

Regul, Rudolf

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Elements of a European Ports Policy

By Professor Rudolf Regul, Baden-Baden

Shipping and ports are like Siamese twins: neither can live without the other. The trouble is that due to rapid technical progress in shipbuilding it has become difficult to provide the shipping industry with both in the right proportion and at the same time.

Ports are part of the infrastructure — communal assets — and as such distinguished by a long useful life, notable external — and frequently supranational — effects, operational deficits and an absence of market prices. Infrastructure investments are a kind of public spending "which though expended on public goods, constitutes investment in so far as present expenditure is matched by future earnings".¹

The existence, side by side and in conjunction with each other, of private and public assets sets national economies (of the West European type) a difficult task. For this reason the EEC Treaty made, broadly speaking, no attempt at defining the relationship between the state and the private economy in terms of model theory. The problem is however time and time again coming into the open — as has happened in the context of the efforts for a "coordinated ports policy".

Ports as Economic Units

What is a port? Is it a commercial undertaking which must yield a long-term profit? Or a public utility unavoidably operating at a loss, like state-run railways or postal services or, perhaps, the Paris métro? Or is it a somewhat loose organism carrying out a variety of activities? The British philosophy found expression in the Rochdale Report² which said: "As far as the major ports are concerned, we entirely reject the concept of 'public service' in so far as this may be held to limit the authorities' responsibility for conducting their financial affairs on the basis of sound economic and accounting principles . . . we see no reason why the major ports should not be treated for this purpose as commercial undertakings." How this can be made to accord with the plans — postponed in the meantime — to set up a National Ports Authority may be left open. The crea-

tion of Maritime Industrial Development Areas (M.I.D.A.) appears in any case, as far as can be judged from the — not very clear — concepts, to be guided mainly by planning motives and is probably also regarded as an exception in Britain.

Similarly, it was stressed in the Seifriz Report and the Seefeld Report of the Transport Committee of the European Parliament that a coordination of ports activities must be based on market economy principles.³ On this point the Seefeld Report was even more forthright. Apart from the unloading facilities for giant tankers for which a planning policy was recommended, "all other investment questions are . . . for the time being to be left to be decided by competition between governments, countries, municipalities, port administrations and private firms. The eventual division of labour is, in principle, to emerge from such competition and not to be marked out as the aim of the Community's ports policy."⁴

It is difficult to make sense of the call for "competition between governments, countries and municipalities". An elementary prerequisite of competition is lacking if there are no market prices. The "allocation of resources" mechanism cannot start functioning in this case. Cost-benefit analysis may be a means of better coming to grips with these problems, but only if there is genuine harmonisation of discounting rates, and this implies a properly operating monetary union. We shall perhaps move a little nearer to a solution if we separate the institutional side from the technical-economic structure and make a distinction in both respects between infrastructure capital and its financing, on one side, and the transport users, on the other.

¹ Cf. J. Jacques Stohler, Zur rationalen Planung der Infrastruktur (On the rational planning of the infrastructure), in: Konjunkturpolitik 11, (1965) 5, p. 294. Also René L. Frey, Infrastruktur (Infrastructure), Tübingen 1973.

² Report of the Committee of Inquiry into the Major Ports of Great Britain, 1962, p. 60.

³ Zwischenbericht im Namen des Verkehrsausschusses über die gemeinsame Seehafenverkehrspolitik (Interim Report on behalf of the Transport Committee on the common seaport transport policy). Reporter: Seifriz (DOK 140/67 of the sessions documents of the European Parliament).

⁴ Bericht im Namen des Verkehrsausschusses (des Europäischen Parlaments) über die Seehafenpolitik der Europäischen Gemeinschaft (Report on behalf of the Transport Committee [of the European Parliament] on the seaports policy of the European Community), Reporter: Seefeld, April 12, 1972, DOK, 10/72, p. 21.

The institutional arrangements are in some way related to the injunction against vitiation and distortion of competition in the Common Market. The EEC Treaty provides contingency treatment for the maritime traffic. Decisions on sea transport are, according to Article 84 (2) a matter for the Council, acting by an unanimous vote. Such decisions did not hitherto have to be taken. Investments are governed by Article 92 (1), which forbids, with certain exceptions, any state aid favouring certain enterprises or productions. Grants to German ports hit by the separation of the zone and to depressed areas in the interest of regional development are among the exceptions deemed compatible with the EEC Treaty.

Institutional Arrangements

Before stipulating competition as a regulator and coordinator for port investments one would have to know whether and to what extent the individual ports are organised as undertakings operating according to private commercial considerations (if not with the aim of maximising profits, at least with that of covering costs!) or as a public service. In the latter case distortion of competition and operation at a loss are almost unavoidable components of the system. Competition in a pure form befitting a market economy would exist only if the public authorities abstained from all interference and the port administrations did without discriminatory tariffs.

The first and foremost difficulty standing in the way of a coordinated ports policy is the existence of mixed and differentiated systems in the Community.⁵ In some countries the ports are in the sole ownership of the state or regional authority; in others Chambers of Commerce, municipalities and the state are joint owners. The management of the port may be in the hands of one or several private firms which often operate shipping services on the sea or even on inland waters as well. In France and, similarly, in Italy there are autonomous ports which have their own corporate status as public undertakings and are also financially autonomous. The Dutch and Belgian ports are owned by municipalities and the big German ports by the Federal Lands. The port of London is administered by a Ports Authority. While the trend in port organisation seems of late to have been towards greater uniformity, it is still somewhat difficult to obtain an insight into the financial management of the seaports. The elementary prerequisites for the application of competitive concepts are thus as yet lacking both in substance and in

principle, and the prospects for solving the impending structural problems through competition between sovereign bodies cannot be judged to be favourable.

The European port administrations need not all have identical constitutions, but in order to operate a coordinated ports policy the sovereign bodies should at least reach agreement on the type, size and organisation of the financial operations and the distribution of competencies. In the final analysis the question amounts to this: which is the most suitable institutional set-up for ports, and which divergent forms can be deemed to be still compatible with a Common Market?

Professor J. Bird⁶ has given practical examples of typical port administrations and listed their advantages and drawbacks. The most important types are, as mentioned, national state authorities, ports in municipal ownership, some of which are operated by private undertakings, autonomous ports (which are a kind of public trust), and private ports. If competition is to be the guiding principle for a Community ports policy, autonomous and/or private ports would presumably be the most suitable forms provided that some restrictive conditions are fulfilled:

- ☐ Transfer of certain powers to a state or Community agency in so far as this appears to be indispensable for a ports policy;
- ☐ Easier access to sources of capital if their own resources do not suffice for the financing of required infrastructure investments, which is likely to be mostly the case (owing to the very low yield on capital invested in ports);
- ☐ As this as a rule presupposes that part of the infrastructure capital (e.g., outside piers, dams, motorways and inland waterways) must be regarded as public assets in the proper sense and infrastructure investments would accordingly also have to be financed out of public funds, the Community countries would have to agree on what to treat as communal capital (e.g., outside piers, but not the internal traffic network in the harbour).

Technical Developments

It may in general be assumed, though with some reservations, that the ports must be adapted to the so far unbroken trend towards bigger and faster ships. The opposite view – that, at least in the long run, ships will have to be adapted to port capacities – is also encountered. But although some general or national economic arguments can be adduced in support of the latter view and the controversy about the advantages and drawbacks of very large crude carriers has

⁵ Details especially in the Seefeld Report, *ibid.* Cf. esp. also the Country Reports in: R. Regul (ed.), *The Future of the European Ports*, Bruges Week, Bruges 1971, and R. Regul, *Die Zukunft der europäischen Seehäfen* (The Future of the European Ports), Baden-Baden 1972.

⁶ James Bird, *Seaports and Seaport Terminals*, London 1971, p. 199.

not yet been settled, the stronger arguments can probably be brought to bear in favour of the former view.

For the imports of mineral oils, which account for about two-thirds of all sea-borne imports into western and southern Europe, the relevant facts are obvious. From 1966 to 1970 the economies of scale gave oil shipments a cost advantage of about 20 p. c. a year. On the Cape route from the Persian Gulf to Europe, for example, a 200,000 tdw tanker offers a cost saving of about 30 p. c. compared with a 50,000 tdw tanker on the Suez route, which of course has been closed for a number of years. If the Suez Canal were reopened, the effect on freight rates, if any, would be slight. It should be noted that the "oil elephants" operate on the long routes to their best advantage. On the Cape route from the Persian Gulf to Europe a 400,000 tdw tanker shows a cost saving of US c 95 per ton over a 200,000 tdw tanker; on shipments from Libya the saving amounts only to US c 22 per ton. At the risk of oversimplifying slightly it may be said that transition from 200,000 tdw tankers to 4–500,000 tdw tankers will allow economies of up to 20 p. c. on the long route compared with that through the Mediterranean.

Similar though slightly different are the conditions for dry bulk cargoes, especially because the proportion of iron ores imported from Brazil, Australia and other remote overseas countries is increasing at the cost of Swedish ores.

As regards container ships, their advantages over the traditional mixed-cargo carriers arise mostly from the reduction of port charges as a result of quicker turn-round (loading and unloading), of costs due to long stays in port, of wages and — a point not to be forgotten — from the homogenisation of heterogeneous cargoes. They are most notable for door-to-door consignments for which they may amount to as much as 60–70 p.c.

Terminals, Through Traffic and Hinterlands

These facts — presented here in a much simplified form — entail certain consequences which may prove crucial for the concept of competition in a Community ports policy.

The first question to be asked is whether and to what extent tariff differentials determine the competition between ports. J. Bird⁷ remarked that port charges on average rarely exceed 15–20 p.c. of total transport costs and are indeed substantially lower for large shipments over long distances. A strike or go-slow is much more costly from the shipowner's point of view, and economies through a swift turn-round outweigh by far any differences

between port dues. Through merging of container lines the liner traffic has already been concentrated in the ports where the desired technical-economic advantages were offered first and to the best effect.⁸

A second question concerns the changes in regional structure. E. Pollock⁹ showed for Great Britain that about three-fifths of all outward-bound maritime transports originate within a 50 mile radius of the port and about three-quarters of all imports by sea stay inside it. This "local hinterland" concept, which in a similar structural form exists in several Continental countries, however, seems set for change under the influence, largely, of the gradual emergence of a Common Market. Private firms have a growing choice between localities offering favourable transport conditions as the free movement of the production factors, and in particular freedom of establishment, is being progressively attained. Competition is a system of decentralised decisions. There will be quite a strong disposition in "input-dependent" industries to settle in coastal areas where supplies of raw materials can be obtained more cheaply. Migration of basic industries leads to establishment of secondary industries, commercial enterprises and service undertakings. Multi-industry plant sites can be brought into existence, the cost-benefit effects of which cannot easily be assessed, because it is difficult to measure some of the components, especially the infrastructure and supra-structure investments — provision of housing estates, supply of drinking water, air and water pollution control.¹⁰ The quantitative measurement of employment multipliers is also still a matter of some uncertainty. A crucial factor to be accepted generally is that in a full economic and monetary union balance of payments problems show up as regional disequilibria.

A third question arises in connection with the through-going traffic. The cost economies from very large ships and mechanisation of loading and unloading (containers, roll on/roll off, LASH, etc.) become fully effective only in door-to-door transport. A future enlargement of the hinterlands may therefore assume very large dimensions, in which case the overlapping zones of competition between ports in relatively close vicinity to each other (the Amsterdam/Rotterdam/Antwerp ports and the North West German ports) will require

⁸ This does not of course mean that discrimination by differentiated port tariffs is insignificant. The incidence on the prices of discriminating port tariffs largely depends on the demand elasticities. As regards their effect on efficiency, port tariffs must be judged under legal as well as competitive aspects irrespective of their effect on costs in the individual case.

⁹ Eric E. Pollock, *Port Hinterlands and Regional Development*, O.E.C.D. International Symposium on Regional Transport Planning in Theory and Practice, Zagreb 1971.

¹⁰ Concerning the applicability of cost-benefit analysis to port investment cf. L. H. Klaassen and N. Vanhove, *Macro-Economic Evaluation of Port Investments*, Bruges Week 1971, p. 521.

⁷ James Bird, *ibid.* p. 203.

consideration. Ports which are situated on estuaries enjoy as a rule an advantage over coastal ports away from rivers. The consequential benefit for the consumer however does not accrue to the national port or to the country which bears the costs of the investment. Rail links and motorways can compensate for the handicap of a less favoured geographical position, but there is a legal-institutional factor which must be taken into account in this context. The railways draw — or at least ought to draw — on their own funds to finance network investments. Motorways represent public investments — road users need not pay tolls, except in Italy and partly also in France (péages). Inland navigation is ruled by conventions which generally ensure freedom of shipping.¹¹ The Mannheim Shipping Act of 1868 pertains to the Rhine and the Belgrade Convention of 1948 to the Danube. Interference by riparian restrictions, prohibitions, etc., has been barred on both these rivers, and charges relating exclusively to shipping activities are not allowed. The maintenance of the inland waterways is the concern of the public authorities. It may be mentioned in parenthesis that oil pipelines are financed by the private oil companies which own them.

Political Decision-Making Systems

These reflections lead to a general problem. The maritime traffic is part of the overall transport system, and no ports policy can be operated without reference to the general transport policy. This being so, it must be borne in mind that some inferences applying to all transport services have also validity for maritime traffic. A distinction must be made in particular between the operation and use of means of transport, on the one hand, and the financing of infrastructure investments, on the other. Competition between transport users is highly desirable in deference to the Common Market precept of non-discrimination. Investments in the transport infrastructure must be planned centrally; any kind of unsynchronised action would have a disastrous and chaotic effect on the economy as a whole.¹²

Planning however does not imply that all concepts of competition must be renounced, for although national governments or other public agencies must take decisions concerning the value and usefulness of infrastructure investments in ports, they must have criteria on which to base their judgment. Cost-benefit analysis presents itself as a

method of project selection, as "an attempt at attaining the rationality of the price system when setting about tasks which for technical reasons cannot be satisfactorily accomplished by the market economy as such".¹³ An essential difference compared with the method for the appraisal of private investment projects is that extraneous gains and costs must be taken into account in the cost-benefit analysis. As "intangibles" are to be included in the assessment, the whole process leads ultimately to an appraisal of the yield to the consumer.

Ports and maritime traffic furnish an excellent illustration of the inadequacy of a partial static equilibrium theory. The infrastructure is of little importance in shipping, but as soon as the ports are included in the appraisal, an examination of the question by whom infrastructure investments are to be planned, to be decided and to be financed becomes a matter of great importance.

What can be deduced from this regarding the potentialities of a European ports policy? The answer to this question must be that much can be learnt from it but very little has so far emerged in the way of practical solutions. It has been established that inter-port competition with the aim of achieving a theoretical optimum calls for decentralised decision-making. No doubt it offers advantages when local needs are to be satisfied, provided — an important condition! — that genuine competition can be practised. In the present state of affairs this demand is a pious wish, but much would be gained already if those concerned, i.e., the port administrations and the authorities exercising the sovereign rights, could come to an understanding about a "Code of good behaviour".

As for solutions, the aim should be to try for those which are practicable. Success depends on the political will of the member states, and while it is true that technical-economic developments will increasingly require solutions on a Community level, it would be wrong to entertain great hopes for swift progress. Such developments cannot come to a stop at the Community's borders, as is demonstrated by the projected Rhine-Main-Danube shipping route. The crux of the matter is that infrastructure investments in transport should — or even, must — be planned centrally. The Commission of the European Communities is available as a central planning authority, but the experience gained with it and by it is one of the main reasons for skepticism.

¹¹ Cf. Hugo J. Hahn, *Der Rhein-Main-Donau-Schiffahrtsweg* (The Rhine-Main-Danube Shipping Route), in: *Schiffahrt und Strom* (Shipping and River), Sequence 31/32/72. Hahn however rightly stresses that the regulation of the freedom of shipping by the Belgrade Convention is substantially tighter and more restrictive, or can be so, than the freedom of shipping on the Rhine.

¹² Cf. Jacques Stohler, *Die Integration des Verkehrs* (The Integration of Transport), in: *Veröffentlichungen der List-Gesellschaft* (Publications of the List Society), Basle-Tübingen 1963, p. 162 ff.

¹³ Jacques Stohler, *Zur Methode und Technik der Cost-Benefit-Analyse* (On the Method and Technique of the Cost-Benefit Analysis), *Kyklos* 20 (1967) 1, p. 218; René L. Frey, *Infrastruktur — Grundlagen der Planung öffentlicher Investitionen* (Infrastructure — Foundations of the Planning of Public Investments), Basle-Tübingen 1972, p. 106; E. J. Mishan, *Cost-Benefit Analysis*, London 1971; L. H. Klaassen and N. Van hove, *Ibid.*, p. 522 ff.