

A BRIEFING NOTE ON THE PORT SECTOR IN BANGLADESH

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1. CURRENT SITUATION

The Chittagong Port has not been able to keep up with the rapid growth of transport demand, resulting in delays and poor services to port users.

Traffic at Chittagong Port, which handles 90 percent of Bangladesh's foreign trade, has been growing rapidly. The volume of containers handled has increased by over 10 percent a year over the last decade and a similar or faster growth rate is projected for the foreseeable future. Chittagong Port has not responded to this demand growth effectively, resulting in congestions and delays at the port, as well as high costs to port users. The delays and uncertainties in port services seriously undermine the economy's productivity and international trading links. Improving both port operations and on-ward inland transportation system will be fundamental to maintain and improve the international competitiveness of the Bangladesh economy.

The productivity at Chittagong Port is the lowest among major ports in the region by most measurements.

Several reports over recent years have highlighted the problems with Chittagong Port such as slow vessel turn-round times, low labor productivity, multiplicity of trades unions (around 25 of them), restrictive practices and corruption (particularly for customs function), poor onward connection, etc. All of these add up to the poor service for customers at high costs when both direct and indirect costs are considered. The Chittagong Port Authority (CPA) has improved productivity over the last several years, particularly in vessel turnaround time and containers handled per vessel day, but performance is still generally poor by regional standards.

Chittagong port is congested particularly in the container terminals; this slows down the throughput of freight and is expensive for importers/exporters with short lead times. Containers stay in the port for long periods; current estimate suggests the average 'dwell' (wait) time for a loaded import container is still between 20 and 25 days. This compares with international standards of 4 days for imports and 2-3 days for exports. The low handling productivity results in high ship-turnaround times, averaging 4-5 days, while the more productive ports in the region turnaround larger ships in 24 hours¹. Such slow turnaround has to be reflected in the shipping freight rates, which makes Chittagong Port quite expensive compared with its level of service. Indicative container handling charges suggest that Chittagong (US\$200/TEU², including unofficial and ancillary costs) is much higher than Karachi (US\$113/TEU), India (Nhava Sheva and others; US\$80-90/TEU), Colombo (US\$159/TEU), and others³. Historical comparison of these figures indicates

¹ The private terminals at Karachi have an average vessel turnaround time of 16 hours and container vessels at general cargo berths only require 21 hours.

² Twenty-foot Equivalent Unit

³ Port Kelang, Malaysia (US\$53/TEU), Singapore (US\$106/TEU), Shanghai (US\$107/TEU), Hong Kong (US\$142/TEU), Port Qasim, Pakistan (US\$105/TEU)

very little improvement in Chittagong port since late 1990s. Chittagong is among the least productive container ports in the world and at the bottom of ports handling similar volumes of containers.

The impact of low productivity in Chittagong port is made worse by the poor inland transport distribution system for containers in the country.

The inland distribution system for transport of containers in Bangladesh currently depends on road, rail and inland water. There have been inadequate facilities developed for inland movement of containers by any of these modes, and currently there is no facility to carry containers by waterways. Rail handled only 11 percent of the container traffic from/to Dhaka. The rest of containers both for imports and exports to the destinations are delivered by trucks. However, there are very few container vehicles, and as a result, only about 20 percent of the over 600,000 TEU containers handled by Chittagong Port moved inland by containers. The rest are *stuffed* and *unstuffed* at the port and the contents transported in break bulk (loose boxes) in overloaded, unsafe trucks, traveling on the congested Chittagong- Dhaka road corridor. On average, four trucks are required for every unstuffed container load of 20 tons. This practice, one of the very few remaining in the world, contributes to significant delays, damages, loss and service reliability in the delivery of shipped goods.

Chittagong port is the only major port in South Asia that has no private sector operator in its terminal operations and much of the port's services are run by public monopoly, thus limiting competition and reducing efficiency.

In recent decades, the evolution of port in a competitive world has led most ports to introduce private sector into the port operations, breaking away from the public sector monopoly over the provision and management of transport infrastructure and services. Chittagong port is an exception to this trend. The change has been rapid, and it is increasingly common that most new container terminal development will be operated and, at least partially, financed by the private sector. In terms of performance, there is a major divide between the private terminals and the publicly managed container terminals; and competition from the private sector operators has often led to improvement of public sector operators' efficiency, as was evident in the case of the Colombo port.

Bangladesh has made very little progress in port reform. The main institutional issue is that there is no overall authority that can hold different groups accountable to make the port more efficient. The CPA is the port's manager but it does not have authority over other major players in the port operation. Each of the players; Stevedores, Clearing and Forwarding Agents, Customs, Truck Owners, etc. have a certain monopoly on their business and act on narrow self-interest goals, which are often detrimental for the efficient operation of the port. With lack of competition there is no incentive for these players to improve the productivity of the service they offer. The CPA is aware of these issues, and is keen to introduce proper incentive structures and reduce informal transactions and move forward with reforms. However, its hands are tied by its lack of authority and also by the collective power of the Port Users' Forum, a representative

group of port users vocal in its opposition to a move that threatens their individual interests.

The Dock Labor Board Scheme in Chittagong port, inherited from a British model (which was discarded in U.K. 20 years ago) also contributes to low labor productivity, poor industrial relations, the extraction of economic rents from the cargo handling function, and higher cost levels. Such a labor cartel can endure indefinitely within the monopolistic structure created by Chittagong's dominant market position in Bangladesh trade, combined with the absence of competitive pressures within the port.

2. ONGOING IMPROVEMENTS

The Government, with support from its development partners, has invested substantially in the Chittagong port to improve its performance, with very limited result.

The CPA has recently procured ship-to-shore container gantry cranes for the existing dedicated container berths. The New Mooring Container Terminal (NMCT), with a total length of 1,000m berth length with 22 hectare backup facilities, has been completed with 100% financing by the government. The NMCT was planned to be vested to a private sector operator by a Supply-Operate-Transfer (SOT) contract for 20 years, but the tender process of the SOT concessioning has been delayed by political opposition to the private operation, and not yet been concluded. The operation at the completed facility is ongoing on an experimental basis without a private sector involvement so far. The government also planned to construct a river based ICD at Pangaon, Dhaka under joint venture of Bangladesh Inland Water Transportation Authority (BIWTA), Bangladesh Inland Water Transportation Corporation (BIWTC) and the CPA to improve the inland distribution system of containers.

The ADB is currently funding the Chittagong Port Trade Facilitation Project (2005-2009) which includes installation of computerized container terminal management system, upgrading of existing MIS, and improvement of environmental management capacity of the CPA. Construction of an access-controlled road for improving port access has already been completed under this project. The World Bank has had limited engagement in the port sector in recent years. However, a proposed Export Infrastructure Development Project is currently under preparation for an IDA support for a new ICD near Dhaka with some railway improvements for Dhaka –Chittagong (C-D) corridor, which is a joint project between CPA and Bangladesh Railway (BR) subject to a private sector operator of the proposed ICD.

Infrastructure investment and improvement in CPA management will not by itself solve the problems of poor service to port users. These need to be undertaken along with institutional reform to the port operation and management in Chittagong port

3. RECOMMENDATION FOR ACTIONS

There are a number of actions that the government can undertake in a relatively short term, if there is strong political commitment to carry them through.

- a. ***Private Sector Involvement Initiative:*** The Government should direct CPA to finalize the SOT concession for the NMCT and hand over operation and

management to the private sector as soon as possible. This will be a critical key step to improving the handling of containers in Chittagong Port and send a positive signal in the market that the government is serious in creating a competitive environment between the publicly- and privately-run port facilities and set efficiency benchmarks. This is also an important step for implementation of the National Shipping Policy (2000), in which the government adopted guidelines for private participation in the ports.

- b. ***Enhancement of CPA Authority:*** Although the 1976 Ordinance gives full financial and administrative autonomy to the CPA, the CPA is reluctant to exercise the authority. Legislative and political support for the CPA is required to exercise its authority to improve delays in making key decisions to run the port efficiently.
- c. ***Substantial Reduction of Import Related Time:*** This could be possible through: a) technical upgrading of the related processes (use of scanners to speed up customs operation, use of modern cargo handling equipment, computerization, etc.), b) lowering the number of procedural steps, and c) making the port to operate 24 hours/day and 7 days a week. These reforms would reduce time related to customs clearance and other relevant functions from the current 7 days to 2 days.
- d. ***Elimination of Stuffing/Unstuffing Practice in the Port:*** The current practice of stuffing and unstuffing of containers at the Port should be minimized to allow direct container transport by trucks and rails. This needs an investigation on each factor hampering the direct container transport including the lack of container vehicles, capacity of BR to operate additional dedicated freight train, but practical and quick improving measures should be implemented immediately.
- e. ***Increase of Container Storage Charge:*** Due to very low storage charges for keeping imported containers in the CPA area, importers often use the port area for their storage which increases congestion and severely limits the capacity of the container yard. The storage charge should be increased to that of an international level to discourage importers from using CPA area for storage purposes
- f. ***Private ICDs Used for Imports:*** Currently the privately operated ICDs outside the CPA area are used mainly for exports. If the customs clearing facilities are established at the privately operated ICDs, then imported containers can also be handled through there, and it will contribute to the improvement of the import flow.
- g. ***Efficiency Improvement:*** The establishment of the Automated System for Custom Data (ASYCUDA++) has expedited the clearance of goods at the internal customs depot, but procedures need to be further simplified to allow for efficient handling and transit of legitimate import-export trade flows.

The above mentioned port reform initiatives need to be sustained and expanded in the medium and longer term, in the following areas.

- a. ***Tariff Structure Reform:*** The current tariff structure (based on charges for each movement) should be replaced with a modern structure based on unified charges for

LCLs, FCLs and empties to simplify administration of the tariff, increase transparency hence increasing profits.

- b. ***Trade Union and Labor Reform:*** There are currently a large number of trade unions in Chittagong Port ranging from 22 to 25 although the official list gives 33. Some workers are covered by one trade union, for example the truck drivers, and others by several - CPA workers have five unions. Where more than one union represents a group of workers, they all vote for a Collective Bargaining Agent (CBA) who represents their interests as a group. For the efficient operation of the existing port, the trade and labor unions needs to be partners in any kind of reform to improve the performance of the port operations. As such, number of labor unions need to be streamlined and protecting the interests of the labor should be separated from other political interests. The Dock Labor Board Scheme needs to be eliminated. A trade and labor reform program should be implemented in close collaboration with the government, private companies, port authorities and unions.
- c. ***Introduction of the Landlord Model for CPA:*** To reduce the bureaucratic and lengthy clearance procedures for imports and exports, the management structure of the port should be gradually changed to a more efficient and effective Landlord Model with reducing its operation role but having a stronger regulatory role.
- d. ***Deep Sea Port Construction:*** Accommodating direct vessel from the origin countries to Chittagong Port could reduce the current 14 days of shipping time to 7 days. This would require substantial infrastructure improvement to Chittagong port by dredging of the river, etc., or alternatively the construction of a new deep sea port altogether. By having a mother vessel oriented seaport, Bangladesh would significantly reduce the shipping time.
- e. ***Multimodal D-C Transport Corridor Enhancement:*** a comprehensive and multimodal D-C corridor capacity is required to address the entire transport improvement. The inefficient road container transport in overloaded unsafe trucks on a congested two lane highway must be improved. There are proposed projects for road improvements (ADB and some PPP scheme), but acceleration of the capacity enhancement is required. Also, inefficient railway container transport operation (the modal share is only 10%) is currently dealt with the joint BR Reform Program by the ADB, World Bank and JBIC. These reform programs should be fully supported and implemented by a strong political leadership.