



State of Israel
State Comptroller and Ombudsman
Annual Report 70A | 2020

Preparation for Competition at Sea Ports

Abstract

Preparation for Competition at Sea Ports

Background

The Israeli economy is highly dependent on foreign trade and some 98% of foreign trade passes through sea ports. There are four sea ports in Israel: Haifa and Ashdod ports operated by government companies (the Haifa Port Company Ltd., aka HPC, and the Ashdod Port Company Ltd., aka APC), and private ports in Eilat and Haifa (Israel Shipyards). Israel Ports Development and Assets Company Ltd. (IPC) is responsible for the development of infrastructure at the ports.

Further to a government decision to encourage competition in the ports sector and benefit the economy, two new ports are expected to commence operations in 2021: Bayport near HPC and Southport near APC. The new ports will enable large ships to dock, operate with advanced technologies, employ limited personnel, and divert much business from existing ports. This report examines the preparedness of the existing ports operated via government companies to face their future competition.

Key figures

98%

the percentage of foreign trade that passes through ports

59 million tons

total cargo passing through Israel's four ports in 2018

2.9 million TEU*

total movement of container ships through Haifa and Ashdod ports in 2018

15,300 TEU

the capacity of ships that can be handled at the government-operated ports in Haifa and Ashdod

18,000 TEU

the capacity of ships that can be handled at Bayport and Southport

NIS 1 billion

Ministry of Finance evaluation of damage caused to the economy by the lack of competition in the ports sector

NIS 143 million

expected operating loss for the government-operated ports in Haifa and Ashdod in 2023, according to the Ministry of Finance forecast








***TEU – twenty-foot equivalent unit**

Total movement of container ships through Haifa and Ashdod ports in 2018

Scope

 From July 2018 to February 2019, the State Comptroller's Office examined the preparation of the various entities for the operation of the new ports and the competition they are expected to represent. The audit was carried out at the Ministry of Transportation and Road Safety, the Ports and Ships Authority, the Ministry of Finance-Budgets Department, IPC, HPC, APC, and at the Government Companies Authority.

Key Findings

-
-  **The completion of strategic and business plans by the existing government ports companies - Haifa and Ashdod - has been delayed.** This could lead to the existing ports not being ready for competition when the new ports commence operations.
 -  **IPC has reduced its investments in the existing ports** in Haifa and Ashdod from some NIS 247 million on average between 2005 and 2010 to NIS 32 million on average from 2011 to 2018. Consequently and absent alternative sources of finance, it is doubtful if infrastructures at existing ports can be adapted for competition.
 -  **Adaptation of infrastructures at HPC** for the docking of large container ships has yet to commence and it seems that development may be delayed until 2033.
 -  **Doubts exist with regard to the ability of APC to meet timetables to adapt infrastructures there** to take in large ships when competition commences in 2021.
 -  **The lack of agreement on a quota of retirees at APC and HPC** could expose the companies to the risk that there will not be sufficient retirees to ensure the financial stability of the companies and their ability to take efficiency measures as required.
 -  **Regulating the transfer of the sea departments at Haifa and Ashdod port to IPC has yet to be completed,** even though IPC and the management of both HPC and APC have worked to advance the issue. The transfer is a condition for equal competition among the various port operators.
 -  **A land agreement has yet to be signed** between IPC and the Haifa and Ashdod ports companies, even though this issue has been under discussion for 14 years. A land agreement is an essential condition for upholding an agreement of principles and preparing HPC for competition.








With the commencement of operations of the new ports - Bayport and Southport - in 2021, **competition in the ports sector in Israel is likely to become more sophisticated and generate benefit for the entire economy.**

An agreement of principles was signed between HPC and the port employees that could advance, inter alia, the company's preparations for expected competition.

An agreement was signed on efficiency measures by HPC with regard to personnel, although the agreement has yet to be carried out and is based on voluntary retirement.

Key recommendations

-  **The State Comptroller's Office recommends that the Ministry of Transportation, IPC, and the ports companies** study and make a decision on infrastructure upgrades at the ports, including deepening the port in Haifa to enable it to serve ships of different sizes. Furthermore, all entities involved must work to adopt and develop suitable frameworks to finance IPC investments in infrastructure at the ports and define lines of the IPC's responsibility to finance these investments in order to enable the future advancement of necessary infrastructure projects at the ports in Haifa and Ashdod.
-  From time to time, the HPC, the Ministry of Transportation, and the Ministry of Finance must study the necessary efficiency measures required in the operations of the port in Haifa - especially from the personnel aspect **-and ensure that the number of retirees in practice is sufficient to endure the financial future of the port company.**
-  APC and the Director of Salaries at the Ministry of Finance **must accelerate negotiations on the efficiency measures agreement with company employees,** to generate savings in the company's expenses and improve its financial situation ahead of the entry of private competitors.
-  During negotiations on efficiency agreements at government companies, including in the field of personnel, **company management must play an active role.**
-  The IPC, the Ministry of Finance and Ministry of Transportation must, further to the agreement of principles signed by the HPC, must **complete the required measures in order to fulfill the obligations** stemming from the instructions of the agreement of principles these entities assumed as part of the documents of obligations they signed.



- 💡 Further to the agreement of principles signed on the subject, the Ministry of Finance, the Ministry of Transportation, and the Government Companies Authority must **complete an evaluation based on the value of the ports, including real estate**, as a condition for advancing the process of privatization of the port in Haifa. We recommend the timing of the preparation of the evaluation be defined in the procedures of the Government Companies Authority as part of the privatization procedures.
- 💡 IPC, the Ministry of Transportation, the Budgets Department, the Government Companies Authority, and the Director of Salaries at the Finance Ministry, in cooperation with the management of the ports must **complete the regulation of the activities of all sea departments** so they may provide their services to various operators.

Summary

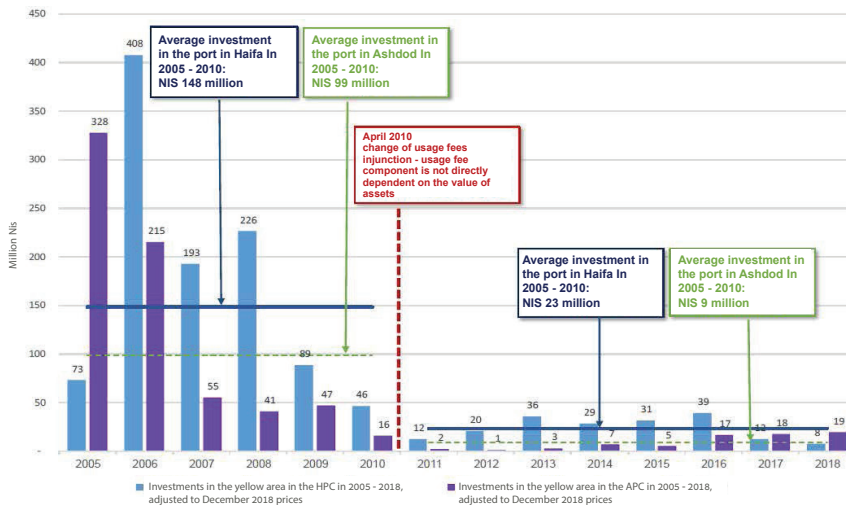
The Ministry of Transportation, the Ministry of Finance, the IPC, the Ports and Ships Authority, and the management of the Haifa and Ashdod ports have yet to complete the preparation of existing ports for competition expected in essential fields, i.e. adapting port infrastructures and personnel. When the new ports commence operations in 2021, the infrastructure of the port in Haifa will not be able to provide docking for large container ships, and there is doubt regarding the readiness of infrastructures the port in Ashdod. Given the fact that efficiency measures affecting personnel have not been carried out, the financial stability of the existing ports companies could be hurt. Consequently, competition between the ports, cost savings, and improved efficiency might also be impacted. Implementation of the recommendations of this report will contribute to advancing competition in the sector.

The boundaries of the Haifa Port and Bayport (the new port)



Source: Israel Ports Company

Investments by IPC in yellow areas at the Haifa and Ashdod ports companies 2005-2018 (in thousands of shekels adjusted to December 2018 prices)



According to the figures of Israel Ports Company, processed by the State Comptroller's Office.

