





UNLOCKING THE LOCKS

OPENING THE PANAMA CANAL TO TEXAS

By J. C. F. Schiller

AS JEFF MOSELEY SEES IT, THE WIDENING OF THE PANAMA CANAL IS A "GAME CHANGER" FOR TEXAS BUSINESSES AND THE LONE STAR STATE'S ECONOMY.

"The reason we're very enthusiastic about this new super cargo shipping lane is it will allow for much larger cargo vessels to come nonstop from the ports of Shanghai, Hong Kong, Singapore, and Taiwan," says Moseley, president and chief executive officer of the Greater Houston Partnership, which represents more than 2,100 businesses. "It literally will allow Houston to serve the mid continental United States—approximately 100 million Americans that call between the Rockies and the Ohio Valley their home. It's a huge game changer."

Slated for completion in 2014, the \$5.25 billion expansion project will double the waterway's capacity and allow more shipping traffic. The project, which broke ground in 2007, includes the construction of a new set of locks that will allow the transit of longer and wider ships along the canal, one of the world's principal logistics and transportation hubs. In recent decades the canal has gained even greater significance, as a significant portion of the world's production has moved to Asia. →



Port of Houston Authority Chairman James Edmonds and Panama Canal Authority Administrator Alberto Aleman Zubieta shake hands after signing a memorandum of understanding between the two organizations during a ceremony in June.

Currently, the canal serves more than 144 different transportation routes from nearly every corner of the globe, connecting major trade arteries worldwide. Business leaders are excited about the project because much of the United States' economy and history has been shaped by its ports. Ships help move billions of tons of cargo from all parts of the globe, lowering the cost of goods and

services and raising standards of living.

As the waterway approaches capacity, the expanded canal will improve the flow of international commerce. The anticipated increase in containerized cargo going to Houston alone could grow by 15 percent in the next few years, with a projected 150 percent increase to a total of 4.5 million TEUs (20-foot equivalent units) by 2030.

AN AUSPICIOUS ALLIANCE

"We look forward to the increased trade expected from the canal's expansion, jobs creation and enhanced economic development in the region as we move toward another century of progress," Port Commission Chairman James T. Edmonds said recently during a ceremony in Panama City.

The Panama Canal Authority and the Port of Houston Authority renewed their alliance during the ceremony. The partnership aims to boost trade between Asia and the U.S. Gulf Coast via the Panama Canal and the Port of Houston.

"As we forge ahead with the expansion of the Panama Canal, we are committed to strengthening our partnerships with ports in the United States," Panama Canal Authority Administrator and Chief Executive Officer Alberto Aleman Zubieta said at the ceremony. "The expansion will benefit ports along the East and Gulf Coasts of the U.S."

The project is expected to boost the Texas economy. The state is already adding jobs faster than any of the nation's other 10 largest states. As the country's No. 1 exporting state, Texas will enjoy even further trade increases as a result of the canal widening.

"This just gives more momentum for growing jobs through exports and international free trade," Moseley says. "So it's going to be a great shot in the arm for Texas. Texas' population of 25 million people is expected to double over the next 30 years, to 50 million. So the timing of the Panama Canal project, along with improvements at the Port of Houston, couldn't come at a better time, frankly."

Barton Smith, a professor emeritus of economics at the University of Houston, says the project will boost Texas exports, including refined fuels and plastics. "Everybody

is excited about the prospect of the widening of the Panama Canal and what it will mean for the Port of Houston,” Smith says.

“This portends good things for Houston and the gulf ports of Texas. The Port of Houston is a much more protected waterway than the port in New Orleans, and whether New Orleans ever regains its complete glory again is a big question mark.”

A GATEWAY TO ASIA

The widening of the Panama Canal will allow Asian nations to more quickly transport their goods to the Midwest and East Coast. The project comes as the shipping industry undergoes profound changes that are transforming the way goods are transported globally.

Container ships are getting bigger, while rising fuel costs are forcing vessel operators to “slow steam” in order to conserve fuel. Railroad companies are modernizing their facilities

to meet the demand and compete more efficiently, and trucking companies are cleaning up their fleets to meet environmental standards.

Currently, Asian markets ship most of their goods to the California ports in Los Angeles and Long Beach. Those products are then transported across the nation by rail or truck.

“It will give the Asian markets an option to immediately get their goods transported more eastward in the U.S., as opposed to landing in California where they are constantly having problems with labor unions and so forth,” Smith says. “There is great dissatisfaction with the California ports. If you have goods to ship to the Midwest, Houston becomes a natural site for a lot of that new growth of exports to come through the Panama Canal.”

Since opening in 1914, the canal has been hugely successful in linking ship traffic between the Pacific and Atlantic oceans. Panama took over responsibility of the canal from the U.S.

in 1999. The widening project is the largest since the canal’s opening. The man-made canal is about 50 miles long and is comprised of a system of artificial lakes, channels and locks. In a given year, more than 14,000 ships pass through the canal, carrying more than 275 million tons of cargo. About 70 percent of the canal’s \$100 billion containerized cargo is either destined to or coming from the United States.

EASING CONGESTION ON THE COAST

In recent years, amid increased globalization and congestion at West Coast ports, ship traffic along the waterway has grown significantly. As a result, the canal has gained a sizeable share of container traffic headed for the East Coast. During the busiest season, it’s not uncommon for ships to wait as long as 10 days before going through the canal. Shippers can pay as much as \$50,000 a day sitting idle, resulting in a complex bidding system in terms of what ships



get to go first. For instance, in 2006, a British oil tanker paid \$220,000 to jump ahead of 83 other ships.

Many of today's cargo ships are too big for the canal. To address this problem, the canal widening project began in 2007. The project is funded

through a sophisticated toll system as well as foreign credit. It involves construction of two lock complexes – one on the Atlantic side and another on the Pacific side. Each has three chambers and three water-saving basins. Workers are also building new access

channels to the locks and widening the existing navigational channels.

Currently, the maximum-size ship that is able to use the canal is known as a "Panamax" vessel. It was designed to fit the chambers of the canal, which are 965 feet long and 106 feet wide. Once the widening is completed, a larger class of vessel known as a "Post-Panamax" ship will be able to safely move through the canal. These vessels comprise an ever-growing share of the world's shipping fleet. "Post-Panamax" ships generally carry about 5,000 to 8,000 containers and have widths of 14 to 20 containers. Some "Super-Post-Panamax" ships carry more than 9,000 containers.

"Since 1996, the largest class of vessels in the world fleet known as 'Post-Panamax' ships couldn't fit through the canal," explains Kevin Knight, an economist at the U.S. Army Corps of Engineers' Institute for Water Resources. "So, as a consequence, many shippers bypassed the Panama Canal entirely and brought containerized cargo from Asia to the West Coast ports such as Long Beach and Los Angeles, both of which provide unconstrained channel depths and can easily accommodate such vessels. Then, the cargo is often loaded onto trucks and trains and delivered to Texas and other states."

CONNECTING THE SHIP CHANNEL

In response to the canal widening project, many U.S. ports are seeking funds for or undergoing channel and other improvements. Currently,

A large delegation from the Greater Houston Partnership and Port of Houston standing in front of the Miraflores Locks along the Panama Canal during their June 2011 visit to Panama.

\$5.6 billion in channel improvement projects are underway. Some projects call for depths in excess of 50 feet. This includes the Houston-Galveston Channels, Texas City Channel, and others along the Gulf Coast.

The Port of Houston, a 25-mile-long complex, is already ranked first in the U.S. in foreign waterborne tonnage, first in U.S. imports, and second in U.S. export tonnage. The port is made up of the Port of Houston Authority plus more than 150 private industrial companies along the Houston Ship Channel. More than 220 million tons of cargo moved through the port in 2009.

The port has been instrumental in making Houston an international trade center. About 100 steamship lines offer service linking Houston with 1,053 ports in 203 countries. It is also home to a \$15 billion petrochemical complex, the largest in the nation and second-largest worldwide.

In 1996, President Clinton signed into law the Water Resources Development Act – paving the way for a widening and deepening of the Houston Ship Channel. The project to deepen the channel from 40 to 45 feet and widen it from 400 to 530 feet was completed in 2005.

The project has enhanced Houston's competitiveness, lowering transportation costs and permitting ships to use their capacity more fully. The project has also helped the port retain its major position internationally, ensuring more trade, more cargo, more jobs, and more economic benefits to the Houston area. A 2007 study by Martin Associates found that Ship Channel-related businesses contribute to more than 785,000 jobs throughout Texas and generate nearly \$118 billion in economic activity.

“With the Panama Canal expansion project scheduled for completion in [2014], the rules of the game

have changed,” says Ricky Kunz, Vice President of Origination at the Houston Port Authority. “U.S. ports are competing intensely to increase their shares of the Asian market. As the largest U.S. port for foreign waterborne tonnage and the seventh-largest container port in North America, it's clear that Houston is rapidly growing.”

The combination of the Houston

Ship Channel and the Panama Canal widening projects will have a number of positive economic benefits in Texas and the nation, reducing the overall price of goods.

“It certainly will be a boon for Texas,” Knight says. “It will essentially provide a closer link between Asian and Texan markets. Trade with China has grown considerably over the last 20 years, and it's expected to grow



“While exports dipped slightly in May, exports have been growing at a strong pace overall in the first five months of [this year], up 16.4 percent compared to the same period last year...”

even further. The savings in shipping costs that is brought about by larger vessels is quite significant, and would not have been realized without the canal’s expansion.”

A WESTERN HEMISPHERE PARTNERSHIP

It’s not just Texas, though, that will reap the benefits of a larger canal.

“Many other ports on the East Coast are likely to receive a greater

share of traffic, and are gearing up for this by purchasing additional lands and by implementing deepening projects of their own,” Knight says.

Officials at the Port of Long Beach and the Port of Los Angeles, the nation’s largest container port, have expressed concern that the canal widening project could potentially divert cargo away from the West Coast and toward Gulf Coast and East Coast ports.

Long Beach port officials concede that the Panama Canal project will be a “game changer,” but feel the change will happen gradually. Along with other West Coast ports, they expect trade with Latin America to increase in the years ahead, lessening the blow from the loss of Asian cargo. Latin America’s economic growth remains “robust” after last year’s 6 percent growth rate, with another 4.5 percent expected this year, according to the International Monetary Fund.

“Latin America is an emerging trade partner for the City of Long Beach and the greater region,” says Long Beach Harbor Commissioner Thomas Fields, “and we feel the Port of Long Beach can help that potential be realized. Latin America has experienced impressive economic growth, and it’s important to build relationships not only in Asia, but also in Latin America.”

In late 2010, the Port of Long Beach and the Panama Canal Authority agreed to a series of efforts to promote more trade between countries along the east coast of South America and the Caribbean via the Panama Canal.

Despite these concerns, Knight predicts that the economic fallout will not be as significant as some fear. “I think the growth would be somewhat tempered by the canal’s expansion, but keep in mind Southern California already has a huge consumer base of over 23 million, not to mention a well-oiled network of roads and rail.”

The Panama Canal widening project will also have a positive economic impact on the Dallas area. Many of the goods shipped to the Dallas-Ft. Worth area come from cargo unloaded in Los Angeles and Long Beach. “If Houston gets a lot more cargo, they can quickly bring it to Dallas in a matter of hours,” Knight says.

The canal project comes amid efforts to increase U.S. exports. In July, the American Association of Port Authorities, which represents 160 of the leading seaport authorities in the U.S., Canada, Latin America, and the Caribbean, together with the U.S. Department of Commerce’s International Trade Administration,

signed an agreement implementing the “Partnership with America’s Seaports to Further the National Export Initiative.” The agreement supports President Obama’s goal of doubling exports.

Under the agreement, the ITA and AAPA will coordinate communications, exchange ideas, activities, and services to help U.S. businesses in exporting and will increase awareness of the available services, trade missions, programs, and overseas events that involve U.S. export opportunities. More than a quarter of U.S. GDP and 13 million jobs are accounted for by international trade.

“AAPA and the Department of Commerce share a strong interest and commitment to increasing trading opportunities for U.S. products abroad,” says Kurt Nagle, AAPA president and chief executive officer. “We believe a collaborative approach between [the Department of Commerce] and America’s seaports is the best way to ensure the success of this important national initiative.”

MORE TRADE, MORE JOBS

U.S. Commerce Secretary Gary Locke says U.S. export of goods and services in May decreased slightly to \$175 billion, with record monthly exports of services valued at \$50 billion.

“While exports dipped slightly in May, exports have been growing at a strong pace overall in the first five months of [this year], up 16.4 percent compared to the same period last year,” Locke says. “As we move closer to reaching the President’s goal of doubling exports by 2015, the Obama administration will continue to help businesses reach the 95 percent of consumers who live outside our borders.”

Data released in July shows employment supported by manufactured exports plays a significant role in many states, including 538,500 jobs in Texas.

“As we continue to make progress in reaching the goals of the President’s National Export Initiative, we are confident that the number of jobs supported by exports will continue to rise,” says Francisco Sanchez, Undersecretary of Commerce for International

Trade in the U.S. Department of Commerce. “More businesses are reaching customers in foreign markets and seeing their sales rise, which leads to more good-paying jobs in the United States.”

At the Greater Houston Partnership, Jeff Moseley believes our region is ready for the increased trade and jobs that the widening of the Panama Canal will generate.

“The Port of Houston is already

performing at top levels,” Moseley says. “The port has been very innovative in its cooperation with the Panama Canal Authority for more than a decade. The port is right where it needs to be. As the super-cargo container lanes open, the port is really just ready to immediately receive these vessels.” **N**

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