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BUSINESS COULD BE SWEETER AND MUCH MORE STIMULATING

Business services up and down the Houston Ship Channel and beyond are keeping their fingers crossed that Texas voters pass state Proposition 3 on the November 2001 ballot.

BIRDS DO IT... WITH A LITTLE HELP FROM THEIR FRIENDS

The most ambitious environmental project to date by the Port of Houston Authority has proven successful beyond anything imagined by its developers.

NEW BUSINESS AND NEW WAYS OF DOING BUSINESS

The Port of Houston Authority has launched new business initiatives with the goal of expanding the Port Authority's opportunities in new markets.

REGIONAL PORT FOR THE GULF OF MEXICO

The Port of Galveston and the Port of Houston can merge the two ports into one powerful regional port capable of capturing all of the lucrative container shipping business in the Gulf of Mexico.

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BUSINESS COULD BE SWEETER AND MUCH MORE STIMULATING

BUSINESS SERVICES UP AND DOWN THE HOUSTON SHIP CHANNEL AND BEYOND ARE KEEPING THEIR FINGERS CROSSED THAT TEXAS VOTERS PASS STATE PROPOSITION 3 ON THE NOVEMBER 2001 BALLOT. ENOUGH "YEAS" WILL TRANSFORM INTO A NEW BOOST FOR THE TEXAS ECONOMY.

State Proposition 3 calls for the exemption of taxation on green coffee and raw cocoa imported into Texas and stored in Harris County. This exemption is a condition necessary before the New York Board of Trade will consider designating the Port of Houston an "Exchange Port." Unanimously passed state legislation sponsored by Sen. Mario Gallegos and Rep. Joe E. Moreno paved the way for this critical statewide vote.

"I am confident this proposition will open the door to more coffee imports through the Port of Houston, because people will know that they can ship coffee in here year-round and not be charged for coffee in their inventory at the end of the calendar year," emphasizes Charlotte McCanless, vice president and import manager of Bill Potts and Co., a customhouse broker.

"All of my New York people who trade coffee are watching this with great interest," adds McCanless. She foresees more work for customhouse brokers as a result. "Any
time you get a new commodity coming through your port, it’s automatic new business for a broker. It will add new jobs, and our firm would need two or more people who would do nothing but coffee all day long.”

Currently, only three ports in the United States are designated Green Coffee Exchange Ports. New York, Miami and New Orleans are the only ports that can accept coffee imports that fulfill futures contracts executed on the New York Board of Trade. By the sheer nature of such transactions, green coffee is stored at such ports for as long as years at a time before being sold to roasters. Local inventory taxes interfere with and discourage such trade, and must be scrapped in order for the designation to be awarded.

**CURRENTLY, ONLY 6 PERCENT OF COFFEE IMPORTS COME DIRECTLY INTO TEXAS EVEN THOUGH THE PORT OF HOUSTON ROUTINELY REACHES 20 PERCENT OF THE U.S. POPULATION THROUGH INLAND MARKETS PRIMARILY WEST OF THE MISSISSIPPI.**

![Coffee Bean Icon]

Supporters of the Coffee Exchange designation point to the windfall of business that Miami has reaped since its designation. In its first year as an exchange port in 1997, Miami stored 87,000 bags of coffee. By 2000, business blossomed to 1.2 million bags of coffee in storage at the Port of Miami, a whooping 1,363 percent increase.

Currently, only 6 percent of coffee imports come directly into Texas even though the Port of Houston routinely reaches 20 percent of the U.S. population through inland markets primarily west of the Mississippi. Coupled with the logistical advantage of being 350 miles closer than New Orleans to a market as large as Houston, this will certainly spur commercial development.

Steve Stewart, president of Gulf Winds International, which provides warehousing services, distribution, and over the road and local container drayage says, “Bottomline, business is going to boom here.

“A substantial amount of our business is handling green coffee storage, and we are the primary facility for Sara Lee, which has a roasting facility in Houston as does Maxwell House. Based on conversations with coffee importers and traders, we anticipate that the elimination of the inventory tax means they will look very favorably on moving more product through the Port of Houston for distribution west of the Mississippi,” points out Stewart.

“Our infrastructure for distribution, especially west of the Mississippi, is much more effective than other ports, especially to the west or middle part of the United States. If the port gets Exchange status, the coffee business here would literally explode. “You would see the proliferation of several other warehousing companies, steamship lines, trucking companies, and brokers. Anybody who does business in the transportation business will have an opportunity to put their hands on that increased business from coffee and participate in it. We see our operations doubling and even tripling as a result,” states Stewart.

Shippers are also keeping an eye on the outcome of the election. “If this passes, I expect to see an increase in business,” affirms William Corrow, vice president of the Gulf District for Zim-American Israeli Shipping. “We serve the east coast of South America, Mexico, and Vietnam, which is another coffee producing country, and already bring quite a bit into the United States.

“With direct service from Vera Cruz to Houston, we are a bigger player in the Mexican market than South America, but we hope to change that soon. I expect a slow, steady increase in business,” Corrow predicts.

Passage of State Proposition 3 has advantages for the gourmet consumer, as well as the city, as a whole. Texas is home to a variety of small specialty roasters, such as the House of Coffee Beans in Houston. In 1973, the House of Coffee Beans became the first gourmet roaster in the Houston area.

Owner Mike Mulloy sees the possibility of “better premium coffees being obtainable locally by a roaster like me, which benefits my established sophisticated consumer base. I also see a bigger-picture effect. What this can do is put Houston on the map as a coffee center and an international player in this marketplace.”
Although many benefits result simply from the elimination of the inventory tax for the stored coffee, if the New York Board of Trade does grant the Exchange Port status to Houston, then the marketplace would be open for speculative trading. Jim Patton, a coffee trader with Eximius Coffee explains: “By having the Exchange designation here in Houston, the dealers would be willing to bring coffee in here even if they don’t have a buyer. They can certify the coffee and deliver it to the Board of Trade. By having the Exchange designation here in Houston, dealers would be willing to bring coffee in here because they would have that option if they didn’t find a buyer or a roaster. The flexibility of being able to go to the Exchange if need be would mean more coffee coming through Houston, and the industry will benefit all around.”

According to the International Coffee Organization, coffee is one of the most valuable commodities traded on world markets and is second only to petroleum. North America leads the world in the consumption of coffee.

Coffee is grown in 50 countries around the world with the high altitude, tropical climate, and rich soil in which the coffee plant thrives. However, South and Central America produce the majority of the coffee trade across the world. The Port of Houston routinely ships cargo to and from its neighbors to the south, and has vast experience with these trading partners.

The tax exemption would also create new opportunities for cocoa imports. North America is also the largest consumer of cocoa, which is raised in Africa.
birds do it...
with a little help from their friends
The most ambitious environmental project to date by the Port of Houston Authority has proven successful beyond anything imagined by its developers. It’s receiving a thumb’s up—or should we say claw’s up—response from its many beneficiaries.
Thousands of colonial waterbirds are flocking to the newly constructed bird island in Galveston Bay and are reproducing in great numbers. The creation of this bird island is an example of how commercial interests can join hands with environmental interests and come up with extraordinary solutions.

When the Port of Houston Authority and the U.S. Army Corps of Engineers first developed plans for the deepening and widening of the Houston Ship Channel from 40-feet-by-400-feet to 45-feet-by-530-feet over a 51-mile stretch, environmental groups questioned what would be done with dredge materials. During the five-year construction phase, 52 million cubic yards of material is being dredged, with another 160 million cubic yards of maintenance material anticipated over the 50-year life of the project.

The U.S. Army Corps of Engineers designated oversight of environmental issues related to the project to an Interagency Coordination Team. A subcommittee of that team, known as the Beneficial Users Group, or BUG, was created in 1990 to evaluate the environmentally responsible ways to utilize the dredged material and make recommendations.

**environmental issues**

The BUG's membership includes the Port of Houston Authority; five federal agencies: U.S. Fish & Wildlife Service, U.S. Environmental Protection Agency, the Natural Resources Conservation Service, the National Marine Fisheries Service, and the U.S. Army Corps of Engineers; and two state agencies: Texas Parks & Wildlife Service and the Texas General Land Office.

Early on, the BUG met with Bay users and interest groups to determine how the dredge material could benefit the environment. The ambitious consensus-based environmental plan that was developed called for the most extensive habitat restoration efforts ever undertaken anywhere.

Phil Glass, a biologist with the U.S. Fish & Wildlife Service, was an original member of the BUG and continues to be a part of the group. "We originally opposed the deepening and widening project as did all the environmental agencies. But as the Corps incorporated beneficial uses into its plan, we started to get over our suspicions and all worked together to find uses for this material using the latest engineering technology."

The BUG's plan proposed creating 4,497 acres of marsh, upland and bird habitats. According to Dick Gorini, chairman of the BUG and executive vice president of J. Simmons Group Inc., creating intertidal salt marsh with the dredged materials is a logical choice in light of Galveston Bay's steady loss of precious wetlands acreage. Studies estimate approximately 35,000 acres of wetlands in Galveston Bay disappeared between 1950 and 1989.

In preparing the BUG's plan, Glass focused on the needs of waterfowl. "Under the Migratory Bird Treaty Act, the Fish & Wildlife Service is responsible for all waterfowl. So we took it upon ourselves to see if there was a need for a bird island in Galveston Bay, and if so, what was the best way to do that."

![Image of birds and waterfowl](portofhoustan.png)
Construction of the 6-acre hexagonal-shaped bird island was completed in 2000. It is protected by stone along all sides and is 12 feet in elevation. “It is a multimillion-dollar Cadillac of an island, and the first ever specifically created as a colonial waterbird nesting site using dredge material,” declares Glass. “It is a rare opportunity for a biologist like me to help plan and actually build a bird island exactly the way I want.”

But would the birds come? “The first nesting season we were a bit apprehensive,” reveals Glass. “The birds all over the Bay started nesting late this year. We went out in March when some of these waterbirds should have been out trying to find their nest sites. We found no birds out there at all. “What a letdown after working on this project for 6 to 8 years and actually getting the resources to do it and seeing it built. Here is this multimillion-dollar island that you had a part in designing and thinking up, and then you go out there in March and not find a single bird on it. Well, you think you’ll try anything at that point.”

Glass and other members of the BUG made some skimmer decoys and put them out on the island, hoping that birds would be attracted. “We thought we were going to look really bad if some birds didn’t come, so we were willing to try anything. I don’t know whether the decoys had any effect or not, but we knew they had been used in other new sites for waterbirds.”

They returned three weeks later to check on the bird island and found out that some birds had come. Then came Tropical Storm Allison in June. “We think that the storm flooded out lower, more natural sandbars and shell bars where many of these birds nest. A month later, a tremendous amount of birds showed up on the bird island. It was late nest, they came in great numbers, and it was a successful nest,” Glass proudly notes.

An August site visit and bird count showed: 450 black skimmer adults and 125 almost fledged chicks; 1,685 brown pelicans with at least 50 young-of-the-year; 950 adult sandwich terns plus 500 almost-fledged chicks; and 750 adult royal terns with 300 almost-fledged chicks. “We counted birds and chicks in numbers far exceeding what we had hoped for in the first year after construction,” admits Glass.

Birds tend to return year after year to the same nesting spot. “These birds all like to nest on bare, open barren ground on open sand beaches.
There are very few open sand and shell beaches anymore that are not subject to summer flooding and storms or humans. This island is protected, people are prohibited from getting on it, and its elevation is high enough that the summer storms don't flood the nests out."

One side of the island is an elongated beach 220 feet long protected by a rock breakwater that extends out into the water. This creates a sheltered lagoon with a sandy beach. "This seems to be an attractive feature to the young nesting birds who watch hundreds and hundreds of their young chicks happily running down the beach into the shallows."

Location was an important consideration when planning the island. "We located it far enough offshore to avoid predator problems that occur on the natural islands around the Bay. The island is a mile-and-a-quarter offshore to reduce the chances of raccoons, coyotes, cats and dogs getting out there," explains Glass. "It is also close enough to the Ship Channel so that we can get maintenance material when we need it during the dredging cycles, and keep that beach open and maintained as a beach well into the future."

The Port Authority entered into a contract with the Audubon Society to plant about an acre of native tree and brush species in the middle of the island. "In the future, hopefully, we'll have a grove of trees in which other birds like the herons, spoonbills and egrets will nest."

"We have very good data on coastal waterbirds in Galveston Bay going back over 30 years. We'll be able to tell the effect of the island long term and see if the protection it offers helps the birds produce more successful young and actually increase the population," concludes Glass.

The bird island is a part of an overall 50-year project to construct an unprecedented amount of marshes and habitat. The project is funded jointly by the Port of Houston Authority and the U.S. Army Corps of Engineers. Within the next three years, 322 acres of new intertidal salt marsh will be created in the Lower Bay, 185 acres in the Upper Bay and 310 acres in the Mid Bay. Over the next 20 years, an additional 420 acres of marsh will be added to the Lower Bay, 630 acres to the Upper Bay and 630 acres to the Mid Bay. The final 2,000 acres of marsh will be built between the years 2020 and 2050.

The BUG turned to local elementary school students for help in naming the bird island. Teachers were sent information about the BUG project and the island itself, the importance of wetlands, and the different bird species found in the area. This information was incorporated into lesson plans and the students produced numerous possibilities.

The names were narrowed down to 20 semi-finalists for the BUG members to consider. The name chosen for the bird island is "Evia Island", submitted by Ally Levy, a fourth grader at Silverlake Elementary. Her explanation for the name: "I think the island should be named Evia Island, because the person who discovered the area was named Jose De Evia. He made a map of Galveston Bay and the area on July 23, 1786. Later, the island and city took the same name, Galveston, named for his boss, not him. He should have something named after him, because he was really the one who found Galveston."
ROYAL OLYMPIC CRUISES HAS ANNOUNCED ROUNDTrip SAILINGS FROM THE PORT OF HOUSTON IN 2002 USING THE WORLD'S FASTEST CRUISE SHIP AT 28 KNOTS, THE 836-PASSENGER OLYMPIC VOYAGER.

"In response to increased interest in cruising from passengers and our travel partners in the Houston areas, we are pleased to return to the Port of Houston with the Olympic Voyager for a series of unique winter itineraries in 2002," said Yiannos Pantazis, Royal Olympic's chief executive officer.

A 12-day partial transit of the Panama Canal departs Feb. 4, 2002, and visits Playa del Carmen and Cozumel, Mexico; Grand Caymen, C.I.; Ocho Rios, Jamaica; Port Limon, Costa Rica; Cristobal and San Blas Islands, Panama; and Belize City, Belize.

Olympic is offering a series of seven-day Tropical Explorer cruises from Houston. The first sails on February 16 with stops at Playa del Carmen and Cozumel; Grand Caymen; Montego Bay, Jamaica; and Belize City.

On February 23 and March 9, Tropical Explorer cruises depart for Isla de Roatan and Puerto Cortes, Honduras; Belize City; Playa del Carmen and Cozumel. An additional Tropical Explorer cruise departs March 2 with visits to Montego Bay, Grand Caymen, Playa del Carmen, Cozumel, and Key West, Fla.

A Maya Equinox cruise leaves Houston March 16 with calls to Isla de Roatan and Puerto Cortes; Santo Tomas de Castilla, Guatemala; Belize City; Playa del Carmen and Cozumel.

The Olympic Voyager, starting March 30, 2002, will then continue from Houston on a seven-day tropical explorer itinerary sailing every Saturday through April 5, 2003, from the Barbours Cut cruise terminal, visiting the ports of Isla de Roatan and Puerto Cortes, Honduras; Belize City, Belize; Playa del Carmen and Cozumel, Mexico.
new and new ways of doing

“The biggest growth that we’ve ever experienced is in the north/south markets. Latin America is viewed as a more strategic market for people from an economic point of view, a geographic point of view and a cultural point of view.”
The Port of Houston Authority Commission’s Emerging Markets Task Force, with the help of the Port Authority’s Trade Development Division, has launched new business initiatives with the goal of expanding the Port Authority’s opportunities in new markets.

“Six emerging markets were examined: Latin America, Africa, Asia, the Baltic Sea, Eastern Europe, and the Persian Gulf,” explains John Horan, director of Trade Development. “Under each emerging market, we pinpointed the targets and the maritime markets. We identified the emerging markets, the commodities we want to go after, and also the ocean carriers that we would want to partner with to accomplish this.”

Not surprisingly, Latin America emerged as the primary focus of the Task Force, which is comprised of Commission Vice Chairman Kase Lawal and Commissioners Jim Fonteno and Vidal Martinez.

“Our axis of commerce changed in 1995 from east/west to north/south,” explains Martinez. “The biggest growth that we’ve ever experienced is in the north/south markets. Latin America is viewed as a more strategic market for people from an economic point of view, a geographic point of view and a cultural point of view. The Port of Houston has more ties to Latin America culturally and geographically.”

Recognizing that certain market opportunities could not be tapped because of insufficient transportation infrastructure and business knowledge in some countries, the idea of marketing the Port of Houston Authority’s expertise was born.

The State of Texas Legislature passed Senate Bill 637 by Sen. Ken Armbrister and Rep. Peggy Hamric, paving the way for the Port of Houston Authority to do just that.

“We decided to take advantage of the Port of Houston’s credibility and position as the largest foreign cargo port in the United States, and to also take advantage of what is happening right before our very eyes in the economy,” says Lawal, who heads the Emerging Markets Task Force.

“We believe we can leverage and utilize the expertise and experience we have in the port management, facilities management, construction, engineering and other areas and be able to take it to the global marketplace,” Lawal continues.

“We want to start in Latin America, which is in our backyard, because we have excellent relations there...and these countries comprise the largest foreign cargo that comes to our shore. Mexico, Central American and South American countries represent more than one-third of the total cargo volume that comes to the Port of Houston, the value of which was $43 billion last year.”

By lending itself in a consulting and advisory role to those foreign ports that are undergoing tremendous growth, the Port of Houston Authority can provide management consulting and help in raising funds in the United States through institutions such as EX-IM Bank, OPIC, and the Maritime Authority in Washington by leveraging on the name of the Port of Houston and its credibility as eighth-largest port in the world.

Martinez says the Port Authority has the luxury of having a several generations lead on infrastructure, operations and processes - things that are often taken for granted at a port like Houston, but aren’t taken for granted just a couple hundred miles south of here.

“Those ports suffer from trying to do an accelerated catch-up to keep pace with a world that has globalized itself into a worldwide economy. We are more than happy to partner with them to show them what needs to be done,” says Martinez.
REGIONAL GULF OF MEXICO PORT FOR THE

THE BENEFITS ARE MANY

MORE JOBS  SUBSTANTIAL INFRASTRUCTURE INVESTMENT
ECONOMIC PROSPERITY  EXPANDED GLOBAL TRADE
The Port of Galveston and the Port of Houston can merge the two ports into one powerful regional port capable of capturing all of the lucrative container shipping business in the Gulf of Mexico. The decision lies with a vote by City of Galveston residents.

The maritime industry is changing just as are many other types of business around the world. Increased competition and the pursuit of efficiencies to improve the bottomline are driving new ways of doing business.

The first major shift came through the use of containers to carry cargo. Annual container growth is anticipated to continue at a double-digit pace.

The next great change is now in progress — the proliferation of transportation hubs. Just like the airline industry’s shift to hub airports for moving passengers, the shipping industry is headed in the same direction for moving the world’s goods.

“Someday, there will be five major ports in the United States that will act like hubs distributing cargo to the rest of the country. Two ports will serve the East Coast, and two will serve the West Coast,” explains Jim Edmonds, chairman of the Port of Houston Authority.

“Only one port will dominate the Gulf Coast. The Port of Houston intends to be that port. The Port of Galveston can be a part of that economic destiny and reap the enormous financial rewards increased global trade brings.”

The port that will dominate the Gulf must be able to handle cargo the way most of the world’s goods move, and that means containers. Moving containers is something the Port of Houston Authority does very well.

In fact, Houston has already captured 63 percent of the container market in the Gulf, and 95 percent of the container market in Texas. The Houston area is a large marketplace, and consumes half of what arrives in containers at the Port of Houston. The balance of the cargo moves on to other markets by truck and by rail.

Moving containers is also something the Port of Galveston has learned to do well through a successful partnership with the Port of Houston in the East End Container Terminal.

By 1997, the Port of Houston Authority was rapidly running out of capacity for handling its booming container business. Houston approached the Port of Galveston with a proposal to lease and upgrade its unused East End Container Terminal. This vacant terminal had long been a financial drain on the Port of Galveston, eating up $500,000 a year for expenses such as depreciation and debt service, while producing no income.

The Port of Houston Authority leased the facility, paying an annual fee to Galveston and investing $800,000 to repair the cranes and prepare the facility for business. As a result, the Port of Galveston’s cash drain turned into a positive cash flow.

Houston’s customer for the East End Terminal is a consortium of three shipping lines that now call at Galveston once a week. In 2000, 75,849 containers were handled by the three lines at the East End Container Terminal.

This once-idle terminal immediately started generating income for everyone involved — shippers, the two ports, and most importantly, workers on the waterfront. Since the beginning of this partnership at the East End Container Terminal, annual man-hours for Galveston longshoremen have risen by 37 percent to 334,781. The container business

HOUSTON HAS ALREADY CAPTURED 63 PERCENT OF THE CONTAINER MARKET IN THE GULF, AND 95 PERCENT OF THE CONTAINER MARKET IN TEXAS.
generates well-paying, skilled jobs on the waterfront. Such quality jobs are making a significant difference in the lives of many Galveston families.

In addition, Galveston’s cruise terminal was made possible with the income generated from doing business with the Port of Houston. Twelve months of profit allowed Galveston to take on new debt it otherwise would not have been able to borrow.

By working together, Galveston and Houston have already achieved great things. Many believe even more can be done.

By merging into one regional port, the Port of Galveston can once again thrive and become a powerful economic force for the area. A merger will bring the Port of Galveston needed capital improvements, international marketing as part of the world’s seventh largest port, and the ability to further invest in diversifying its facilities.

**DETAILS**

Specifically, the Port of Houston Authority would provide a cash infusion of $30 million in the first 10 years for high return-on-investment capital improvement projects at the Port of Galveston. In addition, the first 10 years of profits from Galveston operations would be reinvested in Galveston.

An estimated $70 million is expected to be invested in Galveston’s facilities in the coming decade. Currently, the capital needs of Galveston’s port are estimated to be $69 million over that time period, but there are no resources from which to draw the needed funds.

The Port of Houston Authority will assume Galveston’s financial obligations under all outstanding port general revenue debt, approximately $16 million. The City of Galveston would keep Piers 19 through 22 and the Newpark/First Wave property and earn a combined annual rental income of approximately $1,156,000.

Currently, the Port of Houston Authority is governed by a Port Commission that includes the chairman, who is jointly selected by the City of Houston and Harris County, two representatives from the City of Houston, two representatives from Harris County, one representative from the City of Pasadena, and one representative from the Council of Mayors representing the other 27 small cities in Harris County. A commissioner appointed by Galveston City Council would be added, giving Galveston proportional representation on the Port Commission.

The Port of Galveston’s employees would be retained and absorbed by the combined Port Authority.

In response to concerns that Houston could shut down the Port of Galveston, a buy-back provision was incorporated into the proposed agreement. If business declines at the two ports, Galveston could buy back its facilities for the amount Houston has invested in them.

The new regional port would remain a vital presence in Galveston in many ways. Existing businesses would continue and new business would be developed.

Galveston’s new venture into the cruise trade would be enhanced by the marketing capability of the Port of Houston Authority. Houston understands the value of the cruise business. The more of this business that can be attracted through a regional port, the better it is for both ports. As part of the business agreement, Houston will not move Galveston’s cruise business away from Galveston.

A regional port offers an excellent opportunity for both ports to achieve their goals. Houston would get deep water access and land for expansion while Galveston would get jobs, substantial infrastructure investment and new economic prosperity. It’s a win-win situation.