Long Beach BUSINESS JOURNAL

December 9 – December 22, 2008

West Coast Container Volumes: Is the glass half empty or half full?

■ Trade and Transportation

By Thomas O'Brien

It is no secret that the economy is bad, consumer credit is tight, and consumer spending is off. It's also no secret that one of the consequences of these trends is reduced activity at the ports of Los Angeles and Long Beach. If people aren't making purchases, then there are fewer containers with fewer goods moving through our trade gateways. Volumes were relatively flat in 2007 (and only because exports were up due to a weaker dollar). By the end of this year, we should actually see a decline in the number of containers processed through the two ports relative to last year.

But are there other forces at work? When the economy recovers, should we expect to see container volumes recover as well? As of 2007, the west coast of the US handled 2/3 of all the country's container trade. That figure stood at 50% only a decade before. Is it realistic to expect that places like LA, Long Beach, Seattle and Tacoma can maintain their dominance over the east coast and Gulf Coast regardless of other trends in world trade? Two recent reports ask these questions and come to different conclusions.

In September of this year Drewry Shipping Consultants, a London-based group, released a white paper called *US Transpacific Intermodal Today and Tomorrow*. It asked about the stability of west coast trade volumes, and determined that there are long-term, structural changes underway that favor growth along the east and Gulf coasts at the expense of the west coast. The report doesn't predict a decline in trade volumes here but it does see an erosion of market share. The Drewry report points to a number of factors to support its conclusions. These include increased intermodal rail rates which make all water transport to the east coast more competitive; and a population concentration east of the Mississippi which favors the same ports.

East coast ports do have some disadvantages. Ships that are too big to cross the Panama Canal are likely to use ports along the west coast to unload goods destined for points east. The Suez Canal is an alternative but is a longer voyage from manufacturing centers in southeast China.
This could be changing. The planned expansion of the Panama Canal – expected to be completed by 2014 – makes places like New York and Charleston accessible as part of a transpacific route; and with an increase in labor costs in China, some manufacturing has moved to the west in Asia, shortening the distance to New York via Suez and making this route a more attractive alternative. In 2007, while the top five west coast ports saw combined box traffic fall by 1.1 %, the top five east coast ports increased their traffic by nearly 5%, albeit from a smaller base. Drewry's bottom line is that up to 25% of the US west coast ports' present cargo base could be lost to the east coast.

The Tioga Group out of Philadelphia has a different take on things. In July, Tioga released a report called *Containerized Intermodal Goods Movement Assessment*. It predicts that by 2020, or somewhere thereabouts, all west coast ports will have exceeded 80% of their capacity. The result will be continuing congestion. Tioga believes that the same factors that have favored west coast ports, including large local markets and good dockside and landside infrastructure, will still play a role in bringing trade to the region. The east coast may be well positioned to receive a greater number of containers; but major improvements including dredging will need to occur to allow these ports to fully compete. New York or Charleston will face the same challenges as LA/Long Beach in securing financing for major projects.

The Tioga Report suggests that the west coast shouldn't be looking over its shoulder at these other ports; instead it should be figuring out how to accommodate the traffic that will undoubtedly come this way regardless of what happens elsewhere. This means not only new infrastructure but also operational changes like spreading out shipments over the year to avoid the congestion problems of a peak season.

It is possible of course that both reports could be correct. The west coast might lose some market share and still be faced with congestion issues; and then there is the issue of how individual west coast ports fare against each other when and if the battle against the east coast is decided. For our local ports, the silver lining of this economic slowdown is that there may be time to strategize for what lies ahead.

Dr. Thomas O'Brien is the Director of Research for the Center for International Trade and Transportation (www.uces.csulb.edu) at CSULB and the Applied Research Coordinator for the METRANS Transportation Center (www.metrans.org). Sponsored by the US DOT and Caltrans, METRANS is a joint partnership of the University of Southern California and California State University, Long Beach.