
# A NEED TO PORTPROOF INLAND SUPPLY CHAINS

WHITE PAPER

## Overview

On the surface, a recent shift in U.S. container traffic to East Coast ports shows that importers and exporters share a general anxiety in knowing that future labor disputes could once again lead to gridlock along the West Coast. However, it's a range of stimuli, both at home and out at sea, that reveals the more pressing need for businesses to seek out fluidity through a diversified inland supply chain. How can your supply chain be more resilient when faced with future challenges?

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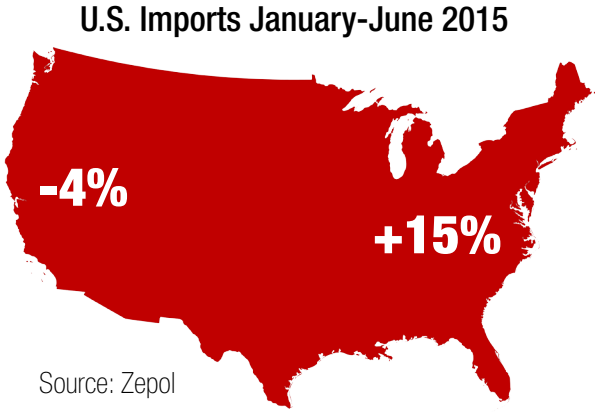
## Shifting East: Trend or Here to Stay?

If we could predict what the geographical landscape of inland logistics in the U.S. will look like within the next several years, a growing number of shippers may contend that current national distribution epicenters along the West Coast will have migrated to regions around the Gulf and East coasts.

Judging by import data compiled by Zepol for the first half of 2015, the prospect of a logistics Renaissance of sorts occurring east of the Mississippi River does sound tempting to buy into. By June 2015, imports moving through East Coast ports increased by a staggering 15 percent, while imports through the West Coast declined by 4 percent over the same period last year.




Given that the West Coast has predominantly been the point of entry and exit for international goods—particularly through the ports of Long Beach and Los Angeles—many shippers are now wondering why there has been a sudden shift in cargo movement. Is there an urgency to change coasts and rethink the footprint of their inland supply chain as well?

### Fool Me Once, Shame On You. Fool Me Twice...

At a glance, it's clear that the 2014-2015 West Coast labor dispute between the International Longshore and Warehouse Union (ILWU) and the Pacific Maritime Association (PMA), which came to an end in February, forced numerous shippers to temporarily reroute their cargo to East and Gulf Coast ports.

Coupled with a shortage of chassis used to move the containers in and out of the ports, however, it took the ILWU several months to clear out the back-logged containers that had piled up in terminal yards

**10 Fastest-Growing Ports**
(January-June 2015)

| Rank | Port | Growth |
|---|---|---|
| 1 | Savannah | +33% |
| 2 | Houston | +24% |
| 3 | Seattle | +21% |
| 4 | Miami | +21% |
| 5 | Charleston | +16% |
| 6 | NY & NJ | +14% |
| 7 | Baltimore | +13% |
| 8 | Virginia | +12% |
| 9 | Philadelphia | +12% |
| 10 | Boston | +5% |

Source: PIERS

or waited on ships for up to a month before being unloaded.

Many shippers that rerouted during the dispute, which resulted in widespread disruptions to national supply chains, had already learned the value of having a back-up plan in place after having gone through a similar West Coast crisis in 2002.

While much of the cargo that was diverted to the East Coast in 2002 returned after the labor crisis was resolved, it appears that many shippers have decided to permanently change their coastal allegiance this go-around. According to data released by PIERS, West Coast market share declined from 55 percent of overall U.S. import volume in the first half of 2014 to 50 percent for the same period in 2015.

### Is the East Coast Ready?

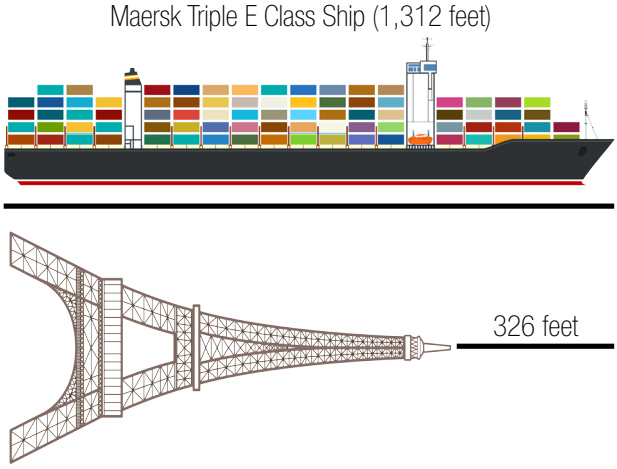
The PIERS data also shows that seven of the 10 fastest-growing U.S. ports are on the East Coast, including Savannah, which saw a remarkable growth of 33 percent in the first six months of 2015. As shippers flock to East Coast ports, regional governments and transportation and logistics providers are working overtime to ensure that the local infrastructure can meet the momentum of import growth.

## Mega-Ships Carrying Mega-Problems

It would be easy to attribute all of the current good luck of the East and Gulf coasts to labor disputes, but there are seemingly larger issues that are helping to rewrite the logistics map of the nation's coastal and inland transportation routes.

Commonly called "mega-ships," new container vessels carry more than twice the amount of cargo that ships did a decade ago. Maersk's Triple E class container ship, for

example, holds more than 18,000 twenty-foot equivalent units (TEU). At 1,312 feet in length, the Triple E is 326 feet longer than the height of the Eiffel Tower.




## Why So Big?

Major shipping lines began building mega-ships in anticipation of a long-term surge in international trade. Contrary to those optimistic forecasts, however, global demand has been outpaced by capacity. Shippers have been able to benefit from lower cargo rates in the meantime, but U.S. ports have been forced to tackle new logistical challenges, which can trickle down the entire nation's supply chain infrastructure.

Because of their sheer size and the amount of cargo they can carry, ports on all coasts have struggled to keep up with the quick escalation in size that has come with the newer classes of ships (some doing better than others). These challenges include maintaining the manpower and equipment to load and unload much larger quantities at once, deepening waterways, raising bridges, and allocating more space to store containers.

Addressing these issues requires large financial investments by stakeholders that may or may not see a timely return. Nonetheless, many ports are moving forward in anticipation that mega-ships are here to stay. The Port Authority of New York and New Jersey, for instance, is raising the road deck of the historic Bayonne Bridge by 64 feet to allow larger vessels to pass beneath. Farther south, dredging Charleston Harbor to 52 feet will make it the deepest on the East Coast, giving ships of all sizes access to the port.

Deepening of Charleston Harbor from 45 to 52 feet will cost an estimated $509 million

Source: U.S. Army Corps of Engineers, Charleston District

## Some Ports Face Prospect of Container Obsolescence

Unfortunately, some small and midsized ports across the nation have been unable to keep up with the logistical demands that mega-ships call for.

The Port of Portland, for example, has experienced a drastic decline in imported container shipments. As smaller ships that traditionally docked in Portland have been phased out, the mega-ships that replaced them are unable to travel down the Columbia River. Due to the costs of dredging the 100-mile channel to accommodate increasingly larger ships, regular container shipments may be a thing of the past for Portland.

Still, Portland and other ports in similar situations should not be written off. Container ships are not the only vessels that call on ports. Portland, for example, also handles noncontainerized cargo such as cars and bulk commodities.

Businesses that are affected by shifts in regional container traffic may even find a silver lining. A re-evaluation may determine that a new supply chain route or utilization of different modes of inland transportation may actually lead to improved efficiency and reduced costs.

## Expansion of Panama and Suez Canals


The appeal of West Coast ports has always been one of convenience and trade route capacity. First, they're geographically closer to the major manufacturing markets in Asia that the U.S. economy has come to rely upon. Secondly, ships that traveled to the East and Gulf coasts via the Panama Canal have been limited in size to less than 5,000 TEU capacity.

In an effort to keep up with mega-ships, an expansion of the Panama Canal will allow for the passage of vessels that can carry up to 13,000 TEUs. Already, discussions to create another expansion of canal locks that could support 20,000 TEU ships is underway.

Likewise, Egypt's Suez Canal has recently undergone an expansion of its own. It can now host ships of up to

18,000 TEUs in size, which has made it more enticing to mega-ships originating from Asia.

The improved capacity of both canals has helped to make the ports along the East and Gulf coasts more competitive when it comes to attracting imports from Asia. When compared to trans-Pacific routes to the West Coast, the transit times to the East and Gulf coasts fall short. However, what those routes lack in speed, they may be able to make up for in cost savings and overall transit reliability.

### Panama Canal Expansion

- Began in September 2007
- To be completed in 2016
- Adds third lock for transit of larger ships
- Cost of $5.25 billion

## Value of an Inland Supply Chain Partner

So, are port labor disputes and mega-ships an imminent threat to the average importer and exporter's inland supply chain? The short answer is no, but the long-term top performers will be the businesses that seek out innovative transportation solutions and work with service providers that are proactive rather than reactive.

### Seeking Out New Solutions and Flexibility

The modern supply chain is complex, and there are no "one size fits all" plans that work across the board or from coast to coast. When re-evaluating an inland supply chain, shippers should question whether their service provider is prepared to handle hurdles that may occur across the sea, at port, or on the mainland.

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The services offered by many transportation providers are limited due to their lack of facilities, equipment, manpower, technology, and capabilities. For that reason, some shippers end up buying into sales tactics that mask the frail wireframe structure hidden beneath.

Fortunately, there are transportation providers that can offer it all and prefer to *partner* with their shippers to

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ensure the success of both parties. These companies understand that, among other qualities, a customer's success depends on their partner's infrastructure, company culture, track record, and focus on ingenuity with every decision.

A resilient, proactive inland supply chain partner realizes that while the most direct routes may make sense on a map, there may be other solutions that can reduce a shipper's overall costs. For example, shippers may find that utilizing inland rail ports, such as those in Memphis, Tenn., Greer, S.C., and Atlanta and Cordele, Ga., may save them more money than using a truckload service the entire distance from the port would.

Your inland supply chain is unique and should therefore be treated uniquely. Working with the right partner can be the differentiating factor between lost profits at port and a seamless, cost-efficient inland supply chain—today and tomorrow.

# PortSide® Services

If your business or broader supply chain depends on imports, exports, or both, Averitt's PortSide® Services is the all-in-one inland transportation solution. With coast-to-coast coverage, Averitt provides businesses with everything they need to get to and from port, including drayage, transloading and processing, warehousing and storage, and inland transportation and distribution. That's the Power of One.

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Contact the PortSide® Services team at 1-888-218-0707 or portside@averittexpress.com