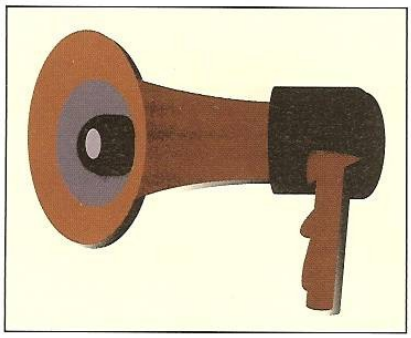
OPINION

Sounding off



Dr Asaf Ashar takes up the debate about whether US East Coast ports are better served by an all-water service via the Panama or Suez canal.

In 'Take Your Pick', published in *CI* January 2007 (pp46-49), a comparison was made between liner services routed to the US East Coast (USEC) via the Panama and Suez canals. Many interesting issues were highlighted, several of which I have to take exception to, and which lack clarity.

First, the cost front. The comparisons illustrated were largely based on a recent research report published by the UK maritime analysts Drewry Shipping Consultants. In table 2 of the article, the author took differences in distance, time and the number of ships needed to provide service all the way to ports in North East Asia. This is a most unlikely scenario for a Suez Canal service.

Hence, a more realistic comparison should focus on a shorter and more likely route, such as Hong Kong-New York/New Jersey, the distance between these two ports being about 11,200 nautical miles via the Panama Canal, and 11,700 miles via the Suez Canal and Mediterranean route. This represents a difference of just 4% (500 miles), which is the equivalent of just one day's sailing.

And, based on my research of the daily production cost of ships (see my article 'Revolution #4', *CI* December 2006, pp46-49) – ranging from about USD27/FEU-day, in the case of a 4,500TEU panamax vessel, to USD22/FEU-day for a 12,500TEU new panamax (NPX) unit – the cost difference between the two service routeings would be only about USD25/FEU. Of course, this assumes that Panama Canal tolls are – eventually, at least – going to match those of the Suez.

Consequently, the difference between service offerings via the Panama and Suez canals for a Hong Kong-New York/New Jersey link is insignificant, both in terms of cost and transit time.

There are also additional revenue-generating opportunities. Take, for example, many of the Asia/Europe services, which follow a similar route as the proposed Suez all-water USEC string. These successfully include intermediate wayport calls, and allow ocean carriers the opportunity to generate additional revenue by offering services for portions of the route.

A future Hong Kong-New York/New Jersey string could therefore also follow this double-dipping practice. Three partial trips come to mind:

- Hong Kong-Mumbai
- Mumbai-Port Said
- Port Said-New York/New Jersey.

But there are many more options that could be exploited.

In contrast, a Hong Kong-New York/New Jersey string via the Panama Canal offers only limited possibilities for double-dipping, the opportunities being confined to a few ports in the Caribbean/Central America basin.

Therefore, from an ocean carrier's revenue perspective, a Suez-routed service has a clear advantage over a Panama Canal option.

However, concepts such as wayport calling and double-dipping can add significantly to a voyage's costs, as a ship requires additional time to cover the route. Meanwhile, marine distances are often extended considerably, owing to the deviations needed to call at the extra ports. In addition, port costs and cargo-handling charges for the trip are much higher.

Furthermore, transit time on the all-important and primary Hong Kong-New York/New Jersey service sector is extended, and the level of service is, arguably, degraded. Potentially, this could mean a substantial loss in revenue.

In research I conducted in studying the Panama Canal expansion programme, I discovered that the value of transit time, as measured by the premium per day saved (PDS), averaged USD75/FEU per day. In the case of a Suez Canal-routed service, this could mean a loss of revenue, if the longer transit time exceeds the extra ship cost.

Furthermore, the potential revenue from offering sub-trips is not guaranteed, and it is highly likely that such partial services might already be being provided by existing Asia/Europe and South Asia/Middle East/ Mediterranean/USEC services. Therefore, it seems that for an ocean carrier and or operating alliance with a well-developed and integrated liner network, the most promising option, when it comes to a Hong Kong-New York/New Jersey service string, is for it to be direct, and with no wayport.

Indeed, perhaps the best option of all would be for the operation to involve only one port call at each end of the trade, thereby offering a fast and uninterrupted shuttle service between the two.

To enhance the service's distinctiveness, an ocean carrier might also consider basing such an operation on the use of mid-sized ships of 2,800TEU, but with considerably faster service speeds so that only six units (rather than eight/nine) vessels would be needed.

This would lower the capital costs of launching such a service and compensate, to some extent at least, for the significantly higher operating costs associated with vessels' increased fuel consumption.

More importantly, the direct route and high speed would result in a considerably shorter transit time of 19 days, which would be highly competitive with existing intermodal Asian services to the USEC via Los Angeles/Long Beach.

It should be noted that the emergence of such a novel service concept is fully in line with the specialisation trends elaborated upon in the above-mentioned 'Revolution #4' article.

In conclusion, although appearing straightforward, the comparison between Panama and Suez all-water service routeings is quite complex.

First, it requires the identification of alternative service patterns. And, second, each needs a thorough examination of the trade-offs between production costs and potential revenues. Of course, this has to include the impact that such an operation would have on any carrier's entire service network, too.

Dr Asaf Ashar is Professor-Research with the National Ports & Waterways Institute, a programme of The University of New Orleans, US. Previously, he served in planning, research and operating capacities with the Port of Seattle, Washington, and with the Israeli Port Authority. Ashar has more than 30 years' experience with ports, shipping and multimodal transport systems. Among others, he was team leader in the study of the Panama Canal's expansion for the containerised segment.