As ocean shipping changes, so too must ports

The recent growth of international trade represents a key change in the world’s economic system. This trade was facilitated by the development of containerization and intermodal transportation.

Transit times of 50-plus days from Hong Kong to New York a generation ago have been replaced by those of under 17 days. This two-thirds reduction has also been accompanied by a similar decrease in the expense charged to the customer.

Several factors play roles in these remarkable results. Among these are larger and faster vessels, improved vessel deployments and double-stack transportation.

Certainly the growth of marine terminals has also played a part. But as the industry changes, so must these terminals.

I always have been fascinated by the role that ports play in the commercial marketplace. Strictly in theory, they are a means to an end — they facilitate transit to and from the continental hinterlands. Still, many ports posture themselves as if they were ends in and of themselves. In today’s economic climate, this could be disastrous.

Industrial development in America exists on two levels. For the most part, the federal government avoids industrial policy decisions, although many of its decisions have certain industrial development implications.

For example, although the federal government avoids selecting winners and losers, a decision as to where to build a new interstate highway will do just that.

Alternatively, states and municipalities engage in industrial development all the time, and they are frequently in strict competition with each other.

The selection process of automobile assembly plants is a classic example. So is attracting the relocation of corporate headquarters. In the calculus of local politics, new jobs usually equate to votes or the incumbent.

In fierce local development battles, losing competitors will usually rationalize the loss by claiming that the winner “gave away the store” and “bought the business.” The winner, meanwhile, claims all kinds of benefits to the taxpayers in excess of whatever incentives were granted.

U.S. ports have entered into this type of selection process. In some ways, the process resembles that of professional sports teams seeking a new stadium or significant improvements to their existing ones.

(Ever since Bob Irsay of the Baltimore Colts backed up the moving vans and moved out of town in the middle of the night, teams have been able to leverage their mobility.)

State and local governments love professional teams and they will go to any extreme to attract or retain them. Usually a consultant is hired to prove the incentives granted the team are more than returned to the local economy. Usually, also, a number of studies refute the same findings.

Port issues are similar. Like sports teams, ports contribute to an international identity. This developed through international trade and with numerous foreign-trade missions and customer visits that ports provide. These are almost as desirable as a skybox to a winning local team.

But the shipping industry is changing. Massive consolidation will render many of today’s relationships obsolete. Lines are seeking to reduce expenses.

Even Hong Kong, one of the most successful ports in the world, finds itself criticized as too expensive by its customers and is routinely threatened with diversion to competing south China ports.

Canadian National President Paul Tellier has criticized the Port of Halifax as being too expensive to compete for Midwest intermodal cargo.

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Ports need to ensure that pursuit of business is governed by sound economic principles.

Ports today find that they have built facilities unnecessarily. Much like a city with a stadium and no team, they will aggressively woo a replacement. The incumbents will be negotiating from a different economic base.

The continued development of transshipment ports is an extension of the field-of-dreams mentality of “If you build it, they will come.”

Ironically, the traditional justification for huge investment in ports — economic development — may not be appropriate.

I once talked to a mayor who wanted to build an intermodal terminal in his city to support economic development. But if the goal was to attract industries, they would be seeking fast and cost-effective transportation. And this could be accomplished by more effective use of existing terminals than by building their own.

Once built, assets can be used against you. Having invested in facilities, you are compelled to use them — no matter how low the volume. (Virginia Ports International learned this lesson with its ill-fated inland terminal in Front Royal.)

International trade will continue to mandate adequate port capacity. But ports and their governing authorities need to ensure that pursuit of business is governed by sound economic principles.

Some ports do an excellent job being accountable to taxpayers. Other ports arrange to exempt themselves from the basic scrutiny of Freedom of Information inquiries. The public deserves to know what is allegedly being done for its benefit.

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