The brave new world of port selection

The great East Coast port competition to secure the business of Sea-Land Service and Maersk Line is over. What are the lessons learned and what do they mean for the future?

Port viability is perceived as fragile. Except for those serving major population centers, ports must work to ensure market viability. New York/New Jersey and Los Angeles/Long Beach will always exist, but Philadelphia, Miami and Houston—despite their large local populations—still struggle as ports to accommodate the liner trade.

Consider the most recent case involving Norfolk and Baltimore. Norfolk had achieved spectacular success the past two decades by selling against the perceived weaknesses of Baltimore. In the meantime, however, Norfolk did nothing to address its own fractious and ongoing business problems (remember that a line must interact with the port, the terminal operators, the stevedores and the railroads individually).

Baltimore’s aggressive stance and unified approach to Sea-Land and Maersk were sufficient to overwhelm the perceived geographic advantage of Norfolk.

Although Baltimore did not win the bid, it now has credibility and momentum to attract another line looking for an attractive East Coast terminal. Norfolk will need to react quickly to avoid becoming the Oakland of the East—a port with a glorious past but a lackluster future, surrounded by load centers north and south that have absorbed all its possible future business.

Today, active involvement of state and local government in port business is inevitable. The lure of the overseas business junket aside, the hunger for local-worker political support seems to transcend the desire to create port facilities for local industries, which may now actually have cheaper shipping alternatives over more remote port facilities.

We are also seeing the rise of financial ploys that could have devastating impact on port communities. For example: How New Jersey Governor Christine Whitman will appropriate the monies she committed to retain Sea-Land and Maersk most likely will be the responsibility of her successors, whether or not she gets elected to the U.S. Senate (with the votes she hopes to win from her new friends in organized labor).

Organized labor also learned about competition. The port-selection process was marked by intra-union competition between the International Longshoremen’s Association locals in Baltimore and New York-New Jersey.

Baltimore, seeking to overcome its poor reputation for labor-management relations, more than overcame memories of its longshoremen not working in the rain. The locals in New York and New Jersey had to match the proposal.

Perhaps the biggest impact on labor will be on the West Coast. The coastwide agreements between the Pacific Maritime Association and the International Longshore and Warehouse Union have made longshoremen in Southern California rich, but there has not been equal success elsewhere along the Pacific coast.

As Los Angeles and Long Beach continue to build mega-terminals for lines, their market share of the West Coast continues to grow by cannibalizing volume of the other West Coast ports.

Sooner or later an ILWU local in the Pacific Northwest will take some initiative to stop the erosion of its port’s market share, most likely with a new steamship line that does not call southern California with its own vessels.

This would not be union-busting. It would be a union job-preservation effort, although the ILWU members may need to certify another union (perhaps one of state or municipal employees) to represent them. Such tactics have become common in other industries and are inevitable for ours.

Canada—still a minor threat for New York—will continue to loom on the competitive horizon. Until such time as the harbor maintenance tax is replaced with a funding mechanism acceptable to steamship lines, calling Canada will be considered a viable alternative.

The newly aggressive postures of the two Canadian railroads have resulted in viable intermodal service to Chicago (and beyond) from both coasts of Canada. The ports of Seattle and Tacoma especially are being pressured by the resurgence of lines calling Vancouver, British Columbia.

Railroad competition will become more problematic with the demise of Conrail. Prior to the Conrail split-up, each East Coast port had a champion railroad. And the ports and railroads took steps to protect each other’s franchise.

But on the West Coast, ports and railroads have been fairly indifferent to each other. Ports have been largely unsuccessful in gaining favorable concessions from the railroads. Each commercial relationship has had to stand on its own merits.

This Western practice will now become the model for the East. NS no longer needs to rely so heavily on Norfolk, since it now serves New York and Baltimore. And in New York, NS and CSX feel saddled with an expensive and uncompetitive contract with the Expressrail facility.

Critical and objective evaluation of the big changes in our industry will help us adjust and prepare for its future, which will undoubtedly be much different than its past.

Theodore Prince (Ted.Prince@kleinschmidt.com) is senior vice president of sales and marketing for Kleinschmidt Inc., an electronic-commerce provider.