PORTS AND LANDSIDE LOGISTICS: CHANGING PERSPECTIVES

PROFESSOR ROSS ROBINSON

A ‘NEW’ FUNCTIONALITY FOR PORTS?

Is there a ‘new’ role and functionality emerging for ports?
And for Australian ports?

• July 1 2003 …The Port Services (Port of Melbourne Reform) Act… objectives, among others,
  • To ensure…that the Port of Melbourne is effectively integrated with other systems of infrastructure in the State, and
  • To facilitate the integration of infrastructure and logistics systems outside the port,… the port needs the strategic capacity to identify its own role in the broader logistics chain.
...
from landlord port to the port as part of a ‘logistics’ chain?

• April/December 2005… the operator of Dalrymple Bay Coal Terminal (DBCT P/L) was granted interim/final authorisation by the ACCC to implement a queue management system (QMS) to reduce ship queues and demurrage costs.
  • Regulation provided the framework for the management not only of the terminal operations but of the export coal chain within which the terminal is embedded.
...
the port as the manager of its landside coal chain?

• In April 2006 Toll took control of Patrick; and in so doing obtained control not only of a stevedoring operation but also of a matrix of port-oriented supply chains.
...
the port as a key element in landside restructuring?
May 2006 - the ‘provisional declaration’ of the BHP Billiton Mt Newman railway line to Port Hedland, endorsed by the National Competition Council and sought by Fortescue Metals Group, was allowed to lapse.

June 2006 – Fortescue lodges an appeal with the Australian Competition Council.

BHPB has action proceeding in the Federal Court; it is arguing that its rail line is an integral part of its ‘production process’ and should not be subject to the NCC’s recommendations.

(In 1999 Rio Tinto argued in similar fashion to keep Robe River off its rail line; but bought out North, Robe’s majority owner before appeal?)

…the port is not simply a place but a key part of a supply chain which is structured to capture competitive advantage and deliver value?

The simple fact is that the role of a port and its functionality are being redefined.

• The port is a place in which ships exchange cargo to and from facilities.

• It is an operating system to be optimized.

• It is a set of sub-markets – the labour sub-market, a market for tugs or pilots or berths – to be made economically or competitively ‘efficient’.

But in rapidly recreating freight markets, in fluid capital markets and business environments our old port paradigms are under challenge....

• Ports are elements in value-driven chain systems.

• Chains deliver value and competitive advantage to buyer and seller and chain players.

• It is the chain which delivers value to end-customer firms; firms in the chain capture value and deliver value to other firms in the chain.

• Ports capture and deliver value – to other firms in the chain; but it is the chain in which the port is embedded which delivers value to the firms in the market.
In the real world port-oriented chains are restructuring....
KEY DRIVERS OF CHANGE

The notion of value migration

- "In any industry, ‘value migrates from outmoded business designs to new ones that are better able to satisfy customers’ most important priorities’ (Slywotzky, 1996)
- "As customers’ priorities change…they make new choices. They reallocate value."
- "If firms are to capture advantage under these new conditions they will need to offer the value the customer is seeking at an acceptable cost and profit."
The notion of strategy decay

Port strategies decay...business models fall ‘wildly out of step with marketplace realities’ (Gerstner, 2002). A changing port environment requires redefinition of the essential role and functionality of a port from an exclusively micro-managed landlord role, to a role also as a functional element in a value-driven chain and to a role as a ‘pause point’ in value-driven logistics pathways. Ports are elements in logistics pathways from seller to buyer; their critical and defining function is to deliver value to shippers and stakeholders and to capture value on a sustainable basis.
• Are ports not like ‘pause points in the supply chain where products come in for a few hours, a day and go right back out again. They are high velocity, high turn facilities?’ (Conley on FedEx Express Distribution Centres 1998).

• The notion of a port as a pause point, as an articulation or common point between connecting networks, immediately defines its functionality in port-oriented freight systems. It is a through location... it is a time-critical element in restructured freight systems.

REDEFINING PORT FUNCTIONALITY: THE PARADIGM?

Port-oriented container landside movements are
- Focused through a time critical port terminal!
- Channelled into scaleable corridors with integrated depot/terminal operations
- Characterised by ‘time-oriented’ peripheral depots/terminals
- Characterised by integrated, value-driven chain structures; Web enabled, market driven

THE ‘NEW’ FUNCTIONALITY AND EXISTING GOVERNANCE MODELS: A NOTE.
- The new functionality... fully integrated chain systems
- But how, by what mechanisms, are chains integrated? And who integrates?

The market will integrate
- Firms will drive acquisitions, mergers, alliances...
- But it is the integration of business processes, not the simple acquisition of separate businesses, which is critical in chain structuring - IBM’s ‘business on demand’...
- ‘Chain power’, not simply market power, in the new economics of integration
Is the port authority the integrator?

"The Port Services (Port of Melbourne Reform) Act in July 2003 foreshadowed a new functionality and role for the port
But can the 'business-oriented, socially constrained' statutory State owned corporation (SSOC) governance model of the port deliver?
Control over critical assets? PoMC and container terminals? Regulatory lock-in?
Does a statutory framework which provides a management team that includes the State Treasury and two shareholding ministers deliver the flexibility required in modern business decision making?
Or would a Government Owned Corporation model, defined by Corporations law rather than by Statute, be a better model?

Is there a role for the regulator in integrating landside chains?

April/December 2005… the operator of Dalrymple Bay Coal Terminal (DBCT P/L) was granted interim/final authorisation by the ACCC to implement a queue management system (QMS) to reduce ship queues and demurrage costs.

Regulation imparts 'property rights', in this case regulatory protection, and allows DBCT P/L, as a natural monopolist, to make output decisions 'in line with the public interest'.

In chain integration terms there have been two critically important outcomes:

1. DBCT P/L became the de jure channel master in the port-oriented export coal chain through the Dalrymple Bay terminal
   In effect, this provided the focus of control and the ability of a chain player to exert mechanisms of control in order to achieve the public interest objectives – queue reduction, queue control and the reduction of ship demurrage costs.

2. Regulation further consolidated a new chain architecture – from a supply push to a demand-pull system – as a critical factor in chain efficiency.
FROM A CLASSIC SUPPLY PUSH CHAIN TO...

A DEMAND PULL SUPPLY CHAIN