REALITY CHECK

THE 1972 SONG “Stuck in the Middle With You” was a one-hit wonder by Stealers Wheel. Twenty years later, it was used as background music during a torture scene in “Reservoir Dogs,” a film by then-unknown director Quentin Tarrantino.

The container shipping industry may not yet feature clowns to the left and jokers to the right, but the song’s title resonates. Although industry events frequently focus on Southern California and New York, there has been a recent flurry of news surrounding two “middle” ports: Oakland and Norfolk.

Last March, CenterPoint Properties, a Chicago area industrial real estate developer, made an unsolicited bid to lease and operate Virginia properties — four existing terminals and a site at Craney Island that holds vast expansion potential. In July, two other groups, Carlyle Group and Goldman Sachs, submitted competing proposals.

Several years ago, this would have been just another day of activity in the economic bubble. Infrastructure funds were buying port properties at astronomical valuations. Prices were based on a business model that, if not totally discredited today, certainly calls into question assumptions about volume, scarcity and competitive alternatives.

Meanwhile, on the West Coast, Ports America along with Highstar Capital was awarded a 50-year concession in the Port of Oakland. Ports America itself is the outcome of several financial transactions.

Although separated by several thousand miles, Oakland and Norfolk are located in the middle of the coast. Both have local cargo markets, which, while not insignificant, cannot compare with the giant load centers located several hundred miles away.

What makes these ports think they can transform themselves?

Two years ago, the answer would have been an assumption that Southern California and New York would be unable to handle infinitely expanding volumes. Today, however, West Coast longshoremen are scrounging for work in the former, and investors in the latter are bemoaning a rate war among terminal operators struggling to attract or retain any available volume.

Oakland, although it was a historic leader in containerization’s development, has had to live in the penumbra of Southern California, which eclipsed it over the past 30 years. Today, carriers only call at Oakland after discharging most of their import shipments in Los Angeles and Long Beach.

While it recently celebrated 400 years (since Jamestown’s founding), Norfolk’s container growth is relatively new. Virginia is the closest right-to-work state to the Northeast, and a large number of distribution centers are located there.

Oakland and Norfolk have historically been “local” players. Cargo arrives and departs by truck. Although ports dream about attracting copious amounts of discretionary intermodal cargo, wishing will not make it so.

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The question is not whether a port can transform itself, but whether it can serve Chicago, for example, but it lacks attractive intermodal access to Dallas and Memphis, two of the largest and fastest-growing intermodal destinations.

Because Oakland and Norfolk lack comparatively large local population bases, they are unlikely ever to be anything other than secondary ports of call. Southern California and New York will retain their intermodal gateway advantages because they make more sense in the network.

Over time, Norfolk’s prospects may look brighter than Oakland’s. Five vessel strings a week called at Oakland with NUMMI auto parts. The plant those parts supported has now closed. All the Virginia distribution center importers represent Norfolk vessel call advocates.

Moreover, the growth of alliances means larger vessels are calling at fewer ports. While carriers create unusual network designs to accommodate a temporary surplus of vessels, we will likely see a gradual increase in the number of vessel strings making only one or two coastal calls.

Transportation is an asset-based, network operating business, and ports are key nodes. However, ports are passive providers. They meet demands — they do not create them. The reality is that ports stuck in the middle should focus on retaining their core markets instead of risking all for an intermodal pipe dream.

Ted Prince is principal, T. Prince & Associates. He can be contacted at ted@tpassociatesllc.com.