Competitiveness of Spanish ports in the service of the global economy

Puertos del Estado

GOBIERNO DE ESPAÑA MINISTERIO DE FOMENTO

Spanish Port System

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REGULATORY FRAMEWORK

- Until 1992, Spanish ports fell under the authority of the Ministry of Public Works and Transport (then known as the Ministry of Public Works), where they were managed as a government department. There were four ports that had the special status of ‘Autonomous Bodies’.

- Law 27/1992 of 24 November changed the management model of Spanish ports, transforming them into public corporate bodies, and creating 27 Port Authorities that managed the ports as well as a central body for coordination and control.

- After 1992, there were a number of legislative changes, primarily aimed at including the Autonomous Communities and local corporations in the management of the Port Authorities, as well as advances in the liberalization of the system, encouraging more competitive practices.

- This legislative process culminated in the Royal Legislative Decree 2/2011, which approves the revised text of the Law on State Ports and the Merchant Navy. This law was ratified by the main political parties in Spain, providing a firm basis for its application and a guarantee of future legal stability.

INSTITUTIONAL MODEL

- The ports in question are state-owned bodies affiliated to the Ministry of Public Works and Transport.

- There are 28 Port Authorities that manage 46 ports, with the Spanish Ports Authority ("Puertos del Estado") responsible for the implementation and development of the government's port policy and economic policy.

- The Port Authorities function as "infrastructure managers".

- The governing bodies of the Port Authorities (Presidency and Board of Directors) are appointed by the Autonomous Communities.

- State representation on the boards of directors is 26.6%.

- Notwithstanding the aforementioned, these bodies remain structural and functional units of the Ministry of Public Works and Transport, operating not as part of a port holding structure, but rather as 29 state-owned legal entities with non-transferable resources.

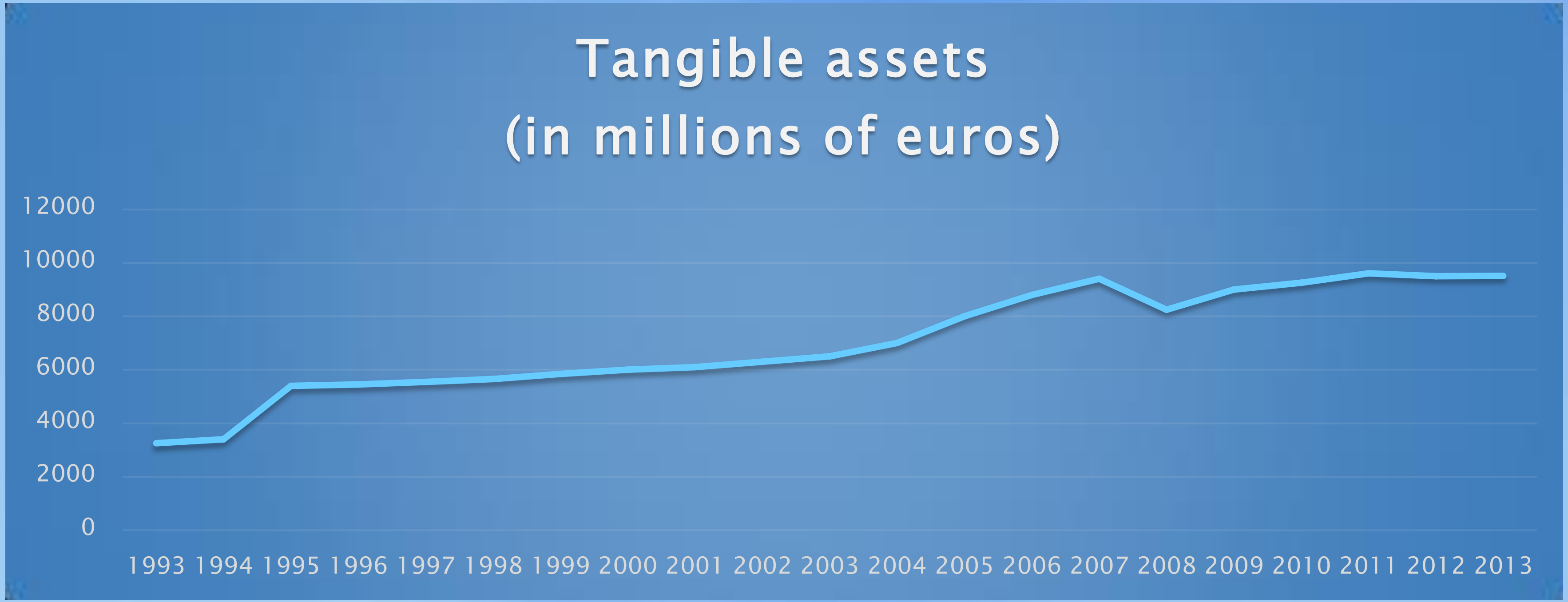
ECONOMIC MODEL

- The Port Authorities and State Ports operate within a framework of economic self-sufficiency and do not receive any funds from the national budget.
- Revenues must cover operating expenses and financial expenses as well as any investments or loan repayments.
- All profits earned by the port system are used for recapitalization purposes.
- The idea that it is the user of port land and infrastructure who should pay is a well-established and indisputable principle in Spanish ports.

ECONOMIC TRANSFORMATION

Parallel to the regulatory process described in the previous section, and to some extent as a result of it, there has been a remarkable economic transformation of the port system. While in 1993 Spanish ports handled 245 million tonnes of cargo, in 2011 it reached **470 million tonnes**, which represents **48% of the country's exports and 75% of imports**. Equally impressive is the growth in the number of passengers, which increased from 13 million in 1993 to 27.6 million in 2011. Some 8 million of these were cruise passengers, which constitutes a major contribution of the port system to the development of this tourist industry.

ECONOMIC TRANSFORMATION
Tangible Assets



As can be seen in the graph above, the value of tangible assets almost tripled during the period, **from €3,255 million to €9,513 million**.

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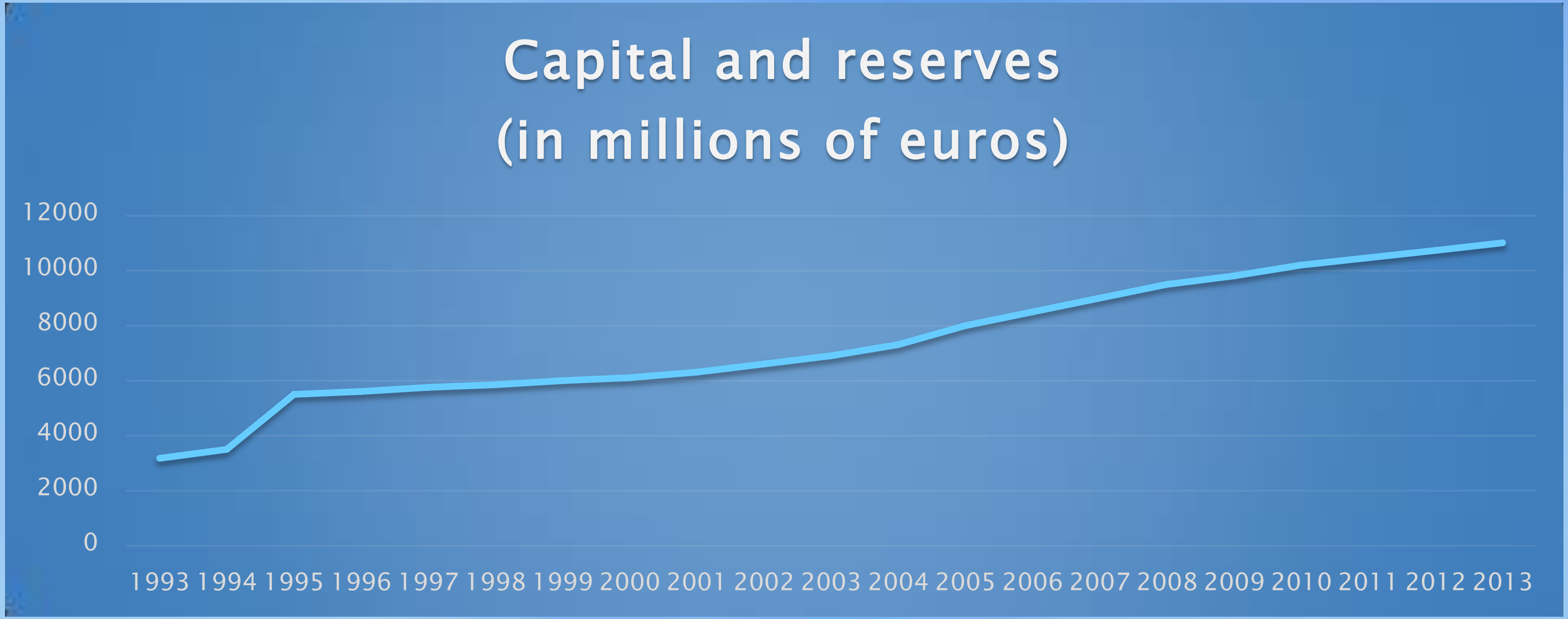
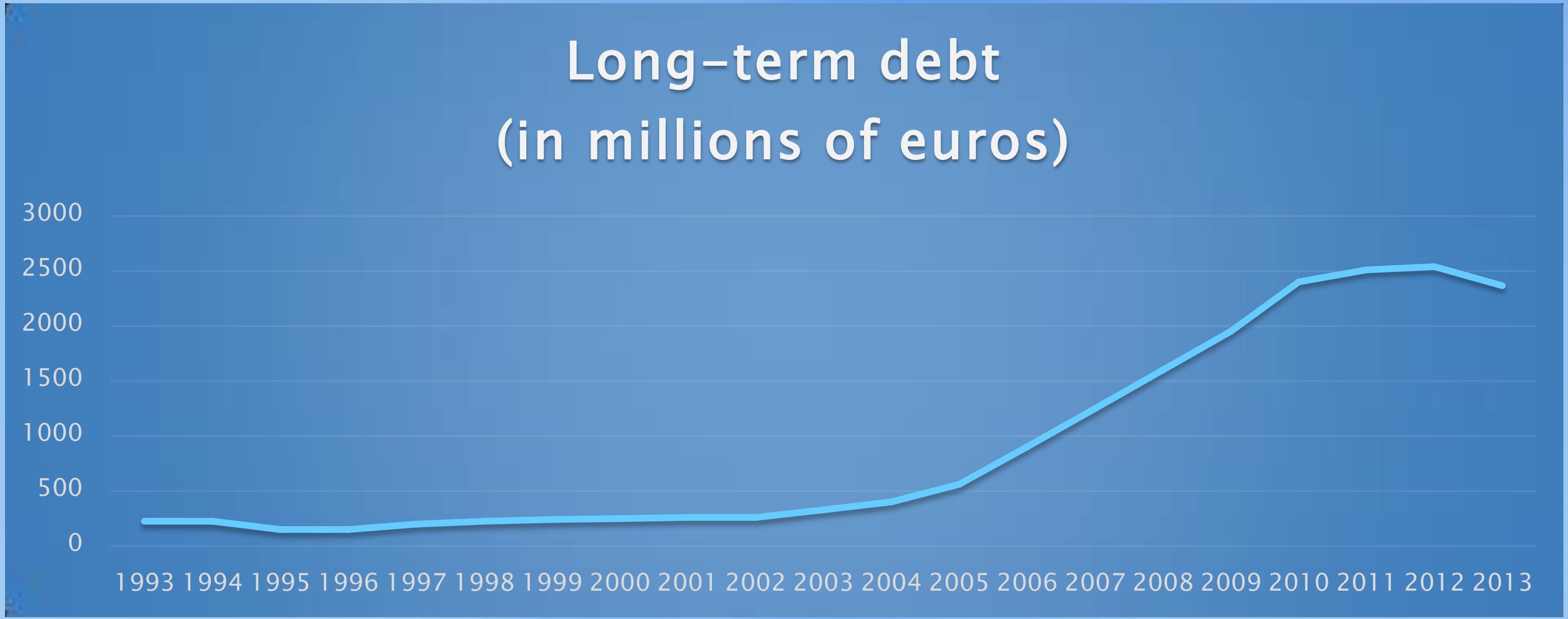
ECONOMIC TRANSFORMATION
Capital and reserves



Capital and reserves increased from €3,173 million to €11,010 million. This rise is mainly due to the **capitalization of profits process**, which remained in effect throughout the period.

ECONOMIC TRANSFORMATION

Long-term debt



Long-term debt began to increase in 2000, rising sharply from 2004 due to the strong investment process initiated in response to existing funding options brought about by the allocation of community grants (from the ERDF and Cohesion Fund) to the port system. In 2012, it began to decrease and will continue to do so.

ECONOMIC TRANSFORMATION
Net turnover

Despite a continued policy of tariff reductions, net turnover showed a positive trend throughout most of the period, decreasing in 2008 as a result of the economic crisis. For the period in question, net turnover **increased from €476 million to €1,028 million**.

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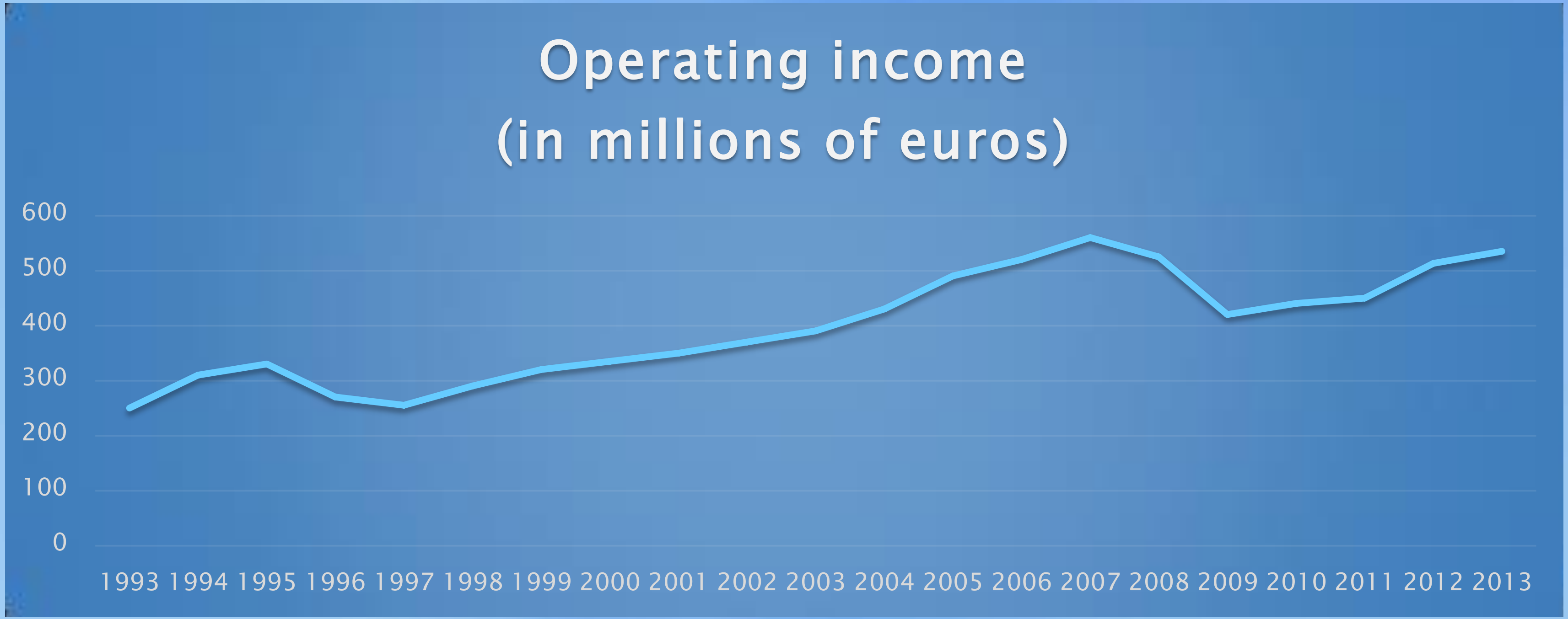
ECONOMIC TRANSFORMATION
Operating income



The evolution of operating income is closely correlated with that of net turnover, **doubling from €250 million to €535 million**.

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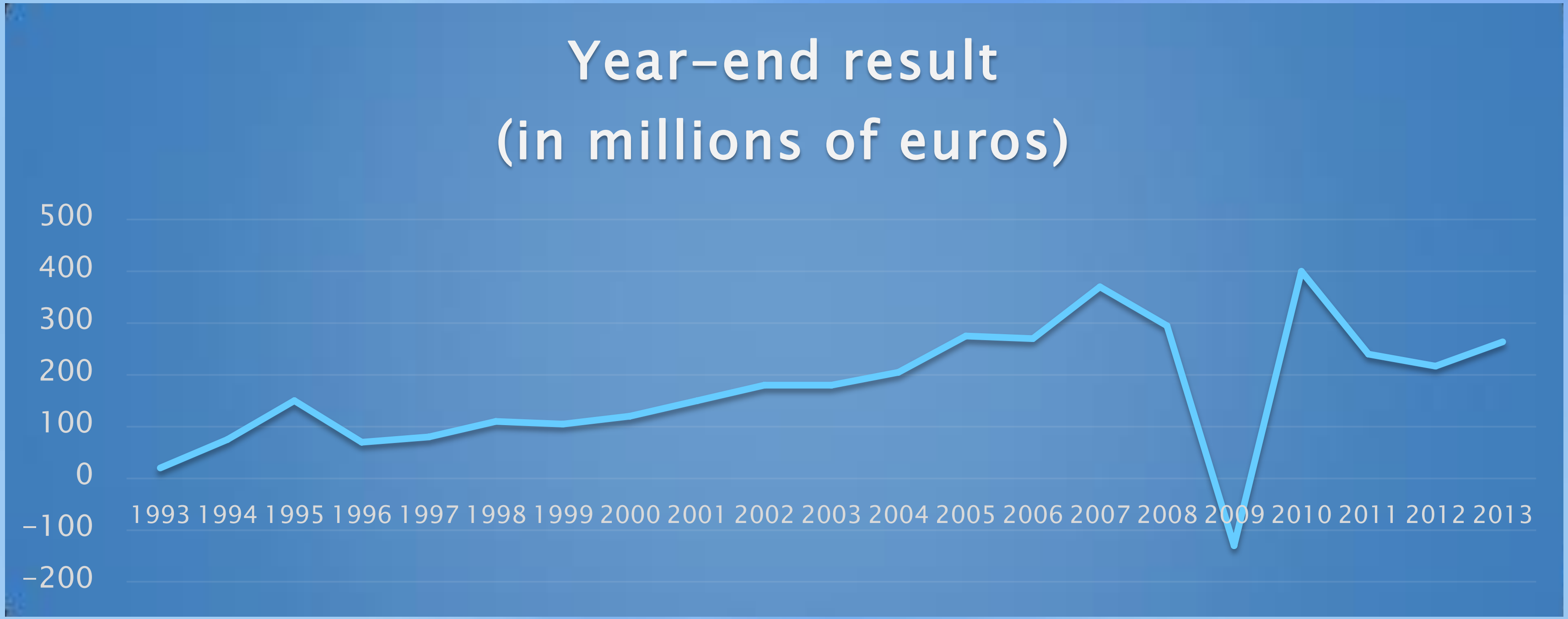
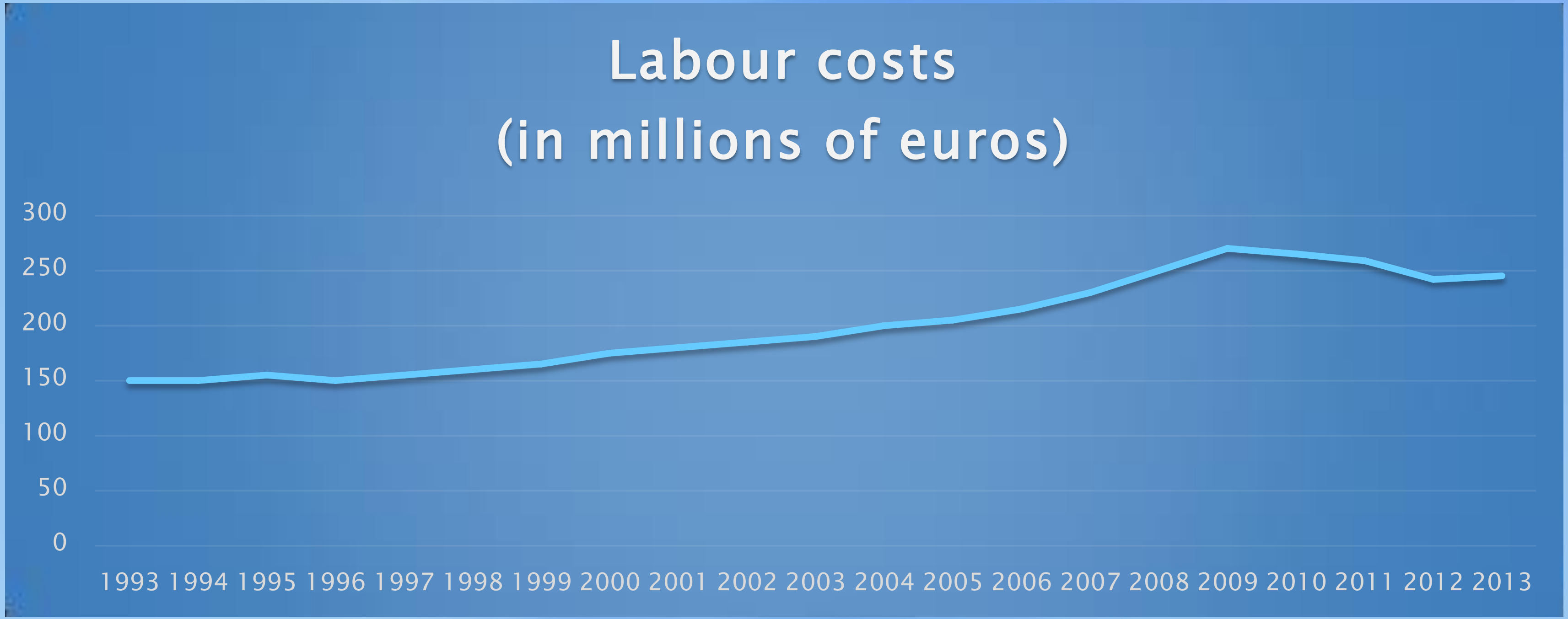
ECONOMIC TRANSFORMATION
Year-end result



As can be seen in the graph above, the port system has a high capacity to generate profits. Apart from 2009, which saw losses due to a dispute about the tariff system, the results during the period are encouraging, with an **accumulated profit of €4.67 billion**.

ECONOMIC TRANSFORMATION

Labour costs



Labour costs went from €150 million to €245 million, showing a more stable growth pattern than that for cargo tonnages, net turnover, etc.

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PHYSICAL TRANSFORMATION

During the same period, and mainly due to the strong investment process undertaken, there was also a significant quantitative transformation of the port system, whose key figures have evolved as follows:

	1993	2013	% Δ
Water Area I	17.623 ha.	19.969 ha.	9
Water Area II	139.990 ha.	162.958 ha.	16
Land Area	5.246 ha.	9.698 ha.	69
Quays	194 km	244 km	24

In addition to the quantitative changes shown in the table above, there have also been important qualitative changes, including better quality surfaces, greater connectivity, deeper drafts, and environmental investments.

MANAGEMENT MODEL

- The Port Authorities do not provide port services (cargo handling, loading and unloading of passengers, pilotage, towage and mooring). These services are provided by private operators in a framework of free access and competition.

- The Spanish model of ports is based on the so-called ‘landlord port’ model, in which the provision of services is fully liberalized.

- The Port Authority confines itself to providing basic port infrastructures and regulating the economic activity undertaken by private operators on the basis of free access and the non-exclusive provision of services.

- Currently, under this model, 65% of port land is leased to private operators, which represents 80% of all income-generating land (excluding common areas such as access roads), and in the last few years, annual private investment has stood at around €1 billion, exceeding public investment.

MANAGEMENT MODEL

We also believe that under this model, the public bodies that manage the system are responsible for:

- Promoting a culture of competition in the global logistics market, leading to efficiency improvements that are reflected in the prices of services.
- Boosting the competitiveness of ports and reducing logistical costs for operators.
- Directing public investment towards the financing of rail connections to ports so that their economic impact may extend beyond their natural hinterland, reaching all the way to Central Europe in the case of the Mediterranean rail corridor.
- Promoting and encouraging private sector investment in port infrastructures, limiting, as far as possible, public investment in dykes, access routes, and connectivity projects.
- Preventing monopolistic behaviour and anti-competitive practices, especially with regard to the provision of technical-nautical port services.

NEW MEASURES

With a view to advancing the management model, the following measures have been proposed that are currently at the approval stage in the Spanish Parliament:

- In order to encourage private investment, creating projects with attractive returns for port operators, the maximum term of concession contracts will be raised from 35 to 50 years. This will enable port operators to make investments in port infrastructures whose amortization period exceeds 35 years (e.g. quays), which under current conditions would not be possible. This will also allow the introduction of new technologies and processes, improving efficiency and leading to an acceleration of private investment and economic activity in ports.

- Lengthening the term of concession contracts also responds to the needs arising from the development of the logistics market, which requires a large number of investments with long amortization periods that exceed the current maximum concession term.

NEW MEASURES

- There is also a transitional provision applicable to concessions granted before the entry into force of this regulation, which extends their term, and thus equalizes the competitive position of these concession holders with those who, in the future, may obtain concessions without the previous limit of 35 years. For concession holders, these extensions are conditional on certain investment commitments, tariff reductions and/or contributions to the financing of rail connection infrastructures.

- The Financial Fund for Land Access to Ports ("Fondo Financiero de Accesibilidad Terrestre Portuaria") has been created to finance road and rail connections to ports as well as improve freight transport networks. The fund will be sustained by contributions (in the form of loans) made by local Port Authorities and the Spanish Ports Authority. The fund, whose operation and application will be governed by regulations, will enable the financing of road and rail connections to ports, improving their competitiveness without adversely affecting the profit and loss account or balance sheet of the port system.

CONCLUSIONS

- The port system operates within an agreed regulatory framework that ensures future stability.

- The port system boasts modern infrastructures of the highest quality, which are made available to private operators for the carrying out of logistical activites.

- A strong process of liberalization is underway, with more competition leading to efficiency improvements that facilitate private sector projects.

- Legislative changes are in the pipeline aimed at lengthening the term of concession contracts in order to encourage more private investment.

- Investment in rail connections will extend the hinterland of the Spanish port system beyond the Iberian Peninsula towards Central Europe.

CONCLUSIONS

•Efficiency improvements in port management are reflected in the prices paid by operators.

•The port system is economically sound, which allows for new investments where necessary and a stable or reduced tariff policy.