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**EFFECTS OF PROLONGED PORT PRIVATIZATION  
PROCESS: A CASE STUDY OF PORT OF İZMİR  
ALSANCAK**

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***ABSTRACT***

*Developing countries privatize ports with several expectations such as shifting the vast amount of investment responsibility to private parties and increasing the efficiency of the port. Turkey is one of the countries where port privatization practices have been significantly experienced in recent years. The majority of large ports in Turkey operated by the government were successfully privatized through transfer of the operational rights and concessionaires made considerable investments at these ports. However, privatization of Port of İzmir was interrupted after an extended period, and the port has not received a significant investment in infrastructure and superstructure. This paper investigates the case of Port of İzmir to discuss the effects of lengthy port privatization process on users as well as on the competitiveness of the port by examining cargo handling statistics and conducting semi-structured interviews with port users and related practitioners. The case of Port of İzmir Alsancak suggests that although the benefit of port privatization to the public is controversial in port literature, prolonged process of port privatization is detrimental to port users, competitiveness of ports, and to the public.*

**Keywords:** *Port privatization, Port of İzmir Alsancak, effects of privatization, privatization process, port competitiveness.*

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## UZAYAN LİMAN ÖZELLEŞTİRME SÜRECİNİN ETKİLERİ: İZMİR ALSANCAK LİMANI VAKA ÇALIŞMASI

### ÖZET

*Gelişmekte olan ülkeler, büyük miktardaki yatırım sorumluluklarını özel sektöre sevk etmek ve limanların verimliliğini arttırmak gibi beklentilerle limanları özelleştirmektedir. Türkiye son yıllarda liman özelleştirme faaliyetlerinin önemli ölçüde gerçekleştiği ülkelerden birisidir. Devlet tarafından işletilen büyük limanların çoğu işletme hakkının devri yolu ile başarıyla özelleştirilmiş, imtiyaz sahipleri bu limanlara önemli oranda yatırımlar yapmışlardır. Ancak, İzmir Limanı özelleştirmesi uzun süreçten sonra sektöre uğramış, liman bu süreçte önemli altyapı ve üstyapı yatırımlarını alamamıştır. Bu çalışma istatistikî veriler ile liman kullanıcıları ve sektör uzmanlarıyla yapılan mülakatları inceleyerek, uzun süren liman özelleştirme sürecinin liman kullanıcılarına ve limanın rekabetçiliğine olan etkilerini tartışmak için İzmir Limanı vakasını incelemektedir. Liman özelleştirilmesinin kamuya faydalı olup olmadığı konusunda liman yazınında fikir birliğine varılamasa da İzmir Limanı vakası, uzun süren liman özelleştirme sürecinin liman kullanıcılarına, liman rekabetçiliğine ve kamuya zarar verdiğini göstermektedir.*

**Anahtar Kelimeler:** *Liman özelleştirilmesi, İzmir Alsancak Limanı, özelleştirmenin etkileri, özelleştirme süreci, liman rekabetçiliği.*

### 1. INTRODUCTION

Ports play a significant role in the economy of countries and development of regions in several ways (Chang et al. 2014). Since ports are value creating logistics centers (Robinson, 2002) and a vital part of supply chain system, their importance becomes more crucial for port users. Hence, port governance in a country requires ample policies to ensure effective management of ports, and their users and public receive the maximum benefit from ports. Governments in different regions of the world apply privatization and port governance methods (Baird, 2002; Brooks, 2004; and Ferrari et al. 2015) to assure that users of ports achieve efficient and cost effective services, and eventually, the public receives the maximum gain.

In the literature, some authors claim that privatization of ports may provide significant benefits to both users and public (Hoffman, 2001; Cullinane et al. 2002; Tongzon and Heng, 2005). On the other hand, some authors believe that port privatization is not necessary for achieving such benefits (Saundry and Turnbull, 1997; Cullinane and Song, 2002).

However, an important issue not mentioned in the previous literature is the time that privatization takes. Port privatization may take serious time until completion of the process due to political issues as it happened in the privatization of Piraeus Port (Psaraftis and Pallis, 2012) or legal actions objecting the privatization of ports. Even in some cases, the privatization process ends with the failure of privatization after a long time as it is witnessed in the case of Port of İzmir. During this period, the ports under privatization process continue serving their users in an uncertain environment concerning investments and future of the port. Transferring the responsibility of necessary investments from the public to private parties is an important reason of port privatization. Prolonged port privatization process may lead to ineffective operation of ports due to a possible disruption in necessary investments. Thus, the purpose of this study is to shed light on the negative effects of prolonged port privatization process on users by investigating the case of Port of İzmir.

Besides secondary data analysis by statistics, we implemented semi-structured interviews with users of Port of İzmir to evaluate the effects of prolonged privatization process. The paper focuses on the handling of containerized cargoes. Following sections include port governance and privatization process in Turkey, privatization process of Port of İzmir including cargo throughput statistics during the process of privatization, interviews with port users, and a discussion of the results.

## **2. LITERATURE REVIEW**

### **2.1. Port Privatization**

Port privatization has been one of the most important topics of shipping policy and economics in the literature. Since efficiency of ports dramatically influence the trade and economic development (Clark et al. 2004), port privatization has not only attracted attention of academics, but also policy makers. The first port privatization activities occurred in the UK in 1980s (Bassett, 1993), and the privatization of ports has become widespread in other corners of the World such as South America, Far East, and Middle East.

Several forms of port privatization exist that public and private bodies undertake different responsibilities. As for privatization forms, different types exist in the literature but a recent alternative comprehensive list was created by Pagano et al. (2013), who demonstrate that six types of port privatization approaches exist.

**Table 1: Privatization Approaches**

<b>Type</b>	<b>Definition</b>
Pure public	The public sector owns and operates the port
Land owner and regulator	The public sector owns the port and regulates the private sector. Private operator becomes the tenant of the port
Built-operate-transfer (BOT)	The port is built, operated, financed and the delivered to public after an agreed period. It is called as “Green field concession”.
Long lease of existing facility	It is the concession of existing facilities to a private company for agreed period. It is called as “Brown field concession”.
Pure private	The private sector builds, owns and operates the port or public sector sells an existing port to private sector.
Publicization	Opposite of privatization. The public sector becomes involved in the facilities of private port.

Source: Adapted from Pagano et al. (2013)

The benefits that port authorities expect from port privatization are several. Baird (2002) found out that the purposes of port privatization are lowering costs, increasing efficiency, expanding trade, gaining know-how, reducing public cost and others including increasing port revenue and developing a public& private partnership. Van Niekerk (2005) stated that generating funds for investment, increasing efficiency, and achieving cost-effective services are the three core expectations of governments in developing countries from port privatization. Psaraftis and Pallis (2012) stated that the motivations behind the privatization of Port of Piraeus are the necessity of investing around 400 million Euros in the infrastructure of the port, making the port a hub and increasing the productivity. Wang et al. (2013) states the three primary aims of port privatization are improving capital utilization, sharpening managerial incentives and reducing bureaucratic waste. Besides these benefits, Ece and Alkan (2016) states that one of the objectives of port privatization is responding market demand and increasing competition.

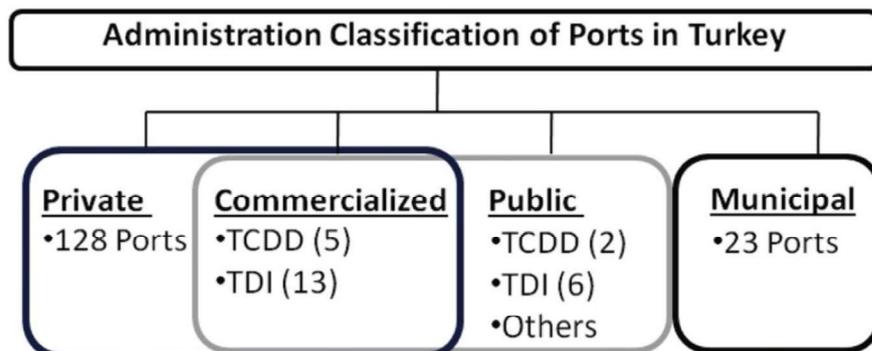
Authors in the literature revealed different opinions regarding if privatization of ports is useful. Hoffmann (2001) stated that Latin American ports have become competitive and provided benefits both for their users and public. Upon a stochastic frontier model for the efficiency of container terminals in Asia, Cullinane et al. (2002) found some support that transfer of ports from the public to private enhance the productive efficiency. In a similar study, Cullinane and Song (2003) found same results for the ports in Korea. Tongzon and Heng (2005) claimed private

participation could yield efficiency at port operation, but the extent of involvement should be limited to landowner and operations functions. Wang et al. (2013) also stated that private sector participation can improve the financial performance of ports. Guasch et al. (2015) claim that port privatization in Latin America has favorable results but governments should strive for having more favorable concession agreements and promote competition between ports.

On the other hand, Saundry and Turnbull (1997) objected the necessity of port privatization and claimed that an improvement can be achieved by deregulation of employment. In parallel to the argument of Saundry and Turnbull (1997), Cullinane and Song (2002) also claim that geographical location and deregulation improve the port performance and efficiency more than port privatization. Cullinane et al. (2006) applied Data Envelopment Analysis and concluded that privatization of ports does not necessarily increase efficiency.

## 2.2. Port Governance and Port Privatization Process in Turkey

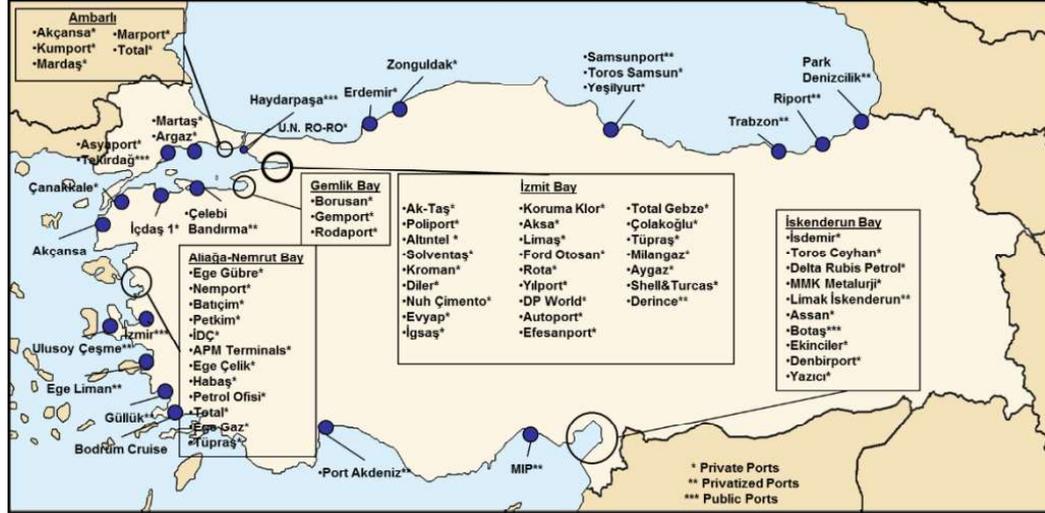
Currently 178 ports are located among Turkey's coastal line (Esmer and Duru, 2017). 75% of the ports in Turkey are operated by private companies and the rest of the ports managed by related public bodies and municipalities. Turkish Maritime Administrations (TDI) and Turkish State Railways (TCDD) are state-owned enterprises that operate public port.



**Figure 1:** Ports in Turkey According to Their Administration Classification

Source: Esmer and Duru, 2017

Port privatization activities in Turkey started during the 90s. Today, only a few ports remain public including Port of İzmir, which is evaluated in this study. Recently, the existing ports can be categorized into four groups according to ownership: municipal ports, public ports, privatized port, and finally private ports (Figure 2).



**Figure 2: Ports in Turkey**

Source: TÜRKLİM, Turkish Port Sector Report, 2016

Since they serve only local traffic and have limited cargo volume, municipal ports are excluded. Figure 2 shows the major private, privatized and public ports. Private and privatized ports handle over 90% of cargo volume.

In Turkey, port privatization process has set out in the Privatization Law No 4046, dated 1994 and managed by Privatization High Council. With using operation rights transfer method, started in 1997, and the process has not been completed. Six of TDI ports (Tekirdağ, Gokceada Kuzu, Gokceada Ugurlu, Canakkale, Sarayburnu, and Kabatepe Ports) and two of TCDD ports (Port of İzmir and Haydarpaşa) have not been privatized.

As the Port of İzmir is one of TCDD port, this study mainly focuses on the privatization of TCDD ports. TCDD ports are considered to hold more importance comparing to TDI ports since TCDD ports have railway connections and are located in the heart of industrial regions. TCDD ports were among the most important ports in Turkey in 2004. For instance, the three TCDD ports (İzmir, Mersin, and Haydarpaşa) carried out 54% of total 3 million TEU containers handling of Turkey while rest was performed by other 12 ports in 2004. On the other hand, none of the

container handling ports was operated by TDI. This vital importance of TCDD ports attracts the attention of not only local operators but also global container terminal operators towards privatization of ports. For instance, PSA-Akfen Joint Venture was involved in the group that won the tender of privatization of Mersin Port through a concession agreement in 2005. The concessionaire has made a significant amount of investment since the privatization of this port. This privatization can be considered to be a successful example in terms of the investment made by the tender winner. Another successful port privatization in Turkey stated by Ateş (2014) is the concession of Port of Iskenderun.

Similarly, Global Hutchison won the tender of Port of İzmir privatization in 2007, but the privatization was canceled in 2009 due to legal actions by nongovernmental organizations and the global economic crisis experienced in 2008. Table 1 illustrates the port privatization activities of TCDD ports in Turkey.

**Table 2: Port Privatization Activities of TCDD Ports**

<b>Ports</b>	<b>Tender year/ Duration (year)</b>	<b>Privatization price (USD)</b>	<b>Concessionaire</b>	<b>Current situation</b>
MIP	2005/36	755.000.000	PSA/Akfen O.G.G.	Transferred in 2007
Iskenderun	2010/36	372.000.000	Limak Enerji	Transferred in 2012
Bandırma	2008/36	175.500.000	Çelebi O.G.G.	Transferred in 2010
Samsun	2008/36	125.200.000	CEYNAK Logistics	Transferred in 2010
İzmir	2007/49	1.275.000.000	Global- Hutchison-EIB.	Cancelled in 2010
Derince	2014/39	543.000.000	Safi Holding	Transferred in 2015

Source: Prepared by authors based on Privatization High Council webpage, Access date: 27.08.2017.

All transferred TCDD ports are privatized through the transfer of the operation right method for the specific time given in the Table 2. The only TCDD port which has not been decided to be privatized is Istanbul Haydarpaşa Port. The reason why this port was not privatized is considered to be its strategic location in the heart of İstanbul. Considering the Table 1, the only port that privatization failed is Port of İzmir.

Although a tender for privatization is planned in 2016, the situation is unclear due to legal cases appealed by NGOs.

### **3. CASE STUDY OF PROLONGED PRIVATIZATION PROCESS OF PORT OF İZMİR**

This study investigates the case of Port of İzmir privatization process in two sections. First, we analyzed containerized cargo throughput of Port of İzmir during the privatization process. Then, we conducted semi-structured interviews with users of Port of İzmir as well as related professionals. According to Bryman (2008), interviews should have a deeper insight of a situation, and in this study, it is carried out by using a semi-structured form with selected industry experts. Table 3 shows the details of interviews.

**Table 3: Profiles of Interviewees**

<b>No</b>	<b>Title</b>	<b>Company</b>
1	Vice Manager	Port of İzmir
2	General manager	Liner Agency 1
3	Manager	Liner Agency 2
4	Export Manager	Liner Agency 3
5	Import Manager	Liner Agency 3
6	Operation Manager	Liner Agency 3
7	Export Manager	Liner Agency 4
8	General Manager	Liner Agency 5
9	Export Manager	Liner Agency 5
10	Import Manager	Liner Agency 5
11	Export Manager	Liner Agency 6
12	President	Chamber of Shipping İzmir Branch
13	Consultant (Ex-General Manager Turkish Maritime Organization for Aegean Region)	Chamber of Shipping İzmir Branch
14	Academician	Dokuz Eylul University Maritime Faculty

The interviews were conducted at the offices of participants and each interview took approximately 1 hour. All the interviews were recorded and notes were taken during the interview. Since theoretical saturation was reached upon interviews with 14 participants, we stopped the interview process (Bryman, 2008). The first set of interviews was conducted in March 2010. Besides, interviews with Vice Manager of Port of İzmir and a General Manager of Liner Shipping Agency were performed to evaluate the situation of port after it was sure that

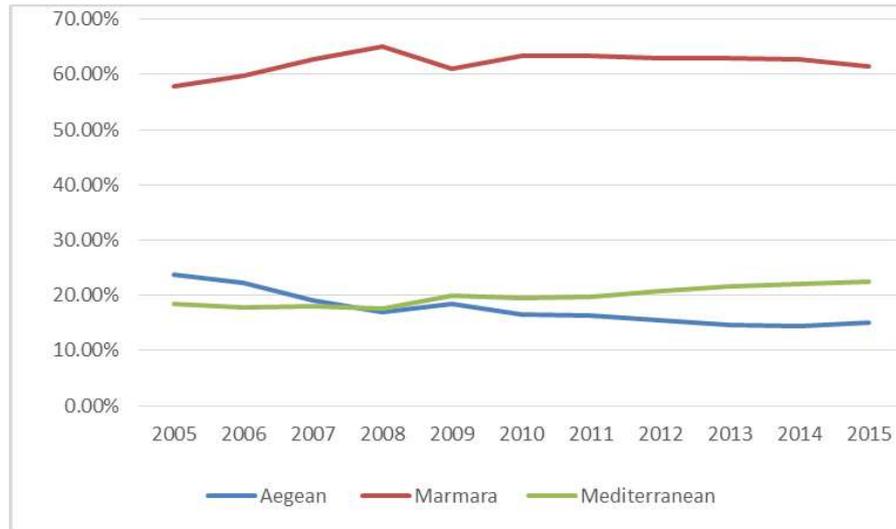
concession tender was canceled in 2015. By this way, we can present a comparison of the period from privatization decision to cancellation time and the period of after concession tender cancellation.

### **3.1. Privatization Process of Port of İzmir**

Although Privatization High Council included the Port of İzmir in the process of privatization by using transferring of operation rights on December 30,2004, the tender was completed approximately three years later in May 2007, and the Council approved it on July 3, 2007. However, The Port Worker Union and Development of Public Management Foundation (KIGEM) agreed to litigate to cancel the tender. After two years, the consortium, consisting of Global Investment Holding-Hutchison and Aegean Exporters Unions Port Services Inc. (LIMAS), was invited to sign the agreement in November 2009, yet they did not sign due to some reasons including global financial crises and other developments in the region (PA, 2011). Finally, the Privatization Council invited Çelebi Holding for concession, who was the second bidder and tendered USD 1.270 billion. This bidder also rejected signing the agreement, and the tender was canceled.

### **3.2. Containerized Cargo Throughput of Port of İzmir Alsancak**

Port of İzmir as a multipurpose port, which handles more than three types of cargo, had been the only port handling containers in the region until 2009. The port has railway connections and traditionally has been handling a significant amount of total export cargo volume of Turkey. However, the port started to lose its container throughput share in Turkey as shown in Figure 3.



**Figure 3:** Comparison of Containerized Cargo Share of Three Main Port Regions of Turkey

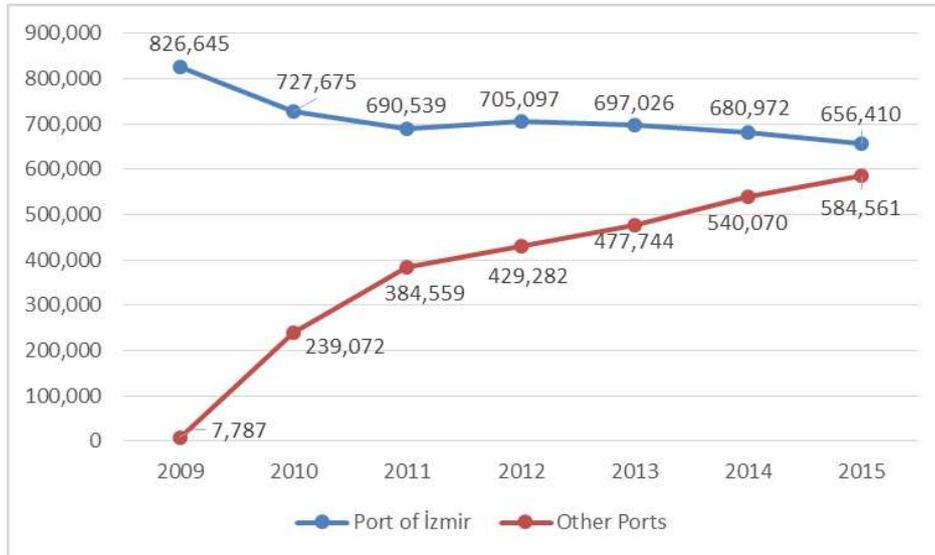
Source: Drawn by authors based on TÜRKLİM Turkish Port Sector Report, 2016

Figure 3 illustrates the containerized cargo share of regions in Turkey. It is very clear in Figure 3 that proportion of Aegean Region concerning containerized cargo has also been declining since 2005 when privatization decision was made. The market share of Aegean Region decreased from 24% in 2005 to 15% in 2015. On the other hand, the market share of Mediterranean Region increased from 18% in 2005 to 23% in 2015. It is a meaningful illustration since Port of İzmir had been the only port until 2009 in Aegean Region and the majority of containerized cargo throughput in Mediterranean Region is handled at Mersin International Port (MIP), which was started to be operated by PSA after a successful privatization process. MIP has been the second largest port after Marport in terms of container handling amount in Turkey for ten years, and the gap between Marport and MIP has been reducing year by year.

It is noteworthy that investments to port regarding infrastructure, superstructure, and equipment were ceased as the privatization decision was made in 2004. This lack of investment caused important problems on the operation of container terminals such as congestion at the port, which will be explained in detail in the interviews section. Although other reasons may exist, this lack of investment seems to be a major reason why the cargo has shifted to other ports located in different regions as a consequence of inter-port competition. A stronger rationale about

decreasing the competitiveness of Port of İzmir can be better explained by the intra-regional competition.

Intra-regional port competition can better explain the declining competitiveness of Port of İzmir. In December 2009, two new container terminals were built by private enterprises in the same region. These two terminals are in Nemrut Bay, which is around 50 kilometers distance from Port of İzmir. These two container terminals are far from the industrial zones comparing to Port of İzmir. Besides, hinterland connection is considered to be not as good as Port of İzmir. However, the number of containers handled at these private terminals has been increasing rapidly, and the gap between Port of İzmir and these two ports in terms of cargo throughput is closing as shown in Figure 4. Figure 4 illustrates the total number of containers handled at Port of İzmir and other two container terminals in the region.



**Figure 4:** Comparison of Container Throughputs of Ports in Aegean Region.

Source: Drawn by authors based on TÜRKLİM Turkish Port Sector Report, 2016

Despite the fact that Port of İzmir, compared to other two container terminals, is located closer to industrial areas and the port has railway connection as well as better highway network, the share of Port of İzmir has been dramatically decreasing since 2009. This illustration holds a more persuasive rationale to indicate declining competitiveness of Port of İzmir. As mentioned earlier, lack of investments and lack of enhancements at port operations due to the long process of privatization

are important reasons of the decreasing competitiveness. However, interviews with users of ports as well as related professionals are needed for having deeper insights of the situation.

### **3.3. Interview Results**

The effect of privatization process on port users is evaluated in two separate parts based on the interview results: tender period and post-tender period. In the first part, the problems that users encountered at the port are analyzed until the date of cancellation of the concession tender in 2009. The second part investigates the period beginning with the date of cancellation of the tender until the present situation in late 2015.

#### **3.3.1. The Tender Period**

The tender period covers the time from the decision of privatization until the cancellation of the tender in 2009. In the tender period, the trade volume increased like all over the world until the end of 2008, and this rise caused congestion problem due to infrastructure and equipment shortage. The details of the problems faced by the port users are given below.

- ***Management and Personnel***

All of the interviewees stated that since the port was publicly-owned and personnel was appointed by the state, port management was inflexible due to a bureaucratic structure which was subject to several regulations in the tender period. Any decision related to the port operation or management required several approvals from different authorities. Needed spare parts, for example, were not provided in due time because of buying procedure such as auctions. This shortage is lengthened the repair periods and caused significant delays that port users suffer. However, regarding the daily operations including permissions and documentation, the bureaucracy level at the Port was not found to be significant by the interviews.

In the tender period, a shortage of personnel existed at the port in particular regarding crane and other cargo handling equipment operators. The staff trained for repair and maintenance was considered to be well qualified by the interviewees, but repair and maintenance personnel also lacks in number. Shortage of personnel caused fewer gangs and shifts for the loading and discharging operation. The port management was also

aware of this shortage and was planning to take necessary actions to overcome this problem in the tender period. However, according to interviews, since the Port entered into privatization process, the port management did not take necessary actions regarding personnel.

- ***Infrastructure, Superstructure and Equipment***

Draft of the port was the most critical infrastructure problem in the tender period. The maximum draft was 11 meters including approaching channel, and it restrained ships more than 11 meters draft to approaching the port. Moreover, this situation hindered the port to be a regional hub. Those ships with drafts of over 10 (approximately 4000 TEU capacity container ships) were not able to enter the port. A liner agent in the interviews stated that “*we shifted a large amount of our shipments to one of the private container terminals in Nemrut Bay due to the draft restriction of Port of İzmir. By this way, we can utilize larger vessels for this region*”. It was accepted that a port had to have a draft of around 14,5 meters to offer effective services. Although the approach channel was planned to be dredged, it has not yet started. In those years, ships which have an 11-meter draft or over were not calling Port of İzmir or they called the port with more than half empty hatch. This situation was also the main reason of changing the port of call from Port of İzmir to ports in Nemrut Bay.

According to the interviews, the port area was not sufficient, but it was possible to enlarge the area from 500,000 to 1,000,000 sqm. The interviewees also mentioned about insufficient container stockyard problem. On the other hand, the area of container stuffing and container freight station (CFS) was not enough. Interviewees have also evaluated the container handling equipment. Since almost all equipment was old and insufficient, the operations were restricted due to height and outreach capacity of the cranes. Besides, cranes were often breakdown, and they were taken to maintenance one by one in turn. Other equipment including RTGs, forklifts, and top lifts were not effective enough as well. For handling their cargoes, the agents preferred to use their own equipment.

- ***Port Operations***

Not only insufficient cargo equipment but also a shortage of personnel caused low productivity. For instance, while ports in Nemrut Bay handled approximately 40 TEU/hour, it was only 15 in Port of İzmir in 2010. One of the interviewees represented a shipping line was stated

that while 400 TEU loading and unloading operations were completed in 8 hours at ports in Nemrut Bay, the same operation completed almost 24 hours at Port of İzmir. Because of many container shipping lines shifted their ships to Nemrut Bay, congestion of Port of İzmir has lessened. Yard operations including stuffing, stowing and CFS activities were not also at the desired level. Though the equipment was over-aged, there was not any attempt to buy new equipment. Due to insufficient container stuffing area, most port users shifted to their CFS operations to container depots located outside of the port. Vehicle traffic at port entry and exit gates was intense, and after some stuffing activities were moved out of the port and some shipping lines shifted to ports in Nemrut Bay, the traffic was relatively lessened.

In the past, there was an insurance, which covered, damaged cargoes at the port; it was not available. Although small-scale damages were corrected, big scale ones corrected only by the ship owner. Because of customs declaration were not issued on time, ship and cargo handling operations delayed.

- ***Hinterland Connection***

The port had a railway connection, but only 2% of the containers were transported to port by rail. The highway connection of port was considered to be good, and the connection was believed to be better with newly planned highway connections. These further links were considered to help both the port and city traffic congestions to be relieved. It is the fact that the location of Port of İzmir was more convenient than ports in Nemrut Bay to the main industrial areas.

- ***Automation***

In the port, there was not any terminal operation system (TOS) or automation system. Almost all operation including tracking and tracing was done by manually and it was inefficient. It caused loss of containers in stacking area, waste of time to find the container, lack of yard planning, increasing container shifting, less land utilization ratio, longer customs procedure, demurrage/stowage cost and longer container receiving/delivering time to the shipper.

### **3.3.2. The Post-Tender Period**

The port is still under privatization process since the unsuccessful result of the first tender in 2009. In the new tender, the port is planned to be privatized through concession in two parts: Container terminal and cruise terminal. The tender has not been held so far regarding this privatization.

Before the second tender, the government has decided an investment of USD 300 million and prepared a strategic plan. The investment decisions are divided into three as urgent plan, short-term plan, and midterm plan. The urgent plan includes repairing of existing cranes, purchasing of new cranes, transferring new personnel from other TCDD ports, minimizing bulk cargo handling, reinforcing some structures, revising the lightening system and moving oil station and water purification system away. Short-term plan is comprised of connecting the port with the new highway, organizing the roads at the port, reinforcing of terminal area and settling a new automation system at the port. The midterm plan involves dredging of the seabed, the building of two cruise piers, passenger hall, and container quay by means of the build-operate-transfer system, conversion of dry bulk berths to container berths, demolishing the idle warehouse for building a container stock yard.

The investment made under the strategic investment plans and the problems encountered by port users due to incomplete investments at the Port of İzmir at post-tender period are given below:

- ***Infrastructure, Superstructure and Equipment***

The dredging has not been carried out since the report of Environmental Impact Assessment has not been issued. The width of approaching channels is planned to be 250 meters while the depth is planned as 14 meters. The length of quays will be extended 40 meters. A water circulation channel is also planned. One quay, which is designed for dry bulk cargoes but also used for containers when needed, has been completed. Fenders at the port have also been renewed and a waste centre was built. The connection of port with new highways has been accomplished.

Enlarging and reinforcing of container stocking area have been completed. Container Freight Station areas have been reduced to 4000 m<sup>2</sup>. Three mobile cranes have been purchased while maintenance of all

cranes has been done. Besides, two mobile cranes have been hired and 8 tractors and 4 RTGs have been purchased.

- ***Port Automation***

Automation of container operations at the port has not been accomplished yet.

- ***Port Operations***

The congestion problem was solved but the low productivity (15 moves by crane per hour) at container terminal has been a serious issue. One of the reasons of low productivity is considered to lack of crane operators at the port. Another reason is indicated as the lack of trucks for movement of containers from the apron to container yard. The port authority increases the number of gangs to tackle this problem.

As a consequence of the problems experienced at the port, 14 container lines shifted their port of calls to the ports in Nemrut Bay. The reasons stated by the interviewees are a deeper draft of ports in Nemrut, higher handling capacities, relatively more competitive tariffs, more advantageous navigation location, higher cargo handling productivity and lower turnaround time of ships.

#### **4. DISCUSSION**

The role of ports in a region is significant as they provide access to import and export cargo. Sound port management practices with necessary investments in the superstructure; infrastructure and equipment support the competitiveness of port users by decreasing total time, cost and cargo loss and damage. Managing port operations well and performing necessary investments at a port influence the competitiveness of the port as well. Dissatisfaction of port users may result in losing customers of a port to another one, especially in contestable markets. However, the investments that ports require usually demand a huge amount of capital. The port investments should be continuous as well considering the constantly changing shipping market environment such as increasing size of vessels and automated cargo handling systems.

In fact, one of the important reasons for port privatization is reducing the cost of the public that occurs due to the continuous and a huge amount of investments (Baird, 2002). By privatizing the ports,

governments aim to generate income, reduce the public cost, increase efficiency and encourage free enterprise. The case of Port of İzmir also indicates that the government stopped investing for the port after privatization decision was made. It seems quite reasonable for the government to stop investing in Port of İzmir since one of the aims of privatization was reducing the financial burden of the state. However, it took five years from the decision of privatization in 2004 to cancellation of the port's transfer to the concessionaire. Almost no investment was made for the port during this period except some compulsory purchases and repairs for the daily operations.

The interviews indicate that Port of İzmir needed several investments for offering more efficient and effective service to its users. First, a dredging of approach channel to the port was necessary to serve vessels with a draft of over 10 meters. The port area was needed to be enlarged and new port handling equipment had to be purchased. The container lines in the interviews also stated that they suffered from inefficient and ineffective service caused by inflexible port management and operations. In fact, the port authority detected all these problems, but no action was taken as the port was under privatization process. However, the process lengthened after court actions taken by some NGOs and the concessionaire abandoned the concession, especially after the economic crisis occurred in 2008. After the withdrawal of concessionaire from the concession, the port authority at Port of İzmir decided to make necessary investments and take necessary actions to enhance the operations at the port.

In result, Port of İzmir Alsancak – the only container handling port in Aegean Region of Turkey until 2009 – first started to lose its share of total container throughput in Turkey. Port of İzmir did not only serve shippers located in Aegean Region but also shippers, especially exporters, in other regions of Turkey. The rising container throughput share of the Mediterranean region, mostly carried out by Mersin Port, indicates some of the cargoes located incontestable hinterlands were shifted to the Mersin Port. Although we cannot claim lack of investment and enhancing of operations at the port during prolonging privatization process are the only reasons behind this cargo shift, both statistics and interviews indicate strong rationale that lack of investment and necessary enhancements at Port of İzmir are the major reasons.

Container throughput comparison of Port of İzmir Alsancak and two private container terminals established in the same region in 2009 is another explanation of why the lack of investment and enhancement of

operations are the reasons of Port of İzmir to lose its competitiveness. Although industrial areas have been traditionally located close to Port of İzmir, some container lines started to call other two container terminals in the region. Our interviews suggested that the major reasons why these lines shifted to the other two private terminals are the insufficient draft, inadequate handling equipment at Port of İzmir and inefficiency of cargo handling. The statistics clearly support the statements of interviewees as well. Port of İzmir has been dramatically losing its container throughput share against the other two container terminals despite its more advantageous location.

In fact, the competition between these two private container terminals and Port of İzmir confirms the discussion of Guasch et al. (2015) who states that besides privatization of ports, competition between ports should be supported by governments for the benefit of port users and public. The shipping lines that used to call Port of İzmir – but suffered from the inefficiency of the port due to lack of investment and enhancements – could shift their services to the other container terminals serving the same hinterland. By this way, detrimental of public due to the inefficiency of port operations can be minimized. We made the cargo throughput comparison of Port of İzmir and the other two private container terminals to point out the decreasing competitiveness of Port of İzmir.

Port privatization has been an important debate whether it is beneficial to the public or not. For instance, privatization of Port of Mersin and Port of Iskenderun in Turkey – though not empirically proven – seem to be favourable for the public. Private parties at these ports have made a significant amount of investments by and competitiveness of the ports. On the other hand, Saundry and Turnbull (1997) claim privatization of ports is a private profit but public loss. Albeit the debate of whether port privatization is profitable or not, the case of Port of İzmir implies that prolonged process of port privatization is a loss for the public. Prolonged privatization process or failure of port privatization may cause serious problems and dissatisfaction of port users, which eventually leads the port to lose its competitiveness. Privatization process may be interrupted due to economic, legal or political issues in a country. Thus, policy makers should be more careful before making the decision of privatization and ensure that the privatization process is to be completed as soon as possible after the decision is made.

## 5. CONCLUSION

This paper discusses how prolonged process of port privatization can be harmful to the users of a port as well as its competitiveness by investigating the case of Port of İzmir Alsancak. Both cargo handling statistics and interviews suggest that Port of İzmir has been losing its competitiveness against other container ports. Ports require a substantial amount of investment to sustain their services efficiently. Shifting the responsibility of port investment to private parties is one of the important reasons of port privatization decision of governments. In the case of Port of Mersin and Port of Iskenderun concessions in Turkey, the concessionaires made significant investment both in the infrastructure and superstructure of the ports. However, the necessary investments required for Port of İzmir were made neither by the government nor by any private party because of the prolonged and unclear situation of privatization. Hence, we suggest that the privatization decision on ports should be thoroughly contemplated by governors before announcing a tender to make the privatization process as soon as and as clear as possible.

The main contribution of this study is that, rather than focusing on if port privatization is a right or wrong decision, it highlights the importance of time that elapses during port privatization. The results and conclusions are based on cargo handling statistics and semi-structured interviews with mostly liner shipping companies as port users. Future studies may include freight forwarders, shippers, and custom brokers. Opinion of Ro-Ro, dry bulk, and liquid bulk cargo service providers and customers can also be investigated. Besides, a future study may survey the public's opinion regarding privatization of Port of İzmir Alsancak. After all, the privatization decision is made for the benefit of public.

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## **APPENDIX - Interview Questions**

### **PRE-TENDER PERIOD**

#### **Managerial Problems**

- 1- Does the port have any managerial problems? If yes, what are the managerial problems in your opinion?
- 2- Is there any bureaucracy at the port? Does the system work slowly at the port?
- 3- What are the personnel related problems? (Is there any lack of personnel, is there any inefficiency among the existing personnel)

#### **Infrastructure, Superstructure and Equipment**

- 4- Do you think the port has infrastructure related problems?
- 5- Does the draft of port cause any problems? (at port and at approach canal)
- 6- What are the superstructure related problems that you face with at port?
- 7- What are the equipment related problems in your opinion?

#### **Port Operation**

- 8- Can you mention, if any, problems related with ship operation?
- 9- Can you mention, if any, problems related with port operation?

#### **Port Productivity**

- 10- Is the capacity of the port enough?
- 11- Is the cargo handling speed acceptable level?
- 12- Is cargo handling operation hours satisfactory?
- 13- Is there any congestion at the port?
- 14- Are CFS operations and container stock yard operations done at desired level?

#### **Hinterland Connection**

- 15- Is there any intermodal connection related problem? Is the accession to port through railway and road problematic?
- 16- Does geographic location of the port create any problem?
- 17- Is there a traffic problem for trucks at the port? Is there any traffic system or order at the port?

**Automation**

- 18- What are the IT related problems? Is there any technological investment made to become an e-port?

**Investment**

- 19- Do you think necessary investments are made at the port? (especially infrastructure and handling equipments)

**General Questions**

- 20- Please state if there is any other problems at the port.

**POST TENDER PERIOD**

- 1- After the unsuccessful first tender, will Port of İzmir be under privatization process again? (If so, How?)
- 2- Will government make investments in the Port of İzmir? (If so where?)
- 3- Are there any problems solved at the port after the first tender related to infrastructure, superstructure, equipment and automation).