1. Ports are critical for trade and economic growth

It should seem obvious that the level of Scotland’s international trade will depend to a large extent on the capacity and competitiveness of our major seaports. Policy-makers should also be aware that adequate seaport capacity is needed in advance of trade growth; that is, future seaport capacity must be planned for the national economy as a whole. A failure to ensure sufficient port capacity is available will mean that trade is effectively constrained. As economic growth depends on international trade growth, we should be clear that any constraints with respect to Scotland’s major seaports (capacity, quality, and cost) will serve to constrain not only trade, but also economic growth.

2. The need for advanced and low-cost ports

Ports are not simply essential for existing trade; competitive and efficient ports also help to facilitate and hence generate even more trade. This means that advanced low-cost seaports can help to generate trade which otherwise would not exist, and gives rise to the notion that ports are an essential ‘engine’ of the economy. The United Nations trade agency UNCTAD argue that seaports have a specific ‘facilitation’ role with regard to international trade. This means that policy makers should pay close attention to the role and performance of their major seaports upon which most if not all their international trade depends. And in the reverse, not to have any national policy approach for ports would seem to be at best negligent.

In addition, policy makers must ensure that sophisticated shipping services connect its ports and economy with major international markets. The EU Transport Policy permits member states today to co-finance ‘Motorways of the Sea’ services, which are direct shipping services that help to reduce our dependence on long-distance road transport. The policy accepts that road infrastructure is generally publicly financed resulting in an uneven playing field and a need to balance matters to allow sea transport to better compete. Such MoS services usually combine the carriage of goods and passengers within large ferries offering frequent (daily or better) international connections. Scotland has so far failed to deliver a MoS supported service connecting with the European continent, and has not employed the MoS tendering or subsidy options commonly
used elsewhere (e.g. Spain, Ireland, Denmark, and Italy). The key requirement for advanced low cost port infrastructure is a related pre-requisite for successful MoS services, hence the two factors – advanced ports and shipping services – need to be considered together to some extent.

3. **Ownership of Scotland’s major ports**

The UK has a quite unique approach globally towards the ownership of its major ports. Since the 1980’s successive Conservative Governments have disposed of major ports, comprising land and cargo (terminal) operations, as well as port regulation (see below). In most other countries the state retains ownership of port land and merely concessions (privatises) cargo handling operations and associated services (towage etc). In ALL cases the state retains the port regulatory role, except that is in the UK.

Many major UK ports (usually grouped by estuary) initially found themselves on the London Stock Exchange (on the way creating numerous millionaires out of former public port officials) but have since been acquired for high premiums by offshore registered private equity funds. Today these private equity funds own virtually all of the main ports in Scotland’s three central belt firths - Clyde, Forth and Tay - and serving the needs of the majority of our population.

Essentially the UK state has withdrawn from its ports industry. The state now depends on the ‘market’ (or rather offshore private equity funds) to provide new ports as and when required. This assumption fails on a number of counts, not least of which is the very long-term nature of port investment relative to the very short-term nature of ‘the market’; private equity funds have a life of typically 4-8 years, whereas a port’s economic life will extend far beyond 30 years.

This essentially means that there has been very little investment in new international port capacity in Scotland over the past 30 years and more. Indeed the general outline and extent of Scotland’s major seaports today does not differ much, if at all, from the 1940’s, as excellent aerial photographs taken by the German Luftwaffe prove.

A key question, therefore, relates to whether this unusual port policy has worked? The evidence shown below suggests it has been and continues to be a disaster for Scotland’s trading position, which is weak in comparison with other comparable developed countries in northern Europe. This inevitably has a knock on effect on employment throughout the economy. Even in the wider UK context one only needs to consider the chronic and worsening UK trade deficit to conclude that the whole of the UK is no longer an internationally competitive trading economy.

4. **Regulation of Scotland’s major ports**

A key objective of any port regulator is to prevent the interception of economic rents by particular interest groups. Ports are often natural monopolies, so users and the wider economy must be protected accordingly. However the unique UK port privatisation approach has had the opposite effect in that successive owners,
and today the aggressive offshore private equity funds, have enjoyed an unhindered veritable feast as far as the interception of economic rents are concerned.

The numerous, unrestricted and often archaic port charges levied on ships and cargo amount to a ‘private’ tax on trade. The higher the port charges, then the more likely that trade will not move at all. Production is mobile, and moves away, and in addition new trade that might have been generated is not facilitated. These are all good reasons to ensure that proper consideration is afforded to port regulation. The last thing any state should do is to hand over regulatory powers to private monopolies – but that is effectively what the UK has done with its major ports. Thus, Scotland’s major seaports are today self-regulating estuarial monopolies owned by offshore registered private equity funds. As an aside, ports are also one of the few former public ‘utilities’ not to have an independent regulator, or ‘Ofport’ as it might have been called. It has never been explained why this was the case.

Private ports have also been given responsibility for estuarial safety of navigation, which again seems negligent of the state, if not slightly insane. A port regulator must also be tasked with ensuring sufficient port capacity exists both now and in the future to allow for trade growth and to ensure economic growth is achieved. This critical role of major seaports in facilitating (or constraining, as is currently the case) economic growth even seems to have passed by the Scottish Government in its setting up of the Council of Economic Advisors; when it comes to trade, ports and shipping are not even considered.

Ship technology is constantly changing which means that the capacity of ports also needs constant adaptation and modernisation. Unlike other trading nations Scotland is not constantly updating and improving its port infrastructure to meet the needs of evolving industries. Scotland’s present reliance on short-term profit-oriented offshore private equity funds to deliver new ports as and when required is an entirely naïve approach. The long term objectives of ports (i.e. trade and economic growth) and the short term aims of private equity funds (i.e. rapid return on investment) are fundamentally different matters.

5. Evidence of Scotland’s weak port (and hence weak trade) position

Today, unitised shipping services (i.e. container and trailer) carry the vast majority of international trade by value, perhaps up to 80%. One merely needs to contrast the annual volume of unitised traffic shipped via Scotland’s major ports serving international markets with ports in comparable sized nations to gauge our relative port competitiveness. From the data below it should be glaringly obvious that Scotland’s port traffic (teu = twenty foot equivalent, for containers and trailers) is grossly under-developed compared to developed nations of comparable population. Essentially, Scotland’s international port unitised traffic of 270,000 teu/year is at best only around a quarter that of major ports in Norway,
Ireland, Sweden and Denmark, most of the latter handling well in excess of 1m teu/year.

- Forth & Clyde – 270,000 teu/year (est. value £8.1bn)
- Oslo (Fjord) area – 1m teu/year (est. value £30bn)
- Dublin & Belfast – 3m teu/year (est. value £90bn)
- Gothenburg – 1.5m teu/year (est. value £45bn)
- Aarhus – 1m teu/year (est. value £30bn)
- Flanders – 15m teu/year (est. value £450bn)
- Reykjavik – 250,000 teu/year (est. value £7.5bn)

Looking at this issue in terms of trade value is perhaps more informative. If we assume an average trade value of say £30,000 per teu then the 270,000 teu of Scottish trade moving via Scottish ports amounts to very approximately £8.1bn/year. Yet the two main ports on the island of Ireland, Dublin and Belfast, are combined handling trade to the value of approximately £90bn/year, or 11 times as much as Scotland. Flanders port trade value at an estimated £450bn reflects the hub role of Antwerp and Zeebrugge as gateways for many inland parts of the continent, yet this illustrates the relative power these two seaports have as critical drivers for the entire Flanders economy, not least through related massive logistics and added value activities which tend to cluster around seaports.

In comparison with any of these European ports, Scotland’s port-trade position appears absolutely ‘undeveloped’. Indeed, the modest container trade flowing through Scotland’s major ports today is more or less the same as Iceland’s major port Reykjavik, which handles 250,000 teu/year. Thus, Scotland’s ‘major’ ports sector appears comparable to Iceland in terms of total unitised cargo volume and value, yet Iceland’s population is only 5% of Scotland’s!

6. *Summary of key port constraints holding back trade Scotland’s trade*

Port investment has simply not occurred in Scotland to any significant extent for at least the past 30 years, and probably much longer. Spending of £1m or £2m on port equipment is not enough. Scotland needs new, advanced seaports which cost hundreds of £millions in order to expand and facilitate trade and grow the economy. Public expenditure on Ireland’s major ports over the last 30 years easily exceeds £3bn, aided in part by EU funding. Completely new terminals have been developed downstream from the old urban port areas at Dublin and Belfast, now able to handle larger ships and greater trade and passenger volumes. Public expenditure in Sweden, Norway and especially Flanders is also in the many €billions over the past 30 years, during which time the needs of shipping have transformed. So Scotland is, by comparison, clearly a very poor relation, having to make do with obsolete port infrastructure dating from Victorian times. This means our major ports are not anywhere near internationally competitive. And the meagre trade volumes flowing through our major ports compared with other nations well illustrate this.
In regard to port pricing, private equity funds have paid a high premium to acquire our ports; that value reflects not the quality or extent of assets but the local and regional monopoly power that comes with our ports. That high premium has to be repaid through high profits and this means port charges must remain high, which effectively acts as a constraint on trade. Our ports are leveraged acquisitions which means the port acquired shows extremely high debt levels on its balance sheet, but this is not debt taken to invest in new port assets, it is merely the money borrowed by the equity fund managers from investors in order to acquire the port business. However, the high debt level means there is usually very limited scope for the port to raise more debt to build new port assets which in turn means the entire financial private equity ‘model’ is unsustainable for any economy which seeks to expand trade and achieve economic growth. This cannot be achieved without providing more and better port capacity.

Because Scotland’s major ports are inadequate, much of Scotland’s trade is ‘leaked’ via ports in England. Scottish trade that is forced to access markets by land via remote UK ports face a worsening burden of higher land transport costs. It costs almost the same to send a container by road/rail from Glasgow to Southampton as it does to ship the same container by sea from Southampton to Singapore; such is the lack of competitiveness of road transport versus the high economy of scale shipping. This dependence on remote ports further acts as a constraint to trade, affecting both existing trade and new trade that might be generated if the Scottish economy enjoyed access to advanced ports close by. The anticipated introduction of road charging for HGV’s in England will add significantly to Scotland’s logistics costs making our economy even less competitive than it already is.

Existing UK inland logistics arrangements whereby most imports to Scotland enter via English ports and are then distributed north by truck as a domestic movement further adds costs to Scotland’s transport bill. This is also why it is essential to provide advanced cost competitive ports in Scotland, to help redirect this traffic so that it might better access Scotland by sea directly from suppliers on the continent, to help reduce costs and also provide logistics/added value spinoffs to Scotland.

7. Policy actions required for Scottish ports and shipping

Scotland has never had a Maritime Transport Policy. This complete absence of policy is very unusual for a coastal nation, and clearly a serious omission, albeit it is in large part a function of UK governance. The assumption (in Scotland) may be that the UK Government has a maritime policy for the whole UK, but that would be wishful thinking.

Scotland has a Marine Policy, but this is primarily concerned with protecting the species that live in the sea and related coastal environmental issues. The Marine Act that Parliament passed to create and resource Marine Scotland had nothing of any substance to do with development of new advanced ports and the essential effect this would have on Scotland’s future trading economy as a whole.
Scotland must therefore create a national Maritime Transport agency if it wishes to remedy the critical weaknesses highlighted above. This means Scotland will need a Maritime Transport Act, to create a maritime agency, or alternatively to adapt the existing Marine Scotland agency so that the latter takes on an economic as well as an environmental role; indeed these two aspects - economy and environment - are explicitly combined in the EU Integrated Maritime Policy which places ports and trade, and hence jobs, at the highest strategic level, alongside the environment in order to ensure a sustainable future. Scotland, unfortunately, has ignored the economic side of the maritime equation when passing the Marine Act, creating a marine agency without any transport/economic competence or objectives.

A maritime transport policy will require resources, not least to ensure Scotland is able to provide and take advantage of world class port facilities offering strategic shipping connections with the European continent and elsewhere. This is not to ignore the enabling capability of a maritime agency which can be tasked with generating private investment in port infrastructure as well as managing access to public funding (Scottish, UK and EU).

The maritime agency will also need to coordinate and manage maritime regulatory matters in Scotland. This will mean extracting the statutory ‘port authority’ regulatory functions from the private equity owned ports, and in particular the regulatory control over estuaries and navigable waters.

The maritime agency would present an opportunity to combine the various other existing public agencies and archaic public bodies involved in maritime transport, such as the Northern Lighthouse Board (NLB), and incorporating Maritime & Coastguard Agency (MCA) functions, as well as overseeing ferry provision in Scotland (CMAL, CalMac). The latter is currently the responsibility of Transport Scotland though Transport Scotland itself has no maritime competence or international maritime transport expertise, its focus being predominantly concerned with land transport matters within Scotland.

A Scottish maritime agency should therefore be tasked with developing a Strategic Plan to encompass Scotland’s seaports, shipping services, and trade facilitation, and through this to ensure that trade can be allowed to expand and economic growth in Scotland can be improved. Ultimately this is about making the nation internationally competitive – which at the present time it is clearly not. Finally, Scotland’s Government should consider appointing a Minister for Shipping & Ports, or at least to extend the existing Transport Minister’s remit accordingly.