

**PORT POLICY AND
THE ASIA-PACIFIC GATEWAY
AND CORRIDOR INITIATIVE**

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Focus and Approach

Focus:

B.C ports must be efficient to be successful gateways.

Does current policy framework generate needed incentives for efficient provision of port services?

Approach:

- **Literature on port reform → key policy variables**
- **Each policy area → nature of effective policy**
- **Implications for current framework applying to CPAs**

Port Reform – General Findings

Aspects of Reform:

- **Devolution of management to commercially-oriented entities**
- **More use of private for-profit firms**

Results:

- **DEA studies – not conclusive**
- **Individual country assessment – clear evidence of performance improvements**
- **Differences among countries in extent of gain**

Port Reform – Reasons for Different Outcomes

- **Smaller ports → less scope for increasing terminal size and adopting specialized equipment**
- **In some countries, reform has proceeded slowly and tentatively – related weaknesses in governance**
- **Imposition of non-commercial obligations has hindered commercial performance**
- **Differences in competitive environment**

Key Policy Factors

- 1. The nature of the governance regime**
- 2. Port objectives - port's policy role and how taken into account**
- 3. Mechanisms to control market power of service providers**

Port Governance

- **Advantages of for-profit model in generating incentives** (*Meggison & Netter*)

In not-for-profits, agency problems can be mitigated by:

- **utilizing commercial for-profit corporations**
- **adhering to “principles of good corporate governance”** (independent directors, timely and full disclosure, etc)
- **establishing financial targets and comprehensive performance measures**

Port Objectives

- **Generally, mix of commercial and non-commercial objectives**
- **Governance confounded by:**
 - i. ongoing political interference
 - ii. broad and ambiguous objectives
- **Guidelines for governance of SOEs are instructive**
 - objectives clearly specified
 - costs identified and compensation provided
 - performance measurement system extended to incorporate non-commercial objectives
- **Ensure ports are most appropriate vehicle for pursuing objective**

Market Power Concerns

Issues:

- **Inadequate competition among port service providers**
- **Access restrictions that limit shipping competition**

Competition = f (physical, demographic and market factors)

Policies:

- **Competition policy –vs. anti-competitive mergers, foreclosure**
- **Regulations to promote intra-port competition**
- **Appeal mechanism to protect small shippers**
- **If necessary, regulation of port charges**

Alternative Port Regimes

	Governance	Port Objectives	Market Competition
A. Competitive market regime	Market-based	Commercial	Robust
B. Quasi-competitive regime	As in A	As in A	Weak for minor traffic
C. Quasi-competitive regime with limited public service functions	Market-based & Effective controls	Commercial & Clearly defined PSOs	Weak for minor traffic
D. Imperfectly Governed Regime	Problematic	As in C	As in C
E. PSO-Burdened Regime	As in C	Problematic	As in C
F. Imperfectly Competitive Regime	As in C	As in C	Problematic

Application to Policy Framework for CPAs

- **Substantially exposed to benefits of market-based governance and market competition**
- **Weaknesses in legal and administrative controls:**
 - **constraints significantly limit freedom of CPA management and board**
 - **lack of well-developed system of performance monitoring**
 - **non-commercial responsibilities not clearly defined**
 - **costs of public service activities not calculated and taken into account**

For–Profit Alternative (*CTAR*)

Disadvantages of Not–for–Profit Model

- 1. Lack of clearly defined principal**
- 2. Inability to issue equity to help finance investment**
- 3. Non-distribution constraint**
- 4. Isolation from forces that lead to organizational renewal and change**

For - Profit Alternative - Issues

- **Market power concerns**
- **Ports' core activities:**
 - i. Regulation – safety, environment, etc.
 - ii. Developing and managing land and infrastructure (navigation aids, breakwaters, dredged channels)
- **Other Possible Public Interests**
 - i. Responsiveness to community interests
 - ii. Federal interests in port development
 - iii. Federal interest in preserving port

Conclusion

- 1. In Canada, as elsewhere, port reform has led to significant performance improvements**
- 2. Need to continue process of reform**
- 3. Significant scope to improve legal framework governing CPAs**
- 4. Asia-Pacific Gateway Initiative should prompt examination of potentially more substantial gains from transforming CPAs into for-profit enterprises**

Discussion