THE PANAMA CANAL EXPANSION:
INSIGHTS ON BREAK-BULK SHIPPERS and U.S. EAST COAST PORTS

EXECUTIVE SUMMARY

When the Panama Canal expansion is complete in 2015, larger vessels with greater economies of scale will travel between Asia and U.S. East Coast ports. This will cause a significant change in the international shipping marketplace as ocean liner companies will realize lower per-container costs. Competition will force the carriers to pass along some of the savings to the shippers in the form of reduced rates from East Coast ports. This paper analyzes recent U.S. shipping patterns and offers a guide for U.S. exporters to understand the impact the Panama Canal expansion will have on their supply chain.

Several previous reports on this topic are used and then integrated with secondary PIERS data on breakbulk shipments to offer yet another perspective on the Canal issue. This University of Wisconsin-Milwaukee Supply Chain Management Institute Report was co-sponsored by Bentley World Packaging, Inc. of Milwaukee, Wisconsin. Advanced undergraduate supply chain majors at the University of Wisconsin-Milwaukee’s Sheldon B. Lubar School of Business compiled the data presented in this report. The four principal findings in this study are:

1. Export growth in the seven eastern states analyzed have exceeded the global exports forecast of many experts.

2. There is a heavy pattern of shippers using distant, out-of-region ports to move/receive cargo from Asian markets.

3. All-water routes from Asia to eastern ports are of consequence to local economies and these larger vessels will likely call upon just a few eastern ports.

4. Some may assume that only exporters in eastern states will have a cost advantage to using the Canal. However, all exporters with facilities in the Midwest, South and Northeast should re-evaluate the cost-savings potential from using an East Coast port.

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New York, Georgia and South Carolina Lead the Way
Analyzing export data from 2005 through 2011, it was found that the growth in exports originating in New York, Georgia and South Carolina outpaced California and the national average. In 2011 the annual growth rate from all three of these states topped 20%, compared with the national average of 15.8% and California at 11.1%. Geographically these states are attractive ports of call for current and future ocean carriers transiting the Canal. With rates of export growth exceeding the national level, and significant structural changes to the industrial landscape of the Midwest during the Great Recession, it can be inferred that these states are leading beneficiaries of the potential increased vessel calls for Asia-originating/destined cargo because of their respective industry base or their proximity to major shipping ports.

Opportunities for Shipment Diversion
U.S. exporters have access to many port options for their Asia-bound freight via the nation’s extensive road and rail transportation network. After dividing the country into West, Midwest, South, and Northeast regions and analyzing the ports of choice for each region some interesting patterns emerge. The Northeast ships most of its freight through the port of New York/New Jersey, but surprisingly almost 1 out of every 5 shipments depart from the Port of Los Angeles/Long Beach some 3,000 miles away. The South region shows even less attachment to its ports where less than 1 out of 5 shipments depart from a port in the South. Over half the shipments depart from the Port of Los Angeles/Long Beach and almost 1 out of every 5 shipments depart from a Northeast port. Shippers have certainly demonstrated significant flexibility in using out of region ports.

The Race to be First
As ports begin to expand, there are competing land-use issues with high-value residential and commercial property development strategies, along with concerns for protecting the environment. The total lead time for constructing a new berth facility can be ten years. These are very expensive and large-scale initiatives. They are also risky yet economically attractive because of their positive impact on local economies. But the reality of the matter is that, while all-water routes from Asia to eastern ports are of consequence to the economy, the workforce, general industry and government, the larger ships transiting the expanded Canal will likely call upon just a few eastern ports.

Continue Evaluating the Total Landed Costs
It is not clear which East Coast port will attract the larger vessels first, but regardless of who ultimately wins the race, exporters must evaluate and continuously monitor the total landed cost of shipping options as the U.S. East Coast infrastructure evolves and new base ocean rates are established by the ocean liner companies. This is especially true for shippers with facilities in the Midwest, South and East regions. Performing this analysis may allow shippers to save logistics costs by moving exports away from the Port of Los Angeles/Long Beach and through an East Coast port. For shippers already using an East Coast port, cost savings may be found by using a different East Coast port. The need is not for static, one-time analyses. Rather, it is a continuous process of evaluation and re-evaluation as new services are added and rates from East Coast ports change. Understanding total landed cost structure for shipments along a shipping lane can lead to better support of procurement, manufacturing, and logistics practices within a company.

For further details, or to obtain a copy of the full report please email sc-institute@uwm.edu.

The Supply Chain Management Institute is a unique industry-university partnership that examines supply chain challenges and practices within firms and across a variety of industrial sectors. The Institute provides thought leadership and expertise in the broad areas of supply chain management research and education. For more information, please visit www.lubar.uwm.edu/scmi.