



How competition is driving change in port governance, strategic decision-making, and government policy in the United States

Project Number: 1.1f

Year:2016

Researcher: Geraldine Knatz

Abstract

This research examines changes in port governance, strategic decision making and government policy in the United States during the period from 2007 through 2016. The objective was to determine how increased competition from the consolidation of the ocean carrier industry, a slower forecast for U.S. container trade growth, port congestion on the U.S. West Coast and the potential for shifting trading lanes from an expanded Panama Canal were driving changes in the U.S. port industry. Recognizing the competitive threats, the U.S. government responded through increased funding, greater agency engagement, modest reform of the harbor maintenance tax and legislation regarding the establishment and reporting of port performance metrics. State governments invested and took steps to position their ports to withstand increased competition. At the local level, ports responded through strategic collaborations and by shifting from traditional landlord roles to supply chain participants. The West Coast Ports exhibit greater efforts at strategic collaboration than the East Coast Ports that are actively competing for cargo through an expanded Panama Canal. The potential of over-investment, stranded assets or market share losses could drive more ports to consider regional collaboration, governance changes or creative leasing strategies to facilitate terminal collaboration to enhance their market power.

The Evolving Federal Role

Over the past decade, the U.S. federal government recognized the need to increase funding for seaports and expedite projects. These efforts reflected the growing awareness by key federal agency representatives and elected officials of the expansion of the Panama Canal and its potential impact on the U.S. port system. New funding programs were established allowing ports to be direct applicants. Several key federal agencies increased their engagement in port matters after recognizing the need to improve the efficiency and resiliency of the supply chain. Port congestion on the U.S. West Coast in 2014 and 2015 resulted in the federal government and the U.S. Congress focusing attention on its seaports and addressing funding and policy issues through federal legislation. The resulting policy and funding initiatives broaden the federal role in seaport matters.

Regionalization, Self- regulation and Changing Roles: Strategies to Protect Market Share

During periods of high growth rates, particularly in the 1990's and early 2000's, seaports in a particular region would collaborate to seek federal government investments in common hinterland infrastructure. The economic recession of 2007-2009 and its aftermath created new reasons for ports to collaborate.

When a port administration realizes its customers' market power exceeds its own, an environment is created that allows discussions between port leadership of topics that might have been unimaginable in the past. The merger of cargo operations in Seattle and Tacoma is the most dramatic governance change in the U.S. port industry in decades and the process used to implement the merger is examined in this study. The factors that triggered these two port cities to discuss governance alterations were the growing power of the ocean carrier alliances, the decreasing negotiating ability of the seaports and the divesting of the terminal operations by the ocean carriers making it difficult to commit cargo volumes long enough to realize a return on infrastructure investment.

Public port authorities in the United States are first and foremost administrators. Their strength is twofold: 1) their ability to facilitate solutions and provide tools that can be used by their supply chain customers; and, 2) their regulatory authority as imposed by their tariff and conditions imposed through leases. U.S. Ports are also undertaking activities that have not commonly been done by landlord ports. For example, the landlord Ports of Los Angeles and Long Beach have often acted as facilitators to resolve issues among their customers and stakeholders. However, in several cases, these ports have directly influenced their customer's behavior and business by using the regulatory authority of their tariffs. It was a "self-regulation" strategy, initially put in place to overcome the seaports' inability to pursue development projects necessary for future growth, but currently focused on supply chain optimization to improve performance and competitiveness.

Port Governance Struggles at the Local Level

The lack of historical changes in U.S. port governance was viewed by Fawcett (2007) as a sign of continued support for a system that works. However, governance structures that have been in place for as long as a century do not necessarily serve the future industry dynamics. Nor may they recognize how a port authority's role in the marketplace may have changed.

A number of governance evaluations at both large and small seaports have occurred this past decade, but few changes resulted. Several cases examined are the realignment of the North Carolina seaports within its state government, the evaluation of the governance structure at the Port of Houston to impose greater state control and accountability, and a proposal to reform governance and address mission creep at the Port of New York/New Jersey. When seaports are growing and free of controversy, there is little call to reform governance. Several factors appear to be triggers for governance debates. These are: 1) loss of cargo volumes or market share; 2) predatory pricing practices to induce a customer to shift cargo from one port to another within the same region; 3) concern over duplication of investment or facilities to attract the same business; or, 4) management issues that raise accountability or transparency concerns. Three of these factors (loss or market share, predatory pricing, and duplication of investment) factored into the governance change at the ports of Seattle and Tacoma.

Competitive forces will continue to drive more change. In the U.S., the static governance of the previous decades is likely to be replaced by continually evolving strategies to address market dynamics. Recent trends would appear to support increasing involvement by state and federal government in port matters as well. The outlook for the future is a continued trend toward greater integration among seaports and their terminal operators to increase market power and improve competitiveness.