Delivering the Goods: Ports in the South

It is a great honor to be here this afternoon and I want to thank Gene Stinson and the SEDC for inviting me to talk about ports in the South. When the SEDC and my organization, the Southern office of The Council of State Governments, the Southern Legislative Conference, SLC, began working together some years ago, we were soon struck by the many common themes we shared. One such theme is the fact that both our organizations deal with roughly the same grouping of Southern states; another fact is that we seemed to meet in the same locations for our annual meetings. We appreciate and value this growing partnership with the SEDC. We have also been pleased to welcome members of your Board at our annual meetings these past few years. Hence, it is a real pleasure to be here in Birmingham.

My presentation this afternoon will cover five main areas:

1. The critical role played by ports in our nation’s economy
2. The linkages between global economic trends and maritime transportation
3. The record of Southern ports in this relationship
4. The challenges faced by ports in the South and across the country
5. Issues related to maritime security
Ports in Our Economy

Ports across the United States play a critical role in the nation’s economic life, impacting directly and indirectly at all levels-national, regional, state and local. By facilitating the nation’s water transportation needs and serving as the initial point of contact for waterborne cargo, both domestic and foreign, ports are an integral component of the country’s economic calculations. From the huge amounts of petroleum products that transit through the Ports of South Louisiana and Houston to the tens of thousands of automobiles that roll-on and roll-off at the Ports of Baltimore and Jacksonville to the thousands of containers loaded with retail goods that come into the Port of Savannah to the million plus tons of coal and woodpulp that leave the Alabama State Docks, our nation’s ports are the gateways that connect the United States to the world. Interestingly, according to the U.S. Department of Transportation, many Americans are unaware of this important economic contribution. For instance,

♦ U.S. ports and waterways handle more than 2 billion tons of cargo each year, i.e., a billion tons of domestic and another billion tons of foreign;
♦ Many Americans are unaware that the waterborne cargo moving through our nation’s marine transportation system contributes more than $743 billion to our Gross Domestic Product, or GDP, creates more than 13.1 million direct, indirect and induced jobs and generates more than $494 billion in personal income, $1.5 trillion in business sales and almost $200 billion in taxes at all levels;
♦ It is not widely known that on average, each state relies on between 13 and 15 ports to handle 95 percent of its exports and imports. Louisiana ports, for example, handle goods from 27 states on their way to foreign destinations; and
♦ Finally, many Americans are unaware that commercial and recreational fishing contributes more than $111 billion to state economies annually.

Our nation’s marine transportation system is gigantic. More than 1,000 harbor channels and 25,000 miles of inland, intracoastal, and coastal waterways in the United States support over 300 ports and 3,700 terminals that handle passenger and cargo movements. In turn, these waterways and ports are connected to 152,000 miles of rail, 460,000 miles of pipelines, and 45,000 miles of interstate highways.

The United States relies heavily on an efficient and effective marine transportation system to retain its preeminent role as the global economic powerhouse. In fact, as the world’s most active trading nation, the United States accounts for nearly one billion metric tons or nearly 20 percent of the annual world oceanborne trade. More importantly, over 95 percent of U.S. overseas trade tonnage is shipped by sea. Given that international trade is projected to more than double by 2020 and that most of this cargo will be transported by ship, the nation’s policymakers—at all levels—have to be made increasingly aware of the need to heighten the efficiency, capacity and infrastructure of our marine transportation system.

In addition to its economic role, the marine transportation system plays an important role in national defense by facilitating the movement of military equipment and supplying troops deployed overseas. Furthermore, ships and barges are among the safest and most environmentally friendly forms of transportation while millions of Americans use the marine transportation system for recreational and leisure purposes too.
Links between Global Economic Trends and Maritime Transportation

Global economic trends and maritime transportation remain tightly interconnected forces that continually feed off each other. In fact, the major contributory factor to a flourishing port system is international trade. An expanding international trade environment generally results in a bustle of activity at ports across the globe. Even though turmoil both within the United States and in the global economy in the last few years has caused some short-term declines in shipping activity, the past 30 years have seen a tremendous increase both in the level of international trade and foreign waterborne commerce. Two trends are important here.

One, the growing importance of international trade in the U.S. economy. For instance, in 1960, total U.S. exports amounted to about $26 billion, while imports stood at about $22 billion. Some 40 years later, in 2000, U.S. exports had soared to $1.1 trillion while imports had expanded to $1.4 trillion, an increase of over 4,000 percent in exports and over 6,300 percent in imports.

Two, the increasing role played by the foreign component of U.S. waterborne commerce. From less than 27 percent in 1955 to 43 percent in 1985 to almost 50 percent in 2000, there has been a steady growth in the foreign component of U.S. waterborne commerce.

Hence, while the transfer of goods between land and water remains crucial to the expansion of trade and the growth of the economy, the growing foreign component of U.S. waterborne commerce reflects the enhanced role played by international trade in the U.S. economy.

Given these twin trends, a downturn in international trade has an immediate negative impact on activity levels at ports. In fact, world trade patterns directly influence the amount of cargo loaded and unloaded at the world’s ports. The negative consequences of the recession that swept the United States and almost all parts of the globe in 2001 (and that continues to linger on) most certainly affected activity levels in the nation’s ports. In fact, a number of America’s trading partners, including such dominant players as Japan, continue to be wracked by weak economic growth, a development that inevitably affects seaborne traffic levels.

According to the International Monetary Fund, world economic output is expected to grow by 2.8 percent in 2002 and by 4 percent in 2003. In contrast, in 2000, world output grew by 4.7 percent and by 2.5 percent in 2001. While there is cautious optimism about the prospects for stronger growth across the globe, setbacks to seaborne traffic are to be expected given these sluggish economic growth rates. Regardless of the expected short-term decline in seaborne traffic due to souring global economic conditions, it is important to note that internationally, there is an inexorable trend toward greater openness and trade liberalization extending to practically every corner of the globe. This trend will result in many new trade gateways, causing dramatic changes in market demand and cargo forecasts. This trend also will produce a huge upsurge in international trade and, consequently, in seaborne traffic, and it is imperative that ports in the South remain poised to take advantage of this international trend.

Ports in the South

Ports in the South play a monumental role in overall U.S. waterborne commerce and international trade. In fact, in 2001, almost three-fourths of U.S. waterborne exports and imports transited through a Southern port. The latest data from the U.S. Maritime Administration indicates that almost 35 percent of total U.S. international trade traveled through a Southeastern port, 24 percent through Southwestern port and over 14 percent through a Mid-Atlantic port: an overwhelming 73 percent and these three regions involve SLC and SEDC states.

Information on U.S. port rankings shows the impressive magnitude of cargo moving through a number of Southern ports. For instance, in terms of U.S. port rankings by cargo value in 2000, 28 of the 50 top ports in the U.S. are Southern ports. In terms of cargo volume, 22 of the top 45 ports in
the U.S. are Southern ports. Within the top 10 in terms of cargo value, Southern ports occupy the 4th (Houston), 6th (Charleston), 7th (Hampton Roads) and 9th (Baltimore) slots; similarly for cargo volume, Southern ports, led by the Ports of South Louisiana and Houston, totally dominate the top 10 slots, retaining eight of the top 10. Even more significantly, seven of these top 10 ports are located in two Southern states (Texas and Louisiana).

**Challenges Faced by Ports given Expanding International Trade**

Alongside this surge in international trade and activity at ports across the globe, the use of containers to transport all types of cargo has surfaced as a radically different transportation technique in shipping. Containerized shipping is not only the fastest growing technique for transporting all types of cargo but it is also considered the most efficient and cost effective method. This movement towards containerization has resulted in tremendous improvements in intermodal transportation methods with rail, truck and barge movements gaining significantly. A corollary of this rapid drift towards containers has been the need for ever larger vessels to take advantage of the economies of scale available in cargo transportation. This has resulted in numerous alliances, mergers, and vessel-sharing arrangements among carriers and shipping lines, often crossing national boundaries in their quest to lower operating costs and enhance profit margins. In certain instances, these alliances and mergers have spilled across modes of transportation too, with shipping carriers joining forces with railroad operations.

The notion that substantial cost savings might be realized by increasing vessel size is practically a given in contemporary shipping circles. Megaships, or ships capable of carrying in excess of 4,500 20-foot containers, or TEUs, will soon become more widespread. In fact, when the first megaship with the capacity to carry 6000+ TEUs, the *Regina Maersk*, called on several Southern state ports (Baltimore, Norfolk and Charleston) back in 1999, it was a highly acclaimed event. Furthermore, orders for megaships with similar, and even greater, load-bearing capacities, has stepped up in recent years and this class of vessel is expected to totally dominate shipping well into the century.

In this era of slashing costs and constantly striving for higher levels of efficiency, the driving force behind the introduction of megaships is lowering operating costs. Given the economies of scale, these megaships will be less expensive, on a per-slot basis, to build and operate. In fact, analysts expect that a reduced number of these megaships will be able to carry more containers with fewer crew members while using less fuel. Consequently, the cost of carrying a container will be lowered, enabling shippers to become more competitive by reducing rates. Since ships only produce revenue when they are at sea, these megaships will increase their market share while simultaneously curtailing the number of port calls.

Upgrading a port to fully handle these megaships promises to be a complex, lengthy and expensive proposition. Not only must the channel and berth depth of a port be a minimum 50 feet, a number of related developments such as bigger and an increased number of container cranes; high-speed truck and rail routes to transport cargo both to and from the megaships; warehouses to store the increased cargo load; and, sophisticated computer systems to efficiently track this cargo, remain a few essential requirements. Regardless of whether a port acquires this elite megaport status, all ports, including those in the Southern region, have to devote resources to improve their capacities to deal with the introduction of these megaships to the oceans.

Given the enormous size of these megaships, the constraints and challenges—both logistical and infrastructural—remain extraordinary for the ports at which these megaships will call. At this time, very few ports in the United States are fully equipped to handle these megaships when they are loaded to capacity. Given that shipping experts predict that by 2010 some 90 percent of all
international liner freight will be shipped in containers, policy makers across the country, and particularly in the Southern states, are well served to develop an appropriate strategy to address this phenomenon.

Another emerging trend forecasted with the development of megaships involves a hub-and-spoke system, similar to the model used by the airline industry. According to this model, these megaships will connect the “global pivot ports,” (such as the super-hubs of Asia and the United States) cargo will then be transshipped to medium-sized “regional pivot ports,” and finally transported to their ultimate destinations by rail and road. Therefore, shipping experts do not envisage the need for a number of U.S. ports capable of handling these megaships, but only for a select number that will play the role of “global pivot ports.”

Maritime Security

In the light of last year’s terrorist attacks, there has been renewed focus on warding off similar onslaughts at the nation’s ports. Port officials quickly introduced a range of preventive measures including additional fencing, lighting, training and new identification systems for employees alongside a number of other steps. Yet, security experts have been bemoaning the lack of security around containers, that post World War II invention that soon become indispensable to world commerce. Given that every day, over 15 million containers are moving around at sea or land, or sitting in yards waiting to be delivered and that it is widely reputed that inspectors examine fewer than 2 percent of containers, the fears of security experts are well-founded. In response, the federal government, which continues to be the primary actor in setting port policy across the United States, is in the process of requiring each seaport to implement a federally approved security program; demanding more information about shippers’ cargo, crew and passengers before they enter a U.S. port; imposing background checks on people working in security-sensitive areas; funding more U.S. agents and security screening agents for ports; coordinating federal, state, local and private law enforcement at ports; and, stationing U.S. Customs Officials at major overseas ports.

The burden and disruption of extra security to inspect containers would weigh heavily on a shipping industry that is already reeling from the blows of the global economic slowdown. Most industries—whether Ford and General Motors, with their just-in-time manufacturing, or computer companies such as Cisco and Compaq, which ship parts in from Asia—rely heavily on global supply chains in which the humble container box is the critical link. Hence, inspection-related delays would pose substantial dilemmas to efficiency-oriented operations. Consequently, government and industry are working in partnership on an effective and efficient solution to this question, including pursuing better intelligence on inbound vessels and using technology to enhance operations. A pioneer in the latter effort is the Port of Houston that recently introduced gamma-ray technology to reduce to seconds inspections of containers that could have taken hours or even days. Yet, the challenges in this area remain substantial.

In June this year, the federal government awarded $92.3 million in grants to 51 ports located throughout the country to beef up security. A number of ports in the South were major beneficiaries here.

Closing Remarks

In closing, given the expected growth potential in international trade and the swift movement towards containers, the onset of megaships as the vessel of choice in the shipping industry is assured. Certain Southern states have anticipated this development and have begun preparations to enhance their capabilities to efficiently accommodate these megaships. In this connection, the ports in Baltimore, Norfolk, Charleston, Savannah, New Orleans and Houston have initiated programs to
brace themselves for the wave of megaships that will surely be coming their way. Nevertheless, it is important for policy makers to continue to monitor these development efforts and ensure that they continue on pace. It is also important that these capacity enhancements include the smaller “pivot ports” given the fact that they remain critical elements in the incipient hub-and-spoke system. The slew of ports in the Southern states occupies an extremely important position in our nation’s economic measurements, a trend clearly demonstrated in the proportion of U.S. exports and imports flowing through the Southern ports. Hence, it is vital that Southern state ports maintain and strive to expand this role as the trade gateway to the United States.

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