featured article

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Luc T’Joen, European Court of Auditors

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Can we visit your port?
A question of effectiveness

by Luc T’Joen, Team leader and trainer on performance auditing in the European Court of Auditors*

Without a shadow of doubt, EU structural funds are big chunks of money transferred from ‘Brussels’ to various regions of the European community, allowing them to finance their development. In years 2007-2013 some EUR 347 billion was distributed, and transport is by far the largest spending area with EUR 75 billion. In addition, another EUR 100 billion is foreseen for transport investments in the 2014-2020 period.

The European Court of Auditors is one of the EU’s five core institutions with the primary role to externally check if the EU budget has been implemented correctly, making sure that EU funds have been spent legally and with sound management. In 2010, the Court audited seaport infrastructure projects as EUR 6.2 billion was allocated between 2000-2013 to support seaport investments and a high risk of ineffective spending was detected. Many important, and to some extent also disturbing, issues arose from this.

Firstly, proper overall long-term port development planning involving all stakeholders (national, regional and local public authorities dealing with transport and environment, port authorities, terminal operators, port workers, citizens) was lacking everywhere. Secondly, the management was often short of quality. To name a few – the objectives of randomly selected projects were only for two thirds the right ones; needs were not always properly assessed; the project selection was usually not transparent; the focus was on spending allocated money before the deadline, instead of building what was really needed (otherwise funds went back to ‘Brussels’); costs were underestimated and benefits inflated at planning stage; during project implementation, cost overruns were the rule rather than the exception, whereas monitoring was only output-related rather than assessing results achieved. Thirdly, numerous authorisations were needed (such as building permits, cultural and archaeological authorisations, environmental impact assessments) and bureaucratic hurdles existed (calls for tenders ending in national courts and court appeals on land expropriation decisions), causing the loss of project ownership.

Finally, supervision was superficial. While during construction works there was a lot of paperwork, after the completion of the infrastructures nobody (neither the managing authority nor the European Commission) assessed whether the results were in line with the objectives set for the investment. What’s striking, nobody even checked whether the quays built were used! Because of this, and the loss of ownership, the auditors found during their visits on the spot three completely empty ports, and several ports not linked to their hinterland...

As a result, the EU-spending brought little added value. Is it therefore wrong to co-finance seaport infrastructure investments with EU money? NO, in my opinion, absolutely not. In fact, the EU has an important role to play in supporting economic growth and the creation of jobs. Co-funding basic infrastructures – where it is really needed – is thereby an excellent way to support regional, in particular, and EU-wide development, in general, if this is based on realistic needs and accompanied by quality management.

Luc is a leader of performance audit teams of the European Court of Auditors, dealing with transport and energy. Having a fiscal economy background, Luc T’Joen dealt for 10 years with economic customs policy legislation and controls in the Belgian Ministry of Finances. For 19 years, he has been involved in legislation, revenue controls, investigations and financial audits as a Commission official in the Directorates-General Taxation and Customs Union, Budget and Eurostat. As of 2008, Luc T’Joen works for the European Court of Auditors, being in charge of teams dealing with performance audits in the fields of structural funds, transport, research and energy.

* The opinion expressed by the author in no way binds the institution to which he belongs.
In fact, we have at hand key elements needed for unlocking the potential for public – and private – financing of ports, one must just stick to them. The provisions include a long-term (national or regional) development strategy for ports accepted by all involved stakeholders, with realistic development needs, clear milestones and measurable targets. Improved management of EU co-financed projects featuring a transparent selection, assessing the development needs of all ports and retaining only the projects with the highest added value. A clear focus on results with SMART indicators to monitor performance, all of this to cut the red tape. Next, the so-called ‘one stop-shops’ for building permits with an acceptable maximum time-frame, after which the application for construction is deemed accepted. And last but not least – better co-ordination of (rail, river and road) investments at regional, national and transnational levels, to better link ports to their hinterlands.

To sum up, the question is not whether the EU should co-fund transport infrastructures. Here the answer is “yes, it should”, as investment support to European port infrastructures is vital to keep Europe’s competitive position on a global scale as well as to deliver a stimulus for growth. How we spend the EU funds is the burning question. The money from ‘Brussels’ should be spent more wisely and have a clear focus on added value.

The most recent papers on transport of Luc T’Joen’s teams, published by the Court, are the Special report on effectiveness of cohesion policy spending for seaport infrastructures (SR4/2012) as well as the Special report on the effectiveness of the Marco Polo programmes (SR3/2013). Luc T’Joen and his team are currently working on a piece concerning cost-effectiveness of cohesion policy spending for airport infrastructures.

**Voices**

**Bjarne Mathiesen**

Senior Market Director, Ports, Rambøll

In his article, Luc T’Joen paints a rather gloomy picture of the European Commission’s co-funding of seaport infrastructure projects. A high risk of ineffective spending of EUR 6.2 billion during the period 2000-2013, lack of proper long-term port development planning, poor management, loss of project ownership (due to bureaucratic hurdles and lack of authorizations) and superficial supervision are some of the reasons mentioned by T’Joen. In spite of this, he is still very much in favour of EU co-funding – under the condition that it is based on realistic needs and accompanied by quality management.

In the global economy, however, it’s the reactions of the market that will show us if our forecasted needs are realistic or not. The most cost-effective transport chain between markets will win in the long run, but unfortunately heavy investments are often made on the basis of un-realistic dreams of “goods coming my way” if the necessary infrastructure is made available. This mechanism was well functioning in Europe when the manufacturing industry was immature, industrial growth was high and transport between continents was slow and costly. In a very mature Europe there is a strong need for global competitiveness based on stringent market logics justifying investments and possible co-funding by the EU.

Unrealistic transport forecasts are often supported by socio-economic evaluations showing substantial benefits if the transport activity is growing after implementation of improved infrastructure. The EU Commission is often triggered by such prospects, since they regularly claim to stimulate local-, national- and regional growth.

The definition of the Trans-European Core Network is a good starting point for prioritizing future infrastructure investments but it needs to be followed up by more fine-meshed national core networks in the individual Member States. These networks should be planned to secure critical mass and hence provide more cost-effective transport. This is highly needed in order to stimulate the competitiveness of European industries.
The continual upgrading and expansion of port capacity is a challenge throughout the EU, complicated by the need to ensure that there is a match between shipping capacity, port capacity and landside capacity (whether by road, rail or inland waterway).

Although port governance is very different across the EU, in all countries there is significant public (state and/or EU) funding of port infrastructure. Even in the UK, the government is investing GBP 30 mln in dredging the Mersey to support the GBP 300 mln development by Peel Ports in Liverpool. It is clear that public funding of port development is and will continue to be a feature of the sector.

However, public funding does not relieve the promoters of port projects from the obligation to maximise financial and/or economic returns. If anything, I believe it creates an even higher level of obligation to spend wisely and to add value.

If you are looking for one single explanation for the current state of Europe’s banking sector and economy, it is the lack of respect for capital in the years up to 2007 which led to many hopeless investment decisions.

We appreciate this reality in Ireland where taxpayers are today bearing (and will for generations to come continue to bear) the burden of bailing out a multitude of poor financial investments in the Irish economy, much of it by foreign banks.

Public funding does not relieve the promoters of port projects from the obligation to maximise financial and/or economic returns.
European seaports are facing what is perhaps the most critical point in relation to their readiness as well as their ability to cope with numerous and dynamic changes that the port sector is currently undergoing.

Being confronted with such factors as the increasing size of vessels, new environmental requirements (e.g. provision of wastewater reception facilities), the set-up of LNG refuelling stations and shore-side power supply, coupled with significant competition from the side of non-EU harbours and markets, European ports have no other choice than to adapt to the new needs and circumstances. Moreover, the repercussions of the 2008 global economic and financial crisis are still impacting the EU Member States’ economies, amongst them Cyprus.

Given the above, it’s more than clear to me that European structural funds are absolutely essential towards developing the competitiveness of EU harbours. I consider it necessary to refer to the five key goals – ports connectivity, efficiency, attraction of investment, promotion of social dialogue and encouragement of connectivity and innovation – identified in 2013 by the European Commission, on the basis of which the European seaports were put on the political agenda of the Union towards developing a strategy for enhancing their competitiveness together with an action plan which will combine both legislative and non-legislative measures.

Each EU country, and therefore its ports, either included in the core or comprehensive network, is characterized by different geographic, political, social, economic, environmental as well as other dimensions. Therefore, in my opinion, each case requires a more targeted assessment. A long-term port development and planning scheme, involving all stakeholders, is a key tool for achieving the best outcome.

Cyprus is a special case in this regard, needing somewhat greater emphasis, in terms of co-financing seaports infrastructure, but not only. It is located on the eastern edge of the European Union, has no land connections with other Member States and parallel to this has long sea distances to other EU countries. In addition, Cyprus lies in close proximity to Middle Eastern countries such as Turkey, Syria, Lebanon, Israel and Egypt, an area which is known for its frequent political turbulences and unrests.

Having such a background, for Cyprus to be able to contribute as a Member State to the overall targets of the Commission and vice versa for the Commission to contribute with proportionate funds based on the needs of each Union state, is of utmost importance that structural funds aimed at enhancing the competitiveness of EU ports are allocated by taking into account all the individual case-wise parameters.

The multiannual work programme is estimated to be launched very soon with project proposals to be submitted by February 2015, among them naturally also Cyprus’ projects relating to the enhancement of its ports infrastructure. Structural funds have already been used for the first phase of the Lemesos (Limassol) port upgrading.

We intend to use this development aid as a means in our general effort to recover Cypriot ports’ important role within the international supply and maritime transport chain in the region.

I feel obliged to conclude by commenting that co-financing should not only focus on infrastructure. Structural funds should also address other issues. For instance, Cyprus is located fairly close to Greece, but up-to-date no regular sea link between these two countries has been established. This is a great example of what I’ve mentioned hereinabove, which supports the fact that each country, as regards EU funds, should be addressed uniquely, based on its own characteristics and needs, all of this towards achieving both each port’s target effectiveness as well as realizing the joint port development scheme on a European scale.
While debating the issue of European transport infrastructure funds, one should keep in mind that developing or reconstructing infrastructure for public use without the financial support is extremely difficult, because even ensuring the services of the public interest, the investment costs have to be covered somehow. Therefore, leaving roads, railways and port developments to be covered only on business principles based financing will lead the regional development to a dead end. We hope that this notion, which Luc T’Joen highlighted as necessary, will be continued, allowing the transportation corridors to be accessible to everybody, be it citizens or businesses. This address is also supported by the Estonian Port Association, which is an umbrella organisation of 11 member companies, both private and state-owned all together managing 27 ports in Estonia.

Saarte Liinid Ltd. by itself is a state-owned network company, managing 16 Estonian small and medium-sized ferry and cargo ports. Being owned by the state is quite unique on a European scale, where a majority of the ports are municipality-owned. Nevertheless, we have been one of the biggest beneficiaries of structural funds used for port development projects in Estonia during the last financing period.

I do understand the problems the European Union and the Court of Auditors are facing. Without a doubt, there have been cases of misusing EU funds in Member States, however, the focus, in my opinion, should be on the successful cases. In addition, one side is rarely solely to blame. Together with seeing the problem on the beneficiaries’ side, the auditors’ side should improve too.

There is a certain, specific, route of legislative procedures, which is not flexible, that the beneficiaries are expected to follow. And to follow this route may take years, during which the world’s economy and politics are changing independently and sometimes ruthlessly. That brings me to the next example.

Our company has been implementing EU funds for years, where we have done everything by the book – spent the money as planned, even saved something in the process, and reached all our targets. And yet we have encountered problems, especially regarding the Cohesion Fund resources, from the European auditors and officials of the Estonian Ministry of Finance, which did not find meeting our budget, following the legislation and fulfilling the project targets satisfactory.

The problem arose from a public procurement procedure choice – we used a legal, but different tender procedure than the one the auditors suggested. But both ways were legal. So who was right then? This issue alone resulted in four years of disputes with the auditors whether a proper practice was used for the tender and up till today we can’t reach an agreement. Why? The biggest problem regarding the use of European subsidies we see, refers to supervision, which, as Mr. T’Joen also stated, is superficial. But not only on the beneficiaries’ side...

There’s a lot of paperwork, everything is verified on several levels. No decision is made by sole persons or companies. Procedures just do not allow it. But one has to bear in mind that this is not all about the public tender legislation. During the implementation of an infrastructural project, there are several other legislative acts besides the tender legislation, which are necessary to follow in order to conduct it. Business and planning laws, environmental laws, and legislation connected to the debts and obligations.

After the construction works of the infrastructure object starts, you may at one point face different circumstances than what was originally expected – it may start with the geology assessment done wrongly, the market situation changing rapidly or the climate causing additional problems. Within the duration of such assignments many issues have to be taken into account and dealt with – and it has to be done in a flexible manner, including altering the actual project itself, if necessary. And this is one of the critical points where the officials are expecting the beneficiary to follow the procedures exactly according to the original project, even if it’s no longer suitable. We have heard the suggestions by auditors meaning finishing a given project even if the outcome is wrong in essence and then starting a new tender process and a new venture in order to improve or redo what has been done by the previous tender. This is a waste of time, money and human resources. And this cannot be what the EU structural funds are meant for, it just can’t. This kind of attitude is one reason why we might see freshly built bridges, quays and airports standing empty. So it’s all about the flexibility given by the legislation not about the rigidity.

Moreover, a small push has to be made to the auditor side directly. The simple question is how far the auditors should go in teaching beneficiaries how to deal with the funds, because at times it is the beneficiaries who are more competent in running and developing infrastructure. And it is a competence gathered throughout tens of years, it cannot be compared with theoretical or legal knowledge. Some of the officials auditing the projects simply don’t have enough competence to perform their tasks because of their previous experience. For example, some of them have never participated in public procurement procedures or worked for companies or organizations, developing infrastructure objects. Never put up calls for tenders, or have opened any envelopes with tender documentation for deciding who’s the best; the same goes for making the choice among contractors, taking into account all the factors and legislative acts developer and beneficiary have to do.

The auditors of EU structural funds should be certified regarding their competence in infrastructure development and construction, meaning they need to be able to perform and understand the different sides of the same procedures that are required from the beneficiaries, themselves. We wouldn’t want our annual reports to be audited only by the tax law. Would we?

In my opinion only by taking all this given in this discussion into account, the situation would change, benefiting all the parties involved.
Infrastructure development projects are part of the Port of Hamburg’s daily work. Being connected to and cooperating with many other EU ports we are experiencing different approaches regarding planning procedures, project supervision and necessary follow-up monitoring as described by Luc T’Joen.

Especially the bureaucratic hurdles put up by local authorities are highly diversified within EU countries. However, we will not call into question the EU support regarding infrastructure development. The financial support from Brussels is essential to increase the level of quality of the infrastructure and is one of the main pillars in making economic growth possible. Nevertheless, we would welcome extending the financial support from Brussels towards more sustainable support of project managing skills and know-how.

Establishing a supportive institution from the EU, which is transferring helpful knowledge during the planning process would support standard procedures within Europe.

I completely agree with Luc T’Joen that we have to carry on with EU co-financing in order to set up infrastructure in seaports. But above all, I agree that funds should be given to proper projects which maximize benefits.

However, what I don’t know is how to bring it about without all the bureaucracy in the background when it comes to application procedures. Already today the whole application process, the overall control and being in the swim while executing a project consumes valuable time and resources from the pool of port capacities, occupied by everyday tasks at the same time, naturally. And this is double true for small ports which have limited human resources. Moreover, whilst carrying out a project one must of course constantly monitor the way EU funds are utilized, making it hard to find a proper balance between necessary control and lowering the burden of bureaucracy.

The pace of changes taking place in the shipping world is fairly quick. A port tables an application for EU money on the basis of a certain reality in which the harbour currently lives or hopes to live in. But it isn’t so unusual to see these conditions change during the long implementation process of a given project. A potential party, which originally had a reason to apply for EU money, could have found another solution to its logistics issue in the meantime.

Nonetheless, I think that we’ve got a good starting point for governing the whole issue thanks to establishing the core comprehensive TEN-T network of seaports. This should also cover unbiased project monitoring. The knowledge gathered throughout the whole process will meet EU quality standards on how to develop and lead a project and can additionally be transferred to new projects. This knowledge transfer has a more sustainable character than only the provision of financial support and will be an asset towards the wise usage of EU funds.
Established in 1189, the multipurpose Port of Hamburg, situated 130 km from the mouth of the River Elbe, is today the biggest harbour in Germany (139 mln tn of freight turnover in 2013). With 9 mln TEU Hamburg is also Europe’s second-largest container port.

Every kind of cargo can be handled in Hamburg. There are four box terminals and more than 30 other facilities, serving heavy-lifts, break-bulk, suction goods, liquids and ro-ro freight. Future development will be chiefly focused on container handling expansion with the aim of increasing the terminals’ total capacity up to 18 mln TEU, all of this to strengthen Hamburg’s hub role for overseas trades as well as feeder traffic to & from other parts of Europe.

With more than 110 liner services linking the harbour directly with the majority of 1,000 seaports worldwide, the Port of Hamburg offers versatile sea freight opportunities. Moreover, Hamburg has the densest network of feeder connections in Northern Europe, serving also as the leading transhipment spot for the entire Baltic Sea region (approx. 160 feeder and short sea connections to/from the Baltic and North Seas). In addition, the Port of Hamburg offers top hinterland connections by truck, railway and inland waterway with dozens of shuttles leaving the harbour every week to destinations all over Europe.

**Top 5 European container ports**

Over 20 mln TEU handled in the Top 5 European container ports in the first half of 2014.

According to Port Monitor, in the first half of 2014 the Top 5 European container ports handled nearly 20.4 mln TEU. Invariably, the first four positions in the ranking are occupied by: Rotterdam (6.0 mln TEU), Hamburg (4.8 mln TEU), Antwerp (4.4 mln TEU) and Bremerhaven (2.8 mln TEU). Changes occurred solely in the case of the fifth position. In H1 2013 this place was occupied by Valencia, later surpassed by Algeciras.

<table>
<thead>
<tr>
<th>Port</th>
<th>I half 2013</th>
<th>I half 2014</th>
<th>Yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Rotterdam</td>
<td>5,903,331</td>
<td>6,013,676</td>
<td>+1.9%</td>
</tr>
<tr>
<td>2 Hamburg</td>
<td>4,500,000</td>
<td>4,800,000</td>
<td>+6.7%</td>
</tr>
<tr>
<td>3 Antwerp</td>
<td>4,291,219</td>
<td>4,416,132</td>
<td>+2.9%</td>
</tr>
<tr>
<td>4 Bremerhaven</td>
<td>2,917,597</td>
<td>2,837,252</td>
<td>-2.8%</td>
</tr>
<tr>
<td>5 Algeciras</td>
<td>2,061,501</td>
<td>2,324,264</td>
<td>+12.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19,673,648</td>
<td>20,391,324</td>
<td>+3.6%</td>
</tr>
</tbody>
</table>

**Port Monitor** is a series of periodic reports regarding the seaport markets in the Baltic Sea, as well as on a European and global scale. The reports are prepared by a team of experts from Actia Forum, Gdynia, Poland.
Hamburg port’s key parameters & statistics

**Key strengths:**
- The most important feeder port for the Baltic Sea region
- The second-largest container port in Europe
- Regular connections to over 1,000 seaports in the world
- Plans of expanding container terminals’ capacity in the future up to 18 mln TEU

**Technical parameters**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total port area</td>
<td>7,145 ha</td>
</tr>
<tr>
<td>Land area</td>
<td>4,226 ha</td>
</tr>
<tr>
<td>Water depth</td>
<td>Bottom of the deepest berth – 17 m</td>
</tr>
<tr>
<td></td>
<td>Max. permissible draughts:</td>
</tr>
<tr>
<td></td>
<td>• incoming vessels taking advantage of the swell – 15.1 m</td>
</tr>
<tr>
<td></td>
<td>• outgoing vessels taking into account the tide – 13.8 m</td>
</tr>
<tr>
<td></td>
<td>• incoming and outgoing irrespective of tides – 12.8 m</td>
</tr>
<tr>
<td>Total quay length</td>
<td>51 km</td>
</tr>
<tr>
<td>No. of quays</td>
<td>286 berths</td>
</tr>
</tbody>
</table>

**Statistics (2013)**

<table>
<thead>
<tr>
<th>Type</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquids</td>
<td>14,700,000 tn</td>
</tr>
<tr>
<td>Dry bulk</td>
<td>27,300,000 tn</td>
</tr>
<tr>
<td>Break-bulk</td>
<td>1,931,000 tn</td>
</tr>
<tr>
<td>TOTAL</td>
<td>139,000,000 tn</td>
</tr>
<tr>
<td>Container</td>
<td>9,257,000 TEU</td>
</tr>
<tr>
<td>Ro-ro</td>
<td>260,000 cargo units</td>
</tr>
<tr>
<td>Pax (cruise business)</td>
<td>552,000 pax</td>
</tr>
<tr>
<td>Ship calls</td>
<td>9,700 calls</td>
</tr>
</tbody>
</table>

More information, including terminals, stevedores, networks and investment possibilities at www.harbourreview.com
We hope that you have enjoyed this brand new publication, a part of Baltic Press’ newest project: Harbours Review, European port sector forum. This stands for a comprehensive free online infobase of European seaports (already initiated: www.harboursreview.com) as well as a regular newsletter containing electronic magazines (such as this very one) on key sectorial issues.

The Harbours Review e-zines are designed to cover the most significant port problems and trends noticeable within the European seaport industry; they are also designed to broaden the readers’ knowledge about the industry itself and individual ports within it, as well as on the events happening around the port sector.

The expert’s column as well as the various voices in the debate of people knowing the industry inside and out provide a possibility of looking at a given problem from many different perspectives, in order to grasp a holistic view of a given issue. We hope it will give an impulse to plenty of fruitful, constructive debates, for the benefit of the European port sector. Please let us know if you wish to take part in this project.
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Global shipping alliances
by Chris Welsh, Secretary-General of the Global Shippers’ Forum

HR#3 Competition between North & South
The sulphur challenge

HR#4 Setting up brand new terminals and harbours
The Black Sea Taman project

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