



2015 Annual Review & Outlook

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Devolution of US Ports' Channels

After 15 years of relentless struggle the US Army Corps of Engineers (USACE) approved a 47-foot channel for the Port of Savannah; two years later, USACE approved a 52-foot channel for the Port of Charleston. Having a 52-foot channel, the deepest on the USACE, provides Charleston with an important competitive advantage: ability to serve a fully loaded 13,500-TEU, New-Panamax ship. The subsequent USACE decisions to deepen two adjacent ports serving same ships to different depths was made by applying the *same* economic assessment methodology, based on *national* benefit/cost ratio. Why was Savannah, twice the size of Charleston, so harshly discriminated relative to its archrival located just 104 NM to the north?

The apparent explanation for the disparate treatment is that USACE's methodology is based on speculative and, in some areas, flawed assumptions, especially on the benefit side. The latter mandates developing a highly detailed, 50-year (!) forecast of the ports' traffic by trade lane, service pattern and vessel size in the notoriously volatile shipping market. Strangely, the forecast disregards port competition and therefore contains an unavoidable internal contradiction: it is reasonable to expect that Charleston's much deeper channel will increase its market share and respective *national* benefits at the expense of Savannah's. Should the USACE redo Savannah's study and adjust its channel depth accordingly? The benefits are derived from the differential in shipping cost between two hypothetical scenarios, with and without deeper channel which, at least in the case of Savannah, I found flawed (see: www.asafashar.com), along with other assumptions on tide delays and ship's load factors. The cost-side calculation also is flawed; it only includes the channel cost, but excludes the much higher costs of deeper docks, taller cranes and other landside infrastructure required for the bigger ships.

But the real problem is with the concept of national channels and respective national benefits. Access channels are integral parts of port facilities, and port facilities essentially are *regional infrastructure* which, because of intermodalism, also can serve a nation-wide market. Most of the investments in ports already are made by regional governments: port authorities, cities, counties and States. Recently, the States' share has been on the rise as was demonstrated in the decision by Florida's enterprising governor to invest heavily in his state's ports in attempt to "repatriate" his state's cargo presently handled by other states – as well as to capture the cargo of other states. Why should the Federal Government intervene in the evolving competition between the States of Florida, Georgia, South Carolina and California for handling Florida's cargo? How can one determine which States' ports are more "nationally beneficial"?

It is time to end the fiasco around our ports' channels. The Federal Government should transfer the economic responsibility for channel deepening and maintenance to regional port authorities, along with the right to collect user's fees (HMT included) to cover their channel cost -- as they already do with all other port-related infrastructure. Provided that it complies with environmental and safety regulations, Savannah should be allowed to deepen its channel to the depth it considers economical and necessary to compete with Charleston and other ports, without going through another 15 years of Federal approval ordeal.

It is time to liberate our ports and allow them to compete freely -- to the benefit of our nation.