



Dublin Port Masterplan

Internal Report #7

Franchises and Pricing Incentives

27th September 2011

Background

Dublin Port has a large position within the port sector in Ireland. In 2010, Dublin Port's had:

- 34% of the aggregate turnover of all ports on the island.
- 45% share of the all island Ro-Ro market
- 55% share of the all island Lo-Lo market
- 43% share of total tonnage in ports in the Republic of Ireland

These figures underpin the strategic importance of Dublin Port to the national economy and, in particular, highlight the extent to which the Port as a facilitator of international merchandise trade forms a critical part of the economic infrastructure of the Greater Dublin Region, which is a huge generator of economic activity nationally.

This market significance creates two specific challenges for Dublin Port Company

Firstly, there is the imperative to ensure that the Port provides a competitive, efficient and dynamic environment for the conduct of trade. At present, this is achieved through intense competition **within** the Port among operators in different sectors.

Secondly, Dublin Port Company has an obligation to plan for future growth and capacity and the Master planning process is a key part of meeting that obligation. It is clear that in planning for future growth and development of the Port to meet future capacity requirements, that the planning consent and permitting environment, will make it imperative that prior to any new even limited reclamation being contemplated at Dublin Port, all options to optimise the throughput of trade from the existing Port Estate will need to be explored fully.

DPC itself provides no stevedoring or cargo handling services and concentrates on facilitating the competing operators at the Port for instance through the provision of pilotage and towage services¹. This *hands-off* policy developed over the past 20 years or so and has worked extremely well for the Port with every year from 1992 being a record year for the Port up until the economic collapse in 2008.

The practical manifestation of this policy lies in the system of franchises under which various port operators work.

We have argued elsewhere of the absolute imperative for the Port to maximise the use of existing land and we have indicated targets for the intensity of usage for unitised operations of different types (Lo-Lo, accompanied Ro-Ro and unaccompanied Ro-Ro).

¹ The only significant services provided by DPC are towage and Pilotage. From these services, DPC earns in the order of €5m from a total of €67m in 2010.

The franchise system and its future development are centrally important to maximising the efficiency of infrastructure utilisation.

In addition, the Port can also influence infrastructure utilisation through appropriate pricing incentives.

Whereas restructuring the franchise system and using pricing incentives can assist in achieving higher levels of infrastructure utilisation, there are limits set by the overarching commercial framework within which Dublin Port Company operates.

Commercial framework

The Port's commercial framework is summarised below:

- Provide port infrastructure to be operated by private sector customers (shipping lines, terminal operators and stevedores)
- Develop and maintain commercial relationships with customers in such a way as to maintain competitive forces in the shipping, terminal operation and stevedoring markets
- Generate a return on capital employed sufficient to remunerate past investments appropriately and sufficient to allow future investment in port infrastructure
- Subject all capital investment proposals to rigorous appraisal to ensure target ROCE is not compromised by inappropriate investment decisions
- Manage operating costs downwards to appropriate levels
- Manage port pricing consistent with the above objectives
- Distribute surplus cash by way of dividends

Franchises

There have been many phases in the development of the Port down to the present day. There have also been seminal events such as the liquidation of DCH in 1992. All of these different circumstances have given rise to a myriad of differing franchise types, ranging from long term leases to licences as well as some operators that have freehold title on the Port Estate.

These include:

- Four Ro-Ro terminals, three with largely similar agreements with the Port.
- Three Lo-Lo terminals, each with different forms of agreement with the Port.
- Two general stevedores with identical licenses, one of whom operates a Lo-Lo terminal.
- A variety of bulk liquid importers (oil companies, power stations and a molasses importer) each of whom makes their own arrangements to connect ships to landside pipework.

- Two bulk solid operators with their own facilities who load / discharge ships themselves.
- A variety of companies who own buildings and other infrastructure (such as oil tanks) on land leased from the Port.
- Various companies (such as empty container depots and trailer operators) using Port lands under leases and licenses with widely varying terms and conditions.

These circumstances give rise to a series of issues for the Port such as:

1. Companies in direct competition operating off different cost bases in the Port.
2. Companies holding land for speculative purposes which could be used more productively from the Port's perspective for the transit storage of cargo.
3. The Port having varying levels of influence on the efficiency with which Port operators utilise Port lands.
4. Illogical differences in how comparable activities are managed.

The EU has taken considerable interest in how port services are provided in ports, most recently in the preparation² of the March 2011 White Paper (Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system). The EU's motivation to optimise the efficient working of markets for port services exactly mirrors Dublin Port's imperative to maximise the utilisation of the Port's existing land.

The above considerations suggest the need for the Port to have a policy in relation to franchises as follows.

In the early stages of the Masterplan period, the Port will seek to negotiate changes in franchises to achieve two objectives:

- Firstly, to give the Port more ability to influence the utilisation of existing lands to optimise the effective operation of the Port
- Secondly, to negotiate new arrangements with existing operators with the objective of eliminating discrepancies in competing operators' cost bases which have arisen from the different historical backgrounds

² EU Commission Staff Working Document, Brussels, 28.3.2011, SEC(2011) 391 final: "While many ports operate in a competitive environment, technical-nautical and cargo handling services are often restricted to monopolies or to a few established operators. The Commission's attempts to open market access to port services were rejected by the European Parliament. In line with stakeholders' requests, the Commission has not put forward any further legislative proposal. It is currently applying and enforcing the basic rules of the Treaty in the port sector, and closely monitoring the market development. Should this situation reveal to be insufficient or generate uncertainty, legislative proposals might be considered again".

Pricing Incentives

Nearly 80% of the Port's revenues come from publically available tariffs setting out charges on ships and on cargo and charges for services such as towage and pilotage. These tariffs have historically been applied on a universal basis across the entire customer base. As part of this approach, the Port has not offered pricing incentives (such as volume rebates) as an instrument to increase volume or to influence capacity utilisation. This reluctance came, firstly, from a concern that the Port should not provide a benefit to one user over a similar competitor and, secondly, from the not unreasonable view that Port volumes were increasing without a need for price incentivisation focused on optimum land utilisation for core port trading purposes.

However, whereas tariff pricing has been evenly applied across the board, significant cost base differences have arisen among different operators due to their different franchise types (particularly in the Lo-Lo container terminal sector as described above).

In light of the hugely changed economic circumstances since 2007 and following on from the recognition of the need to maximise the utilisation of existing infrastructure (within the constraints of the Port's commercial framework), it is appropriate now for the Port to more actively use pricing incentives.

Conclusions

It is clear that part of the answer to the Masterplan's question (how can the Port handle 60m tonnes by 2040) lies in making optimal use of existing land. This approach also makes commercial sense and changes in planning and environmental policies compel DPC to explore every possible mechanism to secure the optimal use of the existing port estate for trade purposes before contemplating additional development works.

Logically, the Port should only seek to expand beyond the existing footprint of the Estate when existing capacity is at (or more realistically is approaching) 100% utilisation.

Given the hands-off nature of DPC's involvement in Port operations, there are limited means by which DPC can influence operators to maximise the utilisation of existing lands and infrastructure. However, modifying franchises and making increased use of pricing incentives are two ways in which DPC can modify behaviour to encourage greater capacity utilisation.

It will be the policy of the Port to use both of these means during the period of the Masterplan to achieve the objective of maximising the utilisation of existing Port capacity.