



Hope on the Horizon

The Panama Canal expansion is a beacon of hope for East Coast ports and logistics providers as they weather the economic doldrums. BY LARA L. SOWINSKI

There's no way to sugar-coat the current business climate for shippers or service providers—consumer spending has plummeted, credit has dried up, and worse yet, most economists think the recession will be deeper and longer than initially forecast.

“Like most other ports, our business is off right now,” confirms Joe Harris, spokesman, the Port of Virginia (www.vaports.com). “We don’t expect it to come back for a year at least.” Some of the shipping lines have reduced the number of calls they’re making, he notes. And, not only

has the downturn affected container traffic, but breakbulk and other cargo segments have dipped as well.

The same is true for the Port of New York/New Jersey (www.panynj.gov). Pete Zantal, General Manager of Strategic Analysis and Industry Relations, says last year’s business was “basically flat. Container traffic isn’t growing like it has in previous years, and we’re expecting the same this year.”

Even exports, which experienced a significant boost last year due to the weak U.S. dollar, have lost their luster.

U.S.-Canada Trade Still Going Strong

Despite weaker trade flows in most major trade lanes, bilateral trade between the U.S. and Canada remains relatively strong. That's the good news for Purolator USA (www.purolatorusa.com), a wholly owned subsidiary of Purolator Courier Ltd., which boasts the largest dedicated air fleet and ground network in Canada and more guaranteed Canadian delivery points than any other competitor. Its shippers represent a number of key sectors, including electronics, consumer goods, manufacturing, and medical devices, explains John Costanzo, President of Purolator USA.

The company's Canadian network is certainly a strong point, but so too is the U.S. dollar, which is strengthening again compared to the Canadian loonie. "That helps us buy services for our U.S. customers at much better rates than we've been able to in the past," says Costanzo.

The economic outlook, however, remains mixed. According to the Bank of Canada, the country's economy will contract by 1.2 percent this year. "Canadian exports are down sharply, and domestic demand is shrinking as a result of declines in real income, household wealth, and consumer and business confidence," the Bank stated in late January. Nonetheless, the Bank predicts a substantial economic recovery for the Canadian economy in 2010. "Widespread" economic weakness in the global economy will give way to economic expansion, and the weak Canadian dollar will allow exports to grow and the Canadian economy to expand by 3.8 percent in 2010, the Bank of Canada added.

Costanzo also believes that an adherence to fundamentals, specifically giving the customer

'value,' is the way to survive in the current business climate. A recent study by the Conference Board supports his assertion. "The study asked customers what they valued the most. And most said that it wasn't low prices, and it wasn't even service. Rather, customers said they most valued a carrier who was sensitive to their business needs, who understood what issues were important to them and understood their business. That's what we emphasize to our sales team—not to push products, but to try and understand the space our customers are in. Right now, what customers want most from us is value. They want to know that we can help them get through this tough time."

"We send over 200 trailers a week up to Canada and 50 airline segments on top of that. Customers rely on us for consistency and reliability and to get them over the border efficiently. We occasionally run into a problem where a customs manifest or commercial invoice that the customer provided is missing some information, which could result in a delay, but it's very rare, because we screen the manifest extremely closely before it leaves the U.S." The electronic transmission of manifests to customs prior to the shipment reaching the border also allows Purolator USA to resolve most issues before the truck reaches the border. "Our on-time performance at the border is between 98 and 99 percent. That is what we sell, so it has to be that good," says Costanzo.

Although truck traffic along the U.S.-Canada border moves fairly well, there are occasional delays at major crossings. Plans to build a new bridge between Detroit, Michigan



and Windsor, Ontario would help relieve traffic, say supporters. The plan cleared a major hurdle last month when the U.S. Department of Transportation gave a final environmental clearance to the proposed bridge, which would be built about a mile downriver from the Ambassador Bridge.

If the project gets final approval, construction would begin in 2010 and be completed in 2013.

"This is a significant milestone," said Michigan State Transportation Director Kirk T. Steudle. "Once built, the new crossing system will boost U.S. and Canadian trade by expanding the busiest trade corridor in the western hemisphere. Activity on the Michigan side of the border will create 10,000 construction jobs and more than 30,000 indirect jobs during the construction period. This project is needed to transition the border crossing into a modern, multimodal network to securely move people and goods between the United States and Canada and make Southeast Michigan an even more prominent gateway for global commerce. We will be building the most modern border crossing system in the world."

"Exports won't be doing as well this year as they did in 2008," acknowledges Zantal. "We have kind of a virtuous cycle here at the port, and wastepaper is one example. We export wastepaper to China and they turn it into packaging, which gets turned around and shipped back to the U.S. Obviously, we're buying less from China right now, which ultimately means we're exporting less to them." It's not just wastepaper exports either, says Zantal, but also scrap metal and some chemicals that are in decline.

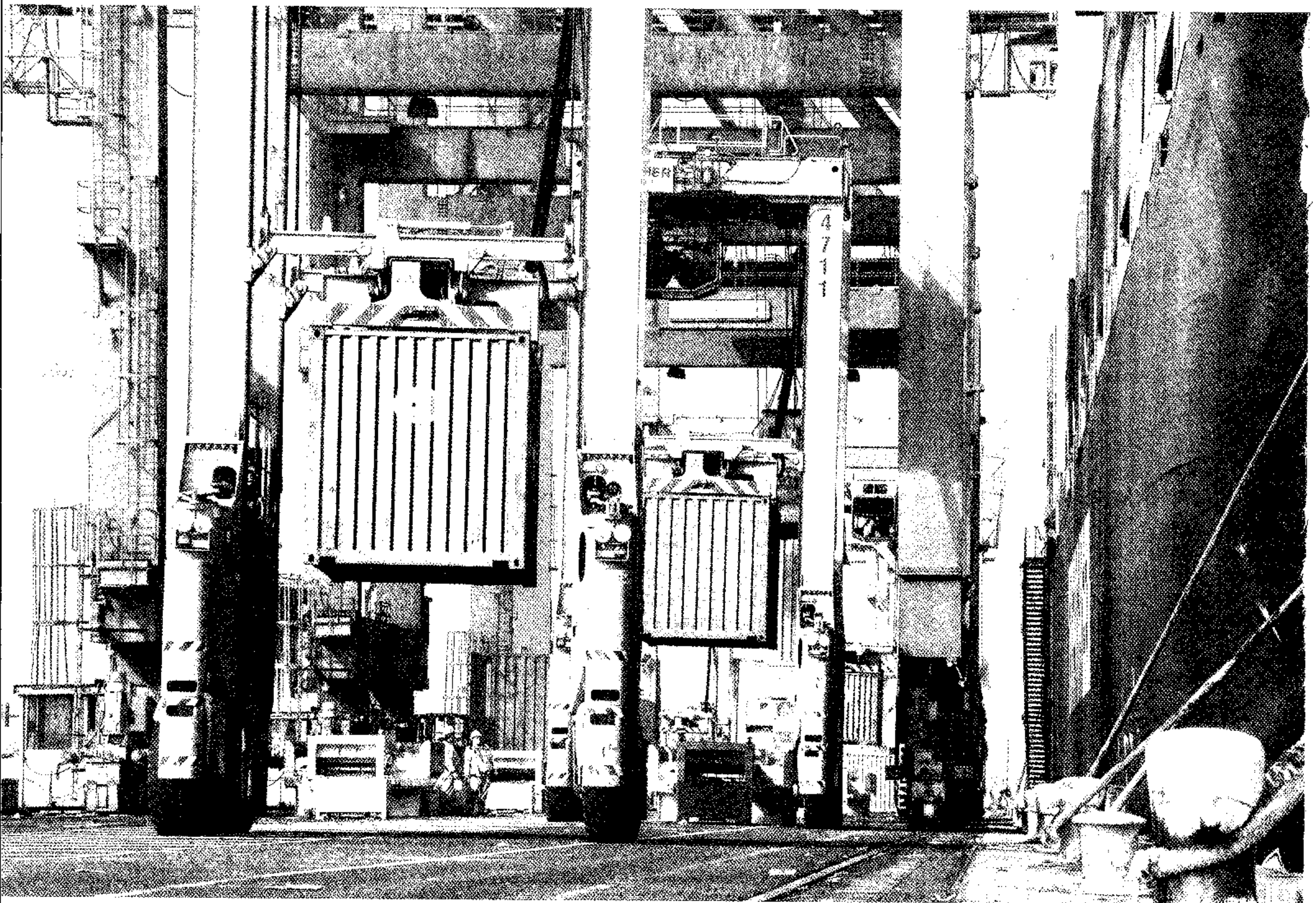
Grain exports, which were particularly strong last year, are also falling. A drought in Australia that severely hurt that country's production along with the rapid expansion of Asian economies was a boom for U.S. grain exports, says Zantal. "There was a shortage of bulk vessels, but that's not the case now," he says.

Not surprisingly, another export sector that faces considerable uncertainty is automobiles. It's one of four "cornerstone sectors" for the Port of Baltimore, notes Jim

White, Executive Director, Maryland Port Administration (www.marylandports.com). "We're the number one port in the nation for auto exports," he says. The Port benefits from its geographic proximity to the Midwest. And while auto exports have reached record-breaking numbers in recent years, White expects the Port of Baltimore to post a "fall-off" in 2009.

Compounding the problem is that shipyards are continuing to build new container ships, which will aggravate the supply-demand imbalance and add even more capacity to an already saturated market, says White. "If they can't fill them today, how are they going to fill them once additional capacity comes online?" he asks. "It puts more pressure on freight rates, and when freight rates go down it's bad for the entire industry. Carriers have less money to pay port authorities, truckers, and stevedores."

Although the present seems decidedly dismal, port executives are steadfast in their belief that global trade



Port of New York/New Jersey

will continue to grow in the future. "Maybe not at the double-digit pace as it has in the past," says the Port of New York/New Jersey's Zantal, "but it will definitely grow and we have to be prepared to meet that growth."

Indeed, when the expansion of the Panama Canal is completed in 2014, it's likely that the worst of the global economic crisis will have run its course. Good timing, to say the least.

"The Panama Canal expansion is a bright spot," remarks Zantal. "It will definitely have a positive impact on the Port of New York/New Jersey. We've already been seeing larger vessels transiting the Suez Canal, but certainly when the Panama Canal project is completed, we'll see even more all-water services."

Once the project is completed, post-Panamax container ships (those handling up to 12,000 TEUs) will be able to transit the Canal. Currently, only container ships that can hold up to about 5,000 TEUs can make it through.

The Port of Virginia is well positioned to handle the anticipated increase in all-water service from Asia that will come with the Canal expansion, says Harris. The Port has some of the deepest water on the East Coast, which is needed to accommodate the larger container

ships. "In addition to our 50-foot channels, we don't have any overhead obstructions, such as bridges," he says. The Port also has federal authorization to dredge to 55 feet if necessary, according to Harris.

Norfolk Southern Railway's Heartland Corridor project will also boost the Port's service offerings when it's completed in 2010. The project will expedite double-stack freight trains from Norfolk, Virginia to Columbus, Ohio (Rickenbacker Intermodal Terminal), and on to Chicago—vital markets for the Port of Virginia.

"We've got the crane infrastructure, dock infrastructure, the depth, and rail infrastructure," sums up Harris. "All of these things will help us to capture more cargo from the Panama Canal while also helping us to grow our Suez Canal traffic," he says.

At the Port of Baltimore, Evergreen provides direct all-water service from the Far East. However, there are high expectations in Baltimore, too, about the Canal expansion. "It costs about \$2000 to move a container discharged on the West Coast to the East Coast," says White. "Once the Canal is widened and made deeper, an 8,000-TEU ship can move all-water to Baltimore, then it's a local truck move of about \$125 to \$150." He adds that the transit time from the East Coast to Midwest is

also shorter than from the West Coast to the Midwest.

White says the Baltimore region has another advantage—it's the fourth largest consumer market in the U.S. and one of the most affluent.

Not only are the ports expecting big things from the Panama Canal expansion, the increase in business will also benefit other supply chain service providers. "The Panama Canal expansion will definitely benefit East Coast ports, and this will in turn benefit Pitt Ohio Express in the years to come," says Geoffrey Muessig, CMO and Executive Vice President of the Pittsburgh, PA-based LTL carrier (www.pittohio.com).

In the meantime, Pitt Ohio is staying focused on the fundamentals, says Muessig. "What we're doing on a day-to-day basis is managing our operating costs as closely as possible. That's the first piece of our strategy. And in contrast to many other carriers out there, we're not taking on a defensive posture; we're trying to grow the enterprise by succession."

"We have a truckload division, ECM Transport, and we think there's great potential to grow that business," Muessig says. "ECM Transport specializes in regional truckload, which is a nice complement to our regional mid-Atlantic LTL service."

Pitt Ohio is also one of the six founding members of the Reliance Network, launched last March, which also includes Averitt Express, Canadian Freightways/Epic Express, DATS, Land Air Express, and Lakeville Motor Express. The grouping provides seamless, nationwide, LTL, truckload, and supply chain freight services.

"We're also looking at developing a less-than-container (LCL) service out of the mid-Atlantic ports, and we're partnering with Averitt Express on their LCL service out of Asia," explains Muessig. Last July, Averitt rolled out the first phase of its Asia-Memphis Express with an LCL service focused on freight originating in Shanghai and Shenzhen. In November, the service was expanded with the addition of two new origin points, Hong Kong and South China (Shenzhen/Yantian port). More origin ports will be added in the future.

Muessig says that the longer the recession lasts, the higher the likelihood that more trucking companies will go out of business. However, "The carriers that can find ways to diversify their service offerings have the best chance of lasting this out," he advises. Providing value to the customer is also very important, he adds. "Ninety-nine percent of our shipments are delivered intact, without any damages, shortages, or overages. We also have a 97 percent plus on-time delivery record."

Green is a good thing, even in a down economy

There has been some worry, especially among environmentalists, that the slowing economy would correlate

to a drop-off in 'green' initiatives undertaken by the transportation and maritime sectors, but that hasn't been the case. In fact, port executives say green initiatives are key to sustainable growth and development.

Last April, Maryland Governor Martin O'Malley and other officials broke ground on the Masonville Cove Environmental Center. The center is part of a \$153 million restoration project that will transform one of Baltimore Harbor's most contaminated sites into an area that will benefit wildlife, local residents, and the port industry. Already, about 30,000 tons of trash and debris have been removed, with about 10,000 additional tons yet to be cleared. Some of the debris dates back to more than a century to the Great Baltimore Fire of 1904. The debris ranges from nearly 200,000

gallons of petroleum-tainted water, to timber and concrete rubble. There are also 25 abandoned vessels located in the water at the site, which was the former home of Kurt Iron and Metal and Maryland Shipbuilding and Drydock Company.

"Our Governor is very pro-environment," says White. "He's urging us to move forward on a program to install solar panels on some of our sheds. We have a lot of sheds on our terminals, probably about 2 million square feet of roof space."

For its part, the Port Authority of New York and New Jersey has announced a goal to achieve carbon-neutral operations at its facilities by 2010, says Bill Nurthen, General Manager, Program Support and Performance Management. Moreover, the Port aims to reduce its greenhouse gas emissions by 80 percent by 2050. "We're on track to meet that goal," reports Nurthen. Some of the measures the Port is taking include the installation of shore-power for vessels as well as a fuel-switching initiative for ocean-going vessels. Port officials are also looking to reduce greenhouse gas emissions from cargo handling equipment and rail switching locomotives.

This past summer, the Virginia Port Authority (VPA) obtained federal funds to help purchase three hybrid yard switchers for on-dock rail operations at Norfolk International Terminals. The switchers will reduce nitrogen oxide and particulate matter emissions at the terminals by 80 percent to 90 percent, and cut annual fuel costs by \$143,000, according to the VPA.

One of the three hybrid yard switchers has already been put into operation, while the remaining two will be delivered soon, says Harris. So far, the one unit has really paid off. "The old model that it replaced burned about 120 gallons of fuel a day," Harris says, while the new unit uses about the same amount of fuel over 8 days. **WT**

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