

MARITIME STRATEGIC EVALUATION FOR ISRAEL 2020/21

Chief editor: Prof. Shaul Chorev

Edited and produced by: Ehud Gonen




אוניברסיטת חיפה
University of Haifa
جامعة حيفا


HMS

Maritime Policy & Strategy Research Centre
המרכז לחקר מדיניות ואסטרטגיה ימית

The Port of Ashdod Prepares for Competition

Moshe (Shiko) Zana

The global shipping industry accounts for more than 80 percent of the global traffic in goods, and it is the main player in the management of the global supply chain. In this context, the ports of Israel handle about 98 percent of Israel's shipment of freight (in terms of weight) and the Port of Ashdod is the largest and leading port in Israel for dry bulk cargo. From the perspective of shipment of cargo, Israel operates as an 'island economy' that is dependent on maritime commerce and as such the importance of the functioning of its ports is critical to the economy. For this reason, the Port of Ashdod (like other ports) is defined in the port regulations as being essential to the State of Israel.

The incorporation of the port in 2005 as part of the reform of the port sector created a basis for business competition between the government port corporations in Haifa and Ashdod and has significantly increased the efficiency of the ports within the Israeli supply chain sphere. The total increase in freight at the Port of Ashdod, and primarily in the number of containers (which account for about 65 percent of the port's activity), has exceeded the total average long-term growth in freight activity in the State of Israel and this is the direct result of competition between the ports.

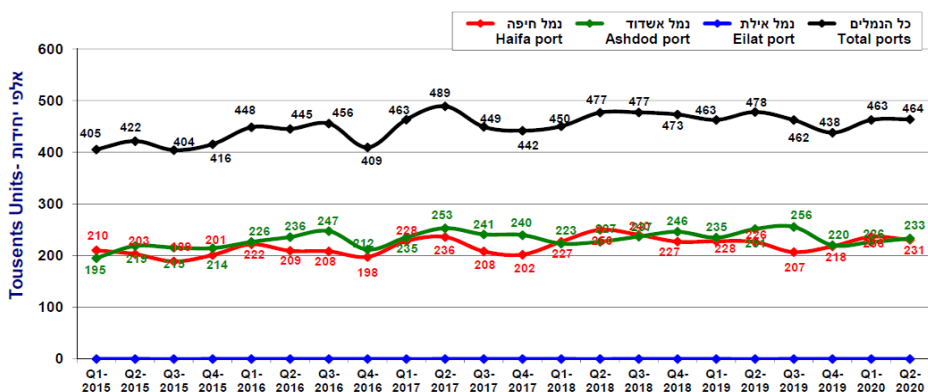


Figure 1: Container traffic in the ports of Israel, 2015–20; data for the Port of Haifa include about 30 percent transshipment

Figure 1 shows that 2015 was the turning point for the Port of Ashdod, which began the 'era of competition' with a 35-percent market share of container traffic and increased it to 50 percent and more.¹

1 The Ministry of Transportation – The Shipping and Ports Authority, Economics and Foreign Relations Branch (Table 2.3: Containers in thousands of units – Total traffic in the Israeli ports). (Hebrew)

Another factor that contributed to competition and growth was the reform carried out in the method of pricing calculation, which was implemented in October 2010. This reform, which was a result of Israel's admittance to the OECD, primarily involved the adoption of the "cost plus" method of calculating the price of handling, which replaced the cross-subsidization method. Another direct result of the port reform was greater efficiency, which was focused on increasing revenue, together with the assimilation of innovation in work methods and the accelerated introduction of advanced technologies into the port operations.

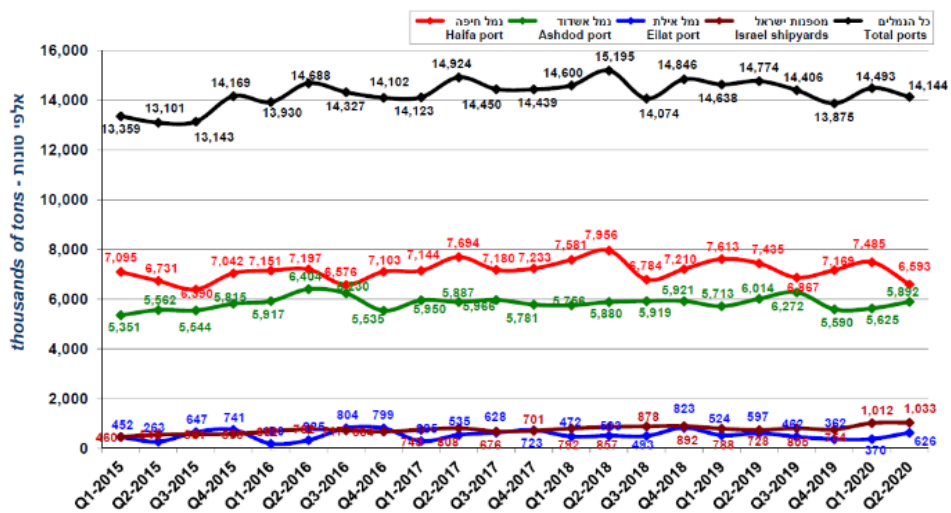


Figure 2: Total freight traffic in the ports of Israel (in thousands of tons), 2015–20²

The golden age of growth in the Port of Ashdod continued uninterrupted for about 12 years but has slowed in the last three. The port essentially reached its maximal capacity in total freight handled and it was not possible to expand the activity on existing piers beyond about 24 million tons annually (containers, general cargo and bulk). There are a variety of reasons, not only to do with infrastructure. They also include labor relations and labor agreements that were not compatible with the pace of change in the demand for the port's services. These and other factors led the government of Israel to decide on the creation of two private and competing ports that would begin operation in mid-2021, the privatization of the Port of Eilat (2013), and the accelerated privatization of the Port of Haifa, which is currently in process.

2 The Ministry of Transportation – The Shipping and Ports Authority, Economics and Foreign Relations Branch (Table 2.1: Containers – Total traffic in the Israeli ports). (Hebrew)

The Port of Ashdod, as a container port, has in recent years been listed on the top 100 largest ports in the world (out of a total of 1000 active ports worldwide).³ In 2017, the port was ranked 94th in the world, and in 2018 it was ranked 103rd; however, the Port of Ashdod's uniqueness lies in its ability to deal with all the types of freight arriving in Israel: containers, vehicles, bulk of all types, metals, general cargo and special projects.

In coming years, two new terminals will be inaugurated in Israel: 'Hadarom' in the South which will be operated by Terminal International Limited (TIL) and 'Hamifratz' in the North which will be operated by Shanghai International Port Group (SIPG). This will increase the level of competition between the ports in Israel to unprecedented levels. Starting from mid-2021, there will be significant excess capacity in the ports of Israel and at its peak the handling ability of Israel's four Mediterranean ports is expected to be approximately 8 million TEU as opposed to domestic demand of about 3.2 million TEU (not including transshipment).

The vision of the Port of Ashdod

The vision of the port is to expand the terminals for freight activity and essentially to open the Israeli ports to regional competition with the other ports in the Eastern Mediterranean. In order to achieve this vision, the Port of Ashdod Company has formulated a long-term strategic plan for investment, in the unprecedented amount of about NIS 2.5 billion (~700 million US\$). This program, which is already being implemented, includes the deepening of Pier 21 in order to allow the intake of giant ships – up to 24 thousand TEU, with a length of 400 meters and a width of up to 62 meters. This expansion will provide the Port of Ashdod Company with the ability to compete with the new ports as an equal.

The challenge facing the Port of Ashdod Company in coming years is to overcome its unique constraints as a government company which is subject to excess regulation relative to the private ports. The Port of Ashdod Company must shift from being a company that concentrates on revenue and technological improvements to a company that aims at greater efficiency in inputs and costs that are equal to those of private companies. The main problem is that the private port companies and the Port of Ashdod, which is a government company, do not operate under the same rules of competition, primarily in view of the fact that the new port companies in Israel are efficient, private and not subject to collective labor agreements.

3 Source: Container Management 2019.

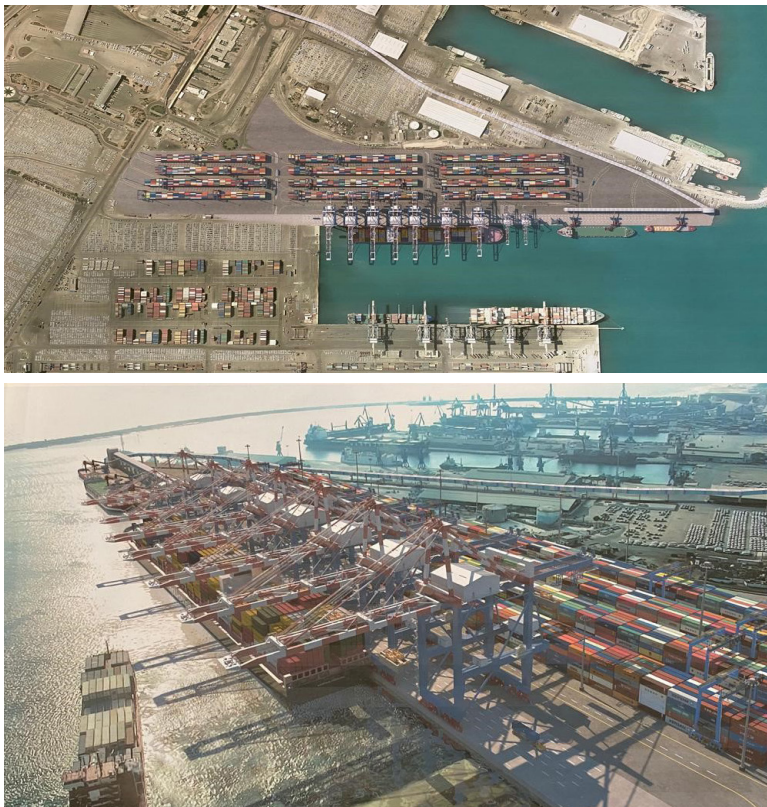


Figure 3–4: Illustration of Pier 21 – the new container terminal that is currently under construction to serve mega-size ships of up to 24 thousand TEU



Figure 5: illustration of a pier that specializes in the conveyance of seeds to the Ashdod granaries, which will operate with an unloading capacity of up to 1,500 tons per hour. The completion of the project is planned for the end of 2022

The Port of Eilat, the Israel Shipyards Port and soon the Port of Haifa operate under regulations that are identical to those applying to the new private terminals; however, while the Port of Ashdod will continue to operate under excess government regulation (the Tender Obligation Law, the Commissioner for Wages, the Government Companies Authority, etc.). The challenge will be to operate together in order to "reinvent the new port of Ashdod" so as to allow for intensive and efficient competition.

It is encouraging that there are examples of success of this sort in other countries. For example, the Port of Hamburg – HHLA in Germany is successfully competing with private terminals. What is less encouraging is the fact that there are not many such examples and therefore the challenge facing us is without precedent in the terminal industry.