Competing Private Ports—Lessons from Argentina

Before Argentina began reforming port operations in 1990, its ports were costly and inefficient. Restrictive labor regulations led to high labor costs. Most ports were open rather than terminal-based, leading to inefficient operating practices and unnecessary costs for cargo handling and storage. They were overregulated by multiple agencies with overlapping responsibilities. As a result of all these problems, the ports were losing market share to the road sector and to the more efficient Chilean ports.

To reduce costs and increase productivity, the reform strategy sought to deregulate, decentralize, and concession the sector and organize competition within it. As performance indicators for the port of Buenos Aires show, the improvements have been dramatic (table 1).

Port charges and shipping tariffs have declined sharply, and labor productivity has nearly quadrupled. Cargo volumes are up 50 percent—though this is considerably less than the 110 percent new private operators had predicted.

Two broad lessons have emerged from Argentina’s port reform. First, competition can be effective—competition introduced not only among ports, but also by inviting operators to bid for a concession to operate a port and by dividing large ports into terminals and offering each as a separate concession. Second, to successfully pull out of the sector, the government has to show strong commitment even after the port services have been privatized, applying clear and coherent rules of the game. Almost seven years after the beginning of the reform, Argentina still lacks an independent port regulator. To date, the integrity of the reforms has very much depended on the personal authority of the undersecretary of ports, the “father” of the reforms.

Strategy

Between 1990 and 1993, the government abolished most of the restrictive regulations governing working practices at ports and on vessels. Argentine shipowners were allowed to temporarily register their ships under foreign flags and thus benefit from lower requirements on crew size. Contracting arrangements with stevedore companies were freed up, and pilotage and towage services were deregulated and operators allowed to establish their own tariffs. Foreign ships were allowed to practice cabotage. And other labor agreements and norms that were hampering productivity in port operations were abolished.

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>SELECTED PERFORMANCE INDICATORS FOR THE PORT OF BUENOS AIRES</th>
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<tbody>
<tr>
<td>Indicator</td>
<td>1991</td>
</tr>
<tr>
<td>Cargo (thousands of tons)</td>
<td>4,000</td>
</tr>
<tr>
<td>Containers (thousands of teu’s)*</td>
<td>300</td>
</tr>
<tr>
<td>Capacity (thousands of containers per year)</td>
<td>400</td>
</tr>
<tr>
<td>Operational area (hectares)</td>
<td>65</td>
</tr>
<tr>
<td>Productivity (tons per worker per year)</td>
<td>800</td>
</tr>
<tr>
<td>Average stay for full containers (days)</td>
<td>2.5</td>
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<tr>
<td>Cost for container imports (US$ per ton)</td>
<td>450</td>
</tr>
<tr>
<td>Port tariff for exports (US$ per ton)</td>
<td>6.7</td>
</tr>
<tr>
<td>Port tariff for imports (US$ per ton)</td>
<td>2.1</td>
</tr>
</tbody>
</table>

* Teu’s are twenty-foot-equivalent units.
Source: Administración General de Puertos.
The decentralization occurred in two stages. In the first stage, the major ports—Dock Sud at the port of Buenos Aires, Bahia Blanca, Quequén, Rosario, and Santa Fe—were transferred to the provinces, subject to the creation of port administration entities. Conceived as nonprofit organizations charged with owning and maintaining the port’s infrastructure and common use areas, including waterways and access areas, these entities are governed by shippers and representatives of provincial and local governments. They are required to lease the port terminals as concessions and will receive fees from the concessionaires for the use of the infrastructure. Any profits have to be invested in the port. In the second stage, the sixty small ports, half of which had not been operational for many years, were transferred directly to the provinces, which may operate them, lease them to private firms, or abandon operation.

The organization of competition started in the largest and busiest port, the port of Buenos Aires, which handles most of the containers bound to or from Argentina. The port was divided into three areas with different functions and administrations. Dock Sud was transferred to the province of Buenos Aires as a port specialized in bulk liquids. Puerto Nuevo, which remained under national jurisdiction, was split into six terminals that would compete against one another after being concessioned to the private sector. Puerto Sur, still to be developed, will be concessioned to the private sector.

By 1995, the new authority for Puerto Nuevo had awarded its six terminals to concessionaires, and a similar process of concessioning was under way at the other major ports. The Puerto Nuevo concessions were auctioned to the highest bidder—the bidder offering the highest annual canon (based on expected traffic) to the government. Although bidders were allowed to bid for more than one terminal, they could be awarded only one (terminals 1 and 2, however, were awarded jointly). The winning bidders offered annual canon for the six terminals totaling US$32.5 million—based on projections of cargo volume that have since turned out to be unrealistic. The concession terms for the six terminals range from eighteen to twenty-five years (table 2). During the term, the concessionaire has exclusivity over all loading and unloading services at the terminal, but must guarantee service to anyone demanding it.

The government set maximum cargo charges in the bidding documents, and concessionaires had to specify their tariffs in the contract subject to this cap. In cases of major demand and supply imbalances, concessionaires can apply to the port authority to adjust these tariffs. The adjustment rule in the contracts is a rather loose one, simply stating that tariffs should be made public and that they must be just and reasonable while allowing a reasonable return to investors. The concession contract also includes explicit annual investment targets and requires the port authority to contribute a specified amount of the financing.

The outcome

The combination of deregulation, competition, and privatization has led to dramatic reductions in port charges and in barge and ocean shipping tariffs. Charges for shipping containers between Argentina and Northern Europe declined by 30 to 70 percent in less than two years, and charges for shipping grain and other bulk goods by about 10 percent. Decentralization has led to the closure of the small, unprofitable ports transferred to the provinces, with large net savings. Most of the savings have come from improved labor productivity, however. At the port of Buenos Aires, total employment fell from about 8,000 just before the reforms to 2,500 in 1994 and has remained around that level. The liberalization of operating rules drastically reduced the requirements for stevedores in the port of Buenos Aires, leading to higher labor productivity: the amount of cargo per non-administrative worker rose from 800 tons in 1991 to 3,000 in 1995. Tariffs for port services have also declined by varying amounts, depending on the port, ship size, and type of service. In the port of Buenos Aires, for example, towage tariffs fell by about 40 percent following flag
changes and the introduction of increased competition. Pilotage tariffs have decreased, with the size of reductions depending on the port and the area of service. Stevedore tariffs reportedly have also declined and are expected to decline even more when privatization is complete. Maritime tariffs have fallen by up to 40 to 50 percent for cargo movements that were previously reserved for Argentine flag ships.

The deregulation and privatization of port and maritime transport, combined with the other major economic reforms, have had a considerable impact on external trade. The decline in Argentine ports’ market share was quickly halted. Maritime transport regained its historical share in Argentine external trade, accounting for more than 90 percent of exports by volume and about 75 percent of imports. The average shipping tariff for both exports and imports fell between 1991 and 1995. Overall, the cost savings resulting from port deregulation and privatization total about US$156 million a year, according to a 1994 government estimate.

Lessons and challenges

These results suggest that effective competition can be introduced in port services. But they also reveal important lessons about the need for institutional reform and efficient contracting.

Institutional issues

Most of the benefits achieved would not have been realized without coordinating all the agencies involved in the business of ports—including the police and customs. This integrated policy approach has meant significantly lower transaction costs than occurred under the uncoordinated monitoring and policing by multiple agencies before the reform. Much of the credit for this approach goes to the strong reform team of the undersecretary of ports. The three port authorities in Buenos Aires and the two in Santa Fe are now governed jointly by representatives of all the main players. They still have monitoring responsibilities, but their regulatory responsibilities have been greatly reduced by the substantial deregulation of port operations and maritime cargo reservation, thus facilitating competition.

A flaw in the reforms has been the failure to fully take into account other transport modes. For example, at the port of Buenos Aires, concessionaires are planning large increases in capacity that will lead to a big increase in city traffic. If urban road use were properly priced, concessionaires would have considered the full social costs of their actions. But because urban roads are subsidized, a likely outcome will be traffic congestion and pollution.

Still pending is the organization of an independent national port authority to act as regulator and as monitor of the concessions. The national authority’s functions and obligations should be structured around transparent procedures for informing users about the cost and quality of services. Similarly, to put all the ports on the same competitive footing, the transfer of the ports re-
maining under the control of the old port authority needs to be completed; this entity can then be liquidated. Finally, further concession arrangements and institutional changes are required so that the activities associated with the dredging and signaling of navigation channels can be fully privatized.

**Playing by the rules**

The concessioning of terminals 1 and 2 offers an important lesson about maintaining credibility in the concessioning process. The bidding, governed by a published set of rules, resulted in the award of the two terminals to an international consortium headed by P&O Australia, in partnership with a local stevedore company and a local shipping line. The consortium's winning bid was US$13.5 million. The second highest bid, for US$9.6 million, came from an Argentine consortium, Murchison and Roman Maritima. After the Argentine consortium protested that the Argentine partner of the winning consortium did not have enough equity, the government disqualified the winner and awarded the bid to the Argentine consortium. Later, a court judgment cleared P&O's partner of any wrongdoing or misrepresentation.

Recognizing the potential damage to the concession process, the government urged the two parties to work out an agreement. Eventually, the P&O consortium acquired 49 percent of the Argentine consortium and created a new company. This outcome may have benefited each of the consortia more than winning the bid would have. If the government had formally awarded the P&O consortium terminals 1 and 2, Murchison, then a major port contractor, probably would have pulled out with all its equipment as well as its large client base, including 50 percent of all container traffic. Instead, Murchison can benefit from the international expertise of P&O. But the lesson is simple. In awarding concessions, there is no substitute for sticking to the rules and applying straightforward criteria. This case had a positive outcome, but only thanks to an unusually skilled government negotiator.

Looking ahead, there is a risk that some concessionaires will not comply with the terms of their contracts. Bidders were too optimistic about market growth potential: the combined bids at the port of Buenos Aires of US$32.5 million a year reflected expectations that cargo volume would grow to 8.1 million tons, an unrealistic 110 percent increase. There has already been a casualty. The concessionaire for terminal 6 went into bankruptcy in late 1995, and the terminal was closed. Given the strong competition among the terminals, the risks are serious. Any new crisis could lead to requests for major contract renegotiations. The authorities should use a flexible, transparent, by-the-rules approach in any renegotiations—as they did in some minor renegotiations that cut port tariffs by 25 percent.

**Bankruptcy and employees’ rights**

Bankruptcy is a normal risk of privatization, and the government is preparing a new bid for terminal 6. But the workers are unhappy because they have not been paid by the bankrupt operator. They want the government to pay their wages, arguing that they are still civil servants. The government does not feel obligated to pay them, and the matter has been in the courts for almost a year. Unless the issue is resolved, any new bid is unlikely to meet the government’s expectations. Establishing clearer rules of the game for the workers might have prevented the problem, but no one foresaw that it would happen. Now it is a serious precedent-setting challenge for the government—and a valuable lesson for other countries considering privatizing their ports.

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1. *Canon* is the rental fee for infrastructure owned by the public sector.

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