

Current Port Authority Challenges

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In a previous paper, *Current Port Management Issues* (see IAPH PORTS AND HARBORS, April 1996), we discussed several basic issues that are driving changes in port authorities. Pursuing the theme of how change is affecting port authorities, this paper will look at some of the major challenges affecting port authorities.

One of the most significant major challenges facing port authorities today is to examine the Port's Mission(s) in light of the current economic and political environment and either real firm the current Mission(s) or formulate/adopt a new Mission(s).

The continuing demands for port authority investment in infrastructure (e.g. cargo/passenger terminals, and intermodal facilities); the advent of larger ships; the formation of shipping consortia/alliances; the steady decline in the number of ocean carriers and major railroads in the marketplace; and the consistent pressure on ports to maintain service levels and, at the same time, cut prices has impacted each port differently. However, one thing is universally true. Each port must be concerned with leveraging its assets and capabilities by defining and implementing a viable Port Mission(s).

For some ports, this will mean a minor alteration in its Mission(s) to recognize that today's ports must be leaders and/or coordinators of transportation system projects whose goals are to ensure port access to all modes. These ports will recognize that they are, among other things, links in a logistics system projects whose goals are to ensure port access to all modes. These ports will recognize that they are, among other things, links in a logistics system and to attain maximum success they must form partnerships with carriers, customers, labor shippers and other links in the logistics chain.

For other ports, this will mean an alteration to recognize that some current port activities need to be deemphasized or curtailed, but that the basic Mission(s) is still valid. This may mean a "shift to a feeder port status or "I may signal a need to reevaluate plans for expansion of certain facilities or services. There may also be a need to seek out alternatives to current marine or other port operations, but there is no great urgency to define and implement a new Mission(s).

For still other ports, this will mean a very significant shift that recognizes that to pursue the current Port Mission(s) and remain viable is impossible. These ports must seek out a new viable Mission(s). This is the most difficult decision that any Port can make.

- Another major challenge for port authorities is how to continue to build facilities to accommodate the "valid" demands of their customers and remain viable. Clearly, the days of the very risky "field of dreams" (build it and they will come) and the slightly less risky "adjusted field of dreams" (build it and they will never leave) approaches to port development are no longer valid.

Many ports are confronted with legitimate demands for new terminals for container, bulk or cruise ships and other projects (e.g., intermodal facilities, warehouses) and these demands need to be met.

The progressive, proactive, successful port authorities will meet these demands and, at the same time, recognize the need to give priority to those decisions that are both customer/market driven AND that make economic sense for the port authority.

These decisions must be made only after a careful examination of options and a full understanding of the RISKS as set out in feasibility statements/reports.

For example, one elementary risk reduction option is to share financial responsibility for the project (e.g., the port builds the container terminal and the ocean carriers/consortia buys the cranes). Another risk reduction option is to require a long-term lease with periodically escalating throughput (cargo or passenger) guarantee tied to an escalating minimum lease payment. If the response to these risk control/ reduction options are rejected, then it may not make economic sense for port authority to go ahead with the proposed project! (For further discussion of this subject, see the paper "Port Capital Investment Decision Making: A Process" in the IAPH PORTS AND HARBORS, November 1993-pages 18-21)

- A major challenge for some ports will be to shift their Mission from marine cargo to some other functions/activities. This is actually a two-part challenge: 1) make the decision to shift and 2) determine what options exist for viable functions/activities.

The first part is essentially a "Board! Executive Director Team Approach" decision task. The decision factors will vary for each port, but at least one underlying question is universal - "Can the Port afford to continue to provide this service/activity or participate in this business?" (For further discussion of this subject, see the paper "Port Capital Investment Decision-Making; A Process" in the IAPH PORTS AND HARBORS, November 1993-pages 18-21).

The second part is far more complex than it appears. The ultimate goal of this challenge is to answer the questions - If we can not do what we've done in the past, what can we do (define the options by identifying the opportunities and

threats) and what are we prepared to do considering the Port's financial and human resources, community support, and economic environment (define the Port's strengths & weaknesses). In many ways, this is a classic situation for strategic planning. (For further discussion of this subject, see the paper "Considering Strategic Planning For Your Port" in the IAPH PORTS AND HARBORS, March 1~88pages 16-19)

- A major challenge for an ever growing number of port authorities is simply financial survival in an arena in which the Port can control only part of the equation that determines its own viability.

Initially, ports received subsidies to facilitate their growth and development. As ports grew and became established most of these subsidies diminished and Ports became self supporting. Today, many ports are moving into an era where they are providing funds to other governmental organizations. (For further discussion of this subject, see the paper "Current Port Management Issues" in the IAPH PORTS AND HARBORS, April 1996-pages 12-13)

This "new role" of not only being self sufficient, but being "required" to fund a multitude of non-port activities has created a major challenges for port authorities.

On the one hand, the Port must maintain its cash flow and continue to market its facilities and services in order to be able to accommodate these "requirements" for support of non-port activities. In effect, the Port must price its services and facilities at a level that will generate funds sufficient to pay not only its own expenses but also fund the "requirements" of its related government's non-port activities.

On the other hand, the Port exists in a competitive environment which limits the level of prices/rents that it can charge and still remain competitive with other ports. (For further discussion of this subject, see the paper "Port Pricing: A Process" in the IAPH PORTS AND HARBORS, November 1992-pages 12-17)

To exacerbate this already complex problem, the Port can budget for and control to some extent its own expenses, but often can neither budget for nor control the level of funds it is "required" to pay to others to fund non-port activities.

- The ultimate challenge for port authorities is to maintain a proper public/private balance.

It is important to remember that all port authorities have two bottom lines (a financial bottom line and a political bottom line). To be a successful port authority both of these bottom lines must be "positive"!

Thus, the major challenge for port authorities is to deal with the demands of the marketplace, stakeholders, current customers, and the "community" in a manner that will ensure that both the financial and political bottom lines are positive!

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