

First Glimpse at the Painful May TEU Numbers

No one expected May's container trade numbers to be anything but awful. And, judging from the port TEU tallies posted so far, it looks like no one will be disappointed. The most recent (June 8) outlook from the National Retail Federation's Global Port Tracker (GPT) expected container import traffic to be down 14.6% from last May. At least that was a more optimistic read than GPT's forecast a month earlier, when it was feared May's import traffic could be off as much as 20.4%.

So what are the early reporting ports telling us so far about May?

Along the U.S. West Coast, inbound loads at the five major ports we track were down 15.0% from a year earlier. Inbound loads through the Ports of Los Angeles and Long Beach in May went through a nausea-inducing teeter-totter. The number of loaded TEUs discharged at Long Beach was actually up by 7.6%, but down a dismal 29.4% across the road at Los Angeles. The difference partially reflected a shift of service by two carriers from LA to terminals at Long Beach. (This is why for statistical purposes we generally prefer to consider the two ports as a single maritime gateway.)

Together, the two San Pedro Bay ports handled 13.8% fewer loaded inbound TEUs than they had a year earlier. Elsewhere along the West Coast, the Port of Oakland reported that its inbound loads were down 14.6%, while the Northwest Seaport Alliance ports (Tacoma and Seattle) registered a 22.9% plunge in inbound loads.

North of the border in British Columbia, Vancouver eked out a 1.3% increase in inbound loads, but inbound loads tumbled by 36.7% at Prince Rupert.

East Coast ports appear to be faring no better. Savannah reports a 16.5% year-over-year decline in inbound loads. Virginia saw a 26.7% fall-off, while Maryland was down 23.5%.

Inbound loads in May at the Port of Houston were down by 7.1%.

On the **export** side of the ledger, loaded outbound TEUs were down 37.6% at Los Angeles but up 11.6% at Long Beach, leaving the San Pedro Bay down 17.0% from last May. Oakland posted a 10.7% year-over-year drop, and the NWSA ports witnessed a 15.5% slide from last May. Altogether, outbound loads through the Big Five USWC container ports were off by 15.6% from a year earlier. To the north, Vancouver eked out a 1.8% increase, but Prince Rupert saw a 16.3% decline. Elsewhere, Houston posted a 9.5% increase in outbound loads, but Maryland (-32.2%); Virginia (-18.1%); and Savannah (-3.6%) all reported declines.

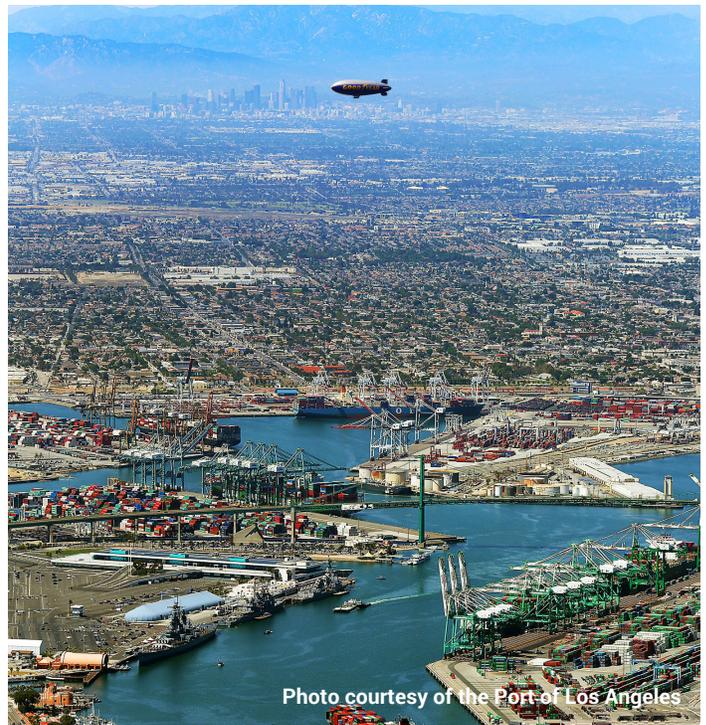


Photo courtesy of the Port of Los Angeles



Parsing the April 2020 TEU Numbers

Please note: The numbers here are not derived from forecasting algorithms or the partial information available from U.S. Customs and Border Protection but instead represent the actual TEU counts as reported by the major North American seaports we survey each month. The U.S. mainland ports we monitor collectively handle over 90% of the container movements at continental U.S. ports. Unless otherwise stated, the numbers in this portion of our analysis do not include empty containers.

Import Traffic

With a few notable exceptions, all of the eighteen U.S. and Canadian ports whose import/export loaded TEU traffic this newsletter monitors showed declines in April from a year earlier. The outliers were the Port of Los Angeles, with a 2.6% gain (+9,366 TEUs); Maryland, up 5.3% (+2,274 TEUs); Vancouver, up 2.8% (+4,049 TEUs); and Prince Rupert, up 2.0% (+1,044 TEUs).

Aside from Los Angeles, import traffic was down at the other major U.S. West Coast (USWC) ports. Inbound loads at the Port of Long Beach slumped by 20.2% (-64,343 TEUs), leaving the two San Pedro Bay ports with a combined year-over-year fall-off of 8.1% (-54,977 TEUs). Inbound loads edged lower at Oakland by 0.9% (-699 TEUs) but tumbled by 13.9% (-15,660 TEUs) at the Northwest Seaport Alliance Ports of Tacoma and Seattle. Altogether, inbound loaded container traffic at the five major USWC ports was down 8.2% (-71,336 TEUs).

Things were not a whole lot better along the East Coast. The Ports of

Exhibit 1	April 2020 - Inbound Loaded TEUs at Selected Ports					
	Apr 2020	Apr 2019	% Change	Apr 2020 YTD	Apr 2019 YTD	% Change
Los Angeles	370,111	360,745	2.6%	1,275,122	1,436,171	-11.2%
Long Beach	253,540	317,883	-20.2%	1,046,663	1,191,625	-12.2%
San Pedro Bay Totals	623,651	678,628	-8.1%	2,321,785	2,627,796	-11.6%
Oakland	80,003	80,702	-0.9%	298,477	307,286	-2.9%
NWSA	96,992	112,652	-13.9%	375,565	457,942	-18.0%
USWC Totals	800,646	871,982	-8.2%	2,995,827	3,393,024	-11.7%
Boston	11,546	12,247	-5.7%	47,896	47,888	0%
NYNJ	284,074	297,825	-4.6%	1,178,673	1,203,674	-2.1%
Maryland	45,258	42,984	5.3%	167,961	172,840	-2.8%
Virginia	100,310	119,266	-15.9%	405,882	441,420	-8.1%
South Carolina	82,899	87,675	-5.4%	337,762	346,324	-2.5%
Georgia	166,679	175,661	-5.1%	672,482	721,298	-6.8%
Jaxport	23,461	27,094	-13.4%	98,916	113,319	-12.7%
Port Everglades	23,164	32,308	-28.3%	107,867	115,906	-6.9%
Miami	28,943	32,831	-11.8%	135,611	142,932	-5.1%
USEC Totals	766,334	827,891	-7.4%	3,153,050	3,305,601	-4.6%
New Orleans	9,922	10,527	-5.7%	45,817	43,950	4.2%
Houston	100,034	100,627	-0.6%	383,306	392,502	-2.3%
USGC Totals	109,956	111,154	-1.1%	429,123	436,452	-1.7%
Vancouver	149,217	145,168	2.8%	518,365	575,504	-9.9%
Prince Rupert	52,730	51,686	2.0%	187,457	184,054	1.8%
BC Totals	201,947	196,854	2.6%	705,822	759,558	-7.1%
US/BC Totals	1,878,883	2,007,881	-6.4%	7,283,822	7,894,635	-7.7%
US Total	1,676,936	1,811,027	-7.4%	6,578,000	7,135,077	-7.8%
USWC/BC	1,002,593	1,068,836	-6.2%	3,701,649	4,152,582	-9.5%

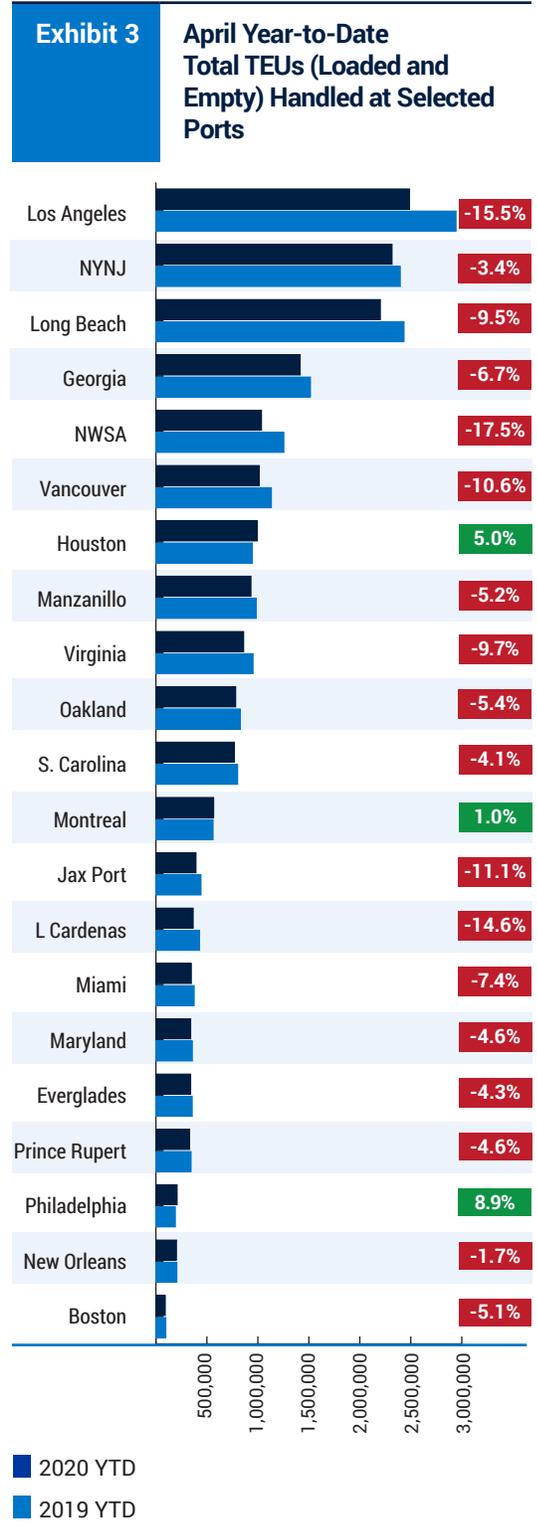
Source Individual Ports



Parsing the April 2020 Loaded TEU Numbers Continued

	April 2020 - Outbound Loaded TEUs at Selected Ports			April Year-to-Date Total TEUs (Loaded and Empty) Handled at Selected Ports		
	Apr 2020	Apr 2019	% Change	Apr 2020 YTD	Apr 2019 YTD	% Change
Los Angeles	130,321	155,533	-16.2%	534,142	602,005	-11.3%
Long Beach	102,502	123,804	-17.2%	482,126	477,815	0.9%
San Pedro Bay Totals	232,823	279,337	-16.7%	1,016,268	1,079,820	-5.9%
Oakland	82,164	79,291	3.6%	322,068	310,680	3.7%
NWSA	66,955	81,305	-17.6%	281,314	306,630	-8.3%
USWC Totals	381,942	439,933	-13.2%	1,619,650	1,697,130	-4.6%
Boston	5,354	7,754	-31.0%	24,599	25,980	-5.3%
NYNJ	97,312	131,311	-25.9%	466,381	486,540	-4.1%
Maryland	15,523	20,940	-25.9%	77,383	76,032	1.8%
Virginia	71,158	85,378	-16.7%	322,081	329,250	-2.2%
South Carolina	56,611	73,295	-22.8%	272,428	276,834	-1.6%
Georgia	120,852	129,726	-6.8%	505,539	514,442	-1.7%
Jaxport	31,524	42,353	-25.6%	152,083	167,675	-9.3%
Port Everglades	20,119	36,084	-44.2%	122,028	139,761	-12.7%
Miami	24,964	30,719	-18.7%	126,034	139,145	-9.4%
USEC Totals	443,417	557,560	-20.5%	2,068,556	2,155,659	-4.0%
New Orleans	20,076	24,545	-18.2%	98,590	95,502	3.2%
Houston	91,808	106,654	-13.9%	436,416	399,370	9.3%
USGC Totals	111,884	131,199	-14.7%	535,006	494,872	8.1%
Vancouver	91,665	97,394	-5.9%	347,506	385,133	-9.8%
Prince Rupert	22,526	20,271	11.1%	67,161	66,936	0.3%
British Columbia Totals	114,191	117,665	-3.0%	414,667	452,069	-8.3%
US/Canada Total	1,051,434	1,246,357	-15.6%	4,637,879	4,799,730	-3.4%
US Total	937,243	1,128,692	-17.0%	4,223,212	4,347,661	-2.9%
USWC/BC	496,133	557,598	-11.0%	2,034,317	2,149,199	-5.3%

Source: Individual Ports



Source: Individual Ports



Parsing the April 2020 Loaded TEU Numbers Continued

New York/New Jersey handled 4.6% (-13,751 TEUs) fewer inbound loads than in April 2019. Charleston sustained a 5.4% (-4,776 TEUs) slump, and Savannah's inbound laden traffic slid by 5.1% (-8,982 TEUs). More precipitous were the year-over-year declines reported by Port Everglades (-28.3% or -9,144 TEUs), Virginia (-15.9% or -18,956 TEUs), and Miami (-11.8% or -3,888 TEUs). The nine East Coast ports we regularly track ended April with a 7.4% (-61,557 TEUs) fall-off from a year earlier.

Along the Gulf Coast, Houston recorded a 0.6% (-593 TEUs) slip in inbound loads from April of 2019, while New Orleans saw a 5.7% (-605 TEUs) decline, leaving the two Gulf Coast ports we track with a combined fall-off of 1.1% (-1,198 TEU).

The two British Columbia ports we monitor saw improved import numbers in April, with Vancouver up 2.8% (+4,049 TEUs) and Prince Rupert up by 2.0% (+1,044 TEUs). Combined import traffic through the two Canadian ports rose 2.6% (+5,093 TEUs).

In market share terms, the Big Five USWC ports saw their share of inbound loads discharged at the U.S. mainland ports we track slide in April to 47.7% from 48.1% a year earlier.

USWC share of inbound loads through the seven major U.S. and Canadian Pacific Coast ports fell to 79.9% from 81.6% last April. On a year-to-date basis, the USWC share of the binational traffic in outbound loads slipped to 80.9% from 81.7%.

In its latest forecast update (June 8), Global Port Tracker estimated that the thirteen U.S. ports it monitors would handle 1.61 million loaded import TEUs in April, which would be 7.8% down from a year earlier. Only a month earlier, the GPT pegged April traffic to be down to 1.51 million TEUs, which would have been a 13.4% decline. Based on what those ports have now reported, inbound loads at those thirteen ports totaled 1,610,201 TEUs in April, which was down 7.7% from a year earlier.

Export Traffic

The Ports of Long Beach and Los Angeles both experienced sharp drops in export loads in April. At the Port of LA, outbound loads tumbled by 16.2% (-25,212 TEUs) from the previous April, while Long Beach posted an even deeper drop of 17.2% (-21,302 TEUs). Together,

outbound loads at the two Southern California ports were down by 16.7% (-46,514 TEUs).

Outbound loads in April rose by 3.6% (+2,873 TEUs) at the Port of Oakland but dropped by 17.6% (-14,350 TEUs) at the two NWSA ports. That left outbound loads through the Big Five USWC ports in April down by 13.2% (-57,991 TEUs) from the same month a year earlier.

The numbers were worse along the Atlantic Seaboard, where export counts were uniformly down, mostly by double digits. Outbound loads from PNYNJ plummeted by 25.9% (-33,999 TEUs) from a year earlier, while Charleston shipped 16,684 fewer loaded TEUs (-22.8%). Outbound loads were also down: by 15,965 TEUs (-44.2%) at Port Everglades; by 14,220 TEUs (-16.7%) at Virginia; by 8,874 TEUs (-6.8%) at Savannah; and by 5,755 TEUs (-18.7%) at Miami. Coastwise, outbound loads at the nine USEC ports we normally follow were down 20.5% (-114,143 TEUs).

The two Gulf Coast ports we monitor saw outbound loads fall, by 13.9% (-14,846 TEUs) at Houston and by 18.2% (-4,469 TEUs) at New Orleans. Up in British Columbia, outbound loads at Vancouver fell by 5.9% (-5,729 TEUs) but increased at Prince Rupert by 11.1% (+2,255 TEUs).

Altogether, outbound loads from the sixteen U.S. mainland and two British Columbia ports reporting April TEU figures were down 15.6% (-194,923 TEUs) from last April.

The Big Five USWC ports saw their share of outbound loads sailing from the U.S. mainland ports we were able to track in April actually increased to 40.8% from 39.0% a year earlier.

However, the USWC share of outbound loads through the seven major U.S. and Canadian Pacific Coast ports fell to 77.0% from 78.9% last April.

Weights and Values

Even though the TEU is the shipping industry's preferred unit of measurement, we offer two alternative metrics—the declared weight and value of the goods contained in those TEUs—in hopes of further illuminating recent trends in the container trade along the USWC. For the most part, these numbers contain little good news for USWC port officials.



Parsing the April Loaded TEU Numbers Continued

Exhibit 4 USWC Ports Shares of Worldwide U.S. Mainland, April 2020

	Apr 2020	Mar 2020	Apr 2019
Shares of U.S. Mainland Ports Containerized Import Tonnage			
LA/LB	26.8%	21.7%	25.9%
Oakland	4.3%	4.0%	4.0%
NWSA	4.9%	4.9%	5.4%
Shares of U.S. Mainland Ports Containerized Import Value			
LA/LB	34.0%	28.2%	33.0%
Oakland	3.8%	3.7%	3.6%
NWSA	6.2%	6.7%	7.0%
Shares of U.S. Mainland Containerized Export Tonnage			
LA/LB	20.8%	20.9%	21.8%
Oakland	7.3%	6.5%	6.3%
NWSA	7.8%	7.3%	7.8%
Shares of U.S. Mainland Containerized Export Value			
LA/LB	21.6%	20.7%	21.8%
Oakland	8.1%	7.0%	6.1%
NWSA	4.4%	4.0%	4.2%

Source: U.S. Commerce Department.

Exhibit 4: USWC Ports and the Worldwide Container Trade. Exhibit 4 features some generally unexpected numbers on containerized imports (regardless of point of origin) entering mainland U.S. ports. The two San Pedro Bay ports actually saw their combined percentage of containerized import tonnage increase in April to 26.8% from 25.9% a year earlier. The two also experienced a bump in their joint share of the declared value of containerized imports to 34.0% from 33.0%. Meanwhile, the Port of Oakland's share of import tonnage rose to 4.3% from 4.0% a year ago, with its share of import value also edging up to 3.8% from 3.6%. Further north, the two NWSA ports saw their shares of import tonnage decline to 4.9% from 5.4% and to 6.2% from 7.0% in value terms. On the export side, the Southern California ports

Exhibit 5 USWC Ports Shares of U.S. Mainland Trade With East Asia, April 2020

	Apr 2020	Mar 2020	Apr 2019
Shares of U.S. Mainland Ports' East Asian Container Import Tonnage			
LA/LB	44.6%	41.9%	43.7%
Oakland	4.9%	5.0%	4.6%
NWSA	7.2%	8.7%	8.4%
Shares of U.S. Mainland Ports' East Asian Container Import Value			
LA/LB	51.5%	48.5%	51.0%
Oakland	4.6%	4.8%	4.4%
NWSA	8.9%	11.2%	10.7%
Shares of U.S. Mainland Ports' East Asian Container Export Tonnage			
LA/LB	33.6%	37.4%	35.6%
Oakland	10.7%	10.5%	9.4%
NWSA	12.5%	12.7%	12.8%
Shares of U.S. Mainland Ports' East Asian Container Export Value			
LA/LB	40.2%	42.9%	43.1%
Oakland	13.8%	12.8%	10.5%
NWSA	8.1%	8.3%	8.5%

Source: U.S. Commerce Department.

continued to shed market share, whether measured in tonnage or dollar value. Oakland fared much better with significant year-over-year gains in both export value and export tonnage. The NWSA ports' export tonnage share remained unchanged, but their share of export value was up from last April.

Exhibit 5: USWC Ports and the East Asia Trade. The figures on containerized imports arriving at U.S. mainland ports from East Asia, which normally cause USWC port officials to wring their hands, brought some relief in April. The Ports of Los Angeles and Long Beach saw their combined share of containerized import tonnage from East Asia increase to 44.6% from 43.7% a year earlier. At the same time, their collective share of containerized import value rose to 51.5% from 51.0%. Elsewhere along the coast,



Parsing the April Loaded TEU Numbers *Continued*

Oakland improved on both measures, while the NWSA ports saw declines in both import value and tonnage shares.

On the outbound side, the San Pedro Bay ports' share of containerized export tonnage to East Asia slipped to 33.6% from 35.6% a year earlier, while their combined share of the value of those containerized imports dropped to 40.2% from 43.1%. Oakland experienced sizable year-over-year bumps in both its import tonnage and value tonnage shares. However, the two NWSA ports saw their shares of U.S. containerized exports headed to the Far East decline in both tonnage and value terms.

Soybeans: What Is and Isn't in the Box

Sometimes we see things in the media which, while technically accurate, are also grossly misleading. For example, a May 27 report in the venerable & esteemed Journal of Commerce celebrated how well the trade in containerized soybean exports from the United States to China had been doing.

"Soybean exports to China had been crippled by 25 percent tariffs, plunging 97.8 percent in Q1 2019 from the first quarter of 2018. But containerized soybean exports to China came roaring back in the 2020 first quarter, increasing 1,329 percent year over year. Measured in actual container volumes, US farmers exported only 121 TEU of soybeans to China in Q1 2019 versus 1,727 TEU this year, according to PIERS."

Fantastic, right?

Well, no.

Popping the prosecco over a jump in containerized soybean exports to China would be justified...if you only care about exports shipped in metal boxes.

What might have dampened the Journal's revelry over that supposed first-quarter surge in U.S. soybean exports to China is the fact that only a miniscule share of the U.S. soybean export trade normally travels in containers to China, or most anywhere else overseas.

According to data from the U.S. Census Bureau's Foreign Trade Division—the federal government's official minders of the nation's foreign trade statistics—a mere 0.9% of all of the 2.24 billion metric tons of soybeans America shipped to China over the last decade travelled in

containers. The rest went in bulk carriers, and there the export statistics tell a different story.

Trade figures from both the Census Bureau and the U.S. Department of Agriculture's own in-house bean counters show that the value of America's soybean exports to China in the first quarter of this year actually fell to \$1.03 billion this year from \$1.70 billion last year. That was hardly surprising given a first quarter fall-off in U.S. soybean shipments to China of 41.7%, to 2,820,083 metric tons from 4,833,310 metric tons.

For the record, the trade did not appreciate by much in April. Soybean exports to China through April of this year were down 40.3% by weight and 38.0% by value.

All in all, not really grounds for singing and dancing.

Of the American soybeans that were actually shipped to China in this year's first four months, the Port of Kalama was the leading export gateway, with 796,239 metric tons. That put the Washington State river port slightly ahead of the Port of New Orleans, which handled 781,137 metric tons of the nation's soybean shipments to China through April. But Kalama's volume was off 26.4% from last year. Other Pacific Northwest ports that normally share in the soybean trade likewise saw year-over-year declines: Vancouver, Washington was down 80.1%, Seattle/Tacoma were jointly off by 11.0%. The Port of Longview, Washington was entirely shut out of the trade through April after having shipped 526,873 metric tons of soybeans to China in the first four months of last year.

Although there have been reports of Chinese importers placing sizable orders for future delivery, the current tenor of the rhetorical exchanges between the White House and Beijing shouldn't be warming the hearts of U.S. soybean growers.

The Ro-Ro Trade in Teslas

The pandemic took a big piece out of exports of electric vehicles from the Port of San Francisco's Pier 80. Last year, Tesla, whose only U.S. assembly plant is in nearby Fremont, shipped \$5.85 billion in autos via the terminal. Through April of this year, the roll-on/roll-off trade in Teslas was down 31.4% from the same months last year. Tesla's plant was temporarily shut down by state and local health agencies for several weeks during the spring.



Parsing the April Loaded TEU Numbers *Continued*

Census Bureau export data indicate that no shipments occurred in the months of March and April. Tesla exports in this year's first two months had been running slightly ahead of January-February of last year.

The principal destinations this year have been ports in Belgium (\$720.4 million); the United Kingdom (\$270.6 million); South Korea (\$205.5 million); Taiwan (\$87.9 million); and China (\$69.2 million).

Who's #1?

Because the box counters at the Port of New York/New Jersey are agonizingly slow in posting their latest TEU counts, April is the most recent month for which comparable statistics are available for ranking the nation's three busiest ports. So, for the month of April, PNYNJ eclipsed the Port of Long Beach as the nation's second busiest container port but still trailed the Port of Los Angeles for the title of America's top container port.

In terms of total container traffic (loaded TEUs as well as empties), April saw 688,999 TEUs cross the docks at LA, easily exceeding the 559,929 TEUs handled by PNYNJ and the 519,730 TEUs moved through the Port of Long Beach.

For those who insist that only loaded boxes should determine the ranking, Los Angeles was the country's busiest container port in April with 500,432 loaded TEUs as opposed to 381,386 TEUs at PNYNJ and 356,042 TEUs at Long Beach.

The YTD totals (loads + empties) in the first four months of the year showed Los Angeles in the lead with 2,488,748 TEUs, with PNYNJ (2,316,907 TEUs) in second place followed by Long Beach (2,202,650 TEUs).

Jock O'Connell's Commentary:

Market Share Loss or Regression to the Mean?

For some time now, this newsletter has taken heat for confirming statistically what everyone knew intuitively—that U.S. West Coast seaports have been losing a lot of business to other maritime gateways in North America. So, it is with grateful relief that we now see at least one prominent USWC port director not only publicly acknowledging the obvious but also offering a maritime outlook that departs sharply from the customary forecasts of growth never-ending.

At a June 10 press conference, Gene Seroka, executive director of the Port of Los Angeles, detailed the abrupt downturn in container traffic through his port and the neighboring Port of Long Beach this year. He then spoke of the twenty percent loss of market share the two San Pedro Bay ports had experienced over the past eighteen years. But then, in contrast to previous statements about

fighting to regain lost market share, Seroka estimated his port "will have a permanent loss of 15% of our imports that won't return due to the trade policies."

It was an ambiguous concession, to say the least. Attributing the deficit in container traffic to trade policies sidestepped the fact that decline in market share had begun long before President Trump came to office. It was also unclear whether Seroka was considering any lasting effects the COVID-19 pandemic might have on shifting supply chains. As a lengthy Wall Street Journal analysis recently pointed out, many companies are reexamining their continued reliance on foreign and especially Chinese manufacturers. Post-COVID supply chains could emphasize resilience over efficiency, much like U.S. cargo owners once diversified their use of ports-of-entry to minimize over-reliance on a few.



Commentary Continued

How bad has it been?

The total number of TEUs handled at the Ports of Los Angeles and Long Beach in May (1,209,870) was the lowest for a May since the bottom of the Great Recession in 2009, when the ports' throughput was 994,383 TEUs. On a year-to-date basis the two ports have handled 5,901,269 TEUs, the worst January-May total since 2015, when the ports were emerging from a lengthy labor slowdown.

As **Exhibit A** shows, total TEU traffic through the San Pedro Bay ports during the first five months of each year since 2000 had been growing both before and after the Great Recession. While not an entirely uplifting picture, neither is it altogether discouraging. Until the pandemic arrived, total container volumes had been gradually rising since 2009, when the recession bottomed out.

The problem, though, was what wasn't showing up in these numbers. What troubled and continues to trouble USWC maritime leaders has been the increasing number of TEUs that were being shipped through ports elsewhere in North America. As **Exhibit B** makes clear, those numbers—especially on the all-important transpacific import trade—were enormous. And the cost of those lost containers has been equally daunting. By Seroka's estimates, the diversions deprived his port of \$2 billion a year in lost revenue and the Southern California region of 200,000 jobs annually.

Exhibit A

Total May YTD TEU Traffic via San Pedro Bay: 2000-2020

Source: Ports of Los Angeles and Long Beach

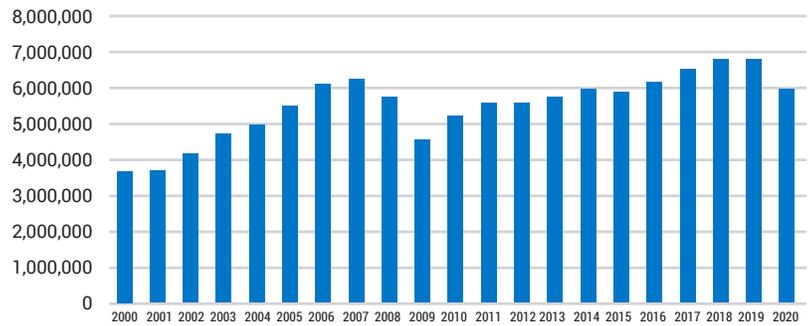


Exhibit B

San Pedro Bay Ports' Share of U.S. Containerized Import Tonnage from East Asia: 2003-2019

Source: U.S. Commerce Department

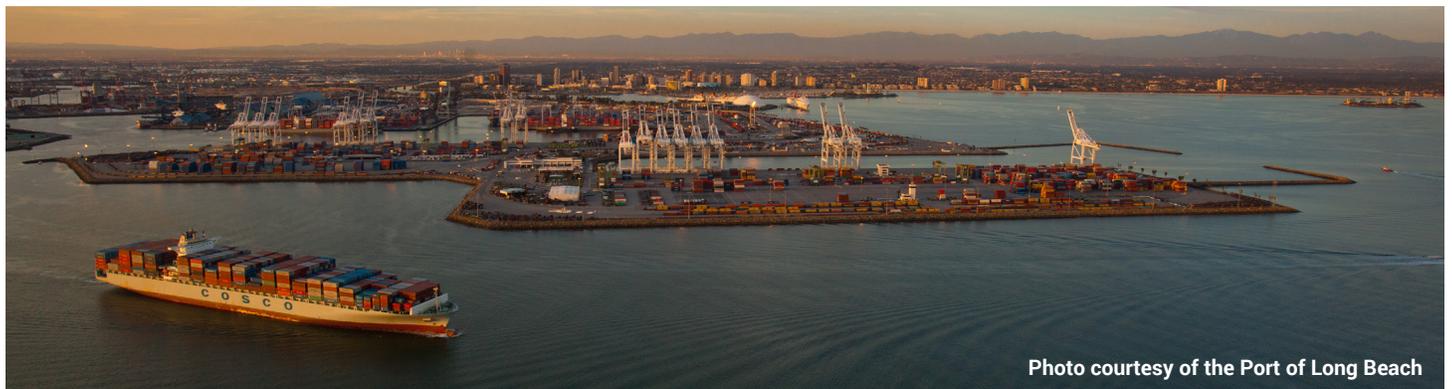
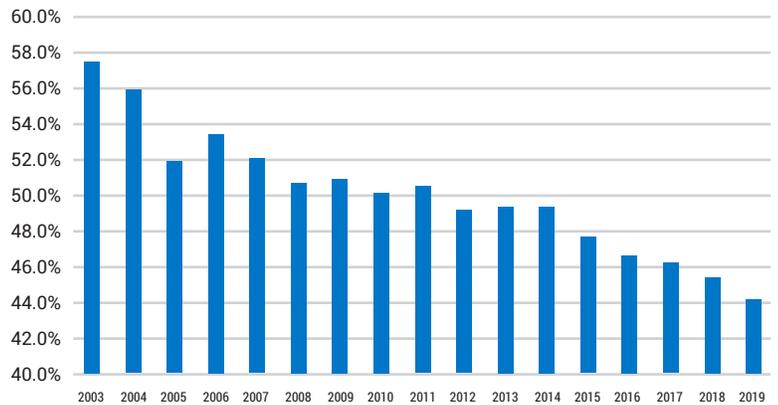


Photo courtesy of the Port of Long Beach



Commentary *Continued*

Why the decline in market share?

Explanations for the erosion of market share usually point to several factors. Among those cited in a Pacific Merchant Shipping Association study released earlier this month are: (a) the generally higher costs of doing business in California; (b) the specific-to-California operational burdens inflicted by state and regional environmental regulators; (c) the migration of manufacturing operations from Northeast Asia and particularly from China to Southeast Asia and even into the Indian Ocean littoral that is resulting in more U.S. imports arriving at East and Gulf Coast ports via Suez; and (d) occasionally troubled labor-management issues.

Some editorial pundits, though, prefer to finger the International Longshore and Warehouse Union as the chief villain. To be sure, labor-management disputes along the West Coast have sometimes led to costly disruptions in trade and have sullied the reputation of USWC ports as reliable links in global supply chains. But, while heaping most of the blame on the ILWU may be understandably satisfying for members of the Fourth Estate who feel aggrieved that those they regard as mere manual laborers probably earn more and doubtless enjoy greater job security than they do, it is nonetheless hard to see how a less combative workforce would have prevented the downward drift in market share. Other things were going on.

Since treatment must follow from diagnosis, let's consider what has happened to the transpacific trade in different light.

In a long-term context, the USWC ports' declining share of the transpacific import trade can be seen as essentially a regression to a historical mean. Up until the mid-1980s, the majority of America's maritime trade was channeled through East and Gulf Coast ports. There were at least two particularly good reasons for that. First, most Americans—as well as the businesses that employed them—were located east of the

Mississippi. Even though California had surpassed New York as America's most populous state by 1970, only 17.1% of Americans resided in the Western states, which collectively accounted for barely one-fifth of the nation's gross domestic product. Second, most of America's maritime trade involved Europe, the Middle East, and the Atlantic and Gulf Coasts of South America. As Marc Levinson observed in "The Box", his classic work on the history of containerization: "As late as 1966, nine of the ten largest maritime routes for U.S. international trade passed through ports on the East Coast or the Gulf, and only one touched the West Coast."

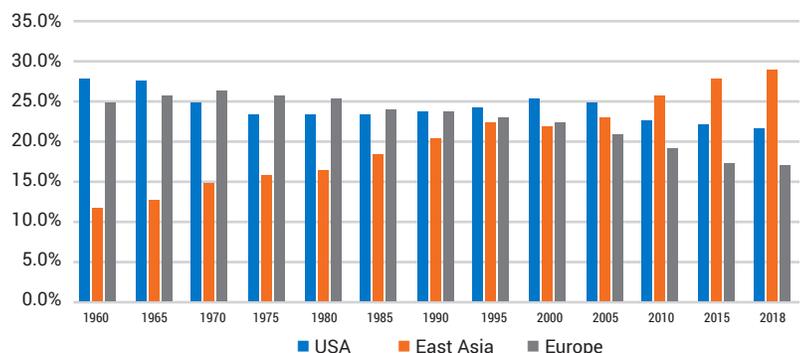
Today, most Americans and the majority of the country's goods-producing industries continue to dwell in the eastern half of the country. Over the past fifty years, the South has emerged as the country's fastest growing region with nearly 40% of the nation's population and over 35% of its economic output.

But the flow of America's maritime trade has changed dramatically in response to economic developments abroad. In 1960, Japan, South Korea, Taiwan, and the other nations comprising the Asia-Pacific region accounted for just 11.8% of world gross domestic product, according to World Bank data. Europe's share that year was 25.6%. The USA accounted for a 27.9% share.

As **Exhibit C** shows, the rapid growth of Asia-Pacific economies based on export-driven economic development modes rapidly shifted America's maritime trade from the Atlantic to the Pacific. To be sure, there had always been some volume of trade between the Far East and America that filtered through USWC ports. But once Japan's postwar recovery, based on an export-driven model, took hold, things quickly changed. Emulating Japan's export-

Exhibit C Regional Shares of Global GDP: 1960-2018

Source: World Bank





Commentary Continued

driven development model, South Korea and Taiwan emerged by the mid-1980s as major exporting powers, while Hong Kong and Singapore established themselves as burgeoning entrepôts of maritime trade.

Geography, which had formerly worked to isolate USWC ports from the main channels of U.S. foreign trade, rapidly became an asset.

Physical proximity to Asia's emergent economies was not the only advantage USWC ports enjoyed. Over the course of the 20th century, ports along the Western states had acquired a maritime infrastructure that was more extensive than the needs of private commerce alone would have justified. That was because of the unusual requirements imposed on the ports by a single major customer—the United States military.

Ever since America defeated Spain in 1898 and acquired the Philippines, supporting American military operations throughout the Pacific has been a primary mission for dozens of West Coast ports. Post World War II commercial shipping may have remained largely a transatlantic activity well into the 1980s. But supplying American military operations throughout the Pacific could hardly depend on a logistical system that relied chiefly on East Coast ports to ship munitions and supplies from American factories to forces in the Pacific.

Instead, the imperatives of supporting military operations during the Korean and Vietnam Wars ensured that West Coast port infrastructure would not only be maintained but would also be equipped with novel technologies.

As Marc Levinson relates the story in "The Box": "The explosion of port construction on the Pacific Coast, starting in the 1950s, had no counterpart on the other side of the country." One of the key developments occurred in 1967, when the U.S. Army hired Malcom McLean to build and operate a new port at Cam Ranh Bay. McLean, of course, was famous as the father of containerization, and not surprisingly helped establish a containerized service linking West Coast ports with Vietnam. Perhaps fittingly, the first container ship to arrive at Cam Ranh Bay was the *Oakland* with 609 25-foot containers carrying as much cargo as could be carried on ten average breakbulk ships hauling military freight to Vietnam.

The rise of Japan and the so-called Four Asian Tigers in the 1970s and 1980s generated growing volumes of transpacific container traffic, but even those volumes would be eclipsed by China's entry into the global trading system. When Chinese leader Deng Xiaoping abandoned Maoist doctrines in 1978 and embraced new, often experimental approaches to economic development, China's share of global GDP was a trifling 1.1%, equivalent to the Netherlands' current share of global GDP.

In the last two decades of the 20th century, Japan remained the focus of U.S. trade policy in the Pacific. Remarkably, it was not until 2005 that the annual Economic Report of the President first provided a separate line item for trade with China. But by then, China was the source of 14.5% of all U.S. imports. And with double-digit rates of economic expansion, its outsized role in the global economy and as a source of manufactured goods would soon become abundantly obvious.

By 2000, 35.0% of all U.S. imports arrived from the Asia-Pacific region, while 24.8% came from Europe. By 2017, the last normal (pre-tariff war) year, 39.9% of U.S. imports originated in the Asia-Pacific region, while 25.5% from came from Europe.

So what does an East or Gulf Coast port do to contend with a new world in which transatlantic trade offered modest growth prospects? Sure, business was good, but the action was definitely somewhere else. And, although the population of the states comprising the western United States has increased by approximately 125% over the past fifty years, it is still the case that the majority of Americans live east of the Rockies as does the bulk of the nation's manufacturing base. Regionally, the South has emerged as the most dominant region of the country, followed then by the West as the roles of the Northeast and Midwest declined.

Given the rising volumes of trade on the lucrative transpacific routes, it is little wonder that ports on the East and Gulf Coasts as well as in British Columbia coveted a piece of the action, especially after the lockdown of USWC ports in 2002 prompted doubts about the reliability of those ports. But there were imposing physical barriers to siphoning off cargos from West Coast



Commentary *Continued*

ports. A nearly century-old set of locks at Panama was a chokehold, severely limiting the size of ships that could transit the isthmus at a time when ocean carriers were building larger and larger vessels. Unless they were going to sail the long way around through Suez, there was no way 10,000-15,000 TEU vessels were going to get from Ningbo to New York.

What started to flip the balance of trade, what truly enabled implementation of the so-called Four Corners Strategy was the 2005 vote by the Panamanian electorate to construct a more capacious set of locks able to accommodate vessels significantly larger than the 5,000-TEU Panamax freighters that had long constrained the growth of all-water shipping between the East and Gulf Coast ports and the markets of East Asia.

As construction of the new locks got underway, port officials on the respective coasts reacted in different ways. To USWC leaders, the transpacific trade was regarded as an entitlement, a line of business they owned but were cavalier in defending. After all, what was there really to worry about? A 2005 report by Drewry Shipping Consultants on the likely impact of the canal expansion on shipping had found that, even ten years after the new locks opened, most East ports would still lack the facilities to accommodate Post-Panamax vessels.

So, while public officials along the West Coast at least initially remained smugly confident, port directors along the East and Gulf Coast ports enterprisingly turned to

their political allies in state capitals and in Congress to finance tens of billions of dollars in port expansion projects.

While East and Gulf Coast ports, aided by the Army Corps of Engineers, assiduously embarked on scores of major projects to widen and deepen channels, shore up wharfage, establish new road and rail connections to the docks, and even elevate a major bridge, West Coast ports mounted an astoundingly impotent “Beat the Canal” public relations campaign which never featured a coherent strategy. Worse, while East and Gulf Coast ports enjoyed the support of state and local authorities, West Coast port directors were swamped by a seemingly unending blizzard of restrictive regulations imposed by lawmakers largely indifferent to how goods get from here to there.

It wasn't a fair fight.

Stir in an occasionally obstreperous longshore union, and you have a sure-fire recipe for market share loss.

Disclaimer: The views expressed in Jock's commentaries are his own and may not reflect the positions of the Pacific Merchant Shipping Association.

Interested in membership in PMSA?

Contact Laura Germany for details at: lgermany@pmsaship.com or 510-987-5000.

PMSA Copyright © 2020

It is prohibited by law to forward this publication to any other person or persons. This material may not be re-published, broadcast, rewritten or distributed without written permission from PMSA.

Follow PMSA on Twitter @PMSAShip and Facebook.



Dwell Time Down in May

