



More scrutiny of corps' dredging funding formula needed

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Similar Ports, Different Channels

Charleston and Savannah are adjacent ports, serving similar ships and hinterlands and, therefore, highly competitive. Both were vying for deeper channels. After 15 years of relentless struggle, in 2012, the U.S. Army Corps of Engineers approved a 47-foot channel for the Port of Savannah; then, in 2014, the corps approved a 52-foot channel for the Port of Charleston, providing it with an important competitive advantage over Savannah. Strangely, the subsequent corps decisions to deepen adjacent ports handling the *same* ships to *different* depths were made by applying the *same* assessment methodology, based on national benefit/cost ratio.

The corps' channel assessment methodology is based on speculative and, in some areas, flawed assumptions, especially on the benefit side. First, the methodology requires developing a highly detailed, 50-year forecast of a port's traffic by trade lane, service pattern and vessel size in the notoriously volatile shipping market. Second, the forecast *disregards port competition*, resulting in an internal contradiction: deepening Charleston is likely to increase its market share, traffic and respective national benefits — and reduce Savannah's. Should Savannah's already-approved depth be reduced in line with the reduction in its benefits caused by Charleston's deepening?

The problem with the corps' methodology is the concept of ports' national benefits, which has long been rendered irrelevant in the intermodal age where ports compete nationally. Savannah competes not only with Charleston but with Norfolk, Virginia; New York; Prince Rupert, Canada; Seattle; Los Angeles; and New Orleans for handling Asian imports destined to the Midwest. Ports and their access channels are, in fact, regional, not national infrastructure. Hence, 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 (Harbor Maintenance Tax included) to cover their channel costs, as ports do with all other port-related infrastructure. Provided that they comply with environmental and safety regulations, ports should be allowed to deepen their channels to the depth they consider economical and

necessary to compete with other ports, without going through a lengthy and arduous process of federal approval and budgeting.

Advent of Port-Financed Channels

In the JOC 2015 Annual Review and Outlook I called for the *devolution of U.S. ports' channels*. It seems that my call was heeded, although unofficially. The pioneer in the de-facto devolution was Florida's enterprising governor. Using the argument of the pending expansion of the Panama Canal and the urgent need to handle post-Panamax ships to recapture Florida's cargo handled by out-of-state ports, he decided to accelerate the deepening of the Port of Miami's channel from 42 to 50 feet by forwarding the entire cost of it, including the federal share. Miami's competitors to the north, Savannah and Charleston, soon followed suit, forwarding their federal shares. These ports had no indication when or, perhaps, whether they will be reimbursed. They considered their investments in channel-deepening as critical to increasing, or protecting, their market share.

Partial-Loading and Tide-Riding

The Canal-expansion argument used by these ports to justify their investments in channel deepening is misleading, however. Post-Panamax ships have already been deployed on Asia-U.S. East Coast services via the Suez Canal for several years. To cope with draft limitations, these ships have been using a combination of partial-loading and tide-riding, a common worldwide practice. Evidently, shipping lines have determined that partially-loaded post-Panamax ships are more economical than fully-loaded Panamax ships.

The Next Round of Deepening

The current round of 50-foot channel-deepening projects is coming to end. Still, ships deployed on the Asia-U.S. East Coast services via the Suez Canal are likely to continue growing beyond the 13,500 twenty-foot-equivalent unit new-Panamax, reaching the 20,000-TEU range. Similar-size ships have recently been deployed on Asia-U.S. West Coast services, following their deployment on Asia-Europe services. To fully accommodate 20,000-TEU ships, the next round should involve channel deepening to 55, or better 60 feet, along with channel widening, bridge raising and extensive landside improvements, which will be exponentially more expensive than the current one — with no prospects for federal assistance. It is unlikely that U.S. ports will undertake the huge investments involved in the next round without such assistance. They do not need to; they are at no risk of losing market share. Facing constrained channels, shipping lines will have two options: (a) resorting to the present practice of partial-loading and tide-riding; and (b) modifying their service networks, substituting direct calls with feeder services by smaller ships. Which option will prevail? The option that shipping lines — not the corps — will determine more economical.

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