Conflicts and Logic

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Reading the JOC 2015 Annual Review and Outlook, I'm reminded of the continuation of the conflicts between service providers and customers, and question some of the logic in these conflicts.

Let's start with shippers discussing the "threats" of mega-alliances, the threats being the potential lessening of competition among the carriers, the potential reduction in capacity, the potential for carriers to conspire to fix prices, and the use of mega-vessels that will exacerbate the port congestion seen in several parts of the world, including that that grips Southern California.

The alliances are extensions of what has existed for decades — joint services. That they represent a larger portion of the total capacity in global trade is a reflection of the reality that few carriers on their own can provide global service with cost-efficient vessels. With more than 50 percent of the industry losing money, logic says cost sharing and the ability to have access to cost-effective assets that service global trades is a plus for virtually everyone involved, including shippers. How many carriers would be serving global trades with cost-effective vessels without alliances? Three would be a great guess.

As for a reduction in competition, again, joint services have been around for decades, alliances for over a decade, and still the industry as a whole is losing money. If carriers weren't competing, would that be the case? The same applies to price-fixing and capacity management. The instances of these violations of law occurring in the past decade involve air forwarders colluding on fuel surcharges, and Jones Act price-fixing; none of those instances involved alliances of any kind.

And while the massive container ships of today lend to the congestion plaguing global ports, ports and terminals have not kept up technology, and that is the primary reason for productivity problems seen at the ports. Ships of 15,000-TEU capacity and more have been sailing the oceans for nearly nine years, so what's taken so long for ports to react to that reality? And logic says that if it weren't for the growth in global trade, the mega-ships wouldn't exist.

An alternative could be a return to nothing more than 8,000-TEU ships; to accommodate demand, carriers would need nearly twice the number of ships they operate, and that isn't cost-effective. Instead of 100 ships in a port a week, you'd have 200 with the exact same volume. Gaining what?

We all get it; shippers want fast, effective services at low, low, low rates. The fact is that the rates today are the same or lower than they were 20 or even 25 years ago. Cargo volumes have nearly quadrupled in that time frame, some parts of the international supply chain have invested in cost-effective assets, and, unfortunately, other parts haven't. But keeping rates down is a function of cost, or it should be, so the big ships are a necessity, the rest of the supply chain has to catch up and be able to handle their size efficiently and effectively.

Which bring us to the situation on the U.S. West Coast. If I were a port director on the U.S. East Coast or the Gulf, I couldn't spend enough money on advertising to do as much damage to the U.S. West Coast as the situation of the past eight months has. Large headlines weekly for the past two months portraying the West Coast mess and conflicts has done wonders for East and Gulf coast ports, as well as for the Canadian and Mexican gateways.

The Panama Canal people also have to be elated. The conflict between the ILWU and PMA has guaranteed a shift in how shippers move their cargo in the future, and it sure won't favor the West Coast.

If one of the objectives of the International Longshore and Warehouse Union was to protect jobs, it has done just the opposite. The union has jeopardized jobs, because cargo shifts have already started and this will grow. No longer can retailers and agricultural shippers depend on the U.S. West Coast ports to move their goods; they have started the shifting to alternative ports, and given the length of time negotiations and productivity problems have gone on, BCOs have made some plans permanent and not just a temporary fix.

Trade growth will hide some of this, but if close attention is paid to port numbers in the future, we will see the East Coast, Gulf, Canadian and Mexican ports growing volumes at a faster pace than the U.S. West Coast, meaning that instead of growth in union ranks and headcount, size will remain relatively static. That couldn't have been the intent, but it is sure the outcome.

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