Gulf State Ports See Panama Canal as Game Changer

And they're gearing up to be major players in containerized trade.

BY DAN MCCUE

Direct hits by the decade's most notorious hurricanes, an unprecedented global financial crisis and the ensuing collapse of international shipping should have laid ports along America's Gulf Coast low.

After all, they'd never been the recipients of the surging containerized cargo volumes from Asia that stoked the fortunes of their colleagues on the East and West Coast. And in a world where no one was buying, even their traditionally strong hand in commodities proved little consolation.

But the Gulf Coast hasn't buckled. If anything, during a period that's seen maritime revenues plunge between 30 and 60 percent, its ports, transportation and logistics providers have undergone a tremendous period of growth and change.

In part, this is due to the understanding that in a recession, if a business isn't striving to gain market share, it is surely in the process of losing it.

But the primary impetus, said a host of port officials in the region extending from the west coast of Florida to the east coast of Texas, is the promise of the ongoing widening of the Panama Canal.

Port of Houston Authority

Due to open in 2014, the widened canal is expected to dramatically change the routing of cargo to and from the United States. Hoping to capitalize on the once-in-a-career, if not a once-in-a-century opportunity, the region is witnessing an explosion of terminal, warehouse, and intermodal facility construction.

"Most of the studies that are out there, including a recent one by our economic development folks here in Louisiana, suggest ports along the Southeast Atlantic coast stand to gain the most from the widening of the Panama Canal, and that ports along the Gulf will probably be competing for something like 20 percent of that new volume," said Gary LaGrange, CEO of the Port of New Orleans. "The key is to be ready for that 20 percent, and that's propelling a lot of change."

Diversity and incentives

Change, undoubtedly, would be a welcomed development in the Port of New Orleans, which since courageously reopening just 12 days after Hurricane Katrina and the ensuing flood to welcome a ship filled with coffee from South America, has struggled in the face of advances by many of its Gulf Coast-based competitors.

In 2008, the port experienced its worst year since 1985, with shipments of almost every bulk product down by double digits, and the ports of Mobile, Houston and Gulfport all seeming to gain in container traffic at the Big Easy's expense.

But LaGrange, for his part, was unbowed during a conversation with *WT100*; in fact, he pointed out that preliminary data released in July suggest things are beginning to turn around with a 4.5 percent increase in ships calls, a 1 percent rise in breakbulk cargo and a 6.6 percent increase in the amount of steel and iron moving through the port.

Best of all, LaGrange said, July alone saw a 57 percent rise in the number of TEUs passing through the port, compared to July 2008.

Clearly, embracing the virtues of diversity is a key operational strategy.

While breakbulk has long been the Port of New Orleans' predominate activity, it is also the eighth largest cruise port in the country, and in addition to the aforementioned containerized trade is also actively engaged in moving bulk cargo, heavy lift activity, unique project cargo and industrial real estate.

LaGrange said in light of the recent difficulties that diversity has definitely been to New Orleans' advantage.

"It seems like any time one or two elements in our portfolio go down—be it as a result of Katrina or an economic downturn—there is always one that's doing very well and sustaining us," he said.

In the current downturn, for instance, LaGrange said New Orleans has benefited greatly from its being one of the largest ports in the U.S. utilized by the London Metal Exchange.

At the same time, New Orleans continues to be the "second or third" busiest port in the U.S. when it comes to transporting steel, second when it comes to coffee, and second in rubber, he said.

"A lot of that has to do with our having direct access to the 14,500 mile long Mississippi River system, which provides us with an all-water connection to 33 states and three Canadian provinces," he said.

But that all-water access to the interior of the country isn't the only inducement LaGrange has to offer shippers considering New Orleans as their post-Panama widening port of call.

Governor Bobby Jindal this year signed two new incentives into law aimed at improving the fortunes of the port. The first provides a $5 per ton tax credit for any Louisiana-grown, manufactured or processed product that passes through a state port.

The other will provide a 5 percent a year tax break for 20 years to any private entity that invests $5 million or more in improving the state's port infrastructure.

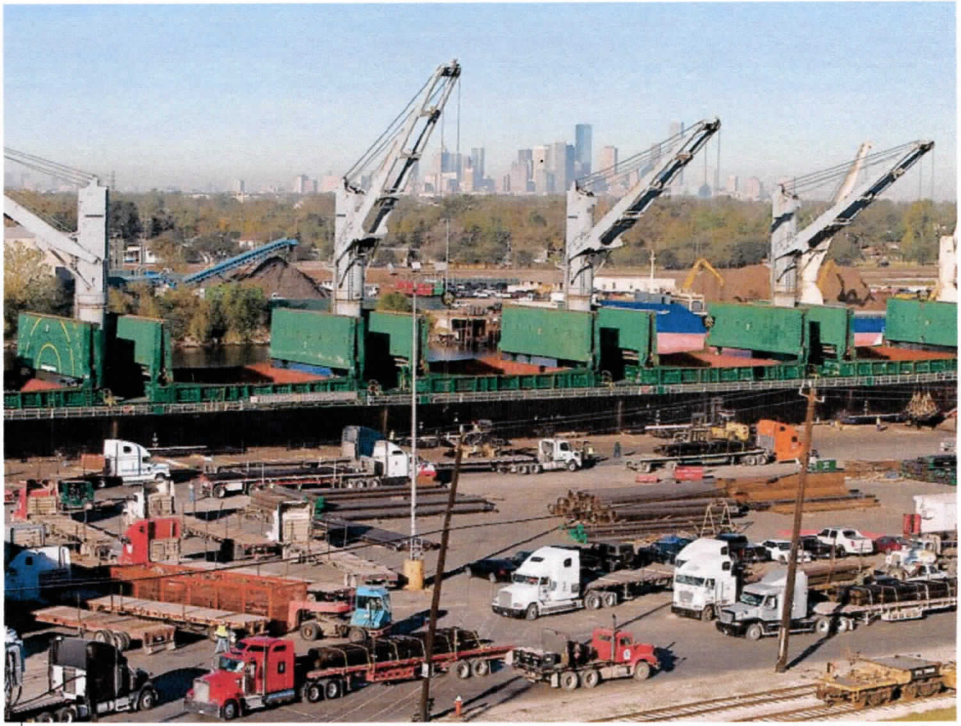
And La Grange made clear, he's already got plans to spend that money.

In addition to capturing a share of future Panama Canal traffic, he is also actively pursuing all-water trade from Asia, heavily marketing New Orleans' ready access to a market region stretching east to Birmingham, Alabama, north to Chicago, and west to Dallas.

What's more, five years after opening the port's Napoleon Avenue Container Terminal, a facility featuring near dock rail, LaGrange is championing the development of a huge new intermodal facility.

"Six of the seven Class 1 railroads in the U.S. have railheads here, and I'm certain they would greatly benefit from an expansion of intermodal rail here," he said.

At the same time, and in line with those same goals, LaGrange is also looking for ways to expand the use of barge to move containers into the Midwest.



Port of Houston Authority

The Port of Houston's Bayport terminal is the most modern terminal along the U.S. Gulf Coast. The first phase of Bayport, including the first berth and approximately 65 acres of the ultimate 1,043 acre facility, opened in January 2007. The second phase of construction is already in place, and the port is now in the third phase of construction, which will feature a 1,000 foot berth and a new terminal administration building and repair facility, along with expansion of the container yard.

"Obviously, you couldn't do that with time-sensitive cargo—electronics and the like—but I think there's a place for barges and they'll play a greater role in the container trade in the future," he said.

The power of change

At the Port of Corpus Christi, Texas, change and development are literally being driven by the sheer volume of wind turbines and oil exploration equipment that are now moving through its terminals.

In fact, so strong has that side of the business been that the port largely bypassed the travails of the economic crisis, said Michael Perez, its director of business development.

"We've always moved a lot of liquid, dry bulk, petrochemicals and so on, but these turbines really exploded for us," Perez said. "In a way, it's a continuation of the project cargo we've always handled, but the magnitude has been extraordinary."

The trade in wind turbines is both an import and export activity for the port, with components coming in from Denmark, Brazil, China and South Korea, and then being shipped out to an area extending north to the Canadian border and west to the Rocky Mountains.

Since 2006, the port has had to double the acreage it devotes to the project. But that isn't the only expansion underway in Corpus Christi. In a major change, the ports authority is now developing its first full-blown container terminal at La Quinta, Texas.

"For us, containers have always been 'hit and miss,'" Perez said. "We've operated a very small container terminal, but it was such a small part of what we did that we didn't have our own cranes, relying instead on ships having onboard cranes."

The La Quinta site occupies 1,100 acres on the northern side of Corpus Christi Bay, a few miles northeast of the existing port.

The site, which is going to be developed in three phases, will feature a marine terminal, 3,500 feet of wharf, nine container cranes and a 114-acre railroad terminal.

At full build-out, La Quinta is expected to be able to handle about 700,000 containers annually, Perez said. In the process, it is expected to generate more than 300 new direct jobs in its first years of operation, and more than 8,200 jobs in its twentieth year.

"There's no question we're betting on the Panama Canal widening," he said. "When you look at the traditional container trade, it's been East Coast/West Coast, no question, but if there's ever been a time for that to change, it's now. We want to grab the stuff that's coming into the U.S. from Asian origin, and to do that you have to be prepared for it."

In order to further bolster its competitive profile, Corpus Christi has also secured approval to dredge its navigation channel from 45 feet to 55 feet.

Also on the horizon is the marketing and redevelopment of the former Naval Station Ingleside, which is located on the northern shore of Corpus Christi Bay, and was included in the Pentagon's 2005 base realignment and closure.

"The City of Corpus Christi officially gets the base back in September 2010," Perez said. "When it does, among other things, we're hoping to bring a worldclass wind turbine developer to the site."

Thinking beyond the terminal gate

But Corpus Christi is far from alone when it comes to significantly expanding container terminal space in Texas. The Port of Houston Authority is on the verge of more than doubling its container capacity through the development of a new $1.4 billion terminal at Bayport.

When it is completed in 2014, in time to coincide with the opening of the new locks on the Panama Canal, it will add an additional 2.3 million TEUs in capacity to the port's current seven container terminals.

"The way we see it, the more we can handle, the more of an economy of scale we can offer the shippers," said Wade Battles, CEO of the Port of Houston Authority. "At the same time, our market is continuing to grow significantly, and we also have an abundance of export cargo available to us—namely polyurethane resins, chemicals, machinery, cotton and traditional scrap paper—which assures shippers of always having a balance of trade. So, we feel we're very well positioned as the economy begins to rebound," he said.

A 25-mile-long complex, running the length of the Houston Ship Channel that connects the city to Galveston Bay, the Port of Houston has a public component overseen by the Port of Houston Authority, and private facilities owned by 153 different companies.

By virtue of Texas being one of the fastest growing states in terms of population, big box retailers are also joining a mix that includes facilities owned by the big oil companies, large chemical concerns and other industrial businesses in the area. Wal-Mart, for example, opened a massive 4 million-square-foot distribution center in the Houston Ship Channel area, while Home Depot has established a 750,000-square-foot distribution facility in the area.

According to Battles, the ports authority has an economic impact of $118 billion and has led to the creation of 785,000 jobs. The activity of both public and private enti-

Panama Canal Expansion on Time, within Budget, and Fostering Strategic Patnerships

The opening of the expanded Panama Canal in 2014 should be a windfall for ports along the East and Gulf Coasts—although competition for that business is already fierce even among ports who aren't big-ship ready, but hope to get there in the next five years.

The Panama Canal Authority has already signed Memorandums of Understanding with 12 ports serving markets in the population-rich Eastern U.S., as well as Southeast and Gulf Coast ports.

"We have an excellent relationship with the main ports in the East and Gulf Coasts that handle cargo that transits the waterway," said authority spokeswoman Teresa Arosemena.

Under the MOUs, some of which date back to 2003 and are renewable every two years, the authority and its partner ports will undertake joint marketing activities to promote the all-water route through the Canal, and cxchange market data, studies, and information on modernization efforts undertaken to improve customer service.

Currently, about 64 percent of the cargo that transits the Canal has an origin or destination in the United States. The ongoing Panama Canal Expansion Program is creating a new lane of traffic through the construction of a new set of locks, which will double capacity.

But that's not to suggest the expansion is removing a bottleneck that's been holding back a reservoir of pent-up cargo. Rather, the expanded canal will increase cargo volumes along the East and Gulf Coasts by allowing both increased traffic and much larger vessels to pass through.

The restriction of the existing Panama Canal limits vessels along the Asia-East Coast trade lane to 5,000 TEUs. After the expansion, ships as large as 12,000 TEUs will be able to transit the Canal.

What's more, according to the vessel order book, between now and the opening of the expanded canal, more than 1,000 additional ships are expected to join the existing container fleet; over 80 percent of this new vessel capacity will be in the 8,000- to 14,000-TEU category.

Several recent studies for maritime industry clients suggest the most immediate impact of this added Canal traversing capacity will be a significant lowering of transportation costs along the all-water route from Asia.

This in turn, these studies suggest, would result in an increase of the overall market share of East and Gulf Coast ports relative to the West Coast. Even with the economic slowdown, many reports put the aggregate gain of 19 million TEUs by 2046.

Arosemena said the Canal authority is already participating with the ports in international events that promote the all-water route through the Canal as the best and most reliable option for shipping.

"All of our efforts are geared at promoting trade and fostering economic growth, which translate into opportunities for job creation and increased revenues," she said.

"The East and Gulf Coast ports with which we have subscribed MOUs are subdivisions, departments or agencies of the State governments," Arosemena continued. "Accordingly, their initiatives are aimed at attracting business to the State and having a positive economic impact on the area.

"For example, some of them, like the Georgia Ports Authority and Virginia Ports Administration, have been extremely active in promoting the establishment of distribution centers in areas near the ports, resulting in greater opportunities to increase the level of business activity and employment in their communities."

"At the same time, there is a lot of interest on the part of the ports to expand their facilities to accommodate the future demand," she said. "An example in the Gulf Coast is the Port of Houston, which has registered double digit growth in the last few years and is investing $1.4 billion in its new Bayport Container Terminal, which will have the capacity to handle 2.3 million TEUs. This container terminal is being built in response to increased trade with China that travels through the Panama Canal. The first phase of the project is already in operation."

Of course, the Panama Canal Authority was no more immune from the effects of the global economic crisis than any of its U.S. partners. For the period from October 1, 2008 to August 31, 2009, total Panama Canal tonnage was down 3.5 percent compared to the same period of the previous year.

Still, Arosemena said, this percentage drop was very small compared to the effect the crisis had on world commerce and the maritime, logistics and transportation industry in general.

"Notwithstanding the crisis, we have invested $5.25 billion in the project and have continued with our modernization and improvements program," she said. "That's on top of an additional $1.8 billion we've invested since 2000 to upgrade the existing plant and facilities."

Those recent modernizations include an improved lighting system in the Canal's locks; a new track and turntable system; the acquisition of five new tugboats; two new tie-up stations; and the replacement and reconstruction of the Authority's launch fleet.

These improvements allow two additional transits per day and have enhanced the safety, reliability and efficiency of the Canal, Arosemena said.

In addition to all the activities at the Canal, the Republic of Panama has announced plans to refurbish and improve the logistics and transportation infrastructure, as well as business and social conditions, to enhance the attractiveness of the expanded Canal to the maritime transportation community.

"The Canal expansion is on time and within the budget," Arosemena added. "We remain positive that the expanded Canal will be an engine of global growth, not only for the country but also for the region."

ties along the shipping channel generates a staggering $285 billion economic impact and 1.5 million jobs.

If there is a single factor that seems to drive Battles, it's a Texas-sized vision both of who his competition is and what markets the Port of Houston can grow to dominate.

Just who does he consider Houston's prime competitors?

"Well, it depends on what you're talking about," Battles said.

"If you're talking about the Northern European and Mediterranean trade, then we're going head-to-head with the Ports of Charleston and Savannah on the East Coast. If you're talking about trade with Brazil, you're talking about Jacksonville. And if you're talking about Asian Cargo, you're of course talking about Los Angeles-Long Beach.

"Now as far as markets we need to expand into, I think we need to expand our horizon beyond Texas and the region, and extend our reach into St. Louis, Chicago, and Memphis," he said.

Given his wide-ranging perspective, it wasn't surprising that be believes it's not enough for ports to look inwardly for ways to improve their market share. He believes it's critical they look at opportunities and challenges outside their terminal gates as well.

"A marine facility is not an island on its own." Battles said. "If you can't get the cargo out of the port in a fast and efficient manner, it's all for naught."

Battles pointed to the Gulf Coast Freight Rail District, a two-year-old partnership between the City of Houston, and neighboring Harris and Fort Bend Counties, as a prime example of that thinking.

The district works with public and private partners to develop and implement a systematic approach to the regional rail network improvements.

"Through this mechanism we're looking at how best to improve our rail network, including the implementation of additional near dock rail," he said.

Florida

Florida is also staking claim to future cargo transiting the Panama Canal, and for good reason—you can't sail to East Coast ports without transiting right by it.

Port Manatee, the closest U.S. port to the Canal, is in the preliminary stages of a $50 million expansion to extend berth capacity and container storage space. The project includes dredging the navigation channel to accommodate larger ships. Within the next 10 to 15 years, the port plans to develop an expanse on its north side as a draw for additional container shipments.

Port of Alabma

The Port of Alabama has several expansion projects in the works, including the construction of a turning basin that will allow the port to handle 8,000-TEU ships and a new intermodal rail facility to serve the port's new terminal.

In addition, last year, the Manatee County Port Authority and Manatee County government worked together to create the Port Manatee Encouragement Zone, a 3,700-acre tract of privately held land that now qualifies for reduced or waived impact fees and other incentives for businesses looking to conduct port-related activities.

The Port of Tampa has also been preparing to wade into the competition for Canal-borne cargo. Four years ago, for instance, the port constructed a new container terminal and purchased three post-Panamax cranes.

This year, one of the largest federal stimulus package-related projects in the Tampa area is directly intended to enhance the port's operations.

More than $105 million in stimulus funding will pay to build a highway connection between the Port of Tampa, Interstate 4, and the Crosstown Expressway through the City of Tampa. Timed to coincide with the opening of the expanded canal, the new highway will improve container flow through metro Tampa, by allowing port traffic to bypass surface roads through Ybor city, a popular, an often congested tourism mecca.

Seeking critical mass to foster further growth

Jimmy Lyons, director and CEO of the Alabama State Port Authority, makes no bones about his desire to capitalize on the expansion of the Panama Canal.

In fact, so committed is he to the effort that he still manages to chuckle when he talks about opening Mobile's newest container terminal in October of last year, the very moment the world's economic system collapsed.

"Yes, the container market was in a terrible state, but we knew then as we know now that we have a new three-berth container terminal replete with post-Panamax cranes with the most highly automated gate system in the U.S., and we're going to come out of the doldrums with all sails up," Lyons said. "We're really looking at coming out of the recession a much bigger and stronger port."

Lyons described the decision to jump into containerized trade as a departure from the conventional wisdom in Alabama, which was what the port needed to stick to its core business of coal and forest products.

"About a decade ago, we saw that the industry profile was changing," he said. "Alabama landed Mercedes Benz in 1996, and as the state's manufacturing base began to evolve, we saw indications that we needed to take a harder look at containerized trade."

This September, work got underway on a turn basin that will enable the port of Mobile to handle 8,000-TEU ships.

"Until now we've been a little hamstrung in terms of the ships we could handle," Lyons said. "We've had a few large ships here in the past, but it was really too disruptive.

"When this project is finished in about six month's time, we'll be in the perfect position for Far East cargo via the Panama Canal," he said.

First, however, the ports authority has a marketing effort underway intended to capture cargo leaking to other ports, Lyons said.

"From this point forward, it's really a matter of trying to develop critical mass at the port, and then to use that as a means to continued expansion," he explained.

The next step in the Alabama Ports Authority's plan is to create an intermodal rail facility to serve the new terminal, although Lyon said a tenant or tenants has yet to be determined. Once the intermodal connection is in place, the final piece of the plan will be developing a logistics park on an adjacent parcel.

"Right now, our biggest markets are Alabama, eastern Mississippi and the Florida panhandle; with these pieces in place, we'll definitely be on a footing to compete against New Orleans, Charleston and Savannah," Lyons said. WT

Contributing writer Dan McCue lives in Charleston, SC where he writes frequently on global trade, foreign direct investment, and port-related issues.