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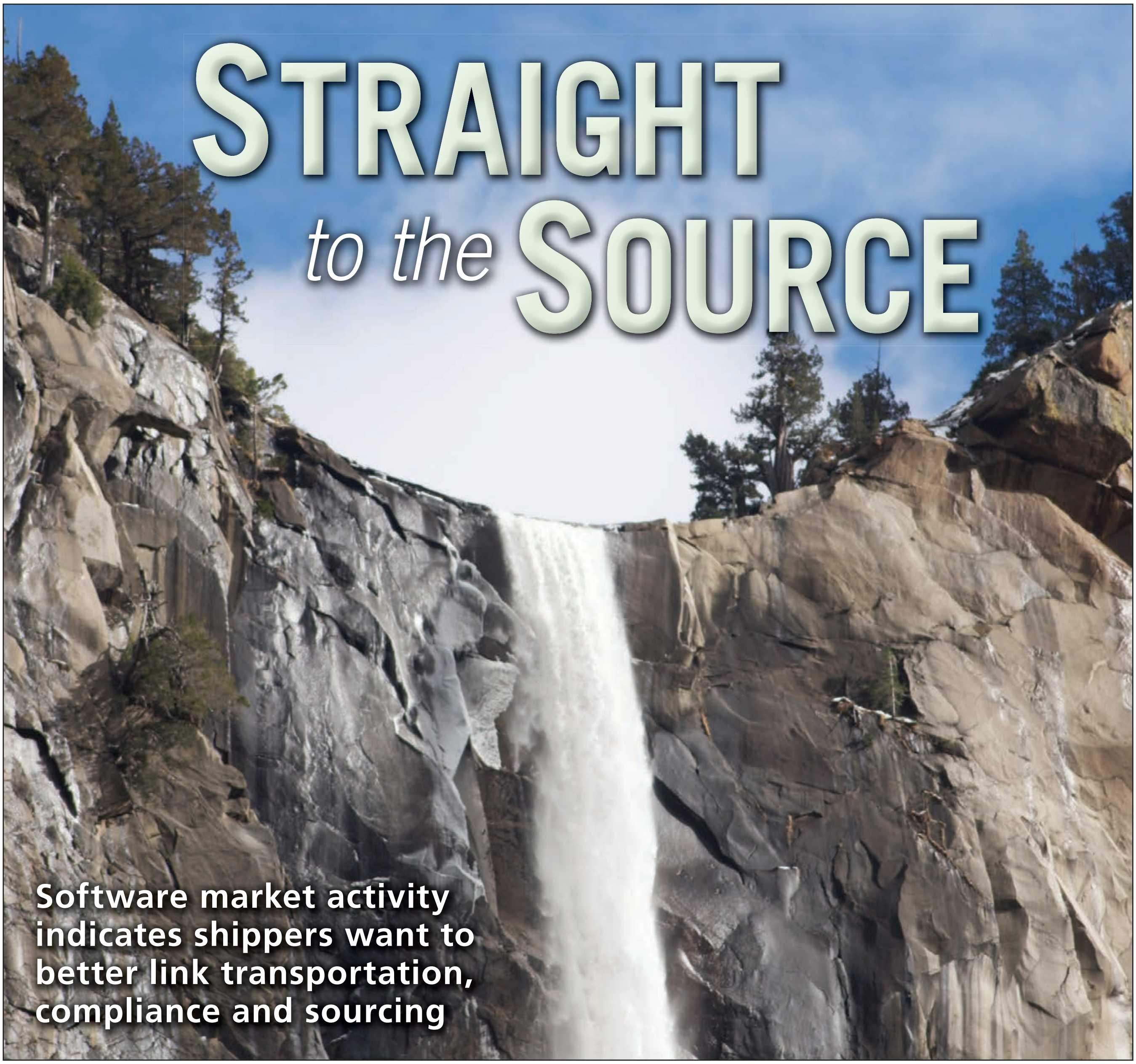

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Southeast port bound

Some cargo diverted from West Coast ports during recent congestion crisis will stay.

By Eric Kulisch

Leaders of Southeast ports at an industry roundtable in late March said they expect U.S. importers to permanently shift a portion of Asian freight volume to the East Coast in the wake of the recent meltdown on the opposite coast that led to massive congestion, supply chain disruptions and financial losses for shippers.

The nine-month impasse in labor contract negotiations between dockworkers and waterfront employers that ended Feb. 20 led many cargo owners to use alternative ocean routes to bypass gridlock at West Coast ports. East coast container ports from New York/New Jersey to Houston have been key beneficiaries of those decisions, with cargo volumes recently rising by double-digits and western ports reporting volume declines of 10 to 30 percent.

Beyond temporary damage to cargo interests in the hundreds of millions of dollars, western officials and port-dependent businesses fear the union-organized work slowdown that worsened underlying systemic inefficiencies has created a long-term perception among retailers and manufacturers that West Coast ports are unreliable and delays will continue to crop up.

There are "some good opportunities for incremental growth and marginal market share gain for the East Coast and Gulf," Curtis Foltz, executive director of the Georgia Ports Authority, said at the Port of Jacksonville's annual logistics and intermodal conference.

Rival ports may be able to pick off some cargo from Los Angeles, Long Beach, Oakland, Seattle and Tacoma because shippers realize that much of the congestion out West is unrelated to the International Longshore and Warehouse Union contract, said Foltz, the longest-tenured director of a major seaport in the United States. Problems with mega-vessels dumping concentrated piles of containers on unprepared terminals, poorly allocated chassis and labor, long turn-times for trucks, a shortage of truck drivers and rail capacity issues all pre-date the labor strife and remain to be resolved.

JaxPort Chief Executive Officer Brian Taylor was less reserved in his estimation of the diversion trend.

"There is going to be a monumental change here," similar to what happened after the 2002 West Coast port lockout when shippers diversified ports of entry to reduce the risk of having inventory held up at a single pinch point, he said.

Over the past decade, retailers opened more distribution centers near ports such as Savannah, Norfolk and New York/New Jersey or within striking distance of others. Analysts estimate the West Coast lost about 10 percent of its market share to ports on the East Coast.

Taylor referred to an *American Shipper* research report, in which a third of retailers and a quarter of manufacturers surveyed said they planned to make structural changes to their supply chains and shift at least 20 percent of business to East Coast DCs. Companies that already have warehouses in the Northeast and Southeast will be able to change more easily, but the survey suggests that many beneficial cargo owners are contemplating occupying new DCs on the East Coast.

JaxPort's Asia-Pacific container business for fiscal year 2014, ended Oct. 1, grew 20 percent, although the overall increase in TEUs was only 1 percent.

"There is going to be a material shift to the East Coast," North Carolina State Ports Authority CEO Paul Cozza agreed. The Port of Wilmington is a relatively small player in the container market, posting 252,369 TEUs in volume for the fiscal year ended June 2014. But in the second half of the year, the port experienced a 21 percent gain in container volume versus the same period in 2013.

The Port of Savannah, the nation's fourth largest container port, has experienced warp-speed growth during its current fiscal year, which runs mid-year to mid-year. Container traffic is running three-times the projected growth of 4 percent to 5 percent, and two-thirds of that growth is associated with diverted cargo.

GPA reported in late March that its box volumes jumped 14.2 percent in February to 284,037 TEUs.

Foltz said Savannah, the nation's fastest growing port in the past decade, is on track to handle about 400,000 TEUs more than it did last fiscal year (3.14 million TEUs).

"We're handling volumes that we didn't anticipate until 2018. Our March run rate on an annualized basis puts us at volumes we expected to handle in 2025," he said.

Despite the surge in containers, Savannah has not experienced any deterioration in operations. The ability to maintain cargo fluidity could be a factor in hanging onto new business, Foltz suggested.

Some beneficial cargo owners who are trying Savannah for the first time "like what they've received in terms of service reliability, performance, predictability, and proximity to the consumer," he said.

In fact, Israeli carrier ZIM has indicated that customer satisfaction with ad hoc "sweeper vessels" to the East Coast via the Suez Canal is forcing it to consider adding a regular service between China, Southeast Asia, New York/New Jersey and Savannah using post-Panamax vessels.

Foltz said Savannah was prepared for the unexpected influx in volume because the port authority and state of Georgia had the foresight to invest heavily in infrastructure and create one big terminal with the scale to achieve better efficiency than several, disconnected smaller terminals.

Carriers do not give much warning when they introduce big ships into service, so it helps to be ahead of the curve with the necessary cranes, wharf upgrades, rail capacity, roads and cargo-handling equipment, he said.

The GPA operates under a 10-year planning cycle that is updated every two years. Officials study economic trends and project future box volume, identify needed projects to accommodate that growth and develop a financing plan.

"Our board directed us to invest in capacity that exceeded our projected demand by 20 percent at any point in time," Foltz said.

Future plans include the purchase of additional cranes and consolidation of container storage areas to create more space, which will increase annual throughput from 4.5 million TEUs to 6.5 million TEUs. By 2024, Savannah is expected to feature about 30 ship-to-shore cranes, up from 22 today, and 169 rubber-tired gantry cranes compared to 116 now. ■