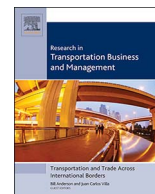




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## Realities and challenges of port alliance in Japan — Ports of Kobe and Osaka

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### ABSTRACT

Japanese ports have played a unique twofold role, managing marine terminals and at the same time developing seafront of their port cities for multiple uses. Due to this duality in role, ports are considered inseparable from the city's overall management, leading to port management by general local administration. Increasing competition with ports of East Asian countries, however, has compelled the national government to press major ports to make their terminals more efficient and competitive. Under the latest national port policy, Kobe and Osaka joined forces to form up the first strategic port alliance in the country. They established a joint port company in 2014 to manage their terminals in an integrated way. This paper investigates the Kobe-Osaka port alliance to assess how it works in reality and also discusses challenges and business opportunities. It is based on intensive interviews together with an overview of the historical evolution of Japan's container port policy and also a comparative analysis with recent cases of port alliance around the world. For Kobe and Osaka, in order to make the most of the synergy of this alliance, strengthening the autonomy of the port company and implementing a range of logistics strategies are important issues.

### 1. Introduction

In Japan, there were 11 major metropolitan areas of population over one million according to the 2015 national census. Due to its mountainous national land, they are all developed on the coastal planes of the country. In particular, three largest metropolitan areas of Kanto (population of 37 million), Chukyo (9 million) and Kinki (19 million) are all developed along the large bays, namely the Bays of Tokyo, Ise and Osaka, respectively. Historically, large port complexes have played a role of critical importance to the economic as well as urban development of these bay areas. They have developed not only marine terminals for domestic and international shipping, but also spaces for industrial and urban activities through extensive land reclamation in the bays.

Since mid-1960s, as major ports located literally next to each other in the respective three bays were rapidly expanded, it had become necessary for them to mutually coordinate their physical developments, taking fully into consideration the spatial constraints and natural environment of the bays. Cooperation among the neighboring ports of the large bays, therefore, has long been a necessary practice. Until recently, port cooperation had focused on the development of infrastructure (i.e. terminals, bay area highways, etc.) and reclamation, but not much on terminal operations. However, intensifying competition with other countries' ports such as Busan, Korea, has changed this trend. Major ports of the three large bays gradually started working together for

more proactive steps to strengthen their competitiveness, while the national government also provided legal and, in some cases, financial supports to their port cooperation.

In 2014, under a new national port policy, the ports of Kobe and Osaka jointly established a port management company, the Kobe-Osaka International Port Corporation (KOIP), to merge their container terminal business. The national government also quickly took part in the company as a shareholder. This is the first alliance of container ports in Japan. It is not the merger of the two port authorities, but that of their container terminal business, retaining the mother port authorities running separately as before.

This paper investigates the Kobe-Osaka port alliance to assess how it works in reality, identifying its strengths and weaknesses, and also discusses challenges and business opportunities, taking into account recent changes in port environment. First, it overviews recent cases of port cooperation around the world to find out cases similar to the Kobe-Osaka alliance. Second, it discusses port governance in Japan as a basis of the national port policy, the historical evolution of which is detailed in the third section. Fourth, based on intensive interviews, the Kobe-Osaka port alliance is fully examined with respect to the forming-up process, mission and business scope, organizational set-up, and main strategies and undertakings. Fifth, it discusses the basic characteristics and shortcomings of this port alliance, comparing with other relevant cases worldwide. Also it explores challenges to strengthening the port alliance and furthermore business opportunities in developing port-

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centric logistics services. It concludes with a summary of findings and some lessons for other ports.

## 2. The emerging strategy of port cooperation

### 2.1. From competition to cooperation

As much discussed, growing containership sizes together with hub and spoke shipping system have exerted pressures on ports to invest heavily in development of deep water terminals and deepening of access channels (Davidson, 2014; Drewry Maritime Research, 2014; Ng, 2006; OECD/ITF, 2015). But not all the ports can afford to continue this kind of survival game, requiring a huge amount of funds, yet at the same time with risk of duplicating a similar investment by its neighboring ports for the same hinterland. This is particularly the case when slow economic growth continues persistently. Song (2003) stressed that it would be the time to consider cooperation rather than competition with neighbors, although his discussion dealt only with cooperation strategies of terminal operators. But this is also applicable to port authorities.

Another factor driving port alliance is on-going carrier consolidation and resulting loss of bargaining power of port authorities in the market. As the oligopoly of container shipping is intensified, their power easily exceeds that of a port authority. In July 2017, carrier alliances were reformed from previous four groups to three, 2M, Ocean and THE. They together account for 77% of global container capacity (Flexport, 2017). They are reportedly to control more than 95% of the East-West trade lanes. Unless a port is strong and large enough to retain a selling power to the shipping alliances, therefore, ports in proximity might consider it more practical to join forces instead of competing each other in order to retain or restore, at least to some extent, their bargaining powers to shipping lines. Similarly it may apply to port strategy to deal with global terminal operators and giant global shippers.

Furthermore, in the era of global supply chain, port is no longer a mere interface between sea and land transport, but is a link of integrated logistics systems (Notteboom & Winkelmans, 2001; Robinson, 2002; Van der Lugt & De Langen, 2007). In other words, a port does not just compete with neighbors on the basis of terminal performance but also the quality of end-to-end logistics system through the port. To cope with this change of port environment, some ports in proximity might find it more effective to jointly enhance hinterland access and develop efficient port centric logistics systems rather than do the same independently.

### 2.2. Global overview of port cooperation

With these backgrounds, various types of port cooperation have been increasingly witnessed in recent years around the world (Notteboom, Ducruet, & de Langen, 2009). Among others, two types of motivations are considered as major triggering forces behind them, namely “common threat” and “common need”. Common threat is shared among neighboring two or more ports of the same region or bay area, typically, when facing a loss of combined market share and the emergence of a common competitor. Common need is also shared among them, but when facing identical requirements, internal and external, such as improvement of hinterland access, community relations and port environment.

Recent cases of port cooperation triggered by a common threat are found quite a few. For instance, the ports of Copenhagen and Malmö were merged into a single port corporation, CMP, in 2001 (Inoue, 2000). Both ports made such a drastic decision when the opening of Öresund Bridge directly connecting the two port cities was about to take away virtually all ferry services between the two ports, resulting in roughly 20% loss of the revenues and 50% loss of profits for both port authorities (De Langen & Nijdam, 2009). In 2014, the ports of Kobe and

Osaka set up a joint company to manage their container terminals, which will be examined in detail later. In 2015, the ports of Seattle and Tacoma located in the Puget Sound of Washington State, US, established a joint organization to manage all their marine cargo terminals (Knatz, 2016). Over the decades, they had fiercely competed for Asia-US container trade to the local market as well as Midwest, aiming to become the gateway of the Northwest America. While they were fighting each other within the Sound, however, the neighboring Canadian ports of Vancouver and Prince Rupert were rapidly developed, taking over the containers for the same hinterland of the American continent. As a result, Seattle and Tacoma's market share of the total Northwest ports fell from 85% for 1990 to 51% for 2013 (Ocean Shipping Consultants, 2014). It was when the two ports' boards of directors fully recognized the common threat of losing more market share in the years ahead that such a long lasting inter-port competition turned into an unprecedented port cooperation in US (Morrison & Chamberlain, 2015).

An interesting case of the common threat type of port cooperation is HAROPA in France. In 2012, the ports of Le Havre, Rouen and Paris, all along the Seine River, established an Economic Interest Group, called HAROPA, to join forces to develop efficient end-to-end logistics system to meet specific needs of various customers in the Seine region which includes the French capital (Ducruet, Joly, & Le Cam, 2012). All three ports are complementary rather than competing in function with Le Havre being the modern ocean gateway of the region, Rouen the well-developed logistics center for a wide variety of goods, and Paris the efficient river port located at the very heart of the capital. In fact, some 40% of cargos to/from this region are handled by the neighboring countries' ports such as Antwerp and Rotterdam (Merk et al., 2011). By combing the different strengths of the partner ports, HAROPA is tasked to not just provide better logistics service to the Seine region but also bring back these cargos to its own port system. Therefore, this is considered as another case triggered by a common threat.

As for port cooperation responding to a common need, many cases can also be found around major ports. For instance, the ports of Los Angeles and Long Beach, the US 1st and 2nd gateway ports located in the San Pedro Bay, California, jointly sets up the Alameda Corridor Transportation Authority in 1989 (Goodwin, 2012). Its mission was to develop an efficient rail corridor of sufficient capacity for the two rapidly growing ports without aggravating urban traffic and environment of the Los Angeles metropolitan area. Furthermore, in 2006, the same two ports took a joint initiative called the San Pedro Bay Ports Clean Air Action Program (CAAP). This was the pioneering landmark of comprehensive strategy to cut port-related air pollution and reduce health risks (Ports of Los Angeles & Long Beach, 2006). The two port authorities were fully aware of the critical need for the nation's largest port complex to operate environmentally friendly for their sustainable development in the years to come. In 2008, the ports of Vancouver, Fraser River and North Fraser in Canada were also amalgamated into a single large port, the Port Metro Vancouver, as part of the nation's Asia and Pacific Gateway and Corridor initiative (Ginnel, Smith, & Oberlander, 2008). The three ports were rather complementary, being different in size and cargo handled and also space availability, but shared strong needs for future growth. In 2009, the ports of Rotterdam and Amsterdam jointly launched a new port community system (PCS), Portbase, by merging their respective PCSs, Portinfolink and Portnet (Wortelboer-Van Donselaar & Kolkman, 2010). It aimed to provide customers of both ports with a single platform facilitating efficient exchange of information and documents between all parties involved in their port logistics systems.

### 2.3. Dimensions and types of port cooperation

Through the global overview of port cooperation, several dimensions characterizing each of them have come out, including functional type, business scope, inter-port relation, and motivation. While

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