

UK Ports: Changes and Challenges



Contents

01

The Challenge
of Change

02

Changing
Role

04

Changing
Occupancy

06

Changing Operational
Challenges

09

Changing
Legislation

The Challenge of Change

As an island nation, the UK relies heavily on its ports, which have always been fundamental to the British economy. Estimates suggest that 95% of British traded goods (75% by value) pass through these vital hubs, which employ 344,000 people and contribute £19 billion to the economy each year.¹

Mainly private sector-led, the UK's ports have been one of the country's major success stories. They offer unmatched global maritime services and play a big role in attracting international businesses and investment to these shores.

However, right now, they face a range of profound changes affecting every aspect of how they operate. Tomorrow's ports will take on a new role as hubs for renewable energy, they will operate in a transformed legislative and regulatory environment and they will trade in new kinds of goods with different trading partners.

Many of these changes will present opportunities, but also risks. In this report, we'll take a look at the near future and consider how ports can thrive amid all the disruption.

Changing Role

Taking the lead in sustainable energy.

UK ports have a long-standing association with the energy sector – and it looks set to continue, and grow, in the future. Increasing investment in offshore wind power could give these vital hubs a leading role in the renewable energy revolution.

There is a growing trend towards integrating renewable energy businesses into ports where the dual use of space benefits both parties. As well as providing locations for the new, larger turbines, ports also provide a base for their installation and maintenance. And, as the cost of generating wind energy tumbles, the opportunities grow.

The Port of Grimsby is currently the UK's leading base for offshore wind operation. This growing industry is expected to bring jobs and regeneration to the area for years to come. The Associated British Ports (ABP) has also jointly invested £310 million with Siemens in a new offshore wind manufacturing facility at Green Port in Hull. This has already created 700 new jobs with a further 1,000 expected in the future.²

There could be further benefits, according to Mark Clifford, Head of Marine Ports, Professionals & Logistics at Travelers, “As the technology spreads, British ports could be called upon to share their expertise in places like Africa and South America.”

However, as with any new, large-scale industry there are also many potential hazards. Collisions involving large sea-going vessels present a broad threat to people, cargo, power generation and the environment.

Workers in wind farms also face a variety of hazards, including arc flashes, electric shocks, burns and falls leading to injury or death. In addition to the potential of human tragedy, there is also a commercial risk due to large, uninsurable fines for health and safety breaches. These have increased exponentially in recent years, as we'll discuss later on in this paper.

Sustainable energy storage

Another sign of how the changing energy landscape will affect ports is the recent opening of a new biomass facility at the Port of Tyne. This is a particularly high hazard cargo that needs a lot of specialist care and risk planning.

Lithium-ion batteries will represent a similar and growing safety challenge as electric cars gradually replace those that run on petrol and diesel. Much of the technology for these new vehicles (and the vehicles themselves) will need to be imported – and there's also likely to be a thriving export market for the petrol and diesel-powered cars they replace.

Energy efficiency

As well as supplying energy, ports are increasingly leading the way in energy efficiency. For example, we could soon see the installation of photovoltaic solar panels on roof tops and other lesser used areas in ports.

Servicing and maintaining solar arrays will represent a new logistical challenge. Fortunately, ports can draw on considerable information and guidance from the US where this technology has been used extensively and is becoming more efficient.

Decommissioning of offshore infrastructure

As the renewable energy revolution gathers momentum, ports will also be heavily involved in dismantling the legacy of fossil fuel energy sources.

As Mark Clifford explains, “The decommissioning of the UK's offshore energy infrastructure could be big business for Scottish and North-Eastern ports. Estimates suggest it might grow into a £20-50 billion industry over the next 25-30 years.”

And once again, these skills are exportable, “The expertise acquired in the North Sea today will probably be required in places like the Gulf of Mexico in a few decades time. By then, the UK and Norway could be world leaders in exporting large-scale decommissioning skills.”

However, ports will need to be mindful of the risks, some of which, according to a recent report,³ are not normally associated with drilling and production operations. In addition, occupational accidents could have greater significance in the decommissioning phase than during active production.³

“As the technology spreads, British ports could be called upon to share their expertise in places like Africa or South America.”



Changing Occupancy

The growth of retail and leisure facilities in ports makes good use of the land. However, this type of development is not without problems.

Unlike the bespoke docks you see in other parts of the world, the UK's ports are largely based in towns and make use of natural waterways and canals. Unfortunately, the rise in global trade and the increasing size of ships and loads has left many of these port facilities and shipping lanes obsolete. They simply weren't big enough.

Gradually, the port areas in places like East London, Liverpool and Manchester became so run down that port operators realised they would never again operate at the same level as before. However, the land still retained considerable development value.

New shopping, entertainment and hotel facilities

This has caused many port areas in places like Milford Haven, Liverpool and Bristol to be redeveloped as social and retail leisure areas. They also increasingly house large apartment and hotel complexes, many of which are directly adjacent to the working port.

These leisure outlets provide a sensible use of the land around ferry ports, and also give people who are travelling something to do while they wait for their boat. But how do you manage the expectations of local residents, revellers and retail customers when they are so close to an industrial port – and all the noise, vessel traffic and hazards that go with it? And how can ports manage the inevitable risks of such a diverse environment?

In the past, port authorities would buy a package insurance policy that covered their existing properties, along with business interruption and other liabilities. These days, however, the port may have to insure bowling alleys and restaurants as well as cranes and loading bays.

And that's not the only issue, as Mark Clifford points out, "Many of the ports are also undertaking major redevelopments, which require other coverages such as construction. It's not easy to build a new quay near where people live with all the pollution, dust and noise involved. There is also the issue of fire, which could spread from one area to the other with serious consequences."

These are complex issues that will require insurers to act as trusted advisors.

“Many of the ports are also undertaking major redevelopments, which require other coverages such as construction.”



Changing Operational Challenges

Maintaining ageing infrastructure against evolving storm risks.

Much of the UK's port infrastructure is quite old, especially the quays and sea walls. This is especially problematic at a time when winter storms and storm surges are increasing in frequency, possibly as a result of climate change.

UK coasts have been hit especially hard in recent years

Big waves pose an obvious threat, but storm surges, even across open land, can leave electrical equipment submerged and badly damaged. When power is lost to a terminal and its refrigerated warehouses there is the potential for damage to low-lying cargo.

We are seeing an increase in these so called one-in-60-year or even one-in-100-year events. Indeed, there is growing concern about the effect of a possible one-in-500-year event.

It is impossible to predict this type of destructive weather phenomena

Much of the damage is cumulative and takes place below the waterline where cracks in the sea walls can often remain undetected.

Once the seawater comes in contact with the reinforced iron pilings, they will start rusting and could be in bad shape before anyone is even aware of the problem. Eventually the whole structure could just fall apart, catching everyone by surprise.

A regular programme of preventative maintenance and surveys can stop small, attritional damage from developing into major destruction.

Increasing health and safety fines

Another major concern is the exponential growth in fines for health and safety breaches. The Health and Safety Executive (HSE) is taking an increasingly hard line on this type of negligence, especially when it results in serious injuries or fatalities. As a result, fines have increased tenfold from a few hundred thousand pounds to a few million.

In addition, changes to the sentencing guidelines mean that such breaches don't actually have to result in any loss. Culpability, or even a near miss, could lead to a huge fine.

Risks like these are not insurable at this time. However, insurance companies can still play a valuable role in reducing their impact. Travelers supports its clients with a risk control team that can provide an all important 'second pair of eyes' and assist in mitigating both insurable and uninsurable scenarios.

Cyber threats

Cyber attacks are already a big and growing issue for ports. They could be malicious, or just kids having fun, but it's an increasing exposure with potentially serious implications.

In addition, the UK government is currently consulting on introducing penalties of up to £16 million for transport operators with weak cybersecurity that fall victim to these attacks.⁴ The changes could affect ports that handle passengers, fuel or containerised freight as well as harbour authorities.



Changing Legislation

The UK stands on the brink of one of the biggest legislative projects in its history – with profound implications for the maritime sector.

Brexit will have far reaching consequences in terms of how British ports are run, what is traded, who is traded with and even the composition of the workforce.

Regulations

Where previously, the UK has used some European authorised standards, the industry may eventually revert back to British standards. However, in order to trade with the EU from outside, operators may also have to maintain our legislation in line with European standards.

Customs checks could be a big area of contention between the UK and EU post Brexit, (particularly at the border with Ireland). The freight and haulage industry and Eurotunnel have already warned that a port such as Dover, the busiest RORO (Roll-On Roll-Off) port in the UK, could face a 30-mile gridlock if customs checks were introduced post Brexit.⁵

Standards

While the UK will have to match EU standards in order to trade with the single market, Brexit may see Britain doing more trade with a broader range of nations. If the UK is able to strike new deals with countries like India or Brazil, while continuing to trade with the EU, then ports will need to operate to a range of different standards. This will require greater flexibility.

Cargo

UK ports could also find themselves handling new types of cargo. Will Britain become a big importer of soya beans from Brazil? Or machinery from Indonesia? Will new skill sets be needed to handle different categories of cargo?

Fortunately, many UK ports are multi-purpose. As a small island, it has always been important not to be over-specialised in a trading world that can change all too quickly.

Free Ports

One of the potential benefits of Brexit is that the UK could establish Free Ports. These are areas within the geographic boundary of a country that are considered outside of it for customs purposes. This means that goods can enter and re-exit the port without incurring the usual import procedures or tariffs – incentivising domestic manufacturing and providing transshipment opportunities.

A recent CPS report⁶ suggested that Free Ports could create over 86,000 jobs for the British economy if they proved as successful as they have been in the US. There is an opportunity to establish the UK as a major Free Port hub, but it will require a lot of investment in larger terminals and more modern equipment.

“In order to trade with the EU from outside, operators may also have to maintain our legislation in line with European standards.”

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