

“Pacific Carriers see no end to West Coast Port, Rail congestion”

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Senior executives of APL and the Transpacific Stabilization Agreement carrier group said they expect severe congestion problems on the U.S. West Coast to continue in the medium term, despite efforts by shipping lines and shippers to look for alternative port gateways and tentative plans to build new terminals.

"Difficulties will exist for quite some time on the U.S. West Coast," said Ron Widdows, chief executive officer of APL, a carrier and West Coast terminal operator. "You're going to see severe problems with the railroads in the U.S., which will increase desires to find alternative gateways," he told a press conference in Singapore Monday.

"We've said the infrastructure situation is going to worsen before it gets better, because many of the most helpful, big-ticket solutions -- dredging, new and expanded terminals, added locomotives, switching and double track, full development and implementation of container yard management technology, changing labor rules and procedures -- will likely take two years or longer to implement," said Brian M. Conrad, deputy executive director of the Transpacific Stabilization Agreement and the Westbound Transpacific Stabilization Agreement.

Addressing the Women in International Transportation conference Feb. 10 in Newport Beach, Calif., Conrad noted the past year has been a difficult one for shippers, carriers, ports, terminal operators, railroads, trucking firms and third-party logistics providers due to congestion and delays.

On one day at the height of the peak transpacific shipping season, a record 94 ships were in Los Angeles-Long Beach harbor concurrently, of which one-third were containerships waiting at anchor to berth. Railroads are also struggling to move intermodal containers to the inland.

"Just recently, Union Pacific embargoed container traffic out of Southern California to Memphis and Dallas, due to system-wide congestion," Conrad said. Burlington Northern embargoed container traffic on its routes last year, too.

"With their relatively narrow rates of return, railroads have been reluctant to commit investment dollars to build costly redundant trackage and switching that allow trains to easily pass one another in the event of bad weather, breakdowns or even conflicting schedules," Conrad said. Some carriers are also concerned about capacity-related delays for ships using the Panama Canal.

Acknowledging that shippers will have heard this "litany" of problems before, Conrad said the crisis will continue for at least another year, and is "largely outside the control of ocean carriers."

"Carriers are building the infrastructure and service networks to get the goods across the Pacific on fixed-day supply chain schedules," he said. "It is unacceptable for all of that cargo to simply hit a wall when it reaches the West Coast or the Panama Canal."

Like other ocean carrier executives, Widdows and Conrad agree that congestion has a restraining impact on the effective ship capacity provided to the market. "Container slots, in and of themselves, mean little if there's no berth or long-shore work gang or truck pickup or train leaving the harbor area," Conrad stressed. "Overall, we see a 2-percent net capacity reduction from Asia to the U.S. over 2005-2006 due to infrastructure constraints," he said, adding that this is a conservative estimate.

Shipping lines of the TSA have argued that they need to raise their eastbound freight rates again this year to cover rising costs, despite the likelihood of more congestion and service problems. Widdows predicted that the shipping industry "will seek other gateways" in North America as alternatives to the most congested ports.

"You read about developments in Mexico and in Canada," the senior APL executive said, referring to a potential new terminal on the West Coast of Mexico by the Hutchison group. "Those will no doubt develop."

The Canadian port of Vancouver is planning to build a third container berth at its Delta port facility. Widdows also warned that U.S. Northeast ports are also "heavily congested." While demand for all-water services to the U.S. East Coast is strong, there is not enough capacity on this route, he added. Widdows expects freight rates from Asia to the U.S. East Coast to rise more than on other trade routes this year.

Los Angeles and Long Beach, the ports that are the most affected by congestion, have no short-term plan to add substantial port capacity. "Only one new container terminal -- Pier S in Long Beach -- is even in the design stages," Conrad said. "For most West Coast ports, any further build out involves environmental and land use conflicts subject to lengthy government review and public opposition."

Nearly 70 percent of total Asia/U.S. container traffic arrives on the West Coast, and most of that volume moves through Los Angeles and Long Beach. In 2004, carriers and shippers diverted some ships and cargoes to Pacific Northwest ports and Oakland, with the result that port volume growth slowed to 11 percent in 2004 to 13.1 million TEUs, compared to a growth of 18 percent recorded for 2003.

Conrad noted that only four U.S. West Coast ports -- Los Angeles, Long Beach, Seattle and Tacoma -- have either naturally deep water or berths and channels dredged at the 50-foot depth needed to accommodate the new 8,000-TEU ships under construction. Widdows believes that some U.S. importers could reconsider their Asian supply chains because of congestion, but added he has no data to support this view.

The TSA believes the scale of Asia-to-U.S. volumes has reached a threshold where problems start to occur. "Cost and complexity issues have surfaced with respect to large-scale, retail-driven manufacturing over a 10,000-mile supply chain," Conrad said. "Once the concentration of global manufacturing capacity in Asia necessitates massive port development, rail network expansion, highway construction and deployment of new information technologies to manage traffic flow, some pass-through of associated costs is inevitable," he added.