8th WCTR

# CANADIAN PORT REFORM: AN EVOLUTIONARY PROCESS

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## Abstract

Canada's major commercial ports were re-structured in 1983 with the adoption of the Canada Ports Corporation Act dealing with the major commercial ports but not addressing the institutional structure of other public ports. Over time, competitive forces created pressure to reform Canadian ports.

A review of Canadian ports began in 1993 and was augmented in 1995 with hearings held by the Parliamentary Standing Committee on Transport. Based partly on this input, the Minister issued a white paper on ports, entitled National Marine Policy in late 1995 followed by the introduction of the proposed Canada Marine Act in June 1996.

Port reform around the world followed the dictates of neo-liberal economics with less government involvement in commercial activities. Canadian port reform reflects this shift to the neo-liberal right, the slower pace of reform contrasts to the more rapid steps taken in New Zealand and Britain.

## INTRODUCTION

Although the vast majority of Canada's international trade is shipped by land on a continental basis to the country's major trading partner, the United States, Canadian ports play a vital role in supporting the efficient transportation of goods by sea. Canada's major commercial ports were re-structured in 1983 with the adoption of the Canada Ports Corporation Act. Although this Act dealt with the major ports, it failed to address the institutional structure of all Canadian public ports including Harbour Commissions and Transport Canada's smaller harbour and ports. Over time, bureaucratic interferences, Ministerial directives and growing domestic and continental competitive forces created the need to again reform Canadian ports.

An internal program review of Canadian ports was initiated in 1993 and was augmented in early 1995 with the Parliamentary Standing Committee on Transport (SCOT) conducting a country-wide set of public hearings on marine reform (including ports). The SCOT report and recommendations were considered by the shippers' community during a subsequent round of regional workshops sponsored by Transport Canada. Partly based on these two sets of public input, the Minister of Transport issued a white paper on ports, the National Marine Policy in late 1995 followed by the introduction to Parliament of the proposed Canada Marine Act in June 1996.

Port reform around the world has followed the dictates of neo-liberal economic philosophy requiring less government involvement in commercial activities and shifting their operations into a corporate or privatised situation. Although the Canadian port reform model reflects a shift to the neo-liberal right, the slower pace of reform contrasts to the more rapid steps taken in New Zealand and Britain.

This paper compares the Canadian evolutionary port reform process with the more revolutionary approaches undertaken elsewhere, in particular New Zealand and Britain. The paper further considers the results of the contemporary Canadian port reform process to determine its effectiveness in making major commercial ports more flexible, adaptable and competitive.

## CANADIAN PORT REFORM

### Evolution of Canadian ports

Within Canada's federal system, constitutional authority and responsibilities are divided between provincial and federal governments. Under the Constitution Act of 1982 (formerly the British North America Act of 1867), ports and harbours along with navigation and shipping are federal government responsibilities. Despite this concentration of ports authority at the national level, current Canadian public ports administration is anything but homogeneous. Canada's 420 commercially-oriented public ports are a diversified, multi-layered and loose-knit mixture of Crown corporation ports (Canada Ports Corporation), harbour commissions, Transport Canada's public harbours and port facilities, and private industrial harbours. The common element among public ports is their link to the federal government through various statutory reporting relationships to the Minister of Transport.

By the late 1960s Canadian ports presented a picture of confusion and conflicting federal objectives ranging from the rigid centralized control of National Harbours Board (NHB) ports to decentralized,

semi-autonomous harbour commissions and subsidized departmental harbours. The financial regulations effecting each set of ports varied considerably. As continental transportation issues became more complex in the 1970s (particularly with U.S. deregulation), concerns arose over how to rationalize Canada's fragmented ports system.

For more than a decade, the federal government sought to establish a rational national ports policy. The 1968 Manning Report was the first of several analyses of Canadian ports; all arguing for the need to restructure ports administration. The lack of government action reflected the low priority given ports within the transportation sector. During this period, the government considered, but failed to adopt many recommended changes to the port system (Ircha, 1993 A).

The Canadian Ports Corporation (CPC) was established in 1983 as a Crown corporation with subsidiary Crown corporations at the local port level. This federal legislation sought a balance between national coordination and local commercial responsiveness. A degree of local autonomy was provided to ports of national significance by incorporating them as subsidiary Local Port Corporations (LPC) with their own boards of directors (members appointed by the Minister). Seven ports were given LPC status: St. John's, Halifax, Saint John, Quebec, Montreal, Vancouver, and Prince Rupert. Prior to adopting the Canada Ports Corporation Act, the federal government cancelled $727 million worth of NHB debt and unpaid interest to enable the CPC ports to operate without the burden of past debts (Woodward *et al,* 1995).

Canada's national public ports sytem is divided into three separate systems:

- Canada Ports Corporation (CPC) - a federal crown corporation comprised of:
  - 7 semi-autonomous Local Port Corporations (LPCs), and
  - 7 smaller Divisional Ports,
- Harbour Commissions - 9 semi-autonomous federal ports administered under their own Act of Parliament,
- Transport Canada's Harbours and Ports Directorate - some 356 smaller commercial ports directly administered by the Canada' Canadian Coast Guard.

Despite the commercialisation thrust of the CPC Act, over time, bureaucratic rules, regulations and the financial constraints of the Financial Administration Act prevented LPCs from operating as true commercial entities. Delays in obtaining CPC and Treasury Board approvals for financing port development and dealing with land transactions resulted in Canadian ports being unable to quickly tap emerging opportunities (in contrast to their U.S. competitors). For example, the Vancouver Port Corporation (VPC) argued it required federal cabinet approval to spend its own, retained earnings, a lengthy process of four to 26 months. Similarly, disposing of federal port land can be an expensive and time consuming process. Again the VPC pointed out that it took almost two years and cost more than $250,000 to dispose of a $95,000 parcel of land (Anthony *et al,* 1993). The creation of CPC and its subsidiary LPCs may have addressed the problems of the 1970s, but the legislation did not create commercial and market-responsive institutions needed to meet the growing pressures of continental and global economic competition of the 1990s.

## Current Canadian port reform

In 1993, the newly elected Liberal Government instituted the need for an in-depth programme review of all federal departments and programmes. All government expenditures were under scrutiny with focus being to improve efficiency, cut costs, and do things differently. Although the initial emphasis

in Transport Canada was on major programmes (airlines, airports, and subsidies), by late 1993, the review encompassed the marine sector. The marine review process was initiated with a senior level seminar focussing on creating port corporations and privatisation initiatives in New Zealand and Britain and a review of Canadian and American port systems (Ircha, 1993 B).

The marine sector programme review continued the port studies carried out a decade earlier. In parallel with Transport Canada's internal review, in 1995 the Parliamentary Standing Committee on Transport (SCOT) undertook cross-country hearings to develop a national marine policy. The SCOT report led to a series of Transport Canada regional shippers workshops on the preparation of a National Marine Policy and the proposed Canada Marine Act (Bill C-44).

*Standing Committee on Transport (SCOT)*

In late 1994, the Minister of Transport asked the SCOT to conduct a broad review of Canada's marine sector. Their terms of reference required consideration of Canada's port system, pilotage services, St. Lawrence Seaway, and Canadian Coast Guard based on five objectives:

- identify key competitive challenges;
- define essential federal roles and services;
- develop options to reduce subsidies and examine various commercialization options;
- obtain regional views on priorities, issues, and solutions; and
- build consensus on solutions, future directions, and development of a comprehensive national marine study (SCOT, 1995).

The SCOT undertook 17 days of intensive hearings in ten cities across the country during February and March 1995. During their review, the SCOT received 176 written submissions and heard from 260 witnesses representing 140 organizations. The submissions to the SCOT hearings included representations from the CPC (LPCs and divisional ports), the Canadian Coast Guard relating to the ports under their jurisdiction, Seven LPCs, six harbour commissions and three other Transport Canada ports.

A major theme emerging throughout the SCOT hearings was the desire by major ports to maintain the status quo with only minor modifications to enhance local autonomy. The pervasiveness of the status quo theme led the SCOT to ask some senior port managers and port board chairmen why they would not want to be more independent. For example, the President of the Quebec Port Corporation responded by suggesting that "when you have a good model, you don't change it. As a whole the local port [corporation] works well" (Gaudreault, 1995). A further indication of the desire to retain the status quo came from the recurring request to the SCOT that port directors continue to be appointed by the Minister of Transport. For example, the chairmen of both the Vancouver Port Corporation and the Montreal Port Corporation argued that the appointment of the majority of port directors should be made by the federal cabinet on the recommendation of the Minister of Transport (Longstaffe; Gingras, 1995). The emphasis on status quo emerges partly from the current ports' mandate placing financial accountability at the bottom of the list of port priorities, as pointed out by the Chairman of the Quebec Port Corporation (Paquet, 1995). A fundamental shift in the governance of Canadian ports towards a corporate structure or a privatised model would likely force a re-ordering of these priorities by placing financial self-sufficiency near the top rather than at the bottom.

The consistent theme calling for ports to remain as federal Crown corporations, harbour commissions and Transport Canada facilities may be surprising to some, however, the Canadian ports system has a long history of central control and dependence on public sector financial support. It is difficult to expect

port managers and their directors to actively seek to cut their ties to the federal system.

During the past decade, competition among the differing Canadian port regimes has intensified. The issue is not competition per se, but rather that the financial obligation of each of the three types of federal ports differ distorting the "playing field". As suggested by the Chairman of the Montreal Port Corporation, Transport Canada's harbours and ports do not have to be financially self-sufficient nor pay grants in lieu of property taxes, enabling them to charge lower rates (Gingras, 1995).

Input to the SCOT confirmed that domestic inter-port competition creates inequities. Shipper concerns also focussed on overcapacity and the spread of a limited amount of export traffic among a number of ports leading to higher unit costs for handling cargo and labour difficulties as throughput varies depending on the vagaries of shippers operating in this competitive environment. Although only a few shippers presented material to the SCOT, their concerns were strongly expressed by such comments as: "the management, organization, and mandate of the port should be customer-focussed" (Bales, 1995). Shippers view the current Canadian ports system as "a relic of a past era of privilege and patronage. It has every appearance of being too fat, inefficient and living too lavishly at user expense" (Weinberg, 1995).

Several municipalities outlined their concerns to the SCOT about the ports within their jurisdictions. Some ports which pay grants-in-lieu of municipal property taxes also expressed concern as they believed the municipal services provided did not match the funds being paid. In addition, these ports were concerned that the payment of such taxes led to increased cargo-handling rates and made them uncompetitive with nearby U.S. ports (which in many cases either pay no municipal taxes or have taxing authority in their own right to raise revenues to subsidize their port operations).

The SCOT report with the recommendations on a revised federal marine policy was tabled in the House of Commons on May 3, 1995. The recommendations were disappointing to those who anticipated the emergence of a new, business-oriented, commercial era for Canada's ports. The SCOT reinforced the status quo with some modifications (such as recommending the elimination of the CPC), that effectively promised more of the same but with differing titles and structures. Such an outcome is not surprising as the SCOT's National Marine Strategy indicated: "our role is to reflect what we heard and what most wanted in the way of reform and that is, that the federal government continue to have responsibility for a national ports system" (Keyes, 1995).

*Transport Canada's Regional Shippers' Hearings*

The Canadian shippers' community was under-represented in the SCOT hearings. To solicit a wider range of views Transport Canada held five regional workshops across Canada for invited shippers (and other participants) during May 1995. These one-day workshops served as focus groups soliciting shippers' views on the effect of the SCOT recommendations on ports, pilotage, St. Lawrence Seaway and Canadian Coast Guard.

Each of the five workshops emphasized the need for local user groups to form the majority on port boards of directors, not federally appointed members. For example, in Saint John, the participants "generally agreed that the local board must be representative of the stakeholders, and must be given authority at the local level.... board size should be kept fairly small" (Wilson, 1995). This theme was reiterated in Winnipeg where, "the workshop was strongly of the opinion that the government should not appoint the majority of members of port Boards" (Heads, 1995).

A second ports-related concern was that the SCOT approach was too bureaucratic and could lead to a repetition of the current inefficient centralized port system. The Vancouver group argued that "the

Canada Ports Corporation should be replaced with a new ports desk, provided it only performs a facilitating role and does not turn into another large bureaucracy" (WESTAC, 1995). A third concern was that the SCOT recommendations stopped short of the need to create a corporate structure or privatise Canada's commercial ports to enable them to compete in the continental and global marketplace (Mealing, 1995). Overall, the shipper hearings did not support the SCOT recommendations. Perhaps the best summation of the participant's view is provided by one of the Quebec groups who, "agreed with the principles of the Keyes Report (SCOT), but it must go further as regards autonomy..." (Pelletier, 1995). The ambivalent support for the SCO"T recommendations from this sample of the marine transport community added to Transport Canada's view that Canada's commercial ports need to shift towards a corporate model rather than backwards to the semi-departmentalised model proposed by the SCOT.

## Federal Port Reform Proposals

In August 1995, the Minister's proposed marine policy was presented to the Canadian Port and Harbour Association (CPHA). The overall objectives of the proposed federal marine policy included: ensuring affordable and effective marine transport services, fair competition, greater say by users on port priorities, reduced overall infrastructure, and a continued commitment to safety and environment.

The Minister's proposed marine policy limited the federal government's involvement to ports of national significance as Canadian Port Authorities (CAPS) and to smaller ports serving remote communities. All other regional/local ports are to be divested to provincial, municipal, community or private groups. CAPS will be part of a National Ports System (NPS) managed by autonomous boards of directors with limited federal oversight. The CPC is to be eliminated and a small ports secretariat provided in Transport Canada for a five year transition period following adoption of the legislation. The criteria for selecting CAPS include: financial self-sufficiency, being essential for international and domestic trade, having a diversified traffic base and serving a vast hinterland, and being linked to major rail lines and highway infrastructure.

Many elements of the semi-autonomous harbour commission model were incorporated in the proposed CPA approach. The National Port System reflects the not-for-profit corporation model that Transport Canada earlier adopted for Canadian airports in the Air Navigation System. This approach is a commercial corporate model seeking cost-minimisation rather than profit-maximization as the CPA's top priority.

Incorporating Canadian Port Authorities as federal agencies rather than as agents of the Crown enables CAPS to "carry the Canadian flag" in overseas marketing (an issue raised in the SCOT report) and to retain federal status in dealing with property tax concerns at the municipal level while ensuring the federal government is not liable for any CPA debt. As federal agencies, CAPS will not be eligible for federal guarantees of loans, hence, the financial marketplace, not the federal government, will exert commercial discipline on CAPS.

The Minister's initial plan had been to introduce to Parliament in the fall of 1995 an omnibus Marine Policy Act incorporating the proposed ports reform, changes to the Pilotage Act, a not-for-profit commercial St. Lawrence Seaway Act, increased cost recovery provisions in the Coast Guard Act, and other Acts as required. However, the October 1995 Quebec Referendum led to legislature delay. Although the proposed legislation was to be introduced in early 1996, a federal cabinet change in January resulted in the transfer of the Minister of Transport to another portfolio which led to a further delay in the implementation of port reform. Finally, on June 10, 1996, the Minister introduced the Canada Marine Act (Bill C-44) to Parliament for its first reading.

The Act reflected many of the policies outlined in the earlier National Marine Policy and some changes resulting from extensive lobbying by the ports community. The most significant of these changes was the appointment process for CPA directors. The Policy indicated local users would select port directors. The Act changed this approach by having port users nominate potential directors for the Minister's direct appointment. The Key issue is to whom are the appointed directors accountable? Continued Ministerial appointments to the port boards of directors, reflects the conservative, status quo oriented recommendations of the SCOT. The Minister's direct appointments raises concerns over how ports can function in an unfettered, commercial manner when the directors' allegiance rests with the Minister rather than with the user groups they purportedly represent? Thus CAPS as proposed under the Canada Marine Act are not truly independent as their governance structure continues to be controlled by the federal government.

Port community concerns about the implications of the proposed Canada Marine Act were voiced at the August 1996 CPHA Conference in Halifax. The major concern was port governance and the restrictions it places on proposed CAPS. As the President of the Halifax Port Corporation stated, "the powers of the (proposed) port authority are more restrictive than what we have today." His concerns were echoed by the President of the Montreal Port Corporation: "the legislation needs clarification and improvement, because as it currently stands it is more restrictive than what we have already...Basically the draft text does not give all the tools we are asking for" (Ryan 1996). Canadian port managers and chairmen of port bods attending the 1996 CPHA formed a task force to address the Act's flaws. The task force presented port community concerns at the October hearings of the Standing Committee on Transport. Various presentations to the October 1996 SCOT hearings on the Canada Marine Act led to a number of amendments.

The Canada Marine Act was given third reading by the House of Commons in early April 1997 but failed to be passed by Senate before Parliament was prorogued for the 1997 federal election. The Act was re-introduced to the new Parliament as Bill C-9. Passage of the Act is anticipated in 1998.

## INTERNATIONAL PORT REFORM

National economic problems are reflected in public port investment strategies. Poor port operating and financial performance in public ports led them to become the "weak" link in the logistics chain. By the end of the 1970s, it was apparent that change was necessary to improve port efficiency. In the early 1980s, the industrialised world entered the neo-liberal economic era exemplified by "Thatcherism" in Britain and "Reganism" in the United States. Radical cuts to transportation regulations and public sector operations echoed around the world unleashing today's drive towards commercialisation, corporatisation and privatisation. Canada did not escape this swing to the neo-liberal right. In the late 1980s and early 1990s, the Mulroney government deregulated parts of Canada's transportation industry, several major Crown corporations were privatised (e.g. Air Canada and more recently CN) and an in-depth programme review in all federal departments (including Canadian ports) was initiated.

The contemporary swing of the national economic pendulum to the neo-liberal right resulted in port reform shifting public port authorities to various structures including:

- Commercial approach (introducing and emphasising commercial enterprise elements within the port - similar to the Canadian Crown Corporation model).
- corporate structure (legally structuring the port as a business enterprise under the country's company laws, although ownership may remain vested with the government), and
- privatisation liquidation of the government's port assets through the outright sale of the property by tender or through the flotation of shares on the stock market).

In the following sections, two national cases are examined to demonstrate these variations: New Zealand (corporate structure), and Britain (privatisation).

## New Zealand - a case of port corporations

Incorporating ports is a step toward full privatisation. Incorporation involves changing the corporate and financial structure of the port such that it conforms to private company law requirements. Even though full share ownership may be held by its public sector owners, the port for all intents and purposes is a private company.

New Zealand is a small island nation of 3.6 million people that is highly dependent upon foreign trade for economic development. New Zealand has 9 commercial ports directly competing with one another due to the relatively small geographic size of the country and an efficient inland transportation system. Prior to port reform, New Zealand's commercial ports were managed by elected Harbour Boards (akin to Britain's Trust ports). All port dockworkers were employed nationally by the Waterfront Industry Commission (WIC) in which they effectively had a "job for life" (Patrick, 1993).

In 1984, a new Labour Government introduced draconian measures to shift from a closed to an open market economy. These included the:

- removal of subsidies and controls on prices, interest rates, and exchange rates,
- deregulation of labour by weakening unions and removing government support,
- deregulation of capital markets and lowering tax rates,
- privatising various state-owned services, and
- virtually eliminating import and tariff restrictions.

On a national scale these initiatives resulted in a low inflation rate, a decrease in public expenditure as a percentage of GDP ;(33 percent in 1995), increased unemployment (from 1 percent in 1984 to 6.6 percent in 1995), increased exports (an 81 percent increase in 1994 from 1986), GDP annual growth of 6.3 percent and a public policy environment conducive to economic growth in an open market system (McTigue, 1996).

These changes to the New Zealand economy affected the country's ports. The 1984 publication of Onshore Costs: The Transport, Handling and Related Costs of Goods by Sea identified the major port issues as:

- lack of transport cost transparency and accountability,
- competition stifling impact of the NZ Port Authority,
- problems with the institutions and labour practices of waterside workers including the WIC and the employer-employee negotiations on the waterfront, and
- lack of focus and no commercial approach (Patrick 1993).

The first phase of New Zealand port reform involved extensive consultation with the transport industry on the need to reform the structural and legislative framework of the ports industry. The consultation process concluded that ports must become fully commercial and Harbour Boards had no clear accountability.

The second phase of port reform involved legislative changes, commencing with the *Port Companies Act* in 1988. Under this legislation, each Harbour Board divided its commercial activities from responsibilities for public safety regulation in harbours and marine pollution prevention. Harbour

Boards were required to establish separate port companies to own and operate their commercial facilities. These port companies were business corporations registered with the NZ Registrar of Companies. The legislation initially required that 51 percent of the port company shares be retained by Harbour Boards. Port companies were subject to normal corporate tax law and were expected to pay dividends to their shareholders. The Board of the port companies were limited to 6-9 members with no more than two from the regional territorial council. Port companies received no subsidies from either the central or local government and there was no central ports planning agency. On the labour front, 1989 legislation abolished the 50 year old Waterfront Industry Commission, ending the central government's involvement with waterfront labour. Some 44 percent of the waterside workforce (1,380) became redundant with the WIC closure. Individual stevedoring companies established permanent workforces as enterprise employment.

In 1990, the restriction on the private holding of more than 49 percent of a port company's shares was removed. The Minister indicated that port companies should privatise further by increasing the amount of shares held in private hands. This legislative change enabled port companies to float shares on the NZ Stock Exchange. Many investors had earlier been reticent to invest in port companies where the majority of shares were held by public Harbour Boards. Tauranga initiated the privatisation process by floating shares in 1992, selling 33 million at $NZ1 per share (1993 value $NZ1.30) resulting in 45 percent private ownership. Northland subsequently floated 20 percent of its shares, as did Auckland.

The New Zealand port reform process produced significant change. Port operations were corporatised with companies being formed by paying taxes and dividends. Port productivity increased and port workers became multi-skilled and flexible in their work assignments. Average ship turn-around time dropped from eight to three days as many ports began to operate 24 hours per day, seven days per week. In 1994, following Auckland's first year as a listed company on the NZ Stock Exchange, its profits increased by 39 percent, container throughput by 11 percent and market share by 55 percent.

### Great Britain - a case of port privatisation

Port privatisation involves the liquidation or sale of public assets (either the whole port or some part of it) to the private sector. Britain's Secretary of State for Transport, M. Rifkind claimed privatisation provides ports with:

- access to capital from commercial loans and sale of shares.
- the ability to develop surplus lands,
- accountability by placing an emphasis on profitability, and
- employee motivation by allowing them to have a financial stake in the port.

Contemporary port reform in Britain began with the report of the Rochdale Committee (1962) which argued:

> As far as the major ports are concerned, we entirely reject the concept of public service in so far as this might be held to limit the authorities' responsibility for conducting their affairs on the basis of sound economic and accounting principles, in other words, we see no reason why the major ports should not be treated for this purpose as commercial undertakings.

However, the "commercialisation" of Britain's major ports sought by Rochdale was prevented by inefficient labour practices that had been introduced in 1947 by the National Dock Labour Scheme (NDLS) and its implementing agency, the National Dock Labour Board (NBLB). Despite Rochdale's recommendations, commercialisation and privatisation of British ports did not occur until after the

election of the Conservative Government in 1979.

In late 1982, the 19 ports under the jurisdiction of the British Transport Docks Board (BTDB) were reconstituted as Associated British Ports (ABP) and in the following year, 49 percent of the company's shares were sold in the stock market. This successful flotation led to the sale of the remaining shares the following year (at almost 2.5 times the value of the initial share offering) (Ouellet, 1988). As a private port company, ABP continued to expand and generate profits for its shareholders. In 1983, ABP was valued at £60 million, by 1990 it had increased in value to £490 million. Much of this growth was attributed to port land development rather than by increased cargo throughput. The success of ABP led the government to consider further privatisation, particularly of the country's numerous Trust ports.

In 1985, to encourage further port privatisation the Minister's control over port development was removed. In 1989, the NDLS was abolished removing inefficient labour practices that had evolved in British scheme ports (those ports falling under the jurisdiction of the NDLS and NDLB). The 1991 Ports Act enabled all Trust ports to transfer themselves into companies for sale. The government received proceeds from the sale by a complex formula that depended on competitive bidding to establish the port's market value and a "claw-back tax" from "windfalls" arising from future land development profits. The Act also encouraged the sale of ports to management-employee buy-out companies (MEBO) with an unspecified but limited fiscal advantage being made available to such teams.

Five Trust ports took advantage of legislation to privatise: Tees and Hartlepoole; Clyde; Forth; Medway: and Tilbury. Four of the ports were sold by competitive tender and the fifth, Forth Ports floated a share offering. Tees and Hartlepoole was the first port sold and generated the most controversy. Four bidders were involved including a MEBO.Teeside Holdings Ltd. was the successful bidder at £180 million even though it submitted the second highest bid (Maritime Transport Serbvices Ltd. Had offered £202 million) (National Audit Office, 1993).

Clyde Trust Port had three bidders in its competitive tender. The MEBO was successful in acquiring the port with the highest bid of £ 29.7 million. Medway trust port was also sold to its MEBO with a final bid of £29.7 million. The Medway sale generated controversy in 1993 when the port was sold to Mersey Docks and Harbour for £75 million (making millionaires of some of its top management team) (Finney, 1993). The Port of Tilbury was also sold to a MEBO for £32 million. Forth Ports Authority generated £112.7 ,million through a combination of shares and loans. The government received £169 million from its share of the gross proceeds of £380.4 million (the remaining funds being used by the former Trust ports for capital development).

## IMPLICATIONS FOR CANADIAN PORTS

Canadian ports as public enterprises are centrally controlled, subject to constraining bureaucratic regulations, and are relatively slow to adjust to emerging competitive forces. Political appointments to the Boards of Canada's major ports has led, at times, to decisions favouring political expediency over commercial needs. Canada has shifted its national economy towards the neo-liberal right. Steps have been taken to liberalise the transportation sector. There is a clear need for port reform to increase overall efficiency, productivity and competitiveness.

Table 1 outlines port reform options. This Table lists national port systems in their operational systems ranging from comprehensive (where the port authority undertakes all cargo-handling activities) to landlord (where the private sector provides services) with a dimension of public sector intervention varying from the port as a government department to a fully privatised system. As shown, contemporary port reform is shifting public ports upwards from a comprehensive to a landlord situation and to the right towards commercialisation, corporatisation and privatisation.

Its is apparent that port reform is needed for major Canadian ports to enable them to improve their efficiency, focus on purely commercial objectives, rationalize port labour, and enhance their overall competitiveness. The commercial, incorporated and privatised port reform models in the New Zealand and British cases could provide lessons to be heeded in Canada.

As discussed, contemporary Canadian port reform seeks to shift major commercial ports toward enhanced "commercialism" - essentially a modified status quo in which:

- The Canada Ports Corporation is dissolved and replaced with a smaller departmental Ports Desk,
- the designated Canada Port Authorities (major commercial ports) are:
  - incorporated as not-for-profit corporations.
  - directed by a Board of Directors with user representatives forming the majority (with such representatives being appointed from a nomination list by the federal Minister).
  - expected to raise capital funds from commercial banks (with no liability being transferred to the federal government), and
  - provided with higher spending authority.

**Table 1 - Government Intervention in Port Systems**

| Port Operating System | Level of Public Sector Intervention | | | |
|---|---|---|---|---|
| | **Department** | **Commercial** | **Incorporated** | **Privatised** |
| **Landlord (private terminals)** | NHB (<1982), **Transport Canada HPD** | **CPC (1983), LPCs (1983), Harbour Commissions** | **New Zealand (1988)** | **Britain: ABP (1983)** and **Trust Ports (1991)** |
| **Compre-hensive (public operation)** | Britain - nationalized ports | British Trust Ports and New Zealand Harbour Boards | | |

Note: Current port institutional structures shown in bold

Although this approach is a step in the right direction by making CAPs more business-like and independent of the federal government, it does not go far enough. Additional steps are necessary to allow CAPs to operate as "for-profit" business enterprises with the scope and flexibility to compete effectively domestically and with U.S. ports. The federal government's treatment of smaller commercial ports involves a far greater shift towards business-like independence by divesting such ports to the provinces, municipalities, local community groups, or to the private sector. Recent divestiture of smaller commercial ports transforms them from public ports into private sector operations albeit with conditions to ensure public access is maintained to the port facilities over a defined period of time.

Canadian ports operate within the global economy, hence reform and change occurring internationally impacts on the Canadian ports system. The rise of neo-liberal economic philosophies during the past decade created pressure for port reform. Port reform has occurred elsewhere (such as New Zealand and

Britain).

As shown in Table 1, Canadian ports are currently located in either the departmental component (Transport Canada's Harbours and Ports Directorate facilities) or in the commercialised section (CPC [Divisional Ports and LPCs] and Harbour Commissions). Contemporary port reform outlined in the National Marine Policy (divesting smaller commercial ports) and the proposed Canada Marine Act (creating CAPs and dissolving the CPC) shifts smaller Canadian commercial ports towards the privatised component in Table 1 and the larger commercial ports (CAPs) towards the incorporated model.

Is the shift to a corporate structure sufficient? By adopting the type of not-for-profit corporate model proposed in the Canada Marine Act, the government will not likely create the competitive, business-like commercial ports it is seeking. As discussed earlier, Canadian port managers and their directors strongly support continuing the current system with minor modifications. This resistance to radical change will likely continue throughout the reform process. If the changes proposed do not go far enough in the direction of the corporate structure and eventually privatisation, there could be further erosion of the port reform achievements and a reversion to the more comfortable current model of a federally dominated ports system.

What is required for Canadian ports is a full move to port privatisation through a multistage process in a manner similar to New Zealand's port reform. Full incorporation leading to privatisation ensures there is no question about the port's mandate and objectives (to maximize profits for the shareholder - whether or not this is the federal government or other owners). The suggested "cost-minimisation" goal of the not-for-profit CAPs reflects a typical Canadian compromise, a hybrid model designed to offend no one, yet create confusion over what business orientation is expected from the country's major commercial ports. Will "cost-minimisation" generate the competitive edge that Canadian ports need to survive and develop in today's continental and global marketplace? Or will Canadian ports revert back to a focus on public service and avoid the "cut and thrust" of effective competition?

The contemporary economic swing to the neo-liberal right needs to be accompanied by similar shifts by participating industrial sectors including transportation (and ports). Unlike island nations in which economic development is dependent upon ports as key nodes for commodity transfer, Canadian ports are part of an integrated continental transportation network in which shippers have competing options for the overseas shipment of goods (both in Canada and in the United States). Canadian ports have lost the competitive advantages they may have had in the past in terms of captured hinterlands. Today's efficient and relatively low cost integrated intermodal transportation system provides shippers considerable freedom to chose alternative routings for logistics movements. Thus Canadian ports must be efficient and competitive to survive and develop. To achieve such efficiency, Canadian ports must be freed from federal constraints to operate freely at the local level as businesses in a commercial manner.

## CONCLUSION

the *Canada Marine Act* calls for the creation of CPAs as not-for-profit corporations as federal agencies. Although this is a step in the right direction, it does not go far enough. Not-for-profit corporations will encourage the continuation of current corporate values of public service over profits and may not lead to higher levels of accountability and cargo-handling efficiency. To maintain a competitive edge in the North American integrated transportation system, Canadian ports must be fully incorporated - transformed into true business enterprises in which the profit-motive dominates (not cost-minimization). The *Canada Marine Act* Addresses some of the concerns raised by ports and their customers during the 1995 SCOT hearings and the shippers' regional workshops, but the retention of a public-service orientation with federal involvement (including Ministerial patronage appointments to the port boards)

could result in continued federal domination of Canada's major commercial ports. A clear sign of change must be given to Canadian ports and their users. Such a sign would be to convert CAPs to for-profit corporations as a first step towards their eventual privatisation.

In conclusion, the Canadian port reform process provides many lessons on appropriate and inappropriate steps to take in changing a public sector activity to a commercial enterprise in a competitive environment. Rapid change with appropriate consultation rather than lengthy consensus building appears essential in achieving significant change. Although such rapidity in changing major transportation public sector institutions occurred in the past, it was unfortunate that unforseen external forces caused delays in Canadian port reform. But the process has not ended. There will likely be further amendments to the *Canada Marine Act* in the House of Commons and Senate; such amendments may push the major commercial ports more in the direction of full incorporation and subsequent privatisation.

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