Number 74

4 March 2016

Economic Bulletin

EUROPEAN COMMISSION PROPOSALS THREATEN UK PORTS INDUSTRY

- European Parliament to vote on potentially damaging ports legislation next Tuesday.
- UK's port industry is thriving. Investment is running at £400m a year and productivity is 1.3 times higher than UK economic average.
- 75% of UK's largest ports are privatised. In contrast, 80% of EU ports are operated by state or local authorities.
- The European Commission's proposed Ports Services Regulation poses major risks to UK's currently competitive ports industry.
- UK Government and MEPs must as a minimum insist on an exemption of privately-financed ports from the proposed EU regulations.

Click here to subscribe to the CPS eNewsletter

1. INTRODUCTION

Next Tuesday, the EU Parliament will debate the Ports Services Regulation (PSR), put forward by the European Commission. This could be one of the last chances for the regulation to be halted. While the PSR has been refused by the EU Parliament on two previous occasions, it appears that several concessions in the current draft (not least those designed to appease continental trade union interests) will make this draft more likely to pass. It should be noted that in the UK all major political parties oppose the draft regulation.

The aim of the PSR, it is claimed, is to improve competitiveness across all of the EU's ports industries. There are concerns, however, that this regulation will adversely affect the UK's port sector, which is significantly different in nature to that in mainland Europe.

2. ECONOMIC VALUE OF UK PORTS SECTOR

The UK's port industry is the second largest in Europe, handling 500m tonnes of freight per year and supplying 344,000 direct and indirect jobs across the country. Since 2009, the direct value of the UK's port sector has increased by 6.4% in real terms, according to UK Trade and Investment. Annual investment in the industry remains robust and the sector's productivity continues to outperform the rest of the UK economy. The UK Ports Industry Association reports that investment is running at £400 million a year and workers in the port industry are 1.3 times more productive than the UK's economic average.

3. UK VS EU PORTS SECTOR

Figure 1: Breakdown of Ownership of UK Ports Sector

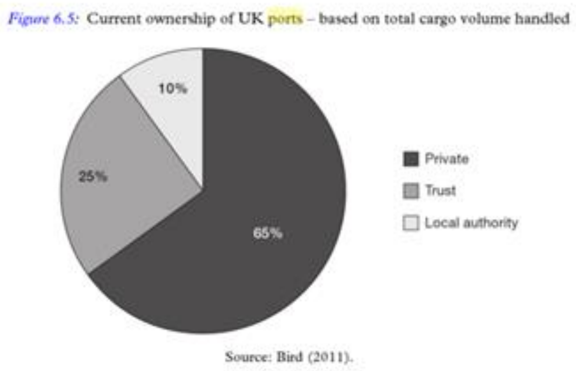
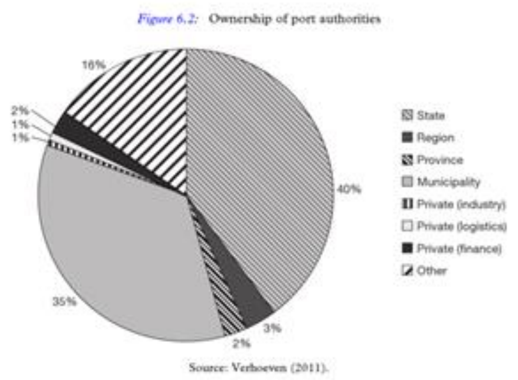


Figure 2: Breakdown of Ownership of EU Ports Sector



Source: Port Infrastructure Finance – Informa Law l[ink]

UK ports have a different operating model compared to the majority of ports in mainland Europe. Since the 1980s, UK ports are largely privately owned whereas most of those in continental Europe are operated by State authorities. In the UK, 15 of the 20 largest UK ports are private sector operations and only 10% of all ports are run by local authorities. This is in stark contrast to mainland Europe, where 80% of the ports are run by state or local authorities (see Figure 2). This includes several large European ports such as Antwerp and Rotterdam, where a public authority retains the harbour authority functions.

As a result of the UK's competitive ports industry, virtually all of the UK's ports are privately funded and require no taxpayer subsidy. For example, new port capacity at Felixstowe and Southampton were developed with 100% of private funding. However, many ports across Continental Europe are dependent on taxpayer subsidy – new capacity at the ports of Rotterdam and Hamburg, for instance, were constructed with the help of 1.1 billion Euros and 788 million Euros respectively (see Table 1).

The absence of government involvement in the financing and strategy of the UK's ports industry make it unique, according to the UK Ports Industry Association.

Table 1: Funding Sources of Major EU Port Developments

Existing port New project	2004 capacity (TEUs)	New port capacity: private funding	New port capacity: public funding
Felixstowe Felixstowe South and Bathside Bay	2.7m	100% of all port development costs Share of road/rail costs	0
Southampton 3.7 million TEU capacity	1.4m	100% of all port development costs Share of road/rail costs	0
Rotterdam Maasvlakte II	8.3m	€1.6 billion	€1.1 billion for port development 100% for rail link
Hamburg	7m	Superstructures only	€788 million for port development 100% funding of road/rail links
Antwerp Deurganckdok	6.1m	€930 million	€680 million for port development 100% funding of road/rail links
Bremerhaven	3.5m	Superstructures only	€59 million for port development 100% road/rail links
Le Havre Port 2000	2.2m	€275 million	€693 million for port development €101 million for road/rail links

Sources: Ocean Shipping Consultants, ESPO, ISL, as quoted by DfT

Source: Freight Transport Association [link]

4. RISKS OF PORTS SERVICES REGULATION TO THE UK

The proposed PSR would affect 43 ports in the UK – many of which are operated by the private sector. One of the European Commission's stated aims of the proposed PSR is to improve efficiency and competitiveness of EU ports among other things.

This proposed regulation, however, poses a number of risks for the UK's port industry. Firstly, the regulation is primarily aimed at tackling a lack of competitiveness from Europe's state run ports. The UK Government has been clear that they believe these regulations would be harmful to the UK's already competitive and largely privately owned ports. The UK Major Ports Group has also expressed concerns about the proposal's aims to regulate market access to port services, port charges and financial transparency. The industry believes the regulations could have serious negative consequences for job creation and investment.

Furthermore, there are concerns that the new regulations will not be applied equally. The European Commission is currently considering further clarification of state aid rules, which may include certain port investments in the Block Exemption Regulation. Some MEPs are pushing for generous state aid to their local ports to be protected from the regulations.

Finally, the Prime Minister claimed that his EU renegotiation had "proposed a new mechanism to finally enforce the principle of subsidiarity." The implementation of the PSR – which would effectively remove national oversight of the UK's port industry – is contradictory to this commitment.

5. SPECIFIC RISKS

- UK ports are currently at liberty to determine all aspects of port services themselves, without oversight by a regulator. The European Commission's proposals would impose a regulator on the UK ports industry, which would lead to uncertainty. UK ports are already commercially competitive so there is no need for a regulator.
- The uncertainty caused by having a new regulator – which will, for example, be able to insist on "price proportionality" – is likely to undermine commercial and investor confidence in UK ports. Port infrastructure investments typically have a long term payback period of around 25 years. Uncertainty from this type of regulation will play its part in creating investment blight.
- The regulations may include exemptions from state aid rules for some EU ports, which would be grossly unfair to UK ports. Mr Fleckenstein MEP is the Rapporteur for the regulation and also the MEP for Hamburg, which received 876 million Euros to redevelop Hamburg port between 2009 and 2013.
- There is always the danger of regulatory creep, which could involve further European Commission proposals and adjudication by the European Court of Justice.

6. CONCLUSION

The UK's ports enjoy three major advantages: they are independent and free of government controls, they are market driven and they operate in a good policy and planning framework. The UK's privatised ports system was advocated by the Centre for Policy Studies, and this has resulted in a thriving industry.

Ideally, the European Commission should be looking to emulate the privatised model adopted by the UK. But for the more immediate future, the proposed regulatory intervention poses serious risks to this industry. The UK Government and UK MEPs of all parties should therefore:

- Resist any attempt to allow further state subsidies of EU ports;
- Insist on the PSR not applying to the UK, given concerns about it hampering the UK's already competitive and largely privately owned ports;
- As a minimum, ensure the introduction of an amendment which would clearly and unambiguously remove privately financed ports from the scope of the regulation.

7. MUST READ

- UK Ports Industry: Practical Advice – David Whitehead OBE
- UK Port Freight Statistics – Department for Transport
- How the EU is about to sink Britain's successful ports – Daniel Hannan, CapX

Daniel Mahoney and Tim Knox
Centre for Policy Studies

DISCLAIMER: The views set out in the 'Economic Bulletin' are those of the individual authors only and should not be taken to represent a corporate view of the Centre for Policy Studies

Follow us on:

Twitter **Facebook**

Forward to a friend