EMERGING PORTS

-- World trade driving growth in secondary port markets outside New York and Los Angeles --

By Mike Peters

Anyone involved in logistics or supply chain management today knows that New York and Los Angeles dominate U.S. port activity. Combined, the two cities processed almost 19 million containers last year – well over 50 percent of the nation's total. Why is no secret: both ports enjoy robust port infrastructure and offer direct access transportation networks and millions of nearby consumers.

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But a steady increase in container volume, sparked by the continued growth of world trade, is generating intense interest in alternative port markets around the country. Supply chains are now longer and more complex than ever, and companies are realizing they need to build flexibility and redundancy into their distribution networks in order to mitigate slowdowns from congestion, weather, labor strikes and other problems. Distributing goods via a secondary port is one way to achieve that objective.

Port authorities on the East, West and Gulf coasts understand this dynamic full well. Tacoma, Houston, Norfolk, Charleston, Savannah and others are all vying to position themselves as leading alternative ports in the U.S. But the odds are they won't fare equally in the years ahead. Some are likely to experience significant growth and begin increasing their market share. Others will retain their status as secondary players.

Winners and losers will be determined by a variety of factors as this process plays out. One of the most important – the percentage of population within a one-day's truck drive – is obviously beyond any port authority's control. But there are a number of other key areas where the actions of the public and private sectors at the local level can have real impact:

Infrastructure

The size of the average container ship has increased massively in recent years. The largest coming on line today have a capacity in excess of 10,000 containers – so large they can't fit through the Panama Canal. These so-called "post-Panamax" ships make up an increasingly significant portion of the fleet that carries raw materials and finished goods between the U.S. and manufacturing centers in China, Taiwan and other parts of Asia.

Any port that wants to play in the big leagues must have an infrastructure in place to handle these ocean-going behemoths, along with medium and smaller-sized container vessels. Channel depth, terminal size, and the size and number of container cranes all combine to influence a port's total capacity. "Land-side" infrastructure – including the access a port offers to interstate highways and rail freight – is equally critical, enabling goods offloaded from ships to move out of the port quickly and on their way to market.

Most ports are actively investing in infrastructure with an eye on future growth. For instance, the Virginia Port Authority (VPA), plans to triple capacity of the port volume at the Port of Virginia over the next 15 years. It recently completed a $400 million expansion at the Norfolk terminal that dredged the 50-foot inbound channel and added a total of eight new cranes to support an increase of 2 million containers per year. Already, this investment has helped increase the number of international shipping lines calling on the port.

Liner service

No matter how robust a port's infrastructure is, it can't be successful if the world's key shipping lines choose to bypass it as a port of call.

The shipping industry today comprises more than two dozen lines, including leaders like APL, Cosco, Evergreen, Hyundai and Maersk. There's no magic number of individual lines at port to ensure success, but ports do want enough variety and redundancy to ensure consistent service to a variety of global destinations.

U.S. port rankings

Port	2005 TEUs	Share	Growth, 2002-05
LA/Long Beach	14,195,000	38%	33%
NY/NJ	4,800,000	14%	28%
Oakland	2,270,000	6%	33%
Seattle	2,088,000	6%	45%
Tacoma	2,066,000	5%	40%
Norfolk	1,982,000	5%	38%
Charleston	1,980,000	5%	24%
Savannah	1,901,000	5%	43%
Houston	1,582,000	4%	36%
Miami	1,000,000	3%	2%
Port Everglades	797,000	2%	44%
Jacksonville	777,000	2%	14%

Source: Containerization International and ProLogis analysis

The importance of liner service was underscored by the experience of Portland, Oregon. Container service at the Port of Portland almost ended in 2004 following the exit of two of its three trans-Pacific steamship companies. From 2004 to 2005 container volume at the port decreased more than 40 percent.

Later, local authorities were able to secure support from the state to modernize the port's infrastructure, which they immediately began marketing to overseas shipping lines. This proved successful, and in early 2006 the port added two new Taiwan-based shipping lines.

Availability of Modern Distribution Centers
Warehouses are a crucial link in the modern supply chain. They enable basic distribution – ensuring the accurate and seamless flow of goods to their appointed destinations. In addition, they function as processing centers for goods – physical locations where products can undergo a variety of "value added" activities before moving on toward their ultimate destination on the retail shelf. Finally, they enable companies to store enough inventory to meet unexpected surges in demand – and to cushion themselves from the impact of a break in the chain that otherwise is beyond their control.

A secondary port looking to grow its market share must make sure it has an adequate supply of Class A distribution space to serve present and future demand. Many ports that enjoy decent infrastructure are lacking in this regard. In Norfolk, for instance, there is a real shortage of modern distribution centers near any of that market's four terminal complexes. In Olympia and Tacoma, Washington, political opposition to warehouse development has hindered the development of new industrial properties.

Even top tier port markets have a need for a greater supply of modern distribution centers. For example, the Port Authority of New York/ New Jersey and the New Jersey Economic Development Authority have teamed to boost the amount of high-quality distribution space in the region through the so-called "Portsfield" initiative. The agencies are providing financial, technical and other support to developers and communities that can transform brownfield sites into modern warehousing and distribution centers.

Conclusion

Today, no single port outside New York and Los Angeles processes more than 6 percent of total container traffic. Site selection executives need to bear that in mind when making long-term decisions about the design of their logistics networks. For the foreseeable future, those two cities will continue to dwarf all other markets as import/export hubs for container traffic.

But are sound reasons for port- and trade-dependent companies not to put all their eggs in those two baskets. Secondary ports that invest wisely in infrastructure, build strong relationships with shippers and work to ensure a robust supply of distribution space face a future bright with opportunity.

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