

Serving Current and Emerging Business Strategies: Port of Houston

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Thank you for the opportunity to be here today. I'm a Tulane grad and it's always great to be back in New Orleans.

Houston is the 2nd largest port in the U.S. in terms of tonnage. Last year we handled over 144 million tons of cargo. That makes us the 8th largest port in the world. We had 125 shipping lines making about 6,000 sailings from Houston last year -- about 16 sailings a day to various ports of the world. There are over 50,000 barge calls each year, 200,000 people working along the "Fabulous 50," as we call the Houston Ship Channel, the largest petrochemical complex. The Port generates almost \$6 billion dollars a year to the local economy. There are 250 truck lines calling at the Port and major trunk line railroads run double-stacked unit trains in and out of Houston daily. We handle as much container traffic as all of the Gulf ports combined.

In addition, Houston is in the middle of a major consumer market. Houston itself is the 4th largest city in the U.S. with 4 million people. A total of 15 million live within a 300 mile radius and 60 million live within a one day truck drive from the Port. Clearly, Houston is a world class port.

I mentioned that Houston handled almost 144 million tons last year -- of that total, 7% (about 9 million tons) was food products. And here I'd like to delineate our market. Of the 9 million, 7.6 million are bulk cereals and grains. The Port operates two grain elevators. One is old, built in the 1920's, which today for all intents and purposes is moth-balled. The other is a new, modern, high speed elevator the Port purchased three years ago for around \$15 million. Both of these facilities are "overflow" elevators -- public houses that are offered to the public in need of grain storage, elevating and load-outs. Neither of them are profitable. Today, the major grain traders -- Cargill, ADM, Conagra, et.al., have totally

integrated transport systems. They own inland elevators used for storage, ship out to port in rail to meet the vessels they have chartered, which dock at their export elevator and various ports throughout the U.S. They are in complete control of this transport chain. They use a public house when their export houses are full due to delays in ship schedules, or when interior houses can't handle a bumper crop being harvested.

In the meantime, ports have to maintain a year round staff and an operational facility in the hopes of capturing a very small part of the traders market share. In the very best of times, it is difficult for a port to produce a return on its investment. This cargo turns not on a dime but a fraction of a cent. Grain from the Midwest to Asia, which traditionally flowed through the Gulf can be rerouted via the PNW if Panama Canal tolls are increased, or if backhaul charter rates off the west coast become more competitive.

In the worst of times, these are very expensive operations to maintain. This last year has been a very difficult time in Texas. A horrendous drought, an infestation problem and finally karnal bunt disease has practically decimated the export market overall, not to mention the "overflow" market the Port plays in. A number of public houses have closed in the west Gulf, a number of others are considering closure. Because of its financial strength, the Port will probably be in the bulk grain basis for years to come. But clearly, not being in the loop of overall distribution chain is an unenviable position to be in.

Moving along to another market segment, I'd like to spend a few minutes talking about general refrigerated cargo. Houston has a plethora of refrigerated warehouse in the around the port area. They include Harborside, Associated Freezers, New Orleans Cold Storage, Distribution Specialists and Storage Warehouse. Together, they have over 1 million square feet of reefer space. In addition, there are another million sq. ft. used for domestic activity along Houston's "produce row."

Compared to some ports, Houston may be considered a relative newcomer to the business of handling temperature-controlled cargo. Still, shippers of frozen and refrigerated cargo are often surprised when they discover how many choices Houston offers them. Although several of these facilities lease land from the PHA, none of them are owned by us. They are private sector companies involved in the business of transporting food to and from the greater Houston area. The Port's role is thus relegated to marketing these facilities. We do that to gain ship calls, waterfront man-hours and dockage and wharfage fees. For years, our marketing efforts focused on Chilean fruit. That was, and perhaps to some, still is, the high profile cargo. The Gulf as a whole has been thwarted by the Chileans' intransigence to move from their traditional stronghold in Philadelphia. We used to tell them "Chile to Philly is silly!" Lately the Chileans have diversified to Wilmington and San Diego, but the distribution network of brokers and buyers continue to keep the Chilean fruit out of the Gulf in a large measure.

It took a number of years, but the Gulf finally got over their "Chilean fixation." We have moved on to new markets. For Texas, Latin American imports have boosted tonnage levels. South Africa has an enormous potential for diverse seasonal fruits. Both of these areas have been targeted by the Port on recent marketing visits and Houston has enjoyed considerable success in both areas.

Perhaps the most celebrated market the last few years has been frozen chicken legs to Russia. There has been an almost continuous flow for the last several years and there seems to be no end to it. Last year the Port handled 200,000 tons of chicken to Russia. Interestingly, or perhaps sadly, I learned this summer when I was in Russia that only one out of every three makes it to a Russian dinner table. The rest is lost in the distribution chain to lack of facilities, reefer truck transportation and pilferage. You will recall that Russia has the largest fishing fleet in the world yet the statistics are the same -- for every 3 tons of fish caught, only one ton makes it to dinner. That seems like a terrible waste of the world's resources. Yet it is true -- and it's largely because of a lack of transportation infrastructure.

Another unfortunate aspect of the food business is politics. The industry is at the mercy of oft-times whimsical decisions by governmental entities who use food to make a point. Examples abound. The banana industry was hammered overnight by European quotas. Just before the recent Russian elections, U.S. chicken exports were claimed to be unsanitary, and for several months the flow was curtailed. Chicken feet are accumulating in cold storage at broiler slaughter houses in Texas since China banned imports of poultry from ten states last week. Called "chicken paws," the feet are delicacies in China, which is the world's biggest purchaser. Texas ports ship about 600 tons a day to China via Hong Kong in refrigerated containers. This particular ban was called a "misunderstanding." China apparently thinks the chicken feet harbor a disease called highly pathogenic avian influenza. U.S. officials advise this flu hasn't been found in the U.S. since 1984. This is the equivalent of Custer "misunderstanding" how many Indians were in the Little Big Horn Valley. "Misunderstandings" like this in the food chain cost ships to lay idle instead of unloading, rail cars to stop, and slaughterhouses to lay off workers until production can be restarted. The British "mad cow" disease was largely over-hyped in Europe much to the glee of French and German cattle owners. The Japanese didn't buy U.S. rice because they were told it "smelled funny." The list is endless.

But it is a reality you have to be prepared to contend with if you're in this business. As you can see ports are in favor of free and open trade.

This is probably the right time to say a word about NAFTA. Houston was a major supporter of the passage of NAFTA and Texas stands to be one of the biggest winners. NAFTA was full of political considerations. Just ask the Florida tomato growers and the California avocado industry. From a port perspective, most of the Mexican foodstuffs imported to the U.S. are moving by surface transport. As the economy of Mexico stabilizes, however, there will be enough to expand water transport opportunities. Remember, Veracruz to Houston is 36 hours by water and 72 hours by truck. But ships are big -- they need volume if they are to carry fresh or frozen food at a profit. That's why ports have to develop some creative marketing schemes to attract cargo.

Houston has had to develop backhaul cargo for New Zealand apple and pear ships to induce the vessels through the canal. Houston and Tampa have combined cargo to induce vessels into the Gulf. And we constantly have to analyze vessel movements and cargo flows to take advantage of opportunities in the market place.

I'd like to conclude my remarks with a word about the facilities that exist in the Port of Houston. Jacinto Port is a terminal that employs spiralveyor technology to load out PL 480 title II bagged cargo. Manual labor loading bags can achieve anywhere between 30/40 tons per hours per gang.

Spiralveyor technology improves loading time to as much as 120 tons per hour -- about triple. This facility cost \$80 million to construct and was built as a joint venture between Bechtel and Ryan Walsh Stevedoring Company. It soon went bankrupt. The debt service was a burden the operating profits could not overcome. On the action block, the Port purchased it for \$500,000. It is now the most successful handler of bagged cargo in the U.S. In fact, it currently handles about 45% of all U.S. government bagged cargo. The next nearest competitive handler is Memphis, Tennessee, River ports handling 11.5% followed by NOLA at 10.2%. I should also mention that Jac-

into Port is operated with non-affiliated labor, giving it additional cost advantages over its competitors. As an example, the Port of Galveston had a private investor construct a \$32 million gravity feed spiralveyor terminal called ABT or Automated Bagging Terminal. After our experience in Houston, we looked askance at the entire program. Sure enough, in two months it was bankrupt. It too, fell victim to high debt service, high operating costs and lack of lead expertise when it came to operating the equipment.

Back at Jacinto Port, we have loaded several shipments of refrigerated cargo through the spiralveyors and we are today perfecting methods of handling a wide spectrum of frozen boxed cargo directly from the reefer warehouse into the hold of a ship by conveyor. The point I'm making is that the distribution chain cannot absorb high overheads for costly facility developments. Like water, the chain will find its own lowest level of cost. And facilities alone won't attract food stuffs to your port. You must also have competitive land side access and regularity of service. The Gulf as a whole has done an excellent job in supplying these ingredients to the trade and I suspect will continue to play a major role in food distribution in years to come. Thank you.
