Israeli Ports in the Age of Competition

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This paper addresses the need to adjust the regulatory regime of the port industry to the age of sophisticated competition, following the government's decision to establish new private ports and challenge the existing monopolies. This reform, however, will be blunted without removing some existing barriers extant in labor agreements with port workers and unnecessary regulatory restrictions.

After the **first introductory chapter**, **the second chapter** describes the port industry in Israel, including a definition of terms and types of cargo and an explanation of the World Bank recommended "landlord" model of ownership that Israel employs in the port industry.

The **third chapter** explores the regulatory framework and **the fourth chapter** describes the current structure of the port industry in Israel.

The **fifth chapter** deals with the transfer to a competitive industry, pointing out the deficiencies of the current regulatory regime and recommending new policies.

Summary:

The port industry is critical for the Israeli economy's function. In terms of volume, 99% of the goods traded in Israel pass through its seaports, and 90% of those goods are handled by two port companies: the Ashdod Port Company and the Haifa Port Company. It must be stressed that the Haifa and Ashdod Port Companies are not synonymous with the Ashdod and Haifa ports themselves. Other companies can and do operate in these ports, providing various services such as storage and unloading shipments. The land and infrastructure on Israel's coast designated for "port usage" are held by a government company: "The Israel Ports Company", and then leased to the port companies providing the actual services. In other words, the port companies do not own either the land or the infrastructure they use.

In 2013, these companies were declared a concentration group by the Israel Competition Authority. In its decision, the authority stated: "For many years, the port services industry has been completely non-competitive. This led to low utilization of resources, low quality service and high labor costs". Port workers' unions belong to the *Histadrut* (the New General Workers' Federation) and their salaries are significantly higher than other workers with the same levels of skills and education.

After a previous attempt at reform in 2005 failed, the State signed agreements with private companies to construct and manage two new private ports in 2014.

The current regulatory regime has five major flaws that can impede the success of the new reform:

1. In line with the World Bank's recommendation to employ a mixed model of public and private ownership of ports, Israel adopted the "landlord" model, wherein the lands and central permanent equipment belong to a government authority, and private companies pay lease for their usage. This model maintains the government authority over (1) determining the needs of the entire economy: where to build trade ports, and how much of the limited sea coast should be dedicated to this end and (2) how many resources are allocated to port infrastructure development and when to do so. While the first makes sense in the context of Israel's very limited available coastline, the second is unjustified. Investment in the ports is a business issue determined by the market, and best left to the companies.
2. Any company wishing to work in the port industry must obtain a Writ of Authorization from the State. These documents serve to restrict companies providing port services in an often arbitrary or politically motivated manner.
3. Property in areas designated as "port areas" are restricted to "port uses". While it is important to ensure that areas designated for port activity should not be used for completely different purposes, the restriction should be softened to make room for uses that are tied to the port operations such as services and factories that derive added value from their proximity to the port or commercial venues serving port visitors.
4. Price controls – these have justification in a monopolistic environment, but should be canceled once the port industry is competitive.
5. Labor unions' power. As long as port workers can block any change to their salary or terms of job termination, the ports they work in are prevented from adapting to the free market environment.

Recommendations:

In general, change the regulatory structure of the port industry to better suit the conditions of competition:

1) The ports of Haifa and Ashdod should be privatized as soon as possible, at the least before the new ports begin operations, projected for 2021. A successful privatization of the existing ports is dependent on the state's refusal to sign a labor agreement with port workers that guarantees current salaries or protections from job termination. One possible solution, outrageous though it sounds, is to establish a fund that would compensate workers fired by the new company.
2) Abolish the writ of authorization requirement.
3) Port companies and other companies operating in the existing port areas should be permitted to lease the areas allocated to them, including land reserves in the hinterland and on the waterfront, on a financial lease basis, to use as they see fit. They should control both their day-to-day operations and their capital development plans. Such a regime is the key to a truly competitive and efficient port industry.
4) The Israel Ports Company shall retain the lands and facilities that make up the grid of each "port area" in which a port operates, chiefly the breakwaters and the access routes to the port by land and sea. The Israel Ports Company will also remain responsible for providing ancillary services for all vessels in the port: pilotage, towing, security etc.
   It is recommended that The Israel Ports Company be broken up into three separate companies to create competition between them, but this is not critical.
5) The state will maintain responsibility for the long-term planning of the port industry in the context of the economy as a whole. Although in the near future the port industry should develop the capability to handle a large amount of cargo, there will still come a day when existing ports are no longer sufficient. There is no reason construction and operation of new ports or the expansion of existing ports should not be executed by private initiatives.

For the full Hebrew paper