Q&A with maritime economist John Martin

When people seek to understand the economics of maritime trade, the first place they turn is often to John Martin. Recognized around the world as a leading trade expert, Martin has offered analysis and insight to port authorities, government agencies, private industry and others. Over the years, Martin has paid close attention to the shifting logistics of maritime trade – seeking to understand the decisions that drive cargo to one port region or another.

Given the broad forces at play right now – bigger ships, shifting production centers and intensified competition for cargo – along with the huge economic stakes for port communities and their regional economies, the PMA reached out to Martin for his thoughts on a number of key issues. This Q & A follows his 2013 report, prepared for PMA, which studied the national economic impact of West Coast ports and their competitive standing.

How big of an impact do West Coast ports have on the economy, regionally and nationally?

The West Coast ports are essential to the stability and growth of the entire country. They not only provide jobs, but also support entire industrial, retail and agricultural sectors. Cargo handled at West Coast port terminals supports more than 9 million workers throughout the United States. The impact of that cargo totals more than $2 trillion, which is nearly 13 percent of the total U.S. Gross Domestic Product. In California, port activity represents more than one-third of the state's GDP. Suffice to say, West Coast ports are huge economic engines for our country.

What economic trends have you identified in relation to West Coast ports in the last decade?

The West Coast dominated container trade with Asia throughout the 1990s, as importers viewed these ports as the major linkage in the supply chain to the United States. Large importers such as Wal-Mart and Target invested in large distribution centers near Los Angeles and Long Beach, while railroads built out their capacity to move more cargo into key Midwestern and East Coast markets. Then came the terrorist attacks of Sept. 11, 2001, followed by the 2002 West Coast port shutdown and congestion in 2004 due to rail meltdowns and ILWU labor shortages at the San Pedro Bay Ports. These events prompted shippers to diversify their logistics so that a single, traumatic event would not threaten an entire supply chain.

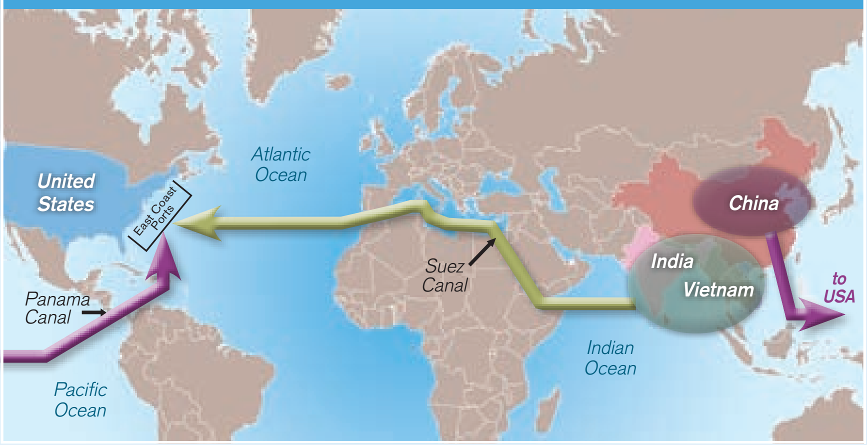
How do you see these trends evolving in the future?

Historically, China and other Asian countries have provided more than half of U.S. container imports, with China's share steadily increasing. But more recently, imports from China have leveled off, and production and manufacturing centers are shifting to India, Vietnam and Cambodia – farther from the U.S. West Coast. As a result, the Suez Canal has become an increasingly attractive option for an all-water trade route from these new distribution centers directly to the East Coast. Many East Coast and Gulf Coast ports experienced record cargo volumes in 2015, and increasingly, importers are building distribution centers in the region. At the same time, West Coast market share losses accelerated last year.

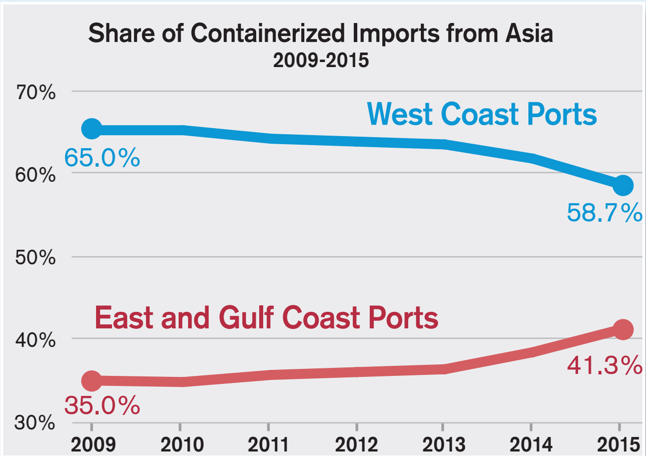
Do you believe this cargo shift is temporary, or permanent?

There has been a steady erosion of West Coast market share in recent years. Southern California's market share

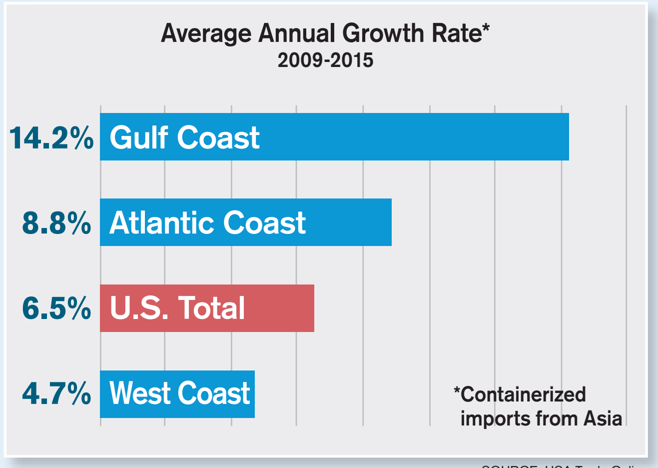
Major Trade Routes from Asia to the U.S. East Coast



As production centers shift south and west, the Suez Canal becomes the preferred routing for direct all-water shipment from Asia to the East Coast.



SOURCE: USA Trade Online



SOURCE: USA Trade Online

of Asian containerized imports, for example, dropped from 47 to 45 percent from 2014 to 2015 alone. That's off from 50 percent in 2009. In the Pacific Northwest, the total fell from 11 percent to 8.5 percent last year. That's likely due in part to labor issues and work stoppages in late 2014 and early 2015, but also increased use of the Suez and Panama canals.

> "Decisions are ultimately made based on the business case: the cost and time it takes to send cargo. If productivity and reliability is proven, cargo will flow to the West Coast."

We won't know if these shifts are temporary or permanent for the next year or two. But anecdotally, ports in New York, New Jersey and Savannah all saw record cargo volumes in 2015 and are making infrastructure upgrades to accommodate larger volumes and bigger vessels. Decisions are ultimately made based on the business case: the cost and time it takes to send cargo. If productivity and reliability is proven, cargo will flow to the West Coast.

With the next round of ILWU-PMA negotiations scheduled for 2019, how critical are the next several years for the West Coast waterfront?

For the West Coast, this is the time. There are many factors that can't be controlled, like the price of oil, which makes all-water service for Midwest and East Coast-bound markets increasingly competitive today. But the one thing you can control is the terminal side and that means two things: stable levels of service and readiness to handle the surge of big ships, which requires automation. So what can the West Coast ports do? They can provide stability, they can provide the highest level of service possible and they can provide the most up-to-date, modern technology to attract the ships and provide value for shippers. Then they can work with the railroads to ensure efficient distribution to discretionary cargo areas in the Midwest. This is all crucial for long-term competitiveness.

What opportunities and intrinsic advantages can the West Coast leverage in the new competitive environment?

West Coast ports have recognized that demand has become more elastic. These ports have also made major investments to terminals – such as deeper water and automation – to allow mega-ships to call and to turn them more quickly. There have been major improvements to truck and rail service, intermodal rates are more competitive and the growth of infrastructure fees has stabilized. The West Coast has the advantage of historically being the market leader, but many still question whether labor productivity, terminal costs and reliability on the West Coast have improved enough to hold even the current market share levels going forward.

What are the stakes for the West Coast?

It's essential that the West Coast retain its market share and position as a global gateway of international trade. As merely a regional player serving markets on the West Coast, the ports can't justify the volumes to make investments in infrastructure and technology to stay on the cutting edge.

Given the dynamics of the market, in order for the West Coast ports to preserve – and perhaps grow – market share, they must compete with the East Coast and Gulf Coast ports from a logistics cost perspective to serve the major areas of distribution center clusters. The continued success of the West Coast ports is essential to the stability and growth of the entire United States economy. ■