

Houston's Future Arrives Early

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Inbound retail supply chains are changing the direction of growth at the Gulf's largest container port

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The Port of Houston doesn't have to wait for the opening of the Panama Canal's larger locks in 2014 for the arrival of bigger post-Panamax ships. The port already is handling vessels capable of carrying 8,100 20-foot equivalent container units and expects to see even bigger ships soon.

Mediterranean Shipping added three of the vessels to its seven-ship string from North Europe to the Gulf this spring. Each of these ships is loading or unloading 3,000 TEUs at a time at the port. And Houston Pilots, the association charged with safety in the port's waterways, is evaluating a proposal by another carrier to call at the port with ships of 9,000 TEUs.

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The arrival of the behemoths is turbocharging the port's growth, especially on the export leg, which accounts for about two-thirds of Houston's total container volume.

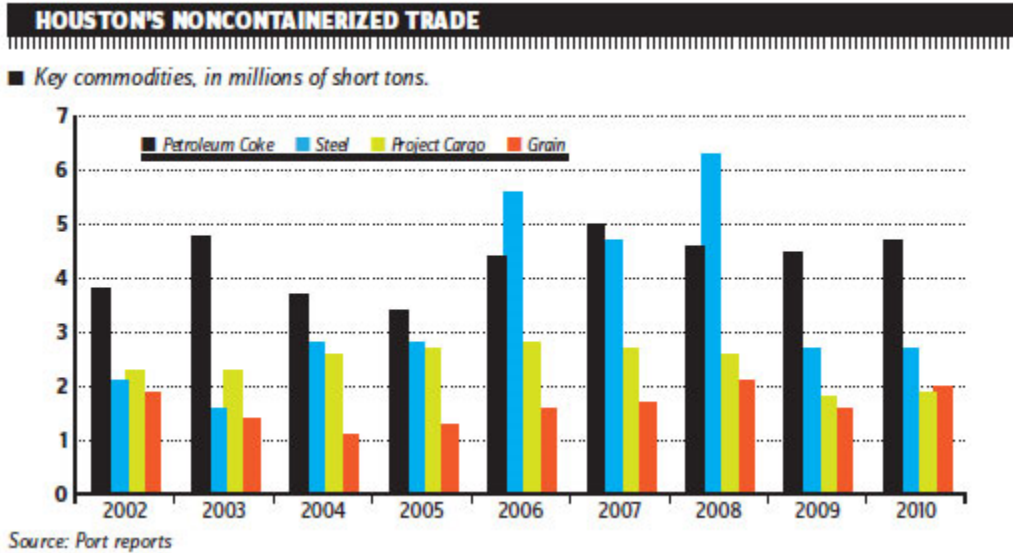
"They come in lightly loaded at 31 feet of draft. When they sail out, they are loaded right up to our 40-foot maximum draft with resins and products from our petrochemical industry," said Alec Dreyer, executive director of the Port of Houston Authority. "We didn't expect to see ships this size until after 2014, but we're already seeing it, so the canal's expansion will be just a kicker to the growth we're already seeing in Houston."

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But import container volume growth actually outpaced export expansion in the first four months of the year, belying the port's reputation for outbound business. The volume of fully loaded import containers increased 13.1 percent through April, while export container volume increased 7.4 percent. It's a sign of what Houston officials say is a changing economy in the sprawling Houston metropolitan area and deeper shifts in supply chains running through North America.

The big draw is the 4 million-square-foot 6-year-old Wal-Mart distribution center in Bayport, near the port, an anchor for what port officials say is becoming a strong base of inbound distribution.

“The economic base here in Houston is driving a tremendous amount of this growth,” Dreyer said. “In addition, retailers are expanding their existing distribution centers, and we expect others. They are bringing more product by all-water through the area. That’s the underpinning of what we’re seeing pre-expansion.”



Container volume growth exploded at a double-digit rate in March and in April compared to a year earlier. Through April, Houston handled some 470,000 fully loaded import and export containers, up 10.9 percent over the same period last year. Dreyer doesn’t expect the port to maintain that growth rate all year, but the port still is projecting total throughput of 2 million TEUs this year, compared with slightly more than 1.8 million in 2010.

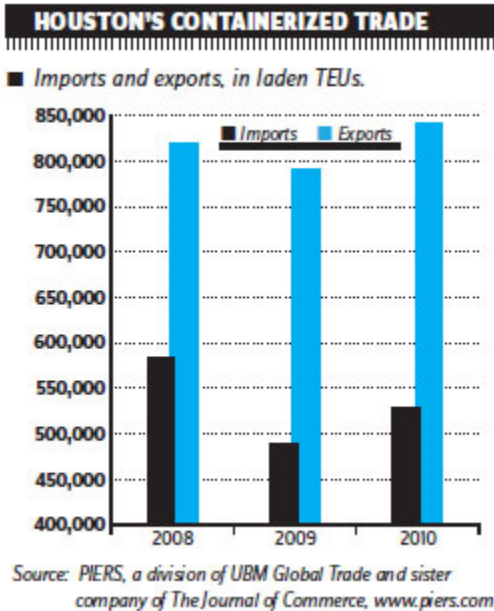
But a shadow hanging over the Port of Houston is the local reporting into alleged conflicts of interest against Dreyer and Port of Houston Authority Chairman James T. Edmonds. Dreyer is being accused in media reports of using the port authority’s tour boat for a private function. Edmonds is said to have a conflict of interest because of his consulting relationship with AECOM, an engineering consultant that does business with the port.

Edmonds has ended the AECOM relationship. Both men dispute the allegations. “The important thing to remember is that the chairman and I asked for this investigation by the Harris County District Attorney’s office,” Dreyer said. “We’ve said, come in here and take a look at what we’re doing.”

He said the allegations are politically motivated by some port authority commissioners who are political appointees and object to the change in the way Dreyer conducts business at the port. “We’re developing a lot of things differently from the way things were done in the past,” he said. “We’re taking a very business-oriented approach.”

One thing Dreyer is doing differently is to build an in-house economic forecasting capability to better prepare the port for future growth and supply chain trends. The authority hired Atrayee Bhattacharjee, an economist who was director of market analysis for Reliant Energy. As head of the port’s Office of Economic Analysis, she is developing forecasts for the port’s steel business, which already is the largest in the country, and container business. She also is providing input to the “beige book” compiled by the Federal Reserve Bank of Dallas on economic activity in its region.

Forecasts of the port's key commodities by Dr. B, as she is known, are critical to the strategic plan, which is being updated. "We have two reasons why this growth is happening," Dreyer said. "First is the expansion of the canal, I'll grant you that. But more importantly is the demographic growth of the Texas Triangle."



In addition to Houston, that region includes San Antonio, Dallas, Austin and Fort Worth. Houston's population alone is expected to double in the next 20 years to 12 million, and some project it will surpass Chicago in the next three or four years as the country's third-largest city.

To prepare for this growth, Houston is working on a \$1.75 billion plan to expand its container capacity along three separate tracks. First, it will build out the remaining half of the planned Bayport container port over the next six to eight years. Bayport now has annual container capacity of 1.1 million to 1.2 million TEUs. The original design for the completed projects was 2.4 million TEUs, but Dreyer said it would be greater.

"From what we've learned about densification, longer term we hope to get 3 million TEUs through Bayport," he said.

The next step at Bayport is building a permanent gating system that would include an overpass and underpass road. The port is working on flyover entrances into Bayport so trucks will be able to come right off Interstate 146 into a two-mile, four-lane access road that will eventually have six lanes leading right into the new gates. Those gates will have optical scanning equipment to log trucks in and out.

"They'll swoop under the road so that there is never a left turn," Dreyer said.

The second step is refurbishment of the 40-year-old Barbours Cut Container Terminal. The facility was originally designed to handle 1 million TEUs, but has handled 1.8 million TEUs at its peak. "We think ships will be 8,500 TEUs going forward, so we've got to upgrade the wharves so they can take bigger cranes," Dreyer said. Four of Barbours Cut's ship-to-shore cranes can handle 16 containers across, while the newest three of Bayport's cranes can handle rows of containers that are 22 wide.

At Barbours Cut, the wharves are 50 feet wide to handle the rail system, while at Bayport they are 100 feet wide. To accommodate newer, heavier cranes with greater reach at Barbours Cut, the port plans to buttress the wharves with additional steel supports and widen the crane rail system.

The third part of the port's container expansion plan involves deepening the channels into Barbours Cut and Bayport, which are permitted for ships with drafts of 40 feet, even though the Houston Ship Channel is permitted to 45 feet. At Barbours Cut, the Army Corps of Engineers already has deepened the channel to more than 50 feet, but the berths have to be dredged deeper.

The bigger issue for Barbours Cut is to widen the channel and cut the bank of Stillman Island, a disposal site for dredged material.

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The inlet channel into Bayport is twice as long as Barbour's but is only 40 feet deep. It has sufficient width to accommodate post-Panamax ships. The port plans to spend \$125 million to deepen the channel in time for the opening of the Panama Canal's third set of locks in 2014. "Everything will be 45 feet coming in," Dreyer said. "That will give the liner companies the depth they need."

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