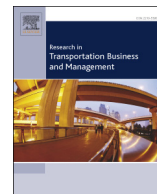




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# Port governance in Turkey The age of the global terminal operators

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### ABSTRACT

This paper investigates port governance in Turkey from the point of institutional economics and industrial organization. As a newly industrialized country, Turkey still achieves high growth rate and continuous development of global trade. As a result of high volume of trade, the role of ports raises its importance, and it attracts global investors in the port business. Turkey has focused on port devolution in the last two decades, and both domestic and global investors have been authorized to establish new port facilities as well as operating existing ports. Meanwhile, the national logistics industry has achieved a great leap which is also improved by the development of port business. Under various national and global circumstances, a synopsis of port governance in Turkey will be discussed from different perspectives including institutional changes and transport policy. This comparative case study particularly focusses on the last two decades in transition of public ports to various forms of private entities. The change of governance scheme is investigated through its impact on cargo traffic (especially containerized cargo) as well as logistics infrastructure in brief.

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### 1. Introduction

Transfer of hardpower (coercive power and governance of public institutions) from public to private firms is a common aspect in many national development stories. Although governments tend to retain some critical facilities and services even after reaching a certain level of development, most of the public firms are usually handed over in other forms of business entities and private business groups in particular. As a developing country, Turkey experiences a similar evolutionary stage with its boosting merits as well as drawbacks. Port industry within Turkey was built by government intervention as in many other countries. Since port business usually needs huge initial establishment cost while revenues are very low for an undeveloped country. However, the image and structure of port industry rapidly changed in the last two decades which in turn has initiated redesign of the entire transport and logistics infrastructure. Regionalization of ports and their hinterland is a rapidly growing trend in some major waterways (e.g. Izmit Bay and the greater area of Marmara Sea) in connection with the development of logistics services Notteboom and Rodrigue (2005), Pettit and Beresford, 2009). As in Pettit and Beresford (2009), some logistics services are going to be merged into port systems which significantly changed the role of ports from a traditional gateway concept to a more functional and

multi-dimensional form. For example, some business groups have invested in both logistics know-how and port facilities to extend and improve their own logistic needs, but also operate for other customers (e.g. Borusan Co.) Accordingly transport network and facilities on sea-side districts have needed to be improved and adapted to the new setting of ports and utilities in other words the new upturn of trade.

In Ducruet (2007), a number of Turkish ports are investigated in terms of integration type and centrality. Based on this study, Istanbul is found in declining trend while Izmir improves its integration and centrality through sea-land, port-city and logistics-intermodality dimensions. Port-city interface is a great challenge in major Turkish ports as in many developing countries (Hoyle, 1989; Ducruet and Lee, 2006). The declining integration and centrality of Istanbul is broadly led by the lack of long-term projections and expansion of urban areas. The leading container terminal of Istanbul was Haydarpasa at the time of Ducruet (2007)'s analysis which is surrounded by geographical boundaries and is located at the heart of a metropolitan. In contrast to many of its competitors, Haydarpasa Terminal does not have flexibility of land reclamation and expand through encroaching waterways due to heavy marine traffic of Istanbul Strait. Therefore, some major terminals around metropolitans lost their growth potential, and even some terminals are going to terminate their operations completely.

Institutional port reform within Turkey is initiated by the operational limits of public ports as well as the globalization phenomenon (Rodrigue, Comtois, & Slack 2013). Port devolution is the essential aspect of the institutional change in the port industry of Turkey. One

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of the major questions at this significant change is centered around the management of public-private transfer and establishment of post-devolution mechanisms to secure safe and fair use of port infrastructures. The procedure for port devolution has always been a popular topic in the national media, and it is always questioned in terms of fairness as well as whether there is room for corruption. There are many private terminals (dry and wet bulk, container) established before the age of port devolution, and fairness becomes a critical topic with increasing degree of port competition. Vining and Boardman (2008) discussed common problem in PPPs, and it is not clear whether the fundamental requirements of a successful and fair process are followed in Turkish port devolution experience.

Based on the taxonomy of port governance and devolution models of Brooks and Cullinane (2006) (also World Bank typology of ports), the Turkish port devolution case is substantially figured by *commercialization* among other forms of port devolution (i.e. decentralization, corporatization, privatization). In the Turkish port devolution model, control of operations and management is transferred to new entities (i.e. contractor company) with the market risk for a predefined period while new capital assets (renovations are strictly required) are expected to be transferred to the government at the end of the contract. The national law enforces the public ownership of sea areas and eliminates transfer of ownership to private entities. The periodic lease of sea sides for a predefined period (usually 49 years) is the current and previous practice. Based on this fundamental legislation, a complete privatization is illegal and not an example for Turkish port devolution experience. The port devolution contracts (usually auction based) between contractor firms and the government (e.g. Turkish State Railways (TCDD Ports) – See Section 2) require the protection of assets (equipment) and also modernization of these assets. At the end of the contract, port facilities must be transferred back at the quality (level) of delivery time. The regime behind the asset management defines a clear difference from corporatization.

Most commercialized port facilities have geographical, structural and size advantages which are not well utilized under the public ownership. Regarding *the matching framework* (Baltazar and Brooks, 2006), environment and potential of port regionalization (Notteboom and Rodrigue, 2005) have evolved with the volume of trade and globalization in general while strategical and structural development have needed private company perspective. With the great economic recovery of 2003–2007 period, newly commercialized ports have improved utilization levels significantly. Although port competition is a new thing in the national market, it caused several conflicts between enterprises. In a recent resolution, the use of maritime spaces (utilization of water side, the hintersea) has finally been agreed between Yilport and Altintel after many years of conflict between neighboring chemical storage and handling terminals. In contrast to a competitive environment, a similar group of terminals needs to cooperate on the defense of new chemical storage facilities and extension policies against local community and administrative courts. There is no doubt that the governance of the devolution process as well as utilization of port utilities is not well studied and proactively designed by relevant public institutions (e.g. Ministry of Transport). Therefore, recent public officials have needed to deal with several conflicts accumulated in the period of port expansion and devolution.

The governance model of Turkish public ports falls into the *service port* model to a large extent. Past commercialization experiences are typical examples of *tool port* model while recent port devolution projects are governed with more of a *landlord* type. Considering the transition between two governance models implemented with port devolution strategies, a new governance regime is promoted in the current port devolution projects, and it is simply arisen from the need for large investments to infrastructure and superstructure. Private and commercialized ports do not directly fit into the private port governance definition of the World Bank typology (World Bank, 2007). These ports may be classified as *corporatized ports* or private ports without a complete ownership of land and sea facilities.

While the problems of port development have raised a critical agenda, the organization of corresponding public institutions changed and centralized at the macro level. Maritime governance was represented by 'Undersecretariat for Maritime Affairs' directly connected to the office of Prime Ministry till the current consolidation of transport governance under the *Ministry of Transport, Maritime Affairs and Communications*. The consolidation of transport governance has improved central decision making considering the integrated transport perspective. Problems regarding the port governance may be investigated in broader consensus of other transport facilities and public policy makers. On the other hand, the consolidated (centralized) form is always criticized by non-governmental transport communities with the loss of 'maritime focus'. As a fundamental transport infrastructure, ports are probably less influenced from any drawbacks of the consolidation compared to other maritime business activities such as ship owning or ship building.

In the last decade, several port projects including large-scale container terminals have been proposed to Turkish government. While investigations and social adoption in the local community required long time before bringing these projects into life such as Dubai Ports (DP) World Yarimca Terminal or APM Aliaga which is one of A.P. Moller-Maersk Group's Terminal (many projects were also declined). Foreign direct investment played a significant role in the development of the national port industry as well as the port governance regime. New institutional players, global terminal operators (GTOs), has also influenced the role of central government and the format of communication between ports and the government which was in more of a traditional way before 2000s. Therefore, global terminal operators did not only change the capacity of port operations but also changed the way ports are treated by the local and central government. With the institutional economic lens, Foreign Direct Investments (FDIs) and global terminal operators have also imported the institutional framework as intangible assets to the national market. Although GTOs do not necessarily improve port efficiency in various global examples (Cheon, 2009), the outdated facilities and terminal equipment in public ports have needed to be modernized rapidly to close the gap in regional port league in addition to handle growing volume of cargo traffic. Some new port facilities (including projects with land reclamation in Izmit Bay area) have extended the national port capacity.

Meanwhile some domestic ports invested in foreign ports and extended their business in the industry such as Yilport's acquisition of Tertir-Terminais de Portugal (Yildirim Holding is also 24% shareholder of CMA CGM, one of the major carriers in the world). In addition, some domestic ports have invested significantly to increase port capacity such as Safi Port Derince is going to be the largest port facility in the entire country. The new port governance regime and the exchange of know-how through foreign direct investments (FDIs) and expansion projects particularly develop the 'port business' environment in two major hinterlands, Marmara and Ege regions, which are the fastest growing districts in Turkey.

As a result of port expansion and the increasing number of players in the industry, the national port operators' association (Turklim) emerged in the mid 1990s. Since then both professional and academic interest on the port governance has increased, and the association has also invested in developing cooperation to represent themselves properly at the public platforms including inquiries to the Ministry of Transport and other relevant governmental bodies. Regarding the hollow-out government and deregulation trends in the developed world, Turkey follows a middle pathway in which some public instruments (i.e. hardpower) are transferred to non-governmental entities while restructuring its public governance scheme. In the current status of Port Governance in Turkey, instrumentation is broadly based on traditional forms, and it is still distant from quasi-regulation or 'governance without government' paradigms (Duru, 2014). As an administrative agency, the Ministry of Transport still retains its rule-making capacity at the large scale and the ability to exercise its coercive power in most cases. Considering the centralization prospects of the current ruling party, further

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