World Bank: Making the Best of Ports in West Africa

REC TCC MEETING

NAIROBI, DECEMBER 8-10 2015

Context and background for container terminal concessions in West Africa ports

Study objectives

To explore availability of data and information in the port sector, with a focus on concessions

To inform discussion on the future of the sector and engagement of private sector with an evidence base

To inform public debate on the process and results of Terminal Operating Companies involvement in the sector

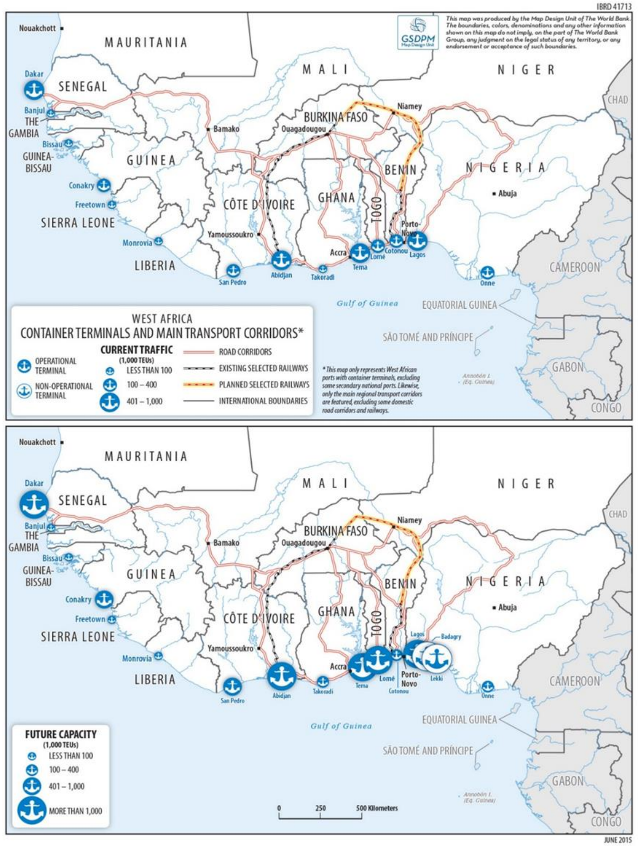
Identify information gaps for the next phase of examining economic impact of port sector

The West Africa ports landscape

Many medium sized ports competing for modest but growing volumes:

- A continental coastline of 4,346km (from Senegal to Nigeria)
- 25 ports, of which 14 handle container and general cargo:
  - Dakar, Abidjan, Tema and Lagos as major diversified ports
  - Kamsar and other mining specialized ports
  - Several mid-size general ports, such as Lome, Takoradi, etc.
- 165 million tons (including mineral and oil port)
- Around 5 million TEUs

Disjointed hinterland due to poor inland connectivity and barriers to trade across borders



West Africa ports in the early 2000s

The containerization of the West Africa liner trades was mature, but ports had not fully adjusted:

- Inadequate facilities: quay cranes were rare, imposing geared vessels
- Poor hinterland connections
- High level of container stripping in ports

Despite comparatively low traffic volumes, most West Africa ports were reaching saturation:

- West Africa was perceived as a niche market by shipping lines
- Shipping lines were heavily penalizing trade by levying congestion surcharges

Future trade growth constrained by capacity limitations

Governments and Port Authorities had insufficient resources to develop container terminals

Concession of terminals to TOC was seen as the 'silver bullet' to transform and modernize the West Africa ports:

- Global push towards the landlord port authority (including from IFI)
- Reforming and modernizing the sector was clearly needed, but reforming from within is usually difficult, and bringing in TOC was a means to an end

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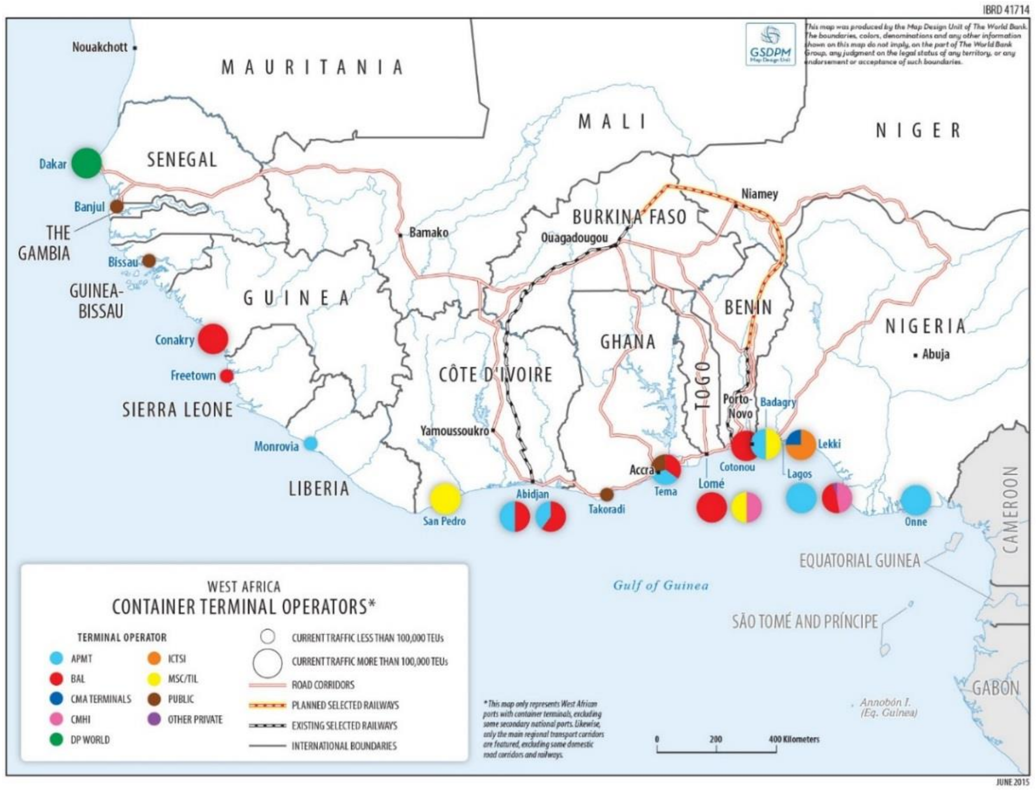
The waves of container terminal concessions in West Africa

The first wave for existing facilities between 2004 and 2010

- First concession signed in 2003 with Abidjan, with take over of operations in 2004
- By 2010, almost all terminals were under concession, leaving out Banjul, Takoradi, Bissau …

The second wave started end of 2012, for greenfield developments:

- Lome LCT
- Abidjan TC2
- Tema expansion
- Lekki & Badagry in Nigeria



So, were concessions to TOC the 'silver bullet'?

YES, ON A NUMBER OF COUNTS

West Africa ports have been transformed:

- Concessionaires have developed real container terminals out of multipurpose berths
- Port capacity has increase through immediate productivity gains (higher number of moves per hour at berth and per crane), creating space for physical infrastructure development

New financial space has been opened:

- Private sector tapped into resources not easily accessible to governments
- Governments now directly receive a portion of concession fees and revenues

BUT NOT ALL IT WAS GOOD

Public monopolies were replaced by a private 'duopoly' without adequate regulation:

- Container terminal concessions are dominated by two operators (BAL and APMT)
- Port tariffs have not seen a decline
- Public sector oversight capacity remains weak

The jury is still out on the comparative advantages of public versus private sector container terminal operations for efficiency

Terminal concessions did not solve all transport problems in West Africa:

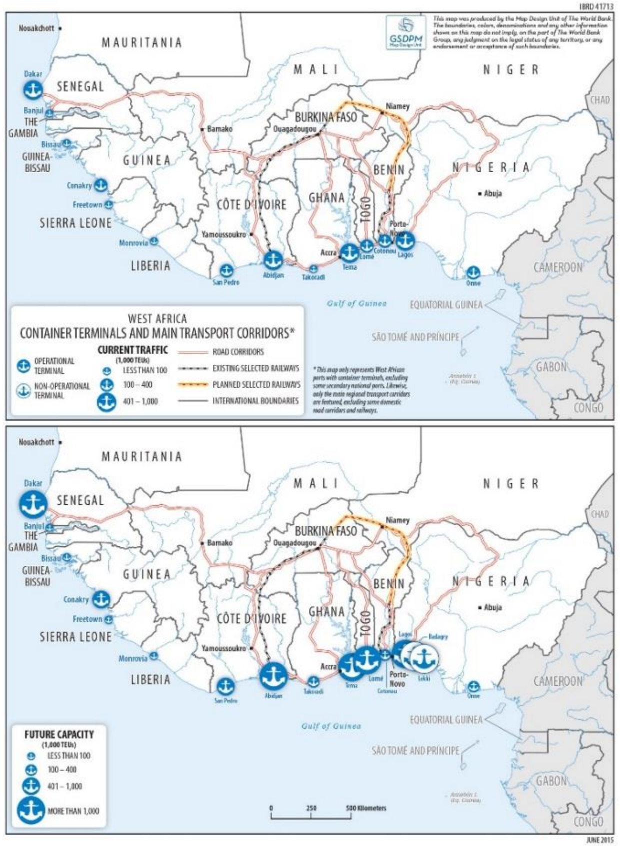
- At ports, dwell time still an issue
- Inland, trucking services, transit regimes are still an issue

Silver bullet? The good

The gains from concessions: the creation of real container terminals

Port capacity has been increased through immediate gains in port productivity by:

- Investing in quay (STS) and yard (RTG) handling equipment
- Training of terminal personnel, and
- In some cases physical infrastructure (additional quays, more yard space)



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TOC mobilized huge investments to upgrade the terminals

Port and terminal	Announced investment	Future capacity
Lome – LCT	€352 million (terminal operator only)	2.2 million TEUs
Abidjan – TC2	466 bn FCFA (Port authority) and €400 million by Terminal operator	1.5 million TEUs
Badagry (Nigeria)	US$2 billion to US$3 billion	1.8 million TEUs
Lekki (Nigeria)	US$1.4 billion	2.5 million TEUs
Tema	US$1.5 billion	Up to 3.5 million TEUs

Governments are obtaining resources from the TOC

Entry ticket
- $1 million in SL (?)
- $58 million in Dakar

Annual lease
- From $1 million in Abidjan to $58 million (includes royalties) in Lagos Apapa

Royalties per TEU:
- $29 per TEU in Cotonou
- €12 per TEU in Abidjan

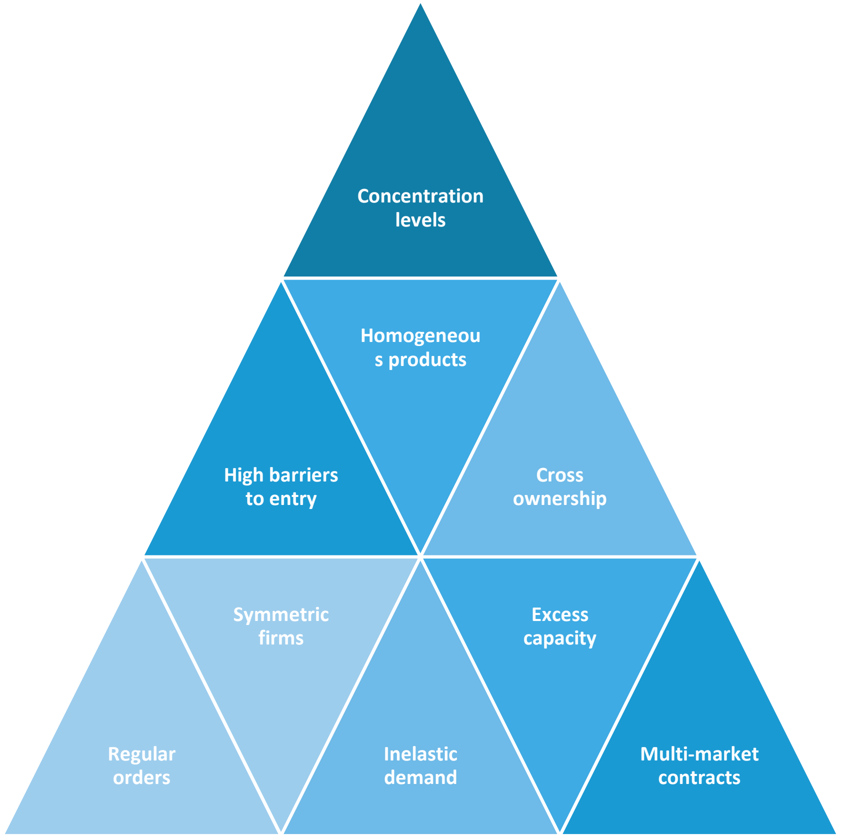
Silver bullet? And the not so good

Port industry is a natural monopoly and risks of abuse of market power are severe

The World Bank Competition Policy toolkit identifies several criteria for market power

Container terminals in West Africa are ticking almost all boxes:

- High concentration levels, with two dominant TOC controlling 80% of throughput, with cross ownership, symmetric firms and presence in several markets
- Container terminal capacity must be ahead of the demand, so excess capacity is the norm
- High barriers to entry (capital, but also weak governance)



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Terminal customers are not facing the same risks of abuse of market power

SHIPPING LINES

Risks of market power abuse are limited for the shipping lines

Shipping lines and TOC have equivalent market power

High level of vertical integration:

- APM T is part of Maersk group
- TIL is part of MSC group
- BAL has agreement with CMA-CGM for West Africa inland logistics

SHIPPERS

Shippers are extremely exposed to risks of market power abuse

- Intra-port competition does not exist: no choice, the terminal is determined by the shipping line
- Inter-port competition is limited as same operators present across West Africa ports

A large part of the container traffic is captive, with only two 'volatile' segments:

- Transit, but less than 10% of total
- Transshipment, but still limited

An imperfect concession process

Negotiated or competitive?

- For brownfield terminals, the weight of legacy influences the process: often, today's concessionaires were present as licensed stevedore before the concessions
- However, for greenfield development, TOC appear to originate the project, because they can better guarantee the demand (through partnerships with shipping lines) leading to negotiated partnerships rather than competitive bidding

Concerns about transparency in both cases:

- Frequent claims from 'sore losers' but also claims for legitimate concerns

Predominance of financial over economic benefits in the assessment of the bids:

- The implicit (sometimes explicit) selection criteria boils down to maximizing government revenue / investment
- No (or little) consideration of the economic impact
- Concession contract focus on investment, more rarely on performance
- Contract conditions tend to favor concessionaires: duration often longer than life of assets/ cost recovery period
- Unequal negotiating capacity on two sides of the table
- Absent / weak regulation, or conflict of interest where conceding authority is also regulator

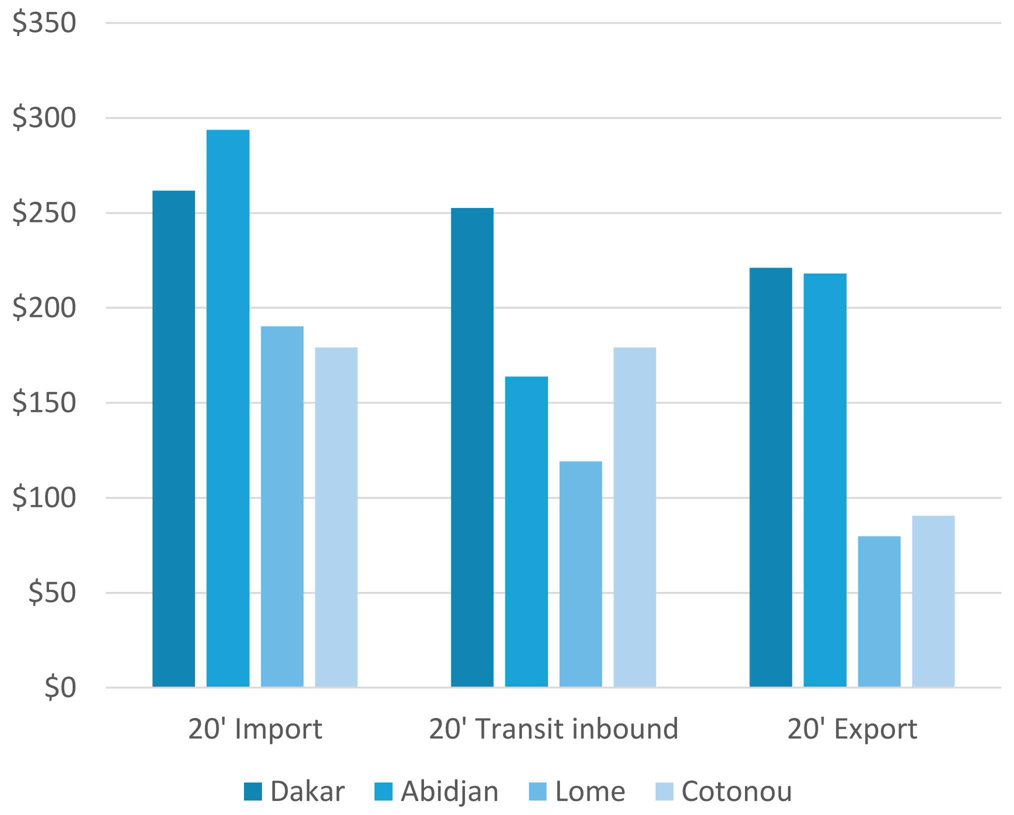
A ‘missed’ opportunity?

Tariffs remain high

Highly capitalistic activity with high fixed cost component

Margins for tariff reduction not exploited:

- After concession, tariffs increased, whereas traffic growth opens possibility of tariff reduction
- The function of regulator is not clearly defined and limited mechanisms for tariffs adjustments



Impact on productivity debatable

TOC NOT 'MAGIC INGREDIENT'

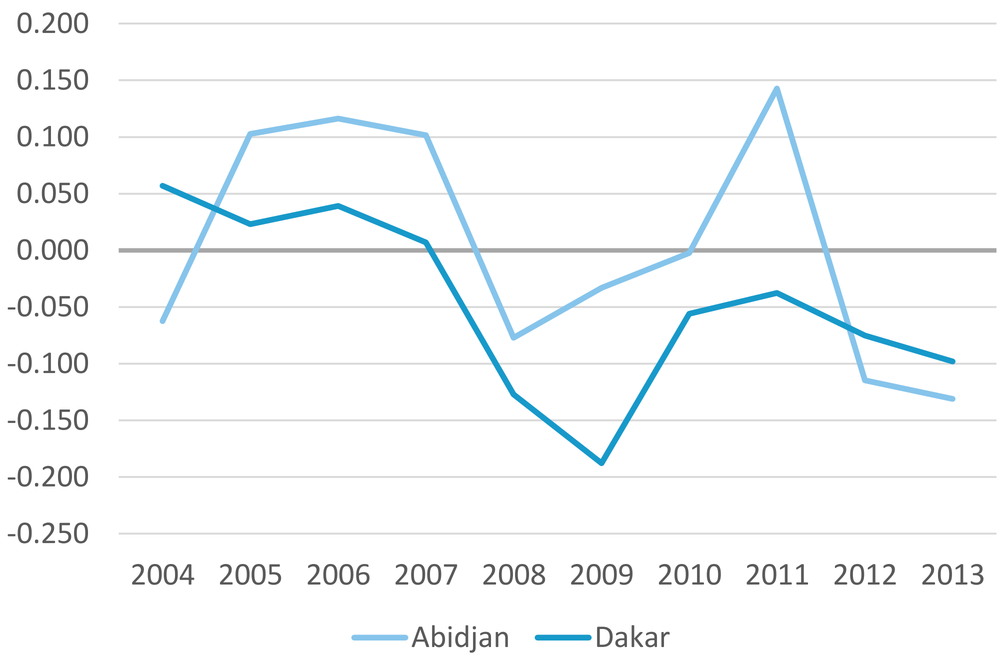
Major improvement on port and crane productivity linked to investment in modern handling equipment

Public ports in Africa have done similar progress (Mauritius, Kenya notably)

DEA Analysis on efficiency:

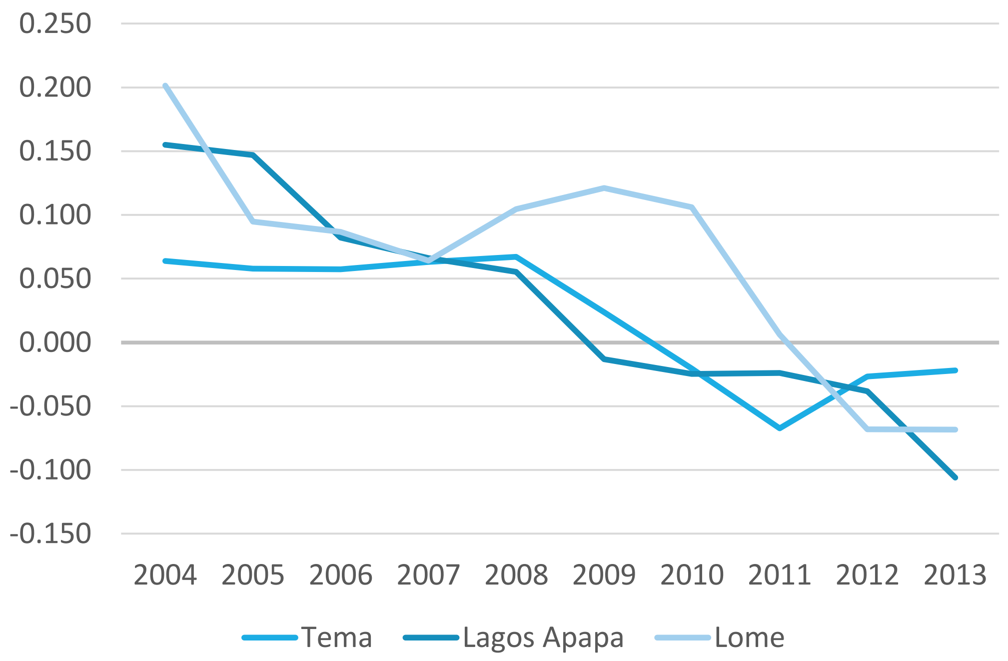
- Scale mostly matters: productivity and efficiency higher for large terminals, irrespective of TOC or public management
- Some differences depending on the nature of the change (public port or tool port as starting point)

MAJOR RESTRUCTURING OF THE TERMINAL

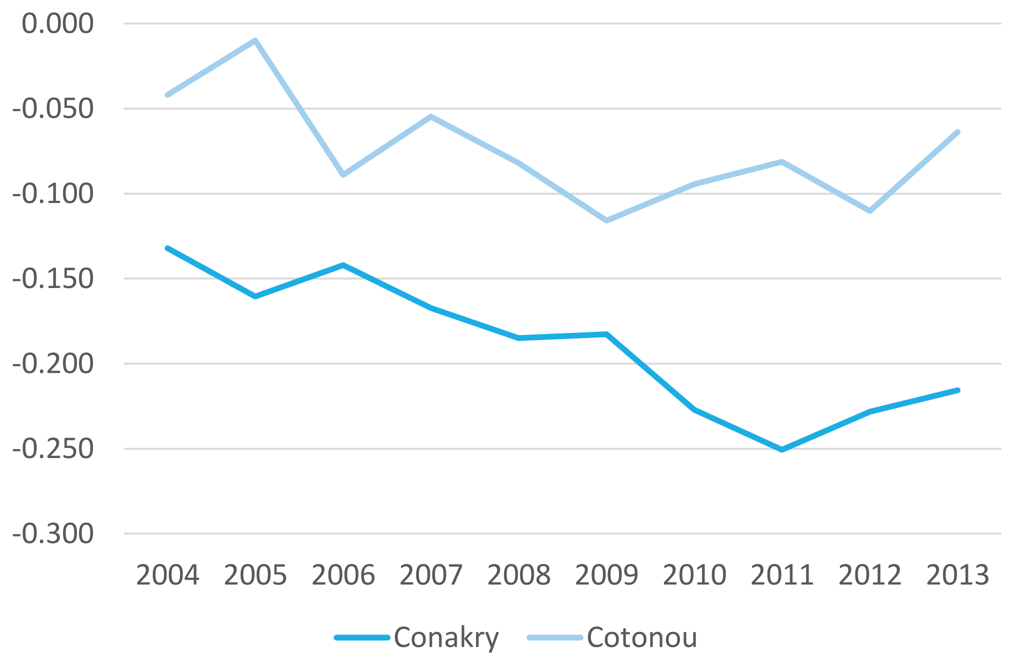


Impact on productivity debatable (2)

PUBLIC SERVICE PORT TO CONCESSION



TOOL PORT TO CONCESSION



But a chance to do better in future

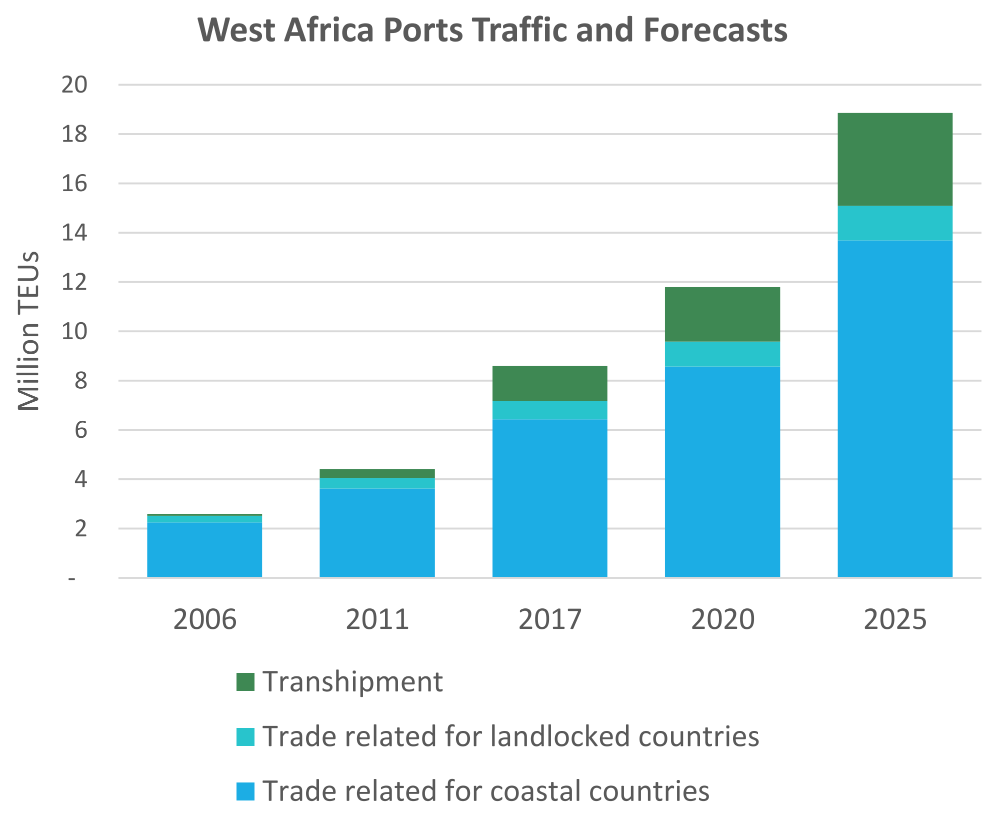
Forecast container traffic growth will require developing new terminal capacity

Economic growth translates into container traffic:

- Planned GDP growth in West Africa is expected to continue, and multiply current volumes by three by 2025
- Current existing capacity rated at around 6 million TEUs per year

Improving productivity will be insufficient to create the required capacity

Existing projects capacity (Tema, Lekki, Abidjan, etc.) likely to be fully utilized by 2025



TOC finance will need to be supplemented by public finance

New capacity to develop will be greenfield investments:

- Few among the existing ports have sufficient capacity reserves for major development
- Even when extensions can be accommodated in the existing port layout, nautical work will be required

TOC will invest in the terminals, but public institutions will need to invest in the nautical infrastructure:

- In the Nigeria mega-ports, developments include free / industrial zones and tank terminal / farms
- Deepening of access channel and turning basins

Involvement of IFI critical:

- As partners with the TOC (as for instance in LCT and others under discussion)
- As financiers of the nautical infrastructure

It will be important to leverage that participation to promote concession contracts and regulatory mechanisms that maximize economic benefits for the countries

Better regulations

Regulatory authority:

National regulatory authorities with several options:

- Sectoral (port)
- Multi-sectoral (generic PPP)

Regional regulatory agencies / institutions:

- ECOWAS Competition authority
- UEMOA Competition Commission

Regulation through the concession contract

Better designed contract that share the benefits of growth between:

- Governments
- TOC
- And Shippers

Instead of the first two

Public oversight:

- Publish tariffs
- Publish KPIs

Thank you for your attention

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