
MEASURING POLICY OUTCOMES (AND PERFORMANCE): THE CASE OF IRISH SEAPORTS.

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Abstract

Deregulation, liberalisation and devolution are terms applied to policy initiatives across many states. Broadly, they are often categorised as privatisation policies and are the product of political coordination. In the port sector, it is best conceptualised as devolution of power from the state to the market, and/or to lower tiers of government. In the Irish case, the Harbours Act 1996 [1] devolved power to state owned corporations as port authorities, and a trend in privatising port services such as cargo handling continued uninterrupted. The Ports Policy Statement [2] of March 2013 extends the devolution process to transferring smaller regional commercial ports to local authority control. This work considers trends in Irish ports policy against other countries in varied political and economic contexts; and considers how we can assess the success or otherwise of policy initiatives beyond a one dimensional volume growth comparison.

Measuring and comparing the effectiveness of policy initiatives faces the perennial problem of finding a basis for like with like comparison cross nationally and across time. This paper introduces a measure for policy outcomes along the state to market continuum. It is based on an assessment of policy outcomes, post implementation, reflecting market responses as well as legislative intent, across market dimensions of competition, property and economic regulation. Thus, comparisons can be made across Irish ports and with benchmark values globally.

Two research opportunities arise from such a metric. First, policy profiles can be compared cross nationally in a comparative political economy analytical frame, that is, as a dependent variable. Second, the policy profile can be an explanatory variable in a comparison of port growth and performance. Both provide valuable insights for policy makers and industry professionals.

This paper describes the results of a comparative political economy study of the leading maritime nations in container transport, covering twenty-six countries from 1980 to 2010. It argues that path dependency theories provide a strong basis for explaining policy change in the port sector, that labour resistance to privatisation remains a constant, and that policy prescriptions show signs of convergence regionally. The paper applies the same measurement logic and policy change theory to Irish ports policy. The findings are of interest in terms of Ireland as a policy outlier in the comparative political sense, and yet entirely consistent in a path dependent policy paradigm.

Introduction

Measuring port performance is an active topic for researchers in the maritime sector [3]. It is a focus for industry practitioners also with Irish Aid partnering with UNCTAD in a programme to develop a benchmarking scorecard for ports in the UNCTAD port training network [4]. The challenge is not just about linking strategy to performance across ports of many types, but it is also about charting the impact of policy initiatives. To do so by way of legislative audit ignores the response of the market to new arrangements. Equally taking the value of asset transfers or the changing scale of the public sector in an economy are one dimensional perspectives on such a shift in domestic economic policy. The answer, proposed in this paper, is to measure national policy frames in terms of the public/private mix in a multi-service port environment. The metric is applied to a twenty-six country dataset and two Irish ports are overlaid for comparative purposes. By including Cork and Dublin we can observe that policy

outcomes can vary domestically even when based on the same legislation. Explanations for such variance comes from theories of path dependence. The argument is that past policy, measured as an index of political and economic institutions¹, influence the extent to which current policy can move. The data also show that domestic actors, port labour in this instance, can shape policy outcomes.

The research objective is to develop a basis for comparison across all public infrastructure categories, especially transport networks. The point of interest for such assets is that they are often, or traditionally, considered public goods. Politically this is assumed to mean that the state has an obligation to supply, finance, and operate such infrastructure. In the transport sector, this includes roads, railways, airports, and seaports. In economic terms infrastructure are considered public goods based on non-competitiveness and universal access; coupled with the idea that the private sector cannot or is unwilling to supply the infrastructure. The evidence here is that some port assets have moved outside the public goods definition but marine infrastructure still remains largely an issue for the public sector. This does not exclude private financing of marine infrastructure but the responsibility to coordinate remains with the state.

In the case of Irish ports the policy story reflects patterns elsewhere with perhaps some different interpretations when it comes to long-term marine infrastructure. Just as elsewhere the pattern of policy formation shifted to intervention and state control in the post-war period with the introduction of the Harbours Act 1946 [5]. Pricing control remained with the relevant government department, competition within ports was limited, although investment was largely funded through borrowings. This was often state guaranteed or provided by the Local Loans Fund (LLF) on very long term low cost notes. Direct aid was also possible and in modern terms the exclusion of ports from the corporate tax regime constituted aid of a kind. Indeed 'soft' loans from LLF may also fall into this category. With growing containerisation Dublin facilitated a growth in intra port competition after B&I [6] was privatised. Cork continued to provide stevedoring services directly.

The next major change in the principle legislation was in 1996 [7], implemented in 1997. Both Dublin and Cork experienced growth throughout the 'boom' years albeit in different policy frames. The new Act corporatised the port authorities to introduce a commercial model with the state acting as a shareholder. There was no indication of a policy towards privatisation and the Act did not allow for the port authority shares to be diluted or sold. It was silent on such developments. Perhaps this reflected the realities of domestic politics of the day. The responsibility to be self financing and to invest through commercial borrowings shifted significantly to the ports, although still fully owned by the state. Pricing decisions became the responsibility of the new directors on smaller boards that now did not have customer or industry representatives. In a revision to the Act in 2009 [8], political representatives were excluded from board membership. Both the ports studied continued to adapt the policy frame to suit their strategic objectives. Dublin focussed on a landlord model for container terminals with competition as a key driver. Cork focussed on efficient and effective terminal operations through a subsidiary company based on an operator model.

In March 2013 a new policy paradigm was announced establishing a tiered structure in the sector. Essentially three ports, (Dublin, Cork and Shannon-Foynes) constitute Tier 1 and ownership will remain with national government. The board membership regime maintains the trend to smaller numbers, and appointment based on a schedule of competencies. Pricing remains a corporate role, and privatisation of the port authority will be facilitated in the Act. State investment is not an option except for certain ports at Tier 3 level that will transfer into a local authority thus ending their corporate status [9]. The policy statement refers to a report by the Competition Authority 2013 [10] as de facto policy, which largely deals with intra port competition. For Tier 3 ports, those that remain corporatised will see ownership in the form of equity transfer to a local authority [11]. Tier 2 ports will for the moment remain under national government control. What is not clear at this point is how the market will respond to the proposed changes and how the remaining port companies will evolve, especially in terms of new capacity development plans. Early indications from documents lodged as part of the planning procedures for Dublin and Galway master plans suggest that only Tier 1 ports are

¹ The source of the institutional index of openness is a blend of Polity IV and Economic Freedom indices compiled by the Fraser Institute

positioned to expand capacity [12]. This suggests that Tier 3 ports will focus on niche markets and maintain market share. The viability of these ports will depend on access to capital from their new shareholders, and considered management of the internal market for port services to maintain competitiveness for regional trade. Again the point is that policy outcomes in the sector can vary domestically depending on how interested actors respond. Measuring that variation is the research challenge. The next section will describe such a metric and illustrate its efficacy using a cross national dataset of major container ports.

Policy outcomes - evaluation

Studies in comparative political economy are difficult to undertake across a wide cross national dataset. Thus such work tends to focus on comparative case studies. This in part reflects the problems with data design and collection for policy outcomes [13]. The dependent variable in this work measures actual policy outcomes in terms of states and markets along a continuum of responsibility, in this case market coordination [14,15]. It draws on varieties-of-capitalism theories with differences attributed to variable institutional, economic, combinations. A high score represents a market-coordinated policy and a low score represents a state coordinated policy. To do this the policy agenda is divided into five parts to reflect the market dimensions of property rights, economic regulation, and competition [16]. The five measured dimensions can be adapted to a wider range of public infrastructure scenarios as they cover competition, equity ownership, price regulation, investment obligations, and project approval authority. They measure in all public infrastructures the ownership of the assets, the power to set service price levels, who invests in maintenance and development, and who has the final say in new project development. Applying the metric allows the researcher to assess the degree to which the private sector or the state coordinates the market for public services. It is fundamentally about political power. As the measure is taken after implementation, it effectively takes into account the private sector response to policy initiatives. This filters out policy instruments that have no impact on observable reality. It is consistent with the argument that policy making is about coordinating various interests into a policy outcome that restores the contested policy space to equilibrium.

The metric builds on earlier work in the maritime policy literature on functional typologies for policy makers [17, 18, 19, 20]. The metric dimensions are sub-divided to account for the specifics of the container port market. For equity, the assessment is made on the ownership of the container terminal operator² and the port authority. Based on earlier work in maritime economics on port revenue profiles the score is averaged based on a weighting of eighty per cent for the cargo operation and twenty per cent for the port authority [21, 22]. This also reflects the expectation that port authorities (regulator and landlord functions), have a reducing competitive role in favour of private cargo terminals, and are less likely to be sold on to the private sector [23, 24]. The price control dimension is measured and weighted in the same manner.

The investment and project approval measures are more complex as they need to accommodate variance in policy approaches across different asset classes. They are divided into terminal superstructure and infrastructure, plus marine infrastructure. This is consistent with port governance literature [25]. The intent is to capture the variety in policy making, with long-term marine infrastructure such as breakwaters less likely to be funded by the private sector. Equally, as the asset class increases in cost and length of life, the public goods argument is less likely to be dismissed. In such scenarios, policy makers are more likely to be involved in controlling all significant development through some form of political veto [26].

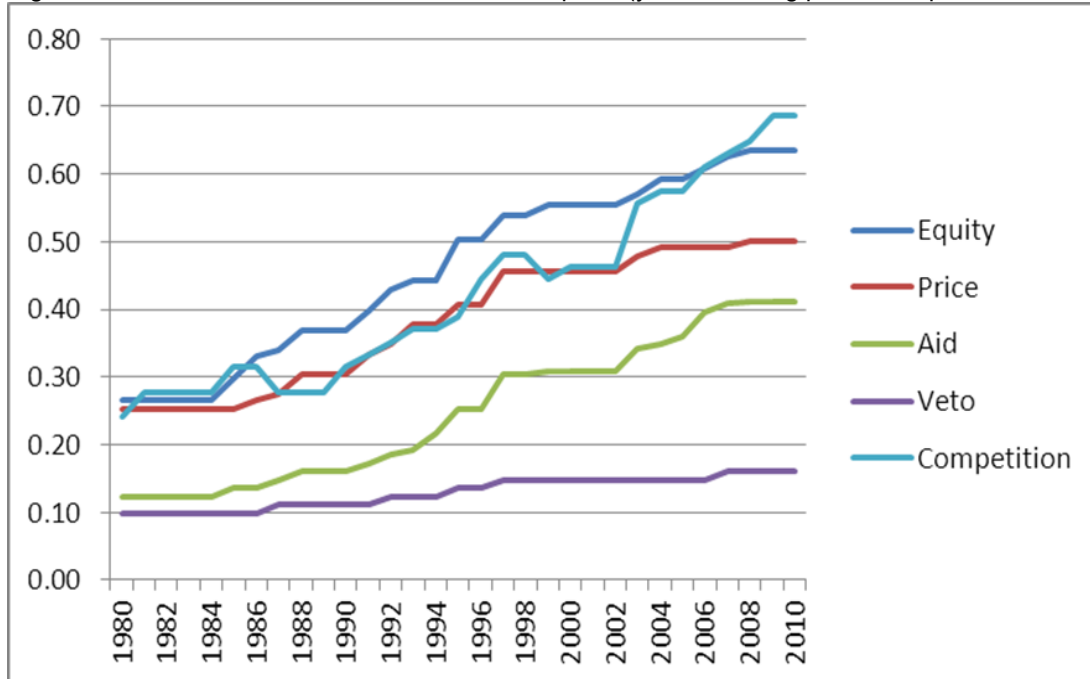
The motives for such a veto are not of immediate concern however, they can include coordinating welfare enhancing development or the retention of power for the benefit of clients. Averaging the three sub-categories for investment into a single metric along with averaging the political veto score into a single metric gives a profile of market versus state power in the market. Competition is measured simply on the basis that two or more container terminals, separately owned, points to a potentially competitive market within a container port. The

² Ownership of the container terminal assets may not pass under a lease, operating or concession agreements. This metric captures the extent to which private terminal operators control the market for cargo handling services, as discussed in Chapter 4.

measure takes no account of the quality of the competition or inter-port dynamics; however, it is a useful indicator of policy action on market versus state power within the container port. Combining all five sub-variables provides a continuous variable scaling from zero to five. It can be further collapsed to a categorical variable or charted against a normative value. The sub-elements can also be used in isolation to compare policy frames at a more detailed level. Of interest is that such a comparison of equity ownership shows a level of container terminal privatisation consistent with maritime economics performance based literature. This is a useful validation of the measures.

Figure 1 illustrates the extent to which policy on average has changed across the leading container ports. The scale rises from zero, representing full public control, to 1, representing full private control. Equity transfers to the private sector for cargo handling services have certainly increased over the period of the study while the tendency to retain some form of political veto largely remains. The dimensions that reflect regulation and long term asset investment remain strongly on the side of public control while competition, pricing and investments in short term assets have shifted to the private sector. This is consistent with the common perception of 'privatisation' or 'deregulation'. However it also confirms that examining the policy frame by market dimension establishes a variety of models. The key finding is that policy frames do differ cross-nationally.

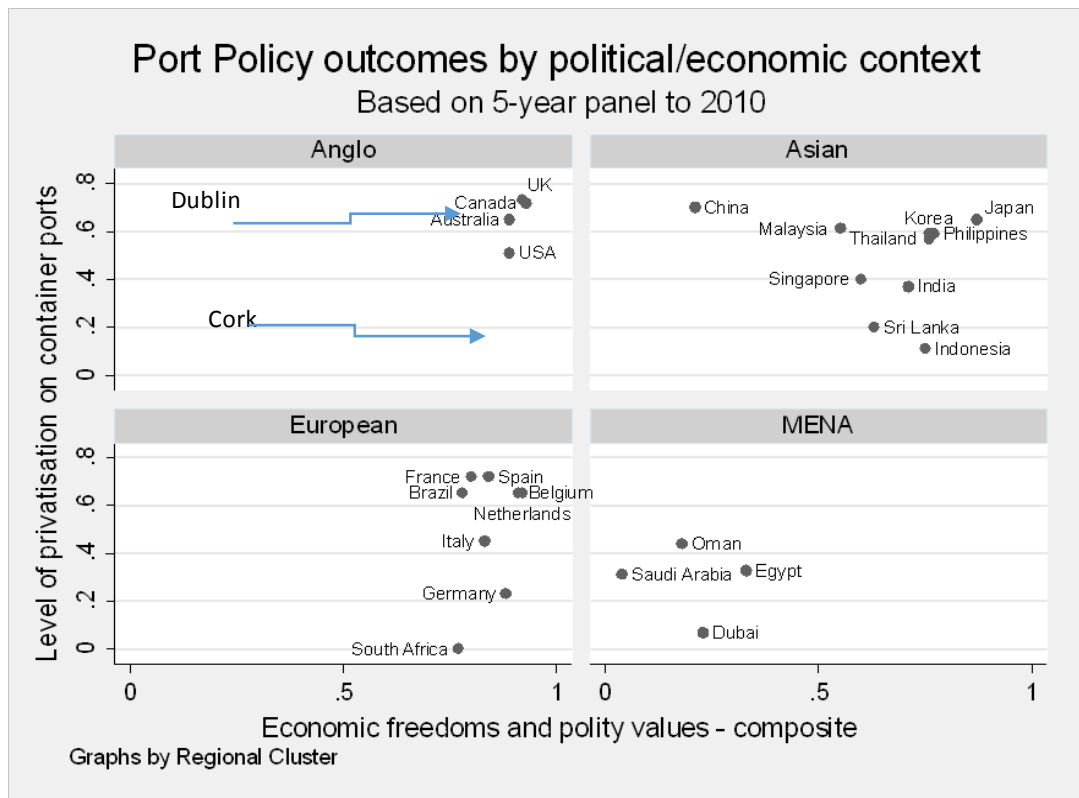
Figure 1: Privatisation in international container ports (y-axis is rising percent of private control)



In the case of Irish ports Figure 2 illustrates the different outcomes possible from a common legislative and institutional framework. They are overlaid on an analysis of major container ports globally, displayed in regional groupings that reflect different forms of capitalism. The selection includes non-democratic and lessor developed states, outside the normal frame for such a policy study, where one can assume some accommodation with capitalism was arrived at to facilitate international shipping, cargo handling, capital movement, and trade. There is support for the argument that constraints on the movement of capital will limit the transfer of power to the private sector. The conclusions also highlight the policy dynamic, which is not a one-dimensional unidirectional policy instrument from political institutions, but it also reflects the appetite, the demands, and the institutional capacity of the private sector. This is consistent with the varieties of capitalism argument that all policy needs to be assessed in the broader context of complementary interacting institutions.

For policy makers there are three points that are pertinent in the data. First, the arguments that define ports as public goods were challenged and any reliance on public goods notions were “largely abused” by politicians [27]. Traditionally the supply of port infrastructure and related services was largely regarded as the responsibility of the state, particularly since World War II. This public goods assumption is problematic in an interdependent market. Container terminals and their attendant superstructures no longer satisfy the economic criteria for public goods. They are competitive by nature within ports and between ports. They are controlled by an entity that can limit access to users based on competition and price. There is also clear evidence in the data that the market is willing to fund and develop such assets, subject to an amenable economic institutional framework.

Figure 2: Dublin and Cork added as illustration of domestic policy variance



However the basic port access infrastructure, channels and breakwaters on the waterside with roads and rail networks on the landside, are quite often the responsibility of the state in these data. Logically the same arguments apply to port access on the landside or waterside. This deconstruction of the public goods argument for ports supported the political and economic ideas of public sector privatisation. This covers planning, ownership and funding topics with the data showing evidence of a shift to the private sector coupled with a distinct retention of political veto control by the state. Any shift in power from the public to the private sector needs to be matched with a regulatory framework that will manage any political and economic risks, such as those associated with a private monopoly. This may be the political justification for retention of veto power on port development projects, and institutions that control how the market can function to guarantee a competitive market in port services.

In the wider debates on global public policy convergence, the arguments for convergence focus on the growth of power among international actors. This convergence thesis is the “favourite straw man of comparative and international political economists”; where the focus needs to be on the type of globalisation and the institutional form of the state [28]. In the case of seaports, the main actors are international terminal operators and international organisations. The terminal operator market shows significant signs of market saturation by a

small number of multinationals [26, 29]. Market power, as a driver of demand, rests with these operators to dictate ports of call and the service standards expected of modern ports. The argument that countries will compete for their size appropriate share of the market and thus, reduce the economic costs of imports and exports is compelling; and there is some support here in that all ports have responded in some manner to this power shift. In the selected data, there is also strong evidence of ports competing for transshipment volumes. Thus, ideational diffusion in response to competitive pressure may explain policy change, but it does not explain the extent to which policy moves on the state/market continuum necessarily. A similar line of argument follows when considering the impact of international institutions as epistemic communities or as purveyors of conditional aid programmes. The net point is that international factors, institutional or market driven, are justifiably regarded as the source of policy demand.

One product of the research is that the dependent variable developed, policy outcomes, is also of value as an explanatory variable in port performance studies. Where the hypothesis argues that greater private sector participation will improve port performance then this variable can be used as a continuous value, or as a value per market dimension, or as a categorical value that defines the unit of comparison. The openness variable used in the case study is also of value as a more precise institutional measure of economic openness for public infrastructure when compared to the standard trade to GDP metric. Again, the contribution is to challenge typical metrics in privatisation studies to add value to the conclusions drawn. The theoretical frame used implicitly challenged typical explanatory variables in privatisation literature. Institutional capacity is the appropriate variable type to use to construct a model of change that incorporates interaction between institutions and potential coalition members. The extension of the countries dataset to ensure significant variability on the political structure, economic institutions, and actor capacity variables provided a significant opportunity to test theoretical arguments consistent with neo-institutionalism.

The same metric for actual policy outcomes can be applied as an input to performance appraisals as well as cross-national comparative research. A key limitation in such work is the problem of comparison between disparate units of analysis. By categorising accurately the governance profile of ports based on the policy outcome variable, their economic scale, and by cargo mode, it is possible to compare performance values cross nationally and between ports. This measurement and process model can be adapted to other modes, and nodes, of transport. The approach and metrics will bring significant improvements in our capacity to understand the politics of change, mostly defined as devolution of functions to the private sector, and in turn policy effectiveness. The impact will be in better design of governance frameworks to manage effectively the mix of private and public interests in project and service delivery.

In policymaking, the findings are simple. It is important that the policy prescription is technically sufficient to generate a specified response from the market, for example investment. This prescription must also take account of complementary institutions in the political economy. However, to see the policy change implemented successfully requires political coordination within a specified institutional context. It is this link between institutionalism and the politics of coordination that makes a contribution to public infrastructure policy initiatives. It is also this theoretical contribution that links to future research opportunities, complemented by the methodological insights gained in this research.

The task in any future research is to link work on port performance indices with this measure of policy outcomes. The data regression on the time series cross section datasets applied in the original research can then be enhanced to test policy performance hypotheses. For example, can we say that greater levels of private participation in delivery of port services will improve performance? Ireland as a case study shows how a single policy frame, and level of institutional openness, can still result in varied policy outcomes. Can we continue to say that local politics matter? Can we also argue that local management will 'stretch' policy to its limits to support corporate objectives?

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