

CRITICAL ISSUES IN PORT COMPETITION

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TO START WITH

- Governments consider ports as important tools to generate economic welfare
- Current economic crisis: shrinking demand and overcapacity
- Changed port competition game, with competitive pressure at various levels
- A lot of port actors involved

CONTENT

1. 'The port' does not exist, cf. the structure and typology of ports
2. The way ports are organised
3. The most important variables influencing port competition
4. The future

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LESSONS FROM THE BATTLE-FIELD

Two statements by Prof. Fernand Suykens,
CEO of the Port of Antwerp

1. 'The port' does not exist, so that we get port competition between producers of heterogeneous products
2. A concession policy should help to control port sensitivity, i.e. decrease dependency of footloose throughput by attracting industry

THE PORT AS AN ECONOMIC ENTITY

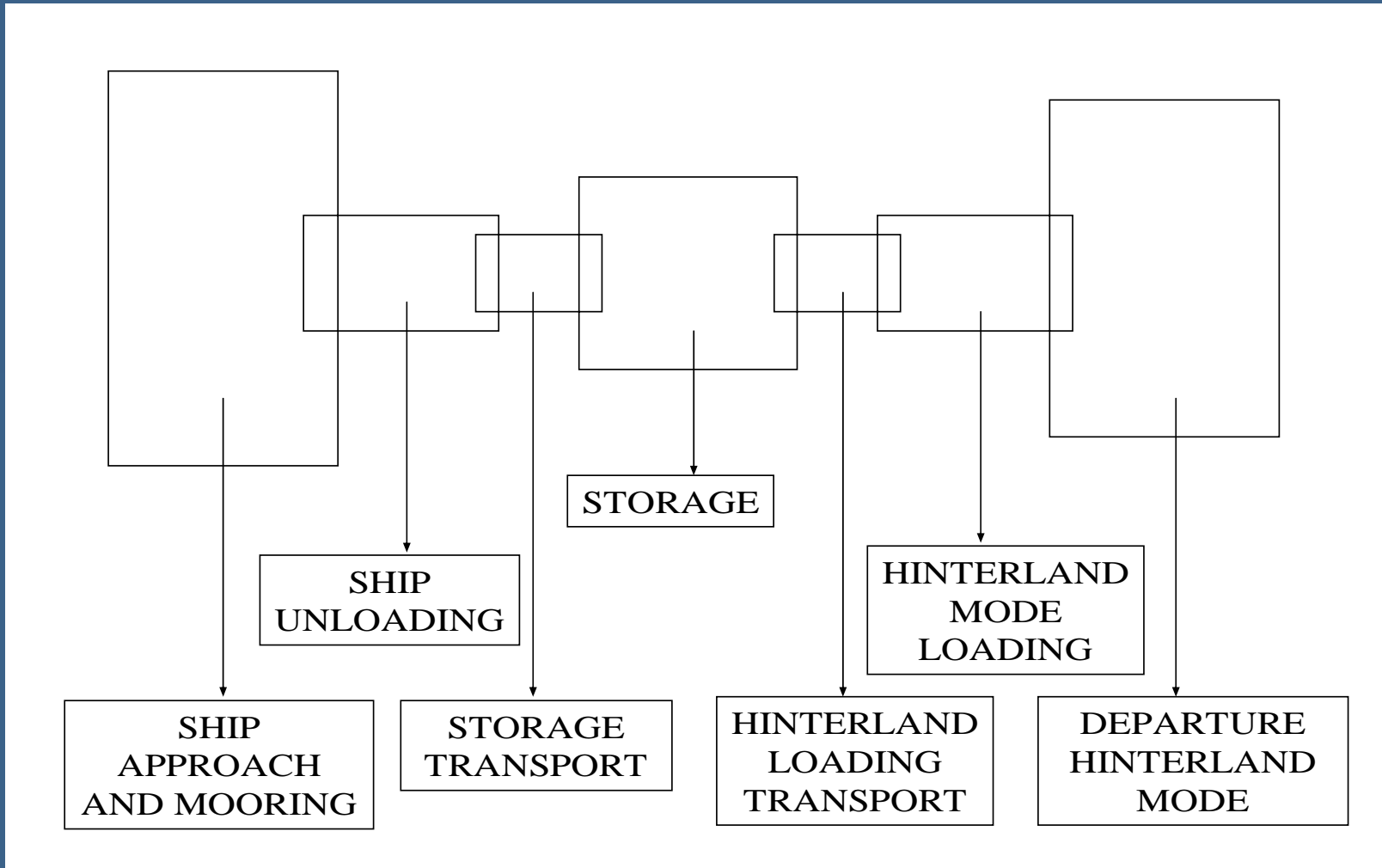
A port is

- a chain consisting of consecutive links
- a link in a global logistics chain

SEAPORTS' MAIN DISTINGUISHING FACTORS'

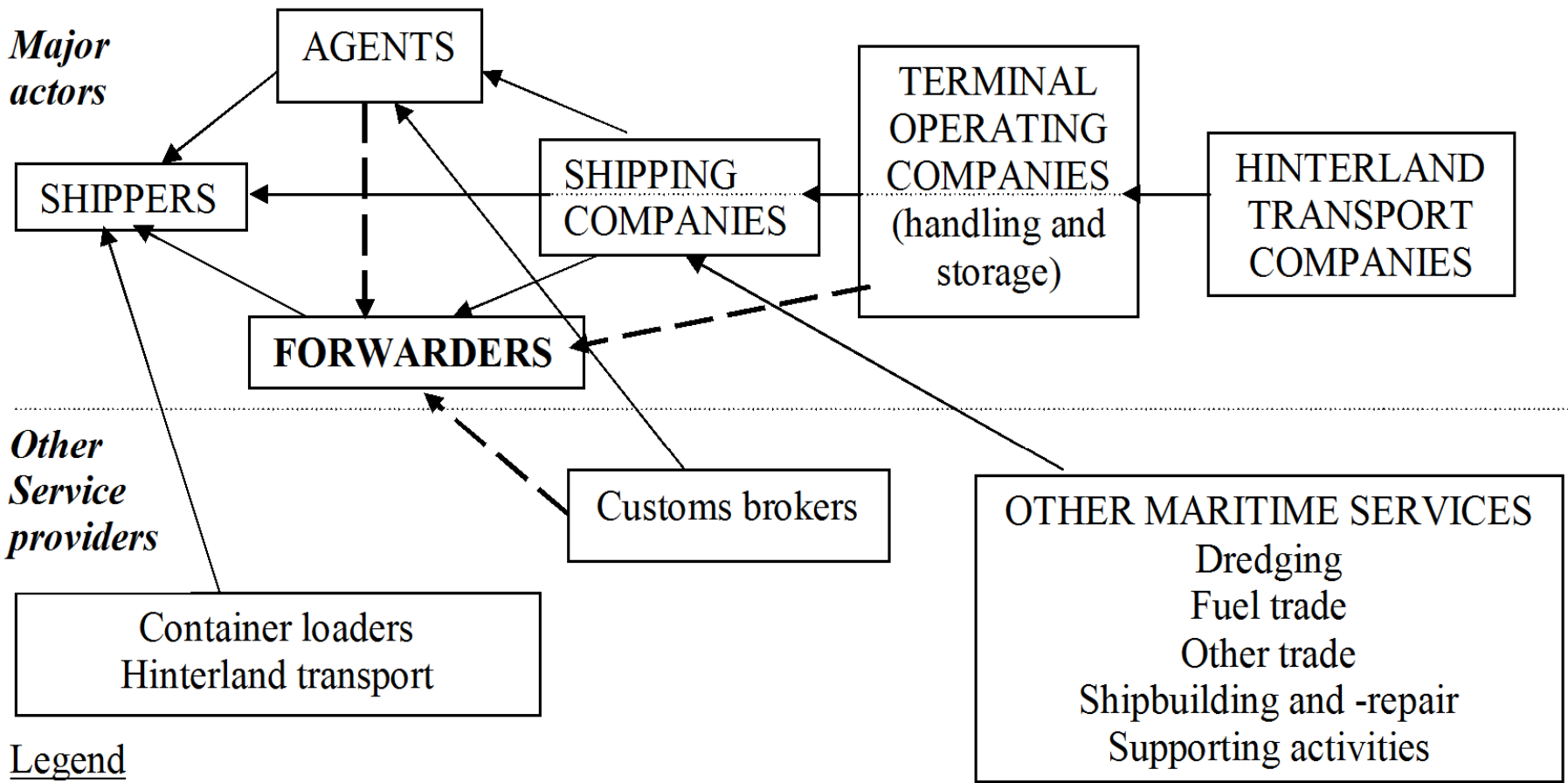
Factor	Possible states
Activity scope	Complete–limited
Lay-out	Tidal-non-tidal; basins-no basins
Location	Coastal–river; large-small population hinterland
Organization	Land lord – limited operating – operating
Security	High – moderate – low
Traffic	High–moderate–small; mixed–containers only – bulk only

SUB-PROCESSES OF CARGO THROUGHPUT



Source: Vanelander, 2005

PORT ACTORS



Legend

- ▶ commodity flow
- -▶ relations based on financial flow



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PORT ORGANISATION	PUBLIC			PRIVATE
	Type I	Type II	Type III	Type IV
<i>Ownership</i>	Public	Public	Mixed	Private
<i>Autonomy of Port Management</i>	very restricted	limited	High	complete
<i>External public funding</i>	extensive	important	very limited	no public aid
<i>Access to provide services</i>	open tender/ direct agreement	direct agreement pre-dominant	direct agreement	normally Closed
<i>EU states employing organisation types I-IV</i>	Dk, Gr, F, P, D, I	B, Dk, Fin, F, D, Gr, NL, P, E, S, I	Dk, Ir, S, UK	mostly UK, but also in other member states



PORT ORGANISATION STRUCTURE

- Landlord ports
 - Public authority owns and manages basic infrastructure
 - Co-ordinates port development
- Tool ports
 - Public authority provides basic infrastructure and facilities to port operators
- Full service ports
 - A port operating company runs port entirely

PRIVATE PARTICIPATION IN PORTS

- Full privatisation
- Concessions
- Joint ventures
- Leasing
- Licensing
- Management contracts

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GROWING COMPETITIVE PRESSURE

At various levels:

1. *Intra-port competition* at operator level (e.g. between TOC's)
2. *External competition* at operator level, e.g. between TOC's within same range)
3. *Inter-port competition* at port authority level

PORT COMPETITION: INFLUENCING VARIABLES

Port competition is influenced by a number of variables and interests:

1. Exogeneous, e.g. the future world economic activity
2. Endogeneous, e.g. port location as such, hinterland connections, labour organisation and productivity, customs organisation, regulatory framework,...

GLOBALISATION AND PORTS: SOME TRENDS

- Shipowners: a constant striving for scale expansion
- Terminal operating companies: the 'free capacity' game
- Port authorities: safeguarding the control of infrastructure

STRATEGIC CO-OPERATION IN THE MARITIME SECTOR

Market actors	Shipowners	Terminal operating companies	Port authorities
Shipowners	<ul style="list-style-type: none"> • vessel-sharing agreements • joint-ventures • consortia • alliances • mergers/acquisitions • conferences 		
Terminal operating companies	<ul style="list-style-type: none"> • joint-ventures • dedicated terminals • capital participation • consortia 	<ul style="list-style-type: none"> • mergers/acquisitions • joint-ventures 	
Port authorities	<ul style="list-style-type: none"> • concessions concerning dedicated terminals 	<ul style="list-style-type: none"> • concessions • joint-ventures 	<ul style="list-style-type: none"> • alliances

Source: Heaver et al., 2001

THE ISSUES

- Will this evolution continue in the future?
- What are the consequences?
- Which time path will shipowners follow?
- What kind of strategy might the other market players adopt?
- Will shipowners become the dominant players?

SHIPPING COMPANIES: RATIONALISATION, MERGERS AND SCALE INCREASES

- Deploying additional capacity at a lower operational cost per slot
- A mixed fleet as a means of spreading risks
- Additional cost control through mergers and takeovers, and capacity reduction
- Strategic alliances, new partnerships, rerouting of vessels

SHIPPING COMPANIES (ctd)

- Potential result: changes in direct port calls, with significant implications for hinterland transport projects
- Issue of concern: where will the increase in container vessel size stop? (cf. negotiation power in talks with port authorities, trade-off with terminal costs and hinterland transport costs,....)

SHIP ORDERS

8/1/2010

2/1/2009

Parent/main No		Operated fleet		Order book	
		Ships	TEU	Ships	TEU
1	Maersk Line	537	2,045	64	353
2	MSC	388	1,488	45	556
3	CMA CGM	353	1,031	59	498
4	Evergreen	151	559	0	0
5	APL	138	545	18	138
6	Hapag-Lloyd	112	458	14	123
7	Coscon	135	454	53	410
8	China Shipping	124	450	16	150
9	Hanjin	98	435	28	262
10	NYK	106	407	16	102
11	CSAV	98	344	17	105
12	MOL	91	342	27	151
13	"K" Line	89	338	28	150
14	OOCL	70	322	14	102
15	Yang Ming	77	313	22	141

Parent/main No. company	Operated fleet		Order book	
	Ships	TEU	Ships	TEU
1 Maersk Line	538	2,027	82	411
2 MSC	427	1,457	54	637
3 CMA CGM	380	991	74	597
4 Evergreen	174	623	0	0
5 Hapag-Lloyd	131	496	14	123
6 Coscon	150	489	63	452
7 APL	133	483	25	183
8 China Shipping	142	447	29	227
9 NYK	117	424	31	176
10 MOL	111	379	36	205
11 Hanjin	88	369	34	288
12 OOCL	85	361	20	130
13 "K" Line	95	318	36	174
14 Hamburg Süd	119	315	29	152
15 Yang Ming	81	301	28	175

(1000 TEU, Dynaliners)



LAND-SIDE DEVELOPMENTS

Crucial issue:

The economic benefits shipping companies seek through far-reaching scale increases and the corresponding cost reduction should not be wasted through time and cost bottlenecks on the quay, in the terminal or during hinterland transport

LAND-SIDE DEVELOPMENTS (ctd)

- European ports: will further expansion leads to overcapacity?
- Terminal operators: concentration movement as a buffer against vertical integration
- However, potential threat to shipping companies, as reduced competition may lead to lower productivity growth, longer vessel-handling times and higher rates
- Potential response: dedicated terminals

NEW AND PLANNED CONTAINER CAPACITY

Port	Terminal	Free capacity / Planned increases
Amsterdam		no structurally idle capacity, no specific plans
Antwerpen	Deurganckdok terminals Saeftinghedok terminals?	2009: 4,000,000 TEU idle 2015? 7,000,000 TEU additional
Bremen	CT 4	2009: 1,900,000 TEU idle
Hamburg	Eurogate Container Terminal Hamburg CTH	2010: 1,900,000 TEU additional
	HHLA Container Terminal Burchardkai CTB	2010: 2,400,000 TEU additional
	HHLA Container Terminal Altenwerder CTA	2010: 600,000 TEU additional
	HHLA Container Terminal Tollerort GmbH CTT	2010: 1,050,000 TEU additional
Le Havre	Port 2000	Phase 2: 2 quay walls in a tidal terminal (2008-2009), 500,000 TEU increase Phase 3: 6 quay walls in a tidal terminal (?), 500,000 TEU increase
Rotterdam	EUROMAX terminal Maasvlakte 2	2009: 2,300,000 TEU 2014: 17,000,000 TEU
Vlissingen	Westerschelde Container Terminal	2,000,000 TEU, no specified date
Wilhelmshaven	Jadeweserport	2009: 2,900,000 TEU additional
Zeebrugge		no structurally idle capacity, no concrete plans

PORT AUTHORITIES

- Decreasing market power
- One important trump card: concession policy
- Avoid conflict of interests
- More concentration?

THE RELATIONSHIP BETWEEN PORT COMPETITION AND HINTERLAND TRANSPORT

- Substantial maritime growth, but the competitive balance between ports may result in relative shifts in freight flows (cf. improved hinterland transport services)
- No increasing profit margins: shipowner will pressurise other links in the logistics chain (e.g. hinterland modes)

THE RELATIONSHIP BETWEEN PORT COMPETITION AND HINTERLAND TRANSPORT (ctd)

- Overcapacity, followed by rationalisation, can/will result in changes in ports of call, loops and frequency of services
- Additional pressure on other market players: hinterland transport operators as a potential target for vertical integration

ADDITIONAL FACTORS

- Safety aspects (e.g. containers as a potential target)
- Environmental aspects
- Maritime incidents

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The new playing field:

Drastic scale expansion by shipowners and terminal operating companies, coupled with horizontal and vertical integration

RECENT REACTION PATTERNS (1)

- Shipowners
 - reducing capacity by ending loops (e.g. CSAV), merging loops (e.g. Cosco)
 - effect on alliances
 - aggressive capacity (e.g. MSC using ULCS) or pricing policy (zero-tariffs)
 - diversification (e.g. CMA CGM in cruising and cars)
- Terminal operators
 - fixed capacity, i.e. less degrees of freedom
 - pricing policy

RECENT REACTION PATTERNS (2): The Hutchison case

- Hutchison buys from NYK majority stake in Ceres Container terminals Europe (CTE)
 - Containerterminal Ceres Paragon
 - ro/ro and bulkterminal Ceres Amsterdam Marine Terminals
- NYK: minority stake in ECT (Rotterdam) and subsidiary of Hutchison
- **Questions: how far will co-operation go? What are the consequences on port governance?**

SHIPPING COMPANIES' BEHAVIOUR

- Aversion to any potential time loss
- They will opt first and foremost for seaports and terminals that are free of bottlenecks
- Hence the importance of having enough free and directly available capacity

TO CONCLUDE

- ⇒ Port competition scenarios are more or less fixed
- ⇒ The timeframe remains uncertain

Timing and optimal speed of action will determine who ultimately comes out on top