ASIAN IMPORT STRATEGY:

Alternatives to West Coast Ports

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Introduction

When the *CMA CGM Benjamin Franklin* paid visits in early 2016 to several U.S. West Coast ports, it was heralded as the "largest cargo ship ever to visit the U.S.," with Port of Oakland Maritime Director John Driscoll calling the visit a "milestone" for the ports as well as for U.S. trade, and predicted: "We'll see more of these big ships before long."

Calling the *Benjamin Franklin* a "big ship," is an understatement for sure. Owned by French-shipping company CMA CGM Group, the mega-ship is "longer than the Empire State Building and wider than an American football field." And, the ship can carry up to 18,000 twenty-foot-equivalent (TFE) containers, a capacity that had previously only been seen on ships traveling between Europe and Asia.

The CMA CGM Benjamin Franklin is the largest cargo ship ever to visit the United States.

But while some saw the *Benjamin Franklin's* arrival as heralding a new era, others saw it as exacerbating existing congestion and infrastructure issues at U.S. West Coast ports. As The Wall Street Journal explained: "The supersize ships are overwhelming many U.S. ports that weren't built to accommodate such largesse."

Among other things, the extra-large loads require larger cranes to lift the top containers. And dock yards accustomed to handling the arrival of 10,000 containers from a single ship now see almost twice as many arriving, with no additional room for storage. This has resulted in containers being stacked higher and higher which, for a trucker waiting to take possession of a specific container – often at the bottom of the stack – the impact can mean hours spent waiting.

For many, the situation reached a breaking point when a 2014-15 labor dispute essentially paralyzed activity at 29 West Coast ports. The impact of that work stoppage was felt by a diverse sector of industries. From fruit and vegetable suppliers who saw their perishable shipments destroyed, to clothing and toy retailers who

2014-15 labor unrest at U.S. West Coast ports brought activity to a virtual standstill.

missed key holiday deadlines to industrial parts manufacturers who had production schedules disrupted, the impact was far reaching and severe. As a result, many businesses have taken a "never again" attitude. Rather than risk a possible supply chain delay or disruption, businesses are looking beyond West Coast ports, and are finding viable alternatives.

Canada's Port Prince Rupert, for example, offers the shortest trade route to Asia, and express rail service to the U.S. Midwest. As reported in Business Vancouver, Prince Rupert is North America's fastest growing port, and also ranks in the top 10 in terms of North American port productivity.

Other shippers have been persuaded to route their cargo through East Coast ports. Analysis by the Baltic and International Maritime Council (BIMCO) found a 12.6 percent increase in the number of loaded containers processed during 2015 by East Coast ports. BIMCO cites ongoing West Coast congestion and labor issues – as well as the expansion of the Panama Canal – as reasons the move away from the West Coast may have staying power. Indeed the Boston Consulting Group (BCG) found as much as 10 percent of container traffic between East Asia and the United States could shift from West Coast ports to East Coast ports by 2020.

Clearly though, any change in port strategy must be carefully planned and strategically analyzed. Among the questions to consider:

- How will a switch in port strategy affect transit time?
- What about cost implications?
- What happens to the cargo once it arrives on the dock?
- Will it sit in a container gridlock until it can be moved and unloaded?
- What about customs compliance? How can excessive delays be avoided?
- What about convenient access to a highway or rail network?

The key is to enlist a highly capable and experienced logistics provider that can guide a business as it develops the ideal shipping strategy for its unique needs. A truly capable provider will have insight into the strengths and weaknesses of every scenario, and will be able to serve as a partner/consultant in formulating a highly efficient solution.

As the following discussion will make clear, it's an interesting time for ocean-bound shipments. Shippers that have used U.S. West Coast ports almost as an automatic, default option, now realize that options are available. But with so much at stake, any change in strategy must be weighed carefully, with the steady hand of an experienced logistics partner to lead the way.

Industry Adapts to "New Normal" of Mega-Ships

The arrival of the *Benjamin Franklin* at several West Coast ports during 2016 cleared the way for what is certain to be a transformative period in U.S. shipping. With its 20,000 TEU capacity, she is the largest ship to ever grace a U.S. port. And most North American ports will need to make significant infrastructure adjustments to accommodate and service ships of this magnitude.

How exactly did we get here, where ships as long as the Empire State Building is tall will soon be outdone by a planned series of ships capable of carrying 30,000 TEUs? Following is a brief timeline of some of the milestones in containership development:

1966: First international container ship voyage, as Sea-Land's Fairland sails from the U.S. to the Netherlands with 236 containers on board.

1968: Container ship capacity increases to roughly 1,000 TEUs.

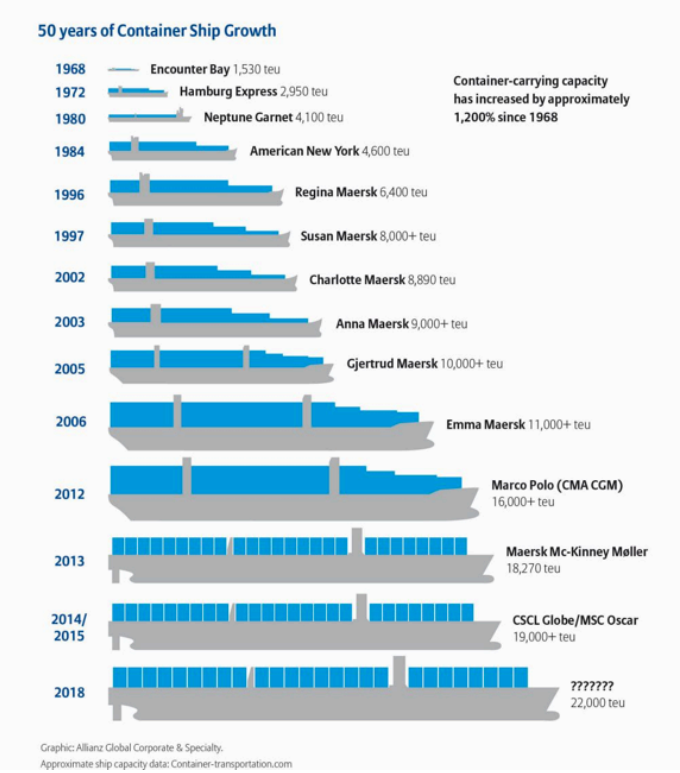
1985: The size capacity of the Panama Canal, the "panamax standard," becomes the new standard for ships, with a capacity of approximately 4,000 TEUs.

It wasn't long though, before shipbuilding evolved to a "panamax max" standard, which increased capacity to 4,500 TEUs by maximizing the Canal's limitation in beam dimensions.

1999: Post-panamax containerships come into service with capacities of 6,600 TEUs, which soon grew to 8,000 TEUs. Once the panamax threshold was exceeded, ship size quickly increased in order to accommodate growing demand for service. The larger ships though, posed challenges for many port operators, since they required deep water ports and investments in high-capacity cranes. Today roughly 30 percent of the global fleet is considered post-panamax.

2009: The Panama Canal Authority published dimensions for "New Panamax," the new class of ships that will be able to navigate the expanded Panama Canal, which at the time was scheduled to open in 2014. (Actual opening date is scheduled for mid-2016.) New Panamax ships have a capacity of up to 13,000 TEUs, and can service the Americas and the Caribbean, either from Europe or Asia.

2011: Maersk announces an order for 20 ships, each with a capacity in excess of 18,000 TEUs, which will be known as its "Triple-E" class, to mark the company's commitment to energy, efficiency and the environment. The ships are used on routes between Asia and Europe, and are considered both "Malaccamax," and "Suezmax," meaning they are able to pass through both the Suez Canal and the Strait of Malacca. At the time the Triple-E ships were delivered, they were the largest ships in the world.



Source: Allianz Global Corporate & Specialty

2015: The CSCL *Globe* makes its maiden voyage from Shanghai to Europe. Capable of carrying 19,100 TEUs, it is the world's largest container ship by volume.

2016: Following the CMA CGM *Benjamin Franklin's* successful test voyage to several U.S. west coast ports, its owner, French shipping company CMA CGM SA announces it will dedicate six-18,000 TEU capacity ships for regular service between Asia and the United States.

2016: Larger ship designs are on the drawing board that will carry between 27,000 and 30,000 TEUs. These ships are expected to be built within the next decade.

This dramatic increase in ship capacity has forced fundamental changes in the business of international shipping, port operations, and the logistics involved in processing large volumes of cargo arriving simultaneously.

Mega-ships and the business of international shipping

The rise of the mega-ship was driven both by capacity needs generated by increased global trade, and a post-global recession demand for greater efficiency. According to Fortune magazine, "after rates for container shipping hit record highs in the 1990s and early 2000s, prices collapsed along with global trade in 2008 and 2009. Orders to shipbuilders around the world were cancelled in droves." When shipping companies began to reinvest, orders were overwhelmingly placed for megaships, as carriers sought greater economies of scale.

"But," the Los Angeles Times reported, "that strategy has backfired as the growing supply of vessels outstripped demand. A November report from Moody's Investors Service estimated that global container ship capacity through the end of 2015 would increase 8% to 10% but demand would only grow 3% to 4%."

As a result, shipping companies are under enormous pressure to cut costs, which in part led to CMA CGM's decision to expand its mega-ship operations to U.S. routes.

The Hong Kong-registered CSCL Globe, with 19,000 TEU capacity, is the world's largest container ship. Source: BBC News, January 2015.

While the influx of larger ships, including megaships has undoubtedly had benefits – reduced fuel costs, increased capacity –shippers have also seen some fundamental changes, and not all are positive:

- For one thing, larger ship size has not kept pace with port capability. As a result, the biggest of the mega-ships are unable to operate in U.S. ports, and are therefore unusable in the premier U.S. market. This has led to concern that shipping companies have focused on "bigger, better," at the expense of "smaller, essential."
- Bigger ships mean fewer departures. This means a U.S. business, expecting a shipment of parts from an Asian manufacturer, would have fewer options if its shipment was delayed at the factory and could not make a scheduled ship departure.
- To ensure that ships sail as full as possible, shipping companies have entered into alliances, thereby forcing smaller shipping companies into less desirable trade lanes, which can affect U.S. businesses in need of service from Asia.
- Excess capacity has led some companies to engage in "slow steaming," whereby ships deliberately travel at slower speeds as a way to reduce fuel costs. Analysis by McKinsey found that if slow steaming were to add three days to a U.S.-Asia supply chain, the additional costs to U.S. importers could reach $415 million. Worldwide, that same three-day delay could reach $5.7 billion.
- Chassis availability has become a significant issue at many ports, with containers unable to be moved until an appropriate chassis is located. This shortage is caused by decisions by many shipping companies, which used to own their own chassis inventories, to outsource the duty to third parties.
- Decisions by many companies to reduce the size and scope of their customer service teams.

Infrastructure needs of U.S. ports

One of the most immediate impacts of the "supersizing" of the containership fleet, has been the inability of most U.S. ports to accommodate the largest ships. And even among ports that can accommodate an 18,000 TEU vessel, the magnitude of each ship plus the volume of cargo it carries, has strained resources and exposed inefficiencies.

According to the Los Angeles Times, the ports of Los Angeles, Long Beach, Oakland, Seattle and Tacoma are currently the only U.S. facilities with terminals large enough to accommodate the largest, 18,000 TEU ships. In Canada, British Columbia's Port of Prince Rupert will be equipped to handle such vessels by 2017, with the Port of Vancouver expected to be on board soon after.

"The floating behemoths are overwhelming many U.S. ports that weren't built to handle such supersize ships," noted The Wall Street Journal. "In Newark, NJ, a shortage of chassis – the undercarriages used to haul containers off the port by truck – is contributing to miles-long lines. In Los Angeles and Long Beach, the arrival of giant vessels and the growth of shipping alliances has caused terminal gridlock for months, leaving ships stuck offshore waiting to unload."

"The floating behemoths are overwhelming many U.S. ports that weren't built to handle such supersize ships."

Source: The Wall Street Journal, April 29, 2015.

The Journal also reported on the impact of having multiple large ships arrive in port simultaneously. Specifically, the paper notes that when three large ships docked at the Port of Virginia, the result was an overload of containers that "resulted in a mile-long backup for truckers to enter the terminal and a 13-lane, 10-truck deep traffic jam once inside the terminal."

Not surprisingly, Roanoke Trade Specialists notes, chronic bottlenecks have reduced the amount of cargo moving through the ports, and added "significant unpredictability into the retail end of the logistics chain."

Among the infrastructure and service improvements needed to properly accommodate today's larger ships:

- Deeper harbors
- Larger cranes
- Raised bridge heights
- More dock space
- Raised and strengthened docks
- More warehouse space
- Greater efficiency in unloading containers
- Greater efficiency clearing goods through customs

The good news? Improvements are underway – or planned – at several U.S. facilities. The American Association of Port Authorities (AAPA) reports that U.S. public ports and their private sector partners plan to spend as much as $9 billion annually in each of the next five years on port improvements. These renovations fall into three main categories:

- Land-side connections (roads and rail tracks)
- Water-side connections (includes deepening and widening of channels and harbors)
- Port facility maintenance (larger cranes, increased terminal/warehouse capacity, equipment upgrades).

But the not so good news? The trade association warns that these investments will not be countered by critically-needed federal spending in port improvements. AAPA has identified 125 port-related infrastructure projects, with a price tag of $28.9 billion that are considered of vital importance. These projects range from intermodal connectors (often described as the 'first and last mile' of port transportation), gateway and corridor projects, to marine highways and on-dock rail projects. "Unfortunately," AAPA wrote in its 2015 annual report, "due to insufficient investment in its freight transportation structure, every day America is losing some of its goods movement advantage…."

Situation Overview: West Coast Ports

The 29 ports that comprise the U.S. "West Coast network," ranging from Southern California to the Pacific Northwest, have long been considered the principal gateway for international trade between the United States and Asia. Together the ports account for 70 percent of all imports, with Los Angeles and Long Beach accounting for 40 percent.

West Coast ports appeal to U.S. importers for a number of reasons including:

- Geographic advantage for U.S. imports coming from Asia
- Relatively quick transit time of 7-to-10 days for interior-U.S. deliveries
- Established access to highway and rail networks
- Deep harbors that can accommodate mega-ships
- Large terminal capacity to process high volume of incoming cargo.

Despite these strengths, several flaws and inefficiencies in West Coast port capabilities have been exacerbated in recent years.

Labor Unrest. West Coast port activity was essentially shutdown for a period during 2014-15 as the result of a dispute between longshoreman and port management. Cargo was essentially paralyzed for nearly four months, at a cost estimated as high as $2 billion per day to the U.S. economy. The dispute was eventually settled with a new five-year contract, but many believe the agreement fails to resolve the underlying issues. As a result, many have expressed doubts about the lasting power of the agreement.

"The shipping community should have no illusions that this labor contract will bring long-term peace between management and labor in the ports," supply chain innovator and professor at the University of Tennessee's Global Supply Chain Institute Kate Vitasek wrote in Forbes. "History has a way of repeating itself," she wrote, "the parties have deep chasms in their working relationship that will likely result in future issues and disruption for shippers. It's only a matter of time before the Pacific Maritime Association (PMU) and the International Longshore and Warehouse Union (IWLU) are back at it, causing turmoil for shippers once again."

This lack of faith in the agreement was supported by results of an electronic poll conducted among attendees at a 2016 industry conference sponsored by the Journal of Commerce. The poll, which asked about the potential of an improved labor environment, found that fully 85 percent "do not anticipate any significant improvements going forward."

Congestion. "If I were to ask you how long it takes to get your container out of Pier A at Long Beach, you'd have 100 different issues," is how California Trucking Association executive Alex Cherin described the chronic congestion plaguing U.S. West Coast Ports. Cherin was speaking at the Southern California Logistics and Supply Chain Summit, held in mid-2015 in Pomona, California, where port congestion was a primary topic of conversation.

Truckers experienced wait times of 12 to 72 hours during the 2014-15 labor disruption. Source: Starcrown International Freight Co., Ltd.

At the Los Angeles and Long Beach ports, wait times have become so extended, that truckers now assess surcharges of $50 to $100 per hour on retailers and other cargo owners. As the Journal of Commerce reports, truckers say they have no option since the long hours spent waiting in line prevents them from accepting other loads. Truckers can lose thousands of dollars a week since "drivers who normally would make four trips per day are averaging fewer than two because of the widespread congestion," the Journal of Commerce noted.

Beyond congestion, West Coast ports also face severe dockyard and terminal capacity shortages. To facilitate the movement of import containers, the Port of Long Beach has proposed reducing the amount of time import containers can be stored on docks free of charge. Currently containers are allowed up to six days of "free time," but a proposal under consideration would reduce the period to three days.

Any change in "free time" allocations would most certainly be met with opposition from truckers, retailers and other port users since, as one trucking official told American Shipper: "The problem is not the truckers. The problem is not cargo owners using the terminal yards for free storage. The problem is that terminal operators have not been able to efficiently handle the land side of their operations as well as they do the water side for their carriers."

Productivity. Equally concerning are questions about West Coast ports' ability to process existing container volume, let alone the surge that would come from regular visits from 18,000 TEU container ships. One of the loudest opponents of West Coast port productivity has been Drewry, a U.K.-based provider of consulting services to the shipping industry. In a statement released just before the CMA CGM *Benjamin Franklin* made its U.S. "test run," Drewry noted: "In truth, the arrival of one 18,000 TEU ship, which may not even be full, won't meaningfully test the West Coast terminals' ability to deal with such ships, but at the very least it raises the question of what the [West Coast] ports need to do to get there."

Giant cranes at the Port of Long Beach will process mega-vessels such as the CMA CGM Benjamin Franklin, which made its inaugural visit to the port in January 2016. Source: Press-Telegram

Topping Drewry's list of needed improvements:

- Process improvements for moving cargo to and from the port complex via truckers and intermodal railroad.
- Terminal automation
- Restructuring of labor agreements, to allow longer working hours to turn ports into 24/7 operations.

"Introducing too many ULCVs [ultra large container vessels] to the West Coast ports before they are fully ready would most likely worsen productivity, rather than improve matters, and could add days to the load and discharge time for boxes at terminals, thus undermining [West Coast ports'] competitiveness," Drewry's analysis concluded.

Separate insight from the Journal of Commerce also stressed the need for West Coast ports to significantly improve efficiency. "In order to prevent an erosion of market share to East Coast ports, the Seattle-Tacoma, Oakland and Los Angeles-Long Beach gateways must improve their efficiency in loading vessels, moving containers through the yards and expediting the departure of containers by truck and intermodal rail," the report said.

Specifically, the analysis noted that West Coast ports' current standard of 25 to 26 container moves per crane per hour must be increased to at least 30 moves per hour.

As Southern California public radio station 89.3KPCC noted, port officials are well aware of these critical performance issues. For the most part, officials have urged patience, and note that capital improvement projects – some of which are already underway – will improve current inefficiencies. "Don't give up on us," urged Dr. Noel Hacegaba, chief commercial officer at the Port of Long Beach.

Gateway to the East – Panama Canal Expansion

Another game changer is certain to be the newly-expanded Panama Canal, which is scheduled for completion in mid-2016. The expanded Canal, which doubled capacity to accommodate post-Panamax containerships carrying up to 14,000 TEUs, is expected to drive a significant amount of volume away from West Coast ports, in favor of East Coast alternatives.

Research by the Boston Consulting Group found as much as 10 percent of container traffic from East Asia could shift from West Coast to East Coast ports by 2020. Goods that now travel via West Coast ports are transported by rail and truck as far east as the Ohio River Valley, BCG analysts noted in a press release. But the expanded Canal's capability to handle post-Panamax ships, will allow ships to reach the East Coast.

"For shipowners and their customers, they will gain a cheaper – albeit slower – way to reach markets in the densely populated eastern half of the United States via the Atlantic ports," noted Toronto's Globe and Mail.

The expanded Panama Canal is expected to increase flow of Asian imports to East Coast ports. Source: xfilexplore.com

The trip from Asia to markets on the eastern seaboard is about 18 days via the West Coast ports, using trucks and trains for the final leg. The same journey takes 22 days sailing through the Panama Canal to East Coast ports, including road and rail transport.

The expanded canal is good news for eastern ports including New York – New Jersey, Virginia, Savannah, GA, Charleston, SC, New Orleans, LA and Houston, TX. In fact, the Globe and Mail reports, "the Canadian National Railway Co. is also hoping to benefit from the new flows of containerized freight, signing agreements with ports in New Orleans and Mobile, AL."

Those ports will then become more cost competitive, BCG's analysis continued, since it is cheaper to move cargo by water than over land. West Coast ports, however, will remain the destination of choice for shippers who need to use the fastest routes possible.

Canada – Prince Rupert and Vancouver attracting U.S. Imports

A growing number of U.S. importers are finding relief from the congestion and capacity issues of U.S. ports by looking north to Canada. That country's two West Coast ports – Port Prince Rupert (Port Rupert) and Metro Vancouver have each undergone intensive capital projects to improve facilities, in order to accommodate the needs of larger ships, and offer ship-to-rail service, whereby containers are loaded directly onto rail beds.

A study by UK-based Ocean Shipping Consultants found the two ports have emerged as "major competitors" for U.S. imports. Specifically, the study noted the impact the Canadian ports have had in taking business from Seattle and Tacoma. Further, a Journal of Commerce survey found 66 percent of shippers said they planned to ship less freight through U.S. West Coast ports because of congestion, with 28 percent indicating they would opt for Port Metro Vancouver and Prince Rupert as their permanent alternatives.

The Canadian ports saw a significant spike in cargo diverted from U.S. ports during the 2015 West Coast labor dispute – Prince Rupert saw a 72 percent increase during that period. But, there are indications the increased activity has staying power, with analysis by the Journal of Commerce reporting a decade-long trend of increased volume at the Canadian ports.

The Journal of Commerce cites a steady increase in cargo diverted from Seattle-Tacoma in favor of Canada's Prince Rupert and Vancouver ports. Source: Journal of Commerce

To be clear, no expert is predicting the Canadian ports will see a sizeable diversion of U.S. West Coast trade volume. But for a growing number of U.S. businesses, Canada offers clear benefits that result in greater efficiency, less stress and better service than transporting through a West Coast port.

What makes the Canadian ports attractive alternatives?

Prince Rupert designed with U.S. imports in mind. Prince Rupert was opened in 2007 as a "ship-to-rail" transfer port and has become the fastest growing port in North America. As reported by the Journal of Commerce, U.S. businesses are drawn to Prince Rupert as a way to avoid the U.S. Harbor Maintenance Tax (see below) and because of its direct access to Canadian National Rail stack train service,

which offers service to Chicago "in 100 hours." According to the U.S. Federal Maritime Commission, "as much as 61.8% of cargo imported into Prince Rupert in 2014 had a final destination somewhere in the United States."

In addition, Prince Rupert offers reduced transit times for shipments traveling from Asia. Shipments from Tokyo can reach Prince Rupert in 8 days, several hours faster than they can reach Seattle, and a full two days faster than they can reach Los Angeles.

TRAVEL TIME (IN DAYS) FROM ASIAN MARKETS TO NORTH AMERICA AT 20 KNOTS

The Port of Prince Rupert is North America's closest port to Asia by up to three days sailing – it's 36 hours closer to Shanghai than Vancouver and over 68 hours closer than Los Angeles

	Prince Rupert	Seattle	Los Angeles
Tokyo to:	8	8.9	10.1
Busan to:	8.7	9.6	10.9
Shanghai to:	9.7	10.6	12.1

Source: Port Prince Rupert

Port Metro Vancouver investing in capital improvement to improve efficiency. Port Metro Vancouver (PMV) is Canada's largest port, and with its direct rail access and ongoing infrastructure improvements, is increasingly attractive to U.S. businesses. In fact, the Journal of Commerce cites an increase in U.S. diversions as the key reason behind Vancouver's eight percent volume increase during 2015. According to the U.S. Federal Maritime Commission, "terminals in Vancouver are planning and making infrastructure investments in anticipation of handling more cargo destined for the United States." GCT Global Container, which operates PMV's Vanterm and Deltaport terminals plans to spend "several hundred million dollars" to increase its terminals' capacity and fluidity. Planned improvements include expanding on-dock rail capacity at the Deltaport terminal by 2017, and upgrading yard capacity at Vanterm.

"Interesting to note though, PMV management does not seem interested in serving as a short-term solution for shipper's trying to avoid current congestion and labor issues in the U.S. Instead, as Eric Waltz, president of GCT Canada noted: "The company will only take volume it can handle and for customers who see shipping through Vancouver as a 'long-term fit.'"

PMV also has projects underway for road and rail enhancements, designed to separate road and rail traffic, improve safety, ease community connections and minimize train whistling.

U.S. Harbor Maintenance Tax. The U.S. government imposes a 0.125 percent tax on all cargo entering the United States as a way to defray costs for harbor dredging and other

maintenance costs. But as U.S. Senators Patty Murray (D-WA) and Maria Cantwell (D-WA) noted in a letter to the Federal Maritime Commission, the tax is an enticement for shippers to divert cargo away from U.S. ports. The Senators wrote:

Shippers avoid tax by routing cargo through non-U.S. seaports. The tax has existed since 1986 but has become a more significant competitiveness issue with the development of the new Canadian and Mexican seaports along the west coast, and it appears that the HMT may be a key factor causing U.S. ports to lose a growing share of imported container cargo from Asia.

A growing number of containerized U.S. imports from Asia move through the west coast Canadian container ports of Vancouver and Prince Rupert en route to the U.S. Midwest (i.e. Chicago and Memphis) through cross-border rail. Additional volume enters U.S. markets via Mexican ports. As a result, non-U.S. ports are able to claim a substantial per-container cost advantage over U.S. seaports based on the HMT alone.

Canadian ports have capacity to handle U.S.-bound shipments. When Prince Rupert saw a 72 percent spike in U.S. imports during the 2015 West Coast labor disruption, port officials put out the word: "We can handle more." At a time when California and Seattle ports seem unable to keep pace with daily arrivals of growing numbers of containers, Prince Report is under-utilized. As the Journal of Commerce reported, when Prince Rupert volume reached 618,000 TEUs during 2014, against a capacity of 850,000 TEUs, port managers issued a statement stating that its Fairview Container Terminal has "room for increased traffic."

However, clarified a port spokesman, "We are very protective of our low dwell times and terminal efficiency, so we are planning carefully for increased cargo volumes in conjunction with our terminal operator, Maher Terminals, and (Canadian National Railway) our transportation partner."

Intermodal Capabilities. In a 2015 statement discussing U.S. cargo diversions to Canada and Mexico, Federal Maritime Commissioner Richard Lidinsky noted that "the backbone of the Canadian ports' ability to divert cargo from the U.S. West Coast is Canada's railway system." The Canadian National Railway offers direct intermodal service from Vancouver to Chicago, Memphis and New Orleans at a price point designed to compete with U.S. carriers.

The Canadian National Railway offers direct service from Port Prince Rupert and Metro Vancouver to Chicago and other U.S. cities. Source: Journal of Commerce

When the Prince Rupert Port Authority opened its Fairview container terminal in 2007, CN officials aggressively lured U.S.-bound shipments by offering quotes that were $300 to $400 per 40-foot container less than what the Burlington Northern Santa Fe Railway (BNSF) and Union Pacific railroads were charging for service from Pacific Northwest ports to Chicago. Further, the railroad has announced plans to improve service by building a container terminal near Toronto to serve as a new intermodal hub.

Today, the CN claims that imports from Asia can arrive in Chicago in 100 hours, slightly more than four days. In fact, CN management is so proud of its Canadian port efficiency, that it has been dubbed "the Prince Rupert or Canadian model," and the company has plans to implement the same model in servicing U.S. Gulf Coast ports.

In addition to the CN, Metro Port Vancouver is served by the Canadian Pacific Railway (CP) and the Burlington Northern Santa Fe Railway (BNSF). CN Rail and CP Rail offer on dock loading and unloading services which save transit time with less handling and reduced potential damage. Similar to CN, CP also offers double-stack service to Chicago and other U.S. destinations.

Truck access. With regard to facilitating truck access to its facilities, Metro Vancouver maintains night gate hours as an alternative to peak daylight hours. In addition, each port terminal has invested in technology that allow truckers visibility into container status, along with the ability to electronically address any outstanding fees or charges, which could delay a shipment's release.

Cost Savings. U.K.-based Ocean Shipping Consultants estimates that shipping a 40-foot container from Kobe, Japan to Chicago costs as much as $600 less if it is routed through Vancouver, rather than Seattle-Tacoma. As reported by the Journal of Commerce, Mike Reilly, director of business development and intermodal service at the Port of Tacoma, says the differential is somewhat less, "about $200 to $400."

Making it Happen – the Logistics of an Effective Port Strategy

Clearly then, there are options to shipping through a West Coast port. With the expanded Panama Canal offering easier access to East Coast ports, and Canada's Prince Rupert and Vancouver offering direct rail service, a U.S. business can avoid the congestion and uncertainty that affect U.S. West Coast ports.

But while this may sound good in theory, how can a U.S. business truly know if this is the right strategy? The first step is to get some good advice. Enlist the services of a full-service logistics partner that has experience and expertise in international shipping and logistics. Be careful though, because many logistics providers claim to have the necessary experience, only to fall short. Deciding on a port strategy is a critically important decision, so a business will want to do its homework and ensure that its logistics partner can provide the exact services it will need. Among the most important capabilities:

"…a business will want to do its homework and ensure that its logistics partner can provide the exact services it will need…"

Consultative Partner. More than "just" a service provider, a business will need a partner that can be trusted to provide insight and experience-based guidance. A qualified partner will want to have detailed information about a business's current operations, capabilities and long-term goals. A true consultative partner will feel invested in its customer's success, and work tirelessly to develop the right plan for optimal success.

Scope of Assets. Vital to that success will be access to a comprehensive range of assets necessary to implement a "cargo diversion" strategy. For shipments to Canada, this will require access to rail service, or access to a highway network. While both Prince Rupert and Vancouver offer ship-to-rail service, arrangements must be made to secure space, and ensure cargo is loaded on time and safely. Access to warehouses must also be considered. Once in the U.S., arrangements must be made to provide seamless freight or LTL service to transport cargo to its final destination. A business needs to carefully consider a potential logistics partner's capabilities, especially if cargo will be diverted to Canada, to ensure the logistics provider will maintain control and visibility of the shipment as it moves from ship to rail to truck.

Cargo must comply fully with documentation and paperwork requirements enforced by U.S. Customs and Border Protection. Source: Journal of Commerce

Customs Expertise. Many businesses underestimate the time and preparation needed to successfully clear goods through the customs process. Regardless of where in the world a shipment originates, U.S. Customs and Border Protection (CBP) imposes very rigorous paperwork and documentation requirements. This is in addition to export requirements of the originating country. A shipment from China therefore, must satisfy Chinese export requirements, as well as U.S. import mandates. Customs requirements are complicated, time-consuming, and subject to change with little advance notice. As a result, most shippers tend to outsource this responsibility to a customs broker or a qualified logistics partner. It is vitally important though, to ensure that any third party has the resources and experience to ensure full compliance, so shipments are not denied entry or unnecessarily delayed.

U.S.-bound shipments diverted to a Canadian port must meet Canadian import standards as enforced by the Canada Border Services Agency. Then, a second inspection by CBP is required upon arrival at the U.S. border. While it may seem that diverting cargo to a Canadian port means an added layer of paperwork and potential for delay, in fact, an experienced partner can ensure that customs clearance is essentially a non-issue.

Customer Service. In some instances, this is the most important attribute to look for in choosing a logistics partner. Many U.S. businesses have entrusted their important shipments to reputable, highly-regarded logistics companies, only to learn that their shipment volume was too small to warrant any attention. Sales people who seem to be everywhere during the sales process, are suddenly nowhere to be found once it comes time to deliver on promises. Instead, a business needs to make sure it enlists a logistics partner that will value its business – a partner that will proactively look for ways to improve service, and that of course will be easily accessible should a problem arise.

Conclusion

Since 2012, the Federal Maritime Commission (FMC) has released an annual report detailing diversions of U.S.-bound cargo from U.S. ports. In 2015 the report noted: “Congestion has prompted many shippers to seek alternate routes for cargo, leading to cargo not only being diverted to the U.S. East Coast, but to Canadian and Mexican ports....” And while West Coast ports have made progress in addressing some of the underlying causes of congestion, the FMC report notes that “shippers are not going to stop diverting cargo through the Canadian ports…”

Shippers have come to realize there are options when it comes to importing goods from Asia. No longer must a shipment enter the U.S. via Los Angeles or Seattle or any other West Coast port. Instead, a shipper can take advantage of the newly-expanded Panama Canal for easier access to modernized East Coast ports. Or ship directly to Canada’s Prince Rupert or Metro Vancouver, each of which offers upgraded ship-to-rail capability.

In choosing to adopt a non-West Coast port strategy, businesses are realizing faster transit times, greater efficiency and perhaps most important, peace of mind. No longer must congestion and potential labor disputes be an integral part of a shipping strategy. Key to it all though, is having the right logistics partner to help develop the plan, manage the process, and measure the results.

Purolator. We deliver Canada.

Purolator is the best-kept secret among leading U.S. companies who need reliable, efficient, and cost-effective shipping to Canada. We deliver unsurpassed Canadian expertise because of our Canadian roots, U.S. reach, and exclusive focus on cross-border shipping.

Every day, Purolator delivers more than 1,000,000 packages. With the largest dedicated air fleet and ground network, including hybrid vehicles, and more guaranteed delivery points in Canada than anyone else, we are part of the fifth largest postal organization in the world.

But size alone doesn't make Purolator different. We also understand that the needs of no two customers are the same. We can design the right mix of proprietary services that will make your shipments to Canada hassle free at every point in the supply chain.

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