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Port Modernization Review



25 May 2020

Goss' Principles for Port Management (1990)

- Primary purpose is to serve trade interests (with the knock-on effects on per capita wealth creation for citizens).
- Creating a competitive environment ensures efficiency gains are passed on, and serves a country better than tight regulation.
- Port reform needs to reflect differences in history and geography, therefore there is no one right model for port governance (he identified several approaches).
- Some countries are better served by landlord models while for others, public service strategies work best.

Brooks & Farrell (2019) examined these principles for 22 countries and concluded they remain valid today.

Key Question: Is the Canadian model right for today's Canada?

Why Am I Here?

OPINION



Why is the Ports Modernization Review not transparent?

By MARY R. BROOKS FEB. 25, 2019

For Canadian ports to be competitive and best in class, the minister of transport needs to relinquish some measure of control over port boards, particularly with respect to board appointments, and expand

Canada needs to get the governance for ‘national interest’ ports right. There are two ‘must do’ elements to this:

- (1) Conduct the review in an open and transparent way.
- (2) Require ports to meet world-class governance and reporting standards, and be accountable to Canadians for their management and operation of government-owned assets.

The Minister of Transport's Mandate at Initiation of Review

“It is time to shine more light on government to ensure it remains focused on the people it serves. Government and its information should be open by default.”

Transparency is Perceived.

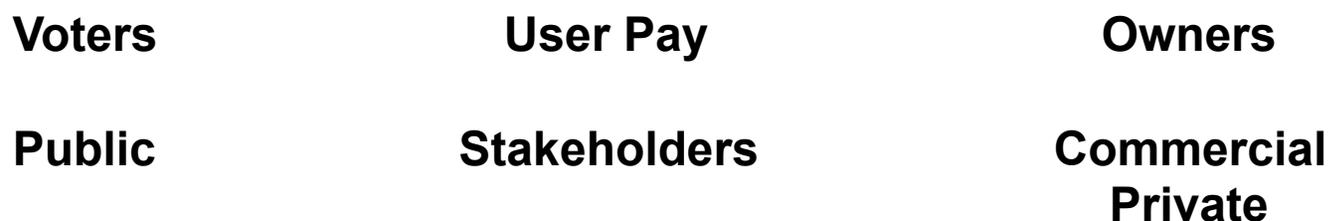
- If the information is there but can't be found by the average citizen in a reasonable time, it is not transparent.
- There is an assumption that the Internet is a transparency mechanism.

Why Transparency Needs to Be Improved



The Issue of Accountability

Accountability Continuum



Source: Brooks (2004)

Mechanisms

Annual Report or equivalent
 Audited Financial Statements
 Director & Officer Remuneration
 Land-use plans when changed, etc

Annual Report
 Audited Financial
 Statements
 If listed, TSX states

Brooks (2017) Research Findings

“A casual approach to stakeholder engagement is taken by a minority of CPAs, and suggests that firmer government guidelines are needed in setting reporting expectations.”

“The current port board appointment process puts the fox in charge of the chicken house. Port users recommend directors but the Minister decides who will serve, leaving the door open for patronage appointments.”

“Canada’s airport governance provides a much better way. Airports are managed and operated by not-for-profit organizations with boards of directors who are nominated by a myriad of groups, including the federal government.”

(Airport Boards can ask for needed skill sets and backfill capabilities when Board members complete their service.)

Region	N	Sub-region	N	Port Governance	N
Canada	17	East Canada/SL	9	Corporatised public PA	17
		West Canada	4		
		Great Lakes	4		
Europe	26	Mediterranean	11	Public Port Authority	15
		North Europe	8	Corporatised public PA	5
		Baltic	5	Listed company /pub. Maj.	3
		Black Sea	2	Listed company / priv. majority	1
				National PA	2
Latin America & Caribbean	21	South America	12	Public Port Authority	14
		Central America	6	State (national) PA Authority	7
		Caribbean	3		
USA	23	Atlantic	8	Public Port Authority	23
		Pacific	6		
		Gulf	5		
		Great Lakes	4		
Total	87 public PAs with public focus in 4 geographic regions				

Methodology

- In the United States, public ports, both large and small, from each of four coastlines
 - In Canada, 17 CPAs
 - In Europe, the major port in each of the 21 EU countries plus any other port listed in the top-15 container ports 2018.
 - Latin America: the major ports in each country, and any other major container port
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- 51 transparency items were identified for the examination of each port's website.
 - Data were recorded as *yes*, when the data were found on the port web site or in a downloadable report on that web site, and could be downloaded by anyone. A *no* meant the data was not available or, at least, not found within one hour of searching the site or any downloadable report.

Current Research (2)

Transparency Item (9 illustrative of 51)	Canada (N=17)	Corp. PAs (n=22)
Decision-making Governance		
Port Website and/or Annual Report provides bio of Board of Directors (BoD) members	8 (47%)	10 (45%)
Annual Meeting (AM) and/or the Board Meeting (BM) are open to the public	10 (59%)	10 (45%)
Minutes of the Annual Meeting (AM) and/or the Board Meeting (BM) are published	1 (6%)	1 (5%)
Board Committees are identified	9 (53%)	11 (50%)
Web site has a community and/or a stakeholder link	12 (71%)	13 (59%)
Port Communications and Accessibility		
Email/ phone of executive staff available on website	11 (65%)	13 (59%)
Annual report publicly available on the website	14 (82%)	18 (82%)
Audited financial reports available on the website	12 (71%)	16 (73%)
CSR & ESG reports publicly available on the website	9 (53%)	13 (59%)

A Pet Peeve

- **CMA Subsection 37 (1):** public to have access to audited financial statements at least 30 days prior to Annual Meeting.

Five CPAs played ‘fast and loose’ (condensed statements, no auditor opinion, or both) in 2019. Timing was not possible to ascertain. More are showing signs of joining them in being non-compliant in 2020.

The following is neither 30 days ahead nor necessarily audited financial statements:
“Copies of the Consolidated Financial Statements and Stakeholder Report will be posted to the [port name] website on [date of meeting]”.

A 2nd Pet Peeve

- **CMA Subsection 37 (3):** statements to include total remuneration paid to each person (money or in-kind [fees, allowances and benefits]) by their role as directors, chief executive officer, or officers and employees exceeding a prescribed remuneration threshold.

Item	Disclosure of Financial Data in Any Type of Financial Report	Yes (of 17)
10.1	Are Executive officers salaries reported?	10
10.2	Are Board Member fees reported individually?	10

General Conclusions on Port Governance Models

- There is not one right governance model applicable to all situations and cultures and values vary.
- The Canadian port governance models have some problems but make philosophical sense as not all ports serve the same role or trade needs.
- Brooks, Cullinane & Pallis (2017) noted that only a few countries have followed the full privatization model (UK only) but the landlord model in various forms now dominates. However, some countries are beginning to move towards greater private equity involvement, and do not always understand what that means for citizens, taxpayers, government coffers and control of the trade agenda.

Specific Conclusions on Port Governance in Canada

- Transparency could be improved in several CPA ports, which do not meet access or transparency tests already existing in legislation.
- Ports not in compliance deserve a closer look; perhaps their Boards should be held accountable. They should be brought into minimum compliance (responsibility to enforce compliance is with Transport Canada).
- Board of Director appointments need clarity. Under the current model, fiduciary responsibility of Directors is to the CPA yet the CPA Board can't acquire needed skills with current appointment process or numbers. Less politics in appointments would be the 21st century way to maximize the outcomes from the CPA model. A private equity model is accountable to shareholders not the trading nation that depends on the current CPA model.



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**Questions?
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