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Piraeus privatisation revisited: Port Policy, Economic Policy, or Geopolitics?

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Work in Progress

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STUDY

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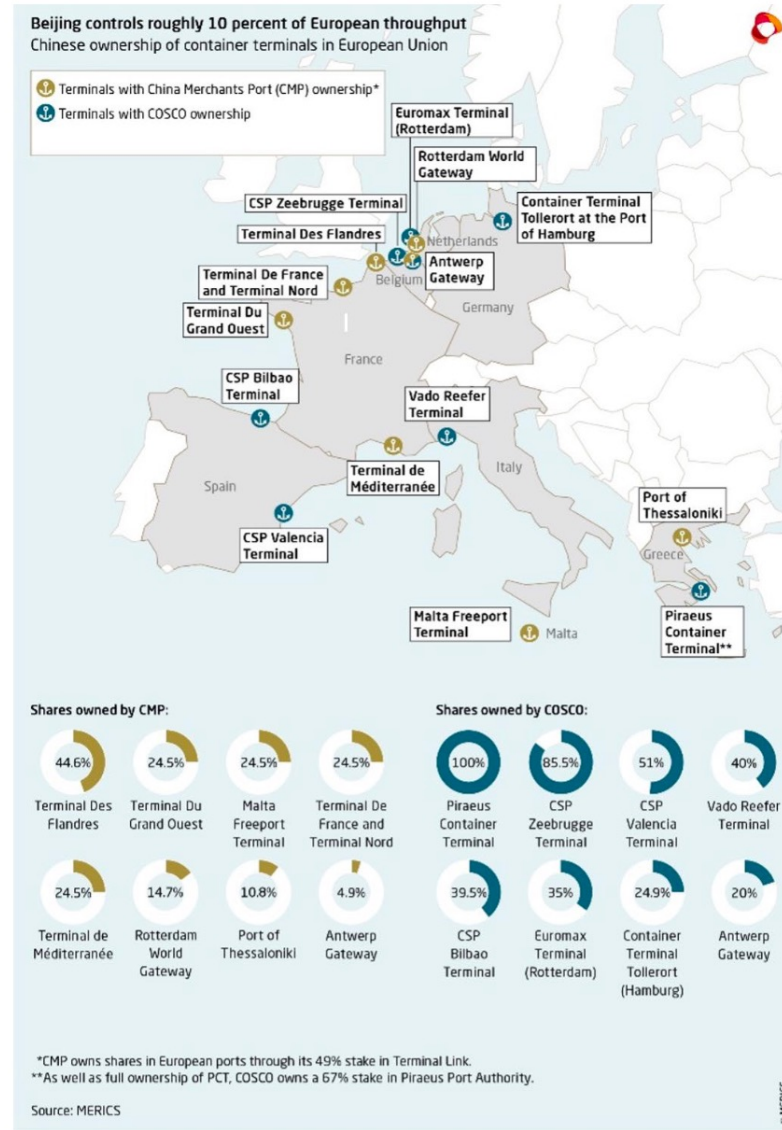
Chinese Investments in European Maritime Infrastructure



Transport and Tourism

Policy Department for Structural and Cohesion Policies
 Directorate-General for Internal Policies
 PE 747.278 - September 2023

EN



Overseas investments by COSCO Shipping Ports Ltd

Terminal	Country	Jan-Aug 2023 Throughput ('000 TEU)
COSCO-PSA Terminal Private Ltd.	Singapore	3.576
Piraeus Container Terminal S.A.	Greece	3.046
Suez Canal Container Terminal S.A.E.	Egypt	2.586
Busan Port Terminal Co. Ltd.	S. Korea	2.507
Red Sea Gateway Terminal	Saudi Arabia	2.089
COSCO SHIPPING Ports (Spain) Terminals S.L.U.	Spain	2.076
Euromax Terminal Rotterdam B.V.	The Netherlands	1.660
Antwerp Gateway NV	Belgium	1.340
Kumport Liman	Turkey	935
CSP Abu Dhabi Terminal L.L.C.	U.A.E.	860
CSP Zeebrugge Terminal NV	Belgium	356
APM Terminals Vado	Italy	198
Container Terminal Tollerort	Germany	183
SSA Terminals (Seattle), LLC	USA	103
Reefer Terminal S.P.A.	Italy	39
Port managing entity ownership	Country	
Piraeus Port Authority S.A.	Greece	

Source of throughput: COSCO SHIPPING Ports Limited (2023). Container Throughput in August 2023

Our approach

- We aim to answer the following research question

Can countries create geopolitical leverage through international activities of State Owned Enterprises (SOEs) in maritime transport and global supply chains?

- The underlying assumption is that the particular investments can only be partially understood by examining one of the following dimensions (as it is frequently the case):
 - i. trends in a given port's competitiveness (i.e. port economics) and/or long-term prospects**
 - ii. the economic context that shapes the decisions of countries to proceed with particular port reforms**a third dimension is present and dominant in the case of such investments:
 - i. The Home country's capacity to 'leverage' (via SOEs activities)**

Defining “leverage”

- **Geopolitical leverage through international SOE activities:** the use of a SOEs capacity to affect the ‘*Host Country*’ in achieving security, economic and strategic interests.
- **Leverage includes**
 - I. the capacity to ‘create value for society’ in Host Countries and
 - II. the capacity to ‘incur costs for society’ in Host Countries.
- Both capacities can be used in bargaining to advance the Home Country’s economic strategic, and security interests.
- Understanding leverage thus entails both *Home Country* and *Host Country* considerations.

This study

- Our study: focuses on **leverage through control over maritime transport and global supply chains**.
- **Given that leverage can cause harm**, our perspective is that in case of existence, states should seek insights and guidelines to limit vulnerabilities through activities of foreign SOE activities.
- Within this conceptual framework (and at this stage):
 - we do not explicitly address the likelihood that countries that have geopolitical leverage through SOE activities will use this leverage. -this is a relevant consideration that requires further analysis.
 - Yet, we will discuss (as part of the workshop) whether and in which ways in the particular case study (Piraeus, Greece) such usage has been already present

Approach: Four types of relevant SOEs in maritime logistics

- I. **Terminal operations** (relatively often international activities of SOEs)
- II. **Shipping services** (International activities of SOEs by and large limited to Chinese SOEs)
- III. **Port development** (some international activities of SOEs = gained via controlling/owing of the port managing entity)
- IV. **Supply chain services** (International activities of SOEs - by and large limited to Chinese SOEs).

Approach

Leverage Independent of dynamics in global supply chains

Home country leverage over host country through Maritime Logistics SOE(s)

Access to potentially confidential data

Influence over the use of infrastructure for military transport purposes

Regulation:
an imperfect but relevant mechanism to reduce leverage

Leverage through (re)shaping global supply chains

Ability to increase/reduce maritime connectivity

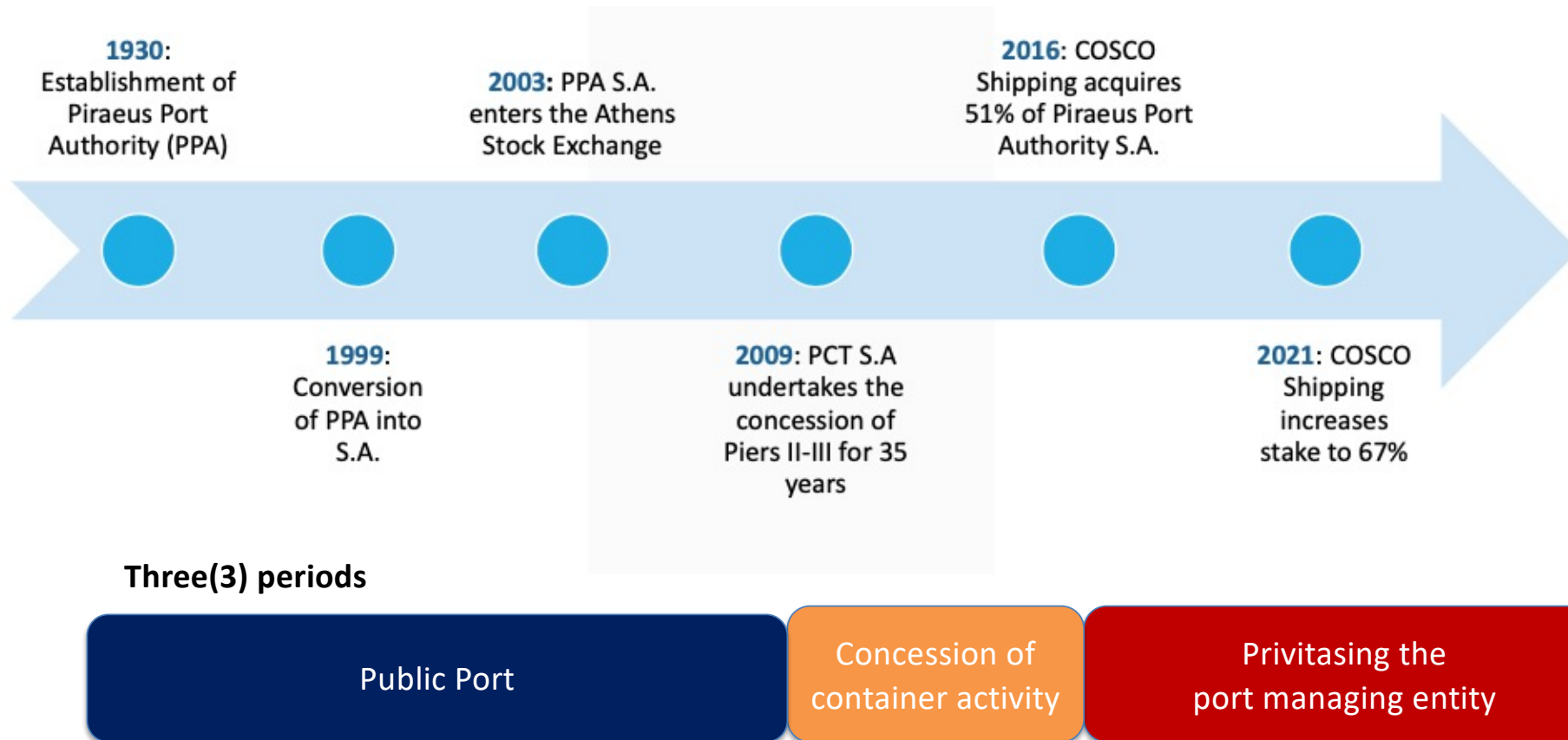
Ability to increase/decrease the economic value of the host country

Ability to influence strategic supply chains to/from the host country.

Home Country leverage over Host Country through Maritime logistics SOE(s)

	Ability to increase/reduce maritime connectivity	Ability to increase/decrease the economic value of the host country	Ability to influence strategic supply chains to/from the host country.
Terminal Operations	Number of terminals - Share of SOE in the Host country's total market.	Switching costs of users to other terminal(s) in the host country.	SOE terminal operations for strategic commodities such as energy commodities
Shipping Services	Market share of SOE - Share of SOE in transshipment operations	Switching costs of users to other shipping lines.	SOE shipping services for strategic commodities such as energy commodities
Port Development	Number of terminals - Share of SOE in the Host country's total market.	Switching costs of users to other port(s) in the country.	SOE role in developing new facilities to handle strategic commodities.
Supply Chain Services		Ability of service provider(s) to redesign supply chains	

Piraeus Port: milestones towards full privatisation

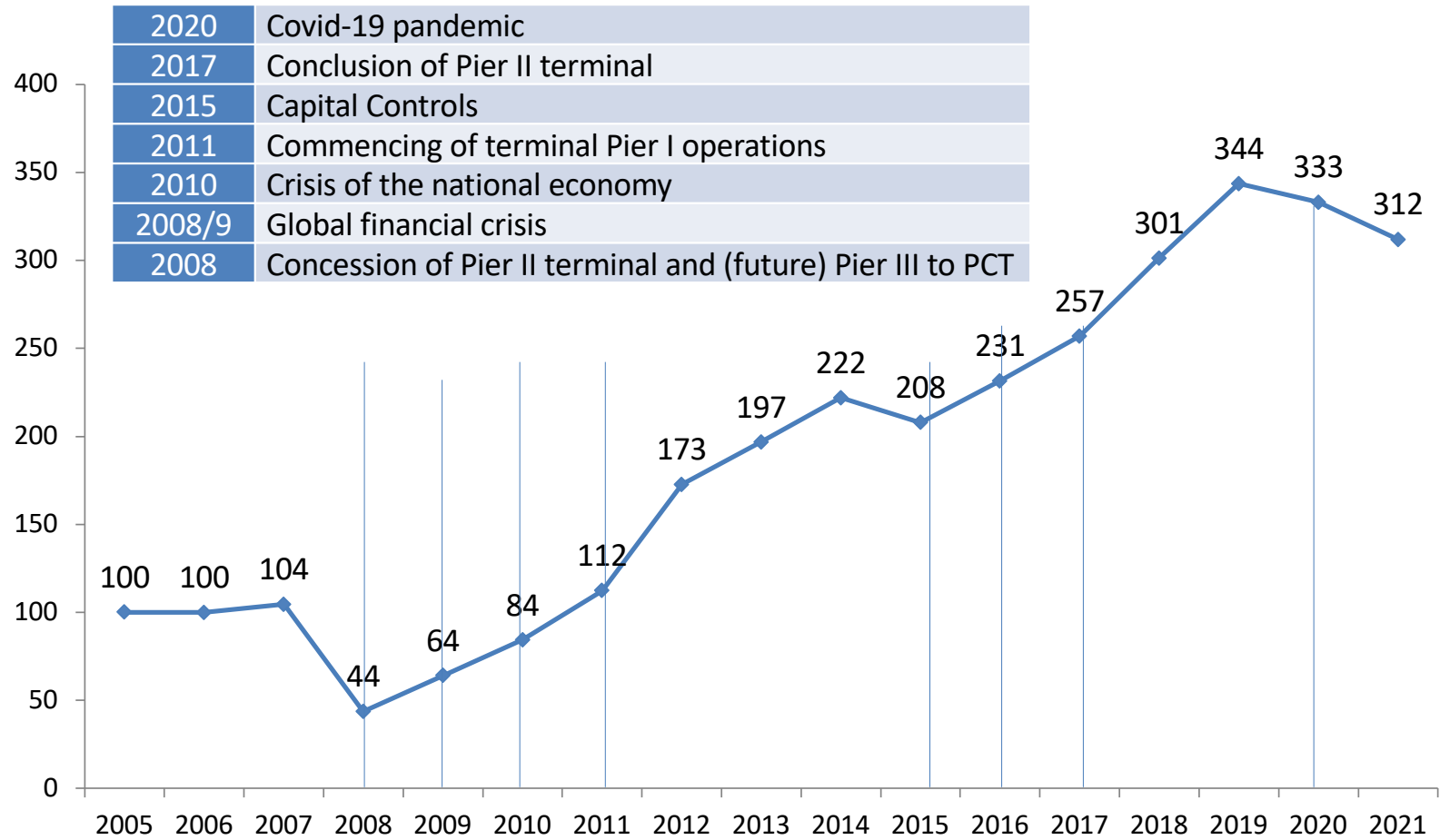


Port performance reveals SOEs' capacity for generating leverage

- CHINA COSCO SHIPPING has demonstrated the capacity to increase maritime connectivity in different respects:
 - I. **Increased number of containers** handled despite the negative conditions of the national and/or of the international economy
 - II. **Increased share of the home country's (and European) container market** captured by SOE
 - III. **Substantial improvement of the connectivity levels (LSCI)**
- The levels of market concentration in (a) the liner shipping industry and (b) in the Global Terminal Operators (GTOs) market is relevant: COSCO is a major player in both markets.

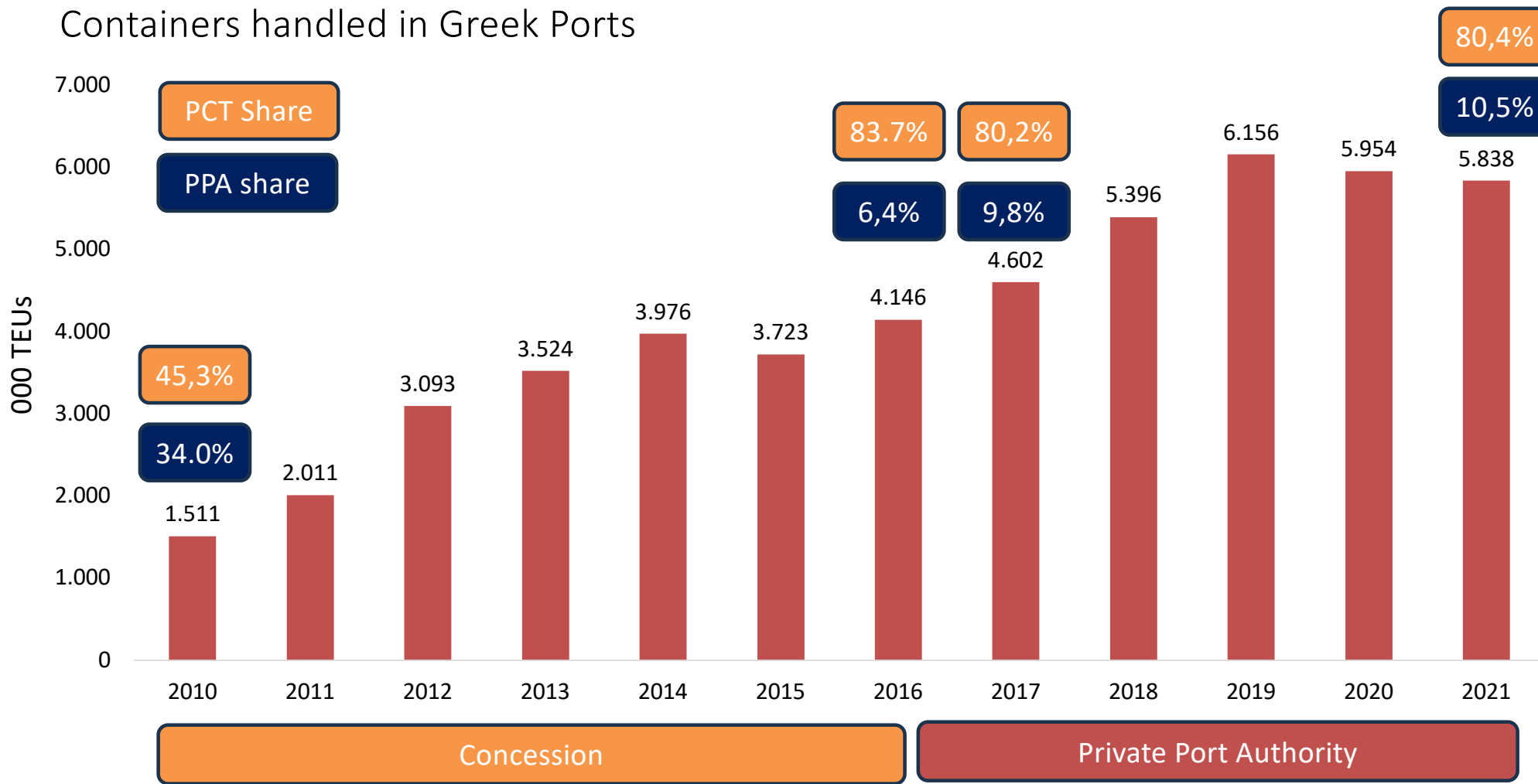
Evolution of Containers handled in Greek Ports

GREPORT CONTAINER INDEX (GCI) (2005=100)

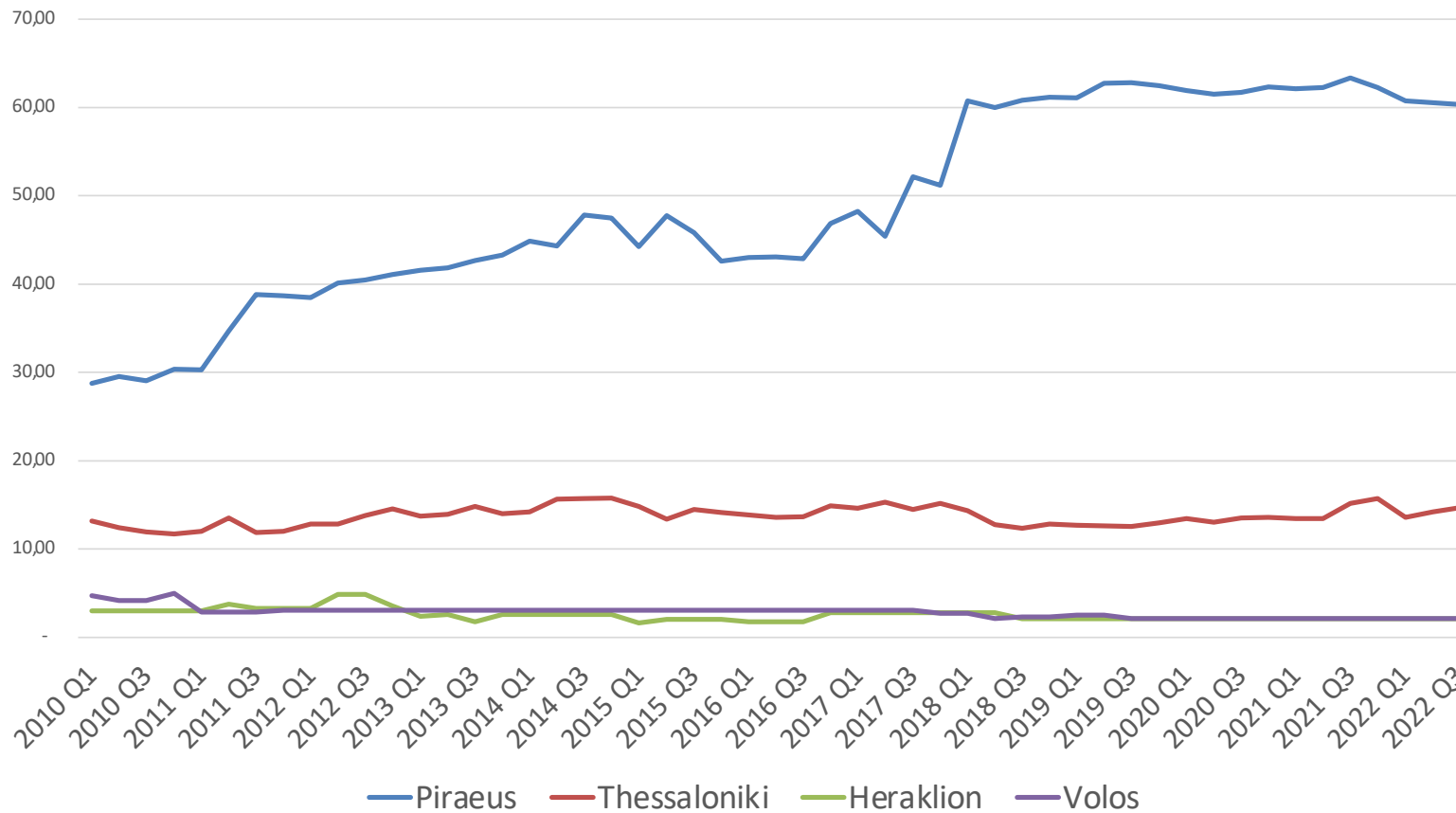


Increased market share

Containers handled in Greek Ports



Liner Shipping Connectivity Index: Greek Ports (2010-2022)



- Substantial increase in Piraeus connectivity
- Absence of similar improvement of LSCI in other Greek container ports

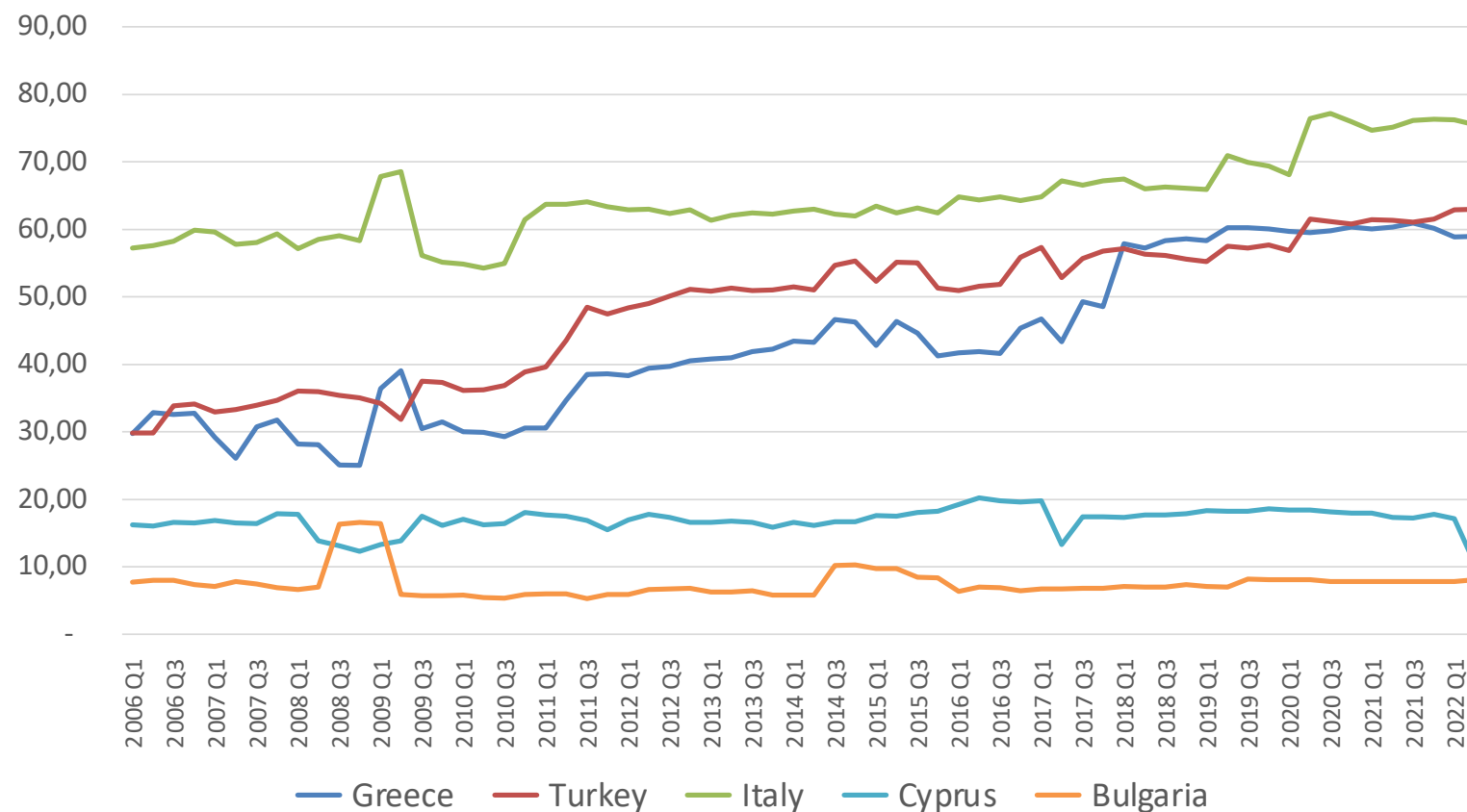
Data Source: Our compilation based on UNCTAD-MDS Transmodal Data

Improved Connectivity



Connected directly to
73 different ports
31 different countries

Liner Shipping Connectivity Index (LSCI): Greece and neighboring countries, 2010-2022



Greece has managed to:

- Close the gap with Italy
- Similar trends in Turkey - which has a similar trajectory of investments
- Increase the gap with neighbouring Cyprus (Limassol) and Bulgaria (Burgas; Varna) though

Maximum vessel size at the Port of Piraeus (TEUs)



Vessel Calls

Vessel Type	% of Calls	Min Capacity	Max Capacity	Average Capacity
Feeder	60%	219	2.926	1.472
Panamax	7%	3.400	4.363	4.156
Post Panamax I	9%	4.506	5.668	4.968
Post Panamax II	6%	6.308	8.500	7.450
New Panamax	5%	8.600	11.850	9.763
VLCS	11%	13.092	15.300	15.033
ULCS	4%	18.400	21.400	19.279



COSCO-Nebula, 21.237 TEUs,
February 2019, Pier III, Piraeus

Creating Piraeus depended
hub-spoke networks

Shipping Lines calling at Piraeus Container Terminals (2020-2021)

Piraeus Port emerged to 4th/5th in busiest container port in Europe

Positive evolution is based on the increased number of calls by the mother liner shipping company and its partners in the relevant alliance (OCEAN)

- *Connectivity would be reduced if COSCO and/or its allies would shift to another port*

Shipping Line	Alliance	2021	2020Ch
COSCO	OCEAN	24,5%	19,6%
MSC	2M	15,5%	12,0%
HAPAG – LLOYD	The Alliance	10,5%	13,3%
EVERGREEN	OCEAN	10,5%	11,1%
CMA-CGM	OCEAN	4,5%	9,3%

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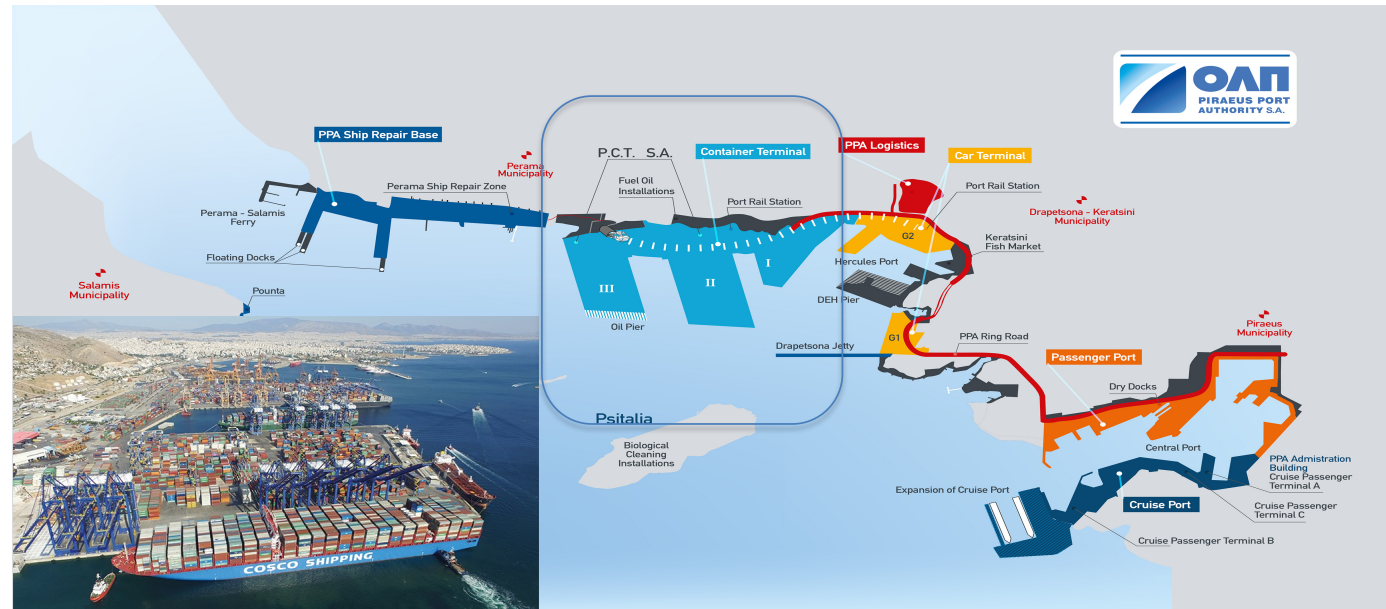
The relationship between port choice and terminal involvement of alliance members in container shipping

Theo E. Notteboom^{a,b,c,d,*}, Francesco Parola^e, Giovanni Satta^e, Athanasios A. Pallis^f

Development of an additional terminal (the only major capacity expansion in Greek ports in the 21st century)

The Concession

- **Scale and Terminals Split**
 - **Pier II** : concession - 1,7 m. TEU fully operated capacity, 1 m.).
 - **Pier III**: to be constructed.
 - **Pier I**: to be constructed and operated by the incumbent (PPA) - 1,1 m. TEU
- **Duration: 35 + 5 years**
- **Minimum container throughput: 65% per pier capacity**



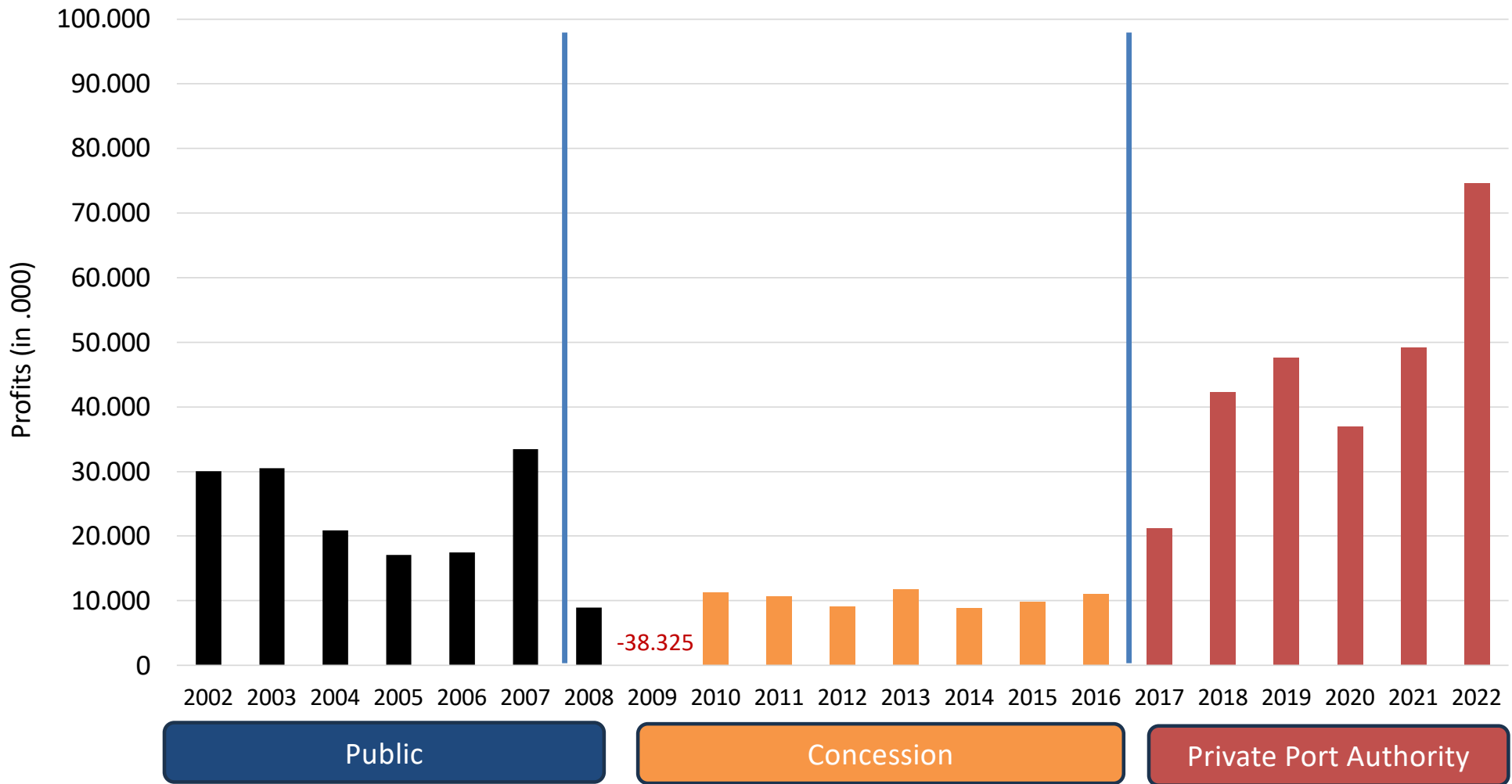
Ability to increase/decrease the economic value of the host country

- Increase of generated **aggregate revenues** (i.e. operator (Piraeus Container Terminal – PCT) plus port managing entity (Piraeus Port Authority-PPA))
- Increase of **port managing entity (a) revenues** following the change of majority shareholder and (b) **profits** as % of revenues
- **Capacity of investing at will**, despite commitments for further investments, these investments did not utilise

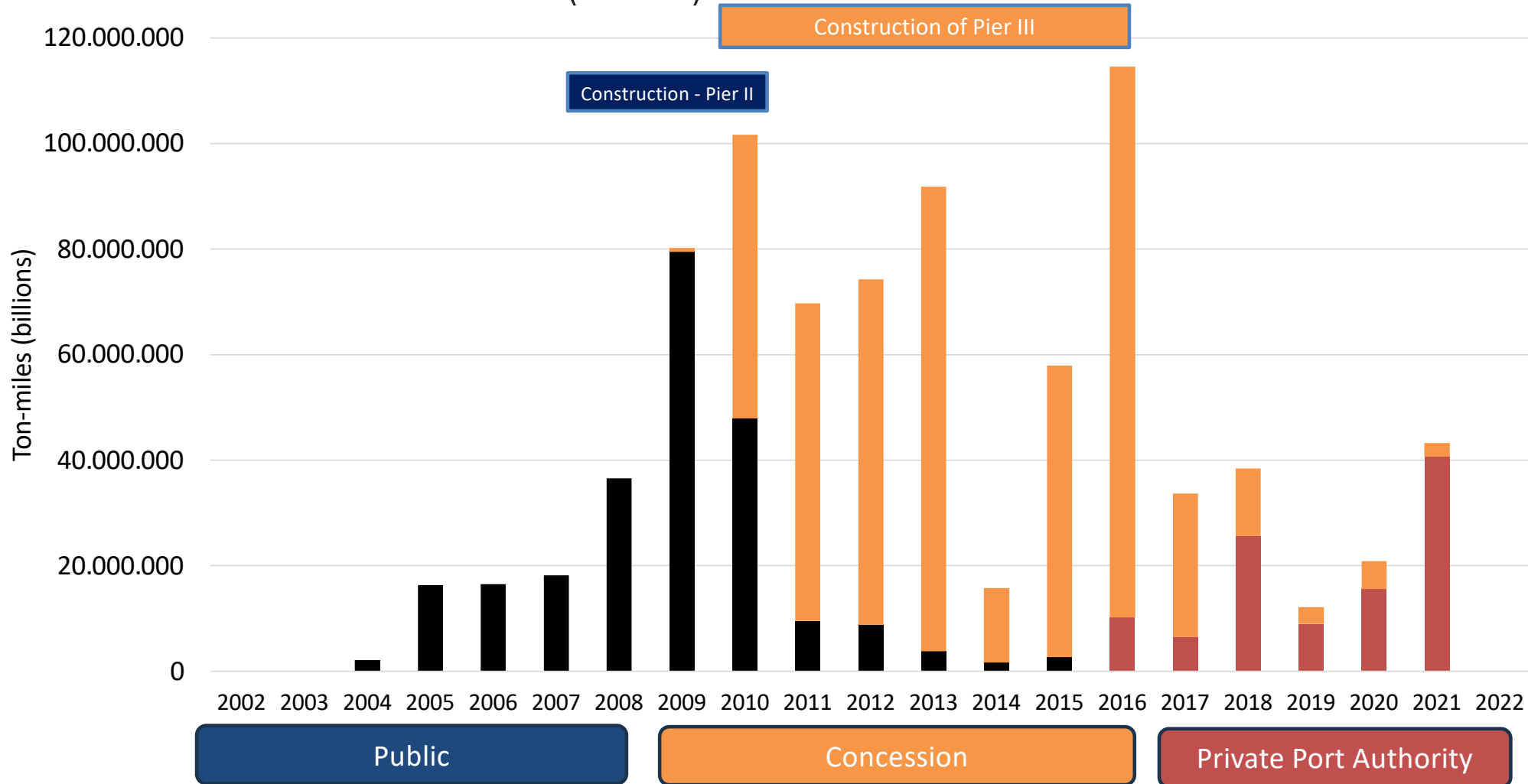
Piraeus Port – Aggregate (PPA + PCT) Annual Revenues (.000€)



Piraeus Port Authority (PPA) – Profits (before taxes) (.000€)



Piraeus Port – Investments (.000€)



Piraeus Port – Investments (.000€)

- By purchasing the majority of the port managing entity (PPA SA) shares, COSCO might advance/delay/select investments to implement accord
- Massive investments contractually promised (beyond the container terminal constructed) have yet to utilised
- Reportedly priority is now given to the construction of a 4th container terminal

Port	Investments 2020-2021	Investments 2018-2019
Piraeus Port	64.128	50.580.298
PPA	56.196	34.602
PCT	7.932	15.978
Thessaloniki Port	26.041	19.134
11 Ports of National interest	11.473	8.368
TOTAL INVESTMENTS	101.642	78.082

- **The three friendly agreements** signed within 15 years since COSCO arrival (2011; 2014; 2021) had a common denominator: **the State agreeing that the existing delays to the contractually promised investments were justified.** – these are hints of extracting benefits via leverage.
 - PPAs investments are currently less than 50% of the promised ones
 - Reconstruction of the oil terminal was never utilised by COSCO but finally undertaken by the Greek State

Ability to influence strategic supply chains to/from the host country.



Agreement for Access and Use of the National Rail Infrastructure between OSE – PEARL

26/11/2018

PEARL SA on 26 November 2018, has signed the agreement with Greek Infrastructure Manager (OSE SA) for accessing the GR rail network.



“Hewlett Packard transports its goods across Europe, the Middle East and Africa through Piraeus, after a deal with Cosco that will attract investors and bolster cargo business at its commercial docks”.

Acceleration of construction of the in-port rail terminal

Presence of a COSCO-owned rail company – among the first non-state companies receiving licence

Building strategic supply chains that expand well beyond the country | Bundling services - increase switching costs for the user

Home Country leverage over Host Country through Maritime logistics SOE(s)

Ability to increase/reduce maritime connectivity

Ability to increase/decrease the economic value of the host country

Ability to influence strategic supply chains to/from the host country.

Terminal Operations

Number of terminals - Share of SOE in the Host country's total market.

very serious leverage in the particular case

Shipping Services

Market share of SOE - Share of SOE in transshipment operations

Port Development

Number of terminals - Share of SOE in the Host country's total market.

Switching costs of users to other port(s) in the country.

SOE role in developing new facilities to handle strategic commodities.

Supply Chain Services

Home Country leverage over Host Country through Maritime logistics SOE(s)

Ability to increase/reduce maritime connectivity

Ability to increase/decrease the economic value of the host country

Ability to influence strategic supply chains to/from the host country.

Terminal Operations

Switching costs of users to other terminal(s) in the host country.

Shipping Services

Switching costs of users to other shipping lines.

Port Development

Supply Chain Services

Ability of service provider(s) to redesign supply chains

medium leverage in the particular case

- small national market
- broader (European/Med) analysis needed

Home Country leverage over Host Country through Maritime logistics SOE(s)

Ability to increase/reduce maritime connectivity

Ability to increase/decrease the economic value of the host country

Ability to influence strategic supply chains to/from the host country.

Terminal Operations

SOE terminal operations for strategic commodities such as energy commodities

Shipping Services

SOE shipping services for strategic commodities such as energy commodities

Port Development

Absence of leverage in the particular case

Supply Chain Services

We have not identified any grounds for geopolitical leverage

The role of the global and national economic contexts

- The global and national economic contexts affected the endorsed port governance and presence of foreign SOEs as much as port policy priorities *per se*.
- **Implications of the global economic crisis (2008/9):** Capacity of SOE to de-risk investments and pursue its strategy in a negative climate
- **The crisis of the national economy (2010/2011 and beyond):** *Transforming port privatisation to a 'bail out' (or a 'helping hand' ?) transaction*
- Among others, these conditions created fiscal necessities for *the host country* and 'windows of opportunity' for SOEs - increasing the capacity of the latter to leverage by contributing to the bailing out of the host country

Extracting leverage potential: information asymmetries

STUDY
Requested by the TRAN Committee



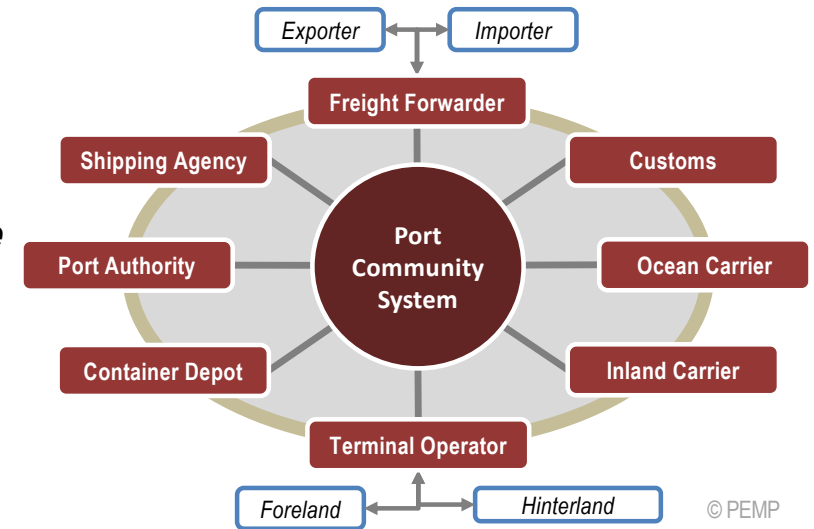
Chinese Investments
in European Maritime
Infrastructure



Transport and Tourism

The key risks centre on the potential access that Chinese companies might gain to sensitive data, both civilian and military: China's *Data Security Law* and the *National Intelligence Law*, furthermore, require data to be shared with the Chinese government if required.

Port Community System



© PEMP

Rotterdam – PortBase



Logink, a Chinese company
invested in Portbase

Antwerp – C-Point



Hamburg – DAKOSY



Piraeus

The Hellenic Port Community
System (HPCS) dispute

Conclusions

- I. Revisiting the privatisation of the port of Piraeus and the involvement of a SOE – initially as a terminal operator (since 2009) and later as owner of the managing entity of the port (since 2016), we identified **geopolitical leverage to be present in various dimensions**.
- II. At least in the particular case study, there are potential dimensions of such geopolitical leverage that we found moderate evidence or no evidence at all.
 - The latter finding implies that research on additional cases is worthy in order to reach valid conclusions - i.e. are the conditions for leverage ad hoc, or there are broadly applied conditions that lead to the creation of leverage
- III. *In this particular case, there are indications that such leverage generation has already benefited the SOE.***
- IV. The **international and national economic contexts** (i.e. presence of crises in the host country) have provided favorable conditions for increased leverage creation
- V. The study calls for an expansion of the dimensions applied to analyse port reforms when SOEs are involved: **Research should not only focus on the economic context and the port policy choices (i.e. port governance strategies and structures that apply) but expand to include the geopolitical leverage capacity of the entity investing in a particular seaport**

Home Country leverage over Host Country through Maritime logistics SOE(s)

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Not surprising that a minority presence of SEOs turn to a major issue

Germany reaches compromise on China's Hamburg port investment, reports say

Government reaches deal that would allow Chinese-owned Cosco to buy stake in harbor terminal.



Germany reached an agreement with China's state company Cosco to buy a stake in one of Hamburg port's terminals | Clement Mahoudeau/AFP via Getty Images

Source: Politico.eu

“Now, the government ministries have reached a deal to allow Chinese company Cosco to buy only 24.9 per cent instead of 35 per cent of the shipping company that runs the terminal, Hamburger Hafen und Logistik (HHLA). As a minority shareholder, this would prevent Cosco from having a formal say over strategy”.

A case study (and a comparative analysis with Piraeus) would advance a better understanding of the extent and conditions of geopolitical leverage creation