CONTAINERCAST 9 - WEST COAST CONTAINER VOLUMES

Mat: This is ContainerCast from the Center for International Trade and Transportation at California State University, Long Beach. Hi, I’m Mat Kaplan, and I’ll be talking again with Tom O’Brien. Tom is the Director of Research for the CITT and the Associate Director for METRANS, Cal State Long Beach programs. That’s the METRANS Transportation Center in partnership with the University of Southern California. And we’re going to start out today, Tom, talking about west coast container volumes which of course are directly tied to the dire straits that the world economy is in. I guess that’s certainly having its effect on the number of containers coming into, going out of our ports but your concern is really looking out beyond the recession.

Tom: That’s right Mat. Yes, this is a piece that I did for the Long Beach Business Journal looking at where we’re going to be when the economy recovers, because we’re all assuming that the economy is going to recover; and the question is “Are the ports of L.A. and Long Beach going to be well positioned to reclaim the place that they’ve had as the principal gateway for goods coming into this country?”

Mat: Now you quote two reports and so the answer is yes and no depending on which of these you pay attention to.

Tom: That’s right, or a combination of both which is ultimately where I come down. Yeah, the issue is that up until recent years the ports of L.A. and Long Beach have moved about 2/3 of the container volume in the U.S. and that’s up dramatically from a decade ago when it was about 50%. But there are tremendous concerns about the competitiveness of the west coast ports because of a combination of factors: aggressive marketing on the part of the ports on the east coast and the gulf coast, the accessibility of those ports by new projects like the expansion of the Panama Canal and uncertainty over a host of issues that have affected the west coast in general but L.A.–Long Beach in particular: labor questions, questions about fees, the uncertainty over the clean truck program coming out the ports of L.A. and Long Beach. And we had two reports that came out last year that looked at the situation at the ports of L.A. and Long Beach and the west coast - one decidedly more optimistic than the other.

Mat: Let’s start with the one that was not as optimistic. It says that all these other ports are definitely going to give us a run for our money and predicts that there won’t be a full recovery I guess in trade volume.

Tom: That’s right. This is a report done by a firm out of London called Drewry, well-known in the shipping and trade industries; and their bottom line is that about 25% of of the cargo that comes through the ports of L.A. and Long Beach could be at risk. This is obviously the discretionary cargo that can go to any port because it’s not destined for our local markets. And they argue that the population concentrations east of the Mississippi are better served by ports along the East Coast and the Gulf, that the expansion of the Panama Canal will make that possible, that shifting trends in terms of manufacturing also favor East Coast
ports in a way that hasn’t been the case in recent years. I’m referring specifically to the fact that as labor costs rise in China, it’s not the automatic first stop for businesses looking to outsource manufacturing. Production centers are moving to the west in China and to other parts of Asia, which make trips to the U.S. via the Suez Canal much more feasible and cost-effective and that’s making the East Coast much more competitive.

Mat: Didn’t you also in a previous ContainerCast talk about the possibility of a land route from Western China?

Tom: Right and that’s still being discussed and being tested and this would be a rail link that would go from China to northern Europe and would ultimately benefit places like the Ports of Hamburg and Rotterdam; but that’s a much longer term prospect. I think what the Drewry Report is talking about is an erosion of market share in a much shorter period of time. And again I want to emphasis, we’re not talking about decreasing cargo volumes - that has actually been the case this year because of the economy - but the expectation is that the ports of L.A. and Long Beach will still continue to grow but that will lose market share, the domination that we’ve had and returning to something closer like it was a decade ago, which is about 50%.

Mat: I see. Who put out that more optimistic report?

Tom: The more optimistic report was put out in the middle part of last year by a Philadelphia-based group called the Tioga Group and their concern, it’s still a concern, is that it’s not so much market share and competitiveness with East Coast ports. It’s actually a capacity concern that as we grow, that ports along the West Coast are going to be reaching about 80% effective capacity by the year 2020. And unless major investments are made with regard to infrastructure that the real concern is going to be, can we handle whatever cargo comes in.

Mat: I guess really in either of these cases, you’ve talked about a difference in market share, but really trade is still expected to increase, I mean, in a sense a rising tide raises all containers.

Tom: That’s certainly the hope and certainly the expectation. Yeah, and the question is whose boat or whose container rises more rapidly and higher than others. The interesting thing that comes out of the Tioga report is that the real threat for ports like L.A. and Long Beach isn’t necessarily New York/New Jersey, or Houston/ Galveston. It’s Vancouver and it’s the other ports that make part of the West Coast system. And you’re right about the fact that trade is still growing and the preliminary figures that have come out this year for Chinese growth in GDP is something in the range of 9%, which we would welcome in the US at this point. It’s a dramatic decrease over recent years in China and there’s concern that the growth needs to be higher to accommodate the large numbers of Chinese that are moving into the workforce but the fact is that with 9% growth, there’s still tremendous opportunities with regard to trade if only because of the fact that all of the growing Chinese middle-class becomes consumers, so it may not be
necessarily that it’s goods that we’re importing from China but that potential markets for goods that might be made or produced or at least pass through the US.

Mat: Let’s hope.

Tom: Let’s hope.

Mat: When is that widening of the Panama Canal supposed to be finished?

Tom: 2014 and they’re moving aggressively. That date hasn’t shifted over the past year and a half which is quite amazing.

Mat: Not far off. No matter what, big changes ahead.

Tom: That’s right.

Mat: Tom, thanks again for joining us on ContainerCast.

Tom: Thank you Mat, my pleasure.

Mat: You’ve just heard ContainerCast where our guest has been Dr. Thomas O’Brien. We’d love to hear from you. Write to citt@uces.csulb.edu. ContainerCast is produced by the Center for International Trade and Transportation, a division of University College and Extension Services at California State University, Long Beach, and in partnership with the METRANS Transportation Center. We offer an outstanding selection of events, programs and courses including the Global Logistics Specialist Program. Visit us online at www.uces.csulb.edu/citt or call 562-985-2872. That’s 562-985-2872.