Shipper Perspective

With Tom Craig and Gary Ferrulli

Upcoming tsunami – Part 2: ports

A maritime financial tsunami is building, and in different ways, it will affect container lines, ports, and shippers. This commentary focuses on how ports may be affected, since ports are the vital link between liner carriers and their customers. Ports face a big decision with regards to the mega-ships coming on line and whether to invest in upgrading their facilities to handle these much larger container-transporting assets. Where is the greater financial risk? To invest in the larger ships, or not to invest: that is the question.

In addition, ports in the United States face their own issues. Will there be long-term effects from the West Coast ports slowdown from the International Longshore and Warehouse Union contract negotiation? What about the impact of East Coast ports preparing to handle bigger containerships with the upcoming opening of the expanded Panama Canal?

Ferrulli and Craig offer different views on the upcoming financial tsunami bearing down on the world's ports.

Ferrulli: "To gain a perspective of the financial impacts facing the ports, take a look at the recent report by the *Journal of Commerce* on port productivity and see which ones are among the top 10. There are six Chinese ports which handle the large and ultra-large containerships, in addition to Khor Fakkan, Jebel Ali, Yokohama and Rotterdam. How did they do it? Know about it? Plan for it? Make it happen? They saw, they talked and they acted. Most European ports did not and virtually none in the United States did. What Norfolk/APM Terminals did was in their plans already; someone told them that big ships were coming.

"The issues that ports have are not big ships, but rather the increasingly larger volumes. Those volumes were actually going to be even bigger, but the financial slippage in 2007-2010 cut volumes by roughly 30 percent. Now they have caught up, and few terminals have invested to handle the escalation in container volumes. It's worse in the United States, because we have so many ports, and no national plan on how to prioritize and spend money smartly. That's in addition to not spending what is collected in Harbor Maintenance Taxes (about half is spent on port maintenance, while the rest is funneled into a general fund for Congress to use as it pleases). And many city-affiliated ports are taking in billions, with little of it used for their actual ports, since they also use this money to booster their general funds.

Ports are the vital link between the liner carriers and their customers. They now face a big decision with regards to the mega-ships coming on line and whether to invest in upgrading their facilities.

"To recap: 1) Volumes have grown since 2000 and the ports haven't spent the dollars required to handle that growth efficiently. 2) In the United States, there is no national port plan, so whenever anyone decides they want a container port, they build one and then try to get federal dollars. With no national plan and priorities, it gets spread too far and thin. In addition, the monies collected are diverted to non-related matters that only politicians and lobbyists can dream of. 3) There are enough examples (try the top 10 productive ports) where ports have acted responsibly with their investments in future growth. What stops the rest of the world? 4) The labor issue on the U.S. West Coast. Those are the port issues, not big ships."

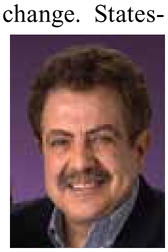
Craig: "The ports' decision on investing is not a simple one. They need additional space to handle the loaded and unloaded containers from each large ship, more space for storing chassis and containers, and more roads to handle the volume.

"Also, there is uncertainty with container lines themselves. Are the mega-ships the low-cost saviors they are reported to be? What if they are not, what happens if they invest? How long can the lines continue to lose money as they have been? What happens then if the line that goes bankrupt is your customer? How do the alliances play into all this with the different ports being used?

"Ports need financial incentive to invest. For ports that are owned by various government agencies, should they risk taxpayers' money with the expansion? What and where is the return on investment? Where will they get additional volume besides what is on each ship? Will the lines focus on using fewer ports to give them greater volumes?

"Adding to the story is the release by the Organization for Economic Cooperation and Development's report, *The Impact of Mega-Ships*. OECD expresses doubt on the savings from these ships.

"Container lines had these mega-ships built to benefit their businesses. So, it is not unreasonable to suggest that container lines should step up and invest in the port expansions. The point of this recommendation is that global trade and maritime transportation needs to change. Statesmanship is necessary. All stakeholders should step up and collaborate on the future. That cooperation should include risk-sharing."



Craig

Ferrulli

Craig is president of consulting firm LTD Management and can be reached by email at tomc@ltdmgmt.com, and Ferrulli is president of Unicon Logistics, an NVOCC, and can be contacted by email at mrgtf4811@mindspring.com.