

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

The World's Largest Global Container Port Terminal Operators (2006)

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

Source: United Nations Conference on Trade and Development Secretariat (2007) *Review of Maritime Transport*, Geneva, Switzerland: United Nations.

Private Port Terminal Operators

- DP World acquired CSX World Terminals (headquartered in the U.S.) for US\$1.2 billion in 2005 and P&O Ports (headquartered in the U.K.) for US\$6.8 billion in 2006.
- 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.