Submission to the Enterprise and Business Committee by W.E Dowds (Shipping) Limited

"The Future of Welsh Ports and Airports"

Introduction

This submission is presented on behalf of W.E.Dowds (Shipping) Limited (**WED**). The company has been in business in the Port and Harbour of Newport since 1960. Although originally involved in the sale of coal and coke products within the U.K. and abroad it has, since 1990, concentrated its activities in the discharge, storage, and delivery of steel products and is now one of the largest handlers of flat steel in the U.K. with a worldwide customer base.

> "*Newport ……. is the busiest UK port for iron and steel*[1]"

and **WED** currently handle all the steel shipped through Newport Docks.

www.wedowds.co.uk

In considering this submission **WED** have reviewed a range of published material from Europe, the U.K. Government, the Welsh Government, trade organisations and academic sources. (See bibliography). There is already, it has to be said, much information about the ports industry and Welsh ports in the public domain including the recent publication of a "*National Policy Statement for Ports*" by the Department of Transport in January 2012 and the Welsh Affairs Committee in their report published on 21st February 2012 that stated inter alia

> *" 71. We call on the UK Government and the Welsh Government to recognise the importance of ports to the economy of Wales. Both the UK and Welsh Governments should, in their responses to this Report, set out how they are promoting investment in this area."* [2]

Indeed, the same committee also produced a report on ports in Wales in November 2009 again recognising the importance of the port industry in Wales.[3] In March 2006 the Wales Transport Research Centre of the University of Glamorgan published "*Wales and the Atlantic Arc: Developing Ports"*[4] and

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[1] GREAT BRITAIN. WELSH AFFAIRS COMMITTEE. *Ports in Wales*. [Online Report] http://www.publications.parliament.uk/pa/cm200809/cmselect/cmwelaf/601/60105.htm para 11.
[2] GREAT BRITAIN. WELSH AFFAIRS COMMITTEE. *Inward Investment in Wales.* [Online Report]. http://www.publications.parliament.uk/pa/cm201012/cmselect/cmwelaf/854/85407.htm.
[3] GREAT BRITAIN. WELSH AFFAIRS COMMITTEE. *Ports in Wales*. [Online Report] http://www.publications.parliament.uk/pa/cm200809/cmselect/cmwelaf/601/60105.htm.
[4] WALES TRANSPORT RESEARCH CENTRE. 2006. *Wales and the Atlantic Arc: Developing Ports.* [Online report]. Cardiff: Welsh Assembly Government. http://transport.research.glam.ac.uk/media/files/documents/2007-02-15/Wales_and_the_Atl_Arc_REPORT.pdf.

in May 2008 The Wales Freight Strategy was published[5] contributing to the National Transport Plan published in 2010.[6]

If one reads the reports already published then once can see a continuum of thoughts, ideas and recommendations. Indeed even the wording is identical in places.

> "*An end customer for marble tiles may regard the quality and condition of the product on arrival as more important than the length of time taken. The end customer will normally have no idea what percentage of the total price is for transport costs. They may also not know what modes of transport are used….. It is essential to realise that many 'decisions' on modal choice are not a decision at all. Most are a passive decision to 'do what happened last time'. This may be because of existing contracts with partners, or simply because of convenience. The customer of the transport service will generally have an idea of what transport costs are affordable, based on an historical view of 'what it cost last time. Only when there is a new traffic flow will a modal choice be made. Even then, in many instances the 'choice' is based on extending previous transport patterns. For example, new delivery point B is 100 miles beyond existing delivery point A so we will pay X% more and use the same method.*" [7]

> " *However, someone buying marble tiles may consider the quality and condition of the product on arrival to be more important than the length of time ………. For instance, the end customer for any product will seldom know how much of the price they pay for the product is made up of transport considerations, or what modes of many 'decisions' on mode are not active decisions at all, but are passive decisions of habit and to 'do what happened last time'. This may be because of contracts with existing partners, or simply a form of inertia because of the convenience and effectiveness of previous or existing arrangements. The customer of the transport service will also generally have an idea of what transport costs are affordable, based on an historical view of 'what it cost last time'. When a new freight movement is identified, a mode-choice decision may be made. However, even then, in many instances the 'choice' is often based on extending previous transport patterns, or using existing partners. For example, if a new delivery point 'B' is 100km further away from base than a current delivery point 'A', the customer is intrinsically prepared*

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[5] GREAT BRITAIN: WELSH ASSEMBLY GOVERNMENT. *The Wales Freight Strategy*. May 2008. [Online Report]. http://wales.gov.uk/deet/publications/transport/wfs/wfsfulle.pdf?lang=en.

[6] GREAT BRITAIN: WELSH ASSEMBLY GOVERNMENT. *National Transport Plan*. March 2010. [Online Report]. http://wales.gov.uk/docs/det/publications/100329ntpen.pdf.

[7] WALES TRANSPORT RESEARCH CENTRE. 2006. *Wales and the Atlantic Arc: Developing Ports.* [Online report]. Cardiff: Welsh Assembly Government. http://transport.research.glam.ac.uk/media/files/documents/2007-02-15/Wales_and_the_Atl_Arc_REPORT.pdf, p. 23.

to pay a proportional amount more based on the cost of delivering to 'A' using the same method. "[8]

We have quoted the examples at length to emphaise the point being made. It is not surprising to see the same ideas being presented in a series of reports. However it is the fervent wish of **WED** that this committee recognise that another investigation and another report, whilst obviously building on the work already done, is not going to assist unless it can lead to concrete action. Time does not stand still for those businesses involved in the ports industry whilst reports are prepared and considered but no action follows. If the need for action is being constantly recognised but nothing is followed through then at least parts of the port industry in Wales face a difficult future.

As stated, much work has already been done analysing the role of WAG in the port sector with many of the conclusions being repeated. However we have to report to this committee that not only have we, as a company, received no assistance from WAG but to the contrary the only action by WAG that has had a direct effect on this company is one that almost resulted in the bankruptcy of **WED**.

We are of course referring to the decision of WAG not to follow the English Government's example and cancel the backdated rates charge imposed on English and Welsh ports. We do not propose to go into the details again of this widely reported issue but we would quote below with approval the words of David Rosser then Director of the Wales CBI and simply add that our customers, as we explained this matter to them, shared his sentiments.[9]

> *What happened to the commitment to create a competitive business environment? What happened to the Assembly's statutory obligation to consult with businesses on matters affecting them? What happened to government and business working in partnership? Do Assembly ministers still think that business is a cash cow to be milked, or just that they don't understand the impact and the message they are sending?*

For the reasons set out below we do urge the committee to use their utmost endeavours to ensure that WAG do understand the issues facing Welsh ports and act appropriately.

[8] GREAT BRITAIN: WELSH ASSEMBLY GOVERNMENT. *The Wales Freight Strategy*. May 2008. [Online Report]. http://wales.gov.uk/deet/publications/transport/wfs/wfsfulle.pdf?lang=en, p. 24.

[9] ROSSER, DAVID. 2010. Sun sets in the ports on a level playing field for UK business rates. *WalesOnline.co.uk*. [Online newspaper]. 24 November. http://www.walesonline.co.uk/business-in-wales/business-columnists/2010/11/24/sun-sets-in-the-ports-on-a-level-playing-field-for-uk-business-rates-91466-27702767/#ixzz1nbD6C7YU.

Challenges

As **WED** are based in South East Wales we have no knowledge, except in the general sense, of the issues and circumstances facing ports in North and West Wales. It is a fact though that there is a massive concentration in just three ports and these distort the overall figures.

> *"Most international freight arrives or leaves the UK by sea (431 million tonnes in 2006 – some 95% of all trade by weight), with a further 138 million tonnes of domestic freight also using ports. Wales' share of UK port traffic was just over 10% at 56.7 million tonnes in 2006. Although there are some 120 commercial ports in the UK, with 15 in Wales, major ports dominate the UK market with the top 20 ports catering for almost 90% of all traffic. In Wales, the top three ports by volume (Milford Haven, Port Talbot and Holyhead) carry over 80% of all Welsh throughput. Indeed, Milford Haven is the 5th busiest port in the UK as a whole, and alone handled 61% of all port traffic in Wales (34.3 million tonnes in 2005)."* [10]

Even at the danger of being accused of self-interest, it is hard not to conclude that the larger ports and in particular Milford Haven are successful on a U.K./ European basis. Indeed this can be seen in their evidence as submitted to the Welsh Affairs Committee by the Milford Haven Port Authority

> · "*Milford Haven has attracted over £2 billion of direct inward investment over the past 5 years, creating over 300 permanent high skill jobs and substantial levels of associated economic activity"* [11]

In fact the one thing MHPA asked for above all is a simplified planning procedure which may have been addressed in the National Policy Statement for Ports.

> ***"3.5.2** Given the level and urgency of need for infrastructure of the types covered as set out above, the IPC should start with a presumption in favour of granting consent to applications for ports development."*[12]

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[10] GREAT BRITAIN: WELSH ASSEMBLY GOVERNMENT. *The Wales Freight Strategy*. May 2008. [Online Report]. http://wales.gov.uk/deet/publications/transport/wfs/wfsfulle.pdf?lang=en, p.61.
[11] GREAT BRITAIN. WELSH AFFAIRS COMMITTEE. *Inward Investment in Wales.* [Online Report]. http://www.publications.parliament.uk/pa/cm201012/cmselect/cmwelaf/854/85407.htm.

[12] GREAT BRITAIN. DEPARTMENT FOR TRANSPORT. *National Policy Statement for Ports*. 2012. London: The Stationery Office, p. 17.

South East Wales Overview

The major ports in South East Wales grew fundamentally to serve the Welsh Coal industry and later the steel industry. We are now in a position where there are three ports Newport, Cardiff/Barry and Swansea (**ABP Ports**) owned by Associated British Ports (**ABP**) that are relatively close to each other and to a certain extent do offer overlapping and competing facilities. Port Talbot is unique in almost entirely serving the TATA works at Port Talbot and Mir Steel similarly have their own berth on the River Usk. Other river berths in Neath and Newport offer a similar service to the major ports although are restricted by tidal depth to smaller vessels. No doubt their operators will make their own submissions.

The benefits and importance to the Welsh economy of the ports in Wales are fully set out in the reports already quoted as well as in the report carried out on behalf of **ABP** by the Welsh Economy Research Unit a copy of which no doubt will be submitted to the committee. A detailed analysis is also set out in the report "Welsh Ports 'Driving Growth' " produced for the Welsh Ports Group by the British Ports Association and the U.K. Major Ports Group.

> "*It showed that 52,000 people are directly employed in coastal/marine activity and 40,000 indirectly. This generates £4.8bn in direct income, £2bn in indirect and induced activity and contributes £1.5bn of GDP to the Welsh economy. The highest number of estimated direct jobs are in Cardiff, followed by Pembrokeshire and Neath/Port Talbot, reflecting the continued importance of manufacturing to the sector*."[13]

It is clear that the views of the U.K. government, who are responsible ultimately for port policy, that investment decisions in the port industry are a matter for individual commercial concerns to...

> "*allow judgments about when and where new developments might be proposed to be made on the basis of commercial factors by the port industry or port developers operating within a free market environment*;"[14]

We will return to this topic in more detail when considering the position in Europe.

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[13] BRITISH PORTS ASSOCIATION. 2010. *Welsh Ports 'Driving Growth'.* [Online Report]. London: British Ports Association. http://www.britishports.org.uk/system/files/private/driving_growth.pdf, p.4.
[14] GREAT BRITAIN. DEPARTMENT FOR TRANSPORT. *National Policy Statement for Ports*. 2012. London: The Stationery Office. [Online report.] http://assets.dft.gov.uk/publications/national-policy-statement-for-ports/national-policy-statement-ports.pdf. p. 11.

Operating in **ABP Ports**

1. Investment.

ABP as a company require a 15% return on investment before proceeding in a project. In today's economic environment with low interest rates one may think that level of return is high but regardless of any such considerations **ABP** is entitled, indeed the government require it, to make its commercial decisions as it thinks fit. Despite this **ABP** has invested significantly in its South Wales Ports but it has to be recognised that, particularly in a challenging economic environment, **ABP** will makes its investment decisions based on its position as the largest port owner in the U.K. with 21 ports including Immingham and Southampton two of the largest port in the U.K. Putting it simply capital resources will likely follow the best return and the **ABP** South Wales ports are in a "queue" for that investment challenging other ports in the U.K many of which will have significant advantages over South Wales ports as we will turn to next

2. Containerisation.

Firstly some evidence.

- "*In 2005 more than 3billtion tonnes transited through European Ports……the total number of container movements (empty and full) in 2005 was 250 million in the world with more than a quarter in Europe…it is however fundamental to note that 30% of the movements in Europe in 2005 took place in the ports of Rotterdam, Antwerp and Hamburg…… Ports face the following challenges….a major technological change, marked by the development of container transport….*"[15]

- "*3.2.2. Port regionalisation*[16]

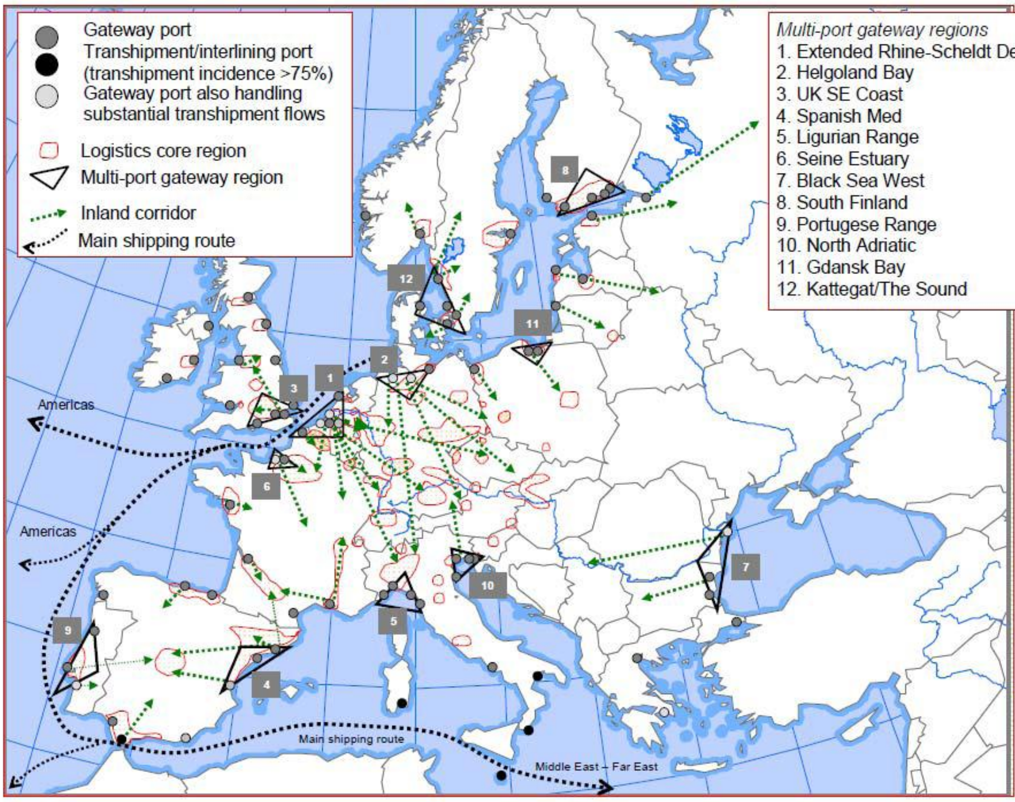
  Instead of calling at several ports in a port range, deep-sea container vessels now call only at one or a few hub ports, which reduces the costs for a ship-owner."

[15] COMMISSION OF THE EUROPEAN COMMUNITIES. *Communication from the Commission: Communication on a European Ports Policy*. 2007. Brussels: Commission of the European Communities, pp. 2-3.

[16], EUROPEAN PARLIAMENT. *State aids to EU seaports: study.* 2011. [Online report]. http://www.europarl.europa.eu/committees/fr/studiesdownload.html?languageDocument=EN&file=66171, pp.49-50.

- *Finally, from 2000 onwards, and especially in container transport, networks of ports have developed that compete with each other. ITMMA and ESPO (ITMMA and ESPO 2009] have recognised twelve multi-port gateway regions in Europe for container transport that are competing with each other for delivering the hinterland. These multi-port regions are inter alia:*

  1. The Rhine Scheldt area, including ports such as Amsterdam, Antwerp, Rotterdam,Zeebrugge and Zeeland Seaports;
  2. Helgoland Bay, including the ports of Hamburg, Bremerhaven and Wilhelmstadt;
  3. United Kingdom south east Coast, including the ports of Felixstowe, Tilbury and London;
  4. Spanish Mediterranean range, including Barcelona and Valencia;
  5. Ligurian Range, including the ports of Genoa, Livorno and La Spezia



Source: ITMMA

2.3 Containerisation[17]

"There is an increasing trend towards containerisation. This is a result of the globalisation of trade. Products from the Far East can be cheaply produced and transported in containers across the world to reach the key markets in the US and Europe. These products retail far more cheaply than products produced directly in those markets where labour and operating costs are generally much higher. While at first sight this trend appears to affect deep sea traffic more than short sea, there is an impact on the short sea business and other transport modes. Containers which have arrived on deep sea routes, will then transfer to other modes, whether at Rotterdam, or in the English main deep sea ports of Felixstowe, Southampton, Liverpool and Thamesport and Tilbury in the London area. The UK has seen a 60% increase in container traffic in the last 10 years, a period in which overall port traffic was up only 13%. In 2001 some 4, 464,000 containers were handled by UK ports on lo-lo and conventional services. Some of the growth reflects the strength of the UK economy, but Felixstowe in particular is used as a European hub for transhipping containers and accounts for 41% of UK container. movements. Growth in containers moved at UK ports will continue at rates well above UK GDP growth. Competition for transhipment traffic from new and existing facilities on the Continent is likely to be intense."

"Future growth in freight handled via ports is expected to substantially increase the amount of goods shipped by containers.

3.4.3 *Forecasts of demand for port capacity in the period up to 2030 by MDS Transmodal (MDST) were published on behalf of the Department for Transport in 2006 and updated in 2007 (Figure 1). The central GB-wide forecasts suggested increases by 2030 over a 2005 base of :*

- *182% in containers, from 7m to 20m teu (excluding transhipment);*
- *101% in ro-ro traffic, from 85m to 170m tonnes; and*
- *4% in non-unitised traffic, from 411m to 429m tonnes*[18]

[17] WALES TRANSPORT RESEARCH CENTRE. 2006. *Wales and the Atlantic Arc: Developing Ports.* [Online report]. Cardiff: Welsh Assembly Government. http://transport.research.glam.ac.uk/media/files/documents/2007-02-15/Wales_and_the_Atl_Arc_REPORT.pdf, p.17.

[18] GREAT BRITAIN. DEPARTMENT FOR TRANSPORT. *National Policy Statement for Ports*. 2012. London: The Stationery Office. [Online report.] http://assets.dft.gov.uk/publications/national-policy-statement-for-ports/national-policy-statement-ports.pdf, pp.12-13.

What does this mean for South Wales?

Well the first and regrettable statement that has to be acknowledged is that the **ABP ports** can never compete in the first instance container market. For many factors, not least size of vessel, large container vessels will not be able to be accommodated. This point is also emphasised in the report by the Ports in Wales Welsh affairs Committee.[19]

For all business, but particularly Deep Sea business, the ports of Bristol and Liverpool compete with the **ABP Ports**. For our company Liverpool in particular are an aggressive competitor for Deep Sea steel traffic. As these ports invest further in containerisation they are able to compete even more strongly and already vessels entering Bristol are charged far less for dock dues pilotage etc than if they came to Newport. Although Southampton is an ABP port it is of course a competitor and, as mentioned above, not least for investment funds.

> *"**3.4.8** Since 2005, consents have been granted for a number of container port developments that, if completed as planned, would provide substantial additional container throughput*
>
> - *Liverpool handled 0.6 million teu in 2009. Consent granted March 2007 would allow capacity for around a further 0.6 million teu;*
> - *Bristol handled 0.07 million teu in 2009. Consent granted September 2010 will allow an estimated further 1.5 million teu; and*
> - *Southampton, which handled 1.4 million teu in 2009, has advanced plans to expand terminal capacity within its existing development rights, which could ultimately provide capacity estimated at an additional 1.7 million teu.*" [20]

As well as the competition from within the U.K it also has to be recognised, as already stated, that there is severe competition from European ports as shipowners try and minimise their port callings.

If the ABP ports cannot handle direct container vessels then what opportunities are there for feeder traffic? This issue was extensively dealt with in the Atlantic Arc report as well as the Wales Freight Strategy Report already submitted to WAG. This work ties in with the European Union Ports Policy the so-called "*Motorways of the Sea*" [21].

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[19] GREAT BRITAIN. WELSH AFFAIRS COMMITTEE. *Ports in Wales*. [Online Report] http://www.publications.parliament.uk/pa/cm200809/cmselect/cmwelaf/601/60105.htm Paragraph 51

[20] GREAT BRITAIN. DEPARTMENT FOR TRANSPORT. *National Policy Statement for Ports*. 2012. London: The Stationery Office. [Online report.] http://assets.dft.gov.uk/publications/national-policy-statement-for-ports/national-policy-statement-ports.pdf, p. 14.

[21] See Appendix 1.

Again in "Ports in Wales" the Welsh Affairs Committee reported extensively on this matter.[22]We do not propose to discuss in detail the issues of container feeding into ABP ports as this has been dealt with in detail in the reports quoted above except to abstract the fundamentals of the concepts (see Appendix 1) and to note the following.

> "*The UK's main deep-sea ports of Felixstowe and Southampton are in south-east England and, as a result, much Welsh international maritime traffic (often originating in the Far East) reaches Wales via England, mainly by road but also an amount by rail to the Wentloog International Freight Terminal*[23]
>
> *This opens up the possibility of linking regionally-located distribution centres and regional ports and to reduce overland haul lengths by bringing cargo closer to origins and destinations, including possible colocation of distribution centres on port estates. Hence, there is significant potential for increasing use of coastal shipping, which could see an increase in Welsh-destined cargo using Welsh ports*
>
> *The potential for greater volumes to be fed into regional ports by sea as opposed to long haul road transport brings with it the benefit of closer links to liner services, connecting Welsh ports with both deep sea UK and continental ports. Services from Wales into hubs provides Welsh exporters with new options to route their products and increases connectivity to Europe and globally. In addition, connectivity direct to deep-sea hubs may also enhance Wales' attractiveness to inward investors. Similarly, proposals such as the 'Motorways of the Sea' seek to encourage long haul road freight from Southern Europe and the Iberian Peninsula to use sea-borne transport, with trailers being transported in ro-ro vessels to UK west coast ports, including ports in Wales*."[24]

The research identifies potential and the same point is made time and time again in the many reports. **WED** do not dispute the correctness of the submissions but have seen little compelling evidence of this type of business occurring. In particular, the suggestion that coastal shipping from U.K. ports into South Wales could be competitive seems very speculative. The WAG supported Wentloog International Freight Terminal already, as noted, serves as a modal hub for containers entering Wales and without significant revenue support a switch to coastal shipping is difficult to envisage.

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[22] GREAT BRITAIN. WELSH AFFAIRS COMMITTEE. *Ports in Wales*. [Online Report] http://www.publications.parliament.uk/pa/cm200809/cmselect/cmwelaf/601/60105.htm.

[23] GREAT BRITAIN: WELSH ASSEMBLY GOVERNMENT. *The Wales Freight Strategy*. May 2008. [Online Report]. http://wales.gov.uk/deet/publications/transport/wfs/wfsfulle.pdf?lang=en, p. 22.

[24] *Ibid*, p. 63.

It must be correct though that more potential exists in transhipment from European Ports but the question still has to be asked as to why the transhipment would be into Welsh ports rather than other U.K. ports. It is recognised that there is plenty of spare capacity in Welsh ports but, apart from direct business serving the immediate hinterland of the Welsh Ports, feeder services still needs a reason to choose one of the **ABP ports**.

In the years since the Atlantic Arct report was published Swansea Containers have ceased business. The Swansea Cork Ferry has for the second time discontinued service and Coastal Containers have relocated from Cardiff to Liverpool. Fortunately ABP took the decision themselves to launch a container service in Cardiff after Coastal ceased operations. There is little doubt that container feeder services into ABP ports have not expanded in the way potentially envisioned by the authors of the various reports. This may be in due part to the downturn in business or the fact that the recommendations in the reports were not implemented. It may also mean that there are fundamental disadvantages in operating in South Wales reports and however much the academic research indicates opportunity the practical realities of shipping mitigate against it.

Whatever the reason it reinforces the need for WAG to examine their policies and assistance.

3. Location and Vessel Size

Inherent in the points made above but worth repeating are the limitations of location and vessel size. The truth of course not withstanding the points made on the Atlantic Arc, is that the **ABP ports** face away from the areas of growth. For short sea business ports on the South Coast and particularly the East Coast are far better suited to handle U.K. modern patterns of trade to the near continent. The enlargement of the EC eastwards increases this effect – the so called Blue Banana of EU logistics activities.[25] [26] For South Wales the sea journey is not only longer but more difficult particularly in the winter with the need to sail around Lands End.

Vessels from the Mediterranean, at least at first sight, could, it would be thought, just as easily berth at **ABP ports** rather than continue on the longer journey to the East Coast. However this ignores the fact, and not fully addressed in the reports quoted, that vessels once unloaded are looking for their next cargo ideally in the same port but if not within a short sailing distance. Export opportunities from **ABP ports** are limited particularly if TATA are not exporting a significant quantity. On the east coast however

[25] EUROPEAN PARLIAMENT. *State aids to EU seaports: study.* 2011. [Online report]. http://www.europarl.europa.eu/committees/fr/studiesdownload.html?languageDocument=EN&file=66171, p.47.

[26] See Appendix 1

there are more export opportunities particularly with a short sailing time to Rotterdam. Accordingly ship-owners will often quote a higher rate even though the distance is shorter simply because of this fact. A customer of **WED** based in Northern Spain is faced with the same freight rate to go into Newport or Goole even though the sailing to Goole adds at least one extra day. So shippers going to East Coast ports from the near continent will have a freight saving compared to Newport but the reverse is not always true at least to any significant degree.

The limitations on depth of water and lock size also means that **ABP ports** cannot handle Panamex vessels both of which are capable of going into Bristol and Liverpool. **WED** secured a contract several years ago with a steel mill in South Africa only to find that when the time came to start shipping the material the liner service refused to come to Newport because some of their vessels were Pamamex class and they did not want to be restricted on vessel choice. This business then went to Bristol.

The UK freight forwarders in their comment on National Ports Policy emphasied the importance of Deep Sea business.

> "*Our position remains straightforward: it is of the utmost importance that deep sea shipping lines continue to call direct at UK ports and not be attracted away by state-funded rival ports on the near-Continent. The NPS could be a roadmap of how that ambition will be achieved*."[27]

As far as the **ABP ports** are concerned attracting Deep Sea vessels into their ports is a matter of major importance. They remain vital to the successful operation of the ports and each vessel make a significant contribution to port costs.

Ports grew up and exist primarily to serve the hinterland but how deep is that hinterland? The point about the hinterland is that within Wales it is not deep as there has been a significant diminishing of manufacturing capacity with the important exception of TATA. Whilst it would make no sense with short-sea business (and as already pointed out it is hard to win short-sea business) to bring a vessel to Newport to service a customer in Manchester it is possible to have a part cargo on a deep sea vessel discharged in Newport for onwards transmission assuming the primary cargo is for Newport. Alternatively one cargo can bring others. For example **WED** entered into a contract with a Polish-Chinese shipping line to bring steel cargoes into Newport from the Far East. Subsequently the shipping line was able to load timber on their vessels for a local importer to everyone's mutual benefit. However if you take a Port such as Felixstowe they can serve virtually a UK wide hinterland because of their exceptional container facilities backed up by significant recent investment in rail services northwards.

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[27] BRITISH INTERNATIONAL FREIGHT ASSOCIATION. 2011. UK freight forwarders comment on National Ports Policy. [WWW]. BIFA. 12 December 2011. http://www.bifa.org/Content/popmessage.aspx?sec=2&id=3231.

Summary

When we meet with our employees and discuss our business and their role it we have to say frankly that

> "*We have to succeed not because we are in Newport but despite the fact that we are in Newport*"

The message we get over to them is that we cannot be as good as the competition. We have to be far better. A vessel can take its cargo to any port in the U.K and unless we are quoting for local companies it is impossible to win business from the near continent. To win other business and particularly deep-sea business we have to excel.

To achieve we have invested heavily in our own bespoke I.T. system offering data access throughout the supply chain, and this is recognised in the industry as a market leader. Indeed our European customers constantly bemoan the fact that they don't have a similar system in ports such as Antwerp.

We have also invested heavily in our staff and training and we are the only port company in the U.K to have achieved the British Safety Council's 5 * Health and Safety award.

Nevertheless we remain concerned that our ability to stand out significantly from our competitors could in time be eroded by the issues we face due to our location. The mere fact that we are on this side of the Severn Estuary means that the significant road haulage resources available to the Port of Bristol, and that we would wish to have to serve our business, have to pay a toll equivalent to £1.00 per tonne just to come to Newport.

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Europe

Within mainland European ports there has been a clear distinction between investment which could be categorised as general infrastructure and that which could be called commercial infrastructure. The theoretical difference would be that activities such as dredging to provide deeper access for vessels or the building of new locks would be regarded as general infrastructure and not subject to state aid review. On the other hand, in theory, the building of a new terminal would be regarded as commercial infrastructure requiring notification of state aid review. In addition services such as pilotage or dredging have often also carried out by the municipal or state authorities. In Appendix 2 further examples are quoted.

See for example financing for maritime access (channels Sea Locks)

France:
Table 10 Investment **% 80:20** State:Port; Maintenance State **100%**

Germany:
Table 14. Investment and Maintenance outside port State **100%**
Investment and Maintenance inside port Regional Authority **100%**

The Commission has sought to implement a coherent policy in this area but the reality is that no policies have been completed partly due to the opposition of the European Parliament who twice voted against the EU Port Services Directive. Currently the state of affairs is summed up as follows

> "*To conclude, despite various EU attempts over the years to draw up these specific guidelines for State Aids reviews in the seaport sector, at present there are none. The Commission seems divided over the issue, although in 2011 Commissioner Mr. Kallas announced his intention to issue a package of proposals in 2013*"[28]

The position of the U.K. Government, as already noted, and set out above is completely clear and port investment is a commercial not a governmental decision. Regardless of what happens in the future, and whether indeed the Commission ever succeeds in formulating policy acceptable to EU member countries, the reality is that EU Continental ports have had massive state aid in the past and will likely continue to receive it in the future. Even if a policy comes into place it seems that the distinction between general and commercial investment is so heavily entrenched that it will continue. The response of the European Sea Ports Organisation to the study "State Aids for EU Seaports" is instructive.

> "*It is a public secret that this ongoing delay is mainly due to differing interpretations on the application of State aid rules to ports within the Commission. ESPO strongly supports the view that, next to public-private partnerships and existing financial instruments, national governments should continue to be able to fund basic transport infrastructure as part of their economic policy. This applies to seaports and their maritime and land-side connections, but also to rail, inland waterways and road infrastructure in general. A more dogmatic interpretation of Treaty rules, whereby any form of public funding would a priori be seen as State aid, would not only jeopardise the future development of seaports and their integration in logistics chains but would also lead to a tremendous bureaucracy in terms of notification procedures which would further delay already cumbersome port planning processes with no real added value. In*

[28] EUROPEAN PARLIAMENT. *State aids to EU seaports: study.* 2011. [Online report]. http://www.europarl.europa.eu/committees/fr/studiesdownload.html?languageDocument=EN&file=66171 , p. 13.

addition, such an approach would then logically also have to be applied across the transport chain in order to ensure a level playing field."[29]

In Appendix 2 abstracts are quoted to show the existing situation in Europe and by comparison that in the U.K. For example the extensive involvement of the Flemish government with 342 million euros allocated contrasting with the U.K where only one case of state aid was noted with a public cost of £18M – the Great Yarmouth Outer Harbour.

What does that mean for **ABP ports**?

Well it could be argued that this is just an example where the approach to state investment is different in Europe to the U.K. and that's just a fact to be accepted.

Or it could be argued that this investment assistance is for European ports not U.K. ports and that **ABP ports** compete against U.K. ports. There is clearly some force to this argument although we would hope that the committee do recognise that the continental ports do in fact in terms of Deep Sea business compete strongly against the U.K. ports including ports in Wales. This is clearly stated in the National Policy Statement for Ports.

> *"3.4.13 UK ports compete with each other, as well as with neighbours in continental Europe, as primary destinations for long haul shipping, as stops for ships making shorter journeys to and from Europe, along UK coasts and as bases for terminals and associated infrastructure. The Government welcomes and encourages such competition. Competition drives efficiency and lowers costs for industry and consumers, so contributing to the competitiveness of the UK economy. Effective competition requires sufficient spare capacity to ensure real choices for port users."* [30]

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[29] EUROPEAN SEA PORTS ORGANISATION. 2011. State Aid to EU Seaports. [WWW]. European Sea Ports Organisation. http://www.espo.be/images/stories/policy_papers/policy_papers2011/2011-12-20%20espo%20state%20aid%20ep%20study%20recommendations.pdf, p. 1.

[30] GREAT BRITAIN. DEPARTMENT FOR TRANSPORT. *National Policy Statement for Ports*. 2012. London: The Stationery Office. [Online report.] http://assets.dft.gov.uk/publications/national-policy-statement-for-ports/national-policy-statement-ports.pdf, p. 15.

However the fact is that regardless of these arguments two conclusions can be drawn:

Investment of the type that exists in Europe could be given to Welsh Ports without concern about Commission intervention. Whether it sits well with the U.K. policy is another matter.

The **ABP ports** will continue to struggle competitively against U.K. ports because of the factors already outlined above.

It is undoubtedly true that the U.K. Government will take the view that business will migrate to the most competitive port and it must be clear to the committee that that may not be Welsh ports taking the factors such as location mentioned above. The question for WAG is whether they are content with that position. Whether or not they can act within their powers under ports policy or whether they need to find others way to act is not a question that can be answered as it is beyond the competence of this submission but the question remains.

<u>What would Newport be receiving it was located within the Flemish Region?</u>

<u>What could be done to make a difference?</u>

1. Infrastructure spending. A case may be made for increasing the size of the locks in Newport. Dredging costs are also borne by the port rather than by the authority. A deeper dredged channel would assist Newport in the fight for more Deep Sea business.

2. Lowering the cost of a vessel coming to Newport. At the moment the berthing costs and the costs of port services such as pilotage and tugs can act as a disincentive to vessels choosing Newport. A recent example was the increase in tug costs. The local provider that raised his rates in Newport by almost three times the amount of Bristol. One of the conclusions of the report on the Atlantic arc was that

> "*modal choice in freight is on price. Transport customers value price first*"

This is undoubtedly true for vessel owners. When fixing a cargo and putting a price on the freight one of the first actions will be to seek a disbursement account from the discharge port followed only then by a time estimate for discharge. The time taken to discharge a vessel is obviously important to a vessel owner but will be of secondary importance to port costs. For example, in discharging a steel cargo that in most cases can only be unloaded in dry weather, **WED** may give an estimate of 1 day but that could take two days with rain. The ship-owner will accept the risk and price that into his freight knowing that in most cases the weather will not be a factor but before he fixes his vessel he will have the actual port costs and that will certainly be a more important measure to take into account.

In the “Atlantic Arc” report a recommendation was made for a “freight revenue scheme”. What we would recommend is a scheme to lower the cost of vessels coming to Newport. It should be structured specifically to assist ship-owners and in that way would enhance the attraction of **ABP ports** as a “place to do business” Currently the Newport Harbour Commissioners operate a similar scheme although inevitably a more modest scheme granting a discount against their tariff to encourage ships to choose Newport.

Business Rates

As **WED** was almost driven out of business by the imposition of backdates rates and as it remains the single largest factor threatening the continuation in business of **WED** going forward it will not surprise the committee if it returns to this topic. **WED** has already made representations the Business Rate Review Group set up by WAG.

Operating within the boundaries of a port facility and relying totally on the sea element to function means that any private company has to be situated in that specific location in order to carry out its business. Stevedoring companies like no other, require and have to rely on quayside transit warehousing in order to fulfil their function in loading and discharging sea going vessels. These warehouses are generally provided by the port authority close to the quayside to enable vessel cargoes to be prepared and/or discharged temporarily into covered areas prior to being delivered to their final destination. These warehouses are often extremely basic and storage capacity can move from 0% to 100% in the space of weeks and then revert back to being empty again in days! A standard warehousing operation is able to be situated anywhere in the country and can be serviced by a number of transport options other than by sea, one relying on sea traffic cannot.

This argument about having more capacity than one need is recognised in the National Policy Statement for Ports

> *“Effective competition requires sufficient spare capacity to ensure real choices for port users. It also requires ports to operate at efficient levels, which is not the same as operating at full physical capacity. Demand fluctuates seasonally, weekly and by time of day, and some latitude in physical capacity is needed to accommodate such fluctuations…………… These factors may mean that total port capacity in any sector will need to exceed forecast overall demand if the ports sector is to remain competitive.”*[31]

[31]GREAT BRITAIN. DEPARTMENT FOR TRANSPORT. *National Policy Statement for Ports*. 2012. London: The Stationery Office. [Online report.] http://assets.dft.gov.uk/publications/national-policy-statement-for-ports/national-policy-statement-ports.pdf, pp. 15-6.

In the case of **WED** it now faces continuing to pay its contribution to the port cumolo through its contractual payments to **ABP** and a new rates bill estimated in the £100's of thousand pounds thereby suffering not only a new cost but double taxation. As its rates bill is estimated on a property assessment basis the more capacity it has the higher its costs even though, as explained above, it is inherent in the business of ports that one has to have excess capacity to meet demand. A vessel turning up with 30000 tonnes of cargo needs " 30000 tonnes worth "of space immediately not over two weeks. In a normal rates model a business that cannot meet its rate bill will migrate to an area where it can afford its rates bill if it wants to stay in business. So the small ship-owner will not seek a city centre location but will locate in a neighborhood. Of course such an option is not open to a company engaged in our business. In such circumstances we either manage or reduce our capacity.

In addition, it is the standard practice in ports for business to give throughput guarantees and **WED** is no different.

> *"6.2. Throughput guarantees*
>
> *Table 8 reveals throughput guarantees are included in more than 90% of the sample of terminal contracts. The port authority generally indicates upfront a minimum throughput to be guaranteed by the terminal operator. This should encourage the operator to market the port services to attract maritime trade and to optimize terminal and land usage*." [32]

WED are therefore in the position of requiring capacity in excess of 100% of its business needs and needing that capacity to meet its revenue guarantees but being doubly taxed as a result.

In the Parliamentary debates when the issue of the change in taxation was discussed the U.K. Government's response was that it was a matter of commercial negotiation between the parties. Firstly, in the case of Newport, the port owner **ABP** has received no reduction in its rates bill for the port despite the fact that **WED** has had a massive increase. This new charge in this instance simply can be described as a **new tax** on Newport Docks. Secondly, this is not the case elsewhere because the policy as applied is not even handed. In the Port of Liverpool for example the rates bill on the Port Estate as a whole has increased from £16M to £16.7M but on the Port Authority it has been reduced by £10M. A direct competitor for **WED**, already having the advantages set out above, now gets a further advantage with a 62.5% rates reduction.

Again it may be argued that the imposition of rates, even if not evenhanded within the country is a matter for the U.K government. However the arguments set out above apply here as well in that if Welsh ports already suffer a significant disadvantage and companies operating within these ports now have the additional disadvantage of a huge tax burden imposed on them then, regardless of national policy, the **ABP ports** are going to be severely hit.

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[32] NOTTEBOOM, THEO, and VERHOEVEN, PATRICK. 2010. The awarding of seaport terminals to private operators: European practices and policy implications. *Trasporti Europei*, 45. http://www.istiee.org/te/papers/N45/45D_NotteboomVerhoeven.pdf.

Is this something that WAG is going to standby and let happen?

We have already mentioned the difficulties **ABP Ports** will have in securing short-sea business "in the general market". However one way in which this business can be obtained is by having the end user see benefit in locating within the port. So, for example, **ABP** were able to bring fertiliser cargoes into the port on the back of having a business locate its bagging plant within the port. **WED** similarly were able to attract a steel company to locate in the port.

<u>Enterprise Zones:</u>

The basic concept behind the creation of an enterprise zone is to create an open, free-market environment through removal of taxes, regulations and other government burdens on economic activity. The creation of this environment in the ports sector and the removal of these burdens would then create new and expand current economic opportunities leading to the revitalization of businesses in these areas and to real, private-sector job creation for the surrounding areas.

Recently established Enterprise zones (as listed below) for Wales have a notable exception in their ranks because there is not one focusing on the port sector, thereby isolating European and Intercontinental sea borne business into the principality .

Cardiff Central Business District - focusing on the Financial Services sector
Anglesey– focusing on the energy sector
Deeside – focusing on the advanced manufacturing sector
St Athan – focusing on the aerospace sector
Ebbw Vale –focusing on the automotive sector

In order to address the balance within individual business sectors in Wales, we would like to suggest an Enterprise Zone within the port of Newport to attract sea borne business into South Wales. Newport is able to serve larger vessels than its counterparts in South Wales and in attracting more international shipping to the port, it will encourage more foreign investment into Wales because the businesses will have the option of being service by sea which is by far the most economical form of bulk material movement. A scheme such as this will identify and remove barriers to entrepreneurs which would preserve and create new jobs whilst nurturing local economic growth.

Conclusion

Undoubtedly the WAG understands the economic importance of the Welsh ports and their contribution to the Welsh economy. The evidence before them also must show the under utilisation of these assets on their doorstep.

Companies such as **WED** are now threatened by the imposition of additional and excessive taxation. As their main delivery points are in the West Midlands they have to compete against ports on the east coast as well as the larger ports of Liverpool and Bristol but suffer inherent disadvantages from being located in Newport.

As **WED** are not involved in container shipping but in traditional break bulk unloading then, unlike container terminals, they require a large direct and subcontract labour force for their stevedoring operations. **WED** alone were responsible for 36% of the dry bulk tonnage handled in Newport Docks in 2010.

WAG need to consider what steps it can take, regardless of the directive of the U.K. Government to act simply on commercial terms, if it wants to ensure a vibrant port industry and not see more business migrate into English ports which have some inherent advantages.

In the opinion of **WED** this could be best achieved by

a) Lowering the cost of vessels coming into **ABP Ports**

b) Granting Enterprise Zone status.

We recommend these solutions to the Committee and we would finally invite the committee to visit out operation in Newport Docks and experience first hand the work this company does.

Appendix 1 “Motorway of the Sea” and the Atlantic Arc

1. Wales and the Atlantic Arc: Developing Ports

    Sarah Sarah Kendall Professor Stuart Cole
    Wales Transport Research Centre, University of Glamorgan
    A Report by the Wales Transport Research Centre
    March 2006

2. An analysis of the European Union Ports Policy

    Harilaos N. Psaraftis
    Professor, National Technical University of Athens
    Former CEO, Piraeus Port Authority Former CEO, Piraeus Port Authority

3. One Wales: Connecting the nation - The Wales Freight Strategy

4. Directorate General for Internal Policies
    Policy Department B: Structural and Cohesion policies on Transport and Tourism
    State Aids to EU Seaports

1.Wales and the Atlantic Arc: Developing Ports

For Wales, and the Atlantic Arc regions, enlargement shifts the geographic centre of high European production (the 'blue' banana) and markets further east, and away from them. This accentuates the geographic fact of the Atlantic arc as the 'west of the west'.

Motorways of the Sea

This concept is still being developed. The idea of Motorways of the Sea is to promote high quality, frequent door to door intermodal freight movements, with the long haul stage completed by sea. Ports would need to be highly effective, with good rail and truck access arrangements. It is seen as an opportunity to promote cross - border public private partnerships as well as possibly secure public funding for port and related infrastructure.

New Trans European Network guidelines on infrastructure support were published in April 2004. Priority projects are potentially eligible for grants of up to ten per cent funding. There seems to be broad support for the concept, although there is no obligation on member countries, or individual ports or operators to bid for funding. Some groups, including the Atlantic Arc Commission feel these proposals do not go far enough. Some environmental groups felt environmental issues are not sufficiently reflected yet. Other groups, such as the British Ports Association, have commented that the proposals risk distorting the commercial market place. As part of the development of 'motorways of the sea' there are proposals at EU level for the liberalisation of port services, these are in the early stages of development.

2.An analysis of the European Union Ports Policy

Transport policy developments that may affect ports

There have been a series of developments that can be seen as supportive to the objective of shifting cargo from land to sea. For instance, the Commission adopted the proposals by the High-Level group headed by EC Commissioner Karel van Miert regarding the revision of the Trans-European Transport Network (EC, 2003c), and the European Parliament approved the Council's Common Position on the Commission's Proposal. Of particular interest is the proposed creation of a network of "Motorways of the Sea," with four such maritime arteries identified across Europe):

1. The ‘Motorway of the Baltic Sea’, linking the Baltic Sea Member States with Member States in central and Western Europe;

2. The ‘Motorway of the Sea of Western Europe’, leading from Portugal and Spain via the Atlantic Arc to the North Sea and the Irish Sea;

3. The ‘Motorway of the Sea of South-West Europe’, connecting Spain, France, and Italy and including Malta, and linking with the motorway of the sea of southeast Europe;

4. The ‘Motorway of the Sea of South-East Europe’, connecting the Adriatic Sea to the Ionian Sea and the Eastern Mediterranean to include Cyprus.

The aim of the motorways of the sea, to be fully implemented by 2020, is to concentrate flows of freight on a few sea routes in order to establish new viable, regular and frequent maritime links for the transport of goods between member states and thus reduce road congestion and improve access to peripheral and island countries. Again, EU ports would play a critical role in the development of the motorways of the sea.

3. <u>One Wales: Connecting the nation - The Wales Freight Strategy</u>

A relatively unconstrained option is to distribute containers from deep-sea hub ports on smaller feeder vessels to regional ports, using land transport to complete the journey over a shorter distance. This could encourage regional distribution centres near ports, effectively inverting the existing distribution model and replacing long-haul land transport with shipping. Welsh ports generally have good surface connections and possess the capacity to accommodate a substantial increase in coastal traffic.

4. <u>State Aids to EU Seaports</u>

The two largest seaports - Rotterdam and Antwerp – as well as such ports as Hamburg, Bremen, Genoa and Gdansk, have been able to capitalise on strong cargo-generating centres in Europe's extended 'blue banana' area. The 'blue banana' is defined as the area in which the main economic centres in Europe are located. Originally it comprised the area from the south of the United Kingdom to the north of Italy. However, due to the effects of the Internal Market, the 'blue banana' has gradually extended to include the growing consumer areas of south east France and the Spanish regions of Andalusia and Catalonia. In addition, a shift eastwards is in progress towards Hungary and the Czech Republic, where emerging consumer markets are situated.

Figure 1: The 'Blue banana' of EU logistics activities

Source: *Cushman & Wakefield, 2009*

Appendix 2

State Aid and Europe

Abstracts from:

1. State Aid Issues EC/DG TREN presentation 10th September 2008 Tallin, Estonia
2. Communication on a European Ports Policy SEC(2007) 616
3. European Sea Ports Organisation ESPO New 16:20
4. Directorate General for Internal Policies
   Policy Department B: Structural and Cohesion policies on Transport and Tourism
   State Aids to EU Seaports
5. Wales and Atlantic Arc: Developing Ports

Abstracts

(1) Development in Ports fall under "State Aid Procedures". In the past there have been two categories of Port projects:

- Infrastructure open to all users (navigation channels. breakwaters etc) for which no notification was required as it was not categorised as State Aid.
- Infrastructure used by specific users (berths…terminals…warehouses…) for which notification was necessary as it was categorised potentially as State Aid.[1]

(2) The Commission recognises the need for, but the absence of, a level playing field.

"The set-up of port management varies considerably across the community. In some Member States ports are managed by private entities which own port land…those ports are entirely private businesses. In the other cases-*a large majority in continental Europe*- [**my italics**] ports are managed by public entities or undertakings"

4.1 The role of public authorities

"Although it cannot be said that there is competition between all ports in all cases, competition between some of them, and competition inside ports can be significant and calls for a level-playing field. In this respect one of the issues to be addressed is public financing in ports…. The commission will adopt guidelines on State aid to ports in 2008"[2].

(3) In September 2010 state aid in the transport sector was moved from the competence of the transport administration to the competition authority. This meant that the long awaited state aid guidelines for ports were delayed. In September 2011 Commissioner Mr. Kallas announced[3] his intention to issue a package of proposals in 2013 to bring forward measures:

[1] GASPARD, MICHEL. 2008. Major Transport investment projects co-financed with EU funds: State Aid Issues. *In: Seminar on State Aid for transport projects co-financed by EU structural funds, Warsaw, 2008.* http://www.jaspers-europa-info.org/attachments/081_080910%208%20State%20Aid.pdf.

[2] COMMISSION OF THE EUROPEAN COMMUNITIES. *Communication from the Commission: Communication on a European Ports Policy*. 2007. Brussels: Commission of the European Communities, p.8.

[3] [EC, press release IP/11/1009]

- to support the reduction of the administrative burden in ports;
- proposals to improve the transparency of port financing; as well as
- proposals for measures on port services.

However the Commission's approach to having state aid in individual port-related cases is changing significantly according to ESPO Secretary General Patrick Verhoeven:

"Recent decisions show a shift in thinking whereby the traditional distinction between general and commercial infrastructure in ports may no longer hold good"

In Ventspills (C39/2009) there was a major port infrastructure upgrade including the construction of two berths, a terminal, the reconstruction of a breakwater, dredging of a port basin, construction of access railroads, renovation of mooring jetties and the fortification of the coast of the channel. Previously the Commission would not have considered existence of state aid in the public financing of general infrastructure such as breakwaters and coastal defence. It now argues that though such infrastructures are highly capital intensive and risky from a financial perspective these investments are necessary to render the commercial operation of the port possible and may be considered commercial as well.

(**Note**: In the Ventspills case although the commission found that where the development of infrastructure was economically exploitable it could amount to State Aid. Nevertheless even if an element of State aid is present it would presumably be compatible with the internal market although not stated under Para 3 TFEY Article 107.)

The conclusion being drawn is that as the Port State Guidelines had still not been published any public financing should be notified to the commission and to assume that investment in general infrastructure would not constitute state aid is no longer a safe choice.

(4) Directorate General for Internal Policies.
Policy Department B: Structural Aid and Cohesion Policies
Transport and Tourism
State Aids to EU Seaports

The question of whether Member States could or should finance port infrastructure depends entirely on the transport and economic policies and the organisation of their seaports. If ports are part of the public domain the government will finance 100% and will not seek any return other than the positive effects that a port could generate. In the United Kingdom ports belong to the private sector and do not belong to the public domain. The UK

Government does not have a port regulator leaving this responsibility to the private sector. Therefore the UK Government will not usually invest in ports [4].

Meanwhile in northern EU countries different government organisations can play a role in State Aids. In France and the Netherlands the national governments play a leading role, while in Germany and Belgium federal states and/or municipalities play a major role. However in the United Kingdom there is no major role for the government as it is not responsible for any financial investments in major UK seaports. All investments are to be made by private port owners and/or to a much lesser extent self-financing trust ports (mainly with respect to access channels and waterways maintenance). In the nine reviewed EU Member States, at least ten State Aids cases were reviewed in the past 10 years. The final decision of the Commission in all of these cases was that there were no objections. Therefore, it was not concluded in any of these case reviews that the public financing was an incompatible State Aid.[5]

To conclude, despite various EU attempts over the years to draw up these specific guidelines for State Aids reviews in the seaport sector, at present there are none. The Commission seems divided over the issue, although in 2011 Commissioner Mr. Kallas announced his intention to issue a package of proposals in 2013 including the reduction of the administrative burden in ports, the improvement of transparency of port financing and measures on port services. Consequently, Article 107 of the TFEU is currently considered to be the basis on which to determine whether State Aids to seaports are acceptable. In practice, it turns out that the subsections 2 and 3 leave room for interpretation.[6]

[4] EUROPEAN PARLIAMENT. *State aids to EU seaports: study.* 2011. [Online report]. http://www.europarl.europa.eu/committees/fr/studiesdownload.html?languageDocument=EN&file=66171, p.11.
[5] *Ibid*, p.16
[6] *Ibid*, p.17

Belgium

For the Port of Antwerp, dredging of the River Scheldt financed by the Flemish Government has taken place in the past 20 years. This has enabled the accessibility of the port for existing ultra large container vessels. Furthermore, the construction of the Deurganckdock on the left bank of the River Scheldt has doubled the container handling capacity of the port;

- During the last few years in the Port of Ghent a new port infrastructure - the Kluizendok has been developed;

- In Zeebrugge, dredging, financed by the Flemish Government, has also taken place to increase the draught from 51 to 55 feet, so that ultra large containerships can continue to reach the port[7].

4.1.2. The legal framework

In Belgium the legal framework for seaports is the responsibility of the regional government of Flanders. This is because all of the seaports are situated in this region. Since the Port Decree of 2 March 1999 [Moniteur Belge/Belgisch Staatsblad, 1999] on the policy and management of seaports, the responsibilities between parties have been clearly divided. The basic criteria for public financing in Belgian seaports are as follows:

- The public sector (regional government of Flanders) has the clear responsibility of constructing the basic infrastructure of seaports, such as maritime access channels, buoys and sea locks in exterior breakwaters. It can also intervene in the investment for port access routes;

- Investment in terminal related infrastructure (docks, quays, reclaimed land etc) should be financed by the port authorities;

- The port authorities are responsible for operational cost: the exploitation and maintenance of the sea locks in the ports areas;

- Investment in superstructures is the responsibility of private operators. The 1999 Flanders Port Decree was drawn up with the existing Commission legislation on State Aids as a background. The Decree aimed at concentrating on the Government's role for ensuring access to all users without discrimination, and thus created a level playing field. Articles 29-35 and Article 44 of the Port Decree

[7] *Ibid*, p.57

provided the legal basis for funding, in a standardised way, for all Flemish ports.

A number of points stand out:

- Article 29 states the responsibility of the Flemish region for the construction, maintenance and exploitation of the maritime access routes, sea locks and basic infrastructure outside the port. The sea locks inside the port authorities are the task of the port authorities, although they can ask for funding from the Flemish region.

- Article 31 declares that the maintenance of the mooring places is the task of the port authorities, they are however able to obtain a contribution from the Flemish region.

- A distinction is made between channel docks and inlet docks. Channel docks are docks in the port for which the shipping channel serves as a maritime shipping route, and are viewed as part of the maritime access route, while inlet docks (docks with a dead end) are not. Investment in inlet docks is a task of the port authority for which the Flemish region will not provide any funding.

In 2001 the Flemish Government took a further decision on the execution of Article 30 of the Port Decree with regard to the allocation of project-related subsidies. With this Article it has become possible to subsidise basic infrastructure in the ports (docks and raising sites) and terminal infrastructure on the basis of this decision. In addition and at the same time, a decision was taken on the services of the harbour captains - in this case there is no question of State Aids being given. This shows that the Flemish region can also intervene (through co-funding or subsidies) in certain tasks and infrastructure for which the port authorities are responsible. On the other hand there has been an increase in the investment responsibility of the port authorities.

All in all the Flanders Port Decree has proven its usefulness. The Port Decree defines specific criteria for cases where State Aid is not permitted based on the principle that State Aid must not result in distortion of competition, either between companies or between ports. This framework was submitted to the Commission, which duly approved it. The authors would like to put this Ports Decree forward as an example of “best practice”, in which a framework for government support adapted to suit the particular features of the port sector in Europe leads to a level playing field, especially from the point of view of service providers.[8]

[8] *Ibid*, pp. 57-8.

5.1.4. State Aids case: Financial support for infrastructure works in Flemish ports

During the period 2001-2004, the financial aid of the Flemish Government was divided in 3 parts:

- Necessary construction works and dredging in the maritime access routes leading to the Ports of Antwerp, Zeebrugge and Ostend, and sea locks and internal access routes (channel docks and turning basins) inside these ports.

- Another part was available for the construction and maintenance of terminal related infrastructure, such as docks, quay walls, landings bridges, ro-ro ramps etc.

- The final part was used for landside port infrastructure, such as railway lines and internal access roads.

The Commission examined the financing package against the EU rules on State Aid for ports as case number N520/2003:[9]

The conclusion was that all public investments in the infrastructure and superstructure of seaports are not to be considered as State Aids as such, using the wording of TFEU Article 107 subsection 3 as the main criterion. In the State Aids case review of the Commission, the investment in terminal infrastructure did not distort competition sufficiently to be contrary to common European interest. Indeed, on 10 October 2004, the Commission decided to authorise the financing package that allowed the Flemish Region to allocate up to 342 million Euros to maritime ports in Flanders for port infrastructure investments, including dredging, only for the period 2001-2004 (see 4.1.4). According to its press release of 20 October 2004, further to notification N520/2003:

"One part of the public contributions will be used for necessary construction and maintenance works (mainly dredging) in the maritime access routes leading up to the ports of Antwerp, Bruges-Zeebrugge and Ostend, as well as sea-locks and internal access routes (channel docks and turning basins) inside these ports. Another part will be made available for construction and maintenance of terminal-related infrastructure, such as the docks, quay walls, jetties, landing bridges, roll on/roll off-ramps and well as landside port access such as railway lines, service lines of local importance and internal access roads. After examining the financing measures in light of the Community rules on State Aid, the Commission has concluded that the public financing made

[9] *Ibid*, p.59.

available for the maritime access routes and sea-locks does not constitute State Aid. The Commission considers that the activity of ensuring adequate access to and inside the ports does not constitute an economic activity liable to distort competition between Member States but is rather a public task in the general interest benefiting the Union as a whole. Therefore, this financing does not fall within the ambit of the State Aid rules. With regard to financing for the port infrastructure the Commission cannot exclude the existence of State Aid, as the public funds made available by the Flemish region may serve to support an economic activity carried out by the port authority in question and hence may provide it with an economic advantage as compared to its competitors. However, the development of maritime ports, which are not only a key component for a sustainable and intermodal transport system but are also considered as centres of regional economic and social development, fits squarely with the EU transport and territorial policies. The measure also complies with the criteria established by the infrastructure financing. So it does not distort competition to an extent contrary to the common interest."[10]

[10] *Ibid*, pp. 59-60.

France

4.2.4 Cases of public financing of seaport infrastructure

In the last decade, at least two major port infrastructure projects were launched in the French seaport sector which received public financing:

1. The Le Havre's port 2000 extension;
2. The Fos2XL terminal projects at the port of Marseille.

None of these cases were reviewed by the Commission as State Aid cases. In the case of the 2008 French port reform, a recent Commission decision excluded State Aid C 13/2009 "Measures in favour of the port sector". This was because the equipment had been transferred from the State to the port operators at market prices[11].

The public infrastructure category (basic port infrastructure and environmental offsets) was funded by the State, local authorities and, to a lesser extent, European funds (FEDER). Investments in land access were shared amongst public subsidies and network infrastructure vehicles. However, the main part of the investment in basic infrastructure was borne by the port authority itself. Private operators paid for handling equipment, which was new in France. The second phase of the Port 2000 works is currently underway, to be delivered in 2012, at which point six new berths will provide additional capacity to currently operating concessionaires and allow a third company to commence operations.[12]

[11] *Ibid*, p. 65.
[12] *Ibid*, p. 66.

Table 10: Funding of investments and maintenance in French autonomous ports before and after the reform

		Before 2010 reform		Changes after 2010 reform
		Investment	Maintenance	
Access infrastructure	Maritime access (channels, sea locks)	State 80% Port 20%	State 100%	Theoretically unchanged. Services (piloting, towage, mooring) are 100% assured by the State
Access infrastructure	Land accesses (road, rail, waterways)	RFF, VNF, State, TEN, LAs*		Although not part of port perimeter, essential for port competitiveness. Carried out through public finance or under PPP schemes. All local and central public actors involved.
Terminal related infrastructure	Quays, docks, basins, jetties	State 60% Port 40%	Port 100%	For these infrastructure located within port perimeters, investments are partly borne by the State through its public arm Agence pour le Financement des Infrastructures de Transport en France), and autonomous ports, which can use a mixture of private pre-financing (e.g. entry tickets) and bank loans
Terminal related infrastructure	Roads inside port	Port 100%	Port 100%	
Terminal related infrastructure	Railroads inside the port	RFF 50% Port 50%	RFF 100%	Inside port railroads have been transferred to ports.
Terminal superstructure and equipment	Superstructure, equipment, handling tools, buildings	Port 100%	Port 100%	Development and exploitation of superstructure: port authority, concession or similar agreement. Used to be operated by port authority or rented to firms. The French system is now moving towards the Landlord port model, where terminal superstructure ("last meter" of quays, cranes, stackers, warehouses) belong to private operators.
Terminal superstructure and equipment	Concession taxes			Subtle tax inequalities can remain between operators depending on legal statuses

Source: Catram Consultants (2011)

Note: RFF* = Réseau Ferré de France (national railways network) ;
VNF = Voies Navigables de France (national waterways);
LAs = Local Authorities;
TEN = Trans European networks

Table 11: Contrat de Plan Etat Région 2007-2013 : origin of port funding

	State	Region	Self-financing	Other	Total
Marseille-Fos	35	33	207		295
Le Havre	96	10	374		596
Dunkirk	25	0	50		75
Rouen					315
Nantes St-Nazaire	16	9	9		44
La Rochelle	10	8	13		51
	245	134	769		1445

Source: Government press release on port reform[11] (January 2008)

Germany

The legal system of port financing is clearly defined, i.e. there is a basic principle in Germany determining that public funds are the source for the financing of the whole infrastructure, i.e. the basic, public or general infrastructure and the user-specific infrastructure.

- The public infrastructure refers to the construction and maintenance of all elements of the public transportation systems within the port area, as well as to the connections to the national and international hinterland networks, such as waterways with sea side access, connections to inland waterways, port basins, moles, locks, traffic safety facilities (such as radars, lighthouses, and other navigation aids), roads, railway constructions and facilities for safety, flood and environment protection.
- The second part is the user specific or terminal-related infrastructure and this means the provision of land prepared for building and the provision of quay walls or berths and similar constructions for the same purpose, which forms an integral part for the usability of an area with navigable water. The public tasks are split between tasks at national and regional levels. The federal government is responsible for the land side and sea side access infrastructure (e.g. under the Federal Trunk Road Act), while the regional level is responsible for the infrastructure in the port area[13].

4.3.4. State Aids case: the Jade Weser Port of Wilhelmshaven

In the case of the Jade-Weser-Port, the Commission reviewed the public financing of the basic infrastructure and the terminal related infrastructure as State Aid case N110/2008. The decision was that the public financing of both the basic and terminal infrastructures of the seaport (370 + 240 million Euros) were to be compatible with Article 107, subsection 3c of the Treaty of the European Union[14].

Table 14: Financing responsibilities for port infrastructure in Germany

Investment	Investment financing	Maintenance financing
Maritime access (Sea locks and channels)	100% State outside port 100% R.A. inside port	100% State outside port 100% R.A. inside port
Coastal defence and exterior breakwaters	100% State outside port 100% R.A. inside port	100% State outside port 100% R.A. inside port
Land access (rail and road network)	100% State outside port 100% R.A. inside port	100% State outside port 100% R.A. inside port
Lights, buoys and navigational Aids	100% State outside port 100% R.A. inside port	100% State outside port 100% R.A. inside port
Quays, docks and jetties	100% R.A.	100% R.A.
Superstructure	100% Private sector	100% Private sector

Source: ISL (2011).

Note: R.A. = regional authorities

[13] *Ibid*, p. 69.
[14] *Ibid*, p. 71.

Netherlands

4.4.2. The legal framework

In the Netherlands there is no specific legislation regarding the financing of port infrastructure. However, there is a general policy on this issue that makes a distinction between three categories [Port Financing NL paper, Anon., 2007]: ……..

A. Basic infrastructure for general use, such as dykes, breakwaters, sea locks, main rivers, canals, railways and roads connecting or crossing port area and navigational aids.

B. Port-internal infrastructure for partly general, partly dedicated use, such as roads, bridges, locks and viaducts in port, dock basins, quay walls, jetties and rail/barge centres.

C. Port superstructure for dedicated use, such as (non) movable terminal infrastructure: pavement, crane ways, buildings, plants, cranes, rolling equipment, railways and roads on the terminal and dedicated connections to public rail and road networks.

Often, these three categories correspond with the responsibilities of the public authorities (A), the port management authorities (B) and private companies (C), respectively. The main issue is not who finances the infrastructure, but who pays for the budget: the user or the taxpayer? As for the basic infrastructure (category A), the Netherlands considers it to be a State task to provide this public infrastructure, which protects the general public or is open to any potential user in a fair and equal way. However, it is possible to involve private money (via PPP-constructions) in financing these kinds of projects and/or to levy user fees (like tolls). Public funding is allowed on this infrastructure. The third category (C) is, according to the Netherlands, clearly user-specific and a matter of private financing. If public money is involved, e.g. in cases of co-financing or in cases of setting up or maintaining a public-user terminal, the user fees should at least cover the full costs: construction and maintenance costs, interests and a risk surcharge. Publicly financing such infrastructure without recovering the full costs will lead to a distortion in competition within a port and/or between ports. The second category (B) is a little more open to discussion. In the Netherlands, the investments in this category are usually made by the port authority, which earns back the full costs (+ profit) through the general port tariffs (general) and via the lease or sale of land (dedicated). It is up to the port authority to decide upon which investments to make as well as how to recover these investments.[15]

[15] *Ibid*, p.73.

4.4.4. State Aids cases in the Netherlands

Case 2. Project Main Port development Rotterdam

Directly to the west of the Rotterdam port and industrial area, a new location for port activities and industry is currently being created through land reclamation. The Maasvlakte 2 area will cover 1,000 acres net of industrial sites, located directly on deep water. In the case of Maasvlakte 1 the initial reclamation costs were pre-financed by the State; afterwards the Port of Rotterdam bought the land. The digging of basins, building of quay walls and the water and rail roads were financed by the Port of Rotterdam or the construction of Maasvlakte II (MVII), the total investment is estimated at 2.9 billion Euros. From this amount 934 million Euros is needed for general infrastructure. The central government will contribute 571 million Euros, while the Rotterdam Port Authority will finance the 363 million Euro infrastructure cost. In this case the state is pre-financing through its participation in the Port of Rotterdam with the intention of recuperating the investments. The remaining almost 2 billion Euros are the costs for a 1,000 hectare land reclamation and this will be paid for by the port authority. The central government will buy shares in the port authority for a total amount of 500 million Euros (until then, all shares were held by the Municipality of Rotterdam) on which in return the government receives a market-value dividend of the port authority.

Following this agreement regarding division of payment being settled, the central government informed the Commission and asked it whether this agreement was in line with European State Aid regulations. The Commission focused its decision on two items: (1) the partly public financing of the general infrastructure by the central government, (2) the buying of shares from the port authority by the central government. The public financial contribution of 571 million Euros was used for the building of seawalls, nautical access of MVII via MVI and a part of the general infrastructure (railway, roads, pipes and cables). The Commission came to the conclusion that this contribution was not State Aid. The most important argument for this conclusion was that the public financed part was smaller than the actual cost of all realised infrastructure. The decision was further supported by the fact that the port authority had no (commercial) benefit as a result of the public investment, and the maritime industry as a whole did not benefit either. Regarding the second item, the Commission also came to the conclusion that the buying of shares was not to be labelled as State Aid. This was because the capital investment in the port authority was directly related to the investment in MVII, there was no structural overcapacity within the maritime industry and the port authority was financially stable. Consequently the Commission concluded that the agreement between the central Netherlands Government and the Rotterdam Port Authority was in line with the European regulation regarding State Aid.[16]

[16] *Ibid*, pp.75-76.

United Kingdom

4.5.2. Legal framework

The Government is not responsible for any financial investments in major UK seaports. All investments are to be made by private port owners and/or trust ports (mainly with respect to access channels and waterways maintenance). While the Government is responsible for the investment in land access infrastructures it usually proposes that port operators make a contribution to the investment where this is necessary due to port traffic growth. The conclusion is that private investors make all port investments, with all investment costs recovered through user charges.[17]

4.5.4. State Aids case: Great Yarmouth Outer Harbour (2005)

The State Aids case (2005) concerned the public financing of maritime access works (breakwaters and port entrance structures) in the context of the planned development of the outer harbour at Great Yarmouth, which was to be operated as an extension to the existing river port. The current configuration of the river imposed serious constraints on the length and draught of vessels that can be accommodated. The outer harbour would enable the port to handle larger vessels up to 210 metres + in length and 8.5-9.5 metres draught. The full capital cost of the harbour development, exclusive of legal and other fees but inclusive of all associated works, design fees and contingencies was estimated at £45.7 million (66.66 million Euros) at 2005 prices. The estimated cost of the initial project being the maritime access works comprising the breakwaters and entrance structures was approximately £25 million (36.46 million Euros). The outer harbour would be open to all users on a non-discriminatory basis. Within the budgeted expenditure of £25 million on the breakwaters and entrance structures, the notification set out that the total public funding amounted to approximately £18 million (26.25 million Euros). It was expected that the remainder (estimated at £7 million) would be financed from private sources. The private participation was expected to come from one or more existing commercial port/terminal operators.[18]

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[17] *Ibid*, p.78.
[18] *Ibid*, p. 79.

Italy

4.7.4. Public financing of the extension of container ports of Triest and Monfalcone

In November 2010 the Italian Government approved the extension of the Italian North Adriatic ports of Triest and Monfalcone with a large container handling port area with a capacity of 350,000 TEU in 2016, 1 million TEU in 2020, 2 million TEU in 2025 and 3.2 million TEU in 2033.

In addition, 315 million Euros are expected to come from the public purse, i.e. national and regional sources. To date the public financing of the seaports infrastructure in Triest and Montfalcone has not been reviewed by the Commission.[19]

Table 20: Current responsibility for financing and realising port infrastructure in Italy

Ports/Infrastructure	Ports of international relevance	Ports of national relevance	Ports of regional Relevance
Basic infrastructure, such as maritime access and defence, dredging, basins, road and rail links with the overall transport network.	Financing charged to the state (in principle, regions and port authorities could contribute to financing the own resources). Realisation and maintenance entrusted to the port authorities, which receive a contribution from the state.		Financing realization and maintenance charged to the regions
Lighthouses, buoys and navigational aids	Financing, realisation and maintenance charged to the state.		Planning, financing, realisation and maintenance charged to the regions
Infrastructure, such as quays, jetties, piers	Financing charged to the state (in principle, port authorities could contribute with own resources), realisation and maintenance entrusted to the port authorities.		Planning, financing realisation and maintenance charged to the regions
Superstructure related to a specific terminal, such as terminal building, sheds, cranes, quay equipment, road and rail links inside the terminal	Financing, realisation and maintenance are generally charged to the body (private undertaking or public body) that exploits the terminal. Specific exceptions are possible.		Financing realisation and maintenance charged to the body (private undertaking or public body) that exploits the terminal.

Source: MARCONSULT, 2011.

[19] *Ibid*, p. 86.

Spain

4.9.2. The legal framework

Since 1992, the principle of self-sufficiency for the port authorities has been a central point in Spanish law. For this reason State Aids for port infrastructure development in Spain are not allowed. The Law 33/2010 confirms this situation. The principle of economic self sufficiency means that every port authority has to cover - with the income of ports' taxes and other economic resources - all of the exploitation and financial costs, taxes and the depreciation of their assets and equipment, and furthermore assure a reasonable return on assets, the value of which will be established in accordance with a Ministerial Decree (Article 1.2).[20]

(Note: In theory Spain operates on the basis that ports should be self financing. Although the ports are state owned they are managed by port authorities who should cover their costs and investment through port charges. However state aid is in fact given.)

4.9.4. Public financing of seaport infrastructure in Spain

In Spain, there are two recent cases of public financing in Gijon and Barcelona. These cases have not been reviewed by the Commission for State Aid.

Case 1. The extension of the Port of Gijon

A new breakwater is currently being built at the Port of Gijon. The new breakwater is 3,797 metres in length and will allow the construction of a modern bulk cargo terminal. The characteristics of the terminal will be: 1,250 metre long quay with 27 metres depth, designed to simultaneously receive three bulk carriers of 230,000 tonnes. The traffic will rise to 25 million tonnes of iron ore and 2 million tonnes of coal. The infrastructures of the port will double, up to 140 hectares of ground area and 145 hectares of basins. The total cost of the project was adjudicated at 579.2 million Euros but finally estimated at 830 million Euros (+43%) according to a re-evaluation during the work. The amount was shared between the different partners as follow:

- Cohesion Fund: 247.5 million Euros.
- European Investment Bank: 250 million Euros.

[20] *Ibid*, p.90.

- Other resources of the port (loan and reserves): 81 million Euros.

- Loan subscribed by the port for the overruns: 215 million Euros with a guarantee the amount was shared between the different partners as follows:

- Cohesion Fund: 247.5 million Euros.

- European Investment Bank: 250 million Euros.

- Other resources of the port (loan and reserves): 81 million Euros.

- Loan subscribed by the port for the overruns: 215 million Euros with a guarantee of the Spanish State through the Puertos del Estado[21].

Case 2. The Port of Barcelona's extension plan

The enlargement of the Port of Barcelona (see Figure 6) is officially aimed at placing the port among the top five ports of Europe, reinforcing its position as a southern gateway for Europe and one of the main European Mediterranean logistics hubs. Assuming all terminals will be completed the port capacity will eventually be raised to 130 million tonnes and 10 million TEU.

To stay in the scope of major maritime works the investment programme, which could eventually reach 3 billion Euros, was equally split between private operators and the port authority. This followed a clear separation between investments in public infrastructure that benefit all users and user-specific investments in superstructure charged to private handling companies operating under concession schemes. This implies that, in total, 50% of the investments are supported by public funding, including:

- Cohesion Fund (277 million Euros), paying for 53% of the amount of breakwaters.

- EIB loans (490 million Euros since 2001).

- Private operators' contributions (pre-emptive fees for the occupation of the public domain plus entry tickets).

- Cash flows stemming from the autonomous port.[22]

[21] *Ibid*, p.91.
[22] *Ibid*, p.92.

2.7 Investment in port infrastructure and equipment

Across Europe there are a number of different models of port ownership. Many Welsh ports were privatised in the early 1980s but most ports in Europe are under either local authority or regional control. This may be indirect, with a separate port authority management team and an accounting separation with operational budgets run entirely at the port level. However for capital investments the port is seen as a local resource to be developed, therefore in most instances funding for investment comes from regional or national budgets, rather than the port itself having to raise the money.

In Spain for example, the smaller local ports are run and funded by the regional authorities. Larger ports have an apparently independent port authority, but call on central government for major capital investment. This contrasts starkly with Wales where capital investment is not available from the Assembly Government. Individual ports access to investment funds depends on the ownership structure and business priorities of the organisation. For example, a trust port such as Milford Haven can set different criteria including regional benefits. This is in contrast to the 15% rate of return required by ABP of its ports in South Wales at Newport, Cardiff, Barry, Port Talbot and Swansea. This uneven access to investment funds has meant that some European ports have highly developed infrastructure and equipment not all of which is in use. Brest has had major investment in warehouse facilities and equipment but is largely unused. Infrastructure investment does not automatically guarantee traffic to use the equipment and infrastructure.

However it should be noted that across Europe partnerships with private organisations to develop port facilities are common. Most ports have some privately operated facilities which might be privately owned, or operated on a long lease basis. Leases tend to be for periods of 10 years or longer with 25 years typical where there has been a contribution towards the construction costs. For example the new container terminal at Lisbon is to be on a 25 year build and operate lease. Many French ports have specific terminals and facilities operated by specific customers, especially for petrochemicals. At Sines in Portugal a new deep sea container port has been built adjacent to the existing port with funding from the Singapore port authority who also have the contract to operate the facility[23].

[23] WALES TRANSPORT RESEARCH CENTRE. 2006. *Wales and the Atlantic Arc: Developing Ports.* [Online report]. Cardiff: Welsh Assembly Government. http://transport.research.glam.ac.uk/media/files/documents/2007-02-15/Wales_and_the_Atl_Arc_REPORT.pdf, p. 22.

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