

# Long Beach

## BUSINESS JOURNAL

June 23 – July 6, 2015

## The Other Canal



### ■ Trade and Transportation

By Thomas O'Brien

Last August, Egypt announced an \$8.4 billion upgrade to the Suez Canal. The planned expansion, called the Suez Canal Axis, was ambitious. The 101-mile long Canal currently has a daily capacity of approximately 50 vessels but is limited to traffic in a single direction. The plans called for the creation of a two-way channel along a 43-mile stretch of the Canal, allowing it to accommodate close to 100 ships per day. The impact on the global supply chain of a project of this nature is dramatic. Planners predict that creating a second parallel lane for traffic will reduce waiting time from eleven hours to something closer to three hours. Shippers realize not only time savings but, in eliminating a significant bottleneck, get a much more reliable and predictable supply chain.

And yet, the August 2014 announcement did not seem to get much press here. There might be any number of explanations. Last summer the local trade community was consumed by a number of challenges, including an expired longshore labor agreement and significant equipment shortages resulting in congestion at the docks and across the entire supply chain. Local observers have also seemingly been much more interested in the expansion of the Panama Canal given its proximity and the potential it has to divert cargo to the east coast.

There was also great skepticism about Egypt's plans. This would be the Suez Canal's largest expansion since it was constructed in the 1860's. And it would be undertaken by a government still somewhat in turmoil in the wake of the many changes brought about by the Arab spring. Many, both inside and outside of the country, viewed the project as more political grandstanding than anything else. Then there was the financing plan and the development timeline. While the original Canal was constructed over a 10-year period, Egyptian President Abdel Fattah Al Sisi called for completion of the expansion within a one-year time frame.

This depended upon mobilizing 41,000 workers around the clock and financing that was 100% Egyptian, i.e. no lining up external support from organizations like the World Bank. According to CNN, this would require moving 8.8 billion cubic feet of earth while using more than half of the dredgers currently in operation around the globe.

Not many questioned the need. Despite security concerns in the region, the Suez Canal handles approximately 10% of the world's trade. And it is in position to capture more. With the cost of doing business in China increasing, the center of gravity for global manufacturing is increasingly moving west in Asia to lower cost locations like Vietnam and Thailand. This makes an Asia-to-Europe-to East Coast of North America route more competitive with trans-Pacific trade lanes or ones

involving a transit of the Panama Canal. Furthermore, rapidly increasing vessel size is already proving problematic for an even expanded Panama Canal. Almost 55% of the world's container capacity is now carried by vessels that are deemed post-Panamax and for which that route is not an alternative. Suez, which is not constrained by locks, can accommodate more of the largest vessels.

Fast forward to 2015. Dredging work is scheduled to be completed in mid-July and Egypt will hold an inauguration ceremony in early August before the first ships move through the Axis. Some work still remains to be completed but it appears that Sisi's hopes for a one-year turnaround time may largely be realized.

Yet major questions remain unanswered. Egypt is predicting that the Canal will more than double its revenue due to increased traffic. But as the Panama Canal has learned, paying for the costs of a major infrastructure project like this one requires increasing tolls but no so much that the shipper takes an alternative route. It's a delicate balancing act.

Others have questioned whether the rapid pace of development has come at the expense of safeguards, like those put in place in Panama, to mitigate environmental impacts including preventing invasive species moving from one body of water to another. And then there's the toll on the workforce which may yet come under more scrutiny once the project is completed.

Still, for an industry that often talks about game changers, this one is actually a pretty big event. And with the Panama Canal expansion set to open by April of next year, the next round in the battle for cargo is well underway.

Dr. Thomas O'Brien is the Interim Executive Director for the Center for International Trade and Transportation ([www.ccpe.csulb.edu/citt](http://www.ccpe.csulb.edu/citt)) at CSULB and the Associate Director of Long Beach Programs for the METRANS Transportation Center ([www.metrans.org](http://www.metrans.org)). METRANS is a joint partnership of the University of Southern California and California State University, Long Beach.