A public-private partnership brings order to Aqaba's port

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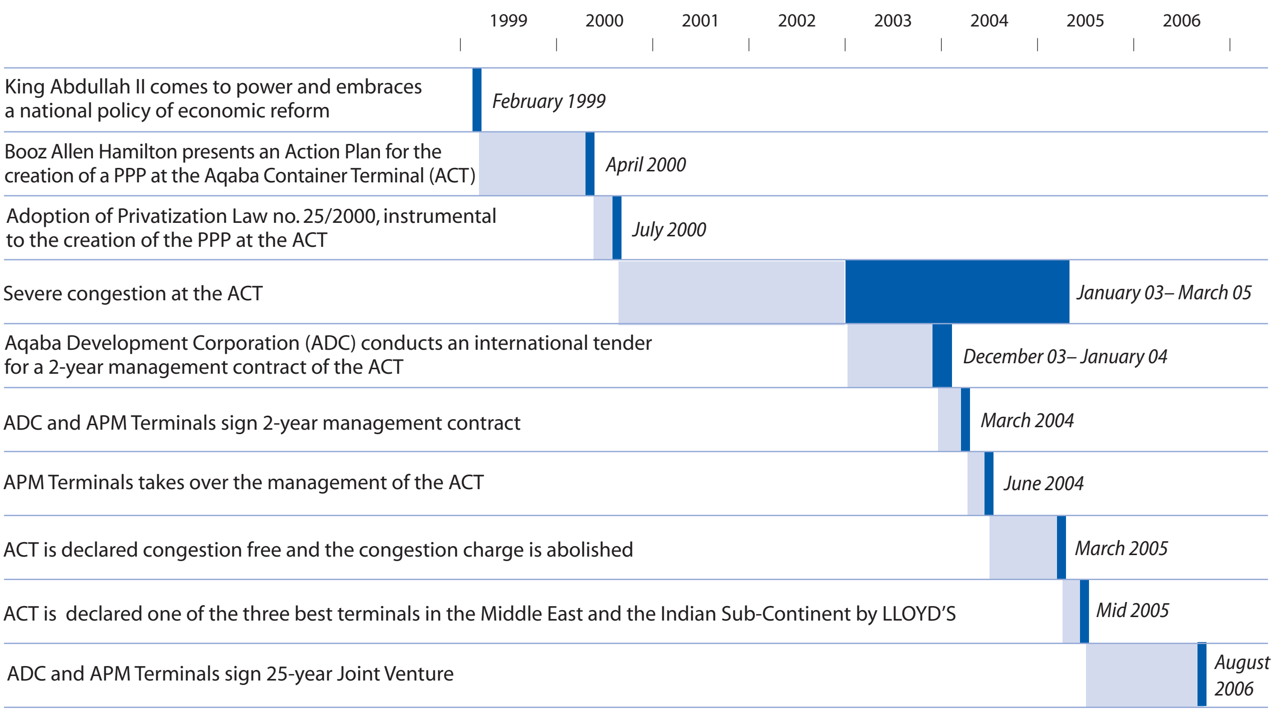
The port of Aqaba, Jordan's only sea port, was the country's biggest hindrance to trade in mid-2003. Waiting times for ships at berth were long, and congestion at the container terminal severe. Major international shipping lines suspended their dealings with the Aqaba Container Terminal. But by the end of 2005 the congestion had disappeared, and the congestion charge was gone—thanks to reforms. Lloyds—the world's leading maritime and transport news and analysis portal—chose the terminal as among the 3 best terminals in the Middle East and the Indian subcontinent.

Long waits to traders at Aqaba

Aqaba is in the northern Red Sea, at the junction of trading routes between 3 continents (Europe, Asia, and Africa) and 4 countries (Iraq, Israel, Saudi Arabia, and Syria,). Because of its multi-modal transport system, it emerged in the 1980s as the third-largest Red Sea port after Suez in Egypt and Jeddah in Saudi Arabia. By the late 1990s the port's importance in the Levant had drastically fallen in the face of stiff competition from Latakia, Beirut, and Dubai. Its low use masked the terminal's poor management and underinvestment in soft and hard infrastruc-

FIGURE 1
Timeline of trade reform at the Port of Aqaba, Jordan

Source: Doing Business database.



ture. It took a crisis to bring about the recognition that the terminal needed a serious change.

In mid-2003 the terminal came to a standstill, experiencing the worst congestion in its history. Vessels docking at the port often faced anchorage waiting times of 150 hours.[1] To compensate for the delays, shipping lines imposed surcharges of $500 per 20-feet container load. Traders also had to bear higher demurrage charges because of the longer storage periods at the port—48 days at their peak.

The congestion compelled some local traders and shipping lines serving Iraq to use ports in more distant Lebanon and Syria. The cost to the Jordanian economy from such congestion was an estimated $120 million a year. But the crisis proved to be a catalyst for a dedicated team of reformers to push ahead with the painful but necessary changes at the port.

Faces of reform—3 champions

The commitment, hard work, and determination of Imad Fakhoury, Nader al-Dahabi, and Ali Abu Al-Ragheb drove reforms through tough opposition.

Fakhoury—chairman of the Aqaba Development Corporation, the central development arm of the Aqaba Special Economic Zone Authority, charged with implementing the 2001–20 master plan for Aqaba region—was key in turning around the terminal. A Harvard alumnus, Fakhoury wrote his thesis on transforming Aqaba into a freeport area. During the mid-2003 crisis he pushed for a public-private partnership to run the port, arguing that this would be "strategically very important to Jordan, its economy, and its in-transit trade."[2] Nader al-Dahabi, chief commissioner of the Aqaba Special Economic Zone Authority during 2004–07, supported him. They worked together to raise awareness and support for the public-private partnership at the terminal.

Abu Al-Ragheb, twice minister of trade and industry (1991–93 and 1995) and prime minister of Jordan (2000-2003), was a prominent architect of economic legislation in Jordan. He oversaw a series of reform laws, among them the Privatization Law 25/2000, which allowed port ownership to be transferred to a neutral party (the Aqaba Development Corporation) that could move ahead rapidly with reforms.

Ultimately, the personal involvement of King Abdullah II himself pushed the project forward in the face of fierce opposition. The king's support was rooted in his commitment to developing Aqaba to drive the growth of Jordan. When in July 2000 the Aqaba Special Economic Zone faced stiff opposition in Parliament, the king defended the project himself.[3] In 2002 the king paid 2 surprise visits in less than a week to the Customs Department in Aqaba to check on measures to facilitate customs procedures.[4] In mid-2003, when the port of Aqaba was in crisis, the king demanded that a plan be implemented within 3 months to solve the container port problem. Recognizing the key role of Aqaba's port in the success of the Aqaba Special Economic Zone, the king again lent his strong commitment to reforms.

Bringing in the private sector

The investment required to modernize the terminal and make it internationally successful was estimated at $500 million over 2003–28. But Jordan's dire economic situation, the legacy of the financial and currency crises of the early 1990s, meant that such a financial commitment would burden the state budget. Fakhoury was a staunch advocate of getting the private sector involved in the running of the port while maintaining state ownership.

A $1.2 million World Bank feasibility study in 1998 recommended a public-private partnership. Consultants from Booz Allen Hamilton then drafted an action plan based on the recommendations as part of a $15 million, 3-year technical assistance program under the U.S. Agency for International Development.

Creating an ownership structure to drive reforms

The public-private partnership would have been impossible without a transfer in the ownership and control of the port from the Ministry of Transport to the Aqaba Development Corporation in late 2003. The ministry, though not against the reform at the Port of Aqaba, would have been hobbled by the opposing views of its various stakeholders that it would have tried to appease. Unlike the Ministry of Transport, the Aqaba Development Corporation, being a new body, was not entangled in the numerous demands of the stakeholders. In this way it was able to overcome the policy paralysis that doomed earlier restructuring attempts by the ministry. Even so, other battles still had to be fought and won before the reforms could go ahead.

Engaging the opposition and winning public support

The government tried to understand and address the concerns of people opposing the reform. It made every effort to gain public support—through radio shows, publicity campaigns, and press conferences. Some of the toughest and most vocal opposition came from Parliament. The major worry was that the public-private partnership might undermine national security. Mahmoud Kharabsheh, a member of the powerful Legal Affairs, Economic, and Finance committees, charged that the project would "jeopardize the safety of the country," arguing that a strategic national asset should not fall into the hands of foreigners. To assuage these concerns, the Aqaba Development Corporation, under Fakhoury's guidance, noted that under the model of a public-private partnership, the port would always be government owned. The private agent would be responsible only for providing services.

Rather than immediately enter a long-term public-private partnership, the government decided to start with a management contract lasting 2 years. Under the management contract, the private sector would only be responsible for providing management services and not any port infrastructure. This 2-year period would give Jordanians the possibility of evaluating the performance of the private partners. So, if the concerns were justified, the option would be to not to continue in this policy direction. The 2 years could be seen as a test of the potential viability of a public-private partnership at the container terminal. If the container terminal operator were to prove effective and the public were to be satisfied with its results, a 25-year joint venture would be entered.

The Jordanian Ports and Clearance Workers' Association voiced another major concern: private involvement could bring layoffs. The port was the largest employer in the region, with 5,000 workers on its payroll, so this was a legitimate concern. Fakhoury and al-Dahabi, in more than 20 meetings with the press and the association, emphasized that there would be no involuntary dismissal of port employees. It was a compromise.

The Jordan Shipping Agents Association was initially opposed as well. It claimed that local companies were capable of managing the terminal just as well, provided that they got the necessary equipment. But the reformers countered that no Jordanian company could compare to a global container terminal operator with know-how, cost, and time advantages. A global operator would also benefit from economies of scale in sourcing and knowledge. To assure critics that only the best foreign terminal operator would be chosen, Fakhoury promised a transparent public tender for the management contract.

Hiring the best candidate—transparently

In early 2004 Fakhoury hired consultants from Booz Allen Hamilton to draft 2 terms of reference for the international tender, in line with the best practices in the World Bank Port Toolkit. The first was for the 2-year management contract, and the second for the 25-year joint venture with the Aqaba Development Corporation. Of the 11 leading international container terminal operators invited to participate in the public tender, 8 placed bids.

Hutchinson Ports Holding, P&O Ports, and APM Terminals placed the 3 most attractive offers. APM Terminals—a division of A.P. Moller-Maersk group, with extensive global experience running container terminals in more than 40 countries—offered the highest royalty, the highest equity stake in the 25-year joint venture, and the most attractive expansion plans. On 8 March 2004 APM Terminals signed a 2-year management contract with the Aqaba Development Corporation.

To evaluate APM Terminals' work in the 2-year trial, the Aqaba Development Corporation created performance indicators to measure progress at the container terminal. Meanwhile, the Aqaba Development Corporation lent political support to APM Terminals. Fakhoury and al-Dahabi took the heat from the media, labor unions, clearing agents, and shipping associations for the 18 months before the results became apparent to the public.

Business not as usual

APM Terminals brought considerable expertise to managing the Aqaba Container Port. A first signal of change was visual—cleaning the port to create a new work environment. Patricio Junior, chief executive of APM Terminals Jordan, and his team emphasized human resources, introducing an approach based on hard work, discipline, and merit rather than on tribal affiliation. So, recruitment was transparent and objective, with no tribal favors. Now workers get onsite and overseas training, as well as a better compensation package. Schemes were also put in place to reward workers for their achievements. APM Terminals built an onsite clinic and offered all their employees health insurance, meals, and compensation for transportation. But workers were also not allowed to "moonlight," and insubordinate workers were fired.

The motivated workforce's raised productivity and performance, was aided by the new regime's $30 million investment in soft and hard infrastructure. Gantry cranes, rubber tire cranes, straddle carriers, bomb carts tractors, and other vehicles were purchased and installed soon after the management takeover on 1 June 2004. By June 2005 the container terminal was 100% computerized, with state of the art software.

Flexibility to accommodate local needs

The reforms recognized local norms and cultures, with workers and the new management both willing to adjust. Before the reforms, it was common for port workers to take several breaks, with port operations often coming to a halt because key workers were missing during prayer. Of the 20 hours the port operated, about 2 hours were lost to such breaks. In response, the new managers devised a shift system to accommodate daily prayers among port workers, allowing port operations to continue uninterrupted 24 hours a day.

Easier trade at Aqaba

Reforms at Aqaba started yielding results soon after the management takeover in summer 2004. By February 2005 the anchorage waiting time—129 hours in 2003—was completely gone. And average port stays dropped from 8 days to a few hours, with all congestion surcharges cancelled by 1 March 2005. New shipping companies started using Aqaba's port, including the China Navigation Company. By the end of 2005 the port was dealing with 21 shipping lines and was chosen by Lloyds as among the 3 best terminals in the Middle East and the Indian Subcontinent.

Efficiency improvements are ongoing—but obvious for all to see. By 2007 container dwelling times were down to 16 days, and port productivity had more than tripled, from 9 moves an hour to 28. There was a 14% increase in the number of vessels calling at Aqaba and a 40% increase in the average cargo size per vessel. Most important, all these productivity gains came without any layoffs. The king was so satisfied that he offered Jordanian citizenship to Patricio Junior.

Trade logistics in Jordan improved, as reflected in the *Doing Business* trade indicator.[5] The number of days to import dropped from 28 in 2004 to 22 in 2007, and the number of days to export fell from 28 in 2004 to 19 in 2007. The cost to export also dropped from $720 per 20-foot container in 2004 to $680 in 2007. More improvements are expected.

A remarkable change

The turnaround at Aqaba offers 3 important lessons for policymakers. First, it is essential to have a strong, influential team to champion reforms. In Jordan the King and his reform-minded technocrats brought a visionary approach to Jordan's development and the role of a vibrant and competitive Aqaba port. Even in difficult times, they pushed ahead with the reform agenda.

Second, global best practices, if adapted to the local context, are a good guide. It was clear that the way to modernize and manage the Aqaba Container Terminal was in a private-public partnership. But given all the national concerns in Jordan about the management of a strategic national asset by a foreign company, a graduated approach to the needed reform was adopted—hence the initial offer of a 2-year management contract and a subsequent 25-year joint venture based on an excellent management performance and favorable public opinion.

Third, to obtain the desired results, reformers must work with the best talent around. The Aqaba Development Corporation, under the leadership of Imad Fakhoury, selected APM Terminals to manage Aqaba, but only after a rigorous and transparent selection process that drew the attention of the leading world container terminal operators.

Notes

1. Aqaba Development Corporation, Presentation on the Aqaba Container Terminal Presentation, 2007
2. Ibid.
3. To date, the Aqaba Special Economic Zone Authority and the Aqaba Development Corporation attracted $8 billion of investment in the region in the period 2000-2007, above the 130% initial target. Tax collection increased 40 fold. Most important, 15,000 new jobs were created in the Aqaba region, thus turning the Aqaba Special Economic Zone into a model for the creation of other special economic zones in the country.
4. Riad Al Khouri, "Policy Initiatives and Reforms in the MENA Region, Review Workshop—Governance Case Study of Jordanian Customs," draft paper, February 2004.
5. World Bank Group, Doing Business Jordan Country Profile, www.doingbusiness.org.