

Panama Canal Expansion: Who Wins, Who Loses, Who Decides?



■ Trade and Transportation

By Thomas O'Brien

Earlier this month, I served as the moderator for a Point/Counterpoint event sponsored by California State University, Long Beach and the METRANS Transportation Center. The event was titled Panama Canal Expansion: The Battle for Jobs and Cargo, Who Wins? Who Loses? Who Decides?

Conventional wisdom says that an expanded canal that can accommodate larger ships will draw cargo traffic away from the West Coast, benefitting East Coast and Gulf Coast ports. One of the goals of the Point/Counterpoint was to challenge that conventional wisdom.

The panelists, Paul Bingham of Wilbur Smith Associates, Dr. Mary Brooks of Dalhousie University in Halifax, Canada, and Todd Thomas of Expeditors International, did just that. They suggested that decisions about how and where to ship cargo will be influenced by a host of factors including not only cost (which favors a cheaper, slower all-water route from Asia to the east coast of the U.S. via the Panama Canal), but also transit time, reliability of service, frequency of service,

type of commodity, and labor availability. With regard to cost, the panelists underscored the role that tolls will play in determining future cargo routes. If the tolls offset the lower costs of the all-water route, then the Canal's advantage is lessened.

Bingham, Brooks and Thomas differed somewhat on the ultimate winners and losers, particularly in the short term. Is Norfolk better positioned to draw traffic away from LA and Long Beach or is it Houston? Do the Panamanians win, or do they risk being saddled with the debt of a \$5 billion project? There was clear consensus, however, with regard to one point: ports cannot just sit back and expect traffic to come their way. They must continue to operate efficiently and prepare for changes to come so that they can respond accordingly.

The Point/Counterpoint event answered a lot of questions and gave attendees more food for thought, but I think the jury is still out on the implications of the Canal's expansion for west coast ports. That was apparent in the very different perspectives that were represented in various press reports following the event and in comments offered by attendees.

For some, the take-away message was that west coast ports, including Los Angeles and Long Beach, are well-equipped to weather the storm and are not likely at risk of losing business. They heard the message from Todd Thomas that the shortest distance between two points is a straight line, and that Southern California is at one end of that line which begins in Asia. They also heard that volumes will likely increase, even if market share

is lost. And if volumes are increasing, you can't be considered a victim of the Canal's expansion, right? forces. If nothing else, it would allow us to play a role in deciding what it means to win and lose.

For others, the most important message came from Mary Brooks, who argued that the business was Southern California's to lose. That means that the battle over controlling the delivery of cargo to the U.S. heartland goes to the port that is least complacent, that maintains and expands infrastructure that contributes to improved productivity, and that offers reliable service and competitive pricing.

Why the different responses to the same information? One reason is because of that conventional wisdom. If you start with the assumption that the east coast wins, then a more nuanced discussion that reveals a more complex set of possible outcomes set in motion by a greater number of decision makers may change your perception of the potential threat. As a result, we get one side arguing that the Ports have overstated the impacts of the Canal's expansion, and the other arguing that if we don't keep pace with our competitors, it won't be the Canal that does us in, it will be ourselves.

What this suggests to me is that the debate over the Panama Canal reflects a larger debate (even an anxiety) about the role that international trade can and will play in our future. We have spent an enormous amount of time and resources arguing over the merits of individual projects like the Gerald Desmond Bridge, the Middle Harbor project and the I-710 expansion. But we don't have a fundamental agreement on what those projects should add up to. Do they allow us to keep the trade we already have or grow to accommodate more trade coming from Asia? Is it ok for the region to remain home to the largest port complex in North America regardless of market share, or should we be competing for new business to signal our willingness to keep pace with the changes occurring around us (and to make sure we influence those changes).

Until we grapple with those larger questions, we will continue to come away from events like the Point/Counterpoint with vastly different perceptions about the potential threat from external