

CASE STUDIES – produced by Holman Fenwick Willan LLP**CASE STUDIES RELATING TO PORT INCORPORATION PROGRAMMES****3.1 Introduction**

In the last two decades or so, many governments have succumbed to both market and stakeholder pressure to devolve the responsibility for the improvement of ports performance to an incorporated port authority, aimed at aiding ports to become self-sustaining and eliminating the need for government subsidies. Stakeholders, including carriers and terminal and logistics operators, have been very vocal about their preferences for reform of the prevailing port governance practices, in order to improve the performance and efficiency of ports. The corporatisation of ports has been the means to achieve such reform. As a result of changes in the institutional structure of the port business tend to occur which may in turn lead on to greater involvement of the private sector in the exploitation and financing of port facilities, terminals, and services. The main benefit of the corporatisation of ports is that port authorities become more autonomous as the decision-making process devolves from the government to the company's directors.

This more dynamic decision-making process fosters competitiveness, growth and transparency in the port authority's development, and business and customer satisfaction are given priority.

The focus is also on sustainability and improved productivity, in order to encourage investment in the port authority's development. Overall, corporatisation of port authorities has in many cases led to increased economic profitability, enhanced employment opportunities in the port area and improved commercial flexibility.

3.2 Corporatisation aims

The main aims of the corporatisation of ports have been three-fold:

3.2.1 to reduce public involvement in economic activities of ports, leading to the liberalization of services like public transport and energy provision, with positive results for end users;

3.2.2 to improve supply chain integration and international transport networks, as municipal organisations tend to focus more on local economic development than on the broader supply chain perspective; and

3.2.3 to overcome the limitations of municipal administrations with regards to commercial activities and focus on port development which requires an active approach of customers and business case driven investments.

CASE STUDIES – produced by Holman Fenwick Willan LLP**3.3 Advantages of corporatisation**

Upon corporatisation, most ports opt to be incorporated into private limited companies, subject to company law, whereas governmental agencies, which supervised the ports prior to corporatisation, are governed largely by public law. The defining feature of a port authority incorporated into such a private limited company is that the government has complete control over the company as its sole shareholder, since the shares are not publicly available and therefore cannot be owned by private parties.

This has enabled the Port of Amsterdam for instance to act with greater independence from the Municipality of Amsterdam, by operating more commercially and proactively. It has also facilitated the formation of new partnerships, as was the case for the Port of Rotterdam after its corporatisation in 2004. There the port authority was able to proceed decisively and effectively, by collaborating with companies regionally, nationally and internationally, to address matters such as logistics and facilities management. Prior to corporatisation, the port authority would not have had this opportunity.

3.4 Dynamic decision-making

Incorporating a port tends to speed up the decision-making process, as it will in many cases only involve the company's internal decision-making process instead of governmental approval being necessary. In turn, this limits the bureaucracy involved in decision-making, enabling the port to meet developments and market demands more efficiently and flexibly. This is particularly significant as local politicians, who customarily run port authorities as was the case with the Port of Rotterdam, may have insufficient skills and incentives to monitor port authorities appropriately.

3.5 Economic prosperity

Corporatisation offers opportunities and conditions for extensive port and city development, which not only benefits the port itself, but also boosts employment levels. This is evidenced by the 15,000 direct employment positions which were created after the corporatisation of the Port of Amsterdam took effect. In addition, having a well-functioning port authority prevents the port from being dependent on public investments.

3.6 Competitiveness and growth

Incorporating a port is likely to ensure higher returns, with the Port of Amsterdam expecting growth and increasing profits which does not only benefit the port, but the city itself. Post-corporatisation, port dues and land lease prices were not pushed up in order to generate more income, as the port authority sought to be competitive by applying market-driven prices and lowering transaction costs.

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3.7 Business and customer satisfaction

The business of the Port of Amsterdam has been transferred by the Municipality of Amsterdam to the corporatised Port of Amsterdam in its entirety. Therefore no changes are required in the pre-existing agreements that businesses have in place with the port authority. Ground leases, rental contracts and other agreements continue to apply in the new situation, but due to its enhanced independence, the Port of Amsterdam can now be a more responsive partner for its customers. Similarly, the Port of Dublin became proactive and customer focused after corporatisation. This was evidenced by the corporatised port's own investment of over EUR 300m made in developing port infrastructure, thus facilitating access to the Port of Dublin via the Dublin port tunnel.

3.8 Transparency

The municipality of each incorporated port is likely to be the full, or majority, shareholder. As such, the responsibilities of the company and the municipality respectively become more transparent. On the one hand, the municipality's focus is on designing public frameworks, pursuant to a licence to operate. On the other hand, the company is now responsible for business operations. A balanced relationship between city and port is of paramount importance as regards future progress.

3.9 Sustainability

It is often the case that non-governmental organisations and community groups hold port authorities responsible for negative externalities generated by the port, such as congestion and environmental damage. Consequently, many of the newly-incorporated ports have adopted corporate social responsibility principles to ensure sustainability. The Port of Rotterdam for instance now promotes inland navigation and rail cargo transportation, pushing down the amount of road traffic, congestion and carbon dioxide emissions. As a government-owned limited company, the Port of Rotterdam now also has the ability to coordinate with inland terminals, in order to use space in the port area more intensively and efficiently.

3.10 Improved performance

Productivity: Expressed as turnover per employee, employee productivity is an indicator of the efficiency of company processes. The turnover of the Port of Rotterdam for instance increased considerably after the corporatisation. Employee productivity, measured as turnover per employee, deteriorated prior to corporatisation, but it improved substantially afterwards. In addition, despite employment and operating costs rising prior to corporatisation, they declined afterwards, partly owing to outsourcing that resulted in efficiency gains.

Competitiveness and Profitability: Lower operational costs have led to higher profits and enabled more investments, enhancing the competitiveness of the port. Although the Port of Rotterdam remains a not-for-profit organisation,

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corporatisation has led to an increasingly commercial approach to port development. As a point of comparison, the operational costs for the Port of Rotterdam after corporatisation (around EUR 0.50 per ton throughput) are substantially lower compared to those for non-corporatised port authorities like Barcelona (around EUR 1.70).³ Further, prior to corporatisation of the Port of Rotterdam, earnings before interest, taxes, depreciation and amortization (EBITDA) had declined and net profit remained stable, whereas post-corporatisation, over the period from 2005 to 2011, EBITDA rose by 50% and net profit by 140%.⁴ In the case of the Port of Busan, post-incorporation the port adopted self-supporting budgeting, with an emphasis on income and expenditure balance, and maintaining separate balance sheet records.

This was a significant detachment from the traditional system through which the port's finances were being incorporated into the national budget. The granting of financial autonomy encouraged the Port of Busan to be more responsive to the business environment while reducing public influence in daily operations. As a result, between 2004 and 2006, the port's net income grew from EUR 6.8m to EUR 12.2m.⁵ Investments: The overall market share of the Port of Rotterdam was in decline prior to corporatisation. However from 1997 to 2003 the organisation grew in terms of staff but declined in terms of investments made in the port. This trend reverts after corporatisation, as investments grew very rapidly from about EUR 150m in 2005 to nearly EUR 500m in 2011.⁶ Thus, there is a direct correlation between growth in investments and corporatisation, which is also supported by the case of the Port of Busan, which post-corporatisation assumed responsibility for investments in port infrastructure with positive results.

3.11 Changes in internal organization

The Port of Rotterdam case suggests that a corporatised environment may lead to an inflow of senior managers with a commercial background, creating stronger market orientation after corporatisation, with positive effects on the performance of the port authority.

The organisation of the Port of Rotterdam for instance did change considerably after corporatisation. The executive board was expanded to include a Chief Financial Officer, whereas prior to corporatisation the highest financial officer was not an executive board member. Furthermore, the two commercial departments were considerably expanded, and for each department a new commercial director was appointed with a strong industry track record. The vast majority of newly appointed senior managers since corporatisation have private sector experience and were hired externally, as opposed to being promoted internally. Other major changes included the development of a risk management team and outsourcing of most operational ICT activities. Similar changes in the port's internal organization were seen in the Port of Piraeus.

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For the Port of Amsterdam, the corporatisation has had minimal impact on the staff, other than that employees of the port have exchanged their civil servant status for employment contracts under company law. The organization and all its employees have been transferred entirely to the new government-owned limited company. Business relations of Port of Amsterdam have kept their existing contact persons. This may vary between ports, but overall the expectation is that employees are not adversely affected by the corporatisation.

Prior to corporatisation, the Port of Busan employees were almost exclusively civil servants. Post-corporatisation however, the Port of Busan recruited employees with private sector background, thus expanding from 11 teams and 77 permanent staff in 2004 to 17 and 146 respectively in 2006, demonstrating that additional employment positions were created, due to the enhanced performance of the Port of Busan.

3.12 **Autonomy through corporate governance**

The main institutional change arising from the corporatisation for the Port of Rotterdam was a new dual governance structure with increased autonomy from the Municipality of Rotterdam. The supervisory board, consisting of individuals appointed by the shareholders, monitors the organization, approves major decisions, and appoints and supervises the executive board. The members of the supervisory board are hired from outside the company and all have substantial private sector experience in managing corporations, transport and energy industries, and stakeholder management. The shareholders retain a formal influence at the annual shareholders' meeting, and quarterly shareholder committee meetings keep them informed about major issues.

The corporatisation of the former Port of Singapore Authority transformed the port from its previous status as a government body to one where, although it remains entirely government-owned, it is independent of government. This corporatisation was motivated by a desire to enhance the commercial flexibility of the national port operator and facilitate the Port of Singapore's strategy of global diversification.

A useful example of a port authority structure change is represented by two laws enacted in Singapore. Prior to the change, the port functioned as a public service port. As the port authority increasingly became engaged in terminal operations abroad and other commercial activities, public functions and commercial functions were separated. A new statutory board (the Maritime and Port Authority of Singapore ("**MPA**")) was set up. The commercial and marine activities of the original Port of Singapore Authority were corporatized. Two acts implemented the changes, one providing for the dissolution of the Port of Singapore Authority and the other establishing the MPA