

## **Port Merger Worth a Look**

### *Consolidation Could Make Puget Sound More Competitive*

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#### **Introduction**

There has been a lot of discussion over the years to merge the Port of Everett, the Port of Tacoma and the Port of Seattle into a single Puget Sound Port Authority. This year, Representative Glenn Anderson has proposed House Bill 1421, which would direct the Washington State Institute for Public Policy to study the feasibility of combining, over a five year period, operations of the three ports.

This issue has been widely covered because the idea seems to make sense to most people, but it also has its share of critics. Officials from the Port of Tacoma, in particular, generally resist the idea for a variety of reasons. They have experienced tremendous growth over the last decade and will soon enjoy the novelty of overtaking the Port of Seattle in container traffic capacity.

But there are many problems facing the port industry and questions are rising about the long-term competitiveness of maintaining three independent ports in the Puget Sound.

#### **Problems Facing the Port Industry**

The port industry faces many problems, but they are similar to those faced by any business. While ports are complex organizations, remaining competitive is job one.

There are about thirty ports that operate on the Pacific Coast of North America, which together handle about 29 million containers per year.<sup>1</sup> Compare this to 1990, when twenty six ports moved about 8.7 million containers.<sup>2</sup> That is a 233% increase in container traffic over the last seventeen years at Pacific Coast ports.

The Puget Sound region has three ports that import and export freight containers: the Port of Everett, the Port of Tacoma and the Port of Seattle. These three ports have also experienced significant growth in container traffic over the same period.

The Port of Seattle has grown from moving 1.17 million containers in 1990 to 1.97 million in 2007.<sup>3</sup> The Port of Tacoma now handles about 1.92 million containers; more than double its total in 1990.<sup>4</sup> The Port of Everett started cargo operations in 1994, with 875 containers moved that year. Today Everett handles about 17.5 thousand per year.<sup>5</sup>

<sup>1</sup> Container Traffic in TEUs (1990-2007), American Association of Port Authorities. Available online at: <http://aapa.files.cms-plus.com/Statistics/CONTAINER%5FTRAFFIC%5FNORTH%5FAMERICA.xls>.

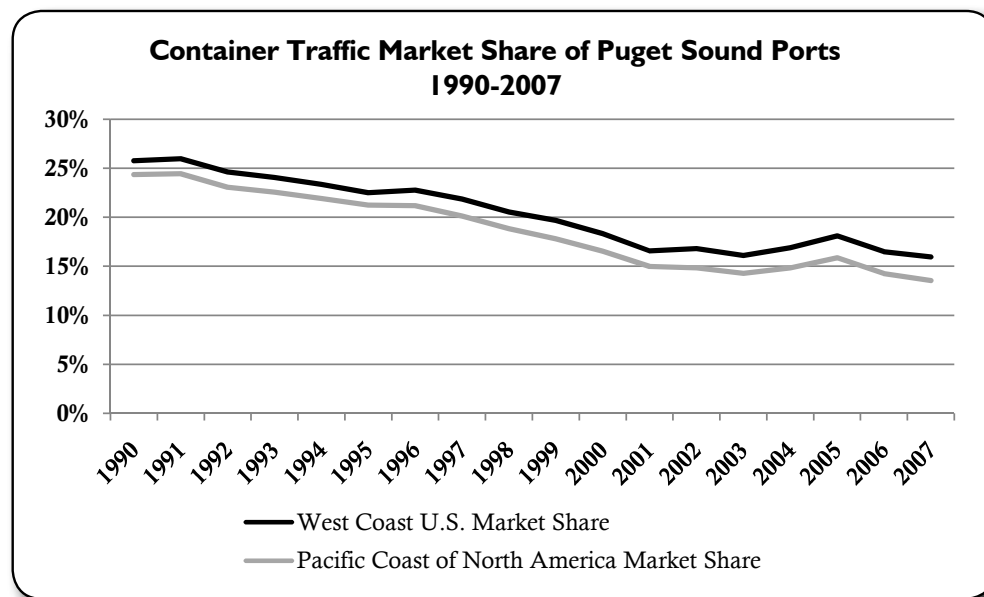
<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

Despite the growing activity, some signs point to a shaky future for Washington's port industry.

While Puget Sound ports have seen double digit growth in container traffic, their share of the shipping market has steadily fallen over the last seventeen years. Consider the following chart. It illustrates the combined market share of the three ports in the Puget Sound compared to the entire West Coast of the United States and the Pacific Coast of North America, which includes Canada and Mexico.



In 1990, Puget Sound ports processed about 26% of all container traffic on the West Coast of the United States; and about 24% of all traffic on the Pacific Coast of North America. In 2007, that market share has fallen to 16% and 14%, respectively. This downward trend is likely to continue given the tremendous growth of competing ports on the Pacific Coast.

Shippers largely view the three ports on the Puget Sound as “overflow ports” in relation to the bigger operations in Los Angeles and Long Beach. These two California ports handle more than half of all container traffic on the Pacific Coast of North America.

Just to the north, the Vancouver Fraser Port Authority, formed by the merger of three smaller ports, plans to double its cargo capacity, which will soon enable it to handle 5.5 million containers.<sup>6</sup> Another large expansion is taking place at the Port of Prince Rupert, near the Alaskan/Canadian border. With plans to handle 5 million containers per year by 2020, Canadian officials hope to make their country the gateway for Asian goods shipped to the Eastern markets of Canada and the United States.<sup>7</sup>

Competition in the south is just as fierce. As the Panama Canal nears completion of its \$5 billion expansion, the Port of Manzanillo, Mexico's largest port, and the Port of Lazaro Cardenas, is growing to process about 7 million containers by 2035.<sup>8</sup>

<sup>5</sup> Ibid.

<sup>6</sup> Vancouver port readies plan to double container capacity, *Puget Sound Business Journal*, June 27, 2008. Available online at: <http://www.bizjournals.com/seattle/stories/2008/06/30/story7.html>

<sup>7</sup> Prince Rupert Port Authority. Available online at: <http://www.rupertport.com/development.htm>

<sup>8</sup> Analysis of Future Issues and Changing Demands on the System, Global Insight, INC, January, 2007.

## **The Case for a Single Port Authority**

The current three-port model forces the Puget Sound ports to compete with one another and creates economic inefficiencies. Consider just the administrative costs of maintaining three independent operations, three executives, and three legislative bodies.

In the private sector, competing companies will often merge to take advantage of lower costs and to improve market share. This allows the larger, merged company to become much more competitive.

During the ten years between 1998 and 2007, the ports of Everett, Seattle and Tacoma combined for about \$3.8 billion in expenditures.<sup>9</sup> Expenditures over the same time period grew by about 50 percent.<sup>10</sup>

Taking advantage of economies of scale a merged port authority would likely reduce these costs. The savings could then be reinvested in regional transportation infrastructure and in expanding container capacity, all of which would reduce shipping costs and make the Puget Sound more attractive to shippers.

Given the state of the port industry on the Pacific Coast of North America, and the declining market share of Puget Sound port operations, it would seem sensible for policymakers to study the feasibility of joining these three operations into a single port authority.

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<sup>9</sup> Local Government Financial Reporting System, Washington State Auditor's Office. Does not include airport operations at the Port of Seattle.

<sup>10</sup> Ibid.