

Best Laid Plans: The Panama Canal



The

■ Trade and Transportation

By *Thomas O'Brien*

The cargo shift will have to wait a little while longer. For

the past few years, the most popular game in the international trade industry has been “Who wins from an expanded Panama Canal?” The early bets were on the East Coast ports, which were gearing up to take advantage of bigger ships transiting the Canal and bypassing the West Coast all together. Then the pendulum shifted back to the West Coast once it became clear that the infrastructure improvements needed for the East Coast to take advantage of the expansion were not yet completed. Others suggested it wasn’t necessarily a zero-sum game. Now we know we’ll have to wait a little while longer to find out who is correct.

The work on the Panama Canal expansion has fallen six months behind schedule, and if you follow major public works projects, you won’t be surprised if the schedule slips even more. The new opening date, now April 2015, is the result of a dispute over concrete specifications. The construction contract included financial incentives for early completion and penalties for delays; but with a project of this size and one that costs more than \$5 billion, you have to expect the unexpected.

One of the factors that will determine winners and losers from an expanded Canal is the toll set by the Canal Authority. Proving once again that prediction is an inexact science, this month the Authority delayed a planned 15 percent increase in

tolls that were originally scheduled to kick-in July 1. Tolls are now scheduled to increase in October of this year. The Panama Canal Authority is in a difficult position. It needs to recover the cost of the expansion, but the waterway’s success depends upon a fee structure that keeps it competitive with alternatives, including intermodal service from the West Coast of North America. The delay is in direct response to an outcry from vessel operators. In a game of high seas (and narrow locks) chicken, the Panama Canal Authority blinked first.

The changes in completion schedule and tolls remind us that who wins and who loses depends upon a complex set of interactions involving any number of actors along the supply chain, not just those directly involved with the Canal. These actors include ocean carriers, railroad companies, shippers and their agents. We also have to explore where the goods on the ships end up, where they are produced and why.

Concerns about the cost of doing business in China are already beginning to bring about shifts in production strategies for many companies with global supply chains. More often these days, companies are willing to engage in a China +1 strategy that reduces costs through diversification within Asia, making China the hub of a logistics network that may also include places like Vietnam or Thailand. Fuel costs and time factors make “nearshoring” in Latin America a viable alternative to Asia altogether.

More complex supply chains on the manufacturing side make for more complex supply chains period. But they also give shippers more options when choosing how to get goods to market, wherever those markets may be. If China +1 is the hallmark of today’s Asian supply chain, then on the domestic front it’s the four corners strategy. Shippers are increasingly willing to use whatever port makes most sense for a particular product destined for a particular market at a particular time. Sometimes it’s LA/Long Beach, and other times it’s Seattle, New York or Charleston. As a result, the battle is fought in terms of who has the cheapest routing (time and money), who has the best reliability and where the infrastructure is available.

That means that – apart from shippers and their agents, ocean carriers, and rail and intermodal companies – important decisions about routing are also made by distribution center and warehouse operators as well as federal, state and local governments. And given the competitive nature of ocean carriage and port operations, very small changes in time and cost factors could have an impact on supply chains in both the short term and long term. Decisions made about any number of issues including where and when to invest in dredging and when to impose environmental regulations could help tip the scales in favor of one trade lane versus another.

And other factors could reverse things just as quickly. The March 2011 Japanese earthquake and tsunami resulted in short term shifts in trade lanes for which many shippers were not prepared. That suggests that the real winners are those with the most agile supply chains. If you have options, then you don't have to bet on someone else's concrete mix ■

(Dr. Thomas O'Brien is the director of research for the Center for International Trade and Transportation at CSULB and associate director for Long Beach Programs for the METRANS Transportation Center, a partnership of USC and CSULB. For past articles in this series, please go to www.ccpe.csulb.edu/IndustryArticles.)