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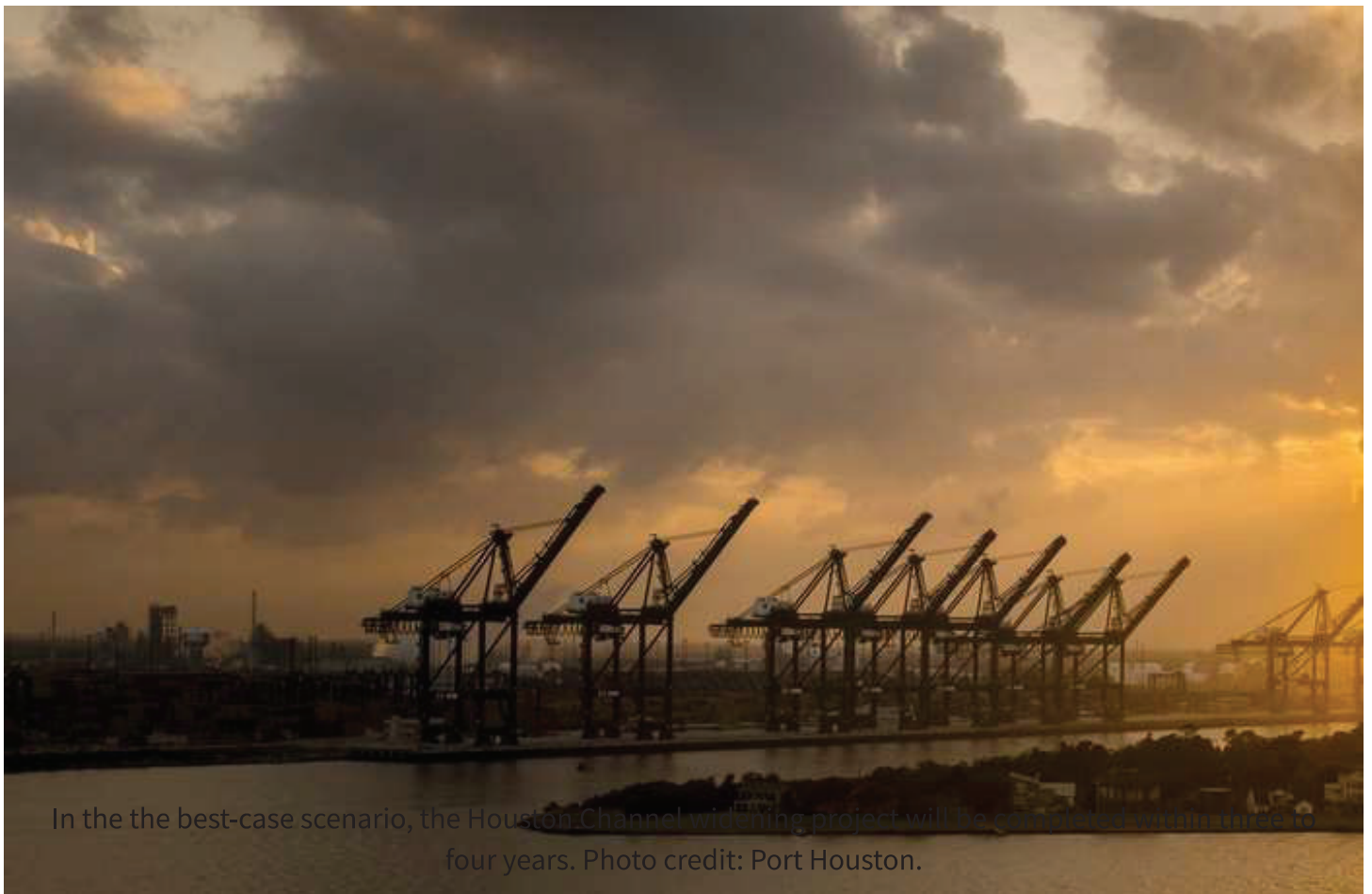
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US Gulf trade momentum puts focus on Houston port channel widening

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In the the best-case scenario, the Houston Channel widening project will be completed within three to four years. Photo credit: Port Houston.

US Gulf Coast ports are on a roll, but with an asterisk. Imports from Asia through the region rose by double-digit percentages in 2020 from 2019; the ports attracted a new Asia service (https://www.joc.com/maritime-news/container-lines/alliance/alliance-adding-capacity-growing-asia-us-gulf-trade_20201223.html) in December, marking the third shipping alliance to call the region; New Orleans announced plans for a new container terminal; and the Port of Houston got a late Christmas present when Congress authorized federal funding for a project to deepen and widen its channel.

But the true payoff of such momentum and the hundreds of millions of dollars Gulf ports are investing to handle neo-Panamax ships will only be realized when Houston's widening project is completed in several years so that it can handle two 14,000 TEU vessels simultaneously. Perhaps not since the raising of the Port of New York and New Jersey's Bayonne Bridge has one project meant so much, not just for the port itself but for the coast as a whole.

"There is a pent-up demand for carriers to bring larger vessels," Roger Guenther, executive director of the Port Houston, said in an interview. "We know neo-Panamax vessels coming through the Panama Canal from Asia are dependent on coming to Houston or they aren't going to call the other ports in the Gulf."

Completing the \$1 billion channel widening project became even more urgent after Texas in a surprise move passed a law in June 2019 prohibiting two-way traffic of ships (<https://www.joc.com/port-news/us-ports/port-houston/size-limit-puts-spotlight-houston-ship->

channel-widening_20190617.html) more than 1,100 feet — about 9,000 TEU — from entering the Houston Ship Channel without the approval of bar pilots. The oil industry backed the bill, while the port, container shipping community, and the International Longshoremen's Association were opposed.

With the widening project authorized by Congress through the Water Resources Development Act (https://www.joc.com/port-news/us-ports/wrda-passage-boosts-houston-ship-channel-expansion_20201222.html) which passed in December, Guenther said the best-case scenario is completion within three to four years. Normally, such a project would take 10 years or more, but the port and industry are funding half the project, rather than the 35-65 local-federal cost share of other deepening projects, meaning the project won't have to wait for federal dollars to be allocated in multiple spending bills. The port authority also began designing the project before receiving the formal blessing from the US Army Corps of Engineers.

But there may be a way for Houston to handle larger ships in the meantime, Federal Maritime Commissioner Carl Bentzel told JOC.com. The Texas law includes a waiver process by which the Board of Pilot Commissioners for Harris County Ports can be asked to allow larger ship calls on a case-by-case basis, and Bentzel is trying to determine the specifics of such a process in an effort to ease restrictions on larger ships coming sooner. In conversations with carriers, Bentzel said carriers held off on upscaling vessels on Gulf strings following the passage of the Texas law and are keen to gain 15 to 20 percent in economies of slot costs by deploying neo-Panamax vessels.

“Restrictions, if left in place over the next three or four years, could have lasting negative implications on the entire trade of the Gulf of Mexico,” he said.

Bentzel said he and fellow commissioner Louis Sola are independently also determining whether the Texas law violates the Shipping Act of 1984 and whether the Coast Guard's jurisdiction over federal navigational channels and safety issues trumps the local law. In a June 2019 letter to Texas Governor Greg Abbott, Paul Thomas, a Coast Guard rear admiral, pressed the point that the law is preempted by federal law via the Ports and Waterways Safety Act.

“When safety concerns are present within regard to a specific vessel transit, related to vessel length or any other factors, the Coast Guard Captain of the Port has the sole authority and ability under federal law to impose operational requirements to address these concerns,” Thomas wrote.

Bigger ships for bigger volumes

The scale of container volume growth among US Gulf Coast ports speaks to the desire of carriers to deploy larger vessels. Laden Asia imports through the region jumped 12 percent year over year in the first 11 months of 2020, while nationally such volumes rose just 1.9 percent, according to PIERS, a sister product of JOC.com within IHS Markit. Guenther said 2020 volumes at Houston, which account for about 70 percent of the region's container traffic, were relatively flat compared with the 3 million TEU in laden and empty containers the port moved in 2019.

Between 2014 and 2019, Asia container volumes through the Gulf rose 12 percent, accounting for about 5 percent of total Asia imports into the US, according to PIERIS. Comparatively, Asia imports into the US increased just 3.5 percent in the same five-year period. Larger vessels don't just mean more slot space for Asia imports that once moved through the West Coast, but more slot space for cotton and rising resin export volumes.

"The demand for cargo coming to Houston is growing exponentially, both for imports and exports," he said.

The ability of Mobile, New Orleans, and Tampa to capitalize on their own deepening projects hinges on Houston's channel widening. With expectations that its channel deepening project will be completed by 2022, New Orleans' planned \$1.5 billion terminal (https://www.joc.com/port-news/us-ports/port-new-orleans/new-orleans-moves-forward-15-billion-container-terminal_20201218.html) would be able to handle ships slightly larger than 16,000 TEU. Mobile expects its \$400 million deepening project to be finished by March 2025, allowing the port to handle 14,000 TEU ships. Port Tampa Bay is working with the Army Corps to reinstate a study of navigational improvements, including deepening the channel beyond its current 43 feet. In the meantime, the Corps is completing maintenance dredging that will deepen the channel approximately another foot by June 2021 and is in discussion with pilots to see if keel clearances will allow larger ships to call.

Gulf ports are big-ship hungry, but they face a three- to four-year wait for Houston's deepening, unless a middle ground can be reached with Texas pilots.

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