Competition and Efficient Service as Determinants in Port Pricing

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In port ecnomics, we learn a number of determinants of port pricing based on demand, cost and benefits etc. However, the objective of this study is to examine the correlation prevailing between the competition among ports for transshipment trade, efficient service and pricing of port facilities and services.

Being the key words of this paper, the competition is restricted to the transshipment business in international trade, the efficient service denoting the operational quality of port services which leads to minimize port stay and damages to cargo and finally the port pricing is considered as the rewarding method for the services and facilities rendered by port authorities and further, port pricing is confered from the point of view of port authorities.

Prices, in general, paid for goods and services can be defined as the cost to the society of supplying them, plus an element for profits. A port tariff which contains prices of various port facilities and resources is the reward payable to the port authority for providing of such services.

In economic theory, pricing policy is based on a few objectives. As far as port industry is concerned, those ovjectives can be broadly

devided into two parts. They are the objectives based on the national interest and the interest of the port concerned. In form ulating an ideal port tariff, we may illustrate the objectives which come under these two segments as follows.

(1) Profit maximigation.
(2) Optimum allocation of resources.
(3) Improvement in technological innovation in port facilities.
(4) Assistance for a smooth export/import trade.
(5) Maximum contribution to the national shipping industry.
(6) Support to the accelaration of regional/national economy.

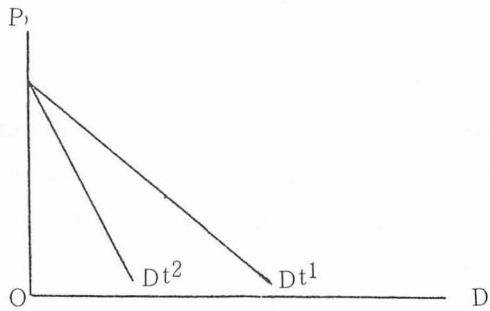
When a sound port pricing policy is developed to achieve above objectives, we may categorise world seaport network mainly into two parts as per the nature of business and the role played by them. They are the ports which do not face any transshipment competition such as Japanese seaports and the ports which face pure transshipment competition like in Singapore and in Colombo.

This paper tries to enlighten the importance of a factor like efficient service against the level of port charges in their port pricing policy where pure transshipment competition prevails.

While the demand for port services, in general, is affected by the elasticity of demand for commodities as the demand for port services is a derived one, same is also affected by the competition between ports lying in the same region. One of the factors which determines the elasticity of demand for port services is the possibility of providing the same service through another port. The high elasticity of demand for transshipment services which can

be seen under a competition between transshipment ports within the same region from where the distance is almost equal to the third port would become a relatively low elesticity of demand when one port enjoys geographical benefits over its competitor through which ships could be given an opportunity to save their seatime due to non－equidistance to the destination port.

Demand for the Transshipment Service of Port Located in Two Different Distances to the Final Destination



Dt^1 ＝Ports located in equidistance

Dt^2 ＝Ports located in non－equidistance

Even though the elasticity of demand for the services of transshipment ports competing with others in the same region can be influenced by port prices, with the rapid development of containerization, efficient service would have a greater impact on the elasticity of demand for port services in competition for transshipment business.

When the distance is almost equal to the destination from both competing ports located in the same region, then for both ports transshipment business is a matter of competitive contention since the destination port normally tries to obtain the most competitive low rate which is mainly obtainable through low port charges.

"If Singapore is to secure transshipment cargo destined to the Port of Surabaya in Indonesia, her transshipment rates will have to be set sufficiently low in relation to Hongkong transshipment rates." (1) In a contention of securing transshipment cargo, if the distance is almost equal from both competing ports, carriers or consignees do not find any difference in the costs of traveling from either port and therefore no matter where the cargoes are transshiped. In such instances, port charges are the decisive factors in the competition of transshipment trade.

However, when those who are located in different distances to the third port formulate their port tariffs basing on competition faced by them, it is discernible that port charges are considered as the focal point in capturing transshipment trade. The nature of the port pricing strategy which is based on the competition is the effort to keep port charges competitively low against its competitors and do not count factors like efficient services and different distances which assist in achieveing time savings and in minimizing damages to cargo. "The pricing strategy based on competition sets the rates so as to make the charges at the port comparable with or less than those at competing ports. The comparison is generally limited to the port charges without considering difference in the performance between the ports or differences in the cost of traveling to the different ports." (2)

With the swift containerization, it is clear howfar port pricing has been decisive in the competition of the container transshipment business by introducing special all inclusive box rates for transshipment containers in port tariffs. For example, irresp ective of the considerable difference in distance for Europe and Far

East bound cargo, as transshipment bases, Port of Singapore and the Port of Colombo have granted numerous concessions for transsh ipment containers in their port tariffs so much so that 28 days of free storage facilities are enjoyed by transshipment containers in both Singapore and in Colombo.

Price Differential per Container of Transshipment and Domestic Cargo in Port of Singapore and Colombo
(US. D/20' Cont.)

	Domestic Export/Import Cargo		Transshipment Cargo	
	Singapore	Colombo	Singapore	Colombo
Stevedorage	160.00	106.70	100.00	51.50
Storage				
(loaded)	12.00/day #	5.20/day #	Nil*	Nil*
(empty)	3.00/day	6.95/day	Nil	Nil

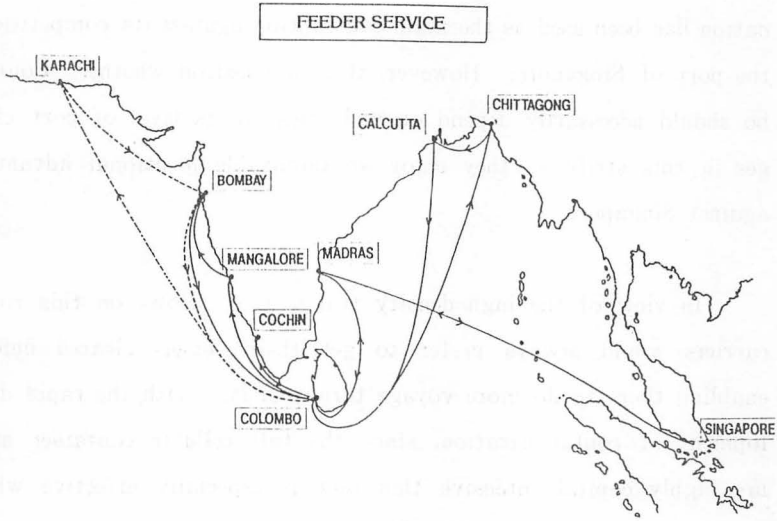
First 3 days－Free

*Only 28 day － Free

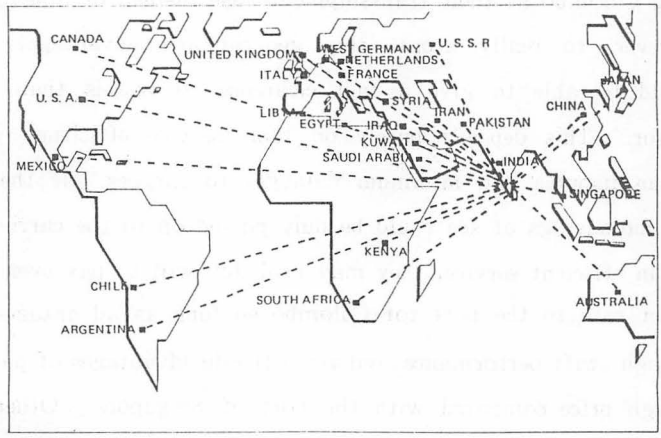
Source : S.L.P.A , Tariff－1987
P.S.A, Tariff－ 1987

Above table shows that stevedoring charges are 38% and 52% lower for transshipment cargo than for domestic export/import cargoes in Singapore and in Colombo respectively. It further indicates that both ports charge nothing for storage of transshipment containers where domestic trade has been heavily charged. As it is further studied it will be clear that the difference in stevedoring-

rates for transshipment containest between Singapore and Colombo is almost 50 percent.



SRI LANKA — AT THE NODAL POINT OF WORLD'S SHIPPING...



It is evident that the port of Colombo in the contention of the transshipment competition for cargoes originated from Europe to South East and the Far East Asian Ports, the price discrimination has been used as the main contraption against its competitior, the port of Singapore. However, it is a question whether Colombo should necessarily depend on and stick to its level of port charges in this strife as they enjoy an inimitable locational advantage against Singapore.

In view of the high density traffic that flows on this route, carriers would always prefer to get their vessels cleared quickly enabling them to do more voyage turnarounds. With the rapid development of containerization, since the full cellular container ships are highly capital intensive this fact is especially effective when the route is mostly served by time charter ships.

It is visible that ships could easily save 3 − 4 days as seatime (at the average speed of 20kts) on their Europe／Asia trade by using Colombo as their transshipment base instead of Singapore.

However, to really accrue this geographical advantage, Colombo should be able to give a fast clearence to vessels than its competitor. This depends purely on their service efficiency with less labour disputes and minimum damages to cargoes. If the benefits of time savings at sea could be duly passed on to the carrier by giving an efficient service, they may probably will to pay even a little higher rate to the port tof Colombo so long as advantages reaping through swift performance outweigh the disadvantages of paying little high price compared with the port of Singapore. Otherwise the benefits reaped through the different distances would be nullified by poor turnout of Colombo and under such circumstance, as far as

carriers are concerned where the cargoes are transshiped would be of no consequence.

From the point of view of consignees, in selecting their transshipment port, it is really a matter for them where the goods are transshiped when the distance is fairly different from two ports to self. For example, cargo destined to Indonesia from Europe may prefer to get down them via Singapore rather than via Colombo because of the less distance to the destination. In order to capture the subject cargo by rectifying this situation Colombo has to motivate consignees by running a fast, regular and businesslike second carrier service from Colombo at an attractive (probably subsidized) rates.

If the Port of Colombo can be developed as a highly sophisticated transshipment base with modern equipment and facilities enabling to give a fast and efficient service to port users (ships operators) and to provide an attractive and cohesive network of second carrier service, there is no reason why Colombo should necessarily practice a price discrimination in the transshipment competition.

We may suggest that a port like Colombo may concur, if necessary, with their national carrier to provide a satisfactory second carrier service at a subsidized rate to set right the time lost by consignees by choosing Colombo as their transshipment port instead of Singapore.

To conclude, the ports which are located in non－equidistance

to their final destinations with special strategical advantages do not inevitably have to stick to the price discrimination in the competition among ports for transshipment trade. Instead, efficient service which is formed with advanced equipment, well trained personnel, less labour disputes, and minimum damages to cargoes etc, ensures fast and appreciable service and the same has to be the criterion in their port pricing policy.

Of course, service efficiency of a port is directly linked with necessary infrastructure facilities which could be gained only through a considerable allocation of Social Overhead Capital (SOC) "A high proportion of investment must go into SOC during the initial development and take－off periods in LDCS. In doing so, the most important and decisive factor for these countries is selecting their leading sectors (focal points). For instance, because of the geographical location it may be preferable in a country like Sri Lanka to invest a high proportion of its SOC in improving their seaport facilities and related services such as warehousing, container yards, central freight stations and the inland transport network. It will assist to create an ideal transshipment base in South－East Asia." (3)

This question of allocating SOC warrants future studies as a seperate theme related to the subject of port pricing since the linkage effects of such an infrastructural project are in the interest of regional and national economy.

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(1) Port Pricing & Investment Policy By Bennathan & Walters, P.153

(2) Port Planning & Development By Frankel, E. P.75.

(3) Infrastructural Requirements in Economic Development and Some Japaness Experiences – Author's Master Thesis, pp.145 – 146

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