



SUCCESSFUL PUBLIC-PRIVATE PARTNERSHIPS

IN PORT INFRASTRUCTURE PROJECTS: A GUIDE

Dr Geoffrey Aerts, Thies Grage, Dr Michael Dooms and Dr Elvira Haezendonck, PortEconomics

Whilst port infrastructure is crucial to the advancement of local and national economies, the fact remains that port infrastructure procurement; development and operations are costly both towards the capital expenditure needed to develop the assets, as well as the operating costs generated by running the assets.

PUBLIC-PRIVATE PARTNERSHIPS

As a result, in tackling the burdens associated with public infrastructure development, several types of public-private mixing have arisen over the centuries. One type of cooperation that has gained a lot of attention in recent years is the Public-Private partnership (PPP/PFI), in which long-term finance contracts are put in place in order to leverage private sector capital with the objective of realising public sector goods and services. This “new” approach signals that both at the public, as well as at the private sector side capacity needs to exist that allows for successful port infrastructure development under the premise of PPP.

Several critical success factors taken into account when developing port infrastructure in this manner may guide port managers and private infrastructure financiers or investors towards a fruitful cooperative venture.

CRITICAL SUCCESS FACTORS

The first one of these critical success factors is the specificity and practicality of the concession agreement used to structure the infrastructure development. The concession agreement is the cornerstone of the public-private cooperation. This contract clearly defines the roles, rights and duties, as well as the responsibilities of all parties involved in the project. It serves as a conflict resolution tool, as well as a framework within which public-private interaction may evolve and mature. The core elements in the success of these cooperative efforts are the degree of mutual agreement and trust that are established as the result of a well defined and clearly written concession agreement that keeps a lid on the room for deviance in terms of contract

interpretations. The contract also serves as a knowledge repository for newcomers or inexperienced employees who have to participate in these projects. Hence the following-up of the contract and the establishment of strategically directed stakeholder management are crucial under these contracting conditions.

Secondly, the attractiveness of the financial package and tariff levels need to be carefully considered. Port authorities’ ability to attract appealing bids for a project is dependent on the cost/benefit assessment that is made in favour of the project and the structuring or financial set-up that is employed in the concession agreement. Private parties will seek to gain a reasonable return on their investment. Hence non-attractive financial packages will not materialise, since private parties will not be interested. Hence, it is up to the public partner to present a project that succeeds in being economically viable, able to generate a return for the private sector, whilst being absolutely necessary and therefore justifiable

from a societal perspective.

One thing that should be kept in mind is that the use of private finance comes at a premium when compared to public sector finance. Therefore, the necessity of port infrastructure projects needs to be well established before a PPP approach is put in place.

The latter also relates to the third critical success factor, which is the appropriateness of the risk allocation and risk-sharing arrangement. The better the risk is shared, the better the outcome will be. If the private sector has to bear the majority of the risk, then an agreement for a PPP will not be reached, as insufficient risk allocation and sharing impacts the profitability of an investment.

All parties entering into a PPP agreement therefore, prior to the agreement, need to establish which risks they are willing to take and at what cost. Without appropriate ex-ante risk assessments, the contract and the risks borne in the contract will be open to interpretation and this will hamper the project's success. Recent developments in the Australian context have highlighted that a shared approach may be the optimal mechanism for the allocation of uninsurable risk, thereby coupling the project objectives with the individual objectives of the parties involved in a contract.

Finally, the inherent benefits that are often cited, as the result of PPP approaches to public infrastructure procurement in terms of the inclusion of innovative solutions in a project, depend on the inclusion of the life cycle of a project into a contract and into the mind-set of the contracting partners. Hence, creating long-term contracts in itself is not enough in order to foster innovation, nor is it enough to generate the efficiency gains often implied through the involvement of the private sector in the provision of public infrastructure.

The only mechanism that can really influence project partners in their decision-making and problem-solving in these long-term projects is the amount of knowledge and more tangible resources they are able to develop and share and thereby also commit to a project for the long-haul. In many cases, the construction contractors and / or other investors in a project, opt to sell their stake in a project once the project is realised. This selling off of contracts in the short term, or at least sooner than the original contract foresaw, also happens in existing port concessions and creates a whole new world of issues, as projects that are realised using technology that has a proven track-record are easier to sell off, than projects that are innovative and therefore risky.

Inherently contractors and investors will therefore opt to build non-innovative

projects, as these are easier to sell, yet thereby potentially creating adverse effects, as the public goods that are provided may not be suited for the long-term objectives they aim to realise. Thus, the only remedy for this situation is a real commitment of the contracting parties, thereby enabling these parties to foster actual partnerships that are built on a shared risk structure and are inclusive in terms of efficiency gains and technological and administrative innovation. This should be done in combination with a clear and supporting policy framework that fosters innovations and drives the ability of contracting parties to capture that elusive added value that evaporates in so many large and complex projects.

MOVING FORWARDS

Port infrastructure procurement tends to be associated with large upfront investments, assets that are created with the intent of long-term usage, and hence representing severe sunk costs. These characteristics do not favour the attractiveness of public tenders that try to raise money for the

realisation of often-crucial infrastructure in light of the sustained growth of ports and port related activities. Pragmatism and resilience, under conditions of severe budgetary stress and austerity measures, does dictate that for the realisation of port infrastructure, for the time being, private investors are crucial. Therefore, in terms of actual project performance, the more tacit elements such as trust, reciprocity and knowledge management or ability are absolutely necessary features of an inclusive approach. This means that successful port infrastructure procurement under the PPP method entails shifting the focus away from the pure bottom-line reasoning, and instead focussing on the mitigation of the risk that is involved in a project and the stability that is fostered in the interaction between contracting parties. Finally, the financial attractiveness of the projects should not be neglected, as this influences the competitiveness of the bids that are presented and therefore also serves a crucial role in the successful realisation of port PPP projects.

ABOUT THE AUTHORS

Dr Geoffrey Aerts (corresponding author) is strategic consultant for Consensa Consulting. He obtained his PhD in (Applied) Business Economics at the Vrije Universiteit Brussel, Faculty of Economic, Social and Political Sciences and Solvay Business School, where he worked as a project manager, researcher and assistant under the VUB Chair in PPP sponsored by Deloitte, Grontmij & Laga.

Mr Thies Grage is Manager Business Development & Plant Logistics at Buss Port Logistics. He is an Erasmus University alumnus where he obtained a Master in Science degree in maritime economics and logistics.

Dr Michael Doms is associated Professor of Management and Strategy with the Solvay Business School at the University of Brussels (VUB). He is a member of PortEconomics.eu and a member of the Port Performance Research Network (PPRN), where he co-animates the port authority strategy group. From 2013 onwards, he leads the PORTOPIA project (<http://www.portopia.eu>), a large EU-FP7 collaborative research project on port performance measurement.

Dr Elvira Haezendonck is Full Professor at the University of Brussels (VUB), Visiting Professor at the University of Antwerp (UA), and guest lecturer at Erasmus University of Rotterdam (Maritime Economics and Logistics). She has published various articles, books and

book chapters and since 1996, she has been involved in over 50 national and EU research projects

ABOUT THE ORGANISATION

PortEconomics is a web-based initiative aiming at generating and disseminating knowledge about seaports. It is developed and empowered by the members of the PortEconomics group, who are actively involved in academic and contract research in port economics, management, and policy. Since October 2012, Port Technology International and PortEconomics have been engaged in a partnership.

ENQUIRIES

Geoffrey Aerts
Consensa Consulting
Interleuvenlaan 62- 3100 Heverlee
geoffrey.aerts@consensa.be

Thies Grage
Buss Port Logistics
Sandtorkai 48- 20457 Hamburg
t.grage@buss-ports.de

Michaël Doms
Vrije Universiteit Brussel
Pleinlaan 2- 1050 Brussel
michael.doms@vub.ac.be

Elvira Haezendonck, Vrije Universiteit Brussel, Pleinlaan 2- 1050 Brussel, elvira.haezendonck@vub.ac.be

www.porteconomics.eu