports with the operations of the developed countries with market economies and make them competitive with the European and world markets. The influence of the state on the national port system in Croatia is absolutely necessary, for reasons as follow:

- due to the inherited flaws from the past, especially because of the nonexistence of a port policy in the former Yugoslavia;
- due to the advantages a maritime country has or can have from the activities of its ports on the development of other branches of traffic, on the development of various regions, on the country's balance of payment and on the total national economy.

It is necessary to initiate the new structure and regulation of Croatian ports as soon as possible, since these ports lag behind in the development of this particularly important area of the European and world economy. Furthermore, during the past period the business operation and development of ports in Croatia was impossible or slowed down on the one hand, due to the war, and on the other hand, due to essential economic and political changes in the European countries towards which Croatia traditionally gravitated. With a new organizational concept, management of business and justified plans and programs of development, the ports of Croatia must adapt to the conditions and demands of the environment and of the maritime and traffic market.

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NOTES

<sup>1</sup> For example, the port of Dunkerque contributes abt. 10 milliard French francs to the economy of the province of Nord/Pas-de-Calais, and in 1989 the traffic through the port of Antwerp reached an added value of approx. 188 milliard Belgium francs. (UNCTAD, *Legal Aspects of Port Management* 1993, p. 23).

<sup>2</sup> KESIĆ B., *The Organization and Economics of Port Systems*, Pomorski fakultet, Rijeka 1992, p. 106.

<sup>3</sup> ORAM R.B., *Observations and recommendations for the development of Yugoslav seaports. Development in Yugoslav Ports*, Ekonomski institut, Zagreb, 1966, pages 43, 46, 47.

<sup>4</sup> Criteria for ports of international economic importance for the Republic of Croatia: cargo ports - a total traffic of more than 3,000,000 tons of cargo and at least 10% transit traffic within the structure of the total traffic; passenger ports - a traffic of passengers in excess of 500,000 a year of which 30% of the passengers were transported in international navigation, and maintaining of at least 3 international passenger lines in the course of a year.

<sup>5</sup> Proposal of the Seaports Act, by the Ministry of Maritime Affairs, Transport and Communications of the Republic of Croatia, Zagreb, 1994, art. 27.