Harnessing the hinterland

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Downplaying talk of a 'slowdown', US east coast ports still have much to look forward to, as Barry Parker finds out

Credit: Norfolk Southern Corporation

Port planners, like other executives handling long term investment decisions, sometimes need a crystal ball and a wall-sized multi-modal map, in addition to their capital budgeting toolkits. And those in the US are no exception.

For the East Coast of the US, planners' overwhelming concern is how to best service far flung hinterlands, and capture containerised cargo from competitors in the process.

Ten years after the *Regina Maersk's* - outsized, by 1998 standards, at 8,000 teu capacity - maiden voyage to the East Coast, load centre ports in New York/New Jersey and in the mid-Atlantic coast region are gearing up for the advent of direct trade from Asia. And on the suddenly less distant horizon is the anticipated 2014 opening of a widened Panama Canal. Presently, the Canal cannot handle vessels of more than about 4,500 teu capacity.

In the ten years since that famed Maersk's call, swirling economic and political dynamics have dynamically reshaped the US tradeflow landscape. Throughout the 1990s and into the mid 2000s, as Asian economies boomed and US import demand increased, bigger containerships servicing Asia traded to US West Coast ports, mainly Los Angeles and Long Beach - by far the leading US ports with an aggregate 15.7m teu throughput in 2007.

Boxes would then move to the hinterlands, and sometimes all the way across the country, by rail, with the advent of doublestack trains supporting efficiencies of such movements. But the West Coast became a victim of its own success as congestion abounded and flows reached a plateau. Simultaneously, the US dollar weakened - putting a further drag on imports - and energy prices rose.

As an aside, one notable positive surprise has emerged on the bulk cargo side with US coal exports rising 19% overall to 59.1m tonnes in 2007, after declining steadily throughout the decade. Coal bound to Europe rose 30% from the previous year, to 27.1m tonnes. The terminals at Newport News and Norfolk, Virginia, all linked to the Appalachian coal fields, have been prime beneficiaries.

Looking at the global box business - an important stalwart of US trade -3rd quarter 2007 saw the onset of what economists euphemistically called an "economic slowdown", rather than a "recession". Absolute levels of container imports have declined, but more so on the West Coast than in the East. Year-on-year data provided by Drewry Shipping, contrasting 4th quarter 2007 with 4th quarter 2006, shows declines at Long Beach and Los Angeles of 5.5% and 2.6% respectively. Yet, East Coast ports have continued to grow, with Drewry commenting in its Container Forecaster publication that "those European facing North American ports are certainly well placed to feel the benefit of the ever widening gap between the dollar and the Euro as far as export growth is concerned".

All of these shifting factors have translated into hefty gains at many of the bigger East Coast and US Gulf Coast ports.

New York/New Jersey, the premier port in the East, gained 4.1% in 2007, logging 5.3m teu. Savannah, serving the burgeoning Southeastern US markets, grew by an astounding 20.6% in 2007, with throughput of 2.6m teu. Hampton Roads (representing the ports in the Norfolk area, as well) grew by 4%, to slightly over 2.1m teu, while Charleston (competing closely with Savannah in the Southern tier) actually slipped by 10.9%, to 1.75m teu. The results from Florida were mixed, with Port Everglades (near Fort Lauderdale) a 9.8% gainer- with 950,000 teu, perhaps at the expense of Miami (down 9.4% to 880,000 teu) and Jacksonville (off 7.6% to 710,000 teu). Elsewhere in the East, Baltimore (mainly a bulk port with a smaller container franchise) slipped slightly, to 600,000 teu, and Wilmington, Delaware, a leader in the refrigerated segment, moved upwards to 280,000 teu.

Up and down the East Coast, the pursuit of direct calls by larger ships has been an important element of modern day business. New York and Miami are deepening to 50 ft drafts through a complicated cost sharing formula between local and national governments. Drewry's analysts point to gains at Savannah, with plans underway to deepen to 48 ft, from all water routings to Asia through the Panama Canal, but also to an increase in routings through the Suez Canal - which enables direct trade with Asia in ships that are presently post-panamax. Trade through the Mediterranean has also featured prominently in plans of the Virginia Port Authority, with a 50 ft draft already in place, which recently extended a Memorandum of Understanding in place with the Suez Canal Authority, and signed an agreement with ports in Morocco.

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Yet, East Coast ports are still being impacted by a shift in dynamics. Drewry consultants tell *Port Strategy* that “the Suez option for Far East/East Coast North America trade has not exactly taken off as expected” due to an easing of traffic at the Panama Canal, and the sluggish import trades into the West Coast of North America. Drewry also points to the uncertain fuel price environment, telling *Port Strategy* that “the fuel price hike does mean that the longer Suez route is proportionally more disadvantaged than Panama”.

Longer term, though, the East Coast is investing for its emerging role as an entrepot for Asian business via direct sailings. The Virginia ports have begun to see the fruits of a circa $500m investment by APM Terminals in a new terminal in Portsmouth on 55 ft of water, which will have 1m teu capacity when completed in 2009. The first phase of APM’s Virginia terminal, linked to major carrier Norfolk Southern Railroad (NS), opened in 2007.

Meanwhile, indicative of ports’ need to push their reach deep into the US interior, NS has embarked on a three-year project, dubbed “Heartland Corridor”, which will significantly speed the flow of double stack trains between the Norfolk area and the US Midwest. This presently accounts for about 500,000 teu, or roughly 20% of Norfolk’s box traffic. By investing alongside the Federal government and State governments of Virginia, West Virginia and Ohio in the project, NS will enhance its service from the port, including the new APM Terminal, all the way to the rail hubs at Chicago. Longer term plans call for connections with additional terminals in Norfolk and business developers are seeking to attract entire distribution terminals, bring shippers’ regional logistics close to Portsmouth’s docks.

Back up the coast, planners in New York are intent on maintaining PoNYNJ’s leadership position as trades shift to larger ships and its volume doubles to 10m teu/year by 2020. The PoNYNJ is spending more than $600m for its share of the onoing dredging program that will enable the new generation of panamax ships to call at PoNYNJ. Berths at the port's APM and Maher Terminals have now been dredged to 50 feet. The ExpressRail linkages at Elizabeth (with 18 tracks), Port Newark and Staten Island, all connect to major railroads CSX and to NS. Overall, some $2bn of capital expenditure is being budgeted for the New York port through 2016.

In a new initiative at Bayonne, the Port Authority is now operating a terminal for imports and exports of automobiles destined for the New York area, and will be developing a container terminal nearby. The New England market is also served by the PoNYNJ, although Boston is seeing an uptick in calls after a $28m investment, completed in 2007, that doubles capacity to 300,000 teu annually at its Conley Terminal. In Boston, as with many regional ports, shippers face the trade that exists between limited direct service with overseas destinations, versus a wider service array through PoNYNJ, where boxes are mainly trucked. Columbia Coastal Barge Lines operates feeder services between New York/Boston, and New York/Portland, Maine, further up the East Coast.

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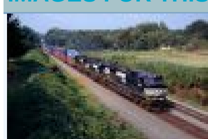

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