

THE FIGHT FOR MARKET POWER AND MONEY

The role of localities in port competition

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TO START WITH

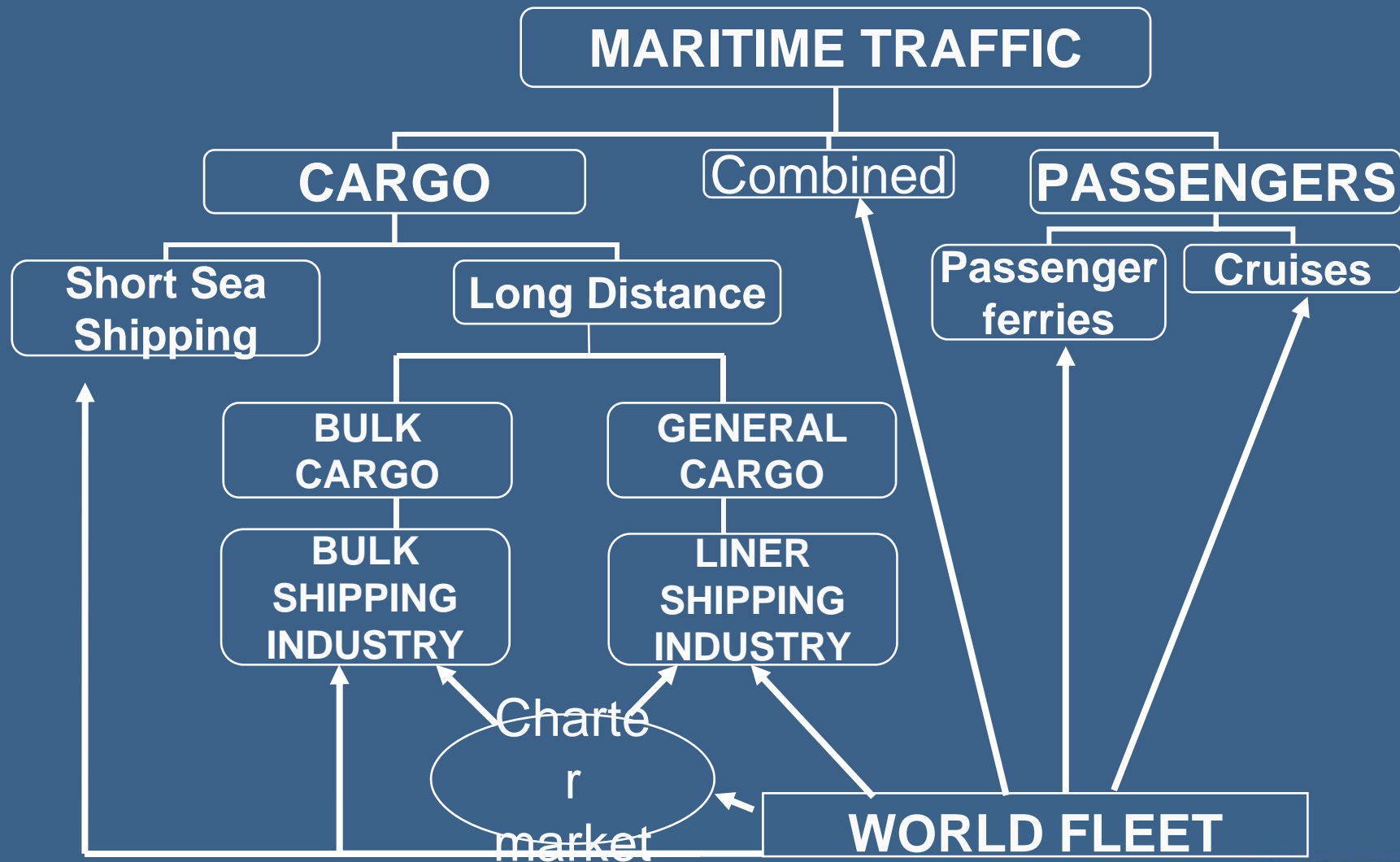
- Ports are an economic asset of substantial value
- Wealth attracts competition
- Competitive pressure at various levels
- A lot of port actors involved
- Success depends on excellent management of local details

CONTENT AND MESSAGE

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 message: the fight for market power and money highly depends on excellent management of local details

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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, i.e. we get port competition between producers of heterogeneous products
2. A concession policy should help controlling port sensitivity, i.e. decrease dependency of footloose throughput by attracting industry

THE PORT AS AN ECONOMIC ENTITY

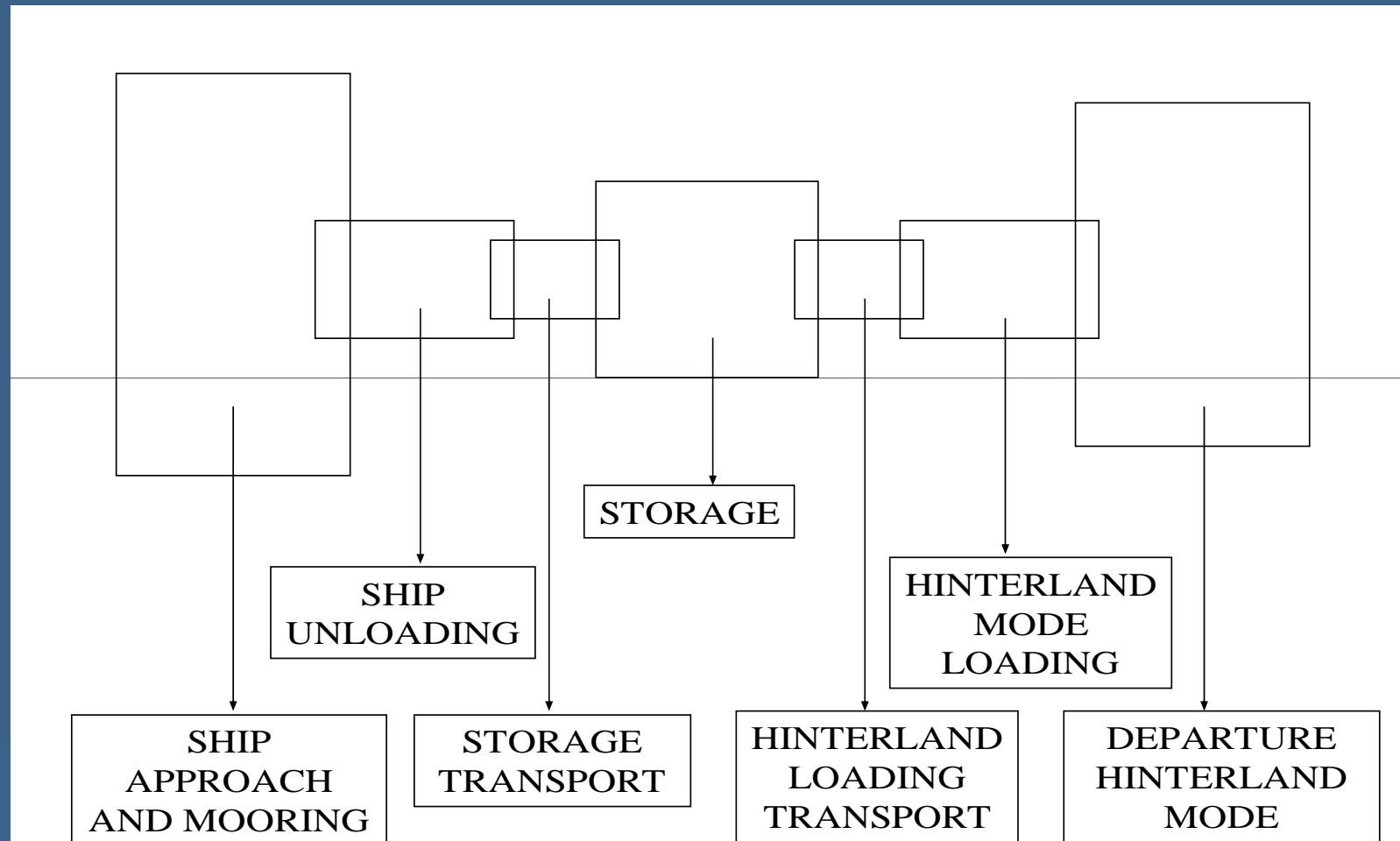
A port is

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

SEAPORTS' MAIN DISTINGUISHING FACTORS'

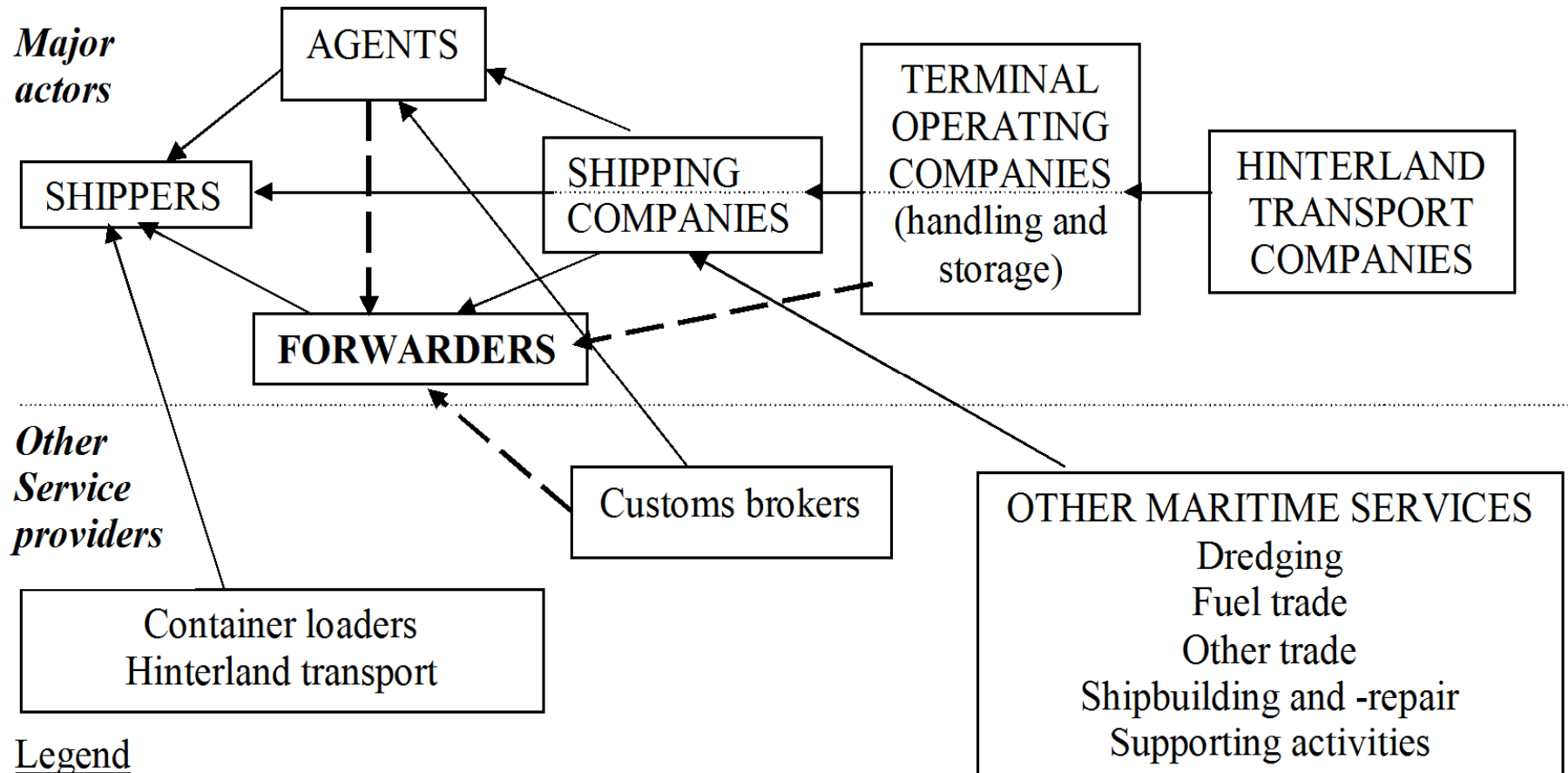
| Factor | Possible states |
|----------------|--|
| Activity scope | Complete–limited |
| Lay-out | Tidal-non-tidal; basins-no basins |
| Location | Coastal–river; large-small population hinterland |
| Organization | Land lord – limited operating – operating |
| Security | High – moderate – low |
| 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 | <i>PUBLIC</i> | | | <i>PRIVATE</i> |
|---|----------------------------------|--------------------------------------|------------------|--|
| | 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
- Limited operating ports
 - Public authority provides basic infrastructure and facilities to port operators
- Operating ports
 - A port operating company runs the 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 in the same port)
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, i.e. can be considered as localities (e.g. port location as such, hinterland connections, labour organisation and productivity, customs organisation, regulatory framework,...)

STRATEGIC CO-OPERATION IN THE MARITIME SECTOR

| <i>Market actors</i> | 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

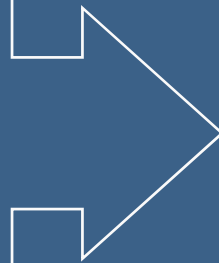
- Will this evolution continue in the future?
- What are the consequences?
- Which time path will shipowners follow?
- What kind of strategy might the other market players adopt?
- Will shipowners become the dominant players?

LINK WITH WORLD ECONOMY

GLOBALISATION

International mobility of

- goods
- labour
- capital
- technology



GLOBALISATION AND PORTS

- there is more than goods flows
- a systematic shift in ownership structures
- who receives the benefits of public investments?

SHIPPING COMPANIES: RATIONALISATION, MERGERS AND SCALE INCREASES²⁰

- 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 and hinterland transport costs,.....)

Medium/large containership deliveries and orders²²

(position at 15 October 2009; number and nominal TEU capacity)

| Parent/main No | | Operated fleet | | Order book | |
|-------------------|----------------|----------------|-------|------------|-----|
| | | Ships | TEU | Ships | TEU |
| 1 | Maersk Line | 538 | 2,028 | 66 | 357 |
| 2 | MSC | 403 | 1,508 | 49 | 590 |
| 3 | CMA CGM | 358 | 1,026 | 59 | 499 |
| 4 | Evergreen | 156 | 575 | 0 | 0 |
| 5 | APL | 138 | 547 | 20 | 143 |
| 6 | Hapag-Lloyd | 115 | 468 | 14 | 123 |
| 7 | Coscon | 144 | 466 | 56 | 425 |
| 8 | China Shipping | 140 | 461 | 16 | 144 |
| 9 | NYK | 109 | 414 | 18 | 107 |
| 10 | Hanjin | 92 | 411 | 30 | 270 |
| 11 | "K" Line | 91 | 340 | 32 | 168 |
| 12 | MOL | 91 | 339 | 28 | 146 |
| 13 | OOC | 71 | 328 | 17 | 116 |
| 14 | Hamburg Süd | 107 | 325 | 15 | 95 |
| 15 | Yang Ming | 78 | 314 | 22 | 141 |



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 lead 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 | Additional capacity / planned introduction |
|-----------|--|--|
| Amsterdam | CERES Paragon Containerterminal (Amerikahaven) | 1,250,000 TEU / 2008 |
| Antwerp | Deurganckdock terminals | 6,400,000 TEU / 2007-2008 |
| Bremen | CTIV | 950,000 TEU / 2007 950,000 TEU / 2009 |
| Flushing | Westerschelde Container Terminal | 2,000,000 TEU / no date specified |
| Hamburg | Eurogate container Terminal Hamburg CTH HHLA Container Terminal Burchardkai CTB HHLA Container Terminal Altenwerder CTA HHLA Container Terminal Tollefort CTT | 1,900,000 TEU / 2010 2,400,000 TEU / 2010 600,000 TEU / 2010 1,050,000 TEU / 2010 |
| Le Havre | Port 2000 | Phase 1: four berths at a tidal terminal / 2005-06 Phase 2: two berths at a tidal terminal / 2008-09 Phase 3: six berths at a tidal terminal / depending on traffic increase |
| Rotterdam | EUROMAX Terminal Tweede Maasvlakte | 3,000,000 TEU / 2007 up to 16,000,000 TEU / no date specified |
| Zeebruges | Albert II dock | 1,000,000 TEU / no date specified |

Sources: various port authorities

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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LOGISTIC CHAINS

- The competitive position of a country and its companies will depend on the competitiveness of logistic chains
- Therefore: know that logistic chain!
- Try to influence elements under your control

THE FUTURE

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)
 - Container terminal 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?**

THE DRIVING FORCE

- Shipping companies have an 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