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## **TRANSFORMATION IN POLISH SEA PORTS**

Polish ports managed to pass apparently without any harm the period of economic transformation. Even at the earliest stage of economic recession, when flow of cargo from Polish exporters was cut down and simultaneously, dynamic development of private shipping business appeared as a new market power, the port activity was not seriously affected. The port managers efficiently used the time of economic transformation to execute the profound reorganization of the ports' structure. In the Port of Gdańsk employee-owned joint stock companies were established. The Szczecin - Świnoujście Port was divided into several independent companies and Gdynia Port was turned into a holding. The other important steps towards new economic deal were development of the marketing and adaptation of the port structures to free-market economy environment.

Eventually, prevailing part of the companies formed on the base of earlier state-owned firms started to achieve positive economic results that have been gradually improving.

With the end of the state-controlled economic system also the foreign trade monopoly ceased to exist. The huge state-owned foreign trade organizations lost their dominating position in the ports and so did the state-owned forwarding companies although the latter still managed to hold strong position in the certain cargo types.

But the staff, the earlier established contacts and well developed network of foreign branch offices of the said firms provided the new-established privatized business with a firm basis to start with. Hence, a numerous new businesses were formed to deal with trade and in-land transport. This caused the necessity to maintain contact with great number of partners and compete with dynamically developing land transport, which was taking over part of the cargo handled by the ports. There was also another factor affecting port activity and that was sharp decrease of the production output in Poland which resulted in drop of cargo flow to the port in both, export and import. To complete the picture, sharp breaking of economic ties with Hungary, Czech Republic and Slovakia eliminated the transit cargo from these countries.

"The fact that some Polish companies suffering loss of financial fluency passed part of their cargo to

the foreign partners became a drawback to our marketing activity. It forced us to search for the cargo abroad”, says Janusz Jarosiński, Marketing and Development Director, Port Gdynia Holding S.A.

Stronger competition is the natural consequence of entering free-market economy. Foreign forwarding companies and port agencies started to appear in Poland in course of market research. The representative office of the City of Bremen was opened in Gdańsk. One of the container terminals of Hamburg arranged a joint-venture enterprise with Polish Railways aimed at containers delivery from Poland - directly to the Port of Hamburg. The latter opened its representative office in Warsaw. Permanent railway connection between Poland and Bremen has been active. Containers bearing names of various foreign companies have become usual part of Polish ports' landscape. All these facts indicate that the sea - port sector in Poland has been a part of world's free market. Acting within such an environment, Polish ports are doing well and still improving their economic situation.

### 1997- THE GOOD YEAR

“The port of Gdynia handled over 8,84 m. ton cargo in 1997, the best result of the nineties. 4.52 m. ton general cargo handled in the last year makes the top result ever achieved in the port's history for this type of cargo, 800,000 ton more than the best result recorded 20 years ago”, told us Mr. Jerzy Czartowski, President of the Board and Managing Director, Port Gdynia Holding S.A.

Management of Szczecin - Świnoujście Port is also satisfied of last year, especially of the year - end.

Only in December 1997, 1.430 m. ton cargo passed through the port, 11 % more than in the same period of 1996. Last year with 15.55 m. ton cargo was the best of the nineties. Also the Port the Gdańsk considered 1997 successful. Cargo throughput grew by 900,000 ton compared to 1996 and the income was 32% higher. This allowed to invest PLN 16 m. in repair and building new port facilities.

### REENGINEERING

The Port Gdynia Holding S.A. can be treated as a pattern of a successful transformation from a state-controlled firm into an efficient free-market oriented one. Port of Gdynia, situated in the Gulf of Gdańsk is the biggest Polish general cargo port. The huge organization where various functions and activities frequently opposed each other, having difficulties to identify the correct cost structure, with inside conflicts affected final efficiency, should be promptly transformed into another structure suitable to match the new economic deal.

*The business process reengineering (BPR)* was apparently the remedy. The BPR procedures were intended to cope with the whole adaptation. They lead to form a new type of organization. When port is concerned, implementation of BPR means incorporating the service activities into the market processes.

“The clue of transformation consists in separation of the maintenance function from management”, explained Mr. Jerzy Czartowski.

The Strategic Business Units (SBU) have been singled out from the port structure, so that each one deals with a selected type of service thus being

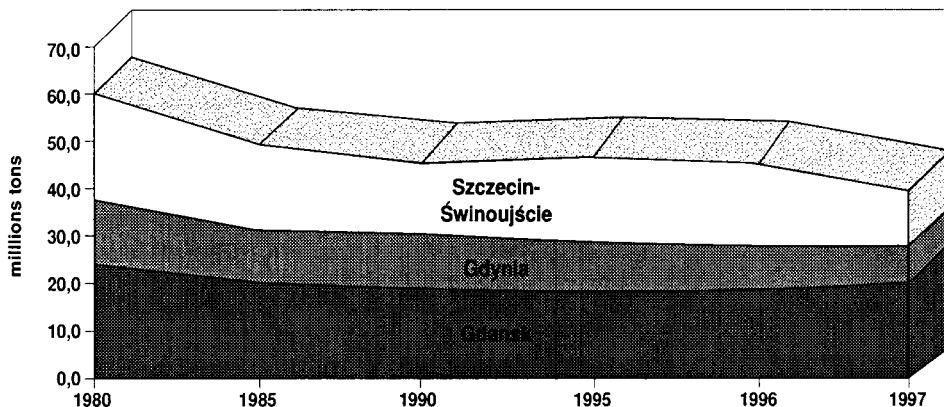


Figure 1. Polish sea ports turnover in 1980-1997

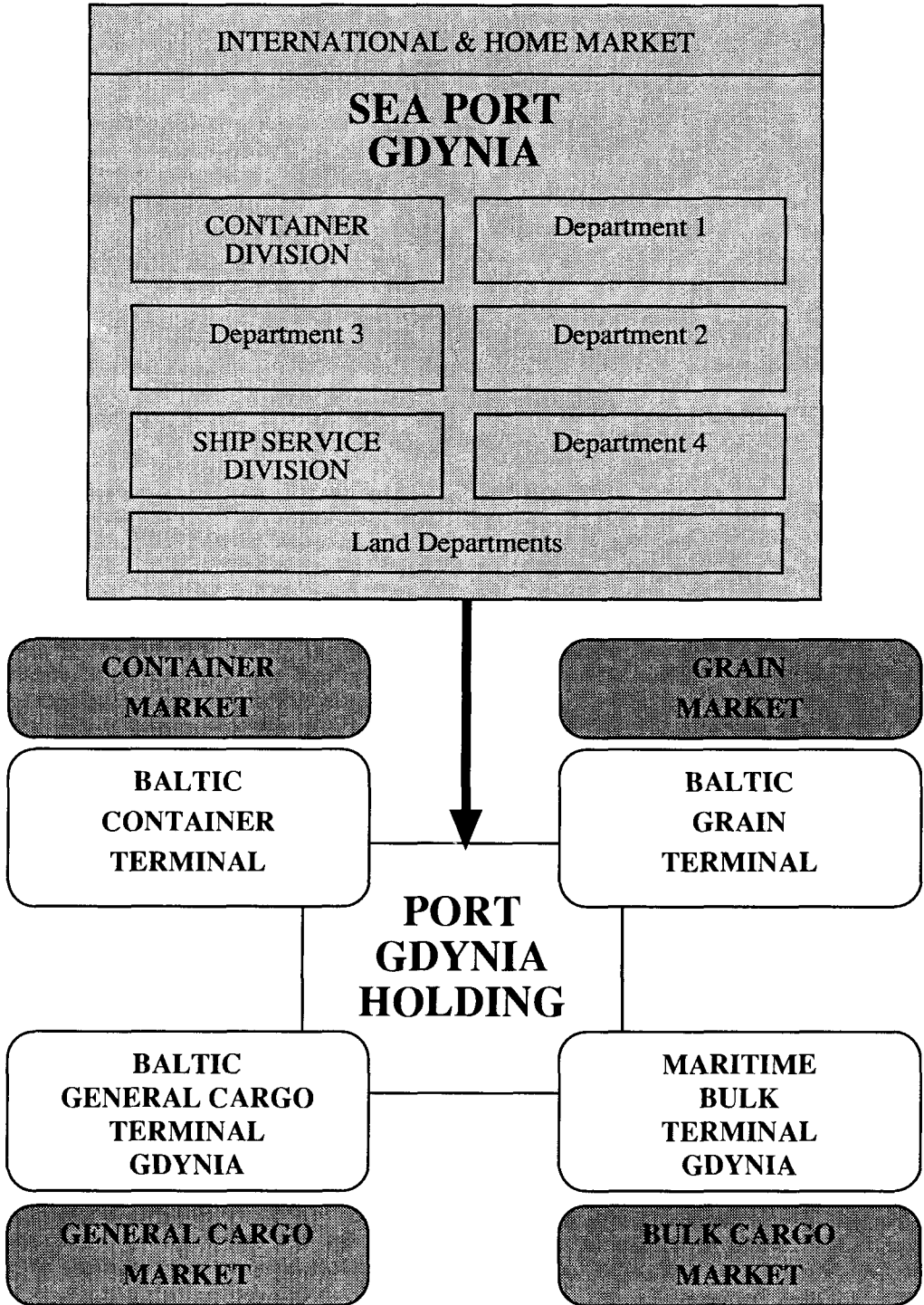


Figure 2. Business process reengineering in Port of Gdynia

capable to better adjusting to the separate market channels that connect the domestic and international market. The port acting for years as a segment of the state's distribution structure should be first adapted to the economic map of the country and the world, and afterwards would take an active part in creating the market channels.

The fact, that there are two ports in Gdynia is not of common knowledge. Except the main seaport there is another one, situated almost at the city center and managed by Dalmor, the biggest Polish fishing, fish processing and trade Company. Also this port was subjected to a profound reorganization which provides an excellent illustration of the creativity and ingeniousness of Polish managers. During the period of state-controlled economy Dalmor acted as one multi-division enterprise which managed numerous fishing vessels operating on many remote fishing grounds and the 23-hectare area port with fish processing plants and refrigerated stores. When turned into a holding, Dalmor managed to pass smoothly the economic revolution. The marketing operations were transferred to the medium level management at the specialized companies of the new organization dealing with port management, refrigeration service, fishing and fish processing. The restructurization caused firing significant part of the employees. Between 1990 and 1997 the Dalmor crew dropped from 6,000 to 3,000.

"As one of the results of the economic transformation, amount of fish in the Gdynia Port started to decrease more and more. Therefore we started to diversify our service offer using the facilities we possessed, as well as all available marketing tools", stressed Włodzimierz Kłosiński, President of the Board, Dalmor Fishing, Fish Processing and Trade S.A.

The fish processing plants and refrigerated stores located on the former fishing port are managed by Dal-Mors Co. whose stock is owned by Dalmor. The stores have a capacity to keep 15,000 ton, frozen to - 30°C. Dal-Mors also offers a variety of refrigeration services. The fish processing plant could process as much as 40 ton daily. The storing area comprises 10,000 ton transit store and 1,000 ton bonded warehouse. The daily cargo handling rate from ship - through refrigerated warehouse - to land transport means reaches 1,800 ton. With these facilities Dal-Mors is capable to compete successfully on the fish processing market. The storing ground is also being offered the products other than fishes to the outside customers. The aforesaid facilities are located at a

very convenient place where communication lines cross and not far to the Russian market.

These features have been used to support marketing activity. The time when fish products dominated in the warehouses is now over. Nowadays one can find there in the middle of summer, frozen American chickens delivered by Hudson Co. designated to the Eastern market, milk products, southern fruits imported to Poland, etc.

Just recently German ships took away heavy steel structures from Mostostal Słupca to be delivered to shipyards in Germany and Denmark. Each available pease of space in the port is properly used. At the quays ship repairs are underway. In the meantime, between repairs the fishermen use the quays. In order to create new jobs, the port management arranged container - forming service.

## THE MARKETING CHANNELS

Due to its nature, port is a fixed link in the transport chain, bound to its geographical location. The management of Port Gdynia Holding decided to arrange such a transport structure as to make the cargo stream to flow directly through this fixed point.

First of all, the port should set the ties with land and then, to ensure permanent communication with the great Western ports where cargo passes to and from Europe, North America and other continents. To do this, the Gdynia Port together with PKS-Autotransport established Spedcont Co. which manages the delivery network and container distribution. With container terminals in the Central and South regions of Poland (Poznań, Łódź, Warsaw, Kraków, and Sosnowiec), regular container delivery has been ensured. To break the monopoly and gain independence from foreign shippers, feeder-container service has been arranged by the Baltic Container Lines (BCL) new established by Gdynia Port, POL-America (the company of POL Group) and C.Hartwig Gdynia, the renown Polish forwarding company. Gdynia Port holds significant part of the stock of each aforesaid organization (over 50% of Spedcont and 40% of Baltic Container Lines), thus ensuring ability to control their development strategy and operation.

By organizing such a structure fluent cargo shipments have been ensured for the customers from whole Poland and abroad, from any location in Poland and the great ports that maintain shipping lines to all other continents.

Implementation of such development strategy brought soon the visible results.

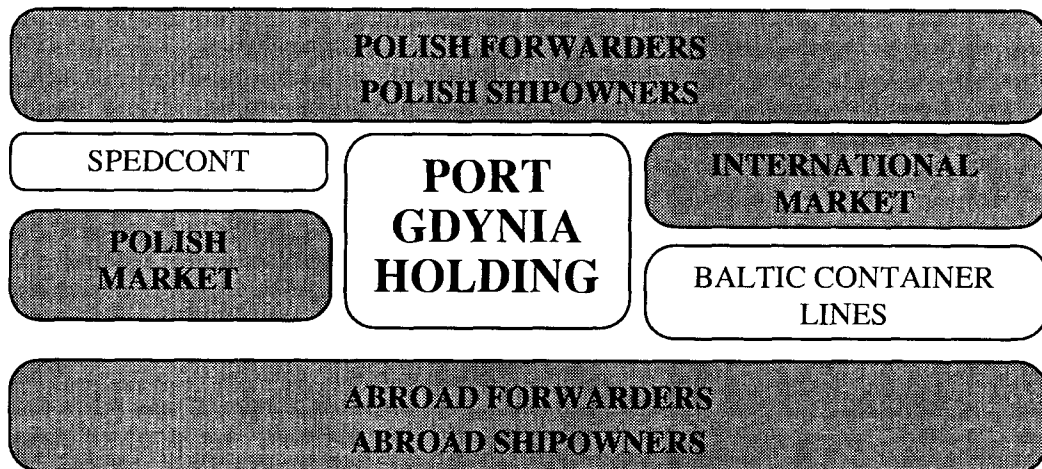


Figure 3. Marketing channels of Port Gdynia Holding

"The Baltic Container Terminal operating within the Port Gdynia Holding structure has surpassed the 170,000 TEU level in 1997. We handled exactly 177,292 TEU", pointed out Mr. Włodzimierz Gogolewski, Director and President of the Board, C. Hartwig Gdynia S.A.

High position in the ranking of financial turnover and financial fluency factors C. Hartwig Gdynia achieved due to good cooperation with ports. The amount of the forwarded cargo grew by 10% and export share in the net turnover reached 64.5 % in 1997. The whole 1997 service sale was over PLN 700 m.

In order to increase the handling capacity of the Baltic Container Terminal over 200,000 TEU,

improvements in organization of the inner port structure and the link to other partners in sea port trade were implemented as well as some investments. The aforesaid shipping companies also contributed to improve the BCT economic results of the last year. BCT has actually at its disposal 5 feeder container vessels that deliver containers from some Baltic ports to the big West European ports. The Spedcont Co. handled in 1997 23,000 standard containers (TEU) in its land terminals, which was 30% (18,000 TEU) more than 1996 result.

Activating the marketing channels took place also in the Port of Gdańsk. At the beginning of this year, The Port Gdańsk Management S.A. arranged a

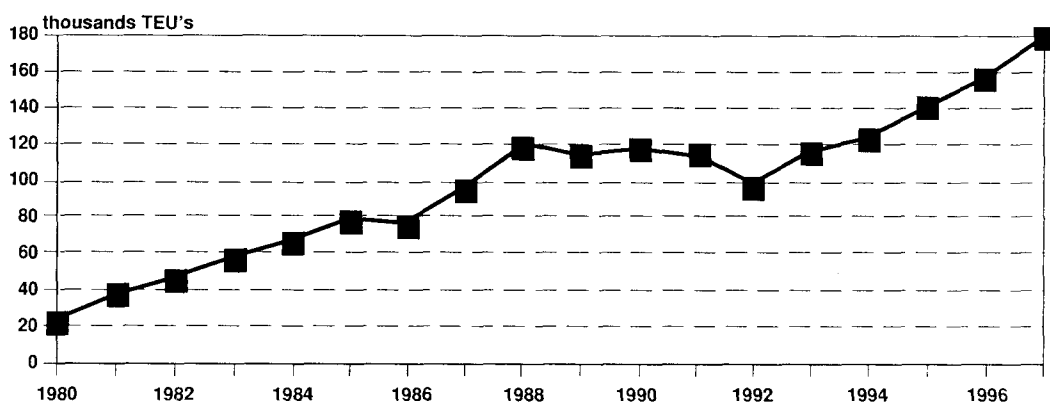


Figure 4. Port of Gdynia. Container turnover in 1980-1997 years

meeting of all potentially interested in the transport channel, that is: representatives of railways, forwarding companies and ports. Participants of this meeting decided to establish a company to set a transport route between Polish ports and Odessa. The cooperation was also started between ports of Gdańsk and Ahus.

**THE PORT INVESTMENT**

The permanent process of adaptation of the service structure to the varying market has been underway in Polish ports.

“Although we have only limited port area at our disposal, we intend to develop a variety of services. Location of the port in the city center requires to restrict the cargo handling offer just to those kinds of the cargo which would not cause any danger to the local community and the environment”, said Mr. Jan Kowalski, Director, Dalmor Port Ltd.

At the backyard of the Baltic Container Terminal, the Baltic Auto Center (BAC - the center of car distribution) was established at the cost of \$ 2 m. Two firms contributed to this investment: Mitsui O.S.K. Lines, a Japanese shipowner operating the biggest in the world, specialized fleet for car transportation and the Mosolf GmbH & Co. KG, a German shipowner and forwarder. After Mitsui withdrawal, part of the BAC stock was taken over by STVA (Societe de Transports de Vehicules

Automobiles), a French motor vehicle transport company. Over 60,000 vehicles were imported to Poland through BAC and the Port of Gdynia, delivered mainly by Honda Motor Poland, Hyundai Corporation Poland, Nissan Motor Poland, Ticar (Daewoo), PB Motors (Kia) and Toyota Motor Poland.

“90% of the cars imported to Poland by the sea went through BAC and constant rise of its throughput has been observed. These are the best indicators, how successful had been the decision to establish this center.

9,000 vehicles passed the primary inspection and were distributed by BAC in 1995. Next year throughput doubled that of 1995 and reached 18,500 cars, and in 1997 35,000 vehicles of Korean and Japanese make were delivered via BAC”, - says Mr. Zbigniew Kaldonek, Director, Baltic Auto Center-Gdynia, Co. Ltd.

Baltic Grain Terminal Co. Ltd. acting within the structure of Port Gdynia Holding has been still a unique facility. Since April 1997 its land-based storing capacity has grown from 12,000 to 25,000 ton and the total capacity (including floating store) reached 40,000 ton. Recently, already in course of economic transformation, the grain terminal was modernized at a cost of PLN 11 m.

“The increased storing capacity of Baltic Grain Terminal allows to extend the number of customers

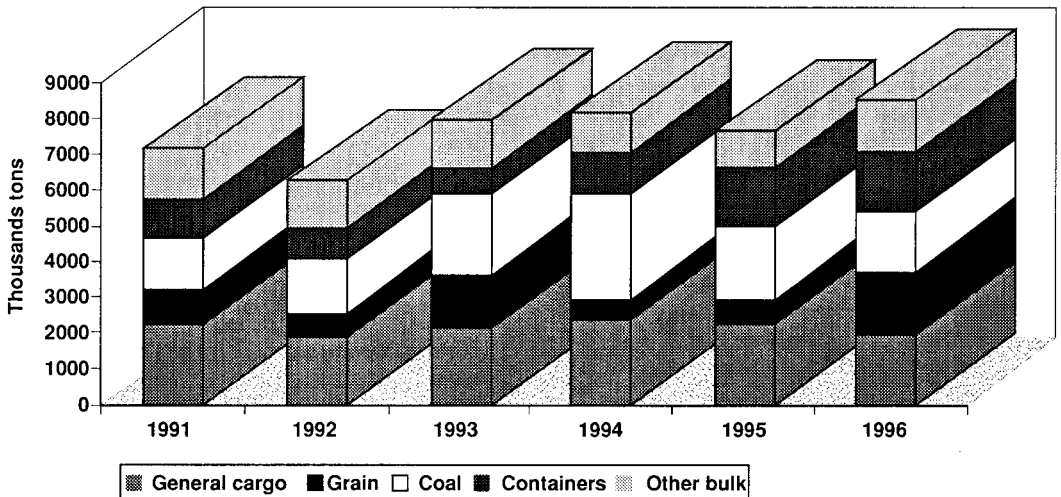


Figure 5. Port of Gdynia turnover in 1991-1996

served and lets offering service to the clients who don't have their own storing facilities in Poland. It also ensures high quality of the handling service", says Mr. Romuald Mosiński, President of the Board, Baltic Grain Terminal Co. Ltd.

Although Polish ports have achieved the relatively stable turnover, it does not mean everlasting stabilization for the Management. The market variations should be still carefully observed and service structure should be adapted respectively. The Port of Szczecin invested over PLN 30 m. in 1997 in its facilities. The second general cargo warehouse in the last two years went in service in the container terminal. New storing grounds are under construction as well as railway and road network. With the recently completed facilities the handling capacity of the Container Terminal has grown by about 200,000 ton.

The Management of the Port of Szczecin intends to increase the 1998 investment to become 20 to 30 % higher than that of 1997. About half of the funds will be spent for modernization of the quays in Szczecin and Świnoujście. Several millions PLN will also be necessary to complete the Temporary Container Terminal.

In the Port of Gdańsk rebuilding and modernization of two quays, building of a 8,000 sq. m. warehouse, two new gas boiler houses (after 5 already built) are planned during this year. The latter project would cause significant drop of poisonous pollution in Gdańsk.

Also in 1998 new LPG Terminal will be completed, built by Gaspol Co. and construction works at the future Grain-and-Fodder Terminal will start, financed by the Europort Co. The bridge over Martwa Wisła River will substantially improve road access to the port. In the Northern Port, the Polystyrene Works and Liquid Chemicals Terminal are planned.

In the port being under Dalmor management, the final stage of refurbishment are now undergoing of the two tanks of 2,400 cu. m. capacity, earlier used to store whale oil. Both tanks will be used to store food oil and neutral chemicals.

Preparations are underway in the Dalmor Port to handle drive oil. For this purpose tanks were recently taken over from CPN (Oil Product Co.). At the first quay zone a 6,000-ton capacity warehouse to store deep-frozen goods will enter the service.

"Hence the former fishing port will become a general cargo port, of course, respectively to the

available conditions and the actual possibilities", stresses Mr. Kowalski, Director, Dalmor-Port.

"In 1997, the process of acquiring features of the universal port was commenced, by establishing specialized, efficient cargo handling terminals. Two such terminals, for cement and liquefied gas are now ready. The liquid and dry fertilizer terminal has been under construction", said Mr. Jarosiński of the Gdynia Port Holding.

\$ 30 m. were spent for the repairs, new investments and dredging works in Gdynia, out of which \$ 8 m. was the input of foreign investors. The own funds allowed to financially support extension of the grain storing area at the Baltic Grain Terminal so that its storing capacity reached 26,000 ton. Funds from the own sources were also provided to build the ro-ro terminal, building a tug, dredging a deep-water stands for ships of up to 70,000 DWT at the French Quay and widening the end part of this quay.

Strategy of Gdynia Port Holding assumes that development of the port would proceed in such a way, as to achieve highest possible level of Value Added Service. For this purpose distribution centers will be arranged within the port grounds and in its vicinity. These so called "distri parks" would be supplied with technical infra- and superstructures capable to be used as logistics-, information-, and service centers. In the nearest future Gdynia Port would become not just a handling-and-storing enterprise but a strong industrial center that would create the Added Value.