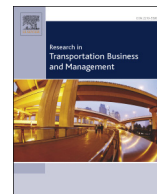




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Reforming public port authorities through multiple concession agreements: The case of Cyprus

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ABSTRACT

There has been a continuous restructuring of port systems and governance models that deal with the organization and administration of the ports. The main reasons for such restructurings are related to the need for increased commercialization of ports, the inefficient administrative structure, the inability to operate through the application of modern commercial practices and inefficiency in capital investments and in operation. This paper describes and analyzes contextual issues leading to the initiation of port reforms as well as the implementation process and the envisaged outcomes following the changes in governance structure of the Cyprus Port Authority and the main port in Cyprus, the Port of Limassol. The port consists of a container terminal, a general cargo/multi-purpose/ro-ro terminal, and a passenger terminal all operated by the authority. In addition, the CPA was the main provider of marine services such as pilotage, towage etc. The objective has been to commercialize all terminals and marine operations either through one (single concessionaire) or multiple concession agreements. Reference is made to the underlying reasons and need for port reforms. The model adopted prior to the port reform process is described as well as the transfer of responsibilities to the newly created corporate entities. In addition, reference is made to the outcomes of the reform process and in particular the change in governance structure to a more distinct landlord model, the increased financial returns in the short and long term, the changes in pricing and the legal and regulatory reforms and the efficiency changes envisaged.

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1. Introduction

A contemporary model of port governance must safeguard adequate and economically viable investments in port superstructure and infrastructure whilst facilitate the efficient flow of goods and passengers through the port and protect the port system from monopoly situations as well as serve the general interest of the public and other stakeholders. There has been a continuous restructuring of port systems and governance models that deal with the organization and administration of the ports. Such governance models are well described in the extant literature (e.g. Baird, 2000, Baird, 2002, Baltazar and Brooks, 2001, Brooks, 2004, Brooks & Cullinane, 2007, Brooks & Pallis, 2008, Cullinane & Song, 2002, Everett & Robinson, 1998, Ferrari & Musso, 2011, Hoffmann, 2001, Notteboom, Langen, & Wouter, 2013, Pallis & Syriopoulos, 2007, Verhoeven, 2010, Pallis, Vitsounis, & De Langen, 2010, and Verhoeven & Vanoutrive, 2012). Ferrari, Parola, and Tei (2015) and Vieira, Neto, and Amaral (2014) provide thorough reviews of the relevant literature. The main reasons for such restructurings are related to the need for increased commercialization of ports, the

inefficient administrative structure, the inability to operate through the application of modern commercial practices and inefficiency in capital investments and in operation.

Suykens (1988) and Suykens and Van de Voorde (1998) identified three major port governance traditions in Europe. The first is the 'Hanseatic' tradition of local, mostly municipal, governance, which is dominant in ports around the Baltic and North Sea; the second is the 'Latin' tradition of central governance, which reigns in France and countries around the Mediterranean; and finally, the 'Anglo-Saxon' tradition of independent governance, which is a characteristic of ports in the United Kingdom and Ireland.

Port governance practices have evolved over time resulting in a declining influence for port authorities, the consolidation of traditional port operating actors such as stevedores and cargo-handling companies and the proliferation of global players that have gained bargaining power (Heaver, Meersman, Moglia, & Van de Voorde, 2000; Heaver, Meersman, & Van de Voorde, 2001; Slack & Frémont, 2005; Olivier & Slack, 2006; Jacobs & Hall, 2007; Vanelander, 2011).

The aim of this paper is to describe and analyze contextual issues leading to the initiation of port reforms as well as the implementation process and the envisaged outcomes following the changes in governance structure of the Cyprus Port Authority and the main port in

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Cyprus, the Port of Limassol. The paper examines the port reform process of Cyprus which represents a very interesting case study due to the fact that the port consists of various different port terminals (container terminal, general cargo/multi-purpose/ro-ro terminal, passenger terminal and marine service operations such as pilotage, towage etc.) and the objective has been to privatize all at once either through one (single concessionaire) or multiple concession agreements. Reference will be made to the underlying reasons and need for port reforms which the literature has generally attributed to economic reasons (capital investment and efficiency reasons). The model adopted prior to the port reform process will be described as well as the transfer of responsibilities to the newly created corporate entities from joint ventures of local and foreign corporate entities. Other questions that will be answered include: which are the details of the port governance model in place and how it relates to generic port governance models? Which options have been endorsed as regards ownership; which is the role of the incumbent Port Authority and how it has devolved? What is the new role of the new, reformed port authority? Which have been the strategic objectives targeted via these reforms? Have there been any difficulties in implementation? What has been the role of private actors (i.e. stevedoring companies etc.), and other stakeholders (i.e. hosting communities) and institutions in shaping port governance? What type of conflicts between government regulators (or owners), managers, customers, local community stakeholders and the like were observed? Have port governance reforms been effective in achieving governments' intentions? Beyond serving governments intentions, have the endorsed port governance models been appropriate to resolve problems and challenges?

2. Port governance models

Port authorities and governance models have been classified based on whether state port authorities assumed responsibility for their operations, hence the distinction to landlord, tool and service ports. The customary way to classify port authorities in operational terms is to distinguish between 'landlord ports', 'tool ports' and 'service ports', depending on whether, respectively, port authorities are not involved in (cargo-handling) operations at all, operate superstructure and related services or provide full operations in an integrated manner (World Bank, 2007). The tool port (a mixed model where private sector operators perform some of the operations but under the direction of public sector managers) and the landlord port (the public sector retains ownership while the terminal management and operations are leased to private sector operators). The landlord function can be considered as the principal function of contemporary port authorities. Important issues here are land ownership, as well as the ability and autonomy in contracting land out to third parties. The regulator function is to a large extent performed by the harbour master's office, which can be an integral part of the port authority structure or a separate entity. As a response to this evolution, several port authorities reposition themselves by adopting pro-active strategies and developing activities in other nodes in the logistic chain, outside their own port perimeter.

Existing literature discusses the importance of port governance, in particular the role that port authorities have gained since the 1980s when organizational changes were made to the world port's governance system (e.g. Goss, 1990a, 1990b). The reforms included the creation of a public body – i.e. the Port Authority – responsible for (1) managing port spaces and operations and (2) awarding concessions to private companies for operating port terminals. Under this new framework, port authorities would control concession contracts, which means that they would not only be responsible for assigning the right to use port land to terminal operators, they would also assure constant growth for the port and balanced development for the port region. The port authorities achieve this by reducing negative and encouraging positive externalities (Hall, 2002; Meersman, Van de Voorde, & Vanelander, 2009; Ferrari & Musso, 2011).

Baltazar and Brooks (2006) developed a theoretical approach to the concepts of port governance and proposed a conceptual model of governance called 'matching framework', based on contingency theory. The model contains three elements: (1) the operational environment, mainly its complexity and dynamism, (2) the established strategy defined by the product-market scope and vision and (3) the structure, considering the degree of centralisation and standardisation of operations. The application of the model is accomplished by checking the degree of fit between the elements (Environment-Strategy, Strategy-Structure and Environment-Structure) and the evaluation of performance indicators.

According to Verhoeven and Vanoutrive (2012), port governance is a broad concept, which encompasses seven distinct groups of parameters that can be used when analyzing governance practices including: (i) devolution, (ii) corporate governance, (iii) operational profile, (iv) functional autonomy, (v) functional pro-activeness, (vi) investment responsibility and (vii) financial autonomy.

Vieira et al. (2014) also provide a systematic review between governance, governance models and port performance, an approach and relationship that seems to have been well-established in the literature on port performance. The authors state that although the existing models make a contribution, they allow gaps in terms of evaluating governance outcomes, identifying governance elements and discussing governance actions. These gaps make it hard to answer the basic questions associated with governance models: Who governs? What is governed? How is it governed? And for what is it governed?

Gonzalez and Trujillo (2008) quantified the evolution of technical efficiency in port infrastructure service provision in the major Spanish port authorities involved in container traffic and analyzed the extent to which port reforms that took place in the 90's had an impact on the efficiency of the Spanish container ports. The results showed that the reforms resulted in significant improvements in technological change, but that technical efficiency has in fact changed little on average. However, there was a significant movement of the efficiency within ports over time as a result of these reforms.

Cheon, Dowall, and Song (2010) evaluate how port institutional reforms influenced efficiency gains between 1991 and 2004 by constructing a panel data for port ownership, corporate structure, and port inputs and outputs for 98 major world ports, and implementing the Malmquist Productivity Index (MPI) model. The results illustrated that ownership restructuring contributed to total factor productivity gains and that the restructuring induced optimized operation of container terminals, especially for large ports, as it allowed specialized private entities to concentrate on terminal operation and cargo handling services.

Similar reasons have been provided for the need to reform ports and introduce new modern methods of port governance in studies taking place in the context of Greece (Pallis & Syriopoulos, 2007), China (Wang, Ng, & Olivier, 2007) and Mexico (Estache, dela Fe, & Trujillo, 2004) among others.

Lacoste and Douet (2012) discuss the adaptation of the Landlord port model to major seaports in France following the French port reform process of 2008. This reform was implemented according to local conditions, and according to the activities of ports and terminals in comparison with other major European ports. This paper analyses the new organizational set-up and gives details about their features. Using the Matching Framework of existing literature, it assesses the degree to which the new structures and new strategies match and provides a before and after assessment of French ports in terms of environment, structure and strategy. It is concluded that the landlord model has been adapted with the involvement of the State (governance) and of the port authority (concessions) and also highlights the risk posed by State interference in the context of this adapted model.

Cariou, Fedi, and Dagnet (2014) provide a thorough account of the port reform undertaken by France in 2008 and coming into force in the period 2010–11. The authors indicate that the restructuring applied mostly a landlord port model to major French seaports with the prediction that doing so will restore competitiveness. It was also recognized

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