PAYING FOR BENEFITS

THE DEPARTURE OF Rep. Jim Oberstar, D-Minn., from his powerful role as chairman of the House Committee on Transportation and Infrastructure could mark a turning point in federal infrastructure financing.

Over his 36-year term of service, Oberstar won funding estimated to be in "the tens of billions of dollars," as reported in The Washington Post on Dec. 18. As a result of his ouster, "hopes are dim for the highway bill and other transportation programs as Republicans seep into the House (and) sweep out Oberstar" (The Journal of Commerce, Nov. 8, 2010).

Oberstar's departure from the House should herald a new era in financing transportation infrastructure in which the federal government has a limited role, shifting responsibility to local governments and the private sector. This also should apply to port access channels. With the pending expansion of the Panama Canal, many U.S. ports strive to deepen their channels to accommodate post-Panamax ships of the latest generation.

Currently, financing channel deepening is based on a formula mostly covered by the federal government. To justify the federal investment, the Army Corps of Engineers conducts lengthy and complex studies in which the benefit-cost ratio of each marginal foot of channel depth is assessed separately. The recommended depth is where the ratio becomes smaller than one, or when costs exceed benefits. The benefits are attributed primarily to savings in national transportation costs, because deeper channels allow larger and more economical ships to serve U.S. foreign trades.

But there's an inherent problem with the methodology for assessing channel projects. The multiport nature of modern liner services makes the pinpointing of national benefits generated by an individual port's channel intractable.

Let's take the case of Savannah, Ga. Savannah and Charleston, S.C., are about 100 miles apart and, for any practical purpose, have overlapping hinterlands. Shipping services call at one port or the other, but not at both. Naturally, these ports are close competitors. Charleston's channel is already 48 feet deep; Savannah is seeking to match Charleston by deepening its channel from 42 to 48 feet at a total cost of $551 million, 70 percent of it covered by the federal government.

Because of the proximity of these two ports, deepening the Savannah River to equal that of Charleston will add minimally to the national benefits, assuming Charleston has sufficient terminal capacity for handling larger ships.

But why discriminate against Savannah, the rising star of the South Atlantic? Moreover, in the modern intermodal era, all ports compete against all ports, including those located as far apart as Savannah and Los Angeles (on handling Asian traffic to Atlanta, for example). This raises a more fundamental question: Why should the U.S. government intervene in the highly competitive and well-functioning market for port services?

The federal government finances channel deepening through the Harbor Maintenance Tax, levied at 0.125 percent of cargo value, which is remotely related (if at all) to channel depth. I propose shifting the cost of channel deepening to those directly benefiting from it: the ships navigating these channels. Further, a channel's user fees should relate directly to ship draft, based either on the cost of each marginal foot or, perhaps, on the marginal benefit (savings) generated by it, using the Corps of Engineers' studies.

The Panama Canal recently implemented a similar charging system in which ships pay transit fees according to their size.

■ By Asaf Ashar

Continuation of the current system could lead to spending many more billions of federal dollars on port channels. For instance, many of us still recall the "courtesy call" of the 6,000-TEU Regina Maersk at the Port of New York and New Jersey, a powerful demonstration of the need to deepen the port's channel from 45 to 50 feet, resulting in a huge cost to the federal government. Maersk (or other lines) may resort again to courtesy calling at our ports, this time with their 14,000-TEU (or perhaps 18,000-TEU) ships, requiring channel depths of 55 feet.

In fact, the pressure for the next round of channel deepening already is beginning. Will these ships be deployed on our trade routes if they had to pay the cost of deepening port channels?

OBERSTAR'S DEPARTURE FROM THE HOUSE SHOULD HERALD A NEW ERA IN FINANCING TRANSPORTATION INFRASTRUCTURE.

I'm not against large, economical ships and deepening channels to accommodate them, so long as it makes solid economic sense and isn't based on intractable "national benefits" and political acumen. The time has come for revising the way we finance port channel projects.

The Oberstar era is over. JOC

Asaf Ashar is research professor and co-director of the National Ports and Waterways Institute at the University of New Orleans. Contact him at aashar@uno.edu.