Moving right along

Ravenous marine terminals

BY THEODORE PRINCE

In "The Little Shop of Horrors," a seemingly benign flower grows into a monstrous, man-eating plant with an insatiable appetite. Have marine terminals in this country flowered into similar threats to shipping lines?

The factors that drove lines to build their own terminals no longer exist in today's industry. Liner shipping is characterized by extensive vertical integration. When containerization began in the late 1960s, lines were forced to invest in vessels and containers to provide basic service. Liner carriers were selling their own vessels, terminals and containers. Asset ownership was crucial to the customer.

Lately all this has changed. With the introduction of alliances, vessel sharing agreements and slot charter/exchange, asset ownership has become completely muddled. (For example, Steamship Line No. 1 is selling a service that will move on the vessel of Steamship Line No. 2 and through the terminal of Steamship Line No. 3.)

This does not concern today's customers, who care much more about economic and time-definite delivery. And the most important asset to customers is electronic data processing capability, which many lines and terminals are unable adequately to provide.

In the past, owned terminals were a source of "profit" for steamship lines. Not only would the owning line use its terminal, but lines without their own terminals would use the terminal as well, and pay exorbitant rates. Today, there is so much terminal capacity that it is not unusual for an outsider to pay less than the owning line. And often, the outsider will receive preferential berthing over the owning line.

Why would a line pay more — and receive less value — to use an asset that it owns? Most likely the line may not know. Terminals may go to great lengths to prevent the line from knowing the cost details. Pricing is even used by some terminals as a subterfuge. Whereas some terminals use an all-in rate, which is very easy to calculate and administer, other terminals charge for every single service — the ultimate a la carte menu.

Such an arrangement makes it difficult, if not impossible, to calculate expense and the transaction costs (the ultimate in value-wasted service) are immense. Terminals call these "premium operations" and insist they should command an even higher price.

Often, these financial transactions are so complicated that professional money launderers could learn a thing or two. Ports publish wharfage and dockage tariffs that terminals assess against the lines. Of course, much of this money is then rebated back to the terminal in the form of volume incentives. Terminal and port both maintain this charade to the lines. The terminals may even use the rebate to declare a dividend back to the owning line.

Today, terminals, like carriers, seek economies of scale. Larger facilities hope they will be able to overcome high fixed costs. Unfortunately, the industry is changing faster than terminals (and ports) can accommodate.

Mergers, alliances and larger vessel sizes postdate design and construction of mega-terminals. Even some recently opened terminals have been unable to handle startup volume, let alone the traffic growth envisioned. We are now at a point where the economic life of terminals may be shorter than their physical life.

By their nature, terminals are not fungible. They cannot easily be relocated, reallocated or modified. This has caused ports problems as they try to accommodate the growth ambitions of their tenants. At best, this is a time-consuming and expensive proposition. At worst, it is impossible. To date, ports have been providing services in a growing market. Should a line go bankrupt, merge or simply withdraw, the economics may be vastly different. Ports may be stranded with facilities customized for a departed line, financed by revenue bonds which have no revenue stream.

Perhaps it's time to change the port-terminal paradigm. Ports have a "lock and load" marketing strategy: lockup tenants in long-term contracts and load-up on foreign junkets. Landlord ports have resulted in dedicated terminals — more common in the United States than overseas. Judging from TEUs-per-acre-per-year, U.S. terminals are among the least productive terminals in the world. Often, terminals may sit without vessel activity for several days a week.

It may be time for common-user facilities to return to the United States. Larger terminals could be built to accommodate growth and technological change. With more lines involved, risk is more easily spread. Professional terminal operators could be used, and qualified managers could be engaged — rather than retired seamen who know very little about terminal operations, despite their title of "captain."

Railroads and airlines have outsourced their terminal operations, reducing cost up to 90% and improving service. Often improvement is significant in many areas: electronic data processing, customer service, operational efficiency and labor management.

Ports may even decide to operate the terminals themselves. Alternatively, there is an international business developing of companies, some of which are American, that operate terminals as their sole business. It's time to end the amateur hour. Let the professionals manage the terminals.

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