AQABA, JORDAN, PORT EXPANSION

Case Study (Transportation)

Project Summary:

The Hashemite Kingdom of Jordan is a nearly landlocked country in Mid-East, sharing land borders with Syria, Iraq, Israel, Saudi Arabia, and the Palestine territories. Jordan only has 22 kilometers of coastline on the Gulf of Aqaba, which connects to the Red Sea. The Port of Aqaba is the only seaport in the country, and is an integral part of the country’s economic policy because Jordan relies on exports for its economic growth.

During the 1980s the Port of Aqaba was the third-largest Red Sea port; however, competition from neighboring ports reduced the port’s importance in the global shipping industry during the late 1990s and early 2000s. Investment in the port was needed, but financial crises in the early 1990s limited the level of investment the state was able to make, so other options were explored. In 1998, a US$1.2 million World Bank feasibility study recommended a public-private partnership (PPP) to improve the port. As part of a US$15 million, three-year technical assistance program under the U.S. Agency for International Development (USAID), an international consulting firm created an action plan that incorporated the recommendations of the World Bank study.

Despite the support for a PPP from some government officials, others remained skeptical and the project was shelved until the port suffered further setbacks. Crippled by low levels of investment and poor management, Aqaba Port’s wait times and congestion grew, a problem exacerbated by increasing shipping volume. By the middle of 2003 the port came to a standstill. Anchorage wait times increased to over 150 hours and storage periods were up to 48 days. Some shipping lines chose to utilize ports farther north in Lebanon and Syria, while others imposed surcharges of US$500 per 20-foot container load to help compensate for the delay. The cost to Jordan’s economy of these high levels of congestion was estimated at US$120 million per year.

Realizing the need to act quickly, but hampered by parliamentary politics, the Ministry of Transport transferred ownership of the port to the newly-created Aqaba Development Corporation (ADC), a company wholly owned by the Government of Jordan and the Aqaba Special Economic Zone Authority (ASEZA and explained in Implementation Environment). The transfer was made to speed up the process because without Parliament’s involvement,
decisions could be made quickly. Although ownership was transferred, the project still needed stakeholder support; at the time there was opposition to the project because many believed incorporating the private sector would jeopardize national security. To prove that a PPP would be the best approach for the port, ADC entered into a two-year management contract with a private firm in March of 2004 and promised not to enter into a long-term contract if the private company did not prove to be efficient and effective.

Almost immediately, officials and the people of Jordan noticed positive change at the Port of Aqaba. The private company increased efficiency and worker productivity. It implemented changes which led to the elimination of anchorage wait times within the first year of operation. As a result, in July of 2006, ADC and the private company entered into a 25-year joint venture agreement to manage, operate, and expand the Port of Aqaba. The newly formed company chose to keep the original port operator’s name, Aqaba Ports Corporation (APC). The Port of Aqaba is now one of the best Red Sea ports based on its efficiency and ease of use for shipping lines.

**Project Objectives:**

APC set several goals and objectives for the PPP. The first goal was to turn the port into a world class facility by making it more efficient. This included eliminating congestion, reducing wait times, and increasing worker productivity. Without improved efficiency, the port would not be able to attract new business and would experience continued erosion of its business base.

ADC and the private company jointly developed a 25-year plan for the port, calling for an expansion of the facilities. A combination of physical expansion, equipment improvement, and operational improvements would be used to develop the port. The ultimate goal is to increase the capacity of the port to 2.4 million TEUs (twenty-foot equivalent units) annually.

An additional long-term objective of the PPP is to improve the overall economy of Jordan. The government of Jordan saw the Aqaba region as instrumental in expanding the economy because of the area’s potential for development of tourism (since it has both a seaport and an airport). ASEZA, using the authority it was granted to develop the region, chose to use the seaport as the major anchor for the zone. Improvements to the port, which is a key access point for international commerce into the country, led to the expansion of international trade. Officials reasoned that a strong port would help promote further development in the zone.
Project Description:

1. Partners

Early in 2004, the Government of Jordan and the Aqaba Special Economic Zone Authority (ASEZA) created a private company, ADC, which owns Aqaba’s seaport and the asset’s development and management rights. The Government of Jordan and ASEZA each maintain a 50 percent stake in ADC. The goal of ADC is to accelerate Aqaba Special Economic Zone’s economic growth and development through expanding existing infrastructure, building new infrastructure, and operating its key facilities. The government chose to create ADC to minimize opposition and appeasement in parliament, which had deterred previous reforms.

ADC owns 49 percent of Aqaba Ports Corporation and the private sector partner has a 51 percent share of the company. Although a joint venture was established, the daily operations and management of APC are the responsibility of the private sector partner.

The private sector partner is an international container terminal operation and management company, which was established as an independent company with a Dutch international business conglomerate. The company is one of the top terminal operators in the world. Eleven leading international container terminal operators were invited to participate in the public tender process and eight competitive bids were received.

2. Implementation Environment - Legislative and Administrative

The Aqaba region was seen as a key area in Jordan’s economic growth strategy, given its location, seaport, and airport. The Parliament of Jordan passed the Aqaba Special Economic Zone Law in 2000 and it came into effect on the day it was gazetted (published in the official government Gazette). The law established the 375 square kilometer zone to enhance the economic capacity in Jordan by attracting investment and economic activities to Aqaba to stimulate trade, industry, tourism, and services. The law called for a greater role of the private sector in the development of services and infrastructure. The zone operates as a low tax, duty free multi-sector economic development zone designed to attract both domestic and foreign investment. The law also established ASEZA as the authority governing the zone. ASEZA was granted autonomy in financial and administrative matters and was given the authority to perform any legal act necessary to achieve its objective. King Abdullah II played a critical role in the passage of this law. Due to strong opposition in Parliament, the King personally defended the
law and pushed for its passage because he was committed to developing Aqaba to expand Jordan’s growth.

Privatization Law No. 25/2000 was also passed by Parliament in 2000. This law established the procedural, institutional, and legislative basis of the privatization process. The government is specified as the body which decides the main policy issues and determines how to use the proceeds from privatization. While part of the focus of the law was on privatizing state-owned enterprises, the law also allows for the establishment of specific investment enterprises under agreements between the public and private sectors. The Privatization Law outlines methods of private sector involvement: capital privatization, concession agreements, lease contracts, and management contracts. Under all types of private sector involvement except capital privatization, the government retains sole ownership of the enterprise or asset. Under this law, the Executive Privatization Commission was created to oversee privatization activities in Jordan.

3. Financial Agreement

The joint agreement called for an investment of US$710 million in the port by the private company. The investment in improvements to the port was to be made over the lifetime of the contract. Investment costs by the private company are recouped through the fees shipping lines pay to use the port. The private company also invested US$30 million in hard and soft infrastructure during the two-year management contract period.


The ADC and the private company entered into a two-year management agreement in March of 2004. The government, through ADC, remained the owner of the port. The private company was required to implement numerous upgrades to the facilities, including new equipment, a terminal operating system, and a financial accounting system, as well as introduce world-class standards. ADC developed performance indicators to evaluate the progress of the private company; if the indicators were not met then the memorandum of understanding between ADC and the private company for a 25-year joint venture would not be implemented.

After the successful completion of the two-year period, ADC and the private company entered into a 25-year joint venture agreement to manage, operate, and expand the port. As before, the government of Jordan is the port owner. ADC gained a 49 percent share in APC and the private company owns the other 51 percent. Although ADC has a large share in APC, the private company is responsible for the every day operation and management of the port.
The contract also contained provisions about the retention of port employees because the Port of Aqaba was the largest employer in the region and there was concern that many people would otherwise lose their jobs. The contract required APC to keep all employees - no involuntary dismissals were permitted under the agreement. However, APC was allowed to fire insubordinate workers and workers who had second jobs.

5. Implementation Metrics

APC took several steps to improve efficiency at the port, focusing on work environment improvements, technology improvements, and human capital improvements. The first thing the company did was to clean the whole port, which significantly improved workforce morale. APC recognized the importance of the local norms and cultures and adjusted work schedules accordingly, which led to increased productivity. In the past, workers would take several breaks, including breaks for prayer, and operations would sometimes stop while waiting for these workers; an estimated two hours out of twenty hours of operation were lost each day. APC revised the shift schedule to accommodate daily prayers, which enabled the port to remain operational 24 hours a day.

APC had the port completely computerized within the first year of the management contract’s term. The state-of-the-art computer system establishes guaranteed berthing windows for ships so that they are able to berth upon arrival. The berthing windows helped reduce ship turn around time to less than 12 hours. Landside operations were streamlined, making truckers more efficient when carrying goods to and from the port. APC also replaced outdated straddle carriers with 12 modern rubber tire gantry cranes, shortening unloading time.

Employees underwent extensive training, both on-site and overseas. Courses on computers and English were offered in addition to courses on safety, civil defense, and administration. APC also changed the processes of recruitment and promotion. Previously, these decisions were made based on tribal affiliation; under APC, recruitment was done in a transparent and objective manner and promotions were based on merit. The company also gave its workers a comprehensive benefits package, which included on-site clinics, health insurance, meals, and transportation.

By investing in its employees and the port’s infrastructure, APC experienced impressive productivity gains. The anchorage waiting time, which averaged 129 hours in 2003, was
eliminated by February 2005 (well within the first year of APC’s contract). Average port stays decreased from eight days to less than one day. As a result, in March 2005 shipping lines removed the congestion surcharge from shipments destined for Aqaba. By 2007, port productivity more than tripled, going from nine moves per hour to twenty-eight moves per hour.

New shipping companies selected the Port of Aqaba and APC saw the return of shipping lines that had previously stopped using the port. Effects of improved efficiency were also felt in Jordan’s economy. The number of days to import fell from 28 days in 2004 to 22 days in 2007 and the number of days to export fell from 28 days in 2004 to 19 days in 2007.

APC has attracted business in the form of new shipping lines and increased port calls from current shipping lines. The number of TEUs handled by APC has increased from 358,800 TEUs in 2004 to over 432,000 TEUs by the middle of 2006. Over the first five months of 2008, the number of TEUs was 234,000, which was up 48 percent over the equivalent time period for 2007. While some of the increase can be attributed to the high demand for supplies to Iraq, the rest of the increase in traffic is attributable to the efficiency gains of APC. If congestion charges and delays were still present, this increase in traffic would not have occurred.

Commentary:

1. Methods for Overcoming Impediments

Project supporters faced strong opposition from various groups, including members of Parliament and labor unions. To gain their support, ADC and the government mounted an impressive publicity campaign, promoting the project through ads, radio show appearances, and multiple press conferences. To assuage the opponents in Parliament, a two-year trial period was undertaken through a management agreement. The deal was, if after two years people were not satisfied with how the private sector managed the port, then other options would be explored. By allowing the private sector partner to show its reliability and efficiency, listening to stakeholders, and explaining the project, the government was able to enter into a long-term contract for the port, which has led to even higher levels of efficiency. If the government had simply pushed for a long-term agreement with the private sector, the project might not have been initiated because of the initial opposition.
2. Key Points for Success or Failure

The project had strong political champions who were able to provide key leadership. King Abdullah II, who understood the importance of the development of Aqaba, defended the creation of ASEZ when it faced opposition in Congress. He also demanded the development of a plan within three months, following the stoppage of the Port of Aqaba in 2003. The King pushed for the necessary reforms that allowed the PPP to happen. The leaders of ADC and ASEZA promoted the PPP as well, and conducted numerous press conferences. They also bore the brunt of the backlash from the media, labor unions, and shipping associations during the eighteen months between the signing of the management contract and the publishing of the results of the progress under the private company. With ADC and ASEZA dealing with the public, APC was able to focus on port improvements without the distractions of the media. These political champions fought for the PPP; without their support and dedication, the project might not have become the success that it is today.

Improvements at the Port of Aqaba have led to growth in Jordan’s economy as a whole. Since the creation of ASEZ, over US$8 billion has been invested in the zone, well above the target of US$2 billion by 2020. While not all of this investment is the direct result of the port, the more efficient port does help attract investors to the region.

A potential problem that has not been an issue to date is the conflicting roles of Aqaba Development Corporation. The company is both a stakeholder in the PPP as well as the government body overseeing and monitoring the PPP. A conflict of interest could arise if the economic interest of the company and the national interest diverge, forcing ADC into a position where it must choose a role; however, the carefully structured contract should prevent this problem.

Given the importance of the port for Jordan and the region of Aqaba, ADC is looking to create an additional port using a 30-year public-private partnership. Bids have already been offered and the selection is expected in February of 2009.