Achieving Full and Effective Corporatization of Port Authorities
Reform Models from Global Experience

Most countries are reluctant to entirely privatize their port authorities, making port corporatization the model of choice. Today, the most commonly pursued route for port governance reform embraces the concept of an autonomous, government-owned port authority with terminal operations under private companies. Many countries fall short of fully effective corporatization of their port authorities, however, because they retain some administrative and decision-making mechanisms under government control. This note outlines the challenges countries face when seeking to corporatize their ports, summarizes the benefits of such reforms, and suggests key steps in establishing an effectively corporatized port authority.

Corporatization of port authorities is a critical reform step for improving port governance and efficiency. Transition of port authorities from public sector entities to state-owned port enterprises has proven to reduce risks of politically motivated investments, promote maximum utilization of existing port assets (both land and basins), and facilitate the development of new port infrastructure (berths, quays, and landside access) based on commercially sound criteria. This note builds in two ways on the concept of port corporatization as described in the World Bank Port Reform Toolkit (World Bank 2017): first, by addressing the need for a “shareholder policy” to provide direction to the corporatized port authority, and second, by offering detailed recommendations on the governance structure of the corporatized entity.

The airport industry, in many ways comparable to the port industry, has already undertaken similar reforms. The large majority of airport companies around the world operate as autonomous corporate entities. Many, such as those in the Netherlands and Singapore, are state-owned enterprises, while airport companies in a substantial number of countries, including Australia, Germany, Spain, and the United Kingdom have been fully or partially privatized. This “enterprise model,” whether government or privately owned, has been proven to enhance airport efficiency (Liebert and Niemeier 2013). This note argues that the ports industry will likely achieve the same benefits if corporatization is done effectively.

**Key Features of Corporatized Port Authorities**

The corporatization of port authorities is less advanced than that of the broadly similar airport industry. The majority of countries worldwide still manage their port authorities under public administration. Managerial and investment development decisions are thus...
Box 1: Provision of Terminal Services Under the Singaporean Corporatized Model

Corporatization leads to a commercial choice regarding the business model to employ. Most corporatized (or fully private) port companies provide some activities in-house and some through third parties (using the landlord model).

The two corporatized port companies in Singapore are interesting in this respect. PSA Singapore has gradually shifted from in-house provision of terminal services toward partnerships with shipping lines, such as its joint venture with CMA-CGM.

The other port company, JTC or Jurong Port, is a subsidiary of an industrial estate developer with a landlord business model, but JTC provides most terminal services in-house. It also operates in joint ventures, however, such as that with Oiltanking Singapore.

Source: PSA 2016 and JTC 2016.

less likely to be aligned with market needs. Under the best-practice corporatized model, port authorities remain government owned but operate under commercial terms and aim at value creation for port customers and stakeholders. Successfully corporatized port authorities share the following characteristics:

- **Self-sustained financially.** Effectively corporatized port authorities derive revenues from charges to ship operators (port dues) and concessions or land lease agreements and have commercial freedom in setting prices, though potentially subject to competition regulation. The corporatized model also allows access to capital markets, as in the case of the port of Singapore, de facto reducing dependence on state funding for investments. Corporatization does not imply a focus on profit maximization (see Van der Lugt, De Langen, and Hagdorn 2015).

- **Committed to port development based on business needs.** Corporatized port authorities have mandates to invest in port infrastructure (berths, quays, terminals, value-added services, and so on) based on commercial logic. This does not preclude these companies from seeking funding for such infrastructure from the national government or from international financial organizations (such as the European Bank for Reconstruction and Development or the International Finance Corporation). In Belgium and Germany, for instance, port infrastructure investment is partially funded by government.

- **Operated broadly under the landlord model.** The core role of the landlord port is to develop a cluster of interlinked companies in the port area. Corporatized port authorities generally acknowledge that they cannot effectively provide all required port services in-house and therefore choose to operate under the landlord model (Box 1). These authorities make the commercial decision to outsource (some) port operations to private sector companies and to focus their own efforts on port development investments that strengthen the entire port complex and thus increase its land value.

- **Empowered to negotiate and sign long-term leases or concession contracts.** Corporatized ports sign leases and concession contracts with operating companies that may include clauses for minimum performance levels. The port authority treats concessionaire(s) as customer(s), since they often share a strong interest in attracting more cargoes to the port.

Under the corporatized model, port authorities maintain a clear, strong commercial focus, while at the same time, the national governments, which remain the ports’ owners, act to secure the public interest through a combination of regulatory measures and shareholder policies.

Ports can attain varying degrees of market power based on differences in maritime access, hinterland connections, transport infrastructure, and the structure of the labor market. Governments recognize the imperfect nature of inter-port competition and thus aim to secure fair and transparent competition among ports as a central regulatory objective. Ideally, a corporatized port authority is subject to competition laws similar to those applicable to airport companies. This can become the responsibility either of a cross-industry competition authority, as in the Netherlands and the United Kingdom, or of a specific ports regulator, as in Greece and South Africa.

**Corporatization Benefits**

Core benefits of the corporatized port, as compared to ports run by public authorities, derive from its stronger market orientation. These benefits, highlighted in Figure 1, include:

- **Demand-driven infrastructure investments.** Corporatized ports operate as effective and viable businesses. As such, they can efficiently assess and implement sustainable infrastructure upgrades and expansion projects. In addition, the corporation’s improved levels of financial credibility increase the port’s attractiveness to private investors.

Demand-driven investment used in corporatized ports contrasts with the frequently supply-driven impetus behind government-funded port expansion projects, which consequently can remain underutilized for long periods. This is borne out by a recent European Court of Auditors report on the impact of European Union-funded
port expansion projects (European Court of Auditors 2016).

- **Revenue maximization from available assets.** Given adequate skills, a corporatized port authority can effectively and innovatively exploit the port’s land and maritime assets to create value for its clients and for port users while capturing that value through efficient pricing. Ports under public administration rarely achieve this balance.

- **Market-driven pricing.** Corporatized port authorities can adjust pricing to market conditions, such as by using price discounts to attract new customers. Although pricing is subject to competition regulation based on the (inter)national corporate legal and regulatory framework, scope remains for application of commercial pricing principles by corporatized port authorities.

- **Rationalization and improved control of operating costs.** In contrast to practices under traditional public sector port authorities, which may face only “soft budget constraints” and hence lack real incentives to reduce operating costs, corporatized entities feel pressure from their independent and professional supervisory boards to tightly control operating costs.

### Corporatization Reform Challenges

Best-practice corporatized port authorities are still government owned, and they thus face the same risks experienced by all state-owned enterprises. The most important of these is continued political control, which often results in calls for favors for politically connected interest groups and a soft budget constraint.

An appropriate mitigation mechanism should therefore be developed to alleviate the impact of potential political influence. First and foremost, the port authority company should be established not under a special legislative act but as a company falling under the provisions of the existing corporate legal and regulatory framework. This guarantees the independence and autonomy of its executive board.

Another challenge lies in the state’s need to balance the port company’s commercial interests with the interests of the public. The government, as the key shareholder, plays an important role in defining and achieving the socioeconomic policy goals underlying its ownership of the port authority.

The most appropriate instrument to achieve this balance, as clearly argued in the Organisation for Economic Co-operation and Development guidelines on state-owned enterprises, is a formal shareholder policy (OECD 2015). This policy should explicitly state the goals for the port enterprise and should signal a strong preference for an independent, nonpolitical supervisory board. Table 1 summarises some key issues to consider in developing a shareholder policy (see De Langen and Saragiotis 2017 for more information on these and other issues). Once developed and adopted, the shareholder policy should, in principle, remain intact, regardless of government changes.

### Table 1: Issues to be Addressed in a Shareholder Policy for a Corporatized Port Authority

<table>
<thead>
<tr>
<th>Issue</th>
<th>Possible Items to Include in a Shareholder Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port development from a social value perspective</td>
<td>Commitment to development of the “home port,” with attention to the societal value created by port development:</td>
</tr>
<tr>
<td>Make investments with positive externalities</td>
<td>Commitment to investments with positive externalities, more specifically innovation, education, and data exchange</td>
</tr>
<tr>
<td>Decision making where negative externalities are relevant</td>
<td>Commitment to limit negative externalities, especially emissions, noise, and stench.</td>
</tr>
<tr>
<td>Land use planning and transfer</td>
<td>Cooperative approach to changing land use to urban functions (relevant mostly in ports located in cities).</td>
</tr>
</tbody>
</table>

Source: Based on De Langen and Saragiotis 2017.
The shareholder policy addresses complex issues and thus reinforces the argument favoring state port ownership: most of the issues, especially for ports in metropolitan areas, cannot be effectively settled through regulation or contracts. Partnerships between the port authority and the various public stakeholders are required to address challenges such as traffic management, sustainability, and innovation.

International experience shows, however, that governments, rather than developing explicit long-term shareholder policies and establishing autonomous supervisory boards, often develop control mechanisms that reduce the port company’s independence and thereby the effectiveness of its corporate governance. Commonly used but counterproductive control mechanisms include:

- Supervisory board members are chosen based on their political or administrative function (such as the mayor of the port city or the minister of transport), rather than for their achievements as independent professionals with irrefutable experience and expertise.
- The government selects and appoints the port authority CEO. In contrast, the most effective leadership results when the CEO is selected by the supervisory board and formally appointed by the shareholder, following the supervisory board’s proposal.
- The government develops detailed pricing regulations or needs to formally approve pricing decisions made by the port authority. A more effective model allows the port authority to make autonomous pricing decisions, with checks and balances through competition law or an independent port regulator.
- The government establishes a tight regulatory framework, requires the authority to obtain government approval, or even takes a direct role in negotiating concessions and land lease agreements with tenants.
- Port expansion projects are undertaken through government-led initiatives or with a strong directive role for the government.

Such control mechanisms have direct negative impact on the corporatized port’s operational efficiency.

Full and effective corporatization is often achieved on paper but not in practice. Seemingly small issues, for example, the responsibility for appointing the CEO, may have serious consequences on corporate governance and subsequently on organizational performance. In another example, when politicians decide on port managers’ career advancement using any standard other than performance criteria, managers will lack incentive to focus on improving company performance and will instead align with and favor interest groups, such as employees or important port users (Vickers and Yarrow 1991).

Another imbalance arises if independent supervisory board members are selected based on personal relations with political decision makers rather than on their qualifications. This will directly affect the way the board fulfills its monitoring role. The case of the Port Authority of New York and New Jersey (PANYNJ) provides insight into this pattern. The governor of each state appoints six members to the Board of Commissioners, a nonpaid function, but the governors retain the right to veto actions by their states’ commissioners. Board members thus lack full autonomy. In the case of PANYNJ, the board virtually always votes in “blocks,” with the six commissioners appointed by the New York or the New Jersey governor voting together.

**Global Reform Experiences**

Several countries around the world have taken steps toward corporatization. In Europe, these efforts are in line with European Sea Ports Organisation’s 2012 Manifesto on the Renaissance of Port Management and Policy, Brussels (ESPO 2012), stating that “Port authorities essentially must become dynamic port developers, and policy makers need to give them the necessary means and tools to perform this role.”

The nature and scope of reforms vary across countries, yet the common denominator remains the level of autonomy allotted to the corporatized port authority. Examples include France, which increased the autonomy of the landlord port authority and stipulated the composition of the supervisory council; Germany, where the Hamburg Port Authority was corporatized and a government-owned company was established to develop the new Jade Weser port; Portugal, which...
corporatized port authorities and introduced a “three-tiered structure” of regulators, port authorities, and port operators; and Slovenia, which corporatized the Koper Port Authority. Most reform processes are not well documented, let alone evaluated, but the discussion below highlights key elements from the relatively well-examined corporatization processes used in the Netherlands, Australia, New Zealand, and Indonesia.

Port of Rotterdam, The Netherlands

Until 2004, Port of Rotterdam Authority (PoR) was a municipal department, with separate financial accounts and substantial autonomy but embedded in the local public administration. In 2004, PoR was corporatized with two shareholders: the municipality of Rotterdam, with around 70 percent of the shares, and the Netherlandic state, with the remainder of the shares.

An independent supervisory board monitors the board of directors, along with a CEO, COO, and CFO. PoR is subject to Netherlandic competition law. Table 2 shows some key figures demonstrating performance improvements following corporatization (De Langen and Heij 2014). Data on a number of indicators show that the corporatization of the Port of Rotterdam led to significant performance improvements.

The most significant changes were improved operating cost controls and increased revenues, which grew following corporatization even without major increases in port dues. As a result of both factors, net profit tripled between 2003 and 2011.

Following this corporatization experience, the Netherlands’ four other large ports (Groningen Seaports, Zeeland Seaports, Amsterdam, and Moerdijk) were also corporatized.

Australia

Due to Australia’s federal structure, ports underwent a wide variety of reform steps, and several governance models were adopted. Currently, most port companies, especially the larger ones, are privately owned and operate as landlords.

In general, port reform proceeded in three stages (Figure 2). In the first stage, port authorities embedded in the public sector were first commercialized; in the second stage, they were then corporatized (accompanied, in some cases, by a transition to a landlord administrative model); and finally, in the third stage, they were fully privatized. In 2001, South Australia’s ports were sold; in 2010, the Queensland government sold the corporatized Port of Brisbane; in 2013, the New South Wales government sold Port Botany and Port Kembla; and, also in 2013, the state of Victoria sold the corporatized port company in Melbourne.

Currently, most of Australia’s large ports (such as Melbourne and Sydney) are run by private port companies based on a “master” lease agreement. The private port companies have lease agreements with third-party operators.

Australia opted for corporatization, as opposed to instant privatization, to retain some government control over the port authorities’ functions. The rationale for corporatization was to improve the ports’ efficiency and increase their financial performance in preparation for full privatization. In line with this approach, the Australian government regards regulations as the best mechanism to ensure competition and protect public interests (Reveley and Tull 2008). In Victoria, for example, the Essential Services Commission monitors

### Table 2: Post-Corporatization Performance at the Port of Rotterdam

<table>
<thead>
<tr>
<th>Variable</th>
<th>1997</th>
<th>2003</th>
<th>2005</th>
<th>2011</th>
</tr>
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<tbody>
<tr>
<td>Total revenue (millions)</td>
<td>€453</td>
<td>€457</td>
<td>€486</td>
<td>€588</td>
</tr>
<tr>
<td>Port dues (millions)</td>
<td>€246</td>
<td>€228</td>
<td>€253</td>
<td>€291</td>
</tr>
<tr>
<td>Land rents (millions)</td>
<td>€153</td>
<td>€197</td>
<td>€203</td>
<td>€267</td>
</tr>
<tr>
<td>Employees</td>
<td>1,165</td>
<td>1,304</td>
<td>1,268</td>
<td>1,220</td>
</tr>
<tr>
<td>Turnover per employee (millions)</td>
<td>€389</td>
<td>€350</td>
<td>€383</td>
<td>€482</td>
</tr>
<tr>
<td>Operating costs (millions)</td>
<td>€210</td>
<td>€238</td>
<td>€245</td>
<td>€226</td>
</tr>
<tr>
<td>EBITDA (millions)</td>
<td>€242</td>
<td>€219</td>
<td>€241</td>
<td>€362</td>
</tr>
<tr>
<td>Net profit (millions)</td>
<td>€62</td>
<td>€64</td>
<td>€81</td>
<td>€195</td>
</tr>
<tr>
<td>Profit per employee (millions)</td>
<td>€53</td>
<td>€49</td>
<td>€64</td>
<td>€160</td>
</tr>
<tr>
<td>Investments (millions)</td>
<td>€167</td>
<td>€127</td>
<td>€149</td>
<td>€694</td>
</tr>
</tbody>
</table>

Source: Based on De Langen and Heij 2014.

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**Figure 2: Australia’s Port Reform Program**

Privatization

Corporatization

Commercialization
abuse of market power and ensures free and transparent market entry processes.

Subsequent port reforms reduced but did not entirely eliminate mechanisms allowing political interference. The most important instruments for political control of Australia’s corporatized ports were government directions to the port corporation’s board of directors (Pettitt 2014). In Victoria, even after the 2010 reforms the state treasurer retained the right to issue directions to the corporatized port’s board. Although it does not occur frequently, this mechanism may account for ministers’ occasional informal directions to port boards (Pettitt 2014).

An increasing number of the corporatized ports have been sold, based on a 99-year leasehold, leading to foreign ownership of the port companies. This full privatization has drawn some criticism (see Chen, Pateman, and Sokalayen 2016), for two main reasons. First, substantial price increases followed privatization, due to imperfect price regulation and monitoring (ACCC 2015). Second, clauses included in the port companies’ sales documents limited competition between ports, for instance by merging competing ports or by preventing the port company’s new owner from developing new (container) terminals.

Box 2: Local Councils as Port Shareholders: Port of Auckland
The shares of the largest port in New Zealand, Port of Auckland (PoA), are held by Auckland Council Investments Limited (ACIL), a council-controlled organization of Auckland Council.

The purpose of ACIL is to bring a strong commercial focus and efficient structure to the ownership and management of the council’s investments. Under its statement of intent, ACIL is accountable to the Auckland Council and reports quarterly to the council on its progress in achieving its objectives. ACIL pays dividends to Auckland Council, striving for a dividend from PoA of 80 percent of profit.

The parent holding company structure strongly reduces political “control mechanisms.” While ultimately the regional council sets long-term goals, the holding company acts as shareholder and exercises shareholder rights.


New Zealand
The New Zealand port sector was restructured under the Port Companies Act 1988, which corporatized the public harbor boards and transformed them into limited liability companies. Most of these new entities were majority owned by local regional councils. As in Australia, corporatization was regarded as a reform step toward achieving the ultimate goal of privatization (Duncan and Bollard 1992). More than 25 years later, however, full privatization is remote; most regional councils, as majority shareholders, have purchased all outstanding shares and delisted the port companies.

Mainly because New Zealand ports are limited in size (New Zealand has 13 ports with a total volume of around 70 million tons), they are configured as operating ports providing in-house terminal handling services. In some cases, the local councils have organized their role as shareholders through a holding company, as in the case of Auckland (Box 2).

Recently, the New Zealand Productivity Commission suggested that “councils should consider land port models in order to maintain control over port land use while benefiting from the efficiency gains from private port operations.” The national government let local authorities and port companies choose whether to adopt the landlord model, a decision it felt “should be based on the specific circumstances of each port. For instance, for small ports the costs of structural separation and ongoing coordination costs may outweigh any efficiency benefits gained” (New Zealand 2012). This approach reinforces the argument for treating the choice between in-house or third-party operation of terminals as what it is: a business model choice. Concern remains, however, that regional council ownership may impede the consolidation likely to occur under private sector ownership (as happened in the United Kingdom, where port companies are fully private). The merger talks that have taken place between New Zealand’s ports have not been successful, partly because local councils tend to focus on the ports’ regional economic impact.

Indonesia
Indonesia provides a good example of a country where various important port reform steps have been made but full and effective corporatization has not yet been achieved. The government-run ports were corporatized in 1992 under the service port business model; that is, they provided terminal services in-house. The corporatized entities (widely known as Pelindo 1, 2, 3, and 4) also had regulatory powers until 2008, when port authorities with a regulatory role were introduced. This choice resembles the evolution in Singapore, noted in Box 1, and contrasts with that of most other countries, where corporatized port authorities transitioned toward the landlord business model.

Despite implementation of reforms, the full transition of Indonesia’s ports toward a government-owned, commercially driven port structure requires additional action. Currently, various mechanisms for government control remain and hamper the transition toward a commercially driven port. Some remaining control tools burden the Pelinds’ transition into autonomous, commercial port companies (Box 3).
Given their limited terminal operating skills, the Pelindos often seek build, operate, and transfer contracts with foreign partners having additional capital and expertise in port development. The Pelindos’ limited capabilities regarding integrated port development strategies and pricing policies, as well as their inexperience in structuring and negotiating public-private partnership agreements, limit the effectiveness of this model.

The Reform Process
The reform process for effectively corporatizing a port authority is relatively straightforward (Figure 3). The core challenge is to secure clear strategic direction, autonomy, and effective governance. Key reform steps vary by country.

Explanations of these steps below represent a stylized, standardized reform process for policy makers, building on lessons learned from global experience.

1. **Transform the port authority into a corporate entity**, subject to private corporate law as opposed to the public laws applicable to government entities. Many countries that have not yet fully and effectively corporatized, such as Belgium, Indonesia, Spain, and Tanzania, have already taken this step.

2. **Develop a shareholder policy to provide strategic direction** to the port enterprises that addresses at least the following key points (as previously shown in Table 1):
   - Port development from a social value perspective
   - Investments made with positive externalities
   - Decision making where negative externalities are relevant
   - Land use planning and transfer

A shareholder policy may oblige the port company to make periodic master plans, which should be approved by both the port company and the government. Approval of the master plan secures government control over strategic decisions, such as those dealing with land use and infrastructure connections.

3. **Install a merit-based and independent supervisory board**. Installing a fully independent board focused solely on transitioning the port authority toward a professional port company represents an important improvement in corporate governance. The supervisory board also serves as the appropriate entity to select the board of directors, with approval from the shareholder (the government).

4. **Ensure that the port authority is autonomous** regarding concession granting, land leases, and procurement decisions. A port authority cannot operate as a professional port corporation without responsibility for concessions, because this is a key instrument for port development and for engaging with customers (the terminal operators). Likewise, some regulation of procurement is sensible as long as the regulations ensure fast, transparent, and fiscally sound procurement and allow the port authority to optimize investments in port infrastructure through a wide range of public-private partnership contracts.

5. **Grant the port freedom to negotiate tariffs with its customers**, given that negotiating concessions is a commercial activity. Increased commercial autonomy should be accompanied by well-developed mechanisms to ensure that competition law applies to the port authority.

Box 3: Remaining Mechanisms of Government Control in Indonesia

1. The CEOs of the four port companies are directly appointed by the minister, which increases likelihood that CEO appointments will be politically determined.

2. Port companies in Indonesia have boards of commissioners, but the vast majority of board members are politically connected civil servants without extensive private sector experience. This hampers the effectiveness of the boards’ supervisory role.

3. Pricing decisions require consultation with associations of port users and approval from the Ministry of Transport (rather than from an independent regulator, based on competition law, as advocated in this note).

4. Port company funding depends partially on the Ministry of Transport.

FIGURE 3: CORPORATIZATION REFORM PROCESS
Conclusion

Corporatization reform steps allow port authorities to transition into more commercially driven port developers. Even though no predictable relationship exists between effective corporatization and port performance, a modestly successful implementation of port corporatization reforms can lead to increased maritime connectivity, throughput, and trade; reduction of port and shipping costs for international traders; and attraction of capital investments and new economic activities.

References


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Produced by Carol Siegel
Printed on recycled paper