



A Radical Proposal

The US government should lift restrictions on foreign contractors as a way of tackling the backlog of dredging projects in the country's seaports

That was the astonishing call from the then executive director of Port of Houston, Thomas Kornegay, in January – he subsequently announced his retirement – during a presentation at the Transportation Research Board's annual conference in Washington.

If it happened, it would mean abandoning *Jones Act* regulations – which limit coastal maritime trade to US-flagged, built and crewed vessels – and have a huge impact on the US dredging industry.

DPC asked for comments from both individual US firms and **Dredging Contractors of America**, but as we went to press no one was willing to put anything on the record.

Kornegay has been a major force in the US and international port world –

he's a former chairman of the **American Association of Port Authorities** and former president of the **International Association of Ports and Harbors** (see panel right). And his arguments deserve to be taken seriously.

AT THE HEART

The core of the debate is the fact US port authorities have consistently complained about the red tape involved in approving and funding federal dredging projects – a process that can take 10–15 years when environmental impact studies, planning, design and feasibility analysis are taken into account. The second problem, which persists even after congressional authorisation has been secured, is getting the dollars to carry them out.

It's not just seaports; similar problems exist on inland waterways and on the Great Lakes (see *DPCs passim*). And, all told, maritime industry officials say it's hurting US trade competitiveness.

"I believe there's a basic flaw with the way we do navigation projects in the United States," Kornegay said. "The Corps [US Army Corps of Engineers – USACE] is using the same formula today as they used in the late 1800s when they did the first study of the Houston Ship Channel."

As for ongoing maintenance, he pointed out that Congress is giving only about 60% of the amount needed to dredge all the channels.

"The problem is that the Corps doesn't dredge 60% of the channels – it dredges each channel 60% of the



Manson's trailer Glenn Edwards is the biggest and newest in the US fleet



Houston's Barbour's Cut – busiest box terminal on the US Gulf Coast



Tired of waiting, APMT paid for USACE studies at Virginia itself

way,” he continued. “So they do them all partly, instead of doing the ones that really need to be done.”

New Orleans’ port director Gary LaGrange backed up Kornegay’s assessment: “We have an inner harbour lock – part of the Gulf inland waterway – that was authorised when I was playing Little League baseball. We’ve yet to begin construction,” said the 30-year industry veteran. “There’s definitely a flaw in the formula.”

WHERE’S THE CASH?

Kornegay stated that Congress could help alleviate the dredging crisis by appropriating funds for USACE on a multi-year, rather than year-to-year, basis – because large navigation projects cannot be completed in a single budget cycle. He also argued for a rejig of the funding formulas so that those states that pay more taxes and fees for maintenance of the nation’s harbour system get a greater share of the money.

“Texas and the Houston-Galveston areas should get more funding for construction and maintenance of our channels,” he said, noting that the region gets back a fraction of the amount it gives to the government.

The ports industry overall, he pointed out, is also frustrated that successive administrations have kept such a tight lid on the 1986 *Harbor Maintenance Trust Fund*, which is supposed to pay for these kinds of projects. The HMTF (see *DPC Aug 2008*) is an *ad valorem* 0.125% tax on shippers based on the value of cargo imported into the US and moving between coastal ports. Under it, the government collected \$1.4Bn in 2007, but spent only \$751M on dredging projects.

In theory, the HMTF has a surplus of nearly \$5Bn... Yet, as USACE admits, almost 30% of the 95,550 vessel calls at US ports are constrained because of inadequate channel depths.

TOO SLOW

It’s not just maintenance and capital dredging projects that suffer, but new port and terminal developments too – as Maersk’s vice-president of government relations, Clint Eisenhauer, pointed out at a Denver conference late last year. Lamenting the fact it can take 17 years to develop a new port in the US, Eisenhauer said Maersk’s terminal arm, APM Terminals, had taken drastic steps in planning for its new \$500M container terminal in Portsmouth, Virginia, by paying for USACE’s studies itself rather than waiting for congressional cash to be appropriated.

He also called for Congress to reform the *Water Resources Development Act* to make it easier for USACE to approve dredging permits. The law currently requires at least two beneficiaries for a dredging or waterside construction project to receive federal funding. APM Terminals searched for three years for

a qualified beneficiary before opting to foot the bill itself, he said.

Ports also needed a more predictable funding process than relying on local legislators to try to get projects into funding plans – legislation is needed to make it easier for private investors to revitalise maritime infrastructure, Eisenhauer concluded.

AGREEMENT?

There was nothing especially controversial about Kornegay’s initial arguments as far as the US port and dredging industries were concerned. Indeed, under the lobby group called **Realize America’s Maritime Promise** (RAMP – www.ramphmtf.org) you’ll find nearly 200 members who feel much the same way.

But Kornegay’s most radical proposal by far is to open competition to foreign contractors as a way to get more mileage out of the limited available dredging dollars.

Much of the maintenance and even the capital work in the US can be done by trailing suction hopper dredgers (TSHDs) – and there’s the rub. The US fleet is limited and mostly ageing; apart from USACE, only a handful of companies own TSHDs. In addition, the largest TSHD in the fleet, the 10,300m³ *Glenn Edwards*, is relatively small compared with the jumbo and mega vessels owned by European contractors, which makes replenishment projects with long sailing distances to borrow areas less economic.

A co-operative Dutch-USACE study that looked at ways of protecting the Gulf Coast post-Hurricane Katrina, for example, recommended replenishing and raising existing barrier islands. But the type of sand needed could only be sourced from several hundred kilometres away. Perfectly feasible and cost-effective for a couple of jumbo TSHDs each with 25,000+m³ hopper capacity, as the Dutch pointed out...

Add to that recent advances in technology aboard European newbuildings – the one-man-operated bridge on both DEME and Boskalis ships, for example – and the result is a \$/m³ rate that US contractors would find difficult to match.

FINALLY...

Kornegay said the small club of domestic dredging contractors raises dredging prices, because there are too few providers to meet the high demand.

Allowing overseas dredging companies into the market would increase competition, he stated. That, in turn, would lower prices so that the government could get more dredging for its money.

What Kornegay didn’t say was what effect such a change would have on the US dredging industry...

More info at www.dredgingcontractors.org

Reaching The Heights

TOM KORNEGAY retired as executive director of the Port of Houston on 1 February – the second senior US port director to resign in January, the other being Port of Charleston’s BERNARD GROSECLOSE

For Kornegay, the decision was attributed to family reasons, specifically his mother’s death in January, although he told *DPC*’s sister magazine *Fairplay* last autumn that he had no immediate retirement plans.

During his 37-year tenure at the port, Kornegay served as an engineer, manager and later as port director for 17 years. He was chairman of the **American Association of Port Authorities** from 1998 to 1999 and also president of the **International Association of Ports and Harbors** from 2005 to 2007.

“Service to the Port of Houston Authority has been at the centre of my career and my life,” Kornegay said. “Over the course of my career, it’s been exciting and gratifying to have a leadership role in helping to advance the mission and the purpose of the Port of Houston and the port authority.

“It’s been especially satisfying for a young engineer who started out on Houston’s East Side to have a hand in developing Barbour’s Cut Terminal, which set the course for continued economic development in the Houston Metropolitan region for the past 32 years,” he added.

Kornegay developed the master plan for Barbour’s Cut Container Terminal, which opened in 1976 and ranks as the busiest box terminal on the US Gulf Coast. He was also instrumental in completion of the \$700M Houston Ship Channel deepening and widening project.

He goes out on a high – 2008 was a record year for general cargo and box handling, not to mention all-time records for steel exports and imports.

More info at www.portofhouston.com

Tom Kornegay in Shanghai during his stint as IAPH president





European contractors are building trailers up to 46,000m³ with dredging depths of well over 100m

maintenance of ports and navigation channels is expensive and thus underperformed – which threatens the possibilities for quick military sealifts.

Looking at the threat of flooding, the lack of large-scale, innovative contractors threatens the feasibility of effective and efficient flood protection. Three years after Katrina, New Orleans' safety has not been improved significantly. Lifting the ban on foreign contractors to work there would not only save money, but might save lives in the future too.

As for safety and environmental standards, isn't it better to specify those at a functional level rather than have a generic ban on vessels built outside the US? Australia, Singapore and the EU also have very high safety and environmental requirements, but don't limit dredging services to homeland contractors. These countries simply apply the regulations to bidders on a tender.

For the US, the Jones Act's results are to the contrary: the outdated, low-technology US dredging fleet harms the environment more than it protects it.

In terms of the US economy, well, you can spend a dollar only once – and you should get as many cubic metres dredged for that money as possible. If a foreign contractor can do the job cheaper than a US-based firm, that's a quick win for the US taxpayer. Sometimes it's argued that overseas companies wouldn't have to pay tax in the US – that's nonsense. A firm making a profit in the US is obliged to pay tax on those profits according to local, state and federal rules.

US citizens might be worried about low-quality contractors using low-paid labour. But to ensure a level playing field the solution is to specify the quality and social requirements for dredging projects at a functional level.

A European View

DPC asked **CONSTANTIJN DOLMANS**, secretary-general of the **International Association of Dredging Companies**, for his view of the US dredging market

In practice, the “restrictions” on foreign dredge operators to which Thomas Kornegay refers constitute a ban on foreign dredging contractors offering their services in the US. And thanks to the so-called *Jones Act*, US contractors are forbidden to operate foreign-built dredgers in the country.

According to the **Maritime Cabotage Task Force** (see www.mctf.com), a coalition of the US maritime industry, the Jones Act ensures that the US has:

- ◆ **Security** – a high-quality fleet, a modern shipyard industrial base and experienced seafarers necessary for military sealift needs
- ◆ **Quality** – vessels that are built and operated to the world's highest safety and environmental standards, and
- ◆ **Economic Welfare** – only the most efficient companies can thrive in the Jones Act trades.

Regardless of the validity of these arguments for the merchant trade, they are completely invalid for dredging.

THE ARGUMENTS

First, let's look at the security argument: dredging vessels are neither suitable for transporting men nor for transporting military equipment. For military sealift they have no function at all. Dredgers transport sediments, sand, clay and rock – not rockets...

Second: quality. The lack of foreign

competition has resulted in an antique US dredging fleet (average age 25 years) and little innovation. The largest trailing suction hopper dredger recently built in the US is the 10,300m³ *Glenn Edwards* with a dredging depth of 27.5m. Compare this with the range of European and Asian vessels of 20,000+m³ with dredging depths of 100+m and fitted with the latest technology.

Third, the economic welfare argument. Within the closed system of the US dredging market, the most efficient companies would survive – if a level federal playing field existed. But it doesn't – and about 300 small contractors in work in their respective states protecting their little monopolies or oligopolies.

I would rather argue that the Jones Act's impact on dredging vessels harms US security, harms safety, harms the environment and harms the economy.

WHY?

Dredging in the US is expensive for several reasons, one of them being lack of international competition. As a result,



FINALLY...

Over the past eight years, the US has been the only dredging market in decline. Since 2000, turnover in the US dredging market dropped by nearly 40%, whereas all other markets increased and around the world dredging more than doubled.

There are several reasons for this decline, but closing the US dredging market to foreign competition – even when projects are funded by public companies such as GE or ExxonMobil – has certainly had a negative influence.

For dredging, the Jones Act might guarantee the profitability of US-based dredging contractors, but in the long term it's harmed the US economy, resulted in poorly maintained navigation channels and hampered innovative infrastructural development.

More info at www.iadc-dredging.com