Regrets, recriminations, diversions: the legacy of bad times at West Coast ports

From business losses to ruptured relationships, the damage from the recently resolved labor dispute continues to mount. But was it enough to spark permanent change?

THE NINE-MONTH LABOR-MANAGEMENT DISPUTE on the West Coast waterfront spread misery across a broad front. But perhaps no one had it worse than the Port of Oakland.

Like other ports, Oakland, the nation's fifth-busiest containerport, faced mounting backlogs and diminished productivity as tensions escalated between the International Longshore and Warehouse Union (ILWU) and waterfront management represented by the Pacific Maritime Association (PMA). At the height of the standoff in mid-February, Oakland's largest terminal was operating at half of its normal capacity, and its second largest was functioning at 65 percent, according to J. Christopher Lytle, the port's executive director.

Vessels that would normally discharge Asian imports at either the port of Los Angeles or Long Beach and then call up the coast at Oakland were unwilling to deal with more congestion at Oakland. Instead, many turned around after unloading in Southern California and returned to Asia. As a result, consignees with product to be distributed throughout Northern California were forced to find costlier land transportation to get goods to market.

But what set Oakland apart from its brethren were the problems it encountered moving U.S. exports. Exports account for 55 percent of Oakland's traffic mix, understandable given the port's proximity to the agricultural abundance of California's verdant Central Valley. With vessel operations hamstrung and with no other place to go, exporters watched helplessly as their perishables sat, and in some cases rotted, in warehouses. And they took out their frustrations on port officials. "Customers are very upset," Lytle said in a phone interview several days before a tentative five-year collective bargaining agreement was reached Feb. 20.

That may be why a $100 million project to build a global logistics hub at the port has taken on added significance. Over the next two to three years, the port and the city plan to turn a decommissioned army base on the facility's outer harbor into a 360-acre logistics center that includes a warehousing network, trans-loading facilities, and a dry-bulk terminal. Westbound goods, whether they are bulk agricultural commodities or dry bulk shipments, would be moved by rail to the center. There, they would be loaded aboard containerships or dry bulk vessels for trips to Asia.

The first step was announced in late January, when the port and Union Pacific Railroad Co. (UP), the giant Western railroad, began a $25 million initiative to link the new site with UP's main line into Oakland. The work, set for completion in October, calls for the construction of 7,400 feet of lead track and the reconfiguration of adjacent track. When finished, the project will better position the port to receive bulk shipments from both UP and BNSF Railway, its rival in the West. The port and the state's "Trade Corridors Improvement Fund" will finance the work.

Lytle didn't mince words when describing the logistics center's impact on his facility. "This is the future of Oakland," he said.

STAYING RELEVANT

From Seattle to San Diego, the 29 ports covered by the new five-year labor agreement are clearing backlogs and trying to stanch the bleeding as importers that shifted deliveries to the East Coast (via the Suez and Panama canals), to Canada, and to Mexico debate whether to bring them back west. On that score, opinion is mixed. Ben Hackett, who heads a consultancy bearing his name, believes most diverted cargo will return because West Coast ports, especially Los Angeles and Long Beach, remain the most cost-effective way to get imports to U.S. end markets. Kumar Venkataraman, a partner in the retail practice of consultancy A.T. Kearney, sees a two-tier market evolving with big beneficial cargo owners (BCOs) having the scale and sophisticated technology to implement a diversified U.S. distribution strategy utilizing multiple ports, while smaller BCOs lacking those capabilities either return to the West Coast or, having never left, simply stay put.

An industry insider, speaking on condition of anonymity, said West Coast ports will suffer as importers who had long thought about moving away from the West are now pushed to act. "Until now, the logistics guys couldn't convince their leadership to move because there was no event to prompt it. All they were looking for was a reason. Now they have one," the executive said.

Larry Gross, a senior consultant at consultancy FTR Associates, wrote in late February that for big BCOs with multiport strategies already in place, a further shift from the West "is more a matter of turning the dials than building something from scratch." Noting that neither labor nor management seemed to publicly show remorse for the damage inflicted on shippers, intermediaries, consignees, and vessel operators, Gross said the warring parties will "end up paying dearly for having ignored the needs of the shipper who truly pays their bills."

SECULAR PROBLEMS

Though the agreement averts the immediate crisis, it does nothing to address the afflictions that plagued the U.S. goods-moving system long before the standoff began. Port congestion at dock and landside remains a critical concern. Ever-larger ships are expected to hit the water in the next two to three years; about 60 percent of the global ship order book is composed of vessels of 10,000 twenty-foot equivalent (TEU) container units, according to research firm Alphaliner.

Because operators of the large vessels must minimize berth times in order to justify the huge investment in them, the ships are likely to call at fewer ports, analysts said. This means more tonnage to be handled by a smaller cluster of ports already straining under the current load.

An imbalance of truck chassis, and the amount of time truckers spend picking up and returning the equipment, added significantly to the backlog, especially at Los Angeles and Long Beach. On March 1, a long-awaited chassis provisioning model began at the ports that is designed to enable the free exchange of more than 80,000 units across

12 marine terminals and a network of rail yards, container yards, and other locations in the sprawling complex.

In an ideal world, technology will be optimized at port facilities to ramp up productivity and to expedite the import loading and unloading process. But the world is not ideal. The 2002 and 2008 contracts introduced automated processes to improve productivity. However, a management source said in late February that the 2015 contract, whose details were unavailable at press time, did not include further automation advancements as part of agreed-to work rule changes. That will surely disappoint those who believe technology at West Coast ports badly lags behind that used in Asia and Europe.

"West Coast U.S. ports have become over the past decade the least productive, most prone to labor disruption, most expensive, least automated ports in the developed world," Peter Friedmann, executive director of the Agriculture Transportation Coalition, a group representing agricultural and forest products exporters, said in early January.

For all their hand wringing, importers could have fared far worse. The impasse occurred after the pre-holiday shipping season. Sensing trouble, many importers had moved their goods into U.S. commerce over the summer to ensure their availability during the holidays. In addition, most import commodities are dry goods that aren't prone to physical obsolescence. And it's not as if U.S. importers are going to shift their buying away from Asia.

As it stands, importers will likely face the inconvenience of delivery delays of six to 12 weeks while the current backlogs are cleared. This will result in lost business and higher delivery costs, but minor lasting damage.

NO RESOLUTION IN SIGHT

For U.S. exporters, though, the situation couldn't be more different. Agriculture accounts for a large share of U.S. exports to Asia. Much of that volume is made up of perishable foodstuffs. Foreign buyers have supply sources outside the U.S. and would not hesitate to use them if U.S. delivery schedules are compromised. There are no other viable ports outside the U.S. that have capacity adequate to accommodate a massive diversion of exports. Vancouver's Port of Prince Rupert—geographically the closest North American gateway to Asia—today handles about 400,000 twenty-foot equivalent units a year, according to Hackett Associates. By contrast, the Los Angeles/Long Beach port complex handles about 8 million total TEUs a year. "U.S. exporters are pretty much stuck with the ports they have," Hackett said.

Adding to the problem is the chronic lack of access to empty containers to ship Midwest agricultural exports from sparsely populated origin points to the ports via rail or truck. Containers entering U.S. commerce are typically bound for densely populated regions, and vessel operators that have a billion dollars or so invested in the equipment want them to remain there. This makes life tough for growers whose products are in parts of the country where land is abundant but consumers may not be.

For example, Minneapolis, the closest large metro area to many Upper Midwest grain suppliers, has the most acute shortage of 20- and 40-foot containers out of 19 markets analyzed by infrastructure design consultancy Moffatt & Nichol from data provided by the U.S. Agriculture Department.

Walter Kemmsies, who as an economist with Moffatt & Nichol has raised concerns for several years about equipment imbalances, is not encouraged about the current trend's direction. When asked at the SMC^3 annual conference in January if anything had changed, he said, "Export containers are even tougher to find, and it's more expensive to procure and ship them if you can."

Kemmsies said the contract battle should serve as a wake-up call to "reset" a flawed infrastructure that has undermined export flows and, by extension, American competitiveness in world markets. The key, he said, is to fully embrace the idea of a seamless multimodal network and to bring it to fruition.

"Intermodalism is the essence of freight movement. ... It's time to resurrect the [U.S. Department of Transportation's] Office of Intermodalism and tie infrastructure investment to economic objectives again," Kemmsies said. □