



**Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)**

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Evaluating the Ownership, Governance Structures and Performances of Ports in the OIC Member Countries



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EVALUATING THE OWNERSHIP, GOVERNANCE STRUCTURES AND PERFORMANCES OF PORTS IN THE OIC MEMBER COUNTRIES

The analytical study entitled “Evaluating the Ownership, Governance Structures and Performances of Ports in the OIC Member Countries” has been commissioned by the COMCEC Coordination Office specifically for the 5th meeting of the COMCEC Transport and Communications Working Group, to be held on February 12, 2015 in Ankara, with a view to enriching the discussions during the aforementioned Meeting. This study identifies a number of institutional and policy recommendations for OIC ports including the formulation of port policy statements and corresponding strategic orientations, the promotion of private sector participation, the encouragement of inter and intra port competition, the avoidance of institutional fragmentation and organizational overlaps, the establishment of port and maritime clusters, the creation of economic regulators, the formation of port users’ councils, and the compilation of Key Performance Indicators (KPI) data and performance dataset.

(1) Ports constitute important gateways for the Organization of Islamic Cooperation (OIC) countries where maritime transport is the most important mode of transporting goods between OIC countries and the rest of the world, as well as among the OIC countries themselves. Due to their geographical locations and distance to markets, the integration of the OIC countries, both between themselves and into global supply chains, depends critically on port performance, competitiveness, governance and institutional reform. On the other hand, excessive port costs and inefficiencies hinder trade integration and economic development. Concern about poor efficiency, low competitiveness, and high trade and logistics in OIC ports has been highlighted in various studies, which pointed to inadequate organisational and institutional structures, inefficient port operations and services, low inter-port competition and integration, gaps in governance and regulatory frameworks, and a range of procedural and administrative bottlenecks.

(2) The OIC member countries have over 200 ports used commercially and serve as either gateway or transshipment facilities, and sometimes as key transit points to other landlocked OIC countries. In 2013, the combined container port throughput of OIC countries has neared 100 million TEU representing about 15% of the global container throughput. While some OIC countries such as Malaysia and the UAE show high container throughput, most OIC countries depict low throughput volumes, either because of the small size of their economy or because of a low container penetration compared with the size of their economies and populations.

(3) Furthermore, OIC ports are being impacted by changes in global trade, economic, technological and operating systems and thus face a number of global hurdles and challenges. Those range from technological developments in ship size and handling equipment, market concentration and globalisation, to new safety and regulatory requirements, and environmental and climate challenges.

(4) The ownership structure of the port sector in the OIC countries shows huge variations from public to private ports on the one hand, and from centrally administered ports to those managed and administered at regional and local levels on the other hand. Broadly, most OIC ports have moved towards a landlord structure but only a handful of ports show a prevalence of the private service structure. Private-Public Partnership (PPP) has made its way to several OIC ports, but only a few countries have achieved an established system and a track record experience in port PPPs. Too often though, many OIC ports depict various cross-ownership arrangements between port authorities and public operating companies which blur the separation between statutory activities and commercial activities of public port agencies.

(5) At the same time, the port institutional set-up in most OIC countries has been organised in ways that reflect an orientation towards spatial, industrial or service fragmentation rather than towards functional

fragmentation. Several instances of institutional gaps and institutional overlaps have been observed including absent or inexistent port economic regulators, missing industry and service components, and weak coordination processes between the various port agencies.

(6) The regulatory framework of the ports and maritime sector in OIC countries show various degrees of compliance and regulatory performance. Particular areas which require urgent attention include port safety, environmental port management, port labour and training, market access and liberalisation, port pricing and charging, inter and intra-port competition.

(7) In terms of operational port performance, evidence shows that OIC ports and terminals are generally inefficient by international standards. There is however a wide variation across OIC ports, from internationally-comparable highly efficient ports to consistently low performing and service deteriorating terminals. Evidence also shows that there is ample scope to improve port performance with handful of OIC countries showing quantum leaps in their operational efficiency over a relatively short period of time.

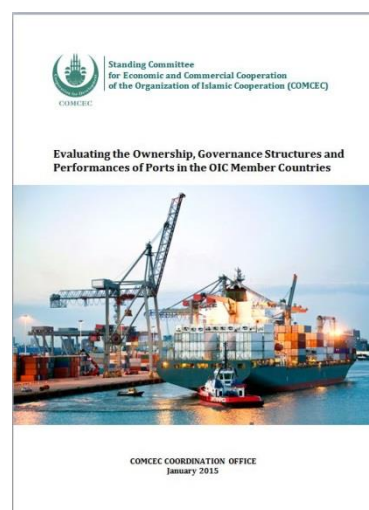
(8) The analysis of port performance also shows that there is a high correlation between institutional structure and port efficiency, traffic type and port efficiency, handling configuration and port efficiency, and terminal size and port efficiency. In a similar vein, productivity change analysis shows that changes in terminal size, institutional structure, traffic type, and operating conditions, among others, have a high impact on port efficiency.

(9) The analysis of logistical efficiency shows varying degrees of liner connectivity across the OIC countries with those having large gateway and transshipment ports largely benefiting from a high shipping connectivity while those with poorly operated ports and those with relatively isolated locations suffering from poor maritime connectivity. In terms of logistics performance, various

sources show that the OIC countries are still lagging behind the best international performers with a particularly high logistics and trade costs being born by landlocked countries and small-island developing states (SIDS).

(10) The current industry structure and regulatory framework of OIC ports encourages cross-ownership, cross-subsidisation and under-investment, eventually exacerbating existing bottlenecks and generating further loss of economic efficiency. International comparisons also suggest that OIC ports are generally under-performing by international standards.

(11) Globally, Private Sector Participation (PSP) in port operations has been growing strongly; but change has been slow in many OIC ports. Countries leading the way in private participation have been able to attract significant private capital investment to refurbish port infrastructure and modernise cargo handling equipment. Under private management, ports usually improve operational productivity and service quality and reduce costs significantly. However, without adequate competition, or economic regulation, cost reductions and efficiency gains may not be fully realised. Achieving and sustaining productivity improvements depends on the extent to which competitive pressures can be brought to bear, either between or within ports. In particular, dominance by single or state-owned port operators needs to be avoided.



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