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Container ports since the 1980s have competed fiercely for market share, investing billions of dollars in terminals and port infrastructure to become load centers for their regions. About three years ago, the very shipping lines that U.S. ports were trying to attract, suddenly and without advance notice, flooded the ports with container vessels that are much larger than the terminals were designed to handle.

Now the load center ports on the West and East coasts are scrambling to rebuild their older facilities and build new terminals to accommodate vessels with capacities of 14,000 20-foot containers and larger. Equally as important, ports and terminals are installing new terminal operating systems and developing new processes to address port congestion, long truck lines and chassis shortages.

Stanley Payne, principal at Summit Strategic Partners and a former senior executive at the Virginia Port Authority and Canaveral Port Authority, told JOC.com readers in an August 2013 column, entitled "Port Wars: Past, Present and Future," that the big ships controlled by powerful carrier alliances changed the price of admission to the load center competition. Ports must have deep harbors, larger and stronger terminals, super-post-Panamax cranes and efficient operating systems — all of which will most likely have to be paid for with port-generated revenue.

"Ports focused so much on competition that they failed to get their houses in order," Payne said in an interview at the weekend. Los Angeles and Long Beach, which have been receiving regular calls by 13,000- to 14,000-TEU ships for three years now, focused on deep harbors and larger terminals. The Southern California ports have always charged compensatory rates, so they have the revenue to support these capital expenditures. However, because of latent inefficiencies in their operations that are now coming to light during cargo surges from mega-ships, the velocity in moving containers through the ports has hit what truckers and cargo interests believe is an all-time low.

Payne said the South Atlantic ports of Savannah and Charleston have the opposite problem. The landlord ports are widely regarded as the most efficient in the country, he said, but they are scrambling to deepen their harbors and expand their terminals to accommodate the big ships of almost 10,000-TEU capacity that carriers in 2013, again without notice, began operating through the Suez Canal to the East Coast.

The South Atlantic ports, like most on the East Coast, are also grappling with a financial model that was designed to attract container volume by offering the most competitive port charges in the nation because they viewed their primary function to be generators of good-paying jobs for their communities, with all of the economic multipliers that come with solid blue-collar jobs.

Curtis Foltz, executive director of the Georgia Ports Authority, said the Port of Savannah would obviously like to increase its revenue to invest billions of dollars in capital expenditures, but its shipping line tenants are closely watching their bottom lines and leveraging their container volumes to negotiate the best deals possible from carriers and carrier alliances. "They are running a business just like we are," Foltz said.

However, the port charges that contribute to the competition between Savannah and Charleston have created a difficult, if not untenable situation for the ports. Jim Newsome, president and CEO of the South Carolina Ports Authority, noted that the two ports over the next 30 years will invest $10 billion to deepen their harbors, rebuild existing terminals, build new container facilities and foster operational efficiencies such as extending gate hours beyond the normal 8 a.m.-5 p.m., Monday through Friday schedule.

Where is the money going to come from? "Competition within the South Atlantic gateway has led to a current contract rate structure which does not allow us to earn a proper return on capital," Newsome said. "Bottom line, we need to improve our returns to navigate the large level of investment required in port assets," he said.

The ports of Seattle and Tacoma, which over the years have competed with each other for market share just as aggressively as Savannah and Charleston have, face a similar need to rebuild their terminals to accommodate mega-ships. But unlike the South Atlantic ports, they have chosen to cooperate as a regional gateway.

Seattle and Tacoma have petitioned the U.S. Federal Maritime Commission for permission to form the Seaport Alliance, under which they will unify the planning, marketing and management of terminals and related functions. They intend to avoid undercutting each other on port charges. They will compete for market share not with each other, but as a regional gateway, against fierce competition from the California ports, the Canadian ports of Vancouver and Prince Rupert, and East Coast ports.

Payne is impressed. “I think what they did is remarkable,” he said. The Pacific Northwest ports will jointly plan marine terminal construction and reconstruction, cooperate with the state of Washington on inland infrastructure development that benefits the entire region, share information and work together to improve efficiencies so they are a gateway of choice for discretionary cargo.

Payne does not expect to see a similar level of cooperation from Savannah and Charleston, at least not now. Unlike Seattle and Tacoma, which have struggled the past two years with a steady and concerning loss of market share, Savannah and Charleston are flourishing. The Southeast is the fastest-growing economic region in the country, and trade will therefore continue to grow. The two ports have no sense of urgency to cooperate, and feel no threat of losing market share to any other region, he said.

Foltz said Savannah and Charleston each have their own markets that they have worked hard to secure. Each port has a well-thought-out capital expenditure program that earmarks billions of dollars to address their specific needs. Savannah in 2004 launched its 10-year, $800 million capex program, and every two years updates it in a rolling fashion for the ensuing 10 years, he said.

Charleston is investing $509 million to deepen its harbor to 52 feet and $400 million to expand Wando terminal. Charleston since 2009 has been constructing a container terminal at the former Charleston Navy base. The $650 million that Charleston must still spend on top of what has already been spent on the site will end up increasing the port’s container capacity by 50 percent, Newsome said. The port is considering the use of automation at the former Navy base.

Furthermore, both ports have worked hard to improve their efficiencies, including container lifts per-hour and flowing of containers through their facilities, Payne said, so they are addressing the important cost-reduction component of their business models to supplement revenue generation.

Newsome believes the proved efficiency of the South Atlantic ports will set the stage for addressing the revenue side of the equation. He noted that by charging per-transaction fees in the form of throughput charges, rather than straight lease charges, and constantly working to improve per-transaction efficiency, the ports can make a case for much-needed revenue enhancements palatable to the carriers.

“In this sense, the South Atlantic operating ports offer the best value for money in terms of low costs and highly effective operations,” he said.

Being operating ports, rather than landlord ports like those on the West Coast or like New York-New Jersey, gives Charleston and Savannah more control over their costs. For example, Foltz noted, Savannah is now working in one day vessels of almost 10,000-TEU capacity that generate 2,000 to 3,000 container moves per vessel call. That requires working the ships with four or five cranes for the equivalent of three consecutive eight-hour shifts, he said. Rapid vessel turn times in port are crucial if carriers are to maintain schedule integrity.

Los Angeles and Long Beach are struggling with that issue. With vessels of 10,000- to

14,000-TEU capacity generating 5,000 to as many as 10,000 container moves per vessel call, the Southern California ports are attempting to turn the ships in 2 ½ to three days, but it often takes longer, especially with the congestion issue the ports are experiencing.

Payne, while recognizing the unique conditions Los Angeles and Long Beach face, including some vessel operators that are doing 100 percent discharge and reload and then sending their ships directly back to Asia, said the Southern California ports have been dealing with big ships for five years now, so they should have been prepared for the cargo surges generated by the mega-ships.

West Coast ports face a challenge in working round-the-clock from the International Longshore and Warehouse Union contract that calls for a five-hour “hoot” shift from 3 a.m. to 8 a.m. The shift, which comes with premium pay, is quite costly and often attracts less-experienced casual workers, is generally avoided by terminal operators unless they absolutely have to run a hoot gate to relieve port congestion.

Each U.S. load center faces its own challenges as it transitions to the new era of big ships and powerful carrier alliances whose stated goal is cost-reduction, Payne said. The Virginia ports have chosen the unification route, beginning in the 1980s when the Virginia Port Authority unified the operations of three terminals under Virginia International Terminals. The modern, semi-automated terminal at Portsmouth has since been brought under VIT.

Oakland, a landlord port, has worked with its terminal operators to foster a degree of unification. Last summer, SSA Marine took over the operation of the adjacent terminals operated by TTI and APL, combining three small, inefficient, money-losing facilities into one 350-acre rectangular container terminal. Seattle and Tacoma intend to foster similar unification of adjacent terminals where it makes sense.

Closer cooperation also appears to be in the works for Savannah and Charleston as well. Both ports acknowledge the region will need additional port capacity in 15 to 20 years, given projected trade growth in the Southeast, and their respective states intend to build a modern container terminal from scratch in Jasper County. Both states must cooperate because the site is owned by Georgia but is located in South Carolina on the Savannah River. Foltz said that given the long lead times inherent in terminal development projects, planning and development efforts must move forward sooner rather than later.

Newsome believes the cooperation should extend to broader infrastructure issues as well, such as truck weight limits and more extensive use of short-haul rail to address the looming shortage of truck capacity.

Competition on port charges must also be addressed, he said. An existing entity known as the South Atlantic and Caribbean Ports Association has a marine terminal component that allows terminals to discuss rates, but that provision is never used. Newsome said it is time for the competing ports to consider a mechanism that is more direct and focused.

“We certainly think that it makes sense for the ports in this region to explore what can legally be done to assure rate levels to justify this magnitude of investment in the world of mega-alliances,” Newsome said. “There will now be four major alliances, and their common and dominant thesis is cost reduction,” he said.

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