PORT INVESTMENT AND CONTAINER SHIPPING MARKETS: LESSONS FOR CANADA?

Mary R. Brooks

Introduction

On November 7-8, 2012, the International Transport Forum held a Roundtable on Port Investment and Container Shipping Markets, in Santiago Chile. The Roundtable, planned jointly with the Government of Chile, examined the broader issues that influence the development of container transport, focusing on the plans developed for the expansion of port capacity in central Chile. The Roundtable not only intended to provide assistance to the Government of Chile but also to seek guidance for ports in other parts of the world seeking to develop large-scale container port projects.

By the time these Proceedings are published, the full Roundtable Report will be available on the ITF web site. Written by myself, Thanos A. Pallis and Stephen Perkins, the full report explores the critical issues to consider in large-scale containerport development and uses the Chilean challenge as a case study. This short paper presents a summary of the critical issues explored by the Roundtable, the potential lessons from a Canadian government perspective, and a graphical summary of the process applicable for any government considering whether to develop a large-scale container port. The reader is encouraged to read the full report for its coverage and depth of this important topic rather than to rely on this brief commentary.

Critical Issues Explored

The International Transport Forum commissioned four research Discussion Papers, in advance of the meeting, to examine the important inputs to large-scale port investment and to prepare the participants to make the most of their time at the Roundtable. The discussion at the Roundtable was structured around evaluating each of these.

The first to be discussed, Michea (2013), laid the ground work for the Chilean situation and served to brief the more than 20 Roundtable participants. As well, the Chilean government provided a tour of the locale and facilities of two existing ports, the short-listed candidates of Valparaíso and San Antonio. Two other ports for the large-scale port project were already relegated to third and four choices by the Chilean government before the convening of the Roundtable. The critical contribution made by Michea (2013) was that it served to focus attention on the relevant economic characteristics of the country, the demand forecasting done for the government, and the peculiarities of Chilean legislation, regulation and competition policy in addition to laying out the development challenges at each site.

Like many other rapidly developing emerging economies, Chile forecasted the need for the new container port facilities predicated on projected rapid growth in consumer wealth coupled with traditional demand forecasting based on projected GDP per capita. Unlike many other emerging markets, Chile's regulation and competition policy are more pro-market, in fact curtailing Port Authority ability to invest in infrastructure in favour of private sector investment for berth development and even breakwaters. What the advanced legwork did not do, and that is a lesson for others considering this challenge, was (1) explore the prospects for developing new demand from modal shift or specific market segment development, and (2) deploy Key Performance Indicators to assess the criticality and timing of making the investment versus other options for growing port volumes.

> **Canadian Lesson 1:** From a government perspective (any government), the key take-away was that there is a need for both econometric studies and pre-business case analysis. Understanding value chains in a country's international trade prospects is tied to opportunity identification. There is always in a less pro-market country, the tendency to drift towards a 'build it and they will come' philosophy, a temptation for

government if decisions are too focused on political outcomes rather than commercial considerations. Canada faces less temptation than does Spain, for example, a country with considerable excess capacity that was discussed at the Roundtable as a ‘what not to do’.

Canadian Lesson 2: KPIs are critical to determining if an investment in infrastructure is needed, when perhaps business process improvement may be a solid substitute. Without transparent efficiency KPIs by port type, the temptation is to use the ‘one-size fits all’ approach of the *Journal of Commerce* (JoC) Berth Productivity measure, without comparing ‘like with like’.

Canadian Lesson 3: Every investment decision on projects of this size will be unique and the particular circumstances need to be fully understood. I was struck by the similarities of Chile’s geography with Canada’s (long country, with central population concentrations and otherwise sparse settlement; resource and agricultural dependence, etc) as well as the differences that make generalizations difficult (Canada’s federation is weaker and, even though premarket, regulation/competition policy is quite different).

The second commissioned paper, Wilmsmeier (2013), examined the existing container shipping markets, the growth of vessel size and the impact of cascading of larger ships to South American trades, but its content also provided lessons for many other markets. The focus here was identifying key game-changers in South American trades. This led to a Roundtable discussion of vessel deployment patterns, including but not limited to the impact of fuel prices, larger vessels, slow steaming, new technology, Panama Canal expansion, etc. on the operational decisions of shipping lines. Vertical integration, cabotage and short sea shipping, and other factors were also explored. This section of the final Roundtable report makes for interesting reading for those considering what circumstances might possibly alter port investment plans.

> **Canadian Lesson 4:** I believe that Canadian ports are well-informed and well-placed to understand the evolving global industry; the key take-away was for me was that cooperation on market intelligence gathering pays dividends in a rapidly evolving marketplace, and that the lessons here were more suited to those emerging economies faced with rapidly growing consumer markets than for mature economies with slow growth like Canada.

The third paper, Accario and McKinnon (2013) explored the importance of land-side logistics and hinterland activities on the port investment decision. The case of Chile highlighted how not enough attention is given to this element when exploring whether the investment will likely be successful. Shipping companies make the investment in ships but are seldom investors in the highways and railways that serve the ports and ensure that the goods get to market efficiently and seamlessly. The discussion noted that Guasch (2011) identified that logistics costs in Chile are double (18%) the average (9%) reflecting the need for port investment planning to carefully focus on more than the land-sea interface and get the hinterland connections right. While this very topic was addressed in a 2008 Roundtable (ITF, 2008), it remains a continuing challenge in port investment decisions today.

> **Canadian Lesson 5:** Canada's Strategic Gateways and Trade Corridors focus, introduced by the Canadian government, has recognized the importance of looking at hinterland activities holistically, and Transport Canada's fluidity measurement program along with the railway focus on level of service agreements has meant that Canada is on the right track (pun not intended).

Guasch (2013) noted in his presentation (the fourth discussion paper) examined the structure of financing the port investment and how to get the optimal financing arrangement. He examined the project objectives, priorities, what and whether to bundle parts of the project, risk, the critical regulatory issues, and award criteria among other considerations. The discussion of how the port investment should be structured provided probably the most interesting debate. Here every country will face somewhat different concerns as the process is influenced by competition policy (how many bidders, how to engage in fair treatment of existing operators, what concession process will be effective) and well as operating considerations, such as minimum efficient scale (to attract the interest of potential operators), etc

> **Canadian Lesson 6:** The issue of competition policy has particular resonance for the Canadian port industry. The volume of container imports and exports to/from Canada is relatively small, as is found in Chile, and the ability to offer a Global Terminal Operator an opportunity to bid for a project of sufficient size to be interesting without damaging existing terminal operators with smaller scale operations warrants a closer look at the Roundtable report. While the greenfield development at Prince Rupert was Canada's first (only?) 'Puerto de Gran Escala' did not have this challenge, it would have been a challenge had it been a Vancouver-area (pre-PMV consolidation) investment, or one in Halifax, the latter being a port with two terminal operators, neither having that minimum scale identified by Roundtable participants as necessary.

The concluding remarks for the roundtable identify a process and some sub-elements that need to be considered by all governments before deciding on encouraging the development of a large-scale container port and structuring the bidding process, if the investment is to be undertaken by a tender or concessioning process. A graphical summary of the process before such structuring can be found in Figure 1 (on the next page).

While Figure 1 provides a quick summary of the process identified at the Roundtable as leading to more complete and successful outcomes, the figure does not do justice to all considerations. Readers are encouraged to read the report in full at:
http://www.internationaltransportforum.org/jtrc/RoundTables/2013-Container-Shipping/index.html

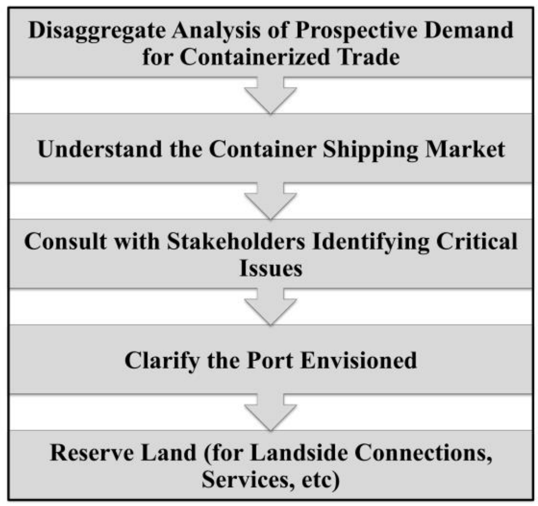

Figure 1

References

Acciaro M. and McKinnon A. (2013). Efficient Hinterland Transport Infrastructure and Services for Large Container Ports (Discussion Paper 2013-19), Paris: OECD Publishing.

Guasch, J. L., (2011). Logistics as a Driver for Competitiveness in Latin America and the Caribbean, presented at the fifth Americas Competitiveness Forum for the IADB and Compete Caribbean.

Guash, Jose-Luis (2013), Puerto de Gran Escala - Issues on Project Structure, Financing and Risk Allocation: The Chile Case, a presentation to the Roundtable.

International Transport Forum (2008). Port Competition and Hinterland Transport: Summary and Conclusions (Discussion Paper 2008-19), Paris: OECD Publishing.

Michea A. (2013). Puerto de Gran Escala – The case for a new container terminal in central Chile (Discussion Paper 2013-20), Paris: OECD Publishing.

Wilmsmeier, G. (2013). Liner Shipping Markets, Networks and Strategies. The implications for port development on the West Coast of South America. The case of Chile (Discussion Paper 2013-22), Paris: OECD Publishing.