



**WORLD BANK
PORT REFORM
TOOL KIT**

M O D U L E 7

LABOR REFORM AND RELATED SOCIAL ISSUES



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LABOR REFORM

OBJECTIVE OF THE LABOR REFORM MODULE

This Labor Reform Module is one of eight modules comprising the Port Reform Toolkit. The Toolkit is designed to help government officials and private interests, alike, navigate the process of port reform to achieve more modern, efficient, and financially viable seaports and related intermodal facilities and services.

The Labor Reform Module deals with one of the most critical elements of port reform – the many labor-related issues associated with port ownership and operations. It is designed to help government decision makers identify the key forces affecting port labor today, understand the need for reform in a competitive environ-

ment, evaluate alternative ways of approaching labor reform, and how to pursue reform in a way that maximizes efficiency and minimizes labor dislocation and risks to potential port investors and operators.

CONTEXT FOR LABOR REFORM

Port labor – from crane and equipment operators to stevedores to harbor pilots – is a key to success or failure in today’s competitive port and international trade environment. Too often, port labor is blamed for a port’s failure to play an appropriate and productive role in port operations and, beyond that, in a nation’s economic development. Over-staffing, outdated and inefficient work rules, poor skills and training, inflated pay scales,



and unreliability are among the most prominently cited problems contributing to high costs and inefficient operations in many ports. To be fair, outdated management practices can sometimes add to these problems by overlooking the benefits of a more participatory approach to port management.

Ports and port labor do not exist in isolation. They are an integral part of, and in turn are affected by, national economic and trade policies, changes in markets and services, and technological advances. Box 1 illustrates how changes in economic policies occurring over the last decades have affected port labor.

These changes in economic policies have been accompanied by other developments in technology, logistics and transportation that led to further reductions in the demand for dock-workers. The shift from "port-to-port" to "door-to-door" cargo delivery systems, for example, and the use of inland container facilities has led to many containers being stuffed and stripped by consignors' or consignees' employees on their own premises, often distant from the port. Handling systems have been extensively mechanized and are now also increasingly automated.

Box 2 shows how the size of work gangs in a number of ports has changed, or not, in response to changing economic and competitive environments. In many of the ports shown in Box 2, the number of workers per gang was very large, and remained mostly unchanged between 1970s and 1980s despite the fact that cargoes increasingly were being transported in containers with the use of modern

equipment. In developing countries, where ports were operated for the most part by the public sector, a combination of factors such as surplus labor, strict appliance of union discipline, limited resources to acquire modern cargo handling equipment, poor training, and government policies to maintain or create employment contributed to over-manning in ports.

In the 1990s, private interests have made significant capital investments in ports around the world. Continued imposition of large work crews and rigid work rules in many ports, however, have undermined the value of these investments, and, hence, the commercial feasibility of ports and terminals, both in developing and developed countries. For example, until April 1998, in various Australian ports there were typically 11 or 12 workers per shift per gantry crane. With the new enterprise agreement, this number was reduced to six workers per shift per crane, and substantial productivity gains were achieved (see Box 2). In the Port of Santos, Brazil, in 1997, labor and management reached an agreement reducing from 12 to 10 the number of workers per shift per crane. As a general matter, port terminal operators would rather employ a smaller number of workers per shift while complying with safety and health regulations, and pay higher wages for a highly efficient, lean team.

Port labor reform presents a difficult challenge for government decision-makers and is unlikely to take place unless a variety of action-forcing conditions exist. As a result, the port labor reform process is typically initiated only when

Box 1

CHANGES IN ECONOMIC POLICIES: IMPACT ON PORT LABOR		
Economic policies	Characteristics	End result
SEMI AUTONOMOUS ECONOMIC POLICIES (Until mid 1980's):	<p>INTERNATIONAL TRADE</p> <ul style="list-style-type: none"> Freedom in the selection of inputs, finished goods, services, funds and labor, usually on a domestic or local basis. National markets were reserved for domestic producers, inefficient production methods, trade barriers, currency exchange restriction, bias against exports. 	<p>LABOR-INTENSIVE TECHNOLOGIES</p> <ul style="list-style-type: none"> Limited degree of specialization required to operate single-function lifting equipment. cargo-handling and warehousing monopolies. direct and cross subsidies. Increasing wages, avoidance of new technologies and low productivity all were institutionalized as measures that protected national producers. Political influence on decisions as to which and how much cargo-handling equipment to acquire. Capital-intensive equipment not viewed as socially acceptable. Expansion of the labor force simultaneously with demand, fragmentation of functions and dock worker registration systems. More cargo, more workers.
EXPORT-ORIENTED ECONOMIC POLICIES (From mid-1980's onwards)	<p>GLOBAL TRADE</p> <ul style="list-style-type: none"> Economic activities restructured, customs duties reduced, competition intensified, domestic producers meet the demands of international markets locally. Freedom in the selection of inputs, finished goods, services, funds and labor, usually on a worldwide basis. Vigorous worldwide competition for goods and services requires labor to respond to the needs of port customers. 	<p>CAPITAL-INTENSIVE TECHNOLOGIES</p> <ul style="list-style-type: none"> Ports can provide services that are competitive and commercially attractive. Productivity increased and costs reduced by exposing port labor to market mechanisms. Workforce reduction, more cargo, less direct port workers. Training and retraining programs to enhance skills of workers and safe working conditions. New techniques and work organization introduced to motivate the labor force. Participation of workers in workplace decisions. Monetary incentives granted on the basis of customers' satisfaction, performance of cargo-handling gangs, and participation in enterprise profit-share linked to individual and team efforts.

Box 2

TRENDS IN GANG STRENGTHS AT VARIOUS PORTS, 1970S AND 1980S					
PORT	DATE	GANG STRENGTH	DATE	GANG STRENGTH	CHANGE
Aruba	1979	21	1983	12	-9
Auckland	1971	14	1982	14	Nil
Bahrain	1970	15	1982	10	-5
Beirut	1974	50	1983	15	-35
Bombay	1970	Ashore 13 In hold 8	1980	Ashore 13 In hold 8	Nil Nil
Chittagong	1970	14	1982	14	Nil
Cochin	1973/74	Ashore 8-18 On board 10	1982/83	Ashore 12 On board 10	(average)
Doula	1970	14	1982	14	Nil
Freetown	1976	14	1983	14	Nil
Gothenburg	1976	9-13	1983	8-13	Nil
Guam	1970	14	1983	9	-5
Lagos	1970	16	1982	16	Nil
Madras	1970	24	1980	27	+3
Melbourne	1970	10-21	1983	10-21	Nil
Montreal	1970	3-14	1982	3-14	Nil
Oslo	1970	10	1982	"as required"	-
Panama	1971	18	1982	18	Nil
Pinang	1970	9	1982	9	Nil
Port-au Prince	1977	8	1982	12	+4
Puerto Rico	1970	22	1982	22	Nil
Rangoon	1972	26-30	1982	15	-(11-15)
Recife	1970	4-15	1983	4-16	+1
Rotterdam ¹	1970	6-14	1981	6-14	Nil
Tai-chung	1970	4-20	1982	4-20	Nil
Shuwakh	1980	12	1982	12	Nil
Singapore	1970	15	1982	10	-5
Turkey (all ports)	1970	11-13	1982	7-9	-4
A (Sweden)	1970	11	1982	9	-2
B (Norway)	1979	7-9	1982	5-7	-2
I (North Africa)	1971	17	1981	17	Nil
J (Australia)	1970	11-15	1982	6-15	-3
E (Taiwan, China)	1970	22	1982	12	-10

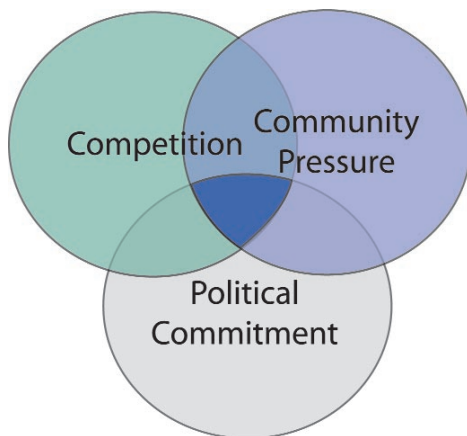
Source: New cargo-handling techniques: Implications for port employment and skills, A. D. Couper, ILO, 1986.

(1) However, according to figures provided by the Rotterdam Port Employers Association the number of port workers in the container and conventional cargo sections together declined from 7600 in 1982 to 5500 in 1991, a reduction of 28%, while in the same period the two sections of the port have seen an increase in loaded and unloaded cargo from 32.8m ton to 52.5m ton, an increase of 62%.



at least one, and more likely, a combination of the following three influences are present.

Figure 1: Factors Prompting Port Labor Reform



- **Competition.** Challenges a port or a terminal face from competing terminals, either within the same port or from other ports in local or regional markets, often lead public officials, port users, and shippers to press for reforms to improve efficiency and lower costs.
- **Community Pressure.** As a result of competitive challenges, the port and trade community can be expected to object to restrictive port labor work practices, agreements and regulations, all of which lead to high labor costs, low productivity and high prices for port services.
- **Political Commitment.** When the two foregoing factors exist, they can galvanize remedial action in the form of a plan undertaken by a public

authority, or proposed by a candidate for public office as part of a political platform. The intent is to reform port labor regimes to make the port more efficient and cost effective and, thus, improve competitiveness while reducing the fiscal burden of the public sector.

Competition is the principal motivating force behind labor reform. In cases where ports serving the same hinterland already face competition, the propensity to undertake reform is usually higher. For example, the fact that Western India's newest port, Jawaharlal Nehru, located within Mumbai Bay, uses gangs of four workers for container handling, while the Port of Mumbai uses gangs of 15 workers to perform the same task, might prompt the latter to undertake labor reform sooner than the Eastern Indian Port of Calcutta, which uses gangs of 28 workers and has no competing port in the vicinity. Likewise, competition arising due to the proximity of the Port of Sepetiba to the Port of Rio de Janeiro, Brazil, has encouraged the latter to negotiate more flexible labor arrangements and tariffs than the Brazilian Port of Santos, which has no nearby competing port (although the container terminals have now been privatized and two competing terminals exist in the same port).

Regardless of whether there is direct port or terminal competition, global competition in its broadest sense compels port stakeholders, including labor, to assess their organizational and operational cost structures, work methods and procedures. From this perspective, ports may be viewed as just one of sev-



eral factors that contribute to a country's or a region's competitiveness. As such, it is in a country's overall economic interests to improve port efficiency through labor reform and other measures.

The port and trade community -- which includes manufactures, exporters, importers, and land and ocean carriers -- because of its close business relationship with the port, can sometimes press governments to modify restrictive labor regulations that govern work practices in ports. Transforming these requirements into effective modernization plans may depend on other factors, but presenting a common voice can constitute an important force to initiate the labor reform process.

Finally, political commitment is essential to initiate labor reform. Without strong support and reassurance from government decision makers to labor reform, the chances for labor reform to succeed are slim. Similarly, promises from aspiring political leaders could fall short after an election is won. Moreover, the need to reduce government subsidies or the desire to obtain a one-off cash injection by tendering concessions, have in the recent past been common incentives for privatization and port labor reform.

While a port labor reform process may be instigated by any one of these three factors, the most favorable condition occurs when all three forces are present simultaneously (the shaded area in Figure 1).

KEY LABOR ISSUES TO BE ADDRESSED

Aspects of Port Labor Potentially Affected by Reform

In numerous developing countries, as well as in some industrialized ones, existing port labor regimes, collective agreements, and management and labor practices are inflexible, outdated, and inefficient. Consequently, they hinder the development of the type of commercial and operating environments that ports require to respond to the increasing demands of customers and competitive markets. Governments, as a result, must appraise, in consultation with other port stakeholders, the extent to which labor regimes, collective agreements, and labor and management practices serve as a barrier to the achievement of the port's commercial goals.

In conducting this appraisal, many issues have to be addressed, including but not limited to:

- restrictions on which entities can offer cargo-handling and other services in the port;
- reducing over-staffing by adapting gang sizes and other staffing to generally accepted levels;
- rigid and outdated job descriptions and duties;
- limitations on working hours and days;
- inefficient overtime allocation at excessive wage rates;
- hiring of port labor exclusively



- through the unions;
- restrictions on output;
- unsettled and combative workplace culture;
- insufficient training and retraining opportunities;
- lack of clear and meaningful productivity objectives; and
- inadequate occupational health and safety procedures.

Opening labor markets to competition is an approach some port reformers have taken as a means of addressing these issues. In this context, the existence of inflexible and exclusive dock labor

boards or union labor pools runs counter to the desire to increase management discretion over the recruitment, qualification and use of specific employees.

Many government-owned and operated ports face not just one of these issues, but a combination of them. And solving these issues, to the extent they exist, must be a critical element in any successful port reform strategy. Simply shifting the burden of addressing these issues from a public authority to the private sector, however, will do little or nothing to resolve them.

Box 3 shows how certain port reforms can affect employment conditions and labor-management relations.

Box 3

POSSIBLE EFFECTS OF PRIVATIZATION ON EMPLOYMENT		
Employment effects	Employment conditions	Management-labor relations
<ul style="list-style-type: none"> • Re-classification of posts • New job patterns 	<ul style="list-style-type: none"> • Greater job mobility • Diminished guarantee of tenure and job security 	<ul style="list-style-type: none"> • Greater emphasis on professionalism • More discretionary power in taking management decisions and formulating enterprise policies
<ul style="list-style-type: none"> • Labor retrenchment and direct job losses 	<ul style="list-style-type: none"> • Need for retraining and skill upgrading 	<ul style="list-style-type: none"> • More emphasis on strict implementation of these decisions and policies
<ul style="list-style-type: none"> • Gender-biased employment policies • Discrimination against shop stewards and other labor representatives 	<ul style="list-style-type: none"> • Longer working hours and/or increased work load • Payment by results schemes and pay freezes 	<ul style="list-style-type: none"> • Marginalization of unions' influence and bargaining power • More tedious wage bargaining with preferences for individual rather than collective agreements
<ul style="list-style-type: none"> • Medium- and long-term employment gains due to increased investment, growth of privatized firms and diversification of services 	<ul style="list-style-type: none"> • Loss of seniority and service grades 	<ul style="list-style-type: none"> • Tougher stance of management on workers performance and work discipline
	<ul style="list-style-type: none"> • Wider wage differentials with greater incentive components 	<ul style="list-style-type: none"> • Efficiency arguments and profit making gain importance over social objectives.
	<ul style="list-style-type: none"> • Loss of pension rights 	
	<ul style="list-style-type: none"> • Loss of social benefits (e.g. housing, transport, child care, health insurance schemes) 	
	<ul style="list-style-type: none"> • Abolition of the prohibition to undertake strikes and industrial actions 	

Source: Comparative Experiences with Privatization: Policy Insights and Lessons Learned, UNCTAD, 1995.



Securing Constructive Involvement of Labor in Port Reform

At the same time, a realistic and responsible port reform initiative must recognize and deal with the possible adverse human and social effects that may result. To ensure that dock-workers' rights and interests are properly taken into account, the International Transport Workers' Federation (ITF) recommends that policy makers should involve labor at all stages of port reform.

The principal areas of interest for port labor include but are not limited to:

- stable and fulfilling employment;
- reasonable incomes;
- decent working conditions;
- social security and pension provision;
- education and vocational training;
- health, safety, and the environment;
- workplace democracy;
- freedom from discrimination on the basis of race, religion, social status, or gender; and
- freedom from corruption and coercion.

Historically, trade unions have worked to advance these interests. And trade unions can be expected to continue to play an important role in the port community during and after the period when reforms are implemented. Government authorities, when under-

taking reform, must recognize this legitimate and important role and should not view port reform predominantly as an opportunity to break trade unions or otherwise undermine their role in protecting workers' interests.

Despite the critical role that labor plays in ports, many countries have designed and implemented port reform adjustment programs without the involvement of workers' representatives and unions.

Failure of governments to secure constructive labor involvement in port reforms can typically be traced to:

- mistrust stemming from historic disputes and the recurring conflicts between capital-labor trade-offs;
- inadequate and untimely preparation of port reform proposals, making it difficult for labor to take part in consultations and negotiations; and
- financial resources too limited to cover training needs created by port reform.

Governments, however, have much to gain from involving labor early and effectively in the port reform process. Labor's contribution stems from its important role as:

- one of the port's most valuable assets, trained personnel;
- a source of practical knowledge of and experience in port operations;
- problem solvers; and
- a source of ideas to add value to the



goods and services of customers.

On the other hand, labor unions themselves must face a number of crucial challenges in order to adjust and optimize their own effectiveness when dealing with reform. As listed by one ITF official, the main challenges include:

- A commitment from trade union leadership. The participation of trade unions in a reform process is a big challenge for the trade union movement and its officials, as it requires a commitment from trade union leaders. Negotiation implies compromise and this may not always be to the liking of all affected trade union members. Union leaders must accept that it is their responsibility, once they believe they have achieved the best deal available, to defend it strongly to their members.
- The ability to unify workers' short- and long-term interests. The issues confronting labor during the transition period to privatization versus the period following the introduction of privatization are different. In the transition period, the challenge for trade unions is primarily to defend the short-term interests of workers. At the same time, trade unions have to look to the future and to defend the workers' long-term interests. This means that they have to understand longer term trends affecting the port industry and to be able to develop appropriate policy and a strategy for the future.
- The need to improve expertise within the union. Participating actively and effectively in a reform process requires trade unions to become thoroughly knowledgeable about shipping, ports and international trade, and to commit significant human resources to the reform process. Additionally, trade union structure must allow for the internal exchange of information and debate. In some cases this know-how needs to be developed, as it has been within those unions more experienced in reform processes. There are several ways to develop this expertise within a union, training for trade unionists being one method.
- The introduction of new trade union structures. A serious obstacle to successful port reform could lie in outdated union structures that divide workers into many small, different unions, that sometimes compete among themselves for membership. Efficient trade union structures, covering the whole industry, should be created to enable union officials to exchange information within the union, to organize the necessary internal debate, and to present a consistent approach in their dialogue with public authorities.
- Finding solutions to social problems caused by privatizations. The main source of port workers' opposition to privatization is uncertainty. Faced with the fear of unemployment and/or major cuts in income, labor's first reaction is always to say no. Unless they can be given an interest in the results of the reform, they will resist any change. Employment and income guarantees for port workers



affected by privatization are, therefore, essential in creating the climate required for successful and lasting port reforms. The costs of severance pay, unemployment benefits, pensions, cash payments for early retirement or other measures must be considered a legitimate part of the overall cost of reform. The challenge for the trade unions, which comes prior to solving social problems, is to develop their own policy on those issues and to reach common ground with public authorities and private employers.

- The acceptance of privatization. Unions increasingly recognize the need for a differentiation of their policies on reforms and privatization. Resolutions adopted at ITF's Latin American and Caribbean and African Regional Dockers' Conferences in Lima (November 1996) and Mombasa (December 1996) indicated for the first time that unions acknowledged that there is no standard model for port restructuring and that increased involvement of the private sector is an option that cannot be discarded. The basis for this changing attitude towards privatization was the increased awareness that it is not privatization as such that threatens working conditions, but the process through which it is implemented.
- Dealing with the new culture of competition. A major consequence of privatization is an increase in competition. This usually calls for new flexibility in working practices. There are many forms of flexibility, and trade

unions should understand this aspect of privatization and competition thoroughly to again find a balance between what is presented as necessary and what is recognized as socially acceptable.

- Understanding the need for new labour relations. Privatization brings with it a complete realignment of labor relations. In the case of state-owned ports and related companies, the relationship is between only two parties: government and labor. Privatization means that a third party is introduced: the private entrepreneur/employer. For many trade union officials this change requires a complete overhaul of the way they used to think about labor relations. Moreover, it also requires from managers a completely different attitude and approach. Trade unions, employers and would-be entrepreneurs can no longer rely on governments or other authorities when decisions need to be made. In many instances, entrepreneurs have to make their own decisions, in some cases in consultation with labor representatives and in some cases in consultation with authorities. Authorities must learn that the state, on many occasions, should no longer take the lead, but should provide the environment in which entrepreneurs are encouraged to make their own decisions and in which trade unions and employers are encouraged to develop joint approaches to addressing labor issues.

Box 4 describes one country's approach for addressing a number of these issues.



ORGANIZING TO ADDRESS LABOR REFORM: A TASK FORCE APPROACH

Successful port labor reform requires governments, labor, and private interests to grapple with a wide range of economic, operational, social, safety, and cultural issues. To come to grips with this myriad of issues, some governments have established a labor reform task force, often headed by the Ministry of Labor, to consult with port stakeholders regarding any changes that might be made in government policies and practices to improve port productivity and cost-effectiveness.

Composition of the Task Force

The labor reform task force should include representatives of all government agencies and private sector stakeholders affected by port reform, including:

- Ministries of transport, labor, finance, economics, planning;
- Port authorities;
- Main port customers and users, including exporters, importers, carriers and agents, freight forwarders and multi-modal transport operators;
- Private investors, terminal operators, cargo-handling and stevedoring companies; and
- Port labor representatives.

Scope of Work of the Task Force

The labor reform task force should conduct its activities in an open and trans-

Box 4

Working with Labor Unions: The Ghana Case

As a strategic option to achieve its development objectives, the Government of Ghana designed in 1998 the Ghana Trade and Investment Gateway Project (GHATIG) with the support of the World Bank. The primary objective of GHATIG is to create an environment conducive to economic growth and development led by private sector initiatives.

Within this context, the Government of Ghana has approved a policy to further improve the operation of the ports, which will reduce the cost of operations and shorten the turn-around time of ships. The policy entails increased private sector participation in the management of ports. The Ghana Ports and Harbours Authority (GPHA) will be converted into a "Landlord" Port Authority while the private sector will participate in port operations particularly container handling operations, dockyards, sites maintenance and services.

The port reforms that are aimed at through the implementation of the GHATIG Project constitute a major change in the port sector of Ghana. The most critical issue in managing change (i.e. making change work) is overcoming the resistance to change from many of the stakeholders in the port industry. However, in the case of the proposed port reforms in Ghana, due to the proper, professional and timely/proactive actions of the Government of Ghana (particularly the initiatives of the Minister of Roads and Transport) and the GPHA Management, the strength of the resistance to change has been minimised. The avoidance of any autocratic approach and the consultative, persuasive and participative style that has been adopted by the Government of Ghana in promoting the port reform process has resulted in a very positive atmosphere among the port community as regards to the implementation of the port component of the GHATIG Project. The public consultation through a national workshop on the acceptability of the government's policies pertinent to port reforms and the personal site visits of the Minister of Road and Transport to the ports in order to speak and more importantly listen to the port workforce and the port labour unions, coupled with the constructive work that has been undertaken by the GPHA Management, has secured the collaboration of the majority of the stakeholders in the port sector. It is interesting to note that representatives of the Maritime and Port Workers Union (MDU) have accepted to join forces with the GPHA Management in its effort to address the port rationalisation issues in relation to the port reform process. MDU representatives are now members of the organisational restructuring and labour rationalisation-working team of the Project Implementation Committee and attend its meetings on a regular basis.



parent manner. Its main areas of activity would typically include:

- Undertaking studies or commissioning them. Various governments prefer to be assisted and guided by expert professionals, retaining consultancy services to work closely with management and workers and other port stakeholders in assessing the weaknesses and strengths of labor regimes, collective agreements, and work practices.
- Organizing seminars and workshops. These help to build consensus by allowing all port stakeholders to share their views and concerns on various issues. These events also permit employers to explain to workers what sort of competition they face, their firms' financial performance, and the need to address competitive challenges.
- Informing the community and consumers. Making use of media to disseminate the results of studies and workshops helps to keep the community and consumers at large informed, making it easier to gain their support for necessary changes. The community and consumers need to be enlightened as to why port labor reform is needed, what is involved, how the main difficulties will be mitigated, and what are the expected benefits to the entire economy or country.
- Fostering the creation of joint committees between unions and private terminal operators. Such joint committees – which might address issues

affecting operating efficiency and safety - can help resolve on-the-dock problems and disputes without formal government intervention.

- Defining government's role with respect to ports. Governments should play an active and focused role in regulating and monitoring companies that operate in the port system to ensure that safety and health laws and regulations are followed. Governments can assume an active and effective role in promoting the use of ports for the benefit of the entire community and economy.
- Developing a workforce rationalization plan. The task force should draw up and explain programs for staff restructuring and rationalization. In developing these programs, the task force should evaluate a range of measures including incentive schemes for early retirement, voluntary separation, provision of training and retraining, career development as well as assistance in job search and out-placement.

For the task force to be in a position to work effectively, sufficient budget must be allocated by all participants' organizations to make it possible for the team to complete its tasks and work schedule.

Box 5 describes one country's approach to creating a port reform task force.

THE INSTITUTIONAL FRAMEWORK FOR LABOR REFORM

Port labor reform is a balancing act taking into consideration workers' rights and social equity, port users' and opera-

tors' commercial needs, the need to foster competition, and the interaction between governments and port interests.

Meeting Commercial Needs

Establishing inter-port, intra-port, inter-union, intra-union, and non-union competition is a key to addressing shipping and port companies' needs for improved productivity and cost effectiveness. This usually requires:

- Economic regulatory reform, including the elimination of bureaucratic obstacles to the free interplay of market mechanisms affecting the supply and demand of dock-workers.
- Decentralization, including the assurance that labor responds to local market signals without cross-subsidies among related labor organizations in competing ports.

Labor's possible role in this area would be to negotiate with port employers to establish job education and experience requirements, and provide training courses that address local market needs.

Defining the Relationship between Governments, Ports, and Labor

To avoid pressures to modify market outcomes, governments should remove themselves from direct involvement in port-labor relations, collective negotiations, and informal dispute resolution. A proper commercial setting should be able to function without political influence, although the government has a major role to play in making labor rationalization possible and in funding it.

Box 5

THE PRODUCTIVITY COMMISSION OF AUSTRALIA

The Productivity Commission, an independent Commonwealth agency, is the Government's principal review and advisory body on microeconomic policy and regulation. It conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians.

The Commission's work covers all sectors of the economy. It extends to the public and private sectors and focuses on areas of Commonwealth as well as State and Territory responsibility.

The Commission performs its role through the following key activities: holding public inquiries and reporting on a variety of matters referred to it initiating research on industry and productivity issues and reporting annually on industry and productivity performance generally, and on assistance and regulation promoting public understanding of matters related to industry and productivity providing secretariat and research services to government bodies, including developing performance indicators for government provided or sponsored services reviewing and advising on regulation through the Office of Regulation Review investigating and reporting on complaints about the implementation of the Commonwealth Government's competitive neutrality arrangements.

Labor's possible role in this area would be to negotiate on a transparent basis without political manipulation; suggest measures to improve productivity, facilitate the work and reduce costs; and share decision authority at the operational level.

Fostering Competition

Antimonopoly laws must be applied to terminal operators and dock labor alike to ensure that market mechanisms do not result in the creation of cartels.

Labor's possible role in the area should be to make sure that market mecha-

Box 6

INSTITUTIONAL FRAMEWORK FOR LABOR REFORM

KEY FINDINGS

Productivity Commission 1998, Work Arrangement in Container Stevedoring, Research Report, AusInfo, Canberra, Australia.

- Flexibility in the allocation and use of labour is critical to stevedore workplace performance, given the highly variable demand for stevedoring services at Australian ports.
- The container stevedoring industry is characterised by a system of complex, inflexible and prescriptive work arrangements which constrain workplace performance. They impede productivity, reduce timeliness and reliability, and increase labour costs.
- The most significant of these work arrangements are the order of engagement (specifying the order in which different types of employees are engaged for a shift), shift premiums and penalty rates, and redundancy provisions.
- The order of engagement, in combination with relatively high shift premiums and penalty rates, add significantly to total labour costs for a given level of activity. They detract from productivity by creating incentives for permanent operational employees to seek overtime and lead to poor timeliness and reliability. They can also have deleterious effects on the lives of operational employees.
- The high cost of redundancies restricts the ability of stevedores to adjust manning levels of permanent employees. The redundancy agreements also foster skill mismatches and reduce the ability of management to allocate the best person for the job.
- There are a number of factors which impede change, including an adversarial workplace culture, strong union bargaining power, limited competition in the labour market for operational stevedoring employees, and limitations on competition in the industry.
- The Workplace Relations Act 1996 facilitates change by enabling work arrangements to be determined primarily at the workplace level. Together with the secondary boycott revisions to the Trade Practices Act, it has also reduced some sources of union bargaining power.
- Responsibility for better outcomes ultimately rests with managers and their employees. Greater competition in container stevedoring would increase the pressures on both sides to change work arrangements and improve performance.

Source: Productivity Commission 1998, Work Arrangement in Container Stevedoring, Research Report, AusInfo, Canberra, Australia.

nisms are used to compete fairly and that port operators do not abuse their market power.

Redefining the Concept of Social Equity

The current concept of social equity (i.e., job and wage security) was developed at a time when governments believed they could insulate their economies from the rigors of fierce international competition. Developing countries, in particular, often pursued policies designed to reserve domestic markets for national entrepreneurs while seeking to create broader export markets through the receipt of preferential treatment under multilateral trade agreements. In this environment, dock-workers (and other labor) were sheltered from the full force and effect of international competition, or so it may have seemed.

Similarly, governments were temporarily spared having to make difficult decisions associated with adjusting labor conditions and relationships to conform to global market forces. Governments, therefore, guaranteed dock workers' jobs, purchasing power, and benefits. At the same time, they failed to make investments in new technology or to take steps to reduce costs and improve productivity. The unfortunate truth is that this interpretation of social equity raised the costs and prices of imported and domestic products in national markets and contributed to a downward spiral of non-competitiveness. As such, this concept of social equity was unsustainable.

The concept of social equity has today shifted to a commercial opportunity-ori-



ented approach. Under this approach, job security, which ultimately depends on expansion of trade and transport activities, is not achieved through government guarantees of work, but through education, training, and retraining programs. By this means, the enhancement of workforce skills and abilities, together with greater participation in workplace decisions, lead to better job opportunities and improved productivity. Box 7 compares past and present aspects of job security.

For workers displaced as a result of reforms, fair compensation should be granted for the relinquishment of their acquired rights and privileges. To facilitate their early re-entry into the national workforce, displaced workers should be offered retraining programs and job

search assistance, and above all, an institutional structure that ensures that benefits and privileges given up by these workers will not be appropriated by some other group within the port or trade community. Box 8 describes one country's approach to funding labor rationalization initiatives.

Labor's possible role in this area would be to ensure that training programs become an integral component of the modernization process, promote occupational health and safety, and establish a collaborative process for the selection and introduction of new equipment.


Timeframe for the Port Labor Reform

Port labor reform is an economically and politically challenging undertaking. As

Box 7

JOB SECURITY IN PORTS

<div style="background-color: #0056b3; color: white; border-radius: 50%; padding: 10px; display: inline-block;">In the Past</div>	<div style="background-color: #008060; color: white; border-radius: 50%; padding: 10px; display: inline-block;">In the Future</div>
<p>Jobs security obtained by avoiding market mechanisms. Political alliances were utilized. The results were often not desired and reduced the need for:</p> <ul style="list-style-type: none">• Knowledge of and experience with international port practices.• Labor participation in management committees.• Acceptance of new cargo-handling technology.• Training programs to increase the skills of the labor force.	<p>Job security obtained by responding to market mechanisms. This creates a need for formal training programs, multi-skilling, willingness to accept new technologies and commonality of goals among port customers, employers and dock labor. The usual impact is:</p> <ul style="list-style-type: none">• Collective agreements negotiated so as to promote trade.• Dock labor generates ideas which lead to progressive gains in productivity and efficiency.• Employers willing to train port workers.



such, it can be expected to elicit strong political emotions both for and against. Consequently, the port labor reform process should be begun and completed within the term of a single public administration. The reason for this is that the changes to existing labor regimes that are considered "objective" by one administration could be judged to be "biased" by succeeding administra-

tions. Trying to carry over this reform process from one administration to the next often results in significant delays or even the discontinuation of the entire reform process.

Further, if port reform includes inviting potential investors to operate state-owned port facilities, it would be advantageous to conclude the labor reform

Box 8

PORT OF SANTOS, BRAZIL: THE SPECIAL LABOUR FUND

A special port workers' fund is being set up in Santos which should resolve years of bitter confrontations between stevedores and port operators at Brazil's leading port. According to Antonio Carlos Branco, president of the Santos port operators' union (Sopesp), and a key figure behind the scheme, it might also ease the over-reliance of the traditional port city on purely port-related jobs.

The Reais 80 (US\$47.73) million fund would be used to soften the impact of cutting the labor pool in Santos to around 4,500 dock workers from a current total of 11,500 employees. Money from the fund will be used to retrain port laborers employed by the administrator of the casual labor pool, known as OGMO (Orgao Gestor de Mao-de-Obra), for alternative work, within new high-tech and light industries that will be encouraged to locate to Santos.

The project is also backed by the Sao Paulo state Federation of Industry (FIESP), the Santos Port Council, local importers/exporters, state and municipal governments and national governmental bodies dealing with dock labor, according to Branco. He said: "The fund would be a unique way of resolving the problem of high port labor costs impeding the growth of Brazilian trade".

He continued: "Once we get the money into a fund we will reduce the numbers in the OGMO to 5,000 workers immediately. Rules for dismissals and claims will be carefully worked out and we think that within 90 days we will have a final draft for the fund and its operation... The local and central governments will help bring hi-tech and small businesses to Santos within three years or so. The technical side is finished and is now being presented to the unions for discussions. Once they have agreed to it we will present it to Grupo Executivo para a Modernizacao dos Portos (GEMPO - a national body co-ordinating the modernization and privatization of Brazil's ports) and to the government in Brasilia".

At Sopesp, Branco has set up a taskforce split into three units, respectively specializing in containers, bulk cargoes and breakbulk cargoes. He added: 'We have contacts with the stevedores at the moment but the elections for the stevedores' unions are to be held in November 1999 so they are not willing to make paper agreements for fear of being accused of giving up some rights, etc. But we keep negotiating and after November we expect them to make a general agreement for labor rules, gangs, everything. We just have to wait.'

Sopesp already has an agreement with coopers/watchmen/port administration staff which runs until February 29, 2000. The stevedores/tallymen/port workers are having their agreement plans examined at the Regional Labor Tribunal, of Sao Paulo state.

Branco said it was important there were no more strikes. He told Containerisation International: 'It is not just a problem of direct financial losses to port operators and shippers but also it presents a bad image for foreign trade, importers abroad would conclude they cannot trust us and yet we have a desperate need to increase our foreign trade.'

Source: Containerisation International, October 1999.



component before the project is marketed and a request for bids is tendered. This will clarify the potential investors' future labor relations and costs, thereby reducing the degree of uncertainty and risk and, with the right labor reforms, making the offering more attractive to reputable investors and operators.

Nevertheless, one can expect that labor reform will be a continuing process that will involve adjustments to respond to changing market conditions.

DEVELOPING THE WORKFORCE RATIONALIZATION PLAN

An effective workforce rationalization plan must be built on accurate and relevant information and must consider the full range of rationalization alternatives -- and not just dismissals.

Gathering the Information Needed to Draw Up the Plan

The design of a port labor rationalization plan and program is one the most important phases of the overall port reform process. To be done correctly, the plan and associated programs should be based on detailed reliable information on the port enterprise, the workforce, and local markets. In this respect, it is useful to review the lessons learned from previous government labor rationalization programs.

Before undertaking to develop a rationalization plan, the labor reform task force team should assemble the following types of information:

- Port master plans and strategic

goals for the short, medium and long terms;

- Estimates of required activity levels (throughput forecasts);
- Demographic information about the current port workforce including data on employee age, marital status, number of dependents, level of education, length of service and accumulated benefits (e.g., employer's pension fund contributions, life insurance benefits, accumulated holidays);
- Current staffing levels broken out by operational, administrative, and management categories, and descriptions of job requirements;
- Estimates of minimum staffing levels similarly broken out by operational, administrative, and management categories, and descriptions of new or modified job requirements;
- National and local laws, regulations, and policies relating to labor rationalization;
- All relevant collective bargaining and employment agreements that describe work rules, compensation, benefits, training, contracting out rules, exclusive staffing provisions, etc.;
- Training needs and skills of workers who will be seeking alternative employment; and
- Existing government and private sector organizations capable of assisting with retraining and job searches, and their capacity to provide training to the required levels.



In developing a realistic labor rationalization plan, appraising the local labor market situation and conditions will be as important as assessing the specific enterprise being restructured. Displaced workers will need to be re-integrated into local and regional markets. To facilitate their re-entry, the labor reform task force will also have to gather information about and carefully consider the following factors:

- The overall macroeconomic situation of the country and, more specifically, the economic and social condition of the area or region in which the port is located;
- Existing employment and unemployment patterns, job creation schemes, and growth of sectors within regions;
- The labor absorption capacity and growth potential of different sectors of the economy; and
- The skills and experience of the workforce.

This information should be available to all parties affected by port reform since it will become the basis on which many decisions will be made.

Alternatives to Dismissals

Too often, labor rationalization has been equated to wholesale dismissals. Labor forces can be rationalized in a number of ways, however, not all of them involve the immediate dismissal of employees.

In a climate of cooperation and mutual respect, labor and management have been able to implement agreements

involving flexible work arrangements that preserve jobs or reduce the workforce through means other than involuntary dismissals.

Some of these arrangements and measures include:

- Normal attrition of the workforce as a result of retirements, deaths, or resignations;
- Part-time employment, flexible working hours, reduction in working hours, variable workweeks, job sharing, and overtime restrictions;
- General or job category-specific hiring freezes;
- Absorbing cost reductions across the organization by sharing reductions in hours of work and pay; and
- Work rotation among other government departments in cases where the port is the main employer of the city and jobs in the surrounding areas are very scarce.

Each of these alternatives merits careful consideration in the development of a labor rationalization plan. Box 9 describes one company's approach to labor rationalization.

Elements of a Staff Retrenchment Program

Measures such as the flexible work arrangements described above may prove insufficient to attain workforce reductions needed to make the port enterprise commercially feasible or attractive to new investors. In such

Box 9

SOCIAL PLANS AT MOULINEX

Social plans can be described as agreements reached between labor and management to develop an organized set of measures seeking alternatives to dismissal, assistance in arranging re-employment elsewhere and compensation, in an effort to limit the number of planned redundancies and minimize the impact on workers and communities. The social planning process typically begins after an organization has announced that it intends to scale back the size of its workforce or even shut down operations entirely. Following such an announcement, the social partners meet to find workable alternatives to mass redundancies. These alternatives tend to involve such initiatives as early retirement schemes, incentives for voluntary redundancies, natural attrition, conversion from full-time to part-time status, reduction in working hours, wage moderation or cuts in compensation, relocation to another work site within the organization, and worker retraining. If redundancies cannot be avoided, the social plans address such matters as an orderly process for lay-offs, redundancy payments, job counselling, job search assistance and training for new and expanding occupations. In France, for example, companies employing more than 50 workers are legally required to draw up a social plan to limit the number of redundancies. Such was the case recently with Moulinex, a major household equipment manufacturer in France. The company announced its intentions in June 1996 to make 2,100 workers redundant over three years, close two sites in Normandy and transfer the head office west of Paris. It then signed an agreement with its five trade unions in January 1997 which reduced the number of planned job cuts from 2,100 to 1,468 through a combination of reductions in working time and early retirement. Working time will be reduced by 15 per cent for 750 workers, from 39 hours to 33 hours and 15 minutes per week, paid at 97.2 per cent of the base salary and organized on a voluntary basis. Early retirement will be offered to 718 employees from age 56. To prevent the loss of 600 more jobs, Moulinex will offer a relocation package of Frs. 80,000 to encourage workers to move to other locations within the company. The primary objectives of social plans such as that concluded at Moulinex are to maintain employment levels wherever possible, reduce disruption and facilitate re-employment when lay-offs are unavoidable.

Source: Technical Paper for the ILO's High-Level Tripartite Meeting on Social Responses to the Financial Crisis in East and South-East Asian Countries, Bangkok, Thailand, 22-24 April 1998.

cases, policymakers have to adopt other measures. A staff retrenchment program is an option that permits governments to reduce large numbers of workers in an operationally rational and socially responsible manner. To be viable, this kind of solution should be the result of negotiations with trade unions, or with representatives of the workforce. Such programs typically include various measures aimed at cushioning the adverse affects workers may suffer as a result of dislocations.

The main components of a staff retrenchment program normally include:

- ***Compensation, with incentives for early retirement and voluntary separation.*** Retrenchment programs often permit employees to retire with either full or reduced pension benefits at an earlier age than normal. Numerous public enterprises have either reduced the minimum retirement age by five years or added five years to length of service. Financial incentives are normally calculated based on the number of years of service, each year of service entitling the separated employee to one month's salary, with a ceiling of, say, 24 months of wages.
- ***Compensation for involuntary separation.*** When the targeted workforce reduction is not reached through voluntary programs, and workers have to be dismissed or laid off, they normally receive a lower severance payment, for example, 80% of the amount received by workers who left voluntarily. Dismissed workers are



also entitled to training and outplacement assistance. Criteria to decide who should be dismissed could be based on: workers' records of attendance; frequency of penalties or suspensions; overall performance evaluations by his/her immediate supervisor; and family situation (e.g., marital status, number of dependents). In some countries the standard is still first-in-last out when workers become redundant.

- ***Provision of training and retraining.*** The training and retraining component of the retrenchment program is aimed at facilitating the return of displaced workers to gainful employment. Experiences in various countries, however, have revealed that in many cases only 20% of the displaced workers take advantage of retraining programs being offered. The main reasons for this low level of participation include: timing delays, weak institutional capacity of the local public sector, and low educational level. To have a greater chance of success, retraining programs should be demand-driven, not supply-driven.
- ***Guidance and assistance in job searching and outplacement.*** This component is closely linked to retraining and is aimed at assisting displaced personnel who will be seeking employment. However, displaced personnel should be able to take advantage of this service regardless of whether they have been retrained. Services could include: preparation of resumes; disseminating information about employment

opportunities; sharing information on how to start one's own business; establishing cooperatives; and other measures.

Pitfalls in Designing and Implementing Severance Packages

Retrenchment efforts involving significant staff reductions often face considerable political opposition. As noted above, to overcome opposition and to treat fairly public employees who lose their jobs, governments often offer severance pay to those workers forced to leave public employment. But, problems in the design and implementation of these compensation schemes often reduce their efficiency and may not achieve their objectives.

Potential problems include:

- ***Paying Too Much.*** Workers are paid more than would have been necessary to induce them to leave. These increased costs may bring a retrenchment program to a halt because funds run out
- ***Adverse Selection.*** Severance pay packages do a poor job at targeting redundant workers; often the best workers tend to accept the buyout because they have readily available alternatives, while the worst tend to remain.
- ***The Revolving Door.*** Workers accept severance pay but are later re-hired when it is determined that their skills are needed. As a result, the severance package is wasted and downsizing is not achieved.



Ways to Shrink Smartly

What, then, are the best mechanisms for shedding redundant public sector workers? If severance packages are offered to induce voluntary departures, how should they be designed to minimize the total cost? And are there ways to structure such packages to induce to least productive employees to depart while encouraging to most valuable employees to stay?

From a financial point of view, shrinking bloated governments appears to be a very profitable undertaking, even when employees get substantial severance pay. Practice shows that, if employees are given two to three years of salary to leave, for example, then in a mere two years the money spent is recovered through cost savings and productivity improvements. However, research has found that governments must take care to avoid losing the best employees, only finding a need to rehire them later.

Ironically, severance packages often have the adverse effect of inducing the most productive people to leave. Quite often, the best public employees have to be rehired, an expensive way of getting back to "square one." World Bank research has found substantial rehiring in about a quarter of the surveyed retrenchment programs.

How does one measure accurately the portion of the labor force that is excessive? Typically, a government or state-owned enterprise, allowed to restructure on its own, may cut more workers than is socially optimal, particularly if the cost of downsizing is borne by another

agency. When wages are higher in the public sector than in the private sector, governments tend to overestimate redundancies. Cuts are also exaggerated when employment in a given government agency affects the earnings of those it does not employ; for instance, in communities where the government agency being reformed is the primary source of direct and indirect employment. However, agencies tend to underestimate the number of necessary redundancies when heavily subsidized by the general budget.

Although each port's situation is unique, applying certain rules of thumb can help ports and governments identify where they may be overstaffed or where their productivity significantly trails other ports. Box 10 identifies a number of these benchmarks.

How does one decide which employees should leave? Too often, severance pay is offered indiscriminately, without an overall plan for continued operations. Some public sector employees take the package, others stay, and only later do governments know which personnel and skills remain. The sequence should be reversed, first identifying the services to be cut or transferred to the private sector; second, identifying the specific overstaffed jobs; and meanwhile enforcing work hours and attendance record-keeping to chase away "ghost" workers. Only then should those specifically targeted to leave be offered a severance package.

Tailoring severance packages to observable characteristics, such as age, education, number of dependents and the like,



BOX 10

PORT STAFFING BENCHMARKS	
SIZE OF THE PORT AUTHORITY	RECOMMENDED STAFFING LEVEL
Small authority: a few millions tons:	About 50
Average port authority: 10 to 20 M tons:	From 150 to 200
Large ports: example: 100 to 300 M tons:	1,000
More generally, an indicative ratio would be:	100,000 ton per staff per year, with large variations: small ports require more than this proportion, large ports gain from scale economies and require relatively less staff ; general cargo requires more staffing than bulk traffic.
TYPE OF CARGO	PERFORMANCE
CONTAINERS (including operational, administrative and management staff) Source: Drewry Shipping Consultants: World Container Terminals 1997.	1000 TEUs of staff per year (for a large array of yearly throughput, from 150,000 up to 600,000 TEUs).(comment: also here there are economies of scale - 150,000 TEU = 150 people/ 600,000 TEU = 500 people
BREAK BULK GENERAL CARGO Boxes on 2-ton pallets built in the hold (fruits, frozen goods etc.): Gang: 15 to 17 dockers (excluding transfer and storage crew, crane driver, maintenance staff)	40 ton per hour 2.5 ton / h / docker
Pre-palletized boxes, handled with cages Gang: about 13, including transfer (excluding storage crew / crane driver / maintenance staff)	160 ton per hour 14 ton / h / docker
Exotic wood in logs, handled with slings Gang: 12 to 15 dockers (excluding transfer and storage crew / crane driver / maintenance staff)	80 ton per hour 6 ton / h / docker
Exotic wood in logs, handled with hydraulic clamps: Gang: 10 dockers (excluding transfer and storage crew/ crane driver / maintenance staff)	140 ton per hour 14 ton / h / docker

may substantially reduce the costs of downsizing. Care must be taken, however, not to discriminate against particular categories of personnel in a manner contrary to human rights and labor law.

Usually, the packages involve a multiple of the separated worker's current salary in the public sector, the multiple being

related to seniority. But, these packages tend to over-compensate the people who accept them. World Bank research estimates over-compensation in selected countries at about 20 percent.

To keep the best employees, the research findings suggest developing a menu of alternatives to the standard severance

package. For instance, public employees could be given the following choices: (a) keep their jobs; (b) leave and get severance pay; or (c) keep their jobs, but with a higher salary and on a fixed-term contract. This last option would help retain the more productive public employees who have good outside alternatives and are not afraid of losing their jobs. Without Option C, those employees would tend to take the severance pay and leave.

Box 11 depicts a decision tree that can help port reformers carefully think through the process of workforce rationalization.

Rationalizing the Workforce: When and By Whom?

Workforce rationalization can take place at a number of points along the path to port reform and, depending on when it takes place, can be implemented by either the government or by the private sector. There are pros and cons to each of the various approaches.

Pre-reform/privatization.

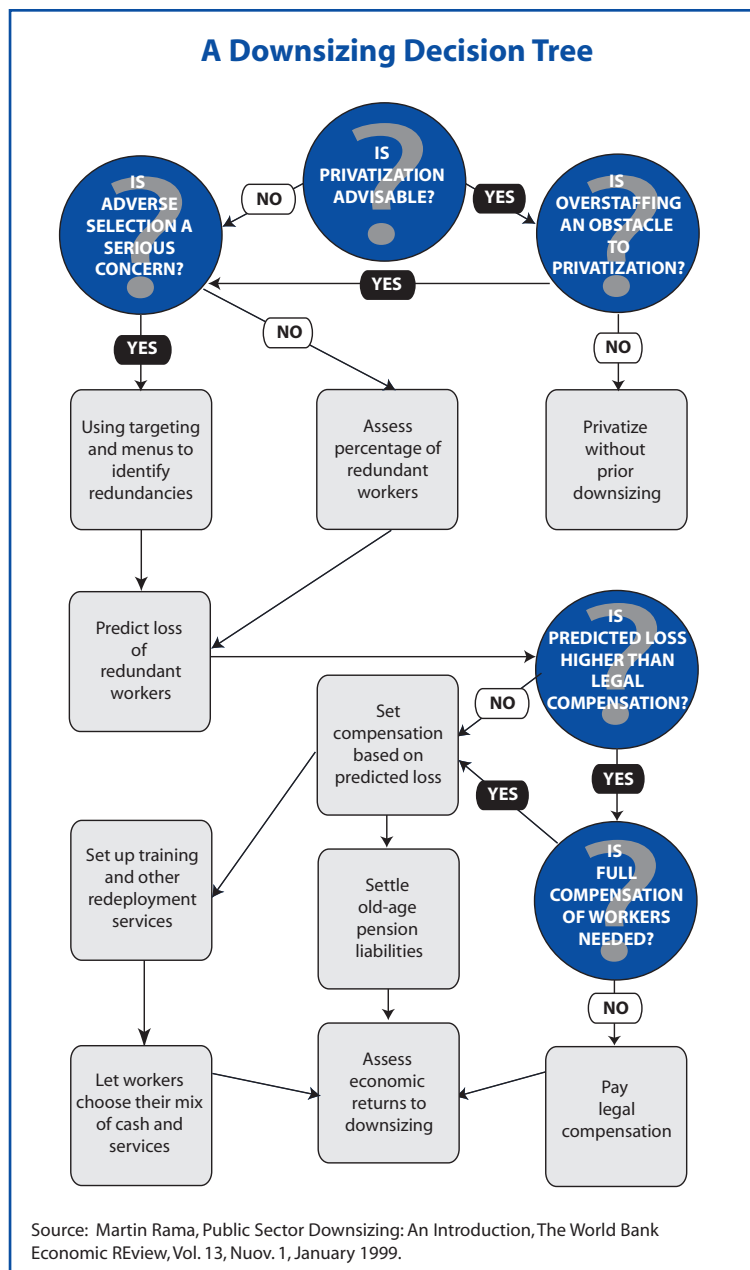
Having the government undertake workforce rationalization prior to reforming other elements of port ownership and operation in most cases has several advantages:

- Presents potential concessionaires and investors with a "cleaner" business decision;
- Reduces uncertainty and cer-

tain risks associated with the project, permitting the government to get the best price for the concession;

- Places the expense of rationalization on the government, which in most cases is the entity that contributed most heavily to over-staffing, rigid

BOX 11





work rules, and other conditions that reduce efficiency;

- May result in less disruption to port operations as a result of work stoppages, sick-outs, slow downs and other actions.

At the same time, having the government undertake workforce rationalization prior to reforming other elements of port ownership and operation can have drawbacks including:

- Governments may cut too few from the workforce in response to political pressure, leaving potential concessionaires and investors with an over supply of labor;
- May not structure cutbacks, severance packages, and incentives to retain the best personnel and critical skills.

Post-reform/privatization rationalization. Delaying workforce rationalization until after other port reforms have been implemented also has strengths and drawbacks.

On the positive side, delaying workforce rationalization until after other port reforms have been implemented means that decisions in this area will be made by private sector concessionaires and investors who are efficiency-minded and profit-oriented. This, in turn, suggests that their decisions about workforce restructuring will be more attuned to operating needs and customer demands.

On the negative side, forcing the new concessionaires and investors to implement workforce reform can significantly

increase the uncertainty and risk associated with the reform initiative. This, in turn, can scare away potential bidders and result in a lower concession or selling price for the government.

Additionally, port labor might be inclined to pursue work actions against a private employer more readily than against a government employer. Indeed, in some countries it is illegal for public employees to engage in work stoppages and other disruptive work actions.

In cases where overstaffing is not an issue and significant downsizing is not required, it is generally preferable for the new operator and investor to assume the task of rationalizing the workforce. This situation would be unlikely to occur in seaports, however, especially those in developing countries. Indeed, seaports have served for many years as natural shelters to avert unemployment and as a source of political patronage for various public administrations.

Thus, the question for policymakers is: what is the maximum number of workers the prospective concessionaire can be asked to employ without undermining the entire port reform initiative? If too many workers are imposed on the new concessionaire, the business proposition will be less attractive. As a result, few competing bids may be submitted and the sales price or the concession fee most probably will be significantly discounted.

A new terminal operator typically prefers to have the freedom to determine the firm's required number of staff



and skill mix. The government will normally have an interest in the new terminal operator absorbing the highest possible number of workers. In many instances a compromise is reached between the two, but the new terminal operator should be given the option to further adjust the workforce size and composition, which may lead to further dislocations post-reform.

For example, in Argentina in 1991, concessionaires of the five terminals at Puerto Nuevo, Buenos Aires, were required to employ 1,350 workers from the public agencies previously operating at the port, or to negotiate an equivalent number of redundancy agreements. The number of workers assigned to each concessionaire was based on the business plan submitted in the bid. For example, 130 workers were assigned to Terminal Five, but most of them were offered and accepted severance packages only a few months after the new firm started operating. Out of the 218 workers assigned to Terminal Three, 119 of them were offered and accepted severance packages. Of the 900 workers assigned to Terminals One and Two, in May 1999 only 419 remained with the firm. Severance payments ranged from US\$15,000 to 20,000 per worker.


The terminal operators at the Port of Buenos Aires preferred the compensated dismissal option to retaining an over supply of workers. In part, this was due to the distorting gaps in wages and length of vacation among workers performing the same tasks. Because of their longer length of service, former public sector workers were entitled to higher salaries and extended periods of vaca-

tion compared to new private sector hires. In addition, at an average age of 50 years, most of the transferred public sector workers were "worn out" as a result of having worked in the old port under difficult and, in some cases, hazardous working conditions.

Who Should Pay for Offsetting Dislocation Expenses Associated with Port Labor Rationalization?

The expenses associated with downsizing could amount to millions of dollars depending on the number of workers, level of set compensation, and safety net components such as training and outplacement assistance. Many countries have recognized the convenience of reducing the workforce prior to private sector participation in state-owned enterprises, but offsetting the expenses related to labor reduction has been a difficult task for many governments, especially in view of pressing budgetary constraints.

For the Government of Mozambique, for example, the staff rationalization component -- which included staff reductions of approximately 14,000 employees, pension fund payments, staff redeployment, and social mitigation as part of the Mozambique-Rail and Port Restructuring Project in 1999 -- is estimated to cost the government US\$50 million. Compensation paid to workers laid off in Chilean ports as a result of the deregulation of dock labor in 1981 amounted to a total of US\$30 million. Payments per worker averaged US\$14,300 and ranged between US\$10,000 and US\$200,000. In 1991 the Government of Colombia provided



US\$50 million to compensate 8,000 Colombian dock-workers for the loss of acquired rights. The restructuring of Venezuelan ports in 1991 led to the lay-off of 10,279 dock-workers and 2,000 officials in the National Ports Institute. All received double compensation from the Government of Venezuela, amounting to US\$182 million overall, or US\$14,822 per person.

When considering whether and how to pay such sums, governments have to contrast these expenditures with broader long-term goals of port reform, which is to make ports more efficient and cost effective in support of the overall economy. Therefore governments, as former employers, and the private sector, as new employers, both have an important role to play in the financing of the expenses associated with port labor reductions. Actually it could also be possible, in view of the benefits to be expected from a quick resolution of the issue, to ask port customers (shipping lines, for instance) to contribute to the modernization costs through a temporary levy on tariffs.

INTERNATIONAL SUPPORT FOR LABOR ADJUSTMENT


A number of programs and funding sources can be used to support port labor reform, several of which are described below.

World Bank Support

Since 1990, the World Bank has supported labor adjustment in privatization and enterprise restructuring in about fifty operations around the world. The main

elements of Bank support have included:

- Technical assistance to governments to help:
 - Develop staff inventories and profiles;
 - Identify staffing needs;
 - Develop severance and retirement packages;
 - Analyze labor market characteristics and needs;
 - Re-deploy workers through active labor market programs;
 - Design employee share ownership schemes;
 - Establish consultative mechanisms;
 - Prepare communications programs.
- Direct financing for severance payments, provided that such financing results in improved productivity of the sector and related enterprises and that social mitigation measures are put in place. (The first example of this type of support was the reform of Brazil Railways, where a Bank project financed half the costs of the severance program. For a list of other examples, see Annex 1.)
- Poverty alleviation programs such as social funds to provide compensatory assistance, advice and training, placement services, and credit for self-employment. Such funds are



typically targeted to the poor, but they have been used for state enterprise workers in cases of extreme economic distress or where large-scale redundancies occur in concentrated areas (as in the case of mining in Bolivia and Peru).

Training Support

Education and vocational training is vital to the change process. It should include not only general education and broad industry-focused vocational training, but also specific job instruction, communication and social skills courses, and health, safety and environmental training. Sufficient and continuing funds are necessary to finance the education and training infrastructure. The need for lifelong training to enable workers to cope with the permanent changes taking place in the industry is recognized in the 1989 EU charter of Fundamental Social Rights of Workers, which states that: "...every worker of the European Community must be able to have access to vocational training and benefit therefrom throughout his or her working life."

Moreover, good education and vocational training are increasingly recognized and used as an instrument to improve the quality of the products and services of businesses and thus enhance their competitiveness. Therefore, education and vocational training is in the interest of the port community as a whole. Furthermore, a lack of education and training means a lack of opportunities to teach the workers the essence of transport economics and policies, the position of ports in the intermodal transport

system and its dependency on the other modes of transport, and improve their understanding of the forces shaping the competitive environment.

The objective of the International Labour Office (ILO) Portworker Development Program (PDP) is to enable governments and port authorities of developing countries to establish effective and systematic port worker training schemes. This training is designed to improve container handling performance, working conditions and practices, safety and the status and welfare of port workers.

The following port training centres or organizations have acquired the PDP training materials:

- TEMPO, Port of Rotterdam Consulting, Rotterdam, Netherlands;
- Shipping and Transport College, Rotterdam, Netherlands;
- Hong Kong International Terminals, Hong Kong (HIT);
- PORTNET Academy, South African Ports Organisation, Ports of Durban, Cape Town and Port Elizabeth, South Africa;
- Port Louis, Mauritius; and
- Sri Lanka Ports Authority, Colombo, Sri Lanka.

The translation into Spanish of PDP is being undertaken under a German Technical Cooperation Agency (GTZ) project in Latin America. PDP will be implemented in selected Latin American



countries on completion of the translation of the PDP training materials into Spanish. PDP is also being translated in Chinese.

Dissemination of training programs has also been improved through the establishment and/or strengthening of training centers and cooperation networks associated with the international TRAINMAR Programme of UNCTAD (United Nations Conference on Trade and Development) in Central and South America and the Caribbean. This was achieved through the upgrading of local and regional training capabilities and the application of the systematic TRAINMAR methodology for the development and exchange of standard training materials as part of cooperation projects financed by UNDP (United Nations Development Programme), the European Commission, Germany and France.

Since 1988, the three TRAINMAR networks in Latin America and the Caribbean have regularly and successfully developed and delivered courses directed at management and supervisory levels of the port and transport industry. However, they differ considerably with regard to their approach, philosophy, concept, strategy and target population:

The network in Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama) continues to comprise only public port training centers and to deliver mainly in-country courses limited to participants of the public port sector. All its activities are coordinated by a regional public entity and are com-

pletely financed or subsidized by public funds.

The two networks in South America (Argentina, Brazil, Chile, Peru, Uruguay) and the Caribbean (Cuba, Colombia, Guadeloupe, Jamaica, Mexico, Panama and Trinidad and Tobago) consist mainly of private management training institutes and universities, and provide training on a commercial and competitive basis for the private and public port, shipping and multimodal transport sector. They receive no financial support from UNCTAD, UNDP or the World Bank, but do benefit from technical cooperation for the development of new or upgraded training programs, courses and seminars.

In 1998, the three networks delivered successfully about 260 training courses, seminars and workshops for managers, technicians, professionals and workers of the port, shipping and multimodal transport industry of the region.

Further information on the PDP may be obtained from:

Chief, Maritime Industries Branch
Sectoral Activities Department
International Labour Office
4 route des Morillons
CH-1211 Geneva 22
Switzerland
Telephone: (41.22) 799-7466
Fax: (41.22) 799-7050
E-Mail: marit@ilo.org

POST-REFORM LABOR-MANAGEMENT RELATIONS

Once port reform is implemented, port labor and management must continue to



cooperate if reform is to achieve its objectives.

Successful labor reform can only be achieved when the commercial goals (efficiency and growth) of the employers are balanced with the social goals (equity and fairness) of their employees.

As mentioned earlier, one of the important duties of the port reform task force is to assess the roadblocks that prevent ports from achieving their commercial goals. The proposed changes in labor regimes, collective agreements, and work practices to improve productivity and curtail cost will stand a better chance of success if they are reached with the agreement of all stakeholders.

For mutual gains, labor and management have to concentrate on building stronger relationships through better communication and more cooperation. In that respect, it appears appropriate to foster the establishment of joint committees between port workers and terminal operators to resolve operational problems and disputes without having to resort to official intervention.

Participation of workers in workplace decisions has an enormous potential to motivate port workers and to enhance customersatisfaction. The combination of better communication and working toward agreed objectives can set the stage for improved labor-management relations in ports that have undergone reform.

Annex 1

Examples of World Bank Support for Labor Reform

Region	Country	FY	Project name	Loan number	Type of assistance to displaced labor
Latin America and the Caribbean	Argentina	91	Public Enterprise Reform Adjustment (PERAL)	L3291	Includes assistance to reduce PE workforce, financing severance pay and retraining
	Argentina	91	Public Enterprise Reform Exec (PEREL)	L3292	Improvement in labor productivity through revision of labor contracts and design of labor reduction mechanisms
	Brazil	96	Federal Railways Restructuring and Privatization Project	L4046	Financing of severance pay, retraining, literacy programs.
	Costa Rica	98	SAL III	L3594	Programs to retrain displaced public sector employees
	Guyana	94	Sugar Industry Restructuring and Privatization Project	C2545	Production incentives and profit sharing scheme for employees, including employee stock ownership plan.
	Mexico	98	Labor Market & Productivity Enhancement	L3542	Employment services and training for displaced workers
	Peru	98	Privatization TA	L3540	Information and re-orientation programs to assist laid-off PE workers
	Peru	94	Social Development Fund	L3684	Retraining and credit to small-scale entrepreneurs for employment generation
	Peru	94	Privatization Adjustment Loan	L3595	Promoting human resource development.
	Peru	94	Transport Rehabilitation	L3717	Reducing staff redundancy, technical and training assistance to strengthen management capacity
	Venezuela	90	Public Enterprise Reform	L3223	Retraining and employment adjustment assistance programs, and effective mechanisms for severance and retrenchment of labor
Middle-East and North Africa	Egypt	96	Social Fund	C2865	Active labor market support to workers made redundant by privatization and liberalization reforms
	Tunisia	90	Public Enterprise I	L3109	Redeployment program for redundant staff
	Tunisia	96	Training and Employment II	L4036	Employment services for workers affected by economic restructuring
	Tunisia	97	Economic Competitiveness Adjustment Loan	L4069	Revision of labor legislation to provide severance for workers of bankrupt enterprises
	Yemen	96	Economic Recovery Credit	C2840	Study on severance and redeployment option for redundant workers

Annex 1-continued

Examples of World Bank Support for Labor Reform

WORLD BANK SUPPORT FOR LABOR ADJUSTMENT 1990-1997					
World Bank Support for Labor Adjustment in State Enterprise Restructuring and Privatization 1990-1997					
Region	Country	FY	Project name	Loan Number	Type Of Assistance To Displaced Labor
Africa	Cape Verde	92	Privatization TA	C2377	Financing retraining costs of former PE workers incurred by private firms
	Chad	91	Social Development Program	C2156	Assistance to employees laid off in the restructuring of the cotton sector
	Côte d'Ivoire	94	Labor Force Training	C2637	Training support for retrenched workers from PEs
	Ghana	96	Public Enterprise and Privatization	C2877	Arrangements to address labor redundancies caused by divestiture
	Guinea	92	PE Reform	C2398	Development of reorientation programs for redundant PE workers
	Kenya	93	Parastatal Reform & Privatization TA	C2440	Compensation package and social safety net for displaced workers in telecoms, railways, and ports
	Malawi	95	Railways Restructuring	C2696	Compensation for retrenched staff, as well as counseling, retraining, housing support, and equity participation in new railway company
	Mozambique	93	Maputo Corridor Revitalization TA	C2454	Labor redeployment strategy and plan for redeployment of surplus staff from railways company
	Zambia	92	Privatization & Industrial Reform	C2405	Training and counseling to retrenched workers
Asia	Bangladesh	94	Jute Sector Adjustment	C2567	Workforce reduction, employees retrenchment, mandatory retirement age, training and retraining program for workers in affected mills
	China	95	Enterprise Housing and Social Security Reform	L2642	Strategy to help municipalities develop market-based housing system and social safety net to free enterprises of direct welfare responsibilities
	China	95	Labor Market Development	L3967	Policy reform on coverage and pooling of social insurance at municipal level, reduction of surplus labor in SOEs, and monetization of social benefits by employers; employment services, including unemployment insurance and labor market information
	China	95	Shenyang Industrial Reform	L3788	Change terms of employment of municipal-controlled enterprises (MCES) to contract status, corporatizing MCES, establishing labor market information system
	India	92	SAL I	C2316	Program for re-deployment and retraining and appropriate compensation where necessary
	India	95	Social Safety Net Sector Adjustment	C2448	Establishment of temporary social safety net to cover costs of compensation, retraining, and employment/ redeployment schemes in areas affected by PE reform.



Annex 1-continued

Examples of World Bank Support for Labor Reform

Region	Country	FY	Project name	Loan Number	Type Of Assistance To Displaced Labor
	Pakistan	94	Power Sector Development	L3764	Development of a manpower transition program that would allow adequate management flexibility to the private sector while addressing the concerns of labor
Europe and Central	Albania	94	Labor Market Development	C2544	Income support and redeployment assistance to unemployed, and creation of small enterprises
Asia	Armenia	93	Institution Building	L3585	Training and retraining program for unemployed
	Armenia	96	Social Investment Fund	C2784	Labor intensive works for the unemployed, including public sector workers
	Kazakstan	95	Social Protection Project	L3896	Employment service component and social services component to transfer services from restructuring PEs to local governments
	Kyrgyz republic	94	Social Safety Net	C2643	Employment services component, counseling and retraining. Pilot program to facilitate transfer of social assets from restructured PEs to local authorities.
	Latvia	93	Rehabilitation	L3525	Retraining of redundant labor, development of local social assistance offices and reform of cash benefit programs
	Macedonia, Former Republic of Yugoslavia	94	Economic Recovery Credit	C2564	Restructuring of large loss-makers, including removal of legal impediments to downsizing, strategy for labor adjustment and active labor market programs
	Poland	91	Employment Promotion & Services	L3338	Employment services component to deal with mass layoffs, counseling, and training; microenterprise development help local NGOs provide services to unemployed
	Romania	93	Transport	L3593	Generating private sector employment among public sector workers previously employed by government road agencies
	Romania	95	Employment & Social Protection	L3849	Employment and training component, and social protection component to restructure and improve institutional capacity of social insurance agency
	Russian Federation	93	Employment Services & Social Protection	L3532	Developing capacity of Federal Employment Service to register and pay unemployment benefits, organize job training, and develop modern social security system
	Russian Federation	96	Coal Sector Adjustment	L4059	Support for the social protection system, including unemployment benefits, retraining, and job placement services
	Turkey	94	Privatization Implementation Assistance and Social Safety Net Project	L3728	Labor adjustment program, including retraining, counseling, and incubator programs for SOE redundant workers
	Ukraine	97	Social Protection Support	L4097	Training and technical support in system operations to computerize administrative offices