

**Strengthening Private Sector Participation for
Infrastructure in the Pacific Region
17-22 November 2008, Brisbane, Australia**

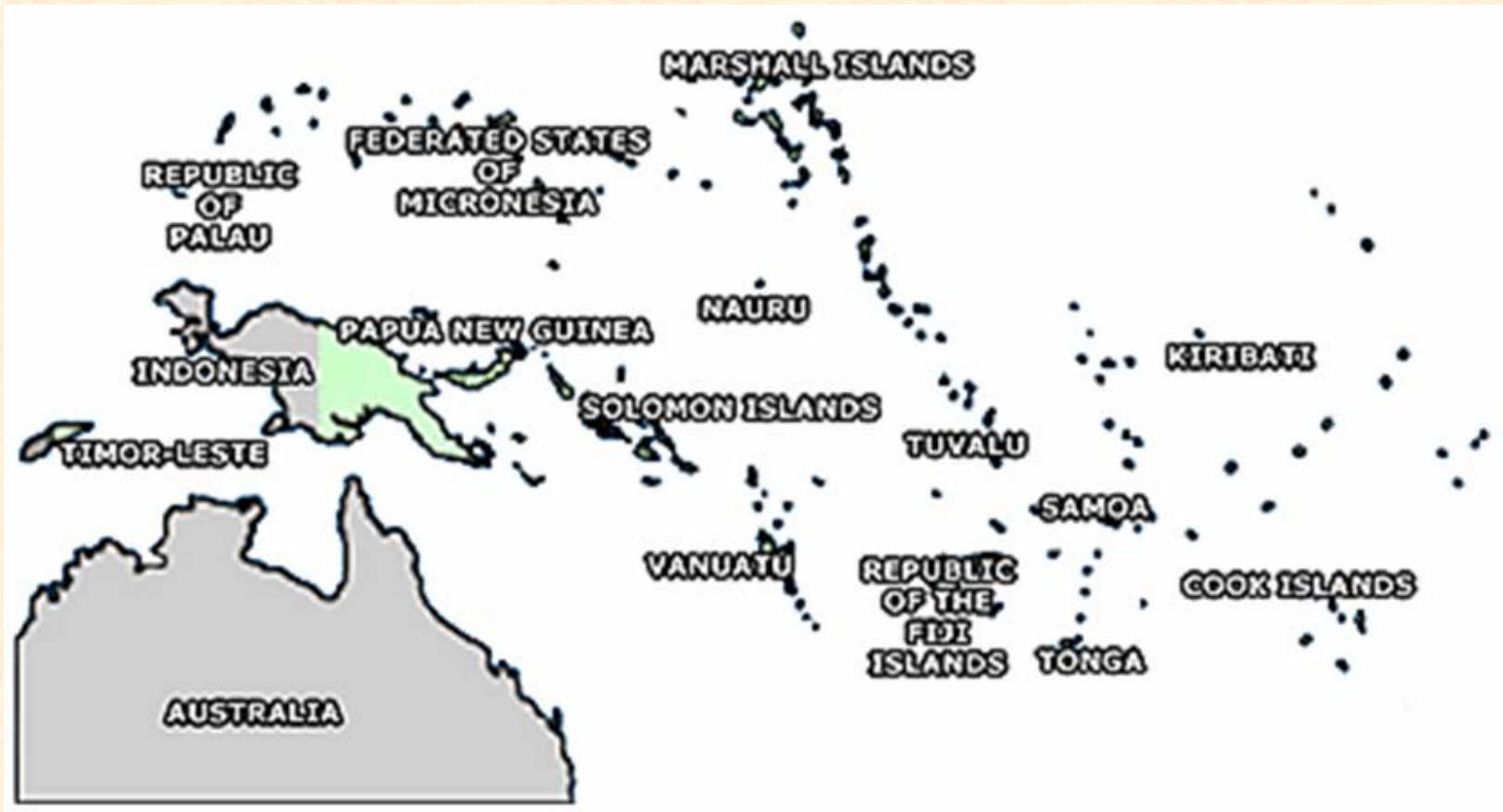
The Case for Private Sector Participation (PSP) in the Pacific Port Sector

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Main Sources: *Improving the Delivery of Infrastructure Services in the Pacific*, Asian Development Bank, Dec. 2007.
Pacific Infrastructure Review, Castalia Strategic Advisors, Nov. 2004.
The Pacific Infrastructure Challenge, The World Bank, Jan. 2006.

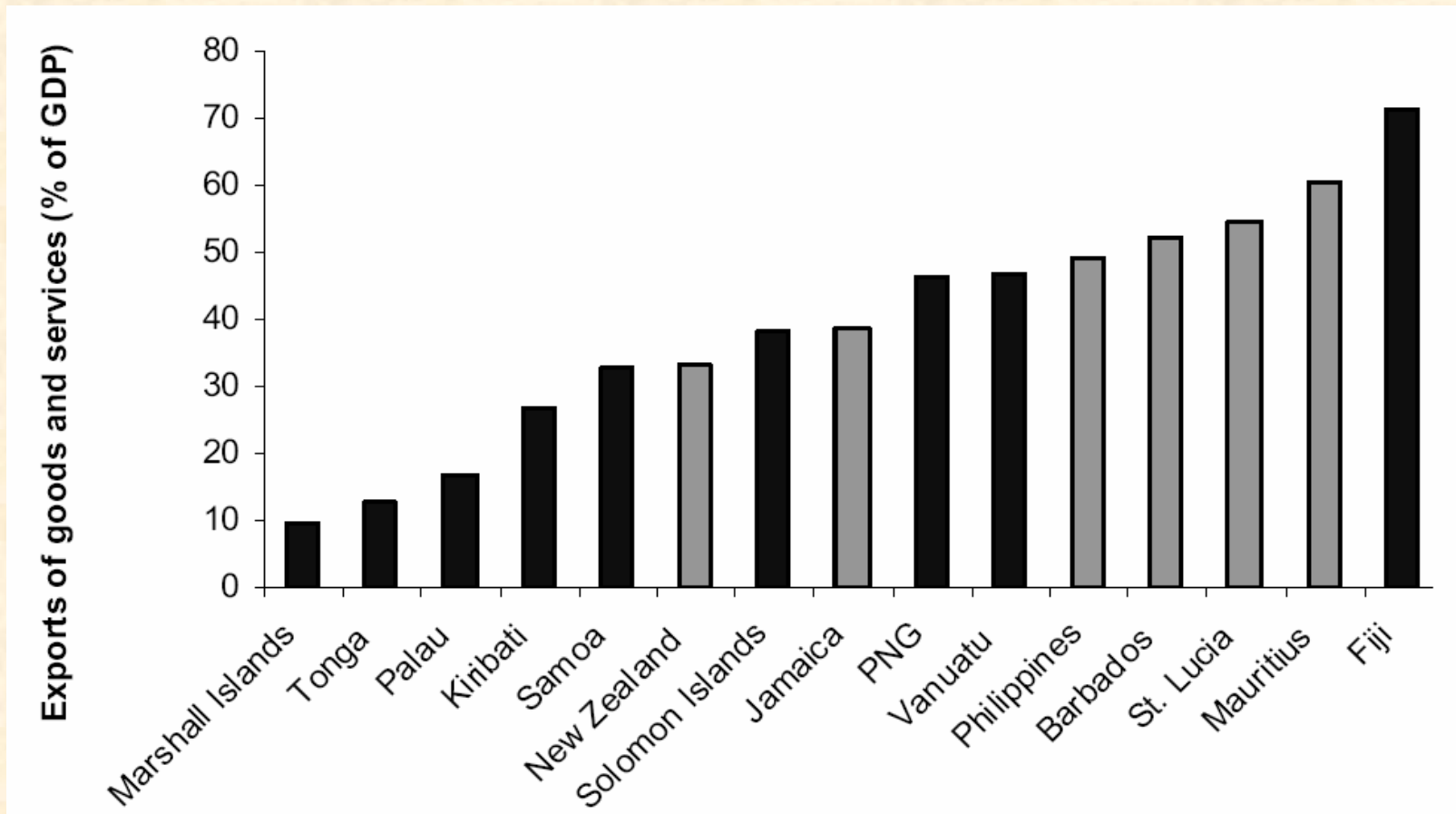
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Importance of Ports in the Pacific



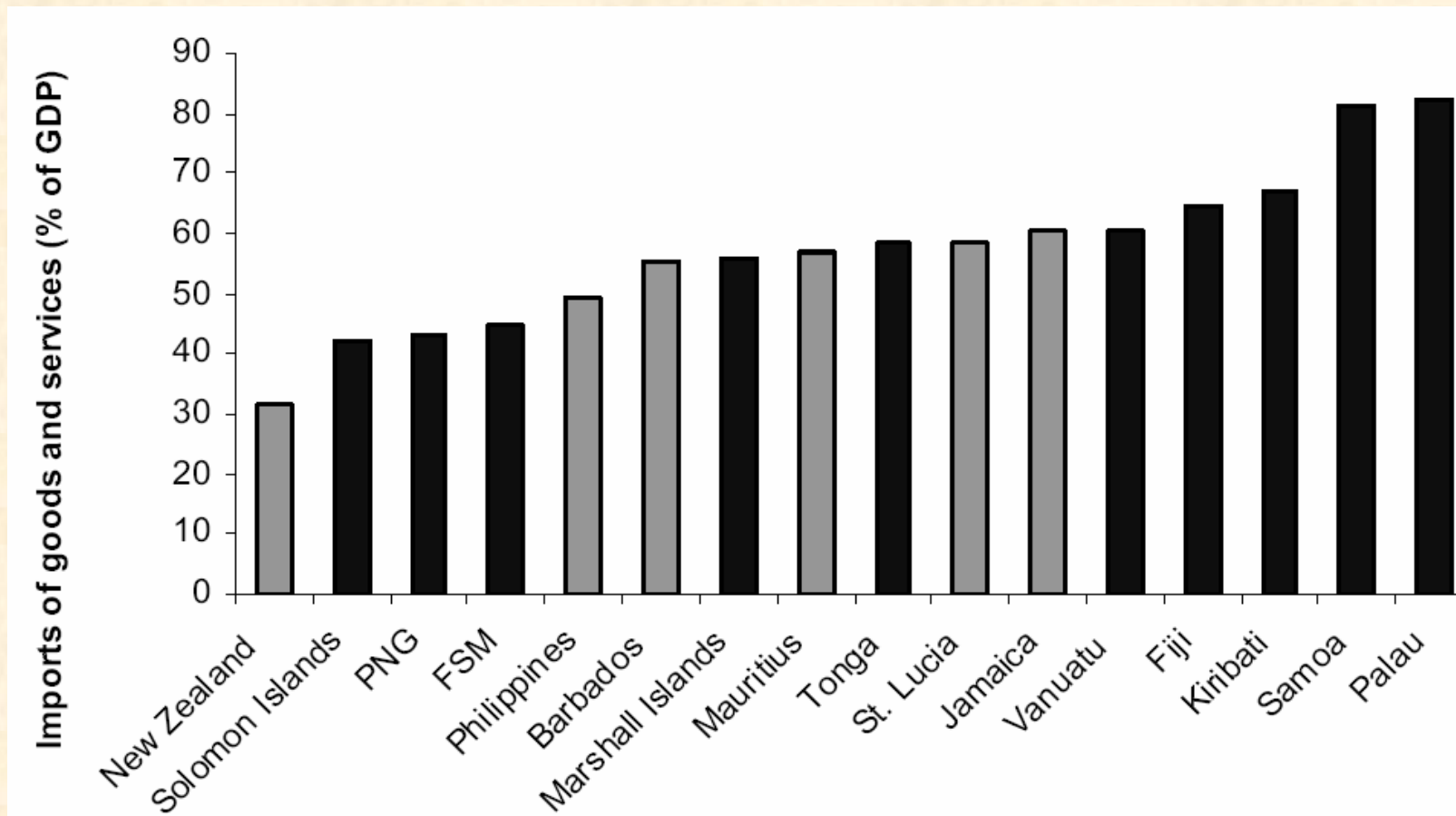
- Ports are the life-blood of the Pacific countries' economies.
- Pacific countries rely on ports and shipping for imports, exports, domestic and regional transport of goods and passengers.

Exports of the Pacific Countries



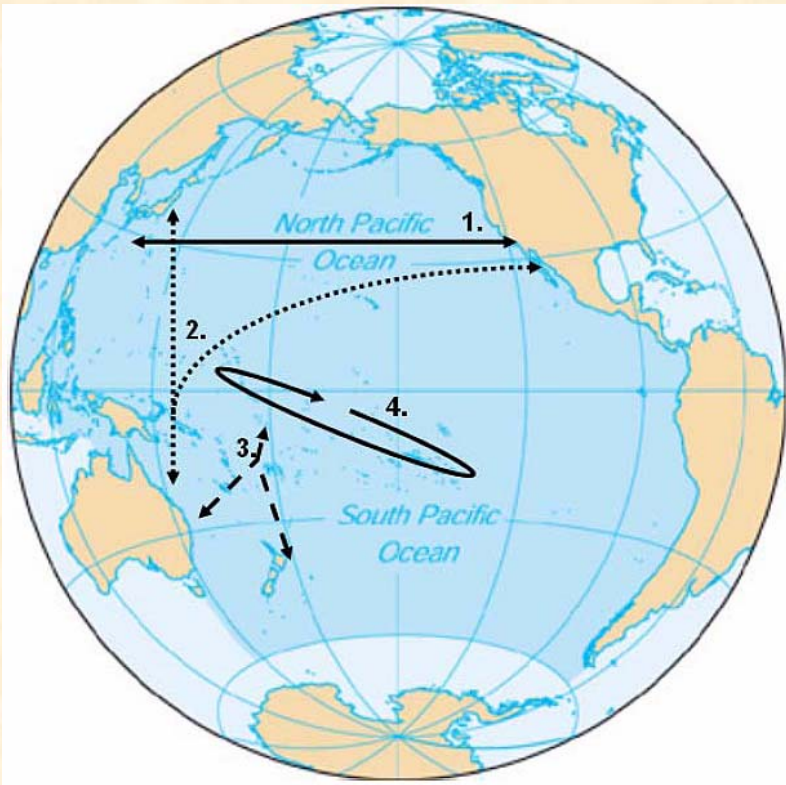
- Exports account for a high proportion of the Fiji economy at around 70%, but represent only 40% of GDP or less for most other Pacific countries.
- This is lower than most comparator countries.

Imports of the Pacific Countries



- Imports account for over 50% of GDP in most Pacific countries and over 80% in Samoa and Palau.
- This is higher than most comparator countries.

Major Shipping Patterns in the Pacific



(1) East-West between Asia, North America and Europe - large container ships of over 5000 TEUs, do not call at the Pacific Island ports

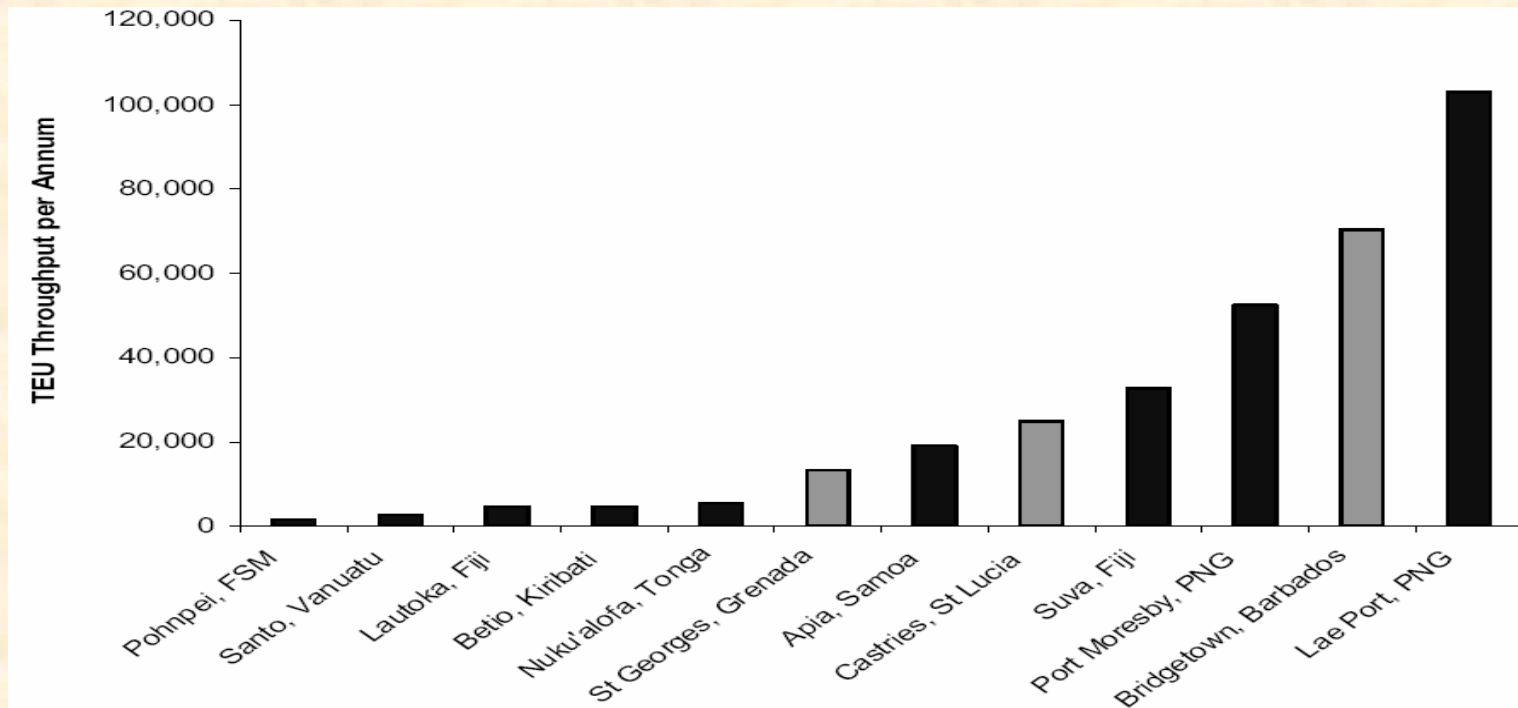
(2) North-South between Australia, New Zealand, North America and North East Asia - ships of between 1800 and 2200 TEUs and do call at some Pacific ports

(3) Intra-regional between Australia, New Zealand and various Pacific countries

(4) Domestic and Pacific Countries between Pacific countries and between islands within each country.

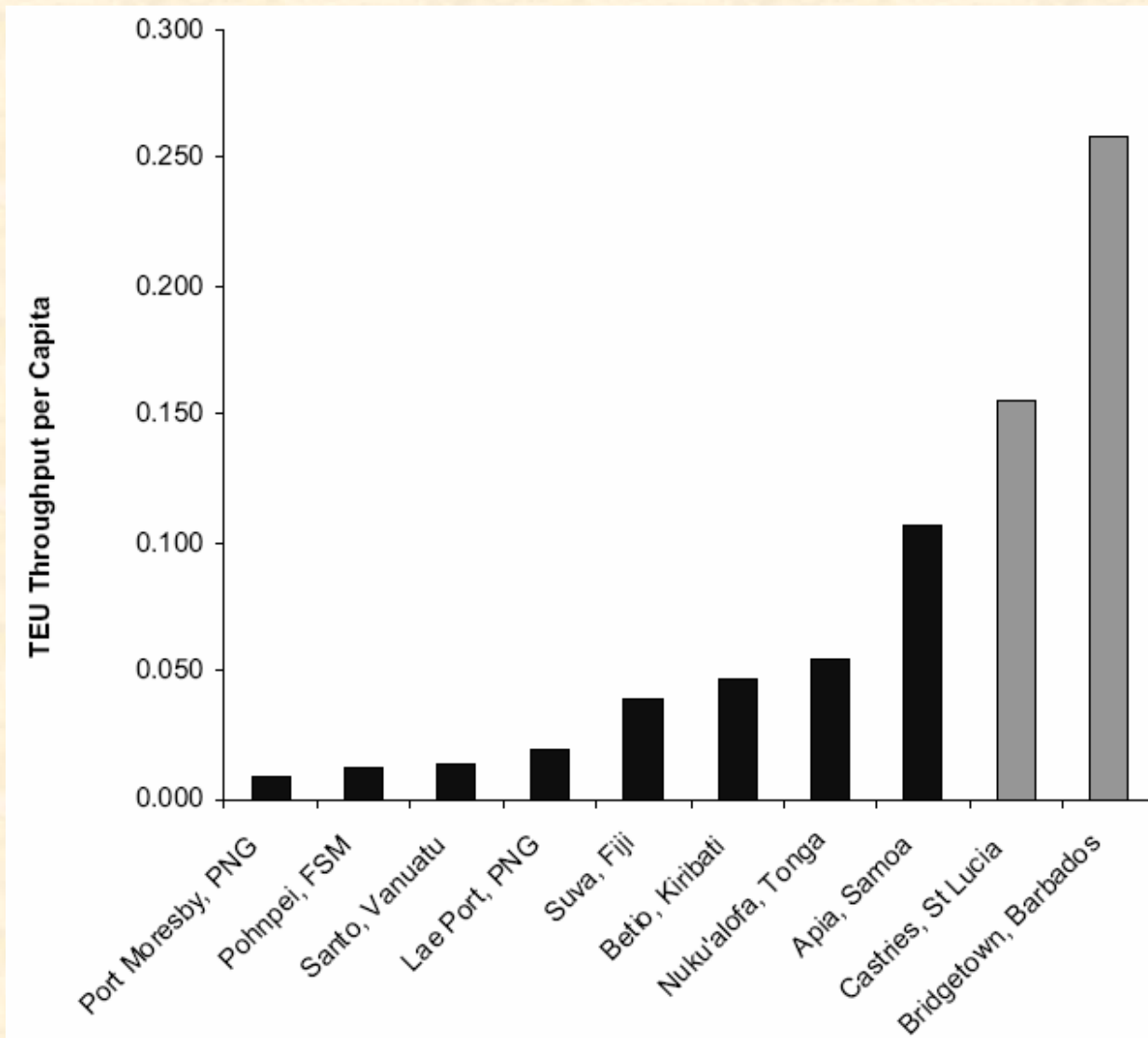
There is currently very little transshipment business at Pacific ports (in contrast with Mauritius, Jamaica and other Caribbean countries)

TEU Throughput in Pacific Ports



- Lae, Port Moresby and Suva ports are the largest of the Pacific ports.
- They are significantly smaller than the port in Kingston, Jamaica, one of the largest ports in the Caribbean. In 2003 Kingston port handled over 1.1 million TEUs.
- Apia, Samoa and Suva, Fiji are comparable with Castries, St. Lucia and St Georges Grenada in the Caribbean.

TEU Throughput Per Capita of Pacific Ports



- Taking into consideration the size of the country's population, the Apia port in Samoa handles the highest TEU throughput per capita among the compared Pacific ports.
- Compared to two mid-size ports in the Caribbean, the Pacific ports still have some way to go.

Condition of Commercial Ports in the Pacific

- The commercial ports serve the international marine traffic.
- Improved productivity and efficiency in port operations is needed for lower import costs and higher export returns.
- Most ports are maintained to a reasonable standard although variable.
- Some are in urgent need of upgrade work and rehabilitation.
- Mechanization and operational efficiency are quite variable.
- Many are trying hard to react to recent trends in international shipping toward larger ships and higher volumes per voyage.
- Heavy near-term strains are placed on investment budgets of some ports (e.g., Tonga, Cook Islands), which must extend berths, storage facilities, etc., quickly in order to avoid significant cost penalties or service interruptions.

The Need for PSP in the Pacific Port Sector

- Fiscal realities constrain Pacific governments from funding a substantial expansion of infrastructure investment
 - though public sector finance will likely remain an important constituent of infrastructure finance overall for the foreseeable future.
- Private sector capital and knowhow can help address the challenges in the port sector.
 - there are major benefits in applying private sector incentives to design, investment and management,
 - provided there are clear conditions of asset maintenance imposed on contractors
 - and reasonable options for transferring assets back to government.

Improving Environment for PSP in the Pacific

- Relative political stability
- Heightened public sector confidence in reform
- Good chance for policies to settle and stick
- Improving regulatory environment
- Increasing liberalization of markets.
- Better integration of the region with the rest of the world, primarily through changes in the telecommunications, aviation, and shipping industries
- Increasing interest of the private sector interest, both local and international, in infrastructure services

Institutional Models of Port Management

- **Public Service model:** The Port Authority owns, maintains and operates all assets, and all cargo handling is carried out by Port Authority employed labor.
 - often leads to inefficiency due to a lack of internal competition and a lack of user or market orientation.
 - leaves the port vulnerable to political influence due to its dependence on the government budget.
- **Landlord model:** The Port Authority acts as a landlord, regulating port operations carried out by private operators.
 - Infrastructure often leased to private operators who also provide and maintain their own superstructure.
 - Port labor employed by the private terminal operators.
- **Private service port model:** The port land is privately owned and infrastructure, superstructure and labor are privately owned and operated. Some of these ports are self-regulating.

PSP through the Landlord Model of Port Management

- This is the most commonly recommended model for port operation and has been successful in Samoa as well as the Caribbean and Mauritius.
- A number of private operators are employed on contract to the port authority to provide specialist services.
- Contracting out various port services to different operators may not be appropriate for small ports like Betio in Kiribati, since the port has such a low level of traffic it is not likely to generate sufficient competition.
- In these ports it may make more sense for the government to contract out all superstructure services to a single entity on a concession basis to improve efficiency.

PSP in Commercial Ports in the Pacific

- Port authorities are generally corporatized and commercially viable, though in some countries (PNG, Tonga) the corporatization process has not been fully implemented and the ports remain under considerable political influence.
- Some ports authorities have adopted the landlord model of port management, as in Fiji, Palau, PNG, Samoa, and Vanuatu.
- Stevedoring operations in these countries have been outsourced to the private sector, but:
 - few private sector service providers, often entrenched companies
 - contracts generally not competitive.
- PSP in Apia Port in Samoa is working well.

Status of Minor Ports in the Pacific

- The minor ports serve the outer islands and rural communities.
- Ports facilities on most outer islands are not well developed.
- Many are in very poor condition due to maintenance difficulties.
- Many require extensive refurbishment and upgrading if they are to play more of a role in outer islands and rural development.
- Few of the minor ports are commercially viable under present conditions.
- Scope for PSP may still be explored as is proposed in Tonga.
 - Advertising invitations to express interest and to bid on O&M services (utilizing the experience of the commercial ports).
 - If there is significant interest from the private sector, assess the option of transferring outer islands ports to the direct management of the port authority, to better integrate contract management.

Case Study 1: Apia Port in Samoa

- Landlord model: The Samoa Port Authority (SPA) has outsourced most port services, like stevedoring and cargo delivery, to the private sector.
- Competition between private operators in the clearing and forwarding business has resulted in efficient service provision and better customer service.
- Private operators are responsible for buying all of the superstructure equipment (e.g. forklifts) and SPA is thus able to channel profits back into port improvements.
- Apia Port is highly mechanized with on-shore lifting capacity of up to 40 tons. SPA claims a throughput rate of 25 containers/hr (comparable to New Zealand).
- It has become one of the best performing ports in the Pacific and aims to develop itself as a 'mini-transshipment hub' for the region.



Case Study 2: Port Louis in Mauritius

- Landlord model: Mauritius Port Authority owns land, buildings, superstructure and quay cranes, and works through competitive concession contracts since 1999.
- Major concessionaire: Cargo Handling Corporation Ltd, a private company with state shareholding,
- Concessionaire handles loading, unloading, delivery and reception for general cargo, dry bulk and container.
- Advantages: competitive tariffs, substantially improved efficiency and costs, labor flexibility, fewer staff, increasing productivity, high security for cargo.
- Productivity: steadily increased from 10 to 20 moves per gross crane/hr.
- FY2007 volumes: total cargo of 5.9 million tons (up 6.2%), container traffic of 280,381 TEUs (up 10.2%), container transshipment of 103,310 TEUs (up 28%).
- Improvements ongoing to enhance capacity and efficiency: e.g., 2 new quay container cranes being acquired (by lease rather than purchase).



Thank You

