Global Port Governance, Privatization and Operation

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Port Governance

• The World Bank Port Reform Toolkit (2001) describes port governance in terms of four types of ports: (1) the service port, (2) the tool port, (3) the landlord port and (4) the private port.

• The service port is owned (land and all assets) by government, managed by a port authority with operations under the control of the port authority.

• As for the service port, the tool port is owned (land and assets) by government, managed by a port authority, where the port authority’s staff operates the port-owned equipment with other cargo-handling activities provided by private cargo-handling firms.
Port Governance

• As for the service and tool ports, the landlord port is owned by government and managed by a port authority.

• Unlike service and tool ports, the port authority of a landlord port gives up its control over port operations by leasing the port’s infrastructure to private terminal operators for their operation of the port.

• Private terminal operators may provide and maintain their own buildings, purchase and install their own equipment on the port’s grounds, and hire dockworkers.
Port Governance

- The **private port** is one for which its land and infrastructure are privately owned and its operations are under the control of the private owner or a private operator to which the operations of the port are leased.
Port Privatization

• The number of service ports worldwide has steadily declined as governments have sought to increase the efficiency of port operations through privatization.

• Privatization consists of: (1) asset privatization, the transfer of assets from a public port to the private sector, for example, to a private port terminal operator and (2) service privatization, the transfer of a public port service (but not public port assets) to the private sector for its provision.
Port Privatization

• The United Kingdom (UK) is one of the few countries in the world, where port privatization has been asset privatization – a sale of port assets, including port land, to the private sector.

• UK public ports have been turned into private ports.

• In most other countries, port privatization has been service privatization.
Port Privatization

- Public ownership and private operations of a port (i.e., contracting-out privatization) are widespread among ports worldwide.
- A landlord port (or its port authority) enters into a contract (e.g., a long-term operating lease) with a private company (say a private port terminal operator) to allow the latter to operate a given marine terminal for a specific period of time.
- The port retains the property rights to the terminal during the concession period for which it receives lease payments.
- The contract or lease agreement may include stipulations on construction, financing and operations of the leased terminal.
Port Operation

- Port authorities operating their own container terminals are no longer the norm.
- Increasingly, port authorities are acting as landlord ports by hiring private port terminal operators to operate their terminals.
Private Port Terminal Operators

• There are a number of global private port terminal operators of container terminals.

• The largest is the Hong Kong-based Hutchison Port Holdings which in 2006 handled 13.8% of the container liftings at container ports worldwide, followed by a 11.8% share for Denmark’s APM Terminals and a 10.7% share for the Singapore-based PSA International.

• The world’s seven largest global port terminal operators in 2006 handled 56.2% of the world’s container throughput.
## Private Port Terminal Operators


<table>
<thead>
<tr>
<th>Rank</th>
<th>Operator</th>
<th>TEUs Handled (millions)</th>
<th>Percent Share of World TEU Port Throughput</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hutchison Port Holdings</td>
<td>60.9</td>
<td>13.8</td>
</tr>
<tr>
<td>2</td>
<td>APM Terminals</td>
<td>52.0</td>
<td>11.8</td>
</tr>
<tr>
<td>3</td>
<td>PSA International</td>
<td>47.4</td>
<td>10.7</td>
</tr>
<tr>
<td>4</td>
<td>DP World</td>
<td>41.6</td>
<td>9.4</td>
</tr>
<tr>
<td>5</td>
<td>Cosco Pacific</td>
<td>22.0</td>
<td>5.0</td>
</tr>
<tr>
<td>6</td>
<td>Eurogate</td>
<td>12.5</td>
<td>2.8</td>
</tr>
<tr>
<td>7</td>
<td>SSA Marine</td>
<td>11.9</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>248.3</td>
<td>56.2</td>
</tr>
<tr>
<td></td>
<td>World TEU Port Throughput</td>
<td>441</td>
<td>100</td>
</tr>
</tbody>
</table>

Private Port Terminal Operators


• In 2006 PSA International purchased a 20% share in its competitor, Hutchison Port Holdings, for HK$4.4 billion plus the right to purchase the remaining share should the parent company, Hutchison Whampoa, decide to sell.
Private Port Terminal Operators

• In 2007 PSA International’s earnings before interest, tax, depreciation and amortization (EBITDA) was US$1.462 billion (48.6% of annual revenue).

• For the same year, Hutchison Port Holdings’ EBITDA was US$1.649 billion (33.9% of annual revenue) and DP World’s EBITDA was US$1.1 billion (40.3% of annual revenue).

• In 2007 the TEUs handled by the world’s largest global container port terminal operators increased at a faster rate than global trade; their 2007 EBITDAs as a percent of annual revenue were generally higher than in 2006.
Private Port Terminal Operators

- Hong Kong is a landlord port.
- In Hong Kong, the government provides port infrastructure and strategic planning for port development, while private port terminal operators finance, develop and operate the port’s terminals.
- These private port terminal operators include: Modern Terminals, DP World, Hong Kong International Terminals (a member of the Hutchinson Port Holdings Group), COSCO-HIT Terminals and Asia Container Terminals.
Private Port Terminal Operators

• Financial institutions have been particularly interested in investing in private port terminal operators.
• In 2007 Goldman Sachs Infrastructure, a unit of the New York investment bank, purchased 49 percent of SSA Marine.