



Container Terminal Concessions Guidelines

Experience sharing session

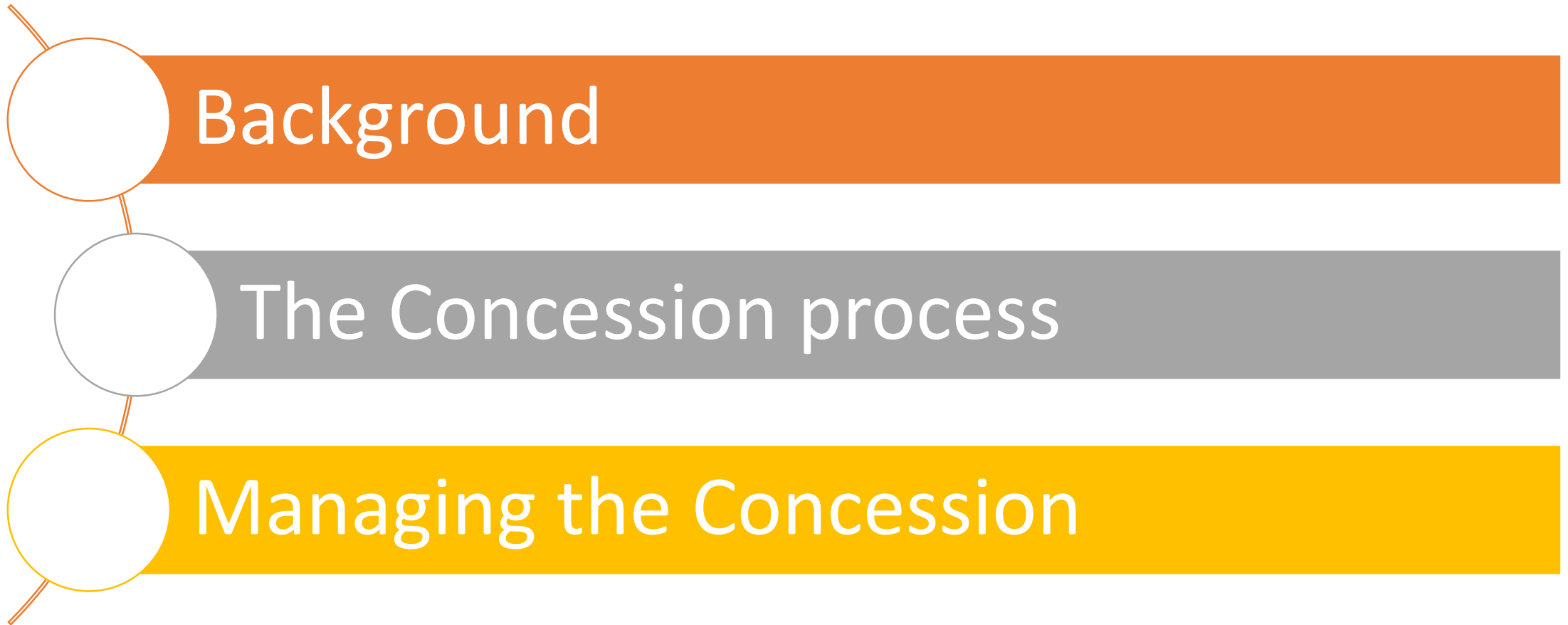
Marrakech, February 21, 2017

SSATP General assembly

The origins of the Program

- Objective: Provide policy advice on container terminal concession
- PMAWCA workshop on container terminal concessions June 2014
 - The members of the association endorsed the preparation of guidelines on container terminal concessions that would provide strategic and practical advice to help high level government decision-makers and general managers of port authorities attract professional private sector partners to invest in and operate container terminal facilities
- World Bank Study on Ports in West Africa
- In preparation: World Bank Study on Ports in Eastern and Southern Africa
- PMAESA expressed keen interest and relevance of the guidelines to its members in view of the trend for container terminals concession in E&S Africa

Structure of the Guidelines

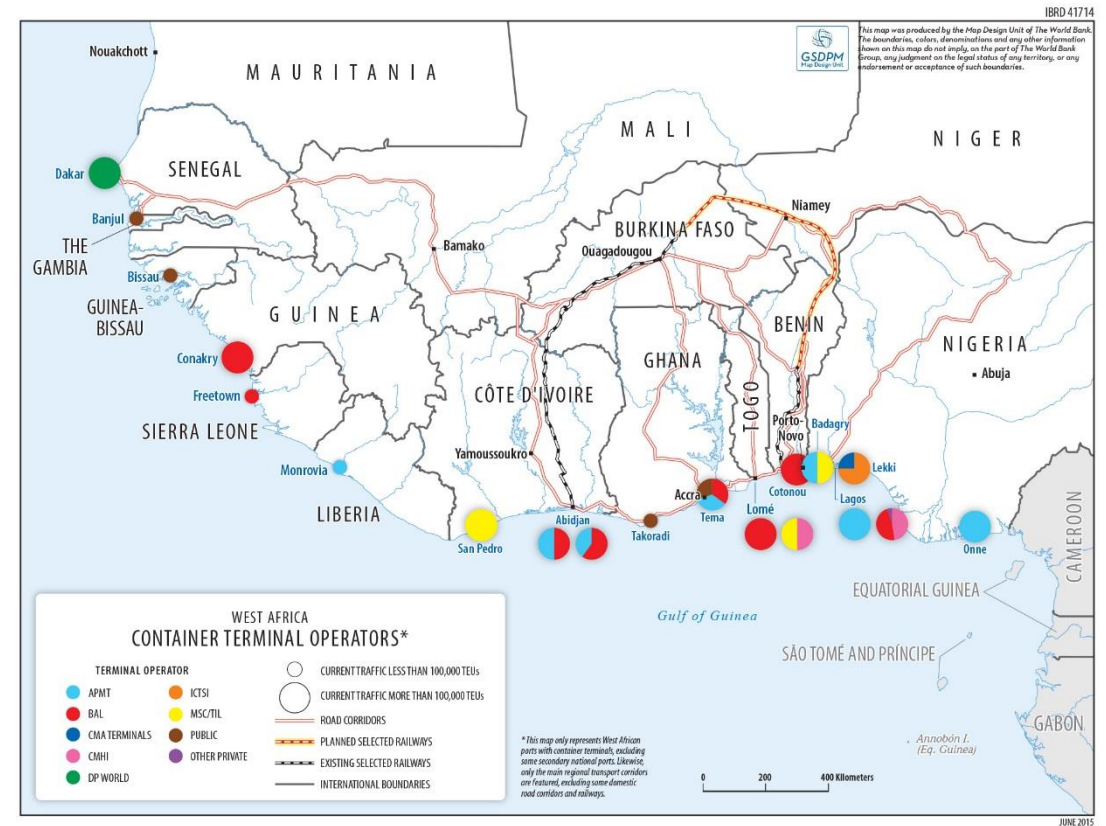




Background

Container terminal concession in Africa

- The wave of container terminal concession reached Africa much later than the rest of the World
- But within a short period of time, less than 10 years, the Africa port landscape was completely transformed, particularly in West and Central Africa
- Global trend: greenfield developments are now replacing concession of existing facilities
- Momentum gradually taking shape in E& S Africa



Why are the Guidelines needed ?

- The decision to contract out the development and operation of a container terminal facility to a private professional operator sets in motion a process involving relationships with quite a different set of players compared to traditional port operations.
- It also most often requires a change in the port authority's function, either from service provider to regulator, or from licensing authority to long term contract manager, or a mix of both.
- Effectively dealing with experienced private container terminal operators requires public counterparts, port authorities and government administrations, to master the legal and institutional skills necessary to reach balanced and profitable arrangements for their countries.

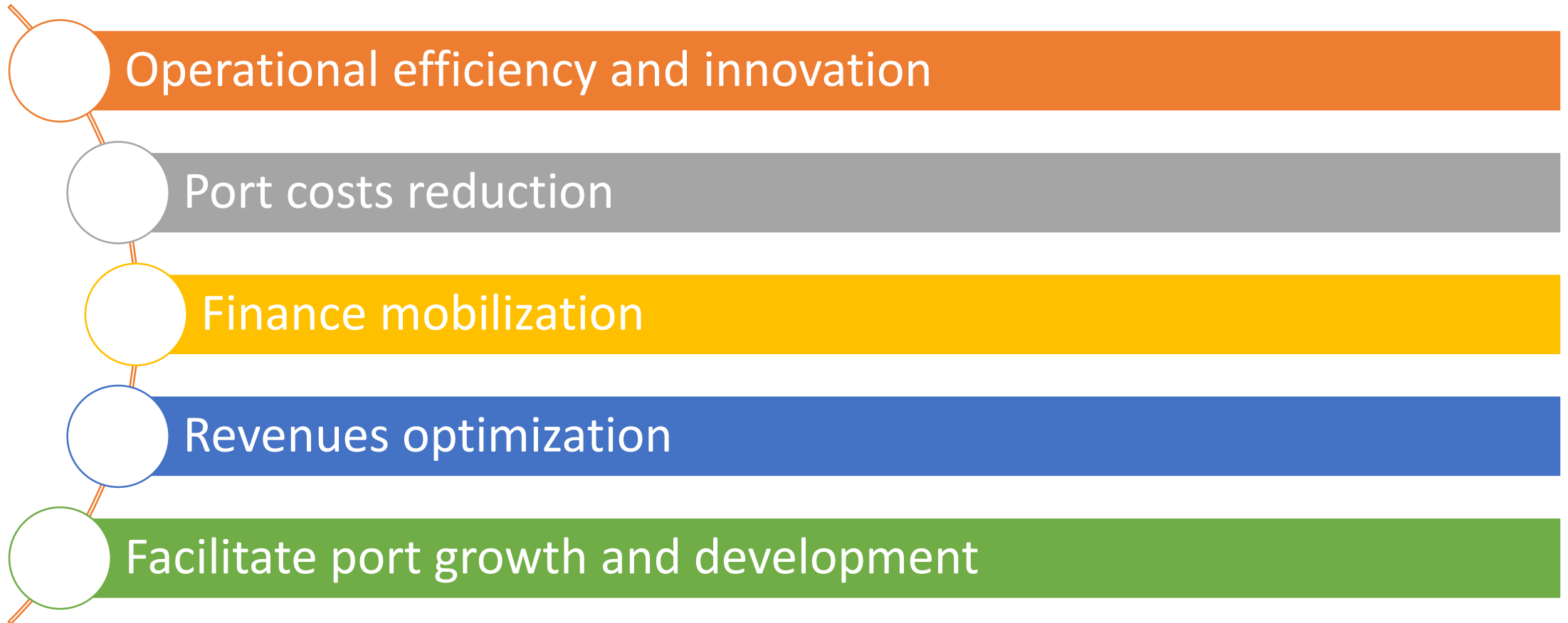
Why are the Guidelines needed ? (cont.)

- Even when the required legal framework has been thoroughly established, existing institutions may find it hard to adjust to dealing with partners whose short-term objectives may not at first sight systematically coincide with the long term policy goals of public authorities.
- Private operators will bring to the negotiation table very strong legal competencies and experienced negotiating skills. Because these skills were not so much required to deliver their usual mandate so far, many port authorities may lack at the outset a comparable capacity.
- The Guidelines will identify critical issues that need specific attention throughout the process, and also highlight areas where specialized support may be useful to ensure a successful outcome.
- It also enables “non traditional players” (Port community associations, Port labor) acknowledge the role their can play and better understand the scheme.

Definition and content of a port concession agreement

- The World Bank defines a concession as “An arrangement whereby a private party (concessionaire) leases assets from an authorized public entity (grantor) for a defined period and has responsibility for financing specified new fixed investments during the period and for providing specified services associated with the assets; in return, the concessionaire receives specified revenues from the operation of the assets; the assets revert to the public sector at expiration of the contract”.
- A concession may involve a whole port or specific terminals only. These Guidelines focus on single container terminal concessions.

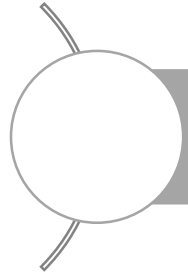
Objectives of a container terminal concessioning process





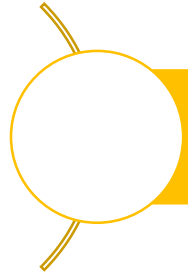
Operational efficiency and innovation

- Efficiency improvements and opening up to innovative practices should usually be at the core of a port concessioning process. Irrespective of other potential objectives, these ones should always be explicitly pursued and contractual provisions should provide a clear incentive structure towards these goals.
- The main rationale for these lay in the need to optimize utilization of existing public assets and of any development that will ultimately revert to the port authority.



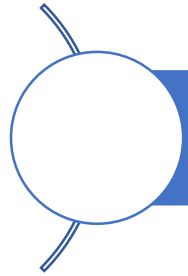
Port costs reduction

- In parallel with efficiency improvements, bringing port costs down is the natural complement of operational rationalization. It comes back to the core mission of the national port system, which is to serve the domestic economy by providing efficient sea/land transfer services at the least possible cost.
- This is also an area where users' feedback is of paramount importance, to avoid situations where costs get just transferred to other parts of the port system, with little meaningful impact in final analysis for port users.



Finance mobilization

- Concessions are sometimes viewed by governments or public authorities as the means to access infrastructure financing options outside the fiscal constraints of national budgets.
- But private and commercial financing is practically always more costly than traditional public funding, and worthwhile only when it makes the attainment of the efficiency and port costs reduction objectives possible.
- In any case, a concession should not be construed primarily as a source of alternative funding for long term terminal infrastructure, at the expense of efficiency improvements and, in particular, of a sustainable reduction in costs for port users.



Revenues optimization

- While it is legitimate for the concessioning authority to ensure full cost recovery of the expenses it incurred in building the assets to be concessioned and to get a fair remuneration of its investments, care should be taken to avoid turning a port concession into a cash cow for public finances.
- In all likelihood this would come at the expense of the port costs reduction objective, and consequently result in an additional tax on the economy as a whole.
- If however a port authority, because of special circumstances, still intends to select a concessionaire based on an income maximization criteria, it should do so while simultaneously implementing safeguards to protect users and ensure optimal use of resources.



Facilitate port growth and development

- This is a generic objective that must be construed as part of the optimization of the port sector contribution to the national economy.
- While this objective may be formally added to any of the previous ones, one should realize its translation into practical evaluation criteria is likely to remain subjective and prone to exaggeration.
- It should probably be construed more as an overall background goal than as an objective assessment tool when it comes to assessing a possible deal.

The Concession Process

The players



Governments

- Governments have the seminal role of establishing the legal and regulatory framework that will make the concessioning process possible
- Beyond that it is generally not advisable that governments directly enter into concessions agreements with private port operators, unless the local conditions make it the only practical option

Port Authorities

- Local port authorities are usually the natural concessioning authorities for container terminals
- They will conduct the concessioning process under the framework defined by the government
- They will be the contractual counterpart of the private concessionaire and will manage all aspects of the contractual relationship, operational, commercial, and regulatory as needed

Port Labor

- Port workers often entertain legitimate concerns about port concessions to the extent that in many instances, ports have been used in the past by governments as convenient social shelters to provide employment to a number of unskilled or poorly skilled laborers
- Port labor must therefore be closely associated by port management when initiating a terminal concessioning process, so that appropriate transition measures are defined and implemented ahead of concluding the deal itself

Terminal Operating Companies

- Global terminal operators are handling an increasing share of the world port container throughput: around one third for the top 5 (PSA International, HPH, APM Terminals, DP World and CMHI)

TOC linked to Shipping Lines

- TIL with MSC
- APM Terminals with Maersk

Independent TOC

- Bollore
- ICTSI

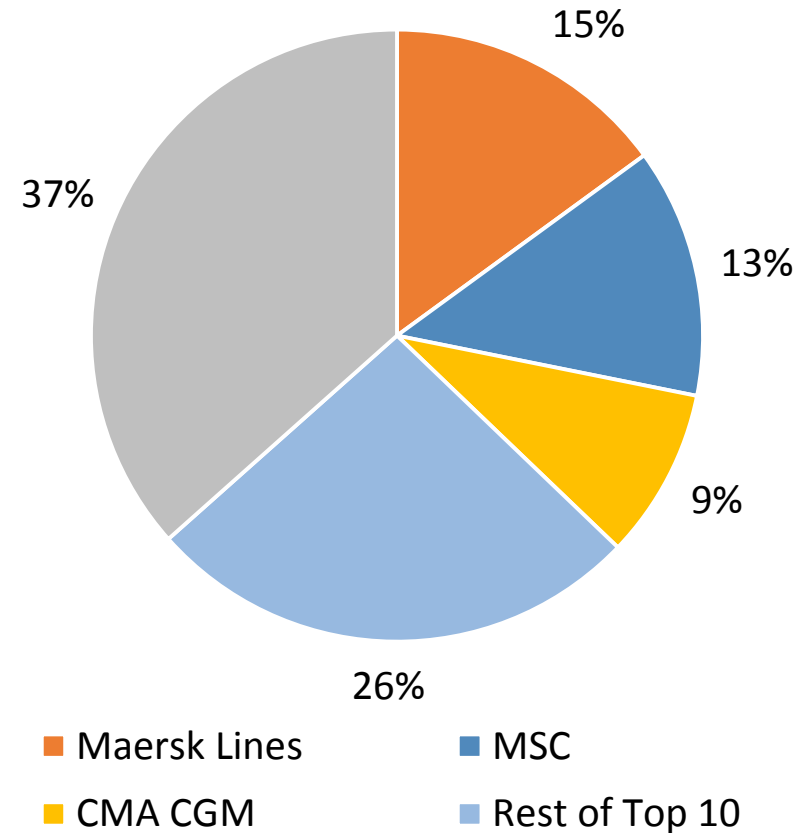
TOC linked to Port Authorities

- DP World
- PSA

Terminal operator	Terminals in Africa
APM Terminals	Monrovia (Liberia), Abidjan (Cote d'Ivoire), Tema (Ghana), Badagry (Nigeria), Lagos Apapa (Nigeria), Onne (Nigeria), Douala (Cameroun), Pointe Noire (Congo), Luanda (Angola), Namibe (Angola)
Bollore Africa Logistics	Freetown (Sierra Leone), Conakry (Guinea), Abidjan (Cote d'Ivoire), Tema (Ghana), Lome (Togo), Cotonou (Benin), Lagos Tin Can Island (Nigeria), Douala (Cameroun), Libreville (Gabon), Pointe Noire (Congo), Moroni (Comoros)
ICTSI	Lekki (Nigeria), Matadi (DR Congo), Toamasina (Madagascar)
DP World	Dakar (Senegal), Maputo (Mozambique), Berbera (Somaliland), and Djibouti
CMA-CGM	Lekki (Nigeria), Tangier Med (Morocco)
TIL / MSC	Lomé (Togo), San Pedro (Cote d'Ivoire), Badagry (Nigeria)
China Merchant Holding	Lomé (Togo), Lagos Tin Can Island (Nigeria), Djibouti (Djibouti)

Shipping Lines

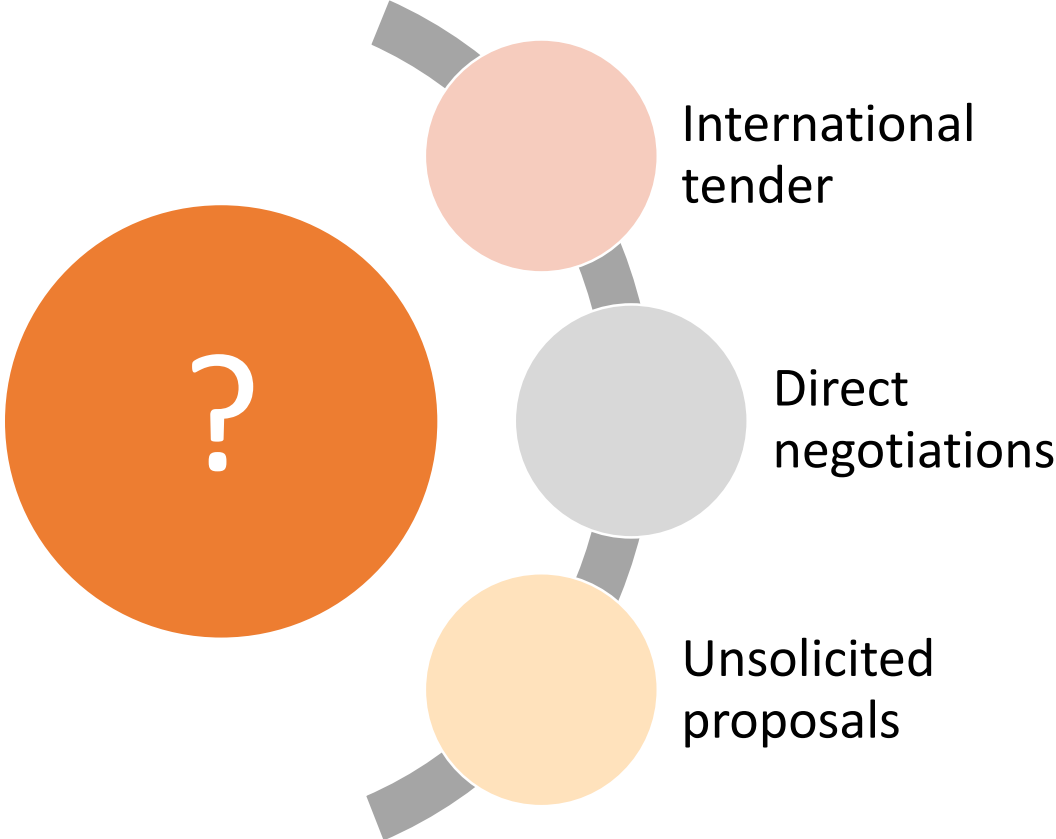
- The shipping lines are the direct customers of the terminals. They are mostly interested in the reliability and cost of calls for their ships.
- Schedule integrity being a paramount requirement of liner services, reliable and consistent container handling productivity, together with guaranteed timely access to terminals through berthing window schemes, will guide their choices of ports of call, in particular for motherships.
- Source: Alphaliner Top 100 2015



Shippers

- The shippers are the ultimate consumers of port services, but they are typically not a party to their organization.
- Widening the range of shipping services available in any given port is in their interest, as it will normally increase the competitive pressure on freight rates and simultaneously expand the number of destinations economically reachable for products distribution or inputs sourcing.
- So shippers will have a vested interest in seeing the concessioning process yield positive results in terms of productivity increase and costs reduction.

The concession routes



International Tender

- The paramount concern of governments and public authorities when entering any kind of public-private partnership arrangement, like a container terminal concessioning process, is to ensure, and demonstrate to their constituents, that it will produce value for money.
- A very effective way to go about this is to organize an open international competition. If properly managed, it will mechanically ensure the port is getting the best possible partner at this particular point in time.
- So whenever possible, organizing an international tendering process should be the preferred option to seek a professional operator for a container terminal.

Direct contracting

- Apart from the usual misgivings about the optimization of contract conditions, direct contracting may also risk losing an opportunity for the port to avail itself of innovative solutions that may come up during an open consultation process.
- But by far the greatest risk remains a sub-optimal agreement where a good deal of the financial benefits gets captured by the concessionaire at the expense of port users.

Direct contracting (cont.)

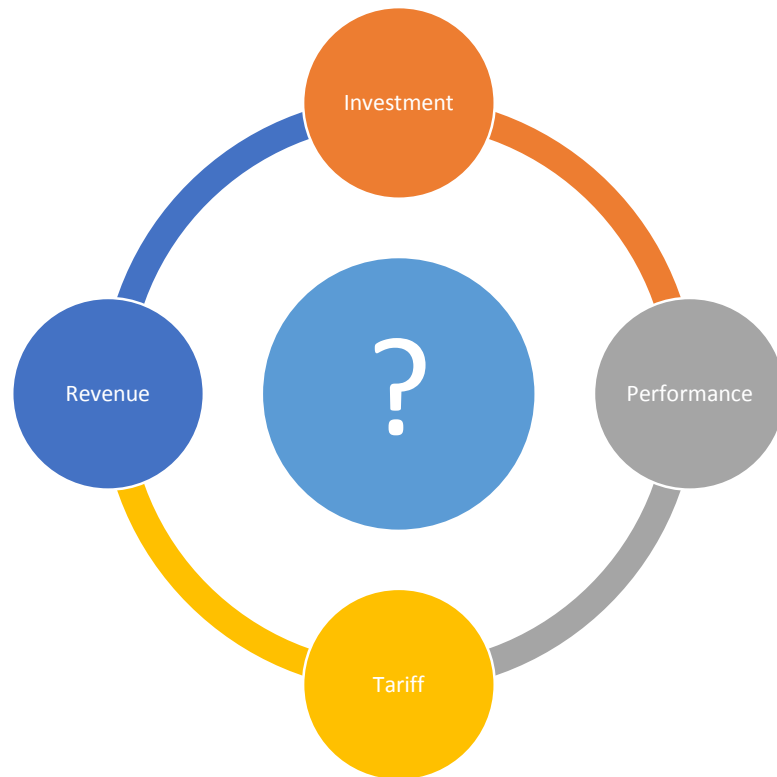
- There are cases, however, where direct contracting may make sense, provided appropriate safeguards are implemented:
 - When an existing facility, operated so far under the “tool port” model with private stevedores, is turned into a full-fledged container terminal (Example: Nigeria)
 - When a shipping line, or a consortium including a shipping line, comes forward with a proposal to build and operate a new greenfield container terminal, possibly aiming also at transshipment activities (Example: Togo LCT)
- In any case, a comprehensive understanding by the port authority of the costs of the new operation and of the appropriate productivity targets to be met by the concessionaire is a must.

Unsolicited proposals

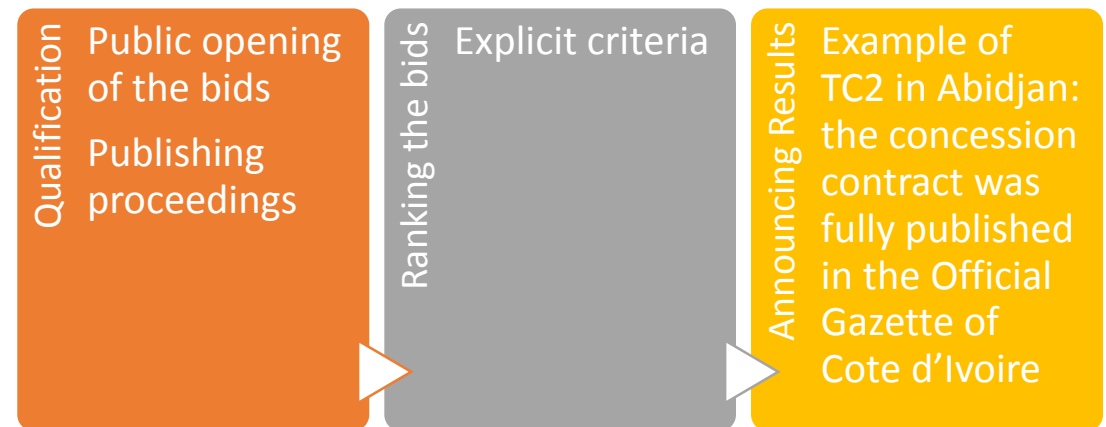
- Openness and transparency must be brought into the process despite the possible confidentiality requirements expressed by the sponsor.
- Should the government or port authority find the proposal may have merit, an advisable way to move the process forward would be to reinject a modicum of competition in it using a Swiss Challenge formula.
- Without a Swiss Challenge, yardstick benchmarking on costs and productivity is imperative in such a situation to avoid settling for a sub-optimal outcome.

Throughout the concession process, transparency is paramount

In the criteria for ranking the bids



In communicating during the process



Managing the Concession Contract

Strategic uses of the concession revenue

- Entry fee is increasingly used by port authorities to finance their commitments in terms of infrastructure:
 - Deepening and widening access channel and turning basin to accommodate larger ships
 - Quays and yard space development
- Annual and royalty / TEU fees are sources of revenue for the port authority, but could have built-in incentives:
 - Decreasing scale to promote traffic growth
 - Variable according to nature of traffic to promote specific activities (transshipment, transit, export, etc.)

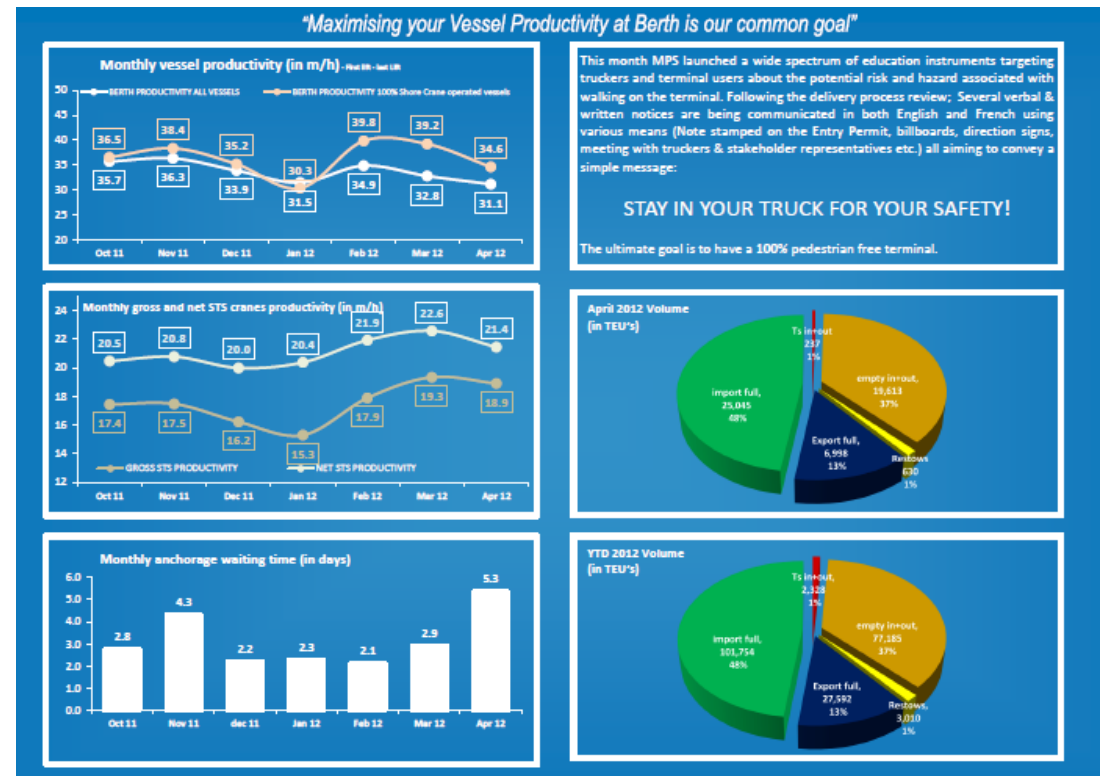
Duration of the Concession

- The duration of the concession should be related to the level of investment:
 - In brownfield terminals, most of the investment is into handling equipment
 - In greenfield terminals, investment also includes infrastructure
- Typically, greenfield concessions need longer duration than brownfield concessions

Port and terminal	Announced investment	Future capacity
Lome – LCT	€352 million (terminal operator only)	2.2 million TEUs
Abidjan – TC2	466 bn FCFA (Port authority) and €400 million by Terminal operator	1.5 million TEUs
Badagry (Nigeria)	US\$2 billion to US\$3 billion	1.8 million TEUs
Lekki (Nigeria)	US\$1.4 billion	2.5 million TEUs
Tema	US\$1.5 billion	Up to 3.5 million TEUs

Public oversight and customer feedback

- Some TOC publish operational performances on their websites, but this is rare, and not often sustained (MPS in Tema was a good example, but it was discontinued)
- Operational performances are in some cases formally reviewed by the Port Community:
 - Single Windows steering committees (Cotonou, Lome notably)
 - Port community in Mombasa



Public information disclosure

Performance of the concession made public on the port website



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Financial report shared with the port communities

For the benefit of all users and final customers of port services

Thank you for your attention

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