

SYNERGISTIC DYNAMICS, INC.

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Ms. Judy Jennings
SIERRA CLUB
7609 LaRoche Avenue
Savannah GA 31406

Dear Judy:

There has been a theory circulating among members of the SEG that the Port of Savannah can survive very nicely as a "feeder port", that concept being that the so-called "mega" container ships can go to a deepwater "hub" port — Freeport in the Bahamas is the most frequently mentioned — where boxes will be transferred to smaller ships that can be accommodated in Savannah without a deeper harbor.

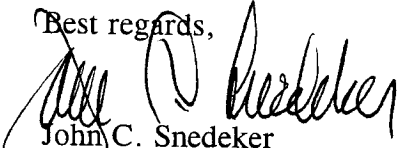
There is a serious flaw this argument: Smaller container ships are just not competitive on trade routes served by larger ships. To paraphrase an overworked cliché, "ITS ECONOMY OF SCALE, STUPID." Larger ships move boxes at a lower unit cost than smaller ships. This is not a situation unique to the shipping industry, it applies to almost every other form of enterprise, but most particularly to transportation. The feeder theory also ignores the fact that Charleston aspires to become the Southeast Atlantic hub, and will do so by default if the Port of Savannah is forced to cease improving its marine infrastructure.

An article in the 31 March 2000 issue of *Trade Winds* predicted that "it will be the sub-1,000 TEU size ships that will bear the brunt of the delivery onslaught (of mega ships now on order) as smaller tonnage is displaced." While day rates have recently increased substantially for the larger ships and somewhat less so for the 1,500 to 2,000 TEU vessels, "rates for 350 TEU vessels actually fell over the same period." Terry Macalister, a columnist for *Trade Winds*, wrote, "This is not fun when operating costs have soared because of higher bunker (fuel) costs."

Question asked and answered: "Surely the current boom for bigger ships really cannot last in the face of the huge rush of new deliveries?" *Trade Winds* answered "the container market should continue to grow at 8 to 9% over the next few years .. even if the U.S. economy starts to slow down." In other words, the international shipping industry will absorb the new tonnage. Smaller ships — many now nearing the end of their economic lives anyway — will be scrapped to make room for the larger new ships entering the world fleet.

It may be time to move on to a final conclusion of the tasks assigned to the EWG.

Best regards,


John C. Snedeker
Chairman and CEO

Professional Affiliations

National Contract Management Association
American Bar Association (Associate) Section of Public Contract Law
American Society of Naval Engineers Society of Naval Architects & Marine Engineers