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CURRENT ISSUES IN PORTS

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### INTRODUCTION

Generally, I think it would be true to say that ports in Australia tend to maintain low public profiles except for those occasions when industrial unrest or possibly some public demonstration in support of a social or environmental issue thrust them into the lime light.

Decisions relating to the planning, management and operation of ports usually pass unnoticed by the general community although not, depending upon the subject matter, by the local community which is geographically linked to the port nor by that part of the commercial sector which transacts business through the port.

When the Association invited me to deliver a paper at this Conference I decided to take as its theme some current issues in ports. Whilst the issues are discussed against the backdrop of Australian ports it would be wrong to think that some if not all the matters addressed are not also facing other ports.

The paper does not discuss the various legislative provisions and case law affecting individual ports. I leave such matters to those expert in the field.

The paper is written chiefly from the view point of port and harbour authorities and Government controlling agencies which, regardless of their precise legal status, I have referred to as 'port authorities'.

The issues addressed are:-

1. Role of Port Authorities
2. Ownership and Control of Ports
3. Finance
4. Competition and Marketing
5. Operations, Planning and Development
6. Industrial Relations

In one or two places you will see some specific references to the Port of Melbourne. For obvious reasons I am sure you will forgive these parochial inclusions.

1. THE ROLE OF PORT AUTHORITIES

In many cases port authorities being venerable institutions established in the distant past to fulfill obvious commercial and transport needs have tended not to question the role they do or should play today. Most port authorities would agree that their endeavours are for the ultimate good of the "community". However, there is some debate as to the means by which this admirable end should be achieved and as to which "community" is being served.

One narrow interpretation of the "community" is the local area surrounding and including the port. One could say that if each port gives maximum consideration to its own local area then the overall well-being of the state (or nation) will be maximised through direct or indirect effects. Another interpretation of the "community" is the state or the nation. It is this latter interpretation, with the state as the direct focus, which would seem to be most favoured in Australia today.

Even if the "community" is considered to be the ultimate beneficiary of decision-making, there are differing views as to whose interests port authorities principally represent i.e. to whom they give their first allegiance. Three possible alternative principal interest groups are:-



(i) Port Operators

According to this view port authorities should attempt to satisfy the needs and wants of port operators and obtain maximum gains for this group. It is assumed that the "community" will benefit through indirect or secondary effects. Under this scenario it would probably be argued that anything that tended to increase port charges should be resisted e.g. payments to government consolidated revenue. On the negative side of this argument it could be said that there is no way of guaranteeing that direct benefits to overseas shipping companies will stay within the country of the port, nor that benefits to port operators will not be used to increase their profits rather than be passed on to their clients.

(ii) Importers/Exporters

According to this view port authorities should put the interests of importers/exporters first and achieve maximum gains for this group. Thus, port authorities would place more importance on the level of costs to importers/exporters than on the continued existence of an individual port operator. Payments to consolidated revenue would probably be resisted on the grounds that the ultimate costs to importers/exporters would be higher than necessary and that this is undesirable.

(iii) The State

According to this view port authorities should explicitly consider the consequences of their decisions on each sector of the State and on the State as a whole. Thus, the port authority might have to examine the effects on:

- . other transport modes;
- . employment levels and distribution;
- . the generation of money for consolidated revenue.

Allied to this last alternative, port authorities must ask themselves whether they also have a role as agents for achieving government objectives not directly related to ports. For example, it may be expedient to achieve non-port social or economic goals by making one group of port users subsidise another. A further example would be where labour in excess of requirements is retained or newly hired in times of significant unemployment in order to further government social goals.

As well as the advocacy role discussed above, port authorities must question what functional role they fulfil. Once again there are several alternative views;

(i) Landlord

This view holds that port authorities should be essentially landlords, leasing areas of the port and possibly providing services used by all port users (e.g. dredging, security). Moreover, port authorities should not interfere in the cargohandling side of the port but rather they should allow market forces to work without hindrance on the assumption that this will ultimately lead to maximum efficiency and cost-effectiveness.

(ii) Port Manager

This view holds that port authorities should be more than just landlords. They should actively manage the port and oversee the performance of port operators. Thus the port authority would interest itself in matters such as:

- . whether port operators are meeting minimum performance criteria;
- . whether the number of operators should be restricted so that overcapacity does not result;
- . whether aspects of the industry such as vertical integration (e.g. shipping company owns terminal owns depot) are adversely affecting competition and cost structures.



(iii) Port Operators

This view holds that port authorities should go further than just overseeing port operators. They themselves should enter the field of providing cargo and marine services. The undertaking of stevedoring would be one such avenue.

Whilst there is debate over the functional roles discussed above the types of activities described are still fairly traditional in their relationship to ports. However, port authorities are increasingly finding it necessary to consider their role with respect to non-traditional activities. At the easier end of the spectrum are those non-traditional port activities which are still related to trade generation and facilitation. Included among these activities are:

- . trade development centres;
- . trade marketing services;
- . exhibition facilities;
- . free-trade zones (freeports);
- . warehouses.

Whether or not port authorities are in or enter these fields will depend on whether they have the required management skills and whether this leads to the most efficient use of the community's management resources. A counter argument to involvement is that port authorities would be straying outside their major area of expertise.

At the other more difficult end of the spectrum are those nontraditional port activities which are not trade or cargo orientated. Port authorities, in their quest for extra revenue and maximum use of resources, are asking themselves whether they should become involved in areas such as:

- . urban renewal projects;
- . tourist attractions;
- . residential development;
- . airports.

## 2. OWNERSHIP AND CONTROL

With the possible exception of limited-commodity bulk ports, Australian ports are government-owned and controlled although this control is exercised under various management structures. However, as overseas examples have demonstrated, government ownership and control is not the only option.

The ownership and control mechanism adopted for a particular port will depend on many factors including:

- . historical precedent and maintenance of the status quo;
- . "political" influence (e.g. community and electoral sentiment);
- . the advocacy and functional roles which the port is seen to play;
- . physical factors such as size, location and number of operators;
- . the perceived relative merits of free enterprise versus public service control.

One means of controlling ports is to do so at a national level. This national control may be exercised with varying degrees of formality and responsibility but normally would relate to planning and policy areas rather than day-to-day operational matters. I understand the New Zealand Ports Authority would be an example of this. In Australia there is no such formal federal body. There are national bodies at which port issues are discussed, e.g. Australian Transport Advisory Council and the Association of Australian Port and Marine Authorities but these do not exercise any direct control. Criticisms levelled at national controlling bodies are that they are not responsive to the needs of the shipping industry, they are too far removed from the "action" and local peculiarities of operation and they tend to stifle healthy competition and initiative. On the other hand it can be argued that they constitute a better use of resources and a check on the duplication of services.



Government control of ports in Australia has been either through government departments or through semi-government bodies responsible for one or more ports.

Ports are of tremendous economic significance to their regions. In my own port our surveys show that for every one of the 1500 people working for the port authority there are 10 people working out in the port area itself and another 10 spread around the hinterland in employment related to the port's business. When one considers the potential a port provides to generate new economic activity in a region on top of these extremely large employment and income benefits it is not surprising that State governments have paid particular attention to their port systems to ensure they are not just another Government service. The port environment today is strongly competitive, very commercial in its orientation and requires a high level of international awareness and activity. All of these are good arguments for ensuring that port organisations have a fair amount of autonomy and marketing freedom.

Nowadays, the issue of privatisation of ports is being discussed particularly following moves in this direction in Britain and some Asian countries. Privatisation could be achieved by several methods, including the retention of the existing management structure but with invited shareholdings or the calling of tenders for a totally new private management structure.

Privatisation should initially free public equity capital tied-up in a port but ultimately the decision to privatise or not will probably depend on philosophical views regarding the effectiveness of private versus public sector management. A commitment to privatisation also necessitates a commitment to ensuring that a valuable and often unique asset is used in the ultimate best interests of the community. Just how this is guaranteed if government involvement is to be excluded or minimised is very unclear.



3. FINANCE

(a) Port Authority Finances

Port authorities in Australia collect most of their revenue from the traditional sources of wharfage or harbour dues and tonnage plus other sources such as equipment hire, land rental and charges for services. Most ports operate on the principle of at least covering costs. However, in times of relatively high inflation, fairly static demand, increased competition, political pressures and a host of other factors, ports are inevitably faced with trade-offs involving the raising of prices, cutting costs and making losses.

Contrary to some views in the shipping community there has always been a reluctance for port authorities to increase charges and the pressures against increases are just as great today. Governments desire that price increases be below the inflation rate and in some cases that there be no increase at all. Port users also call for virtually no increase in charges citing factors such as depressed trade levels, low margin contracts and availability of potentially cheaper alternative ports.

On the cost side there are also pressures. Containerisation brought with it the need for expensive new facilities. Finance charges represent a large cost for port authorities. Even in areas where savings may be made, these cannot normally happen overnight particularly where labour is involved. Often these savings can only occur through natural attrition.

The matter of contributions to government consolidated revenue by port authorities is becoming increasingly more important. The percentages paid by various Australian ports range from zero for several ports to about 10% of port authority revenue for the Port of Melbourne. The question arises as to whether port authorities should be required to make any payment at all to government.

One view holds that the payment to government should be seen as directly analagous to the return shareholders expect to receive on their equity in companies. Thus, the Victorian government now requires that the people of Victoria, in their role as shareholders in the Port of Melbourne, should receive an equity dividend payment into consolidated revenue of 5% of the real (i.e. current cost) value of public equity in the Port. One would need to be certain that potentially lost trade and higher prices for goods did not lead to overall economic losses to the community greater than the benefits generated by the dividend payment, particularly if competing ports were not also required to pay a dividend.

The opposing view is that by not requiring a direct payment to government, the people of the state are in effect receiving a benefit for their investment in the port in the form of lower port charges and thus (theoretically) cheaper imports and exports. One problem with this view is the need to demonstrate that the benefits of not having a payment to government really do flow back to those having the shareholding, i.e. the general community rather than to specific interest groups.



A further issue facing port authorities (as well as other public bodies) is the valuation of assets and liabilities for both reporting and the determination of prices. Traditionally asset valuation and depreciation have been on the basis of historic cost but there is now a movement towards the use of current cost, normally a system of valuation based on the replacement cost of an asset, but modified where necessary along the lines suggested by current Australian provisional accounting standards. Use of current cost makes allowances for the effects of inflation by reflecting the true current-day value of assets in service and similarly the costs of providing new assets. There is also a move within government for public authorities to report real (i.e. current cost) rates of return on assets.

(b) Costs to Port Operators and Importers/Exporters

As mentioned previously, port operators including importers and exporters continually view as an issue the level of port charges and particularly increases in these charges. As a member of the supposedly offending group I will not comment in detail on the level of these charges but suffice it to say that ports are also faced with increasing costs as well as continued demands for better facilities.

One very important issue currently being tackled on a nationwide basis is the perceived high level of total shore-based shipping costs in Australia. The Federal government has instituted a national task force and state working groups to address this issue. The aim of these groups is to study the shore-based cost structure and determine both operational and institutional reforms which may be implemented - levels of truck queueing are an obvious problem, although a solution is not equally obvious.



4. COMPETITION AND MARKETING

Once containerisation had established the principle of limited ports of call and equalisation of shipping freight charges across ports, active competition between different Australian ports was very low-key up until the last few years. However, changing cargo volumes, changing perceptions of the flow-on effects of port activity, changing perceptions of the efficiency of cargo movement systems and political pressures have all combined to promote the concept of one port competing for the trade of another, be it Adelaide against Melbourne, Brisbane against Sydney, and many other combinations.

Whilst interstate port competition has been seen as acceptable, intrastate port competition has not received much attention. In those States with a body which controls all the ports in the State, non-beneficial competition can be more readily controlled than if separate port authorities are allowed to proceed unchecked.

Some people are inclined to take a "predestination" view to port trade levels, believing that cargo will naturally go through the port to which it is most suited based on geographical and cost factors mostly outside the influence of the port authority and thus port authorities cannot do much to affect trade levels, i.e. the level of trade is fairly much an exogenous variable for the port authority. Alternatively, others believe that the level of trade is an endogenous variable and that port authorities can and should take actions to stimulate trade through their port. Following on from this latter view port authorities are nowadays placing more emphasis on examining the port as a link in the complex transport and communication chain, on trying to identify and meet the needs of particular customers and on being proactive rather than reactive.

Increasingly ports are being seen not just as cargo movers but as trade generators and facilitators. The World Trade Centre operated by the Port of Melbourne Authority is a manifestation of this wider role.

#### PORT OPERATIONS, PLANNING AND DEVELOPMENT

There are a multitude of issues associated with the physical operation of the port and the provision of port facilities. I have listed below some of the major ones:

- . Matching the performance of the port with other links of the transport chain (e.g. road and rail);
- . Introduction of new technology and foreseeing new developments (e.g. high rise container stacking buildings);
- . Introduction of computers both for administrative and operational applications;
- . Examination of the role of stevedores: the potential for amalgamation, sharing of equipment, etc;
- . Examination of the comparative costs of undertaking similar functions within and outside the port (e.g. the unpacking of containers);
- . Making the best use of obsolete facilities either through removal, renovation or alternative use;
- . Determination of what and how many facilities should be provided (e.g. container berths versus multi-purpose berths);



- . Attempting to strike the right balance between investing for the future and making financially viable investments. [Some ports have built facilities when there has been very little evidence of demand for these facilities; ports should satisfy demand rather than try to spuriously create it.];
- . Ensuring that over investment does not occur in the provision of facilities for existing as opposed to future demand. [A port with no waiting delays for berths is not necessarily a cost-effective port.];
- . Ensuring that there is public involvement in the decision-making process (e.g. through Board representation, planning information dissemination, public meetings, etc.);
- . Ensuring that environmental impact assessments are undertaken where appropriate (although this can be costly and time consuming);
- . Making provision for recreational or tourist facilities which may not necessarily be profitable in their own right but which may be socially desirable (e.g. public access points, promenades, "Fisherman's wharf" type developments, etc.);
- . Ensuring that ports give consideration to matters of aesthetics (e.g. landscaping, tree-planting, river-bank treatment, development guidelines, etc.).

A good example of a current issue in port operations is what should be done about the problem of excessive truck queuing and truck demurrage costs. One option is to do nothing on the grounds that the problem is either unsolvable or a natural regulating mechanism; another is to introduce some form of booking system. Even if a booking system is introduced a number of questions still remain:



- . should it be discretionary or mandatory?
- . should it be operated by the terminals, by the road transport industry, or by the port authority?
- . what rules should apply?
- . what level of computerisation should be involved?
- . should it be part of a larger cargo tracking system?

## 6. INDUSTRIAL RELATIONS

Deservedly or not, the waterfront has always had a notoriety for industrial disputes. Over the last few years there seems to have been some improvement in the situation. There are a number of reasons for this including improved consultation and negotiating procedures, the stagnation in world shipping, national wages policies, mutually agreed redundancy packages and attractive salaries and employment conditions.

There has been a dramatic reduction in the amount of labour at the wharfside. The number of Waterside Workers' Federation (WWF) members has decreased since 1975 by about half to a 1985 figure of approximately 6,500, excluding specialised categories such as shipping clerks and electrical workers and fitters.

Whilst the overall workforce may have declined, there still exists a multitude of waterfront unions. The WWF has recently extended its coverage over four other groups being shipping clerks, shipwrights and two fitters groups, but some contend that there is need for further amalgamation even to the extent of having only a single union in the waterfront stevedoring industry. It is claimed that employers will find it easier to deal with a single union (or fewer unions) and that demarcation disputes will be removed. Demarcation disputes have proved very costly to port operators and even to port authorities (one particular example at Victoria Dock in Melbourne is dear to my heart).

The port industry has probably coped as well as anyone has with radical technological change over a fairly short period. It is necessary to ensure future change is also dealt with rationally and to the benefit of all parties. However, the demands of workers in the port industry must be kept reasonable for the industry to remain profitable and a generator of benefits for workers and the community alike.

Often in the past port authorities have stood aside when an industrial problem has arisen in the port and "left it to the operators". This is not good enough for a body charged with the overall responsibility of a port.

## CONCLUSION

As I think will be readily appreciated this paper has only skimmed the surface of some issues facing ports today. What I hope has become clear is that a port does not operate in isolation to the rest of the community. Market forces, political involvement, social and environmental factors all play their part in shaping the character of a port whether it be a new port seeking to establish a present identity or an established port seeking to determine its future role.

Nowadays people's perception of the role of a port is changing and with that change is coming a requirement for port authorities to justify their decisions and actions on a much broader scale than before. How ports react to this changing environment will ultimately decide their own fate.

Finally I should like to thank my colleagues - Mr. Dale McMenamin, Corporate Planning Manager and Miss Dorothy Davies, Assistant General Manager, Corporate Services for their assistance in the preparation of this paper.