

INSTITUTE FOR ADVANCED STRATEGIC AND POLITICAL STUDIES



"היו האמרים לרע טוב לטוב רע" ישעיה ה"ב

Division for Economic Policy Research

Policy Studies

No. 41

July 1999

REFORMING ISRAEL'S SEAPORTS

Amir Etzioni

Introduction

"Many ports around the world define their objectives for development in one sentence: the wharves should wait for the ships, not vice versa. With long term planning and sufficient funding this could eventually become a reality." These lines were published in the ninth monthly bulletin of the Israel Ports Authority in October 1962, nine months after establishment of the Ports Authority, and were intended as an explanation for the lack of infrastructure and long waiting periods at the ports.¹ They certainly could not serve as an explanation for the 3,000 waiting days registered 35 years later in 1997.

In the majority of Western European and American ports, the private sector is, to one extent or another, a partner in the operation of the port. In contrast, the ports in Israel are operated directly by the government or indirectly by a public authority.

The Israel Ports Authority controls the country's seaports. As a government authority it can collect fees from the public by law and in this way balance its books. In addition, the government has the legal right to influence the authority's decisions and strategy. These factors affect the management and operation of Israel's ports and cost the economy tens of millions of dollars per year, most of which is passed onto Israeli consumers. A conservative estimate of the direct costs of one day's wait for a ship is \$10,000.² Additional indirect costs arise from the disruption of supply and resulting damage to suppliers' reputations, shortened shelf life, higher land transportation costs and higher inventory costs.

EDITOR, POLICY STUDIES:

Alvin Rabushka, Senior Follow and Director, Division for Economic Policy Research, and Senior Fellow, Hoover Institution, Stanford University, Stanford, CA 94305. Tel: (650) 725-5674
Associate Editor: Yossi Laster, IASPS Fellow and Instructor in the Division for Economic Policy Research

IASPS

4 Chopin Street • Jerusalem 92190 Israel • Tel: 972-2-563-8171 • Fax: 972-2-563-8176
1020 Sixteenth St. NW • Suite 310 • Washington, DC 20036 • Tel: 202-833-9716 • Fax: 202-862-4981

Additional damages stem from the utilization of the Ports Authority for the furthering of national goals unrelated to the commercial activity of the ports, such as the consolidation of Israel Railways and the Ports Authority in 1988 and the cross-subsidization between exports and imports. This results in additional costs to the port users and unnecessarily raises the price of imported goods.

Individual Israeli ports, and even the Ports Authority itself, enjoy only limited autonomy. Despite the Ports Authority being a public institution whose employees are not officially state employees, the Authority is dependent on the government. This is because the Knesset mandates that it collect its fees from the public by law and its decisions regarding budgets, investments, long term leases and fees require government approval. This system compromises the ability of the Authority to operate freely and stands in contradiction to the objective of an independent Ports Authority operating in accordance with economic criteria.

This study examines the historical background of the present structure of the Ports and Railways Authority, the reasons for establishing a Ports Authority and its consolidation with Israel Railways. The second section analyzes the consequences of the sector's structure on Israeli consumers, the price of goods and state revenues. The third section surveys various trends in the structure of seaport sectors throughout the world, using Malaysian and Brazilian ports as examples. The last section of the study presents recommendations for the transfer of port management and operation to the private sector with the objective of creating competition between ports and even between the various piers within each port. Global experience shows, freedom apart, that for the most part, this significantly improves ports' financial performance, quality of service and prices.

Historical Survey

In 1929 the Department of Public Works of the British Mandatory administration, together with the Randal, Palmer and Triton Company of England, began work on the port of Haifa. The port was opened at the end of 1933 by Sir Arthur Wakopf, the high commissioner of Palestine.³

Arab workers closed down the Jaffa port in 1936 as part of a general Arab strike in protest against the large waves of Jewish immigration. This effectively put the *Yishuv* (pre-state Jewish settlement), which for the most part inhabited the central and southern regions of the country, under a state of siege. Tel Aviv's founding fathers, led by city leaders Meir Dizengoff and Israel Rokach, convened a meeting at which it was decided to set up port facilities on the Tel Aviv beach. The port of Tel Aviv was built in stages with financing from the *Otsar Mifalal Yam* company. The Jewish Agency, the Histadrut, the citrus growers, banks and private individuals joined together to establish the company. At the start of 1938 Tel Aviv celebrated the official opening of the port.

From the Establishment of the State to the Eighties

The British vacated the port of Haifa at the end of the Mandate period in 1948. Administration of the port passed to the Haifa Municipality, which in turn passed it on to the Ministry of Transportation. At the same time the Histadrut and other institutions took control of the various port services, replacing the Arab contractors who had abandoned the port with the declaration of Israeli independence.

The great waves of immigration that arrived in the country with the establishment of the state required that preparations get underway for a second deep-water port which would serve the central and southern regions. The Tel Aviv port, which had been operating since 1938, would not be able to cope with the predicted increases in passenger traffic and cargo. In December 1957 the Ministry of Transportation officially delineated the sea and land areas of a port in Ashdod.⁴

In 1952, Dr. Boris Stern, a United Nations consultant on labor productivity and an American citizen, arrived in Israel. Stern recommended a long list of port reforms, some of which were adopted by the port of Haifa and later by the port of Ashdod which was officially established in 1965.⁵ As a result of Stern's recommendations and lobbying, the three contractors operating in the ports consolidated in August 1952 to form a single company, "United Port Services" (UPS). Most of UPS's shares were held by the Histadrut, Israel's labor monopoly. An additional recommendation of Stern's, which was not adopted, was the nationalization of services provided by private contractors since these services were the principal source of income from the port and "there is no reason for the government to forgo this source of income in favor of private contractors."⁶

In the wake of the Sinai War in 1956 and the opening of the Red Sea passage, a new port was built in Eilat in 1957 in order to develop trade relations with Asian and African states and to serve the security forces. The operation of the port was entrusted to "Eilat Sea Services" established in October 1960 under the ownership of the Ministry of Transportation and the UPS which owned 49 percent of the company's shares.⁷ It quickly became clear that the port was too small for the amount of goods passing through. For this reason, in 1962 work began on a larger, modernized Eilat port, which was completed in 1965.

In July 1961, the government made a decision to establish the Ports Authority as a public corporation, which was a halfway status between a government authority unit and a state-owned enterprise (SOE). The Ports Authority was the first organization to receive this status. The intention was that services should be provided according to economic criteria yet be regulated by the government. The law intended the Authority to be an independent body which would break even financially but not make a profit.⁸

In an agreement authorized by the Knesset Committee on July 26, 1965, the State of Israel transferred all assets belonging to the ports of Haifa, Eilat, Ashdod, Jaffa and Tel Aviv to the Authority including all land and equipment in the ports. It also transferred all rights and authority acquired by the State through agreements it had signed. The State also transferred its shares in *Otsar Mifalal Yam* and Eilat Sea Services, Ltd. In accordance with the agreement the Authority then leased the land to the State for a period of 999 years.⁹

In 1967 UPS, which was responsible for the operation of the Haifa port, suffered a financial crisis. In an attempt to solve the problem, a number of proposals were discussed by a government-appointed committee under the auspices of Dr. Zvi Dinstein. Despite claims made by the Histadrut and Solel Boneh (a Histadrut-owned company) that the UPS deficit was a result of the Authority's policies, the committee recommended unequivocally against the operation of the Haifa port by private contractors and even opposed the establishment of a partnership between the Ports Authority and Solel Boneh as suggested by the latter.¹⁰

In 1968, as a result of these recommendations and the intervention of the prime minister,¹¹ Solel Boneh was compelled to sell UPS to the Authority. The Authority transferred the UPS equipment and employees to Shinua Sea Services, Ltd., a subsidiary of the Authority. Half a year later in April 1969 the operations of Shinua were transferred to the Ports Authority itself.¹² With this step the Ports Authority gained complete control over the operations of all three of Israel's ports.

The seventies and eighties saw continual development of the ports mainly as a result of the introduction of containers and other methods of transporting consolidated cargo (a term used to describe types of cargo grouped together for easier handling such as containers, slings, sacks and pallets).¹³

From 1980-1981 Ashdod became the leading port in Israel for cargo handling.¹⁴ Ashdod gained additional momentum in 1985 when the Ministerial Economics Committee decided to use it as the coal terminal required for a power station then under construction in Ashkelon. The port of Haifa also experienced a construction boom. The new container terminal which began operations in 1986 made Haifa the leading port in container handling, which had become the most popular method of transporting cargo.

Consolidation of the Ports Authority and the Railways

By the end of the seventies the Ports Authority was already discussing the question of integrating the Israel Railways into the operations of the Authority. In July 1978, the Ports Authority management requested that the general manager appoint a team of employees to examine the pros and cons of the Ports Authority becoming involved in the operation of the railways.¹⁵

It was only during the latter half of the eighties, after a long period during which the railway lost ground as a method of transport due to outdated equipment and the high costs required to enable the railway to compete against the private sector, voices began calling for the reform of the structure of Israel Railways which was at the time a unit of the Ministry of Transportation. Solutions, such as converting the railways into a public company or SOE, were dismissed outright by the minister of transportation, Haim Corfu, who was of the opinion that an economic evaluation of the railways would show that the deficit would continue for years, even assuming improvement in efficiency, an increase in cargo, etc.¹⁶ The consolidation of Israel Railways with the Ports Authority soon became the preferred solution.

In 1986, the *Davar* newspaper remarked that “under pressure from the Israel Railways unions...the minister of transportation, Haim Corfu, will raise the issue of speeding up the process of consolidating the railways with the Ports Authority at the next meeting of the government.” The reason for this pressure was that “the unions see consolidation with the Ports Authority as the only way to raise salaries.”¹⁷

In June 1987, following the Ports Authority Board of Directors’ approval of the minister of transportation’s proposal to consolidate Israel Railways with the Ports Authority, the government made a decision to go ahead with the consolidation. The new body was called the Ports and Railways Authority. In the explanation section of the decision, it was stated that the Ports Authority “had accumulated capital over the years which could be used as financial leverage for the development and advancement of national projects in the field of transportation.” The explanatory note also stated that “the guiding principles of each project must be in accordance with economic and public criteria.”¹⁸

It seems that the application of economic guidelines in the use of Ports Authority funds applied only to the recipient (the railways) and not to the benefactor (the Ports Authority). In his explanation of the decision, the minister of transportation stated that: “The consolidation with the railways was not in the interest of the Ports Authority in view of the railways’ financial situation and the added administrative burden.” Why then did the Authority agree to the consolidation? The minister again explains: “As a public-governmental institution, the Ports Authority is willing to take on this burden.”¹⁹

Structure of the Ports and Railways Authority

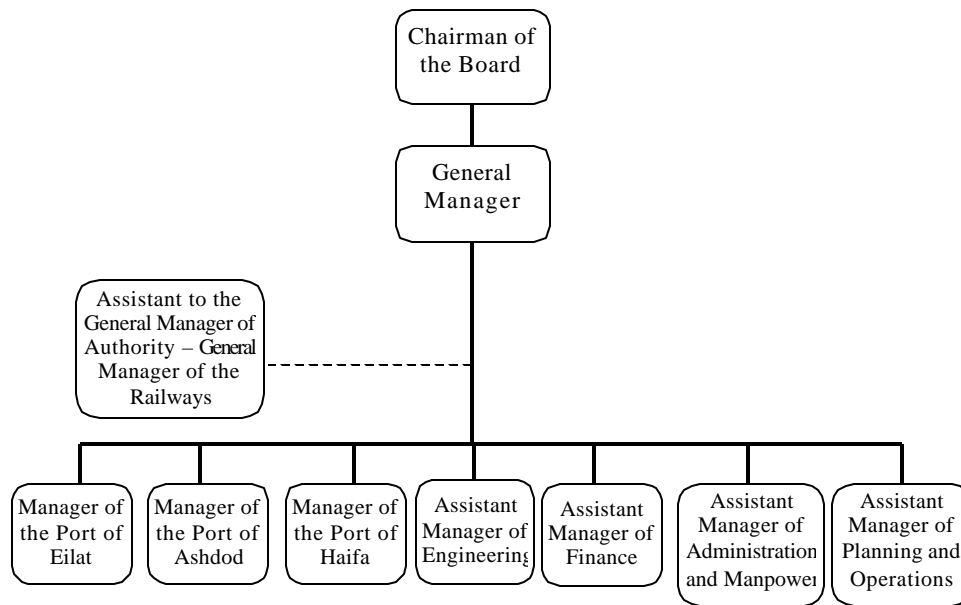
The present structure of the Ports and Railways Authority is a regulated public authority which functions as an independent financial unit and which utilizes its profits for the purpose of development.

At the close of 1997 its Board of Directors had sixteen members, seven of which were government employees (including the mayor of Ashdod). The remaining nine represented a variety of interests including users of sea transport, shipping companies, the Histadrut, industry, etc.²⁰ This structure makes it difficult for the Board to make correct business decisions on matters such as the reform of port fees since even if a decision is for the good of the Authority and the economy, it may harm the interests of a sector represented on the Board. The Board has four committees in the areas of finance, development, operations and organization, and supervision, whose decisions are subject to the approval of the Board.²¹

As can be seen in Figure 1, the general manager is under the authority of the chairman of the board. Under the general manager are the port and railway managers and four assistant managers (operations, technical, human resources and finance).²² The structure is very centralized, leaving the local port manager with only limited flexibility and independence in setting policy. The port manager is responsible for the daily running of the port, while decisions regarding additional manpower, purchasing of equipment, etc. require authorization from the management.

Figure 1

Organizational Structure — Ports and Railways Authority



Source: Ports and Railways Authority, *Brief Survey Presented to Minister of Transportation and Energy Rabbi Yitzhak Levi* (Tel Aviv: Ports and Railways Authority, June 1996), p. 6. [Hebrew]

Apart from the limited autonomy granted to each port and its manager, neither the Authority management nor the Board is authorized to make decisions independently on matters of budget policy. Table 1 shows that in matters of budgetary authorization, utilization of development funds and changes in port fees, authorization is required from all or some of the following bodies: the minister of finance, the minister of transportation, the Ministerial Economics Committee (headed by the minister of finance) and the Knesset Economics Committee.

Table 1
Control over the Ports Authority Budget

Subject	Status of the Ports Authority	Authority of the minister of transportation	Authority of Ministerial Economics Committee/minister of finance	Authority of Knesset Economics Committee
Current budget	Authorizes	Makes recommendations	Requires authorization from Minister of Finance in accordance with Budget Law (not discussed in committee)	Not involved
Development budgets, investment in infrastructure, leasing of land for more than 10 years	Applies for authorization	Authorizes and applies to government for authorization	Authorizes and applies to Knesset for authorization	Authorizes
Port fees	Applies for authorization	Authorizes and applies to government for authorization	Authorizes and applies for government authorization	Authorizes

Source: Fanny Axel, ports specialist at Ministry of Transportation, interview with author, June 30, 1998.

On December 6, 1996, the government approved Decision No. 867, calling for the dissolution of the Ports and Railways Authority and the transfer of railway assets without compensation to the government of Israel. One reason behind the decision was to give additional responsibility to the Ministry of National Infrastructure, which was to be made responsible for operating the railways.²³

Since the Ports and Railway Authority had been established by law, a legislative change was required to separate the two bodies. As this *Policy Studies* was being written, the legislative process had not yet been completed due, among other reasons, to the dispute over the Authority's demand for compensation for the return of railway assets to the government.

Financial Aspects of Israel's Ports

Global changes in methods of transport and the switch to consolidated cargoes, together with local developments such as the peace process, immigration and relative economic growth, have brought about a significant increase in the volume of cargo handled by the Authority in recent years.

Israel's foreign trade has certain traits of an island economy due to the almost total absence of trade with neighboring countries. Most trade is, therefore, conducted by sea or air.²⁴ The volume of cargo transported by air freight is less than one percent of that transported by sea. With the exception of

diamonds, electronic goods and products with short shelf life, nearly all trade is transported by sea due to the high cost of air freight.

Table 2
Port Traffic

Year	Amount of cargo handled (thousands of tons)				Number of ships serviced			
	Haifa	Ashdod	Eilat	Total	Haifa	Ashdod	Eilat	Total
1992	8,563	12,486	1,308	22,358	2,193	2,055	131	4,379
1993	11,654	13,373	1,374	26,401	2,476	2,240	116	4,832
1994	13,142	14,221	1,618	28,981	2,946	2,605	100	5,651
1995	13,501	15,967	1,696	31,163	3,043	2,961	141	6,145
1996	12,853	15,132	1,427	29,412	2,966	3,051	181	6,198
1997	15,103	15,606	2,111	32,820	3,083	2,895	216	6,194
1998	16,682	15,453	1,684	33,819	3,221	2,994	169	6,384

Source: *Transportation Statistics Quarterly 24* (Jerusalem: Central Bureau of Statistics and the Ministry of Transportation, 1998), pp. 39-40. [Hebrew]; Ports and Railways Authority, *Statistical Abstract 1997* (Tel Aviv: Ports and Railways Authority, 1998), p. 1; Fanny Axel, ports specialist at the Ministry of Transportation, letter to the author, June 15, 1999.

Ports Authority Revenues

Ports Authority legislation intended that the Authority should operate the ports as financially self-sufficient enterprises. To this end, the Authority must maintain funds to be used for the maintenance and modernization of its buildings, equipment and installations. Thus, the Authority collects fees for its services in order to cover current expenses, receive a return on investments and accumulate funds for port expansion and improvement in service.²⁵ As shown in Table 3, the ports' revenues have reached over \$400 million annually in recent years, most of which is collected in cargo and wharfage fees.

Table 3
**Ports Authority Revenue (thousands of dollars in nominal prices
according to the exchange rate in December 1997)**

Year	Total revenue	Cargo (handling and storage)				Basic ports services	Passengers	Misc. services
		Total cargo	Handling		Storage			
			Total handling	Handling: wharfage				
1994	386,148	343,109	319,764	183,707	23,355	23,130	1,842	18,066
1995	447,351	393,348	366,655	212,958	26,783	25,550	2,385	26,107
1996	459,694	403,853	375,293	218,467	28,650	26,176	3,255	25,439
1997	499,365	437,928	411,960	232,085	25,968	29,657	4,196	27,585

Source: *Transportation Statistics Quarterly 25* (Jerusalem: Central Bureau of Statistics and the Ministry of Transportation, 1998), p. 38. [Hebrew]

As shown in Table 3, the main source of revenue is cargo handling payments and fees which amounted to almost \$440 million in 1997. Of these the most significant port fee (47 percent of total

revenue) is the wharfage which is calculated as a percentage of cargo value. An additional source of revenue is derived from services to passengers using the port.

Another source of revenue is derived from the Authority's ownership of large amounts of real estate. The Authority also receives revenues from the rental or leasing of facilities, storage space and offices to both government and private bodies wishing to use them for commercial purposes, especially cargo storage. The Authority also receives royalties from the gas stations in the Haifa and Ashdod ports. In return, the Authority provides the operators of the gas stations with a variety of services including electricity, water, office cleaning and gardening. Revenues from these services are negligible.²⁶

Port Fees

The issue of port fees charged by the Authority, including the setting of rates, is the responsibility of the minister of transportation.²⁷ The Authority's Board of Directors presents its requests for changes in port fees to the minister. Should the minister agree with the proposed changes, he in turn presents them to the Ministerial Economics Committee for a decision. Until the consolidation of the Railway with the Ports Authority, the decision of the Ministerial Committee was sufficient. Following the consolidation, however, it was decided that the Knesset Economics Committee must ratify the decision, in order to prevent too much power being concentrated in the hands of one body.²⁸

An analysis of the present structure of port fees reveals a number of distortions. This is partially due to the complicated mechanism for authorization, which necessitates the involvement of the Knesset Economics Committee. It is also due to the fact that the mechanism, which dates back to pre-state times, does not reflect the far-reaching changes undergone by the ports both in Israel and abroad during this period. Neither does it reflect current trends towards free markets and the elimination of restrictions on international trade. Another contributing factor is the diverse interests of port users and their ability to use influence to achieve their ends.

The general manager of the Ports Authority, Gidon Shamir, wrote the following in a letter dated July 17, 1997 to Minister of Transportation Yitzhak Levi: "The present structure of fees brings about an inefficient allocation of capital and labor." The letter was written in an attempt to gain the minister's support for the reform which the Ports Authority has been trying to pass for several years and to request his assistance in obtaining the approval of the Knesset Economics Committee. He further states that the major problem is "the use of port fees for purposes unrelated to the provision of port services."²⁹

The main objective referred to in Shamir's letter is the encouragement of exports. In order to achieve this objective, port fees have been structured so that imports subsidize exports. This is most clearly manifest in the principal port fee — wharfage. Wharfage for imports is 1.1 percent of the value of the goods as compared to the export fee of only 0.2 percent. These rates were once 2 and 0 percent respectively, but the gap was reduced as a result of American pressure to equalize them.³⁰ The fee is intended to finance infrastructure development for the benefit of both imports and exports and technically the fees should be equal for both. The subsidy results in economic distortions which impair the ports' performance.

This distortion is illustrated in the following case: In July 1980, the volume of import cargo declined by 7 percent in comparison to July 1979, while export cargo increased by 17 percent. Total cargo volume increased by 4 percent. If the ports had been operating according to economic criteria, revenues would have increased. However, due to the distortion in port fees, revenues decreased. An article even appeared in a Ports Authority periodical entitled, "The Decrease in Imports — Danger of Deficit."³¹ The article noted the significant effect of the decrease in imports on the Ports Authority

budget and that “if the decline continued, a budget deficit would result.”

In 1994, the Heifetz report, written by Avi Heifetz and Uri Dahan, was presented to the Ports Authority. It discussed the changes required in the structure of the Ports and Railways Authority. The report pointed out that due to the distortion in the fee structure, importers of expensive cargo, which could in principle be brought by air or by sea, have an added incentive to ship by air due to the cross-subsidization in port fees.³²

An additional form of discrimination against imports results from the structure of the storage fee, which is collected for the use of the port's storage areas. While importers receive six days of storage free of charge, exporters receive twelve days. Once one uses the storage for even one additional day (i.e., seven instead of six), fees must be paid retroactively for the entire period (i.e., even for the first six days). The objective is to encourage the rapid flow of cargo through the port.³³

A committee of ministerial general managers, appointed by the ministers of finance and transportation, recommended that fees be gradually changed between July 1995 and January 1996 in order to reflect actual costs of service as much as possible and to eliminate cross-subsidization between exports and imports.³⁴

The debate over reform of the fee structure is proceeding at a snail's pace. Various pressure groups, particularly exporters, have succeeded in blocking the reform by pressuring the Ports Authority and the ministry of transportation. For example, in November 1996 the subject was discussed with Yitzhak Levi, the minister of transportation. Following the discussion, the minister requested that:

No decision should be made by the Ports Authority to raise fees for exporters until I have had a chance to study the proposed reform. If I am convinced that fees should be raised, then I will change my decision. Until then, the issue should be reexamined.³⁵

This request was made as a result of remarks made during the meeting by Dan Propper, director of the Manufacturers Association, concerning his fear that increased fees would seriously hurt exporters. At the same time, Shoshana Lehrer, the general manager of the Ports Authority, stated that, in the Authority's opinion, equalization of fees for imports and exports is the correct policy decision.³⁶

At the time this *Policy Studies* was being written, the reform had not yet been approved. The sixth version of the fee structure proposal, which was a compromise with the various interest groups that had blocked the previous versions, has received the approval of the Ports Authority's Board of Directors. Despite this, the Ministry of Transportation is delaying its approval and the presentation of the reform for approval to the Ministerial Committee out of concern that the compromises would perpetuate existing distortions.³⁷

Labor Relations at the Ports

The introduction of containers revolutionized the handling of cargo and drastically reduced the need for dock workers. In 1975, 5,079 workers³⁸ handled 9 million tons of cargo;³⁹ in comparison, 2,324 workers handled more than 30 million tons annually in mid-1998.⁴⁰ The manpower cutbacks were met by staunch opposition from the workers, especially during the seventies, and strained labor relations at the ports.

Relations between workers and management at the ports are among the most complex and difficult in the country. The fact that Israel has only three ports, which are under one authority and

which do not compete with each other, puts the workers in a strong negotiating position. The workers' ability to close the ports in a strike gives them a great deal of bargaining power since the cost of each strike day is estimated at millions of shekels.⁴¹

The workers are organized into some ten unions in each port. The large number of unions makes negotiations extremely difficult.

One of the most powerful unions is the traffic controllers. They are members of the Sea Officers Union. Between six and eight traffic controllers operate in each port. Relative to their small numbers, they wield a great deal of power since without their cooperation, ships cannot anchor or leave the ports. This has allowed the traffic controllers to pressure the Ports Authority to improve their terms of employment.

A review of the history of labor relations at the ports paints a dismal picture. Following is a partial survey of labor relations over the past 15 years.

A month-long strike over wage increases took place in November 1983 in the Haifa and Ashdod ports. Early in the strike, the Histadrut requested that agricultural produce be exempted but the request fell on deaf ears.⁴² Ten days before the end of the strike, the direct losses to agricultural exports were estimated at \$20 million (in 1983 prices) by Eliyahu Isaacson, the director of the Farmers Association.⁴³ The strike ended only after it was agreed that 1,300 dock workers would receive a 34 percent salary increase.⁴⁴

The ports were closed by a strike again in October 1987 over demands for huge salary increases. A back-to-work order issued by the courts on October 28 was ignored. A week later union representatives claimed in the Tel Aviv Labor Court that the workers had returned to work. However, the Ports Authority presented proof that productivity in the ports had dropped by 70 percent and the union representatives were forced to admit that a work slowdown was continuing. Judge David Morale stated that: "The union representatives have lied throughout the discussions; this includes their claim that they were doing all they could to end the work slowdown."⁴⁵

The combination of a prolonged strike causing heavy losses to port users together with disregard of a court order proved to be an effective strategy for the workers. On November 20, the workers in Haifa and Eilat returned to work after winning a 20 percent salary increase. (The workers in Ashdod delayed their return to work by a few days.)⁴⁶

The most blatant disregard of the law was demonstrated by union leaders in the port of Haifa in October 1990. The workers were demanding an identical contract to that negotiated with the Ashdod workers. The workers were not satisfied with the progress of the negotiations and called a strike. The management petitioned the courts for a back-to-work order. The representatives of the workers did not appear in court and when a court order for their appearance was issued, they went into hiding in the Galilee. Only when it was promised that the workers, the management and the Histadrut (which had opposed the strike) would return to the negotiating table, did the union leaders turn themselves in and work returned to normal.⁴⁷

At the end of November 1996, the workers at both the Haifa and Ashdod ports went on strike over the government's intention to tax port profits (workers at the Eilat port did not strike since there were no ships waiting to unload there). The workers claimed that this was an attempt at indirect privatization.⁴⁸ At the end of December 1996, the workers struck again for five days. In both instances, estimates of the damage (including that of the Association of Sea Transport Users) were in the tens of

millions of shekels.⁴⁹ In both cases, the management turned to the courts and back-to-work orders were issued. The workers ignored the order in both cases.⁵⁰

Port workers have exploited their ability to shut down the ports in order to achieve salaries which are among the highest in the country. According to the Central Bureau of Statistics, the average dock worker's salary was \$5,000 per month in 1997, three times the national average.⁵¹ Labor costs account for over 51 percent of the Ports Authority's total expenses (not including the payment of royalties to the government).⁵²

Government Involvement in Decision Making

The basic principle of the Ports Authority Law is the creation of an independent enterprise which will support itself, will be exempt from the normal budget process and will manage its affairs as would a private corporation.⁵³

This quotation, from the speech given by Knesset Member Benjamin Avniel, chairman of the Economics Committee, when he was presenting the Ports Authority Law to the Knesset for its second and third reading on June 12, 1961, clearly sets out the objectives of the law. The following sections describe a reality quite different from that intended by the law with respect to government intervention in the Authority's affairs.

Government involvement is not limited to bureaucratic meddling which restricts the Authority's freedom of action and that of each port. Several government decisions have had serious repercussions on the ports sector. These decisions were based on considerations irrelevant to the ports or were attempts to solve other economic problems, such as the encouragement of exports and subsidization of the railways, or were based on purely political motives. This has hindered the Authority's ability to improve efficiency and has reduced the quality of service to port users.

The year 1988 was a milestone in government intervention in the Ports Authority affairs. In that year, the Ports Authority and Israel Railways were consolidated, a move that was not necessarily in the best interest of the Ports Authority. In addition, the Ports Authority was compelled to begin paying royalties to the government. These steps make it difficult for the Ports Authority to accumulate funds for development.

The union between the Ports Authority and Israel Railways was described as one between "a cripple and a muscleman" by Gidon Shamir, the general manager of the Ports and Railways Authority, speaking before the Economics Committee of the Knesset in October 1997.⁵⁴ In 1992, the Ports Authority had to pay the government \$185 million (in 1996 prices) for the purchase of railway assets and over \$300 million for investment in the railway system. The Ports Authority also had to pay \$51 million in royalties to the government (in 1997 prices) as required by the Arrangements Law.

Beginning in 1997, the Ports Authority was required to pay royalties of 11 percent of revenues. Also during that year, the law exempting the Authority from taxes on revenues deposited into development funds was cancelled and the Ports Authority began paying taxes for the first time.⁵⁵

According to the calculations of the Manufacturers Association, the Ports Authority transferred \$1.2 billion (in 1996 prices) to government coffers from 1988-1995. About \$800 million of this sum was intended to cover the railway's deficit and to finance investments in the railways. The rest was paid as royalties.⁵⁶ Officially, these funds were collected for the purpose of developing the ports in Israel and not to fill government coffers or develop the railways.⁵⁷

In 1993, the management of the Authority notified the Board of Directors that “the financial resources of the Ports Authority have been exhausted as a result of investments in new railway infrastructure.”⁵⁸ The Ports Authority has plans to turn to the capital markets in order to raise funds for future development projects.

Political Considerations in Decision Making

The Ports Authority, which is under the authority of the minister of transportation, often finds its economic criteria for decision making overridden by the political interests of the minister. For example, in 1991, the Authority decided to lease an area of the Haifa port for the handling of cement imports. This decision was motivated by economic considerations; however, pressure from interest groups exerted on the Knesset Economics Committee and on Moshe Katzav, the minister of transportation, succeeded in blocking the plan.⁵⁹

Development of the Ports

Traffic in the ports is on an upward trend which is expected to continue. Long-term planning and well-timed development projects are needed to deal with this situation. The approval process for port development is complex due to the size of the budgets involved and the number of bodies required to approve the projects. The development plans for Ashdod, which were drawn up by the Planning Department of the Ports Authority in order to answer the port's needs by the year 2020, required the approval of the national, regional and local Committees for Planning and Building according to the National Master Plans and Urban Building Plans.⁶⁰ Long-term planning is essential since an average of more than ten years can elapse from the time the plans are submitted until the completion of the project. In the summer of 1998, the cornerstone was laid for the development of the Ashdod port.

Stage 1 of the development of the Haifa and Ashdod ports, to be completed in 2002, will require an investment of \$920 million. Additional investment in equipment and infrastructure will cost a further \$430 million.⁶¹

Consequences of Government Involvement

This section discusses the negative consequences of the present structure of the ports sector in Israel which may be divided into two principal categories: direct and indirect. The root causes are government policy on the one hand and the monopolistic structure of the Ports Authority on the other.

The direct consequences include the cost of inefficiencies at the ports, such as long waiting periods and spoiling of goods during strikes. Indirect consequences are more difficult to quantify and include damage to Israel's reputation, high inventory costs, loss of customers, production interruptions and forced factory shutdowns.

Both direct and indirect costs are passed on to the consumer as these additional costs are included in the final price of goods. Part of the costs are passed on to future users of the ports who will experience longer waiting periods and pay higher fees.

Government involvement has a number of consequences on the ports sector. A major consequence is the slow pace of investment in essential infrastructure. Zvi Raanan, an analyst at the Institute of Shipping and Aviation Research in Haifa, and an expert on the organizational and economic aspects of the ports sector, made the following comments on the issue:

There is significant delay in the investments required to meet the rapid increase in cargo volume. The delay is a direct result of government intervention in the administration of the Ports Authority.⁶²

In practice it is difficult to quantify the damage resulting from government intervention since most of its consequences will only be manifested in the future. What is certain is that port users paid higher fees as a result of the transfer of funds collected from them to the railways. Zvi Raanan estimates that the financial burden resulting from Ports Authority funds being used for other purposes has added 20 percent to the prices of handling cargo.⁶³

In 1997, the Manufacturers Association carried out a study of costs incurred by the Ports Authority as a result of its support for the railways and the purchase of railway assets. Table 4 presents these costs in nominal terms and as a percentage of the wharfage.

Table 4
Excess Costs of the Ports Authority Resulting
From Consolidation with Railways
(\$ millions, December 1996 prices)

Year	1988-1989 ^a	1989-1990	1990-1991	1991	1992	1993	1994	1995	1996	Total
Total Excess Costs ^b	8.83	27.2	43.5	109.5	361.7 ^c	103	180.65	114.3	144.7	1093.5
Revenues from Wharfage	161.2	160.1	164.66	160.4	208.5	176.4	218.5	229.8	211.7	1690.8
Excess costs As a Percentage of wharfage	5.4%	17%	26.4%	68.3%	174%	58.4%	82.3%	49.7%	68.4%	64.6%

Source: Moshe Nahum, director of the Foreign Trade and International Relations Branch of the Manufacturers Association, letter to attorney Gil Lotan, December 16, 1997. [Hebrew]

Notes:

- a. Up to 1991, the data was based on the "fiscal year" from April to March of the next year.
- b. Costs of financing the railways deficit minus depreciation and investment in railways.
- c. Includes an advance of \$184.25 million (in December 1996 prices) paid to the State for railway assets.

Table 4 shows that if the Ports Authority were not required to support the railways, the wharfage could be reduced by more than 60 percent (the value of excess costs from wharfage). Since the wharfage on imported cargo is presently 1.1 percent of the cargo value, this would translate into a reduction of 0.66 percent in the price of imported goods.

The current situation leads importers to reduce the variety of goods they import, by not importing those goods which would become too expensive because of the fees. The Israeli consumer is the loser.

Consequences for Port Service

Service at the ports is affected by a number of factors including: 1) inadequate infrastructure; 2) intervention of government bureaucracy; 3) effect of political and interest group considerations on decision making; 4) shortage of manpower; 5) difficulty in maintaining flexible policies at each port;

and 6) shortness and relatively small number of working days.

The level of service at the ports is measured mainly by the time it takes for ships to be loaded or unloaded. A major component of this waiting time is the period between the ship's arrival and the beginning of its loading or unloading. The State Comptroller's Report of 1997 stated that the Ports Authority defined a wait of 22 hours as a "good" level of service. A wait of one hour is defined as an "excellent" level of service.⁶⁴

The report states that in 1995, average waiting time was 19.2 hours in Haifa and 14.4 hours in Ashdod. In other words, service is 6.5-8.7 times slower than a good level of service and 14-19 times slower than a high level of service as defined by the Ports Authority itself. The state comptroller also mentions that the method by which waiting periods are calculated results in their underestimation.⁶⁵

If a ship arrives after the start of the morning shift on a Friday or a partial working day prior to a legal holiday and isn't serviced on that day or the following day, this is not included in the official waiting period. The official waiting period will only start from the beginning of the morning shift of the first working day following the Sabbath or holiday. Obviously, this "unofficial" waiting is a burden borne by the shipowners which is passed on in higher prices to consumers. The ship loses additional time on its way out since after unloading its cargo, the ship must wait for a traffic controller to guide it out of the port.

Hanoch Vinikman, director of the Association of Sea Transport Users, described the quality of service in an interview with the author on June 17, 1998:

In ports abroad, piers wait for ships; only in Israel do ships wait for piers. If you took an Israeli port and placed it between two leading European ports, no ships would use it. Israel's ports are not efficient and their present structure doesn't allow them to change this situation.

Evaluation of Damages

Thirty three million tons of goods entered Israel's seaports on 6,230 ships in 1997. Twelve percent of these goods were transported on Israeli ships.⁶⁶

The direct cost of a day's wait in port ranges from \$7,000 for a small ship carrying general cargo, \$42,000 for a large container ship,⁶⁷ up to \$60,000 for a third-generation container ship.⁶⁸ The Ports Authority estimated the average cost of a day's wait at \$10,000.⁶⁹ This is a conservative estimate since it only includes the wait until the beginning of service, that is, the cost of leasing a ship for one day, the wages of the crew, the cost of maintenance, and the like. It does not include additional costs caused by slow loading/unloading as well as the indirect costs to customers waiting for the goods. Table 5 shows waiting periods for 1994-1997 and a calculation of costs:

Table 5
Total Waiting Periods in the Haifa and Ashdod Ports

Type of ship	1997	1996	1995	1994
Containers	602	622	720	560
Bulk	519	444	892	1075
General	985	875	1648	1009
Specialized facilities (starting in 1996)	803	846	-	-
Total waiting days	2,909	2,787	3,160	2,644
Total ships served (estimate)	5207	5380	4480	3784
Total waiting days at a good level of service*	477	493	411	347
Wasted days of waiting**	2,432	2,294	2,749	2,297
Direct cost to the economy (acc. to \$10,00 per day of waiting)	\$24,432,000	\$22,294,000	\$27,490,000	\$22,970,000

Source: Dov Frolinger, director of planning, Production Planning and Supervision Branch, Ports and Railways Authority, letter to the author, July 19, 1998. [Hebrew]

* Number of ships served multiplied by 2.2 hours waiting time, defined by the Authority as a “good” level of service.⁷⁰

** Wasted days of waiting — total days of waiting minus days of waiting at a “good” level of service. Reflects the difference between the actual and desired levels of service.

Table 5 shows that in 1997, 2,909 waiting days were recorded (this figure does not include about 15 percent of all cargo ships which receive service at specialized facilities such as those for phosphates, oil, seeds and chemicals).⁷¹ The number of waiting days at a “good” level of service stood at 477 in 1997 (2.2 hours, the definition of the Ports and Railways Authority of “good” service, multiplied by 5,207 ships which received service). Thus, the number of wasted waiting days was 2,432 (that is, the difference between actual waiting time and a good level of service). The direct cost of a day of waiting is conservatively estimated at \$10,000 per day. Therefore, the total direct cost to the economy as a result of excessive waiting was \$24,432,000 in 1997 alone. This calculation is based on data which the state comptroller claimed underestimates the actual days of waiting. This cost is ultimately borne by the Israeli consumer, who must pay higher prices. Also, the additional costs probably reduce the volume of imports, resulting in reduced consumer choice.

In addition to direct costs, there are indirect costs resulting from slow service. A study by the state comptroller in 1996 found that the rate of container unloading was 20 per hour on a pier specializing in containers. This compares to an average of 25 containers per hour in industrialized countries. According to the state comptroller, one of the reasons for this difference is the method by which premiums are paid to some dock workers. As a result of this system, workers who are already

receiving the maximum level of premiums stop working before the end of their shift. The state comptroller called for “this system of premiums to be canceled immediately since it slows down the handling of cargo and contributes to the long waiting periods at the ports.”⁷² Yehoshua Meron, assistant manager of administration and manpower at the Ports Authority, confirmed in an interview with the author on June 25, 1998, that there is in fact a problem with premiums which the Authority is trying to solve. However, he stated that this problem doesn't exist at the container terminal.

In addition to direct costs, there are several categories of indirect costs including the cost of holding larger inventories in case of delays in supply, the shortening of shelf life, the higher cost of alternative land transport, the loss of customers and the damage to reputation.

Further indirect costs result from the numerous strikes at the ports. Various estimates of the damage put the cost at millions of shekels per strike day.⁷³ For example, the newspaper *Yediot Aharonot* reported on January 1, 1997 that as a result of the five-day strike of the ports in late 1996, the Starplast plastics factory, which exports 90 percent of its production, had to send 100 workers home on forced holiday.

Loss of Economic Potential

It is difficult to quantify the unexploited economic potential resulting from failure to develop the ports sufficiently. The Ministry of Finance and the Manufacturers Association have been unsuccessful in their attempts to estimate the extent of this loss to the economy. It is sufficient to cite one example in which the lack of appropriate infrastructure and equipment has compromised Israel's ability to compete. Globally, an increasing percentage of cargo is being transported on large “mother” ships which are then unloaded onto smaller “feeder” ships for transport to specific destinations. Israel could become a center for this transfer of cargo due to its strategic position. However, Israel's lack of infrastructure and equipment has held the country back from becoming an important regional center for such activity.⁷⁴

Summary

The consolidation of the ports and railways in the same Authority and the use of funds collected by the ports for transportation projects imposes distortions and lacks economic logic. Furthermore, the intention of the Ports Authority Law was to create economically autonomous ports. The withdrawal of funds by the government from the Ports Authority stands in contradiction to the spirit of this law.

The cost to the taxpayer resulting from inappropriate infrastructure, slow service and the subsidization of the railways is estimated as tens of millions of dollars per year. This loss translates into higher prices for imported goods and raw materials and higher costs for Israel's exporters, as well as in a reduced amount of imported goods.

International Survey

As noted, in the majority of Western European and American ports, the private sector is a partner in the operation of the port.⁷⁵ The ports in Israel, on the other hand, are operated directly by the government or indirectly by a public authority. The same applies to developing countries, including some in the Middle East.

The quick pace of reform and increasing competition have left government-run ports at a disadvantage compared to ports operated by the private sector. The reasons include, on the one hand, the bureaucratic complexity of using public funds (tenders, numerous levels of decision making) and, on the other hand, the lack of economic incentive to increase efficiency, a characteristic common among public institutions.

As a result of these difficulties and the large investments which are a burden on the public purse, many countries have overhauled the operating structure of their ports with the objective of bringing in the private sector as a partner in the development and management of the ports. According to Zvi Raanan there are a number of factors responsible for these changes:⁷⁶

a) *Global changes in methods of transport and handling of cargo* — These changes include the consolidation of several packing methods (sacks, bundles, and barrels) into one homogenous method — containers. The motive for this change was principally the liberalization of the structure of international commerce. Manufacturers located countries which had relative advantages in manpower or raw materials and began to disperse their production facilities across several different countries, and even across the continents. This phenomena created a demand for the rapid handling of goods in various stages of production. Containers were an ideal solution since the goods were packed at the factory and transported in containers all the way to their final destination. The ship became a link in a chain of container carriers which included land transportation.

In an effort to meet the demand for rapid handling, ports were forced to institute reforms which would improve the efficiency of their cargo handling systems. To this end, changes were required in infrastructure, equipment, approaches to the ports and, as will be described below, methods of management.

b) *Cutback in manpower and acquisition of equipment* — The unloading of containers requires the use of large cranes and a smaller number of workers than were required for previous packing methods.

c) *Changes in infrastructure were required as a result of:* 1) the need for deeper water for larger container ships; 2) the need for larger areas for container storage; 3) the increased weight that piers would have to withstand; and 4) the need for quick removal of containers to areas outside the port. As cooperation between the ports and the land transportation companies increased, many shipping companies moved to “integrated transport” — sea and land. The approach roads to the ports were widened and in the U.S. some of the ports even established special railway lines which could handle double-decker trains traveling long distances.

d) *Increased competition between ports* — As a result of the improvements in highways and railways during the last two decades, ports which had previously enjoyed regional monopoly status now found themselves competing with other ports for cargo. Traders began looking at the overall cost of transport from point of origin to final destination such that land transport could be substituted for sea transport in order to avoid an inefficient or overly expensive port. Ports which were slow to react found themselves losing business to more efficient, though more distant, ports. Thus, for example, traders began routing cargo headed for central Europe through Rotterdam and Antwerp rather than southern European ports. Higher efficiency at these ports compensated for the longer sea voyage.⁷⁷

In order to justify large investments in infrastructure, ports endeavored to attract as much cargo volume as possible by improving service and lowering prices.

Participation of the Private Sector

Governments were concerned that this process would transform ports into private monopolies. Thus, many countries, such as the U.K., established regulatory bodies to protect the public interest. In other instances, privatization was limited to the partial participation of the private sector. Following are examples of private sector participation in various countries:

Private subcontractors: In some northern European and American ports, private contractors supply port services.⁷⁸ These contractors work on the basis of long term contracts with the national government, the local authorities or the public port authority. The land and part of the infrastructure remain in the hands of a public body. This public body is responsible for general supervision, preventing discrimination and maintaining conditions for fair competition. In addition, it provides basic services such as police, lighting and ensuring shipping safety.

Privatization of container terminals: The special characteristics of container terminals — deep water, large area, special equipment and specialized workers — allow container terminals to operate as almost independent units within the public port authority.⁷⁹ In many ports, such as Klang in Malaysia, ports in the Philippines and some of the ports in Mexico, Venezuela and Argentina, this allowed container terminals to be transferred to private contractors.

International management contracts: An additional method for improving port efficiency, used principally in developing countries, is the use of outsourcing of port management through the signing of management agreements with multinational companies or with other ports specializing in the operation of container terminals. For example, the container terminal in Mombassa, Kenya is run by the Felixstowe Corporation, a British firm.⁸⁰ British firms also operate several container terminals in the Persian Gulf. As a result of growth in this field, several companies now specialize in the operation of terminals such as Hutchinson International Terminals of Hong Kong and ICT of Manila.

“Build and Operate” or “Build, Operate and Transfer”: Many ports have begun to build new container terminals using the “Build and Operate” (B&O) or “Build, Operate and Transfer” (BOT) method.⁸¹ These methods involve the construction and operation of terminals by private companies. In the BOT method, which is presently being applied in India’s privatization program,⁸² the terminal is returned to the port authority after a period of time, usually 25-30 years, during which the company makes back its investment and collects the operating profits. This method has some significant advantages:

1. The use of private rather than public funds for port development.
2. Encouragement of foreign investment.
3. Rapid pace of construction resulting in an earlier start of operation and all that this implies.
4. Introduction of competition into terminal operation. (Terminal operators must be able to successfully compete with other terminals if they wish to see a return on their investment.)
5. Acquisition of knowledge and experience from companies which specialize in terminal operation such as those mentioned above.
6. Public interests, such as quality of the environment, are protected by a public regulatory body whose function is to ensure that the conditions of the tender are fulfilled.

According to Zvi Raanan, this type of tender is the most appropriate for the Ashdod and Haifa terminals. One reason for this, in his words, “is to prevent the ports’ poor work habits from being introduced into new terminals.”⁸³

Malaysia

In 1963, the ports in Malaysia were separated from the Railways Authority and an independent Ports Authority was established. The main port in Malaysia is Klang which handles 80 percent of the country's trade. Until 1985, the port was under full government ownership and was supervised by the Ministry of Transportation.⁸⁴

Beginning in 1985, the port began a process of privatization. First, the container terminal was privatized and, in late 1992, the entire port was privatized. An examination of the port's operating reports leaves no doubt as to the efficiency of privatization in this case. The privatization of the container terminal resulted in a 50 percent reduction in maintenance and administration costs.⁸⁵ Container volume and worker productivity more than doubled from 1986 to 1990. The waiting period for containers was reduced by 60 percent. The rest of the port's statistics also show considerable improvement during the same period. Furthermore, all these improvements were achieved without the addition of anchorages or cranes.⁸⁶

Similar results were obtained when the remainder of the port was privatized seven years later at the end of 1992. For example, the amount of cargo handled per worker increased 2.5 times between 1992 and 1997.⁸⁷

Brazil

In 1996, Brazil, with the largest volume of trade in South America, began privatizing its ports, principally Rio de Janeiro and Santos. As a result of privatization or the preparations leading to it, prices declined drastically and worker productivity increased significantly.

The port of Santos serves the Sao Paulo region, South America's largest urban industrial area. Privatization was begun there in 1996 with the leasing of "Terminal 37" for a period of 20 years. Within a few months, the terminal had achieved a handling rate of 17.1 containers per hour compared to only 7.5 containers at the terminals of the port authority.⁸⁸ The lessees who won the tender undertook to reduce the price of handling a container from \$500 not including waiting time, to just \$150 within two years.⁸⁹

At the Rio de Janeiro port, the process of privatization is almost complete and only one terminal out of eight, the sugar terminal, has not yet been privatized.⁹⁰ The process has resulted in competition between port operators within Brazil and in many cases within the same port. Thus, for example, the container terminal was split into two separate units, which were then privatized.⁹¹ The terminals were transferred to two competing companies: "Libra" and "Multiterminais" which won the tender for operating the paper terminal at the port and today is the second largest port operator in Brazil.

The results of the privatization process are clear. Competition for customers forced operators to improve efficiency by lowering prices and improving service. The Brazilian minister of transportation predicts that the cost of handling a container will drop to only \$125 within the near future in comparison to \$370 per container before privatization. Etienne Kvassay, an expert on the ports sector at the Chamber of Commerce of the American Consulate in Brazil, predicts a similar drop in costs at the paper terminal following privatization.⁹²

Conclusions and Recommendations

This *Policy Studies* has surveyed the history of the seaports in Israel and the creation of a

monopoly in this sector. The management of ports and extensive government involvement result in policy decisions which lack economic logic and impose unnecessary costs on the Israeli consumers. Many countries have already adopted reforms to reduce government involvement and have privatized their ports. In order to change this situation, several policy recommendations are proposed below with the objective of reducing government involvement in this sector. This will eventually solve the other problems mentioned in this paper.

Separation of the Ports Authority and Israel Railways: The first conclusion of this analysis is that the legislative process which will implement the government's decision to separate the Ports Authority from Israel Railways, should be completed immediately. The Ports Authority should also be compensated for any losses it has incurred as a result of this union. In particular, payments made for railway assets should be returned.

Increased competition: Several models from abroad have been discussed above. The solution proposed here is a separation between the economic activities of the port, that is, port services, and activities which are essentially related to security, environmental protection and the preservation of other public interests.

In the short run, competition between ports should be increased by the distribution of managerial authority and the granting of full freedom of action to each port and its management. Furthermore, the government should work toward full deregulation of the ports' economic activities.

In the second stage, the private sector should be introduced into port operation. Any model which is applied in Israel must, first and foremost, involve an important role for the private sector in general and for port customers, as potential partners, in particular. The shipping companies have a vested interest in the development of the ports, and in many ports they are in fact partners in the development of terminals. The port users are presently represented on the Board of Directors. This verges on being a conflict of interest since the interest of their sector is put before that of the Ports Authority. Once the port users become owners of the port, their interests and the interests of the port will converge.

Privatization: In the final stage of the process, full privatization of the ports is recommended. This means the dismantling of the Ports Authority and the long term lease of the ports to private companies which will operate each port as a business. Each company will be free to decide on prices, investment policy, manpower and expansion of port activities. Necessarily, the State will reserve the right to use the ports, during a war, for security needs. As a prelude to full privatization, individual terminals, especially container terminals, should be privatized as should other services which can be offered independently of the rest of the port. New terminals should be built according to "Build, Operate and Transfer" (BOT) from the start.

It should be remembered that the privatization of the ports is not an end in itself but the means to increase competition and reduce government involvement in the affairs of the ports. This will decrease waiting time, improve service, reduce prices and improve efficiency. Privatization which does not increase competition and reduce government involvement will not have achieved the desired results.

Fees: The privatization and deregulation of the ports will in any case eliminate the need for reform of the fee structure. Fees will be determined by market forces competing for customers or against each other in order to win tenders which will have fees as one of their parameters. However, in the short run, reform of the fee structure should be carried out. Part of this reform is included in the sixth proposal for reform which is awaiting the required approval of the Knesset and the government. The reform

should ensure that the fees be related to the service provided.

The cross-subsidization inherent in the present structure of port fees should be cancelled immediately both with regard to imports subsidizing exports and expensive goods subsidizing cheap ones.

Israel has great potential in the area of sea transport due to its strategic location. Peace in the Middle East presents Israel with a variety of opportunities which it cannot afford to miss. If the proposed reforms are adopted, Israel's ports can act as conduits for goods en route to Jordan and other Arab countries. Israel also has an opportunity to become a center for the transfer of cargo from large "mother" ships to smaller "feeder" ships for transport to their final destination, a system which is becoming increasingly widespread. Furthermore, the predicted increase in tourism requires a new outlook on the function of a port. The ports need to become centers of economic activity offering not only port services but also commercial and tourist services within the vicinity of the port.

Achieving the full potential of the ports sector is no easy task. Attempts at reform will be met with staunch opposition from groups with a vested interest in the status quo. Once this opposition has been overcome, we will have achieved a freer economy as well as a stronger and more efficient ports sector than we have today.

Amir Etzioni is an IASPS Koret Fellow at the Institute for Advanced Strategic and Political Studies in Jerusalem and Washington, D.C.

NOTES

¹ *Israel Ports Authority Bulletin* 9 (October 1962), p. 6. [Hebrew]

² See fn. 68 and accompanying text.

³ Yakov Ben Sira, *Location of a Tel Aviv Deep Water Port* (Tel Aviv: Tel Aviv-Jaffa Municipality, February 1956), p. 19. [Hebrew]

⁴ *Israel Ports Authority Bulletin* 44 (October 1965), p. 1. [Hebrew]

⁵ Alexander Paff, *Subcontracting the Ports Versus Self-Management* (Haifa: Wydra Institute of Shipping and Aviation Research, April 1985), p. 6. [Hebrew]

⁶ *Ibid.*

⁷ *Israel Ports Authority Bulletin* 9, p. 9.

⁸ Government Decision 485, July 7, 1987 (Government Secretary, unpublished). [Hebrew]

⁹ Government of Israel, Contract, "Agreement to Transfer State Assets in the Ports to the Ports Authority" (Jerusalem, August 1965). [Hebrew]

¹⁰ Paff, *Subcontracting*, p. 11.

¹¹ *Israel Ports Authority Bulletin* 78 (September 1968), p. 2. [Hebrew]

¹² *Israel Ports Authority Bulletin* 85 (April 1969), p. 5. [Hebrew]

- ¹³ For an exact definition of consolidated cargo see: Ports and Railways Authority, *Change in the Structure of Port Fees: Sixth Proposal* (Tel Aviv: Ports and Railways Authority, February 1997), Appendix A. [Hebrew]
- ¹⁴ *Nihul* (February 1982), p. 27. [Hebrew]
- ¹⁵ *In the Ports Authority* 184 (July 1978), p. 611. [Hebrew]
- ¹⁶ Government Decision 485.
- ¹⁷ *Davar*, November 23, 1983.
- ¹⁸ Government Decision 485.
- ¹⁹ *Ibid.*
- ²⁰ Ports and Railways Authority, *1997 Report* (Tel Aviv: Ports and Railways Authority, 1998), inside cover. [Hebrew]
- ²¹ Ports and Railways Authority, *Brief Survey Presented to the Minister of Transportation and Energy Rabbi Yitzhak Levi* (June 1996). [Hebrew]
- ²² *Ibid.*
- ²³ Y. Gurnitzky and Partners, Lawyers and Notaries, opinion submitted to Danny Singerman, Manufacturers Association, August 4, 1997. [Hebrew]
- ²⁴ Central Bureau of Statistics, *Statistical Abstract of Israel* 49 (Jerusalem: Central Bureau of Statistics, 1998), Tables 18.7 and 18.9. [Hebrew]
- ²⁵ State Comptroller, *State Comptroller's Report* 40 (Jerusalem: State Comptroller, 1990), pp. 668-680. [Hebrew]
- ²⁶ Ports and Railways Authority, *1996 Report* (Tel Aviv, Ports and Railways Authority, 1997), p. 30. [Hebrew]
- ²⁷ Knesset Economics Committee, *Protocol 166*, 14th Knesset, 3d session, October 29, 1997. [Hebrew]
- ²⁸ Fanny Axel, ports specialist at the Ministry of Transportation, interview with the author, June 30, 1998.
- ²⁹ Gidon Shamir, letter to the minister of transportation, Yitzhak Levi, July 17, 1997. [Hebrew]
- ³⁰ Knesset Economics Committee, *Protocol 166*.
- ³¹ *In the Ports Authority* 203-4 (September-October 1980), p. 4. [Hebrew]
- ³² Avi Heifetz and Uri Dahan, *Required Changes in the Organizational Structure of Ports and Railways Authority* (Jerusalem: A. Heifetz and Co., August 1994), pp. 19-20. [Hebrew]
- ³³ Knesset Economics Committee, *Protocol 166*.
- ³⁴ Finance Ministry Director David Brodet and Transportation Ministry Director Doron Shorer, "The Ports Authority: Reform of the Fee Structure," memorandum, n.p., May 24, 1995. [Hebrew]
- ³⁵ *Reform of the Structure of Port Fees* (Jerusalem: Ministry of Transportation, protocol of meeting in minister's office, November 25, 1996). [Hebrew]

³⁶ Ibid.

³⁷ Fanny Axel, interview.

³⁸ *In the Ports Authority* 151 (May 1975), p. 69.

³⁹ *In the Ports Authority* 163 (May 1976), p. 260.

⁴⁰ Yehoshua Meron, assistant manager for administration and manpower at the Ports Authority, interview with the author, June 25, 1998.

⁴¹ *Yediot Aharonot*, December 2, 1997.

⁴² *Ha'aretz*, November 5, 1983.

⁴³ *Maariv*, November 12, 1983.

⁴⁴ *Maariv*, November 21, 1983.

⁴⁵ *Ha'aretz*, November 4, 1987.

⁴⁶ *Davar*, November 20, 1987.

⁴⁷ *Ha'aretz*, October 5, 1990.

⁴⁸ *Yediot Aharonot*, December 2, 1996.

⁴⁹ Ibid., January 1, 1997.

⁵⁰ Association of Sea Transport Users, *Newsletter* 189 (Haifa: Association of Sea Transport Users, February 1997), p. 5. [Hebrew]

⁵¹ Central Bureau of Statistics, *Statistical Abstract of Israel* 49, Table 18.3.

⁵² Ports and Railways Authority, *1997 Report*, p. 30.

⁵³ Supreme Court decision 4181/91, Main Arguments of the Ports and Railways Authority (April 2, 1992), p. 4. [Hebrew]

⁵⁴ Knesset Economics Committee, *Protocol 166*.

⁵⁵ Y. Gurnitzky and Partners, opinion submitted to D. Singerman, p. 2. [Hebrew]; Ports and Railways Authority, *1996 Report*, p. 47.

⁵⁶ Dan Propper, director of the Manufacturers Association, letter to Dan Meridor, minister of finance, August 25, 1997. [Hebrew]

⁵⁷ Department for Foreign Trade and International Relations, *The Ports Authority and Israeli Exports' Ability to Compete* (Tel Aviv: The Manufacturers Association of Israel, July 22, 1997), p. 2. [Hebrew]

⁵⁸ *Ha'aretz*, June 28, 1993.

⁵⁹ Amir Etzioni, *The Cement Industry in Israel*, *Policy Studies*, No. 32 (Jerusalem: IASPS, February 1998), pp. 15-17. [Hebrew]

- ⁶⁰ Ports and Railways Authority, *Brief Survey*.
- ⁶¹ *Ibid.*
- ⁶² Zvi Raanan, *Competition in Israel's Ports* (Haifa: Wydra Institute of Shipping and Aviation Research, May 1997), p. 9. [Hebrew]
- ⁶³ *Ibid.*
- ⁶⁴ State Comptroller, *State Comptroller's Report 47* (Jerusalem: State Comptroller, 1997), p. 796. [Hebrew]
- ⁶⁵ *Ibid.*, p. 798.
- ⁶⁶ Central Bureau of Statistics, *Statistical Abstract of Israel 49*, Table 18.7.
- ⁶⁷ *Ibid.*
- ⁶⁸ Zvi Raanan, *Comparison of Port Fees* (Haifa: Wydra Institute of Shipping and Aviation, October 1995), p. 1. [Hebrew]
- ⁶⁹ Ports and Railways Authority, *Development Plan for Haifa and Ashdod Ports* (Tel Aviv: Ports and Railways Authority, July 1995). [Hebrew]
- ⁷⁰ *State Comptroller's Report 47*, p. 796.
- ⁷¹ Dov Frolinger, director of planning, Production Planning and Supervision Branch, Ports and Railways Authority, letter to the author, July 19, 1998. [Hebrew]
- ⁷² *State Comptroller's Report 47*, p. 803.
- ⁷³ For example, *Yediot Aharonot*, December 2, 1997.
- ⁷⁴ Raanan, *Competition in Israel's Ports*, pp. 3-5.
- ⁷⁵ *Ibid.*
- ⁷⁶ *Ibid.*
- ⁷⁷ Raanan, *Reform of Israel's Ports* (Haifa: Wydra Institute of Shipping and Aviation Research, February 1995), p. 11. [Hebrew]
- ⁷⁸ Raanan, *Competition in Israel's Ports*, p. 3.
- ⁷⁹ *Ibid.*
- ⁸⁰ *Ibid.*
- ⁸¹ *Ibid.*, p. 4.
- ⁸² *Ports & Harbors* 42, no. 2 (March 1997), p. 32.
- ⁸³ Raanan, *Competition in Israel's Ports*, p. 4.
- ⁸⁴ *Ibid.*, p. 6.

⁸⁵ Ibid.

⁸⁶ Ibid.

⁸⁷ www.kpmport.com.my

⁸⁸ *Port Development International* (September 1996), p. 61.

⁸⁹ "Liner operators find the salsa beat," *Seatrade Review Monthly* (November 1997), p. 19. See also "Latin Port Privatization: Great Expectations Unmet — A Caveat To Hopes Of Santos Improvements," *Journal of Commerce*, September 22, 1997.

⁹⁰ www.tradeport.org

⁹¹ *Port Development International* (January-February 1998), p. 5.

⁹² Ibid.

IASPS Policy Studies are published by the Institute for Advanced Strategic and Political Studies in Jerusalem and Washington, D.C. Nothing written here is to be taken as necessarily representing the views of IASPS or as an attempt to aid or hinder legislation in Israel or the U.S.

Contact IASPS for reprint permission. Additional copies of *IASPS Policy Studies* can be obtained from IASPS head office in Jerusalem or from IASPS office in Washington, D.C., at \$2.00 each (plus postage) or from our website (<http://www.iasps.org.il>) at no cost.

