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Chief Editor: Prof. Shaul Chorev

Editor: Dr. Ziv Rubinovitz



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Reform in the Ports of Israel – Vision and Reality

Arieh Gavish

In 2005, Israel's commercial ports underwent a reform. The reform applied to the Port of Haifa, the Port of Ashdod and the Port of Eilat, which had been incorporated as "governmental corporation", headed by the Director General of the Israel Ports Authority. The Ports Authority was established in 1961 by former Chief of Staff Haim Laskov, structured along the lines of a military organization. The reform got underway after many years of underperformance in the ports, particularly in terms of the labor relations between management (the Israel Ports Authority which operates under the Ministry of Transport) and the workers who were organized in a large number of different unions, backed by the Histadrut labor federation.

The Knesset replaced the structure and law (the Ports Authority Law 1961) with a new structure for the ports under a new law (the Shipping and Ports Authority Act, 2004). A government company was established – the Ports Development & Assets Company LTD – in short, the Israel Ports Company (IPC), and the ports' lands were put under its jurisdiction. Each port was turned into a government company (Ashdod Port Company, Haifa Port Company, Eilat Port Company), and it was decided that the Ashdod and Haifa Port companies would be privatized, although the State would retain control, while the Port of Eilat would be fully privatized at 100% of its value. The privatizations were supposed to have ended five years after the reform got underway, meaning in 2010. The regulation as assigned to the Shipping and Ports Administration, which was upgraded into an Authority. The reform was supposed to achieve the following goals:

- Competition.
- Increased efficiency.
- Curtailing the power of the unions – this goal was never declared in public, nor was it included as an official goal of the reform.

At this time, several questions arise:

- Has the reform in the ports since 2005 been successful?
- Will the start of operation of the Bayport Terminal (in the Haifa Port) and the Southport Terminal (in the Ashdod Port), which is scheduled for the end of 2021, improve the ports' performance?
- Could we expect real competition, meaning advanced competitiveness among the various bodies working in unloading and loading of cargoes in Israel's ports?

- Is it right to have the Israel Ports Development & Assets Company Ltd. (IPC) continue to exist in its current state?
- Is it good for competition? Is it justified?
- Is IPC currently operating with conflicting interests, which constitute a market deficiency?

Before I set about discussing the above mentioned questions, I would like to correct a misconception shared by many people. The two new terminals which are referred to as ports, the Bayport Terminal and the Southport Terminal, are not ports but rather they are terminals. They are yet another authorized corporation within the port, the Bayport Terminal within the Port of Haifa and the Southport Terminal within the Port of Ashdod. The main reasons why I recommend they be called terminals are:

1. The Bayport Terminal and the Southport Terminal are located within the areas of jurisdiction of the Haifa Port and the Ashdod Port respectively (the areas of jurisdiction of the ports of Haifa, Ashdod and Eilat are defined separately by the Minister of Transport in a specific regulation for each port within the Ports Regulations).
2. The two companies operating the terminals (SIPG and TIL) lease the terminal land from the IPC and in addition they pay leasing fees.
3. IPC is the landlord of these two terminals as well as of the Port of Eilat.

I therefore recommend that the following definition be used: the Bayport Terminal and the Southport Terminal, are located in the Haifa Port and the Ashdod Port respectively. Thus, we will do justice to the semantics and to the nature of these terminals.

Has the reform in the ports been a success? Has it yielded a real improvement in the ports' performance?

Many people hoped the 2005 reform in the ports would cure the ports' substandard performance, which included strikes, long wait times for ships outside the port due to workload, ships being docked in the ports and along the docks for inordinately long times, much damage to cargo (sometimes including severe injuries to workers) etc.

The current situation in the ports indicates that the reform has failed to achieve its goal. There is a lot of waiting, strikes still occur – some of them illegal, cargoes take a long time to be loaded and unloaded, occupational accidents afflict workers and cause damage to cargoes, and the list goes on.

I would be an understatement to say that customers of the ports are dissatisfied with the ports' performance. The users complain time and again about the ports' performance. They also recommend how to improve the situation (recruit new workers, improve the operational queue, technological improvements, improve procedures, and so forth). I assume that if a real customers' satisfaction survey were to be conducted as to the ports' performance, the result would be decidedly unflattering. Regretfully, the general feeling is bad in this respect.

Therefore, in my opinion the success of the reform should be examined from a more distant standpoint, in other words, we will know whether the reform has succeeded only far in the future. Furthermore, it would be appropriate to examine whether the reform in the ports was a success in a thorough study, including a large number of port characteristics.

The substandard performance in the ports dictated radical change. The 2005 reform in the ports expresses the best and the most of the improvements which were achievable under those days' circumstances (political, organizational, labor union-government, etc.). That reform should be considered as a first stage in a long and inevitable **process** of restructuring the ports. The following principles should be noted in the implementation of the reform in the ports:

- Privatization – today there no longer any doubts as to the potential contribution this measure can make.
- The passing of the regulation of the ports to the Israel Shipping and Ports Authority, which is a professional body within the Ministry of Transport.
- The disbanding of the Israel Port Authority and the setting up of a different organizational structure, thereby "weakening" the strength of the unions and preventing them from keeping their stranglehold in their domain.
- The improvement of the ports' performance – streamlining, lowering costs, improving processes, innovation, etc.

None of these things even hints at harming the terms and status of the port workers. I believe that the current terms of employment of the port workers have been achieved legally, however, giving a group of workers the power to shut down Israel's foreign trade is simply untenable. The 2005 reform was an **unavoidable first step** toward dealing with the deficiencies of the monopoly called the Israel Port Authority.

The results of operating the Israel Shipyards docks since 2009 as a private port company are proof of the necessity of privatization and initiation of competition between the terminals. In its 12 years in existence, the Israel Shipyards Port Company

has exhibited healthy growth in the amount of cargo it handles. In 2009 the company handled 0.5 million tons of general cargo, which accounted for 16.8% of all the general cargo in the ports. In 2020 the company handled 1.712 million tons of general cargo, out of a total of 4.119 million tons in the four ports, which accounted for 42.5% of all the general cargo in the ports. This is in contrast to the Haifa Port Company with 967 thousand tons, or 24.1% of the total general cargo in the ports, the Ashdod Port Company with 1,339 million tons, or 33.1% of the total general cargo in the ports and the Port of Eilat company with 149 thousand tons or 0.04% of the total general cargo in the ports (all data are from the 2020 statistical yearbook of the Israel Shipping & Ports Administration, the actual results may vary slightly). The Israel Shipyards Port is able to handle any cargo it chooses. For various reasons the management of the Israel Shipyards Port decided to specialize and handle general cargo, including bulk: cement, grain, etc. The Israel Shipyards Port is a tangible example of a small private port company (terminal), limited in its dock capacity that, through proper management, creativity and working correctly, delivers outstanding service to its customers and even yields decent profits for its owners.

The Israel Port Authority had been responsible for the three ports (Haifa, Ashdod, Eilat). In its lifetime, from 1961 to 2005, it was both a port operator and a port regulator – effectively a glaring conflict of interests. This is just like allowing the cat to guard the cream. Anyone that had been involved in this sector during the Israel Port Authority period is painfully aware of how deeply the Ministry of Transport was involved in operations – the ministry responsible for the ports, which had also to be the regulator of their operations. Officially, the Ministry of Transport was the regulator of the main trade ports of Haifa, Ashdod, Eilat. In practice the Ministry of Transport was no more than a rubber stamp. The Israel Port Authority also had many achievements to its credit: substantially reducing the workforce headcount, development of the ports, introduction of new technologies and resources into the ports, and more.

I have no intention to review the Israel Ports Authority performance throughout its existence (1961–2005), for better or for worse. One thing, however, is clear: as the main artery of the State of Israel's foreign trade at peace and in war, the role of the Israel Port Authority was highly important and it had a major influence on Israel's economic situation. The Israel Ports Authority's shortcomings outweighed its advantages and for this reason the 2004/5 reform was made. The Israel Ports Authority was disbanded, the Ports Authority Law of 1961 was scrapped and replaced by the Shipping & Ports Administration Act of 2004. The main points of the reform are:

- Transferring the regulation under the Israel Shipping and Ports Administration and turning it into an Authority.
- Cancellation of the Israel Ports Authority Staff and turning it into the Israel Ports Development & Assets Company Ltd. (IPC), a government corporation for its entire lifetime.
- Setting up three government companies (Haifa Port Company, Ashdod Port Company, Eilat Port Company).
- It was decided that the three government companies would be privatized within five years – a move which failed to take place. The Port of Eilat Company was privatized as planned but belatedly, in 2013, while the Ashdod Port Company and the Port of Haifa Company have to date not been privatized.

Later on, the infrastructure for the two new terminals was designed and built (the Bayport Terminal and the Southport Terminal). A tender was issued to operate the new terminals, the companies which would operate them were selected (SIPG-Shanghai International Port Group – a subsidiary of the Port of Shanghai in China to operate the Bayport Terminal, and TIL – Terminal Investment Limited – a subsidiary of the MSC shipping company – to operate the Southport Terminal). These terminals are scheduled to begin operations in the final quarter of 2021, upgrading the competition between the terminals for container loading and unloading.

The start of operation of two new container terminals (the Bayport Terminal and the Southport Terminal) is a momentous, highly significant milestone. The Bayport Terminal began operations on September 1, 2021 while the Southport Terminal is supposed to start operations at the end of 2021. Initially operations will be in trial mode for half a year to a year, followed by full-scale operations afterward. The opening of these new terminals raises questions within Israel's ports sector, which for years had been a government monopoly and various parts of it still are monopolies, some say ham-fisted monopolies.

Following are a few characteristics of the new terminals. The two terminals are very similar in their characteristics. To understand the issues in this article, I shall elaborate on a few characteristics they both share:

1. Dock length – 700–800 meters.
2. Container storage space very near the dock.
3. Deep water dock – planned depth near the dock – 17.3 meters (neither the Port of Haifa nor the Port of Ashdod reach such depth). Achieving such depth near the docks is the result of dredging – the dock floor is specially encased

and depth maintenance work continues regularly. Recently the Ashdod Port Company deepened Dock 21 in order to turn it into a dock suitable for container megaships, to a depth of 17.3 meters.

4. The location of these terminals – literally at the port mouth, after the port entry channel, in Haifa in the eastern part of the port, in Ashdod in the northern part of the port. This parameter indicates a shorter maneuvering time for ships arriving at these terminals. In addition, a turnaround diameter of approximately 600 meters has been designed for each dock.
5. The terminal is going to be operated by a **private** company, SIPG in Haifa and TIL in Ashdod. The two winning companies in the tender are international with plenty of experience in operating container terminals where millions of containers are loaded and unloaded every year.
6. There is an entry and exit gate to each terminal, separated from the gates of the Port Company of Haifa and of the Port Company of Ashdod, and of course from other corporations operating in the port.
7. Each company chose a **TOS** – the Terminal Operating System – a computer system for managing all of the port activities.
8. Eight ship to shore gantries – STS – in each terminal.
9. Container storage areas with gantry cranes. All the gantries are operated via the TOS system which operates and controls throughout the entire terminal, automatically or semi-automatically.
10. The porters (the port operational workers), the terminal workers will be Israelis, management members can be foreigners.
11. The two companies operating the terminals are private enterprises. This will give the terminal managements a great deal of management flexibility, something that does not exist today in the Port Companies (Haifa, Ashdod).

Having presented these data, we can now make a better-grounded assessment that the planned competition between the terminals is missing several elements. **Is there going to be real competition in the terminal sector between these terminals and Haifa Port and Ashdod Port companies?** In my opinion, there will be competition between the new terminals and the port companies, however this is not going to be real, sophisticated, fair free-market competition.

The Terminals of Haifa Port Company and Ashdod Port Company will be missing a few elements: Dock depth; Dock length; Previous generation gantries, information systems. The Haifa and Ashdod port companies will be employing unionized, highly-paid workers with generous collective bargaining agreements. Clearly there is going

to be a great deal of diversion of containers from the existing port companies (Haifa, Ashdod) to these new terminals. What is the percentage of cargoes that will be diverted? This remains unclear, but the existing port companies are working to deal with this question. Their working assumption is that at least 50% of the cargoes (containers) are going to switch to the new terminal. The preparations and the coping of the port companies with the age of competition are being done in various ways, they have not necessarily chosen the same path. I will describe the main points of the future plans drawn up at the Haifa Port Company and at the Ashdod Port Company in their preparations for this new age.

Haifa Port Company

Generally speaking, the Haifa Port Company's strategic plan from several years ago¹ is being implemented, thus the Haifa Port Company will be prepared for competition with the Bayport Terminal. The privatization of the Port Company through the introduction of a strategic investor will improve the Haifa Port Company's ability to compete and will enable it to cope with this adversary that is forming in front of its eyes. Here are the main improvements required:

1. The port privatization – introduction of a strategic investor with international experience in loading and unloading of containers, that will invest in development and in the operational processes, such that the Port will be fit for competing with the private terminals.
2. The investor/operator should develop the unused dock of the Carmel Terminal, deepen it as a deep-water dock similar to that of the Bayport Terminal so that container Megaships (approximately 18000 TEU's) will be able to enter the port to load/unload containers.
3. Development of the northern portion of the eastern dock such that Panamax ships will be able to load/unload general cargo.
4. Development of the Kishon East dock for general cargo.
5. Upgrading of the Kishon West dock for general cargo.
6. Manpower agreements (early retirement incentives etc.).
7. Raising and lengthening the booms of the ship to shore gantries STS.

¹ Aryeh Gavish, "The Activity of the Ports in Israel – The Port Operating Model by Means of the Israel Port Company Using the Landlord Method and by Means of the Port Authority", in Shaul Chorev and Ehud Gonen (eds.), *Maritime Strategic Evaluation for Israel 2019/20* (Haifa: Maritime Policy and Strategy Research Center, University of Haifa, 2020).

Ashdod Port Company

Generally speaking, the Ashdod Port Company's strategic plan from several years ago² is being implemented, thus the Ashdod Port Company will be prepared for competing with the Bayport Terminal. Here are the main improvements required:

1. Deepening of dock 21, converting half of it for container loading and unloading, with the second half having pneumatic installations for grain unloading.
2. Grain unloading by building a special conveyer from dock 21 to the port's inland terminal, a distance of approximately 2.3 km from an existing grain silo. After the grain conveyer will be built from dock 21 to the Ashdod Port's inland terminal, the grain cargoes will be transferred in bulk through the conveyer (expected within two to three years from now). This will replace the current grain unloading, which is done through grabs into a truck, which transports the grain to the silo in the Port's inland terminal.
3. Restructuring agreements, retiring veteran workers.
4. Recruitment of young manpower.
5. Dock 25 might be used (this matter is in dispute between the workers and the management. The workers demand that dock 25 be part of the Ashdod Port, while IPC has not yet approved the workers' demands.)
6. Investment in innovation processes and start-ups.

Should IPC continue to exist as the landlord in the current age of competition?

During the debates over the reform in the ports sector in 2003 and 2004, the issue of the Israel Ports Development & Assets Company Ltd. (IPC) as landlord of the ports arose. Some suggested that the municipalities of Haifa and Ashdod should become the landlords of their respective ports. However, IPC became the landlord of the three ports: Haifa, Ashdod and Eilat.

In addition, it was decided that the Marine Department of the Haifa Port and that of the Ashdod Port would remain within their organizational structure in the Haifa Port Company and the Ashdod Port Company. The decision to leave the Maritime Departments within the Port companies was apparently a concession to labor union pressures, which were content with the existing organizational structure. They

² Ibid.

felt stronger within the Haifa Port Company and the Ashdod Port Company, and therefore they refused and did not move to IPC.

The reform in the ports, therefore, was incomplete. It was decided that after the privatization of the three ports, which was planned for 2010, the Maritime departments of Haifa and Ashdod would move over to IPC. This would have made IPC a full-scale landlord of the three ports, including the Port Companies (Haifa, Ashdod, Eilat) and of all of the authorized corporations in the ports. Within this framework, the Marine Departments of the Port Companies of Haifa and Ashdod would move over to IPC. In the Port of Eilat, due to its small size, the issue of transferring the Marine Department there to IPC was not discussed.

In reality, the following things happened:

- Only the Eilat Port Company was 100% privatized as planned, albeit belatedly, in 2013.
- The Haifa Port Company and the Ashdod Port Company have not been privatized to this day. There is a plan to privatize the Haifa Port Company, and for this a tender was issued, and is currently in its final stages. IPC is supposed to choose a concessionaire out of the existing candidates, thereby effectively privatizing the Haifa Port Company. Clearly, this way it will be possible to compete against the Bayport Terminal and the small and efficient Israel Shipyards Port.
- At the Ashdod Port Company there is no talk at all of privatizing the port, despite the inherent advantages. It is actually hard to assume they are not thinking about it.
- The marine departments of the Haifa Port Company and the Ashdod Port Company were transferred to IPC at the end of 2020 following protracted discussions, ten years after the original target date. IPC set up two subsidiaries to operate the maritime domain of the Haifa Port and Ashdod Port – the Government Company Marine Transport Haifa and Government Company Marine Transport Ashdod. One has to bear in mind that the employees in the marine departments in the Port companies moved over to the IPC subsidiaries (approximately 100 employees in each department) voluntarily according to an agreement that there would be no change in their terms of employment or wages, including their remaining under a collective bargaining agreement for many years.

According to the Shipping and Ports Authority Law, 2004, IPC is committed to fulfill two main functions:

1. IPC manages the ports' real estate, it is the owner of the jurisdiction in the ports on land and at sea. Each port's area of jurisdiction (Haifa, Ashdod and Eilat) is defined in the Ports Regulations. On land, IPC leases areas to various corporations.
2. IPC is responsible for planning and developing the ports, including their maintenance, promotion and encouragement of competition between the various entities operating in the ports.

Authorized corporations within the Haifa Port on the land section:

- Israel Shipyards and its subsidiary, the Israel Shipyards Port.
- Bayport Terminal.
- Haifa Port Company.
- The Fuel Port Company – Government Company Petroleum & Energy Infrastructures Ltd. (Energy Infrastructures).
- Dagon Silos – the Gadot Company recently won the concession to operate the silo, including unloading of grain and distribution to the importers.
- Chemicals Terminal – IPC recently received the terminal workers and it now operates the terminal.
- Israel Navy Base – leased to the Ministry of Defense.
- The Shavit Marina and Fisherman Wharf – owned and operated by IPC.

Authorized corporations in the Ashdod Port on the land section:

- Southport Terminal.
- Ashdod Port Company.
- Dock 11, 12 ICL (Israel Chemicals Ltd.).
- Ashdod Israel Navy Base.
- Operation of Dock 30 – IPC operates Dock 30 to unload bulk cement.
- Dock 25 – the responsibility for operating dock 25 is in dispute between the workers and the management.

The marine space at the Haifa Port and the Ashdod Port extends from the port, 3 nautical miles into the high seas. Within the ports' marine jurisdiction, IPC is responsible for operating the Haifa Port Control, through a VTS (Vessels Traffic Service) system, and employees that are merchant marine veterans or Israel Navy veterans. These employees are part of the marine departments, which are now part of IPC subsidiaries. They are named Haifa, Ashdod Marine Services Ltd.

Nothing in the Shipping and Ports Law 2004 hints to the need, or even the intention, to turn IPC into the landlord at the ports. This is despite the fact that IPC fulfills roles and tasks typical of a landlord in the ports, such as: dealing with sea pollution in the port basins and in the marine territory, maintaining navigation aids at the entrance and exit from the port, managing the information systems (Sea Information Systems), which interfaces with a new foreign trade system belonging to the Tax Authority, ports development, port infrastructure maintenance, etc.

The decision to transfer the marine departments from the Haifa and Ashdod Port companies to IPC is part of the decision to make IPC the ports' landlord. But if the intention is to make Israel Ports the real landlord by the book, then additional activities have to be transferred to it, which are currently under the Corporations. For example, assigning the responsibility for land and sea security to Israel Ports. Nowadays most of the aspects of security are handled by the Security Departments of the Haifa and Ashdod Ports Companies. Also, the Shipping and Ports Authority Act 2004 has to be updated.

In most of the world's ports, the port landlord is the municipal authority, because:

- The municipality knows better than anyone else what is good for the city as far as the port is concerned.
- The municipality has an inherent interest in the success of the port and in increasing its profitability since this improves its own profits and stimulates the growth of the city.
- The municipality will develop the port in various areas according to business plans, the needs of the region and expected profits.
- The municipality is best-positioned to market the port.
- The municipality will safeguard the city residents' interests in terms of dangerous goods, air pollution, and other nuisances which may be caused by the port.

While planning the port reform in 2003 and 2004, a decision was made that Israel Ports Company (IPC) would only fulfill the two main tasks listed above (Shipping and Ports Authority Act 2004). The intention to turn Israel Ports into a full-scale landlord of the ports was scheduled for execution only when the marine departments would be transferred from the Port Companies to Israel Ports Company, even though part of Israel Ports Company activities definitely reflect its status as landlord of the three ports.

Israel Ports Company is a landlord of the three ports (Haifa, Ashdod, Eilat) is an undesirable market failure, especially in the age of the new terminals. In certain

areas, IPC operates with a clear conflict of interests (for example in operating the chemicals terminal in the Haifa Port). Now is the time to consider transferring the landlord status from Israel Ports Company to a different body. I recommend that the option of closing down Israel Ports Company be considered and to transfer all of its tasks, including the landlord status, to a different body.

Following are the main reasons why Israel Ports cannot be a full landlord of the ports.

1. IPC is an administrative body, far removed from the experience of operating ports or issues related to running ports, such as: port operations, port security, marine services, sea pollution, marine navigation aids etc. Israel Ports Company main strength and experience as an administrative body is in control, supervision, using planners, managing statutory processes and so forth. There is no doubt that IPC will have difficulties running marine transport subsidiaries of Haifa Port and Ashdod Port.
2. There is no way of knowing how will IPC market the ports and the terminals? Whom exactly will it market? Which one will it prefer - the Haifa Port Company or the Ashdod Port Company? Which port will IPC prefer as a transshipment port – the Haifa Port Company/Bayport Terminal or Ashdod Port Company/Southport Terminal?
3. The ports development component can and should be transferred to another body. Any such body that will be selected can do this quickly, efficiently while delivering real solutions for the needs of the country and the respective city. Indeed, this is not a simple task, it's even complicated and difficult, but it can be done. I am in no doubt that the experience that has accumulated in the Israel Ports Company will be implemented among the special port departments that will be set up in the new body that will be selected.
4. It is wrong and misleading to claim that the professional knowledge accrued in Israel Ports Company is priceless and cannot be transferred. The experienced IPC employees can be transferred to the body that will be selected to be the ports' landlord.
5. Shipping & Ports Authority (ASP) will continue to be the ports regulator. A Senior Port Engineering and Operation Division was set up in ASP at the start of the port reform in 2005. This division is responsible for all of the activities in the ports and marinas in the State of Israel. This body might need to be strengthened, as it will be supervising, controlling, serving as the address for user complaints on anything related to the ports and to the operational queue. It is, therefore, clear that I object to the continuation of the existence of the port administrations

which were set up in 2007 as a temporary solution in the agreement between IPC and ASP. There is no need for these administrations and there is no need for regulating port managers. The division that was set up in ASP will fulfill all of the regulatory functions in the ports, ranging from supervision and control of the operational queue, development plans and budgets to proactive accident prevention measures in the ports and setting appropriate standards for the ports.

Conclusion

The ports sector, which is critical to the State of Israel, is about to be reinforced in 202w with two advanced container terminals. This same year the Haifa Port Company should be privatized and in the future the Ashdod Port Company will also be privatized.

The reform of 2005 in the ports was a necessary step in a protracted process of healing the festering ills in Israel's commercial ports (Haifa, Ashdod, Eilat). It is still early to judge the success of the reform in the ports. We are merely 16 and a half years into its implementation and we are still waiting for the private terminals in the Haifa Port (the Bayport Terminal) and the Ashdod Port (Southport Terminal) to begin operations. The successful experiment of allowing the Israel Shipyards Port Company to operate as a private terminal shows that we are on the right course. It will be interesting to see what will happen after the private terminals begin their operations, to be followed by the privatization of the Haifa Port Company and Ashdod Port Company.

The competition we can expect: I have no doubt there will be competition between the various players in the ports sector. The State of Israel needs to ensure that the competitiveness of the old terminals improves so that they will be able to compete against the new private terminals, which are on the verge of beginning operations.

The place of Israel Ports Company (IPC) in general and as a ports' landlord in particular: I recommend that the issue of the continued existence and operation of IPC undergo be given serious consideration, preferably outside the box. This is advisable not only due to the tremendous savings its closure would yield, along with the reassignment of its roles to other bodies, but also due to the fact that it constitutes a market failure and operates with conflicting interests.

