

Session 5

Port Financing and Pricing Policies and the Factors Governing Pricing Policies



PORT DEVELOPMENT AND COMPETITIVENESS

Session 5

Port Financing and Pricing Policies and the factors governing pricing policies

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Outline

- Types of Financing available.
- Factors to consider for financing:
 - The rapid changing population demography in total and in aging developed economy.
 - The economic and urban development.
 - Trade & Shipping growth & trade blocs.
 - Technological advancement with growth.
 - Environmental issues and sustainability.
 - Resource limitations, incentivisation and optimization of mega ships, alliances and ports.
- Types of port charges.
- Factors to consider for pricing
 - Cargo Volume and types.
 - Customers profile.
 - Types of trade routes and cargo origins.
 - Competition pricing.

Port Type/Status & Financing

- Service Ports * (Singapore Harbour Board) by Government
- Landlord Ports *(Port Of Singapore Authority) by G +Port Authority (PSA)
- Privatized Ports * (PSA Corporation) by G + Port Authority (MPA) + Terminal (PSAC)

Reasons for Finance

G's Political & Economic Policies * (Ports are country infrastructure. A Port City)

Emerging & Top Ports * (63% of top ports financed by Public Sector)

G's Public tasks * (Public license is required for construction activities & port ops)

Trend

Increasing role of private enterprise exerts a direct influence on port management + capital projects

Private sector interested in financing & construction of entire terminal (infra + super)

Finance & Management Scheme (BOT, BOOT, BOO) to mobilize private capital + PP interests

Government & Ports & Financing Sources

- Ports are separate economic entities though subject to national, regional and local planning goals as they spawn benefits to local and regional economies considered from public policy objectives (Port Tg Pelepas, Malaysia and Port NewPriok Kalibaru)
- Ports operate on commercial basis vs subsidies (HIT, MTL, HK and PSA)
- Avoid subsidies for port infrastructure (heavy investments). However, 2 issues at hand: To find private investors for long-lived infrastructure (Breakwaters, locks, channels, fairways, coastal protective walls) with life span >100 years versus Cost Recovery within 20-30 years which is a norm repayment period for long term loans for infrastructure by IFI such as World Bank
- Investment in 4 Categories of Port Assets:
 - ❖ Port Infrastructure to be financed by G + Port Authority
 - ❖ Operational Port Infrastructure to be financed by Regional G
 - ❖ Port Superstructure to be financed by local community
 - ❖ Port Equipment to be financed by Private Investors

Financing Port Projects & Approaches

- Finding Fund and recover the investment through :
 1. Direct investments from G investment budget
 2. Direct investment from a Special (Port) Fund
 3. Loans from IFI with G guarantee with interest payments for 20 years pegged to
- ❖ CBA (heavily dependent on traffic forecast)
- ❖ Port dues/rates/charges assessed against beneficiaries of the investment
- ❖ Port dues (per vessel tonnage /teu/activities)levies to arrival activities /volume of goods transported through a newly dredged channel
- ❖ Fixed amount /year based on operating revenue by Port Authority to G (PSA 10% revenue to G)
- ❖ % of annual port dues by Port Authority to the G
- Most attractive is 20-30 years lease (MPA licensed lease to PSAC)
- ❖ land reverts to G or MPA upon lease expires
- ❖ Lease contract represents a property right, can be transferred to 3rd party
- ❖ Superstructure will be financed and owned by Port/Terminal
- ❖ Lease can be used as security for a bank loan

Question?

Port Pricing , Charges , Basis

- The tools for financing port infrastructures have become more sophisticated and the legal conditions to be satisfied by the project more strict. The private sector evaluates its participation in projects investment based on the following elements:
 - ❖ Expected yield
 - ❖ Adequate debt/equity financing structure(eg 65/35,70/30, 75/25)
 - ❖ Strong sponsorship
 - ❖ Solid legal contracts
 - ❖ Transparent legal framework
 - ❖ Fair and open bidding procedures
 - ❖ Credible feasibility analyses (technical, institutional, financial, economic & environmental)
- Funding large infrastructure investments in greenfield port projects is more risky because of certain complication factors, including
 - ❖ The large proportion of necessary equity contributions(e.g. minimum proportion of 60 %) due to the high risk associated with long construction and payback periods
 - ❖ The difficulty of projecting the future traffic volumes
 - ❖ The capital intensive nature of the investments
 - ❖ The continuing risks associated with operations, such as a refusal of requests for tariff adjustments, changes in tax policy, or introduction of new handling techniques that make existing facilities obsolete

Public - Private Partnerships

- Pricing Objectives
- Pricing Structure
- Charging Basis
- Billing Basis
- Main types of charges

- Pricing Objectives
 - ❖ Encourage: efficient use of resources & economies of scale to lower cost of shipping lines
 - ❖ What the market can Pay
 - ❖ Reward commitment in volume to promote growth
 - ❖ Cost recovery with Adequate returns for miscellaneous services

Public - Private Partnerships (cont'd)

- Pricing Structure: General Pricing ; By Agreements/Customized pricing
- Charging Basis: Time Base; Length of Vessel; Container size/status/category; Cargo Tonnage
- Billing Basis: Vessel Basis (to vessel operator); Container Basis;(to Container Operator); Slot basis (to Slot Operator HL,NYK,OOCL)

Vessel Basis

- Types of Charges
 - ❖ Dockage (Based on LOA x duration of stay at berth + penalty over-stay after COD)
 - ❖ Berthing/ Un-berthing
 - ❖ Stevedorage (discharging/loading containers ship to shore vice versa)
- 1 comprises Ship Planning, Opening/closing hatch cover, trucking , wharf-age
- 2 rate structure differentiated by 3 main container types:
 - ❖ General Purpose box
 - ❖ Over-height , over-width
 - ❖ Dangerous Goods
- 3 rate structure differentiated by Status Transhipment/Re-export/Local
 - ❖ Transhipment means fulfilling discharged from 1st vessel, remain in custody and ship out in original status 2nd carrier,
 - ❖ Container is declared for Transhipment & 2nd carrier nominated 12 hours before arrival of 1st carrier
 - ❖ Container is declared for transhipment 12 hours before berthing of 2nd carrier
- Re-export means Transhipment in nature
 - ❖ Auto -Re-export---late submission of import status
 - ❖ Declare for re-export within 72 hours on COD from the 1st carrier
 - ❖ Declare for shipment 12 hours before the berthing of 2nd carrier

Vessel Basis (cont'd)

- Local Rate
 - ❖ Imports- When a loaded/MT container is discharged from vessel, exit out of the terminals
 - ❖ Exports-When a loaded/MT container is delivered to the terminals and shipped onto a vessel

- Stevedorage Charge Rate
 - ❖ Local laden
 - ❖ Local Empty
 - ❖ Transhipment (laden/Empty)

- Lashing /Unlashing (cellular vessel or non-cellular)
 - ❖ Charge for every container discharged from or load to the vessel
 - ❖ Different rates for cellular and non-cellular
 - ❖ payable by the vessel/slot operator

Container Basis

- Types of Charges:
 - Store Rent
 - ❖ For the storage of containers at the CY
 - ❖ Covers yard planning , provision of yard space and equipment

 - Store Rent ---Rate structure
 - ❖ Charge is applicable after free storage period
 - ❖ Store rent rates are escalated on a per 24 hour basis
 - ❖ Different store rent rates for different categories of containers
 - ❖ Transhipment containers 9 days free store rent. Chargeable from 10th day
 - ❖ Local containers: Laden 3 days free SR: Empty 2 days free SR
 - ❖ Store rent chargeable retrospective to day 1

Container Basis (cont'd)

- Lift-On-Lift-Off
- 1 covers physical lifting of containers onto/from the chassis at CY
- ❖ 2 Operating cost of the PSA Gate system
- ❖ 3 Payable by the shippers/consignee or hauliers

- Rate Structure
- 1 Applicable for all local containers
- 2 Rebates and incentives are given to encourage faster delivery or JIT loading and during off-peak period

- Reefer Services: includes
- ❖ 1 Monitoring of temperature & conditions of reefers
- ❖ 2 Supply of electricity
- ❖ 3 Pre-trip inspection
- ❖ 4 Plug/unplug on board of vessel

Slot Basis

- Stevedorage

- Lashing/unlashing

- *Application :
- ❖ 1. For lines with slot sharing agreement among members
- ❖ 2. All members in the agreement must be on slot billing basis
- ❖ 3. Reduce rebilling among members

Miscellaneous Charges

- Efficiency Charges
- Priced with objective to recover cost with adequate returns
- ❖ Container basis---Renomination/shut out/extra movement
- ❖ Vessel basis---Standby charge for labour/equipment:
Late advice/cancellation/amendment of berth application

- Miscellaneous Charges: By Container Basis
- *Renomination & Shut Out
- ❖ -When there is a change in the declared connecting carrier
- ❖ -Without sufficient notice
- ❖ -Recover cost of planning, shifting and transfer
- ❖ -Applicable to General Purpose boxes only

Miscellaneous Charges

- By Container Basis:
- Renomination Charge
- ❖ *Change of second carrier is done
- ❖ -<12 hours before arrival of discharging carrier and
- ❖ -> 12 hours before arrival of the original nominated vessel & >12 hours before arrival of the renominated vessel

- Shut Out
- *Change of second carrier is amended
- ❖ -<12 hours before arrival of the previous nominated vessel or
- ❖ -<12 hours before arrival of the renominated vessel
- ❖ *Export container /Transshipment container is not shipped onto vessel but delivered out of PSA

- Extra Movement
- * When there are movements or shifting of containers at the yard upon request by agents/shippers or consignees

Miscellaneous Charges

- By Vessel Basis;
- *Standby for labour and equipment
- -When quay crane & labour are put on hold as a result of vessel agent or ship master's action e.g. delay in berthing , technical engine fault
- Late advice , cancellation/amendment of berth application
- ❖ -When berth is booked/amended less than 72 hours before the arrival of vessel

Customized Pricing - By Agreements

- 3 Types:
 - ❖ 1. Terminal Service Agreement (TSA) - Home based berths; GA/TPT; NWA/BT
 - ❖ 2. Enhanced Terminal Service Agreement (ETSA) - Adjacent berths; GA/TPT/KT; NWA/BT/KT
 - ❖ 3. Virtual Terminal Agreement (VTA) - 3 Terminals berths within City Terminals
- Differentiated By
 - ❖ *Duration: TSA (1-2 years); ETSA (3-5 years); VTA (10 years)
 - ❖ *Volume Commitment
 - ❖ * Pricing Structure
- JV Agreement
- *Cosco/PSA
- *MSC/PSA
- *CMA CGM/PSA
- *PIL/PSA

Categories of Port Assets

Basic Port Infrastructure:

- Maritime access channels
- Port entrance
- Protective works, breakwater, shore protection
- Sea Locks
- Access to the port for inland transport (roads and tunnels)
- Rail connection between the hinterland and the port
- Inland waterways within the port area and connecting port areas with their hinterland

Operational Port Infrastructure:

- Inner port channels and turning port basins
- Revetments and slopes
- Roads, tunnels, bridges and locks in the port area
- Quay walls, jetties and finger piers
- Aids to navigation, buoys and beacons
- Hydro and meteorological systems
- Specific mooring buoys
- Vessel traffic management system
- Patrol and fire-fighting vessels

- Docks
- Port land (excluding superstructure and paving)
- Access roads to general road infrastructure
- Rail connection
- Dry docks for ship repair

Port Superstructure:

- Paving and surfacing
- Terminal lighting
- Parking areas
- Sheds, warehouses and stacking areas
- Tank farms and silos
- Offices
- Workshops
- Building required for terminal operations

Port Equipment:

- Tugs
- Line handling vessels
- Dredging equipment
- Ship and shore handling equipment
- Cargo handling equipment (apron and terminal)