



On port transformations

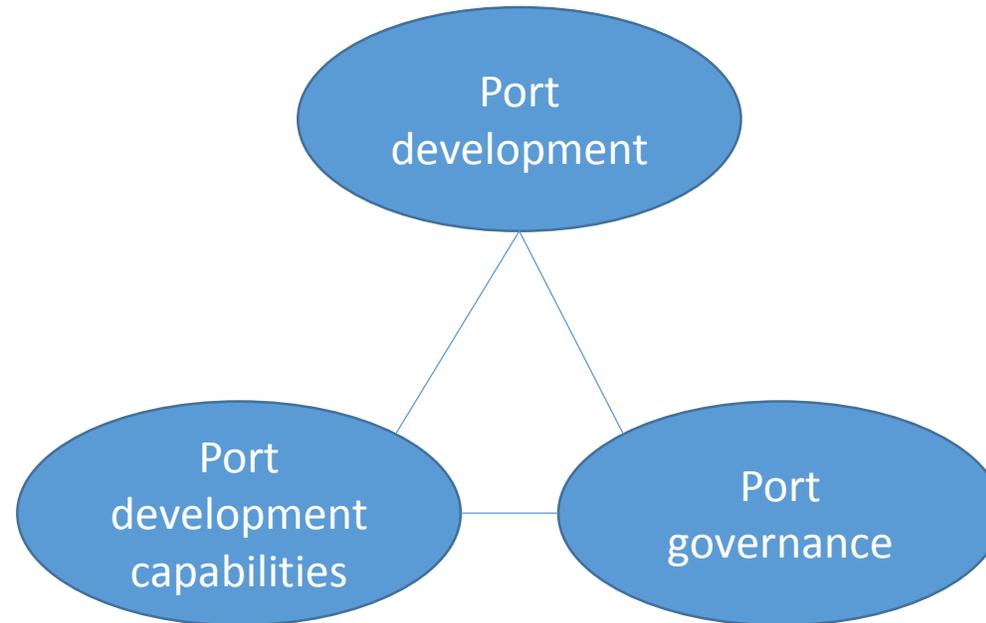
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Interrelated transformations of ports

From transport node to business ecosystem



From infrastructure focused capabilities to entrepreneurial capabilities.

Focus on 'ecosystem services'

From port authorities to (state-owned) port development companies (PDCs)

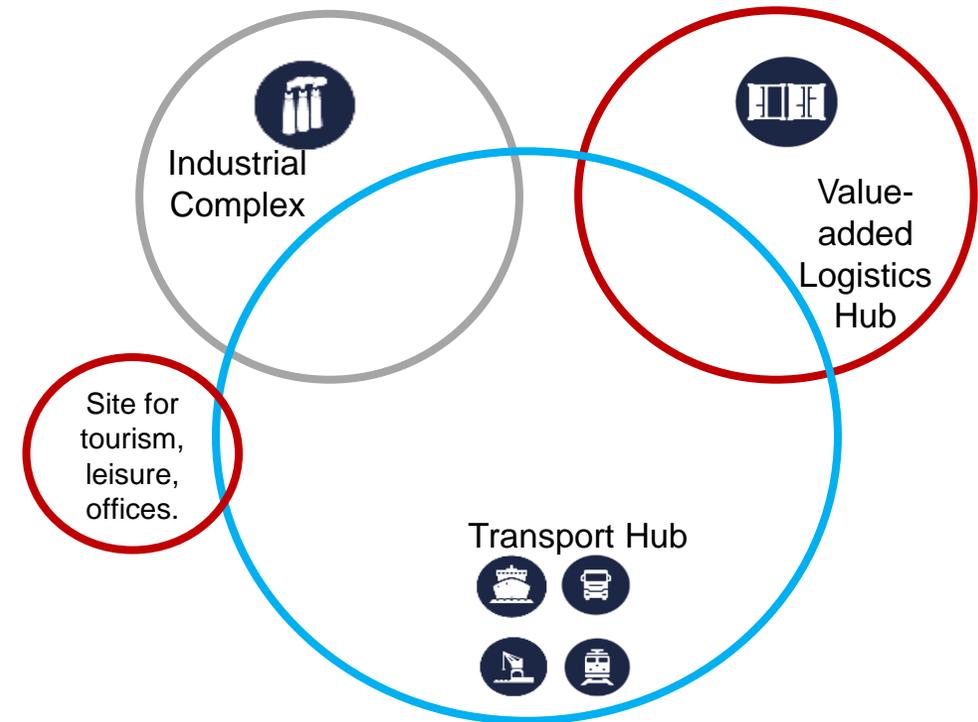
Rethinking government role, focus on role as regulator and shareholder.

Rethinking 'landlord model' as business model choice

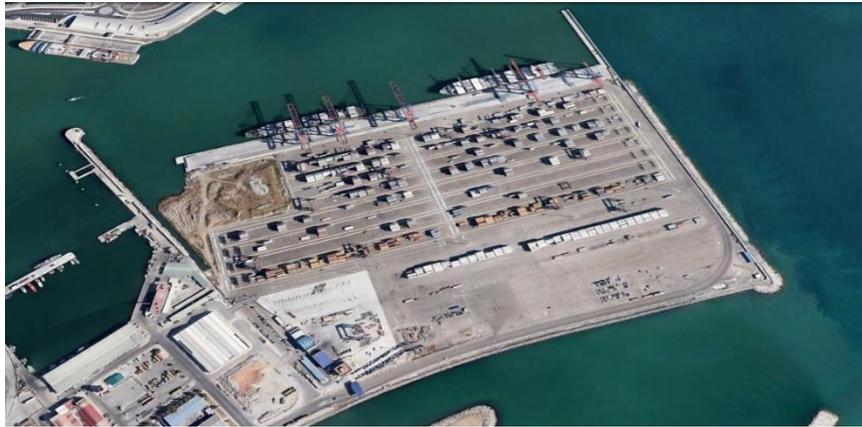
The port business ecosystem

1. Transport hub
2. Industrial complex
 - Mainly based on processing of bulk commodities and 'downstream' and maritime industries.
 - Often 'world scale' facilities, i.e. oriented partially at overseas markets.
3. Value added logistics hub.
4. Site for tourism & leisure & offices, based on quality of public space in the port area.

NB: circle size represents a stylized 'typical importance' in the ports industry.

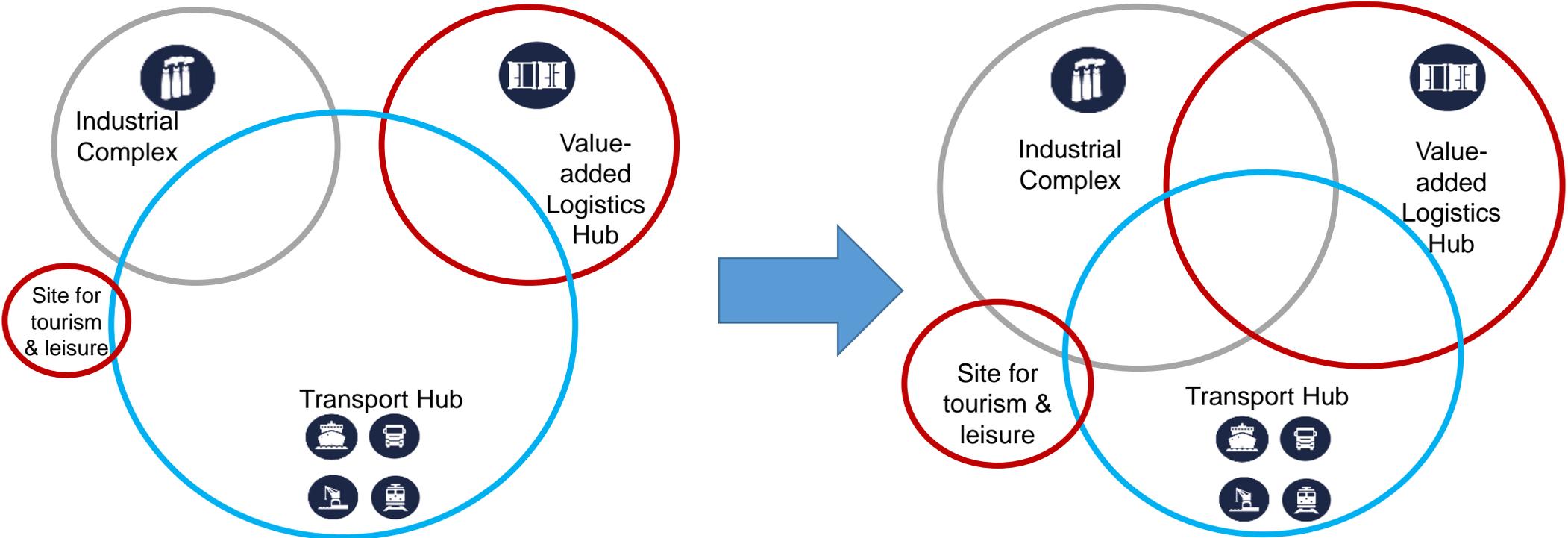


Port development vs (terminal) operations



The transformation of the port business ecosystem

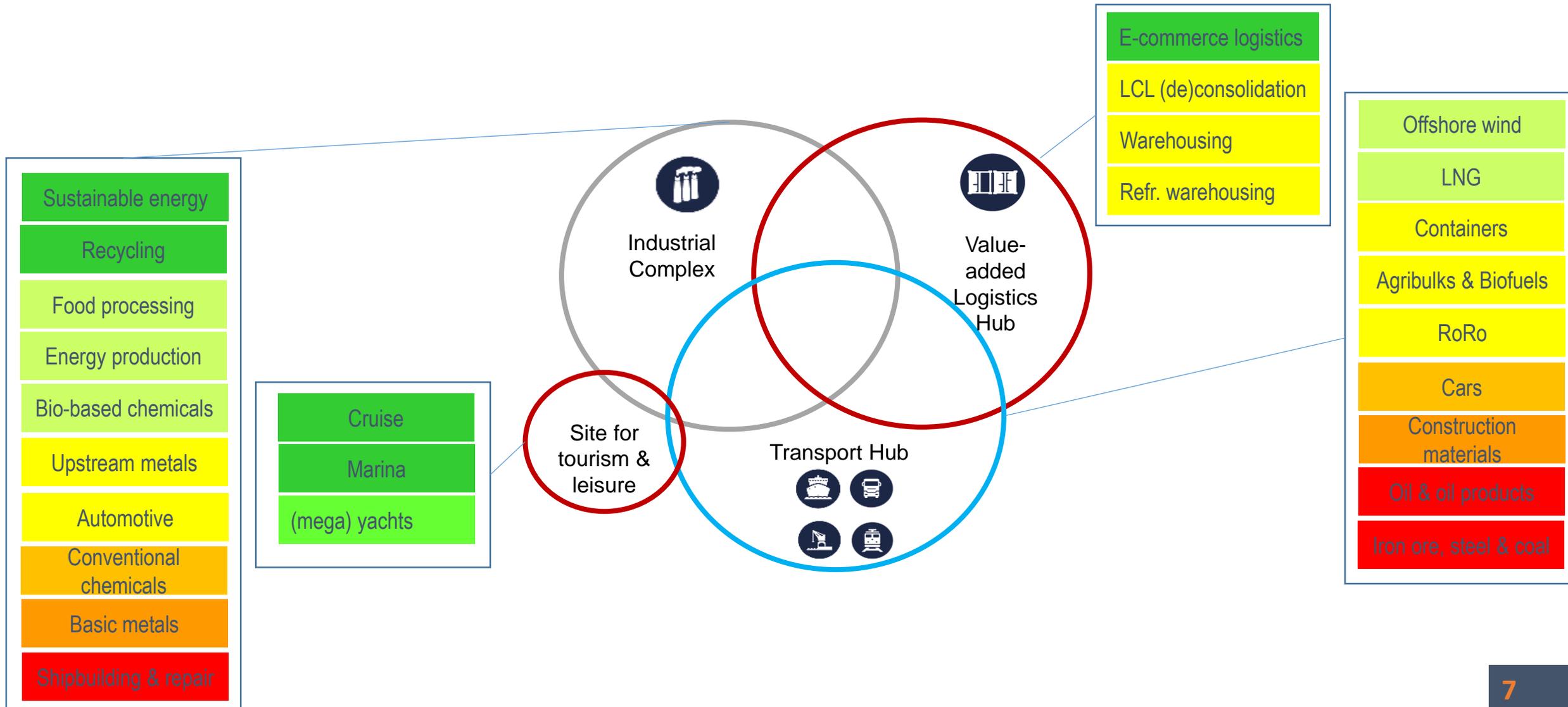
Port ecosystems evolve away from mainly transport hubs and towards integrated industrial/logistics/leisure complexes.



A case of integrated port development



'Industry outlook' of industries that can be attracted to the port ecosystem



Some examples of transforming the port business ecosystem

- Amsterdam: focus on luxury yacht building and offices
- Groningen Seaports: focus on data centers
- Humber ports: focus on offshore wind
- Barcelona: focus on cruise, leisure, congress center
- Sevilla: focus on circular manufacturing
- ABP that has established a separate 'land bank unit' to find manufacturing/logistics users for their 800 hectare of available space.
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The key governance transition: towards commercially driven port development companies

- Port development is essentially the development of a business ecosystem /cluster.
- Port development can only effectively be done by a *commercial undertaking*, whether that undertaking is publicly owned or privately owned is less relevant (e.g. PSA or DPW).
- Reference industry: airports (& shopping mall developers).
- The regulatory framework and port governance structures in the port industry worldwide are slowly but gradually evolving in this direction.

Port authority vs port development company

- Many port authorities do not have formal authority.
- When they do, this is often unwarranted.
- Port development cannot be based on authority, only on the ambition to create value for port users.
- ‘Port development company’ is more appropriate, even when the PDC is mandated to perform government activities (e.g. act as harbour master).
- Port development companies should be subject to competition regulation, and negotiate tariffs, rather than imposing them based on ‘authority’.



The port authority (PDC) as SOE

There are good arguments (port development initiative, negative externalities, land transition) for state ownership of the PDC.

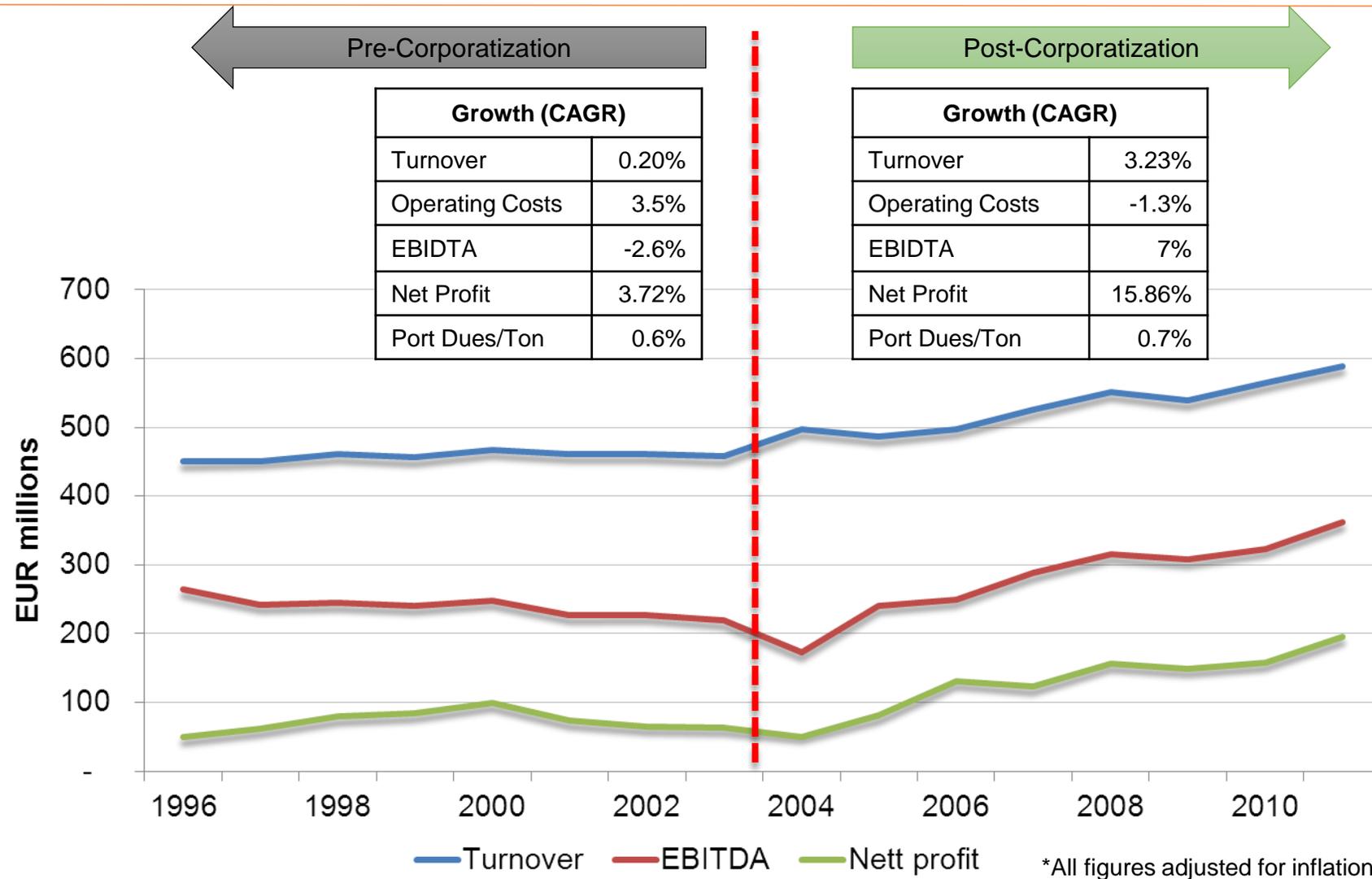
A state owned PDC is a SOE like many others. Governance lessons on SOEs in general apply:

- Need for regulation to secure public interests
- State ownership appropriate if some public interests cannot be secured through regulation. This implies the SOE must act *different* from a fully private company.
- Best approach to specify how the SOE should act differently is through an explicit shareholder strategy. Other mechanisms of government control (appointment of CEO, politically motivated board members reduce SOE performance.
- Core risk of SOEs is insufficient market pressure, leading to survival of unfit organisations.
Implications:
 - Ports in proximity may need to merge
 - Return excess capital to shareholder is advisable to 'harden' the budget constraint.

A shareholder policy for a PDC

Public Interest Domains	Value-Added of state-owned PDC vs Private PDC	Shareholder Policy Instruments
Investment in port development.	Stronger commitment to development of 'home port' from a wider societal perspective (creating social value next to private value)	Maximize the share of investments (or asset value) that can be made outside the 'home port'
Make investments with positive externalities	Stronger commitment to investments with positive externalities.	Indicate a minimum percentage for investments in innovation (such as 1.5% of turnover, as specified as objective in the EU Lisbon treaty).
Decision-making where negative externalities are relevant	Stronger commitment to prevent / limit negative externalities.	Mandatory board discussion on environmental impact of all lease agreements above a certain size (for instance in number of hectares).
Land use planning & transfer	More cooperative approach to transferring land/ a shared approach to/with other state agencies in case of changing land use to urban functions.	Mandatory 5-yearly masterplan addressing potential transfer of land for urban functions, aiming at agreement with municipality and region.

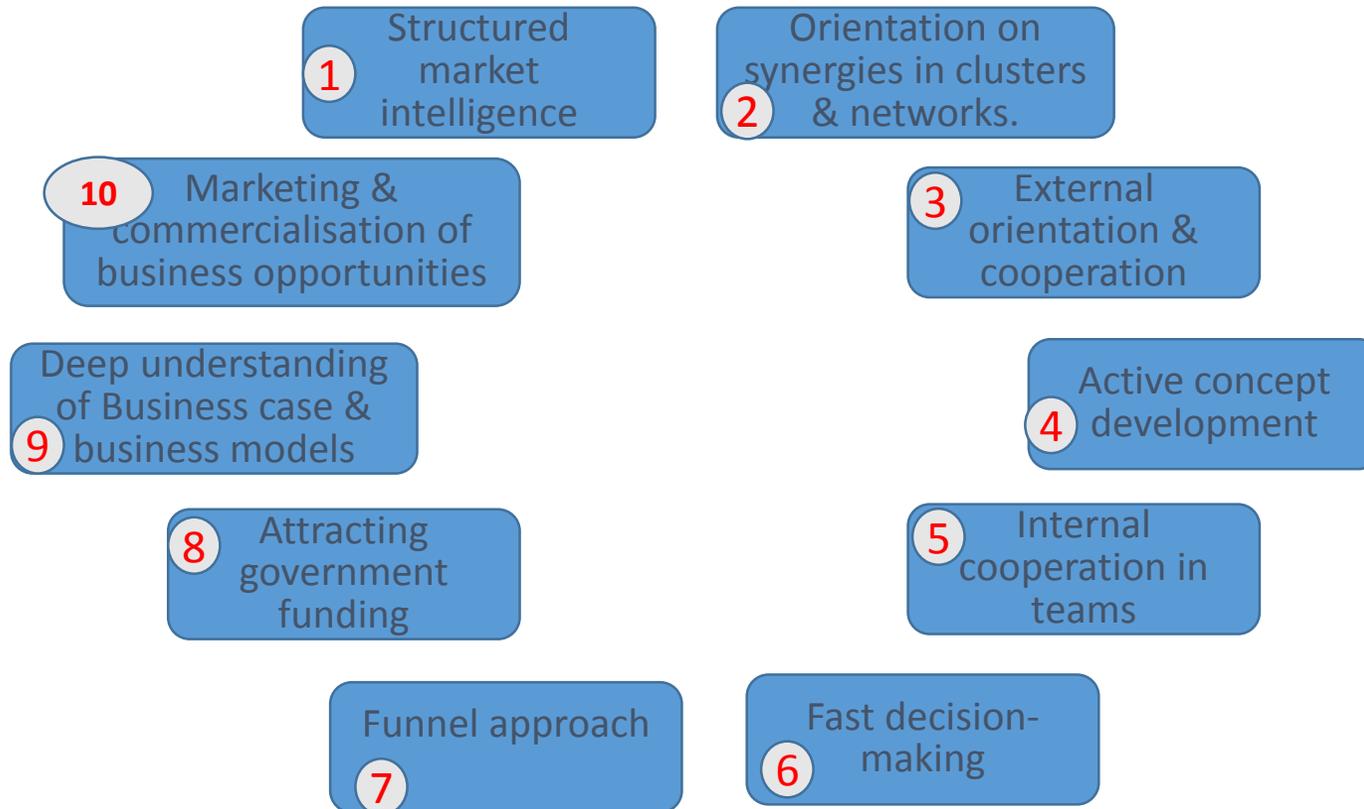
Case: Post corporatisation performance Port of Rotterdam



Entrepreneurial port development; five iterative steps

1. Idea generation. This leads to a longlist of potential business opportunities.
2. Concept development. In this phase developing a deep understanding of value in the eyes of customers needs to be developed. The value of a concept for customers needs to be tested.
3. Designing a business model. The business model addresses which actors are responsible for which activities and receive which revenue streams.
4. Developing a business case. This step leads to detailed projections of investments, costs, revenues and the resulting financial return.
5. Commercializing the business opportunity. An RFP is a possible instrument for this phase. The phase leads to a deal.

Entrepreneurial port development capabilities



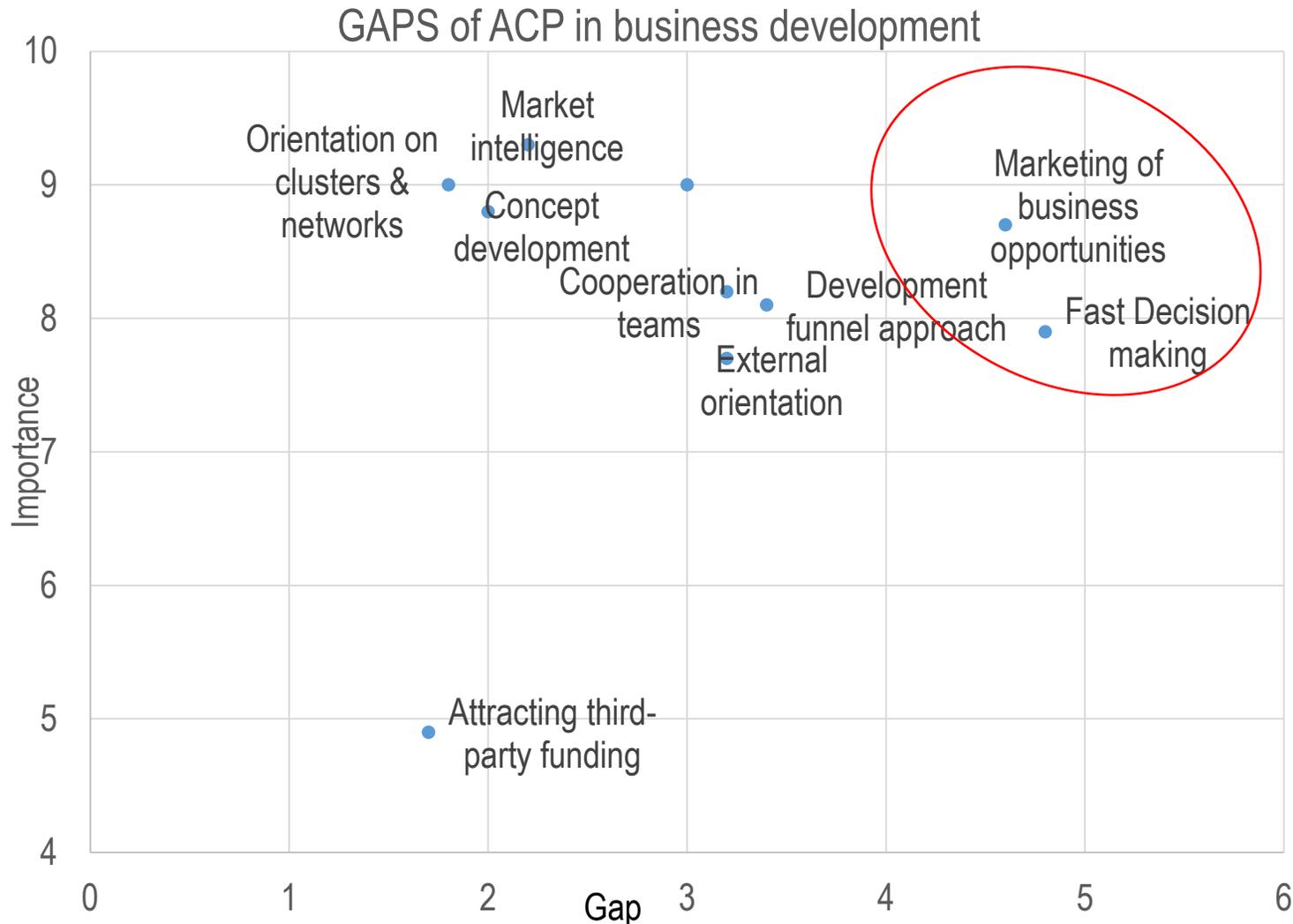
10 items are identified as critical for successful EPD (based on first hand experience as well as academic research).

Assessing of PDC: example of questions to ask for the item 'fast decision making'



- Are decisions about forming teams made quickly?
- Does management give clear guidance on changing work priorities of staff?
- Is (limited) budget for supporting teams in developing new business easily made available?
- Are issues that prevent effective teams (e.g. weak project leader, lack of input from a team member) quickly addressed?
- Are decisions about arranging meetings and visiting events easily made?
- Does interference of government shareholders constrain decision-making?

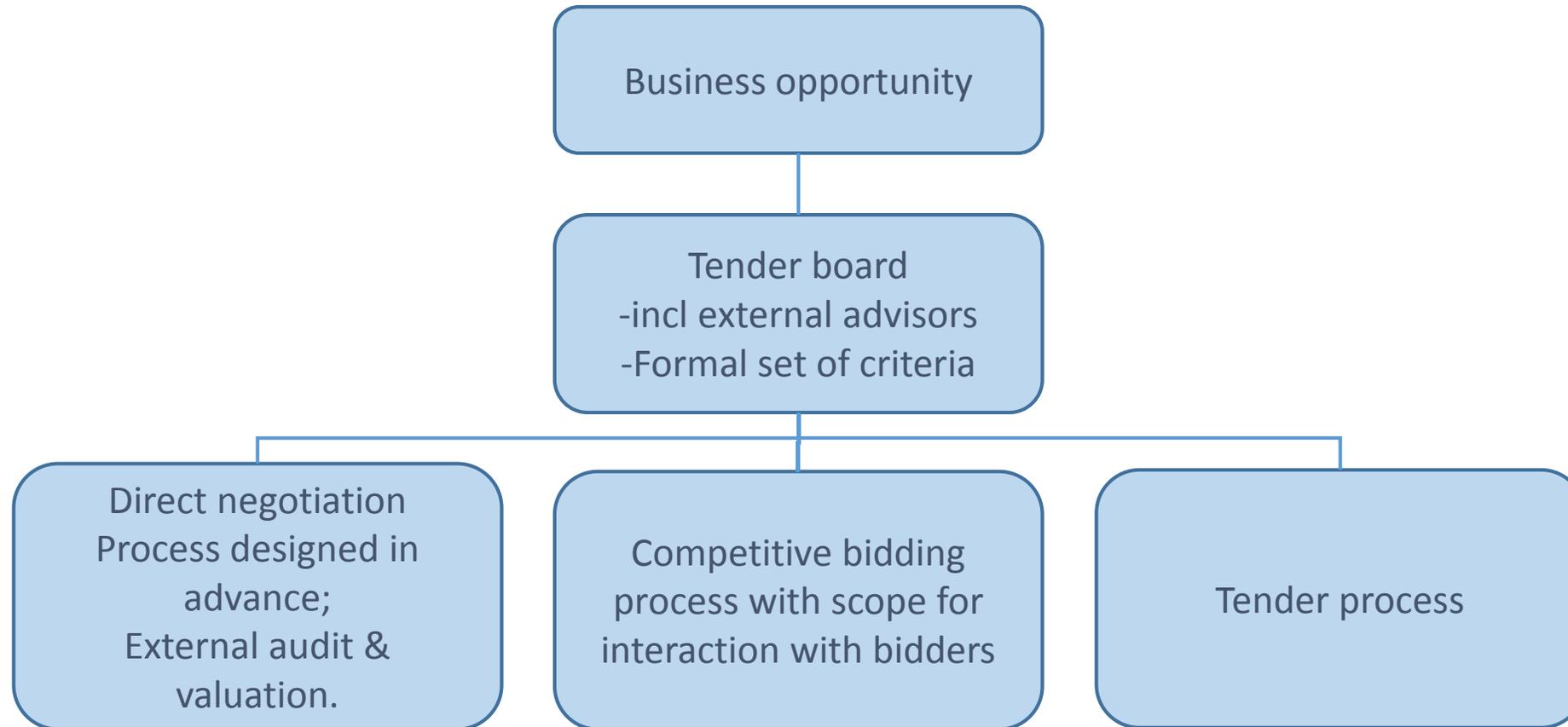
Example capability assessment: Panama Canal Authority



Contracts with third parties

- It is inefficient for one company to provide all services in-house; even 'operating ports' need (and do) aim to create synergies with other companies in the ecosystem.
- Ongoing specialisation and internationalisation increases the value of inclusion of world class players in the business ecosystem (terminal operators, logistics service providers, utility providers, manufacturing plants,).
- Similar trend e.g. in chemical complexes. BASF is a 'chemical ecosystem developer'.
- This calls for better analysis of the question: which services to provide in-house and for which to select a third party.

How to select third parties



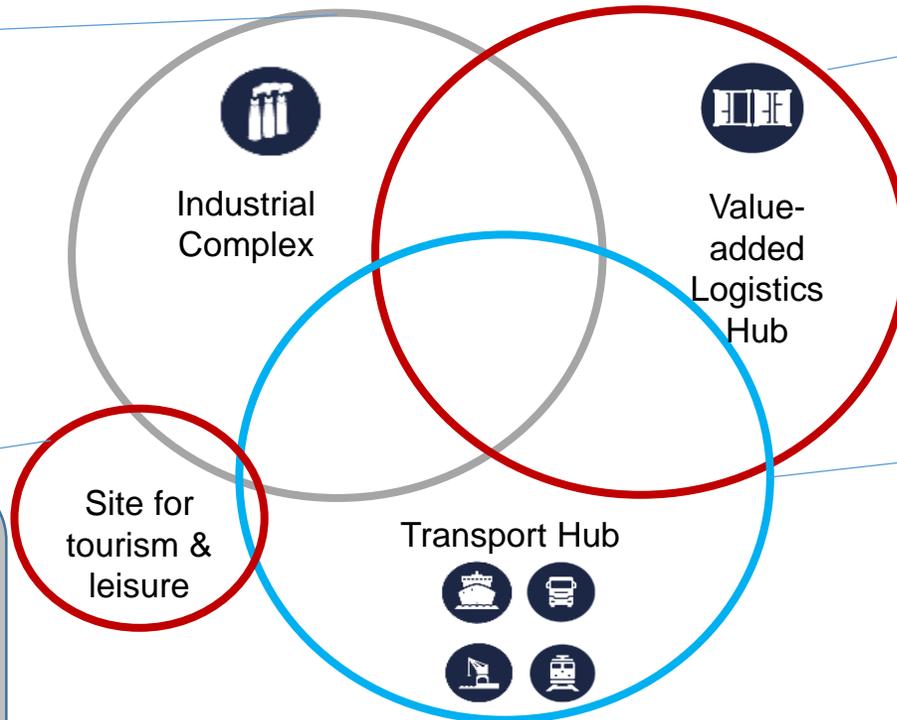
In many countries, a competitive tender process is the only option allowed by regulation. Cases: Spain, Italy, Panama.

Project selection: focus on 'ecosystem services'

Overall: focus on co-location & spatial synergies
-Identification & management of projects to create synergies.

- Open access liquid bulk pipelines
- Heath exchange (through pipelines)
- CO2 exchange (through pipelines)
- Industrial wastewater sewage
- Innovation, testing, education

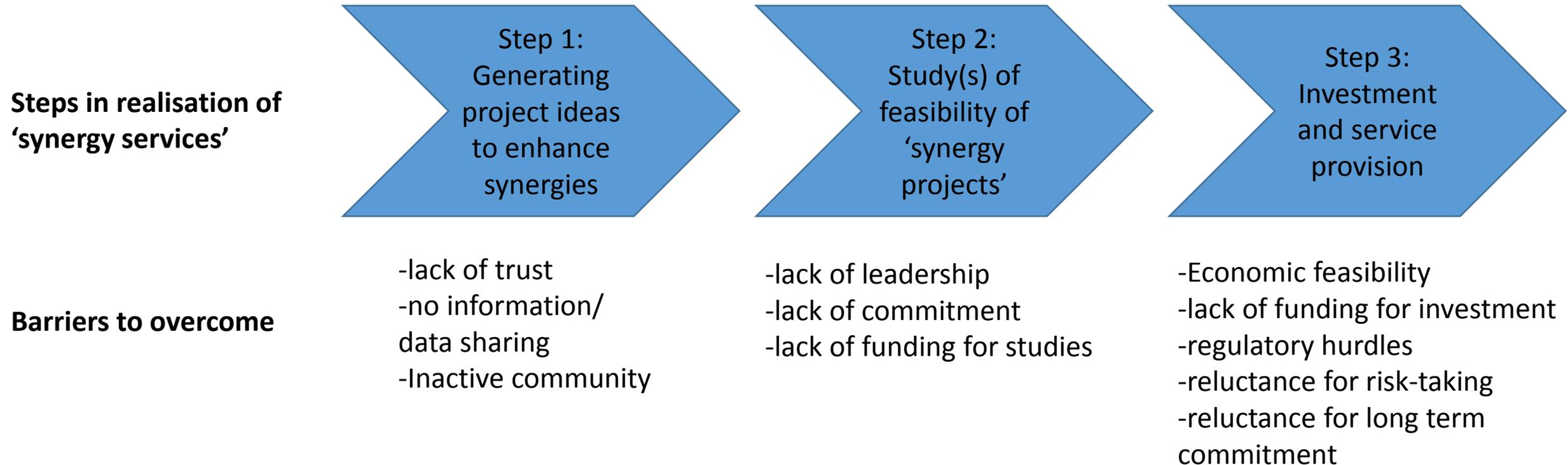
- Cruise terminal, offices & leisure facilities.
- Cruise platform for interaction with lines & passengers



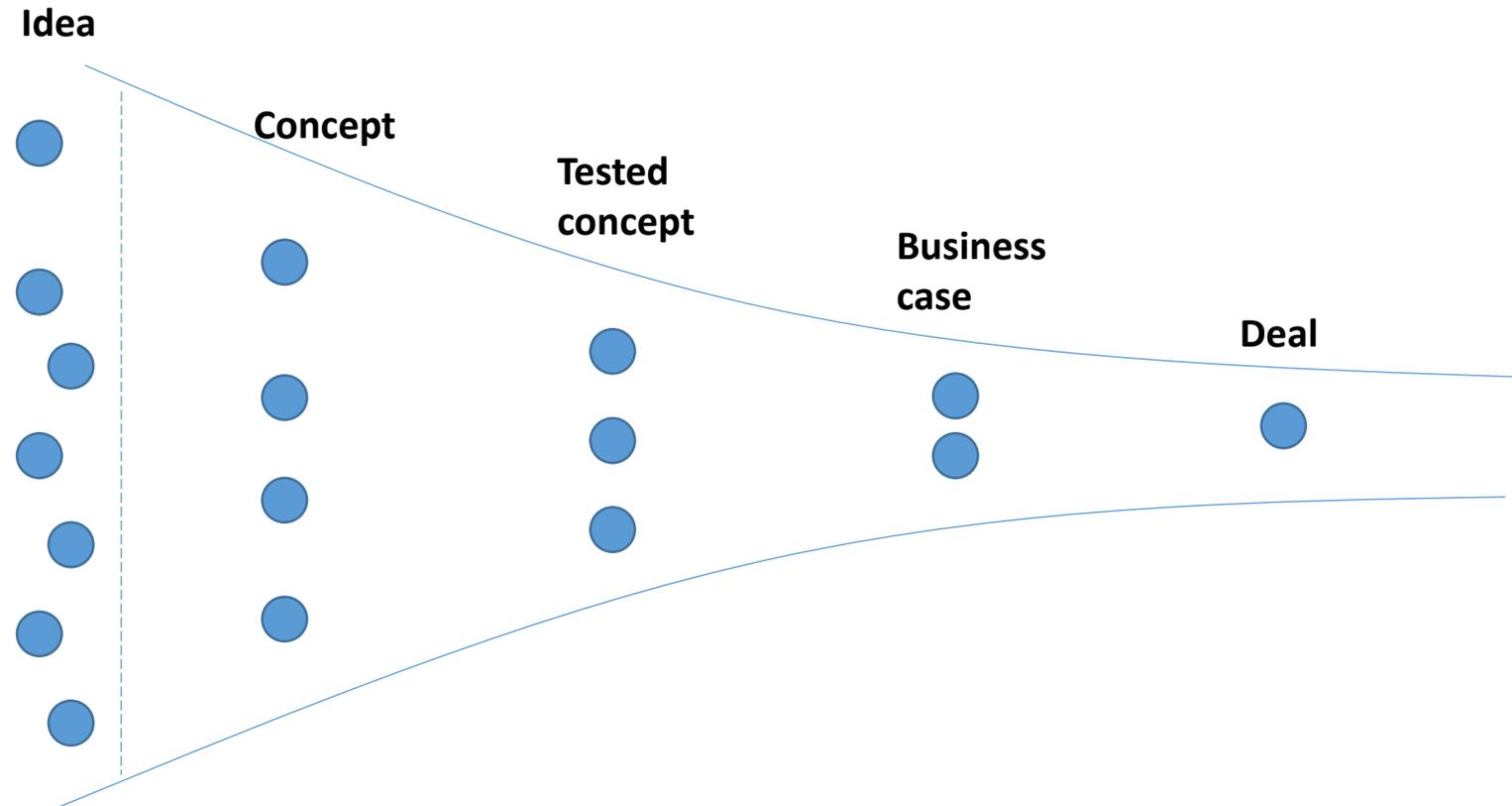
- Inter terminal transport.
- Port community system
- Traffic management on port access highway -
- Platooning matching platform.
- Call optimisation platform
- Truck parking

- Dedicated lane terminal(s) to logistics park.
- Park management (security, maintenance public spaces)

Organising capacity is central to developing ecosystem services.



The boardroom challenge: manage the funnel



Business development: uncertain

Business development projects are uncertain. Some projects will materialize others not. Monitoring of the progress of projects in the funnel is required, keeping in mind that failure of ideas & concepts is OK. The key is to continue learning and make informed decisions. From time to time, an assessment of whether or not the 'portfolio' is balanced is useful. Some projects may generate a huge direct return, while others create indirect return (a more competitive port).



Conclusion: there is a long road ahead to a better ports industry!

Thank you for your attention.

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