

Briefing Paper: Loss of Market Share at U.S. West Coast Ports

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To highlight the current plight of U.S. West Coast (USWC) ports, here are some of the more discomfoting of the latest numbers:

+352,846. That was the increase from 2018 to 2019 in inbound loaded TEUs through the nine East Coast ports the Pacific Merchant Shipping Association (PMSA) monitors.

+191,176. That was the gain over the same period in the number of inbound loaded TEUs handled at the two British Columbia ports (Vancouver and Prince Rupert) with which the USWC ports directly compete.

+80,292. That was how many more inbound loaded TEUs the two Gulf Coast ports we monitor (New Orleans and Houston) handled in 2019 than in the previous year.

-668,980. That was how many *fewer* inbound loaded TEUs the Big Five USWC ports (Los Angeles, Long Beach, Oakland, Tacoma, and Seattle) handled in 2019 than in 2018.

Purpose and Scope. This brief provides the most recent annual data on the loss of containerized trade market share experienced by the principal USWC ports in recent years. Although several ports in the States of California, Oregon, and Washington are regularly engaged in foreign trade, roughly 98% of all USWC containerized tonnage is transported via the five ports that are the main focus of this report. Those five are the neighboring Ports of Los Angeles and Long Beach in Southern California's San Pedro Bay (SPB), the Port of Oakland on San Francisco Bay in Northern California, and Washington State's Ports of Seattle and Tacoma, which have been operating jointly as the Northwest Seaport Alliance (NWSA) since 2014.

For the purposes of this analysis, the two San Pedro Bay ports are regarded as a single maritime gateway as are the two NWSA ports. The Port of Oakland is considered independently. (Oregon's Port of Portland, which had handled as many as 260,128 TEUs or 2.7 million metric tons of containerized cargo as recently as 2007, has seen little container traffic of late. It is therefore not included in this report.)

Charting the Decline in USWC Market Share

For some years now, fretting about declining market share has been part of the job description for USWC port officials. According to the account often repeated in the maritime industry press, an obstreperous labor union has been singularly responsible for the loss of market share. The saga is said to have begun in 2002, when a ten-day shutdown of USWC ports prompted Beneficial Cargo Owners (BCOs) to reassess their reliance on transpacific supply chains that traversed USWC ports. Importers, in particular, are said to have concluded that labor-management relations were more volatile on the USWC than at ports elsewhere in the country. So, to ensure that disrupted cargo movements through any one port or through an entire coast of ports would not entirely compromise their ability to efficiently move imported goods to domestic markets, many of the nation's largest importers reportedly came to embrace what is vaguely described as a "four-corners" strategy. The result was that more and more containers that might ordinarily have been routed through USWC ports were being shunted to other maritime gateways in North America.

To be sure, periodic disputes between the International Longshore and Warehouse Union and Pacific Maritime Association have made retaining, let alone growing, market share all the more challenging. A months-long slowdown in port operations during the winter of 2014-2015 hardly improved the USWC ports' reputation for reliability. However, explanations for the loss of market share that focus primarily on the quality of labor-management relations overlooks other factors that have helped drive the containers to other North American ports.

Certainly the most prominent among these is the generally higher cost of doing business in the States of California and Washington. And that is especially the case if your business attracts the scrutiny of environmental regulators as aggressive as the California Air Resources Board. Even if ports elsewhere in the country are eventually obliged to bear the cost of complying with stricter air quality regulations (an increasingly iffy proposition given current political divisions among the several states), USWC ports are expected to transition to zero-emissions standards right now. That obviously puts them at a competitive disadvantage against ports in political jurisdictions that are less fastidious about environmental issues. Acquiring the equipment necessary to comply with more exacting "only-here" standards is an exceedingly costly burden that effectively ensures two outcomes: (1) higher costs, potentially leading to higher port charges to finance the deployment of zero or near-zero emission equipment, and (2) even greater incentives for more shippers to divert more cargo to competing ports.

Additionally, the governments of West Coast states have been less than assertive in bolstering the physical infrastructure needed to support international trade. While there has been a productive market for consultants' reports detailing the economic value of such things as designated trade corridors, there has been relatively little in the way of concrete investment or policy measures aimed at facilitating international goods movement. By contrast, other states have not been neglecting the material needs of their ports.

The hand-wringing along the USWC over diversions of imports from East Asia to other North American ports became even more energetic following Panama's decision in 2005 to invest \$5 billion in the construction of a bigger ditch (to adapt Ronald Reagan's disparaging term) through the isthmus. The opening of the expanded canal in late June 2016 provided the key piece of

infrastructure needed to more fully implement the Four Corners Strategy and thus siphon more of America's transpacific trade from USWC ports. So, too, did the tens of billion dollars invested by port authorities along the East and Gulf Coast to prepare for the eventual arrival of the larger vessels that would regularly transit the new set of locks.

To be sure, lost market share does not necessarily translate into reduced cargo volumes. Historical statistics from the U.S. Maritime Administration (MARAD) – currently unavailable for public viewing – show that all U.S. mainland ports enjoyed a 96.1% increase in loaded container traffic between 2000 and 2017 (i.e., before the tariff wars that have distorted established trade patterns). This was a period that saw not only a convulsive global financial crisis but also two serious labor-management disputes that adversely affected the reputations of USWC ports. It also was a period in which rival East and Gulf Coast ports (and the Army Corps of Engineers) invested heavily in maritime infrastructure enhancements ranging from deepening and widening channels to elevating bridge roadways to better accommodate the steadily larger vessels that an expanded Panama Canal would bring their way.

During that 2000-2017 period, the number of loaded containers moving through all USWC ports rose by 64.4%. Far steeper, however, was the increase in loaded boxes handled at U.S. East Coast (USEC) ports, which collectively reported a 126.9% jump. Even more precipitous was the 157.4% surge at U.S. Gulf Coast (USGC) ports.

MARAD statistics further show that, after some three decades in which more of the nation's loaded container trade transited USWC than USEC ports, the USEC ports in 2015 reclaimed the title they had lost in the mid-1980s.

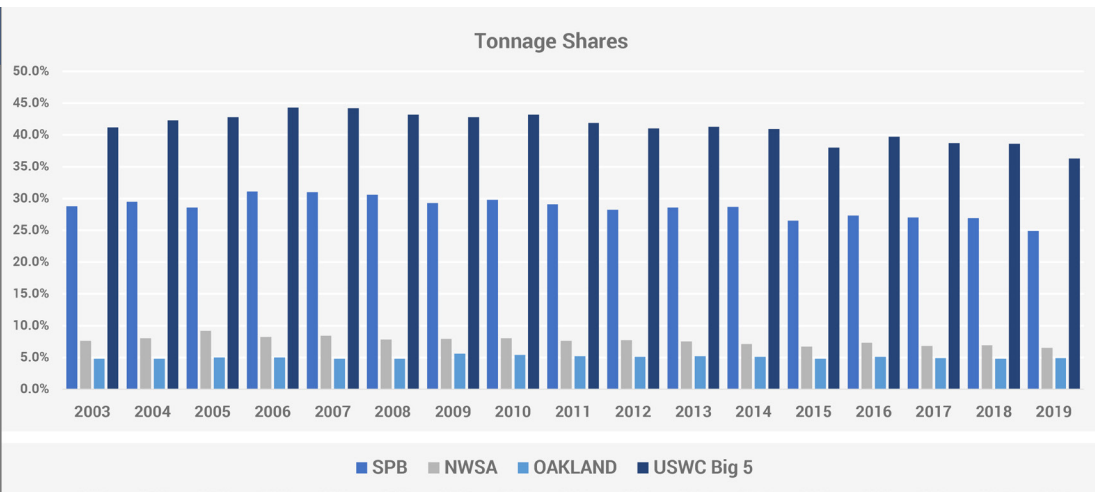
As the statistics portrayed in this report indicate, the deterioration in the USWC ports' collective market share has been almost relentless since the years immediately prior to the Great Recession. The trend has been especially evident with respect to the all-important eastbound transpacific container trade. Typically, containerized imports from East Asia have accounted for approximately half of all containerized import *and* export tonnage handled at the five major USWC ports and between 70% and 75% of the declared dollar value of those ports' two-way container trade.

Exhibit A shows the shares of the five USWC ports' shares of all containerized tonnage handled at mainland U.S. ports in each year since 2003. The high watermark for the USWC ports came in the years immediately prior to the onset of the Great Recession. The subsequent declines have been particularly evident at the two San Pedro Bay ports.

Exhibit A

USWC Shares of Total U.S. Containerized Trade: 2003-2019

Source: U.S. Commerce Department



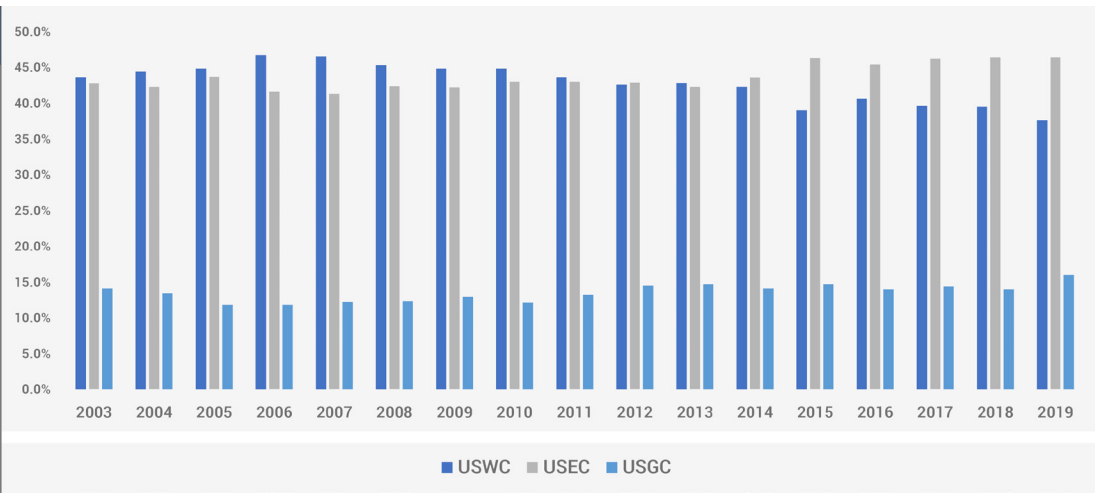
Since the end of the recession, the gains made by East and Gulf Coast ports have been manifest. The eastward shift has been especially evident in the wake of the longshore labor dispute that substantially slowed container traffic through USWC ports in late 2014 and early 2015. In addition, the opening of a larger set of locks at the Panama Canal at the end of June 2016 has enabled shippers to divert higher volumes of transpacific container traffic from the USWC ports to their East and Gulf Coast rivals. (Despite early hopes, the canal expansion has not led to a significant increase in maritime trade between USWC ports and the markets of Europe, the Mediterranean, and the Middle East. See Exhibit K.)

Exhibit B provides a breakdown by coastal region of total containerized tonnage (imports and exports) through mainland U.S. ports from 2003 through 2019. The USWC ports' share of containerized trade fell almost steadily from a high of 46.8% in 2006 (when the Port of Portland was still an active container port) to 37.7% in 2019. Over the same period, the U.S. East Coast (USEC) ports saw their collective share rise from 41.7% to 46.5%, while the U.S. Gulf Coast (USGC) ports' share jumped from 11.9% to 16.1%.

Exhibit B

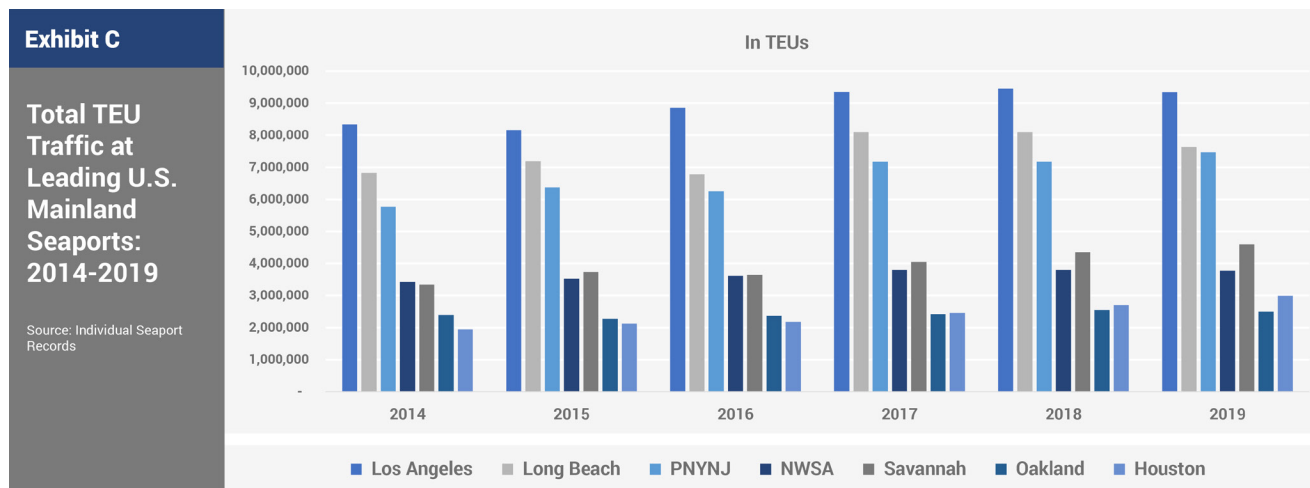
Coastal Shares of Total U.S. Containerized Trade: 2003-2019

Source: U.S. Commerce Department



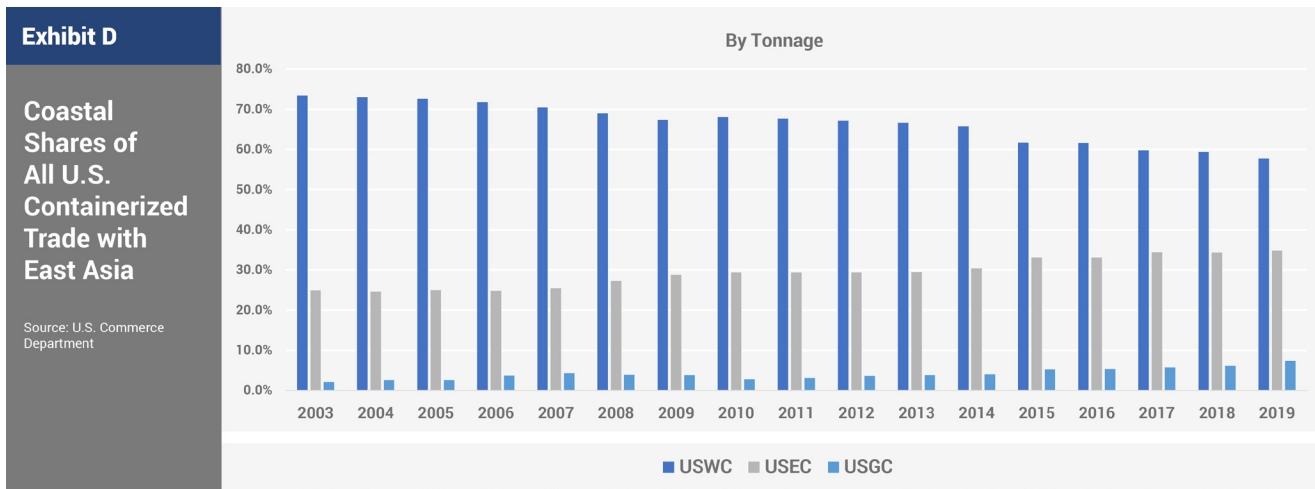
As previously noted, declining market shares do not necessarily equate to declining volumes. Indeed, the volume of containerized trade through USWC ports had been edging up before normal trade flows were severely disrupted by rounds of new U.S. and retaliatory tariffs were imposed

starting in 2018, and ultimately by the COVID-19 pandemic pandemonium. The problem, as **Exhibit C** reveals, is that rival gateways such as the Ports of New York/New Jersey (PNYNJ), Savannah, and Houston have recorded faster growth rates, resulting in a lower market share for the major USWC ports. Between 2010 and last year, containerized import tonnage from East Asia grew by 12.5% at the Ports of Los Angeles and Long Beach, by 16.6% at the Port of Oakland, and by 22.9% at the NWSA ports. But the largest East Coast port, the Port of New York/New Jersey, recorded a 37.9% expansion of its containerized import tonnage from East Asia between 2010 and 2019. Savannah saw a 93.0% boost, while Charleston posted a 124.5% surge. Along the Gulf Coast, the Port of Houston reported a 200.2% jump in its containerized import tonnage from East Asia between 2010 and last year.



Container traffic volumes can, of course, be influenced by factors other than those grouped under the ambiguous heading of “port competitiveness.” Just as America’s burgeoning trade with Japan and other fast-emerging economies of East Asia in the 1970s and 1980s shifted the balance of America’s foreign maritime trade from the Atlantic to the Pacific, a surge in trade with transatlantic trading partners might have helped shift the balance back in favor of ports along the Eastern Seaboard and the Gulf of Mexico. But that is not the case here. There has been almost no change in the USEC and USGC combined share of America’s containerized trade with Europe, the Mediterranean, and the Middle East over the past decade and a half. Instead, the resurgence of East and Gulf Coast ports has had everything to do with their success in poaching increasing numbers of containers than might otherwise have been shipped through USWC ports.

Exhibit D depicts the rising shares of America’s containerized trade with East Asia at USEC and USGC ports in recent years. USWC ports began the period with a 70.4% share of all containerized tonnage transported between U.S. mainland ports and the economies of East Asia. By last year, that share had shrunk to 57.8%. Meanwhile, the USEC and USGC ports saw their shares increase from 24.9% to 34.8% and 2.1% to 7.4%, respectively.



The erosion of the once dominant share held by USWC ports has been particularly apparent with respect to imports from East Asia. More than anything else, it has been the decline in USWC share of containerized imports from East Asia that worries American port officials up and down the Pacific Coast. As **Exhibit E** demonstrates, the fall-off in the USWC share of U.S. containerized import tonnage from East Asia has plummeted. At the outset of the period depicted in the graph, the USWC share was 75.1%. By last year, it had plunged to 57.0%. Meanwhile, the USEC ports grew their share from 23.6% to 36.1%, and USGC ports saw their share soar from 1.6% in 2003 to 7.0% last year.

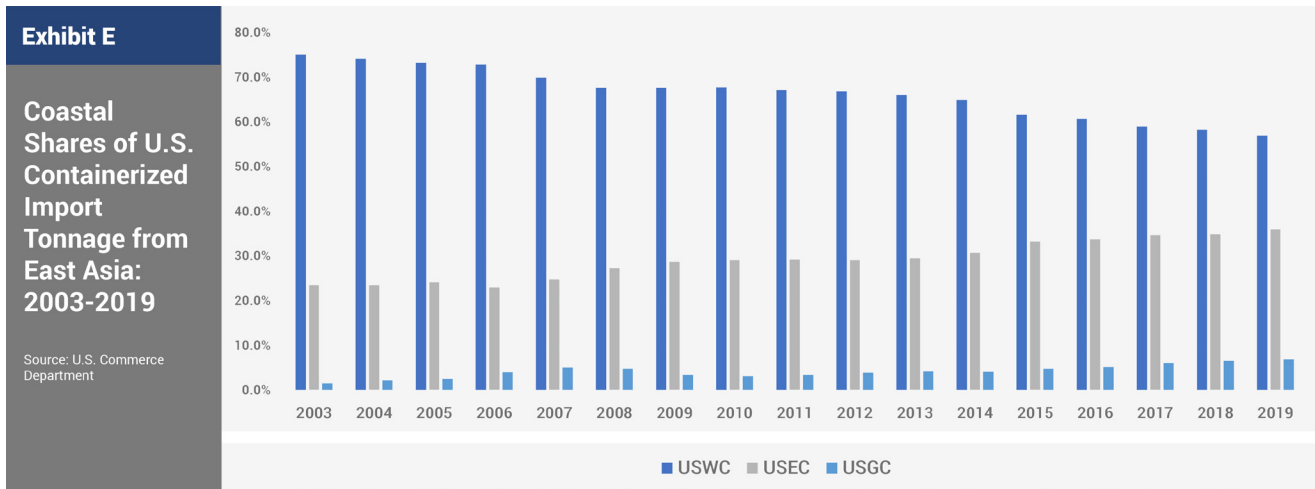
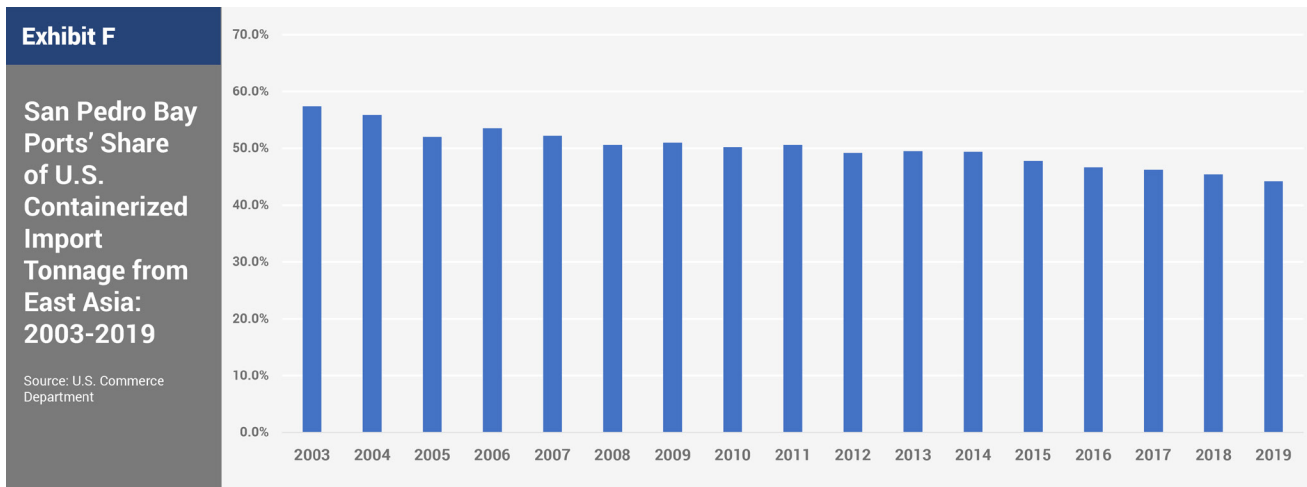
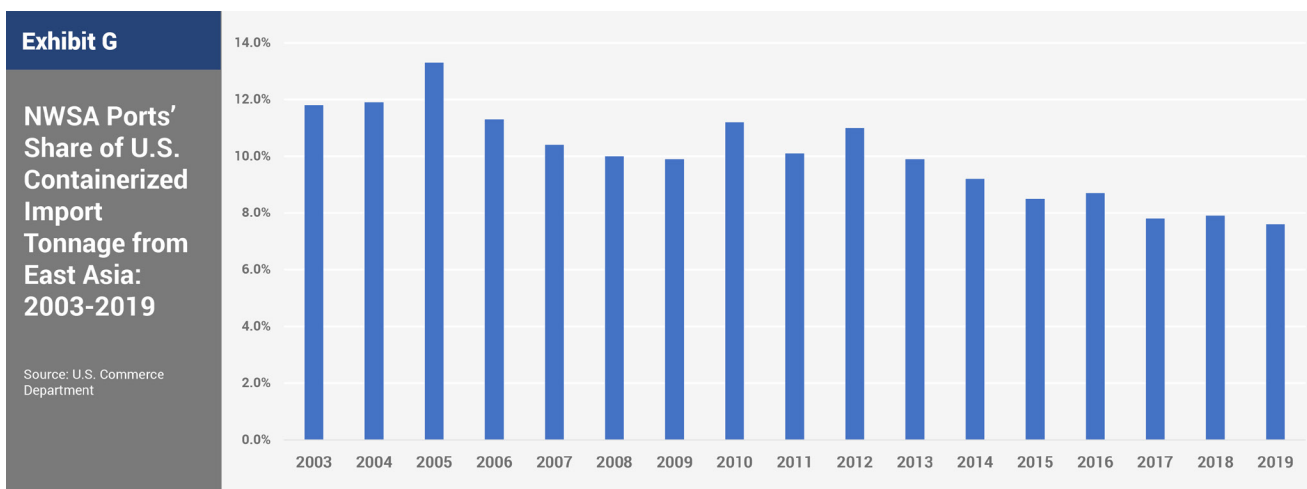


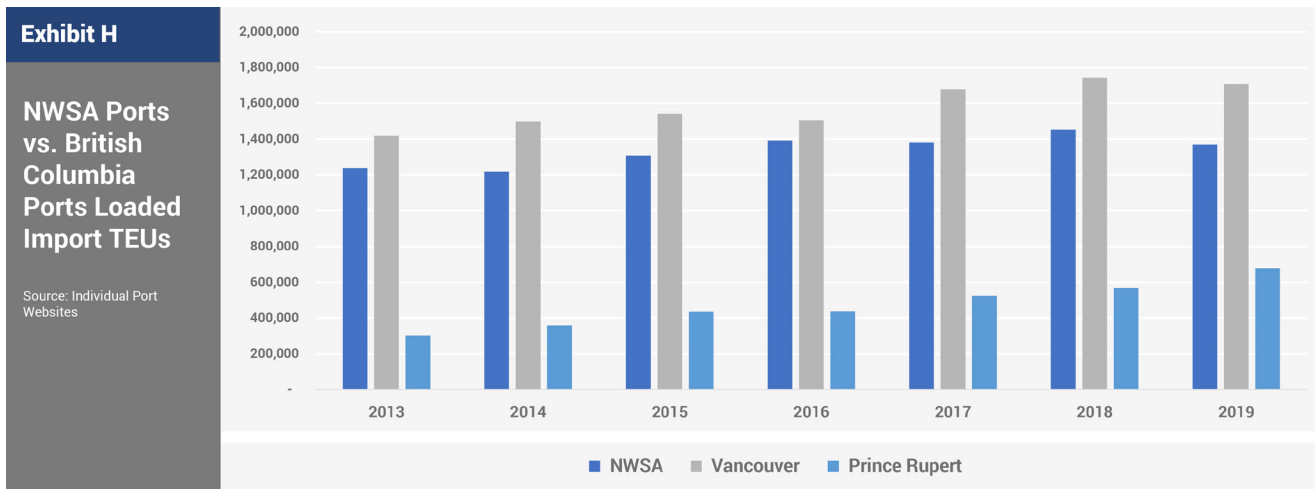
Exhibit F shows that the drop in containerized import tonnage from East Asia has been most precipitous at the Ports of Los Angeles and Long Beach. Between 2003 and last year, their combined share of the trade fell from 57.4% in 2003 to 44.2%.



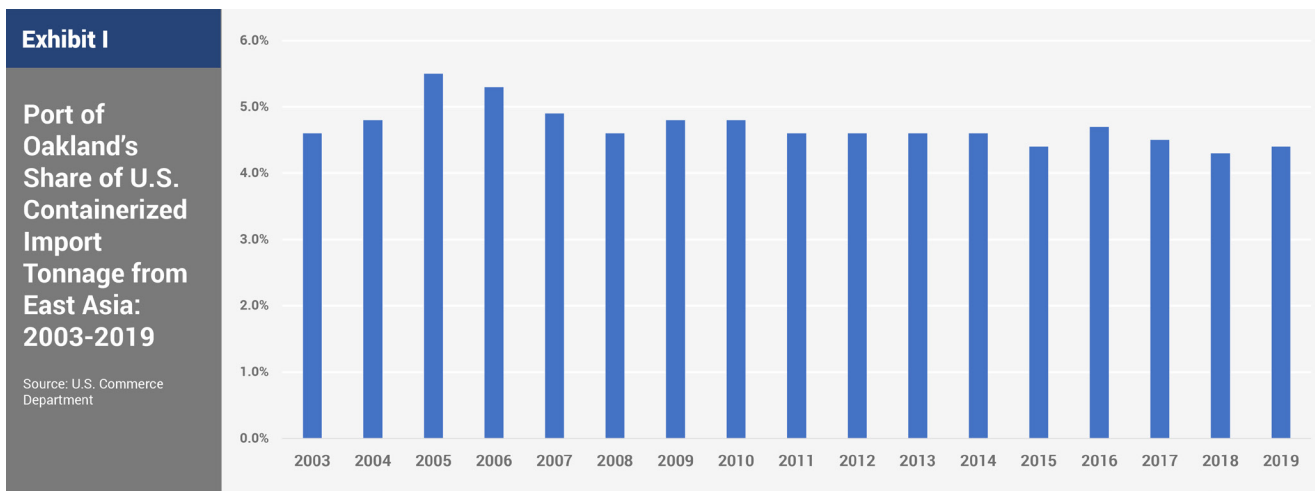
As **Exhibit G** shows, the NWSA Ports of Seattle and Tacoma have seen their combined share of containerized import tonnage from the East Asia discharged at mainland U.S. ports slide from 11.9% in 2003 to 7.7% in 2019.



In addition to losing cargo to other U.S. ports, the NSWA ports face a much more proximate challenge from Canada's Pacific Coast ports in British Columbia, Vancouver and Prince Rupert. Both the NWSA ports and their Canadian rivals vie to serve markets in the Midwestern region of the United States. All costs of doing business matter, but here the costs add up in favor of the Canadian ports. Both Vancouver and Prince Rupert enjoy significant cost advantages over the NWSA ports. These include a Canadian currency that has gradually weakened against the U.S. dollar over the past two years, the absence of a Harbor Maintenance Fee charged on shipments through the NWSA ports but not those in British Columbia (even when the cargo may be bound for a U.S. destination), and competitive pricing by Canadian Pacific and Canadian National Railways. Both railroads offer service to destinations in the Upper Midwest. **Exhibit H** sheds light on this crossborder competition.



The Port of Oakland offers something of a contrast. As **Exhibit I** shows, the Port of Oakland's market shares have remained relatively stable, ebbing from 4.6% in 2003 to 4.4% last year.



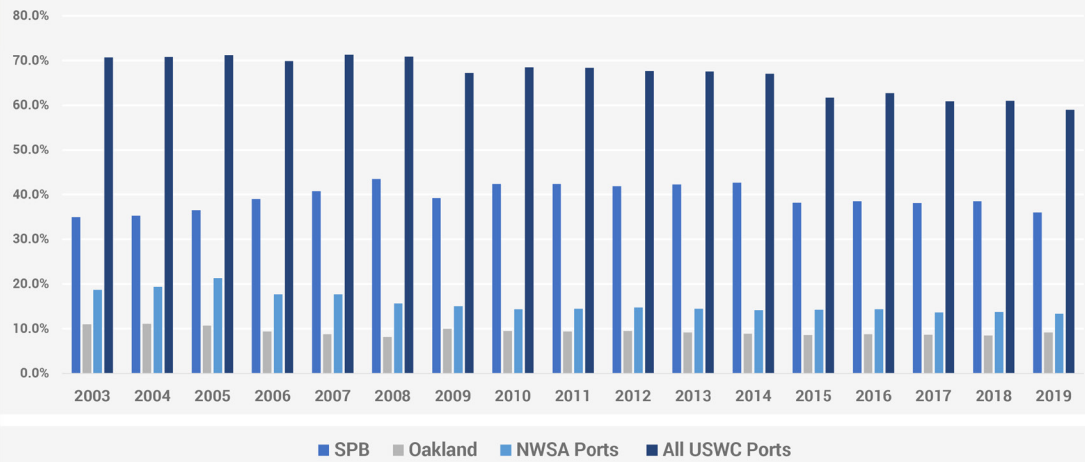
USWC slide in containerized exports to East Asia. While nearly all of the containerized *imports* through USWC ports pass through one of the top five gateways, there are several other USWC ports that have played a significant role in the nation's containerized *export* trade. At one time, the Port of Portland was a major participant in the trade. Until the current trade conflict with China emerged, a large volume of soybeans and grains was regularly shipped in containers from ports such as the Columbia River Ports of Kalama, Vancouver, and Longview in Washington State.

But, as with its containerized imports from East Asia, the USWC ports have gradually yielded market share in containerized export tonnage to East and Gulf Coast ports. As **Exhibit J** shows, the USWC share declined from 70.7% to 59.0% between 2003 and 2019. Even before China retaliated against Trump administration tariffs by targeting American soybeans, the USWC share of exports to East Asia had fallen about ten percent to 60.9% in 2017.

Exhibit J

USWC Share of U.S. Containerized Export Tonnage to East Asia: 2003-2019

Source: U.S. Commerce Department



USWC Ports' High Dependence on Transpacific Trade

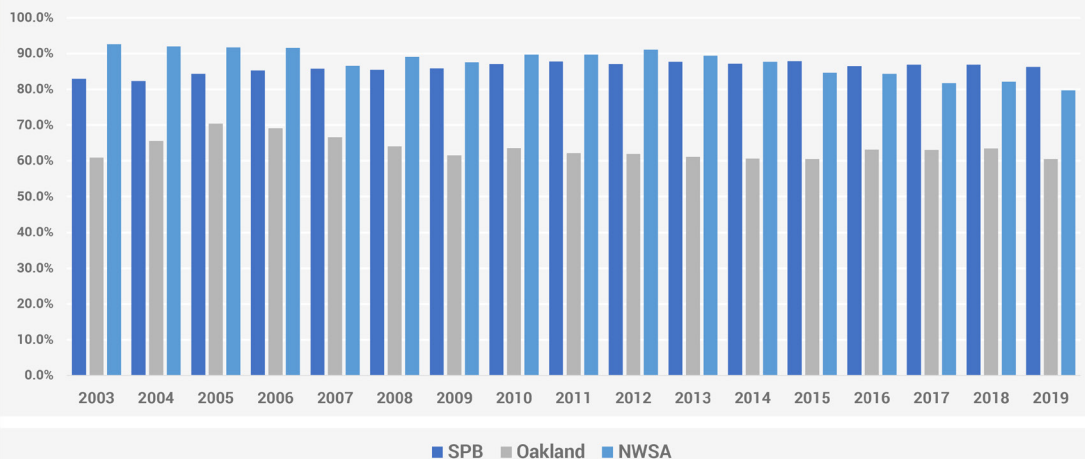
It could be argued that the declining percentage of U.S. mainland container trade passing through USWC ports may be a product of sheer inertia. For many years, the USWC ports prospered from their domination of trade with the fast-growing economies of East Asia. By contrast, East Coast ports remained primarily reliant on trade with the more mature and therefore more slowly expanding economies of Europe.

But, while ports elsewhere in North America have been steadily eating away at the transpacific container volumes that once would have moved through USWC ports, operations at USWC ports have continued to be extraordinarily reliant on trade with East Asia. **Exhibit K** tracks the percentage of containerized import tonnage at the chief USWC maritime gateways that originated in East Asia.

Exhibit K

Shares of USWC Containerized Import Tonnage Originating in East Asia: 2003-2019

Source: U.S. Commerce Department

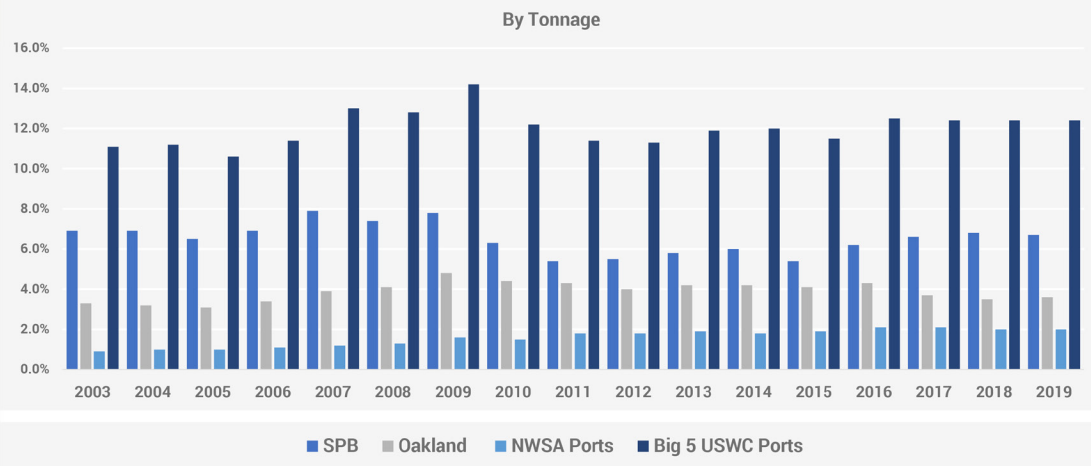


The chief USWC ports meanwhile have not increased their shares of America's trade with the trading nations of Europe, the Mediterranean, and the Middle East, as **Exhibit L** indicates.

Exhibit L

USWC Share of Total U.S. Containerized Trade with Europe, Mediterranean, and Middle East Markets: 2003-2019

Source: U.S. Commerce Department



So, while increasingly large numbers of containers bound from East Asia to U.S. markets have been moving through East and Gulf Coast ports, there has been almost no parallel diversion of transatlantic trade to West Coast ports. The expectation that the new set of locks at the Panama Canal might become more of a two-way street driving appreciably higher volumes of containers to/from Europe or the east coast of South America to the USWC is not being realized. According to the website of the Port of Los Angeles, a mere 2% of its 2019 trade involved Northern Europe in 2019.

First Quarter 2020 Update

Containerized trade during the quarter of 2020 was severely distorted by the COVID-19 outbreak. As a result, it is inadvisable to draw any firm conclusions from the data. Still, although the impact of the pandemic has been broadly felt across the nation’s ports this spring, the numbers offer little consolation to USWC ports. The Big Five USWC ports’ combined share of all containerized import tonnage discharged at U.S. mainland ports in this year’s first quarter fell from 37.9% in last year’s first quarter to 33.4% this year. In a longer-term context, as **Exhibit M** indicates, the USWC share of first quarter imports has declined from 43.1% in 2010 to 33.4% this year. At the San Pedro Bay gateway, the import share dropped from 32.0% in 2010 to 24.5%. The falloff at the NWSA ports was from 6.8% to 4.9%, while Oakland saw its share slip from 4.2% to 4.0%.

Exhibit M

USWC First Quarter Shares of Total U.S. Containerized Imports: 2010-2020

Source: U.S. Commerce Department

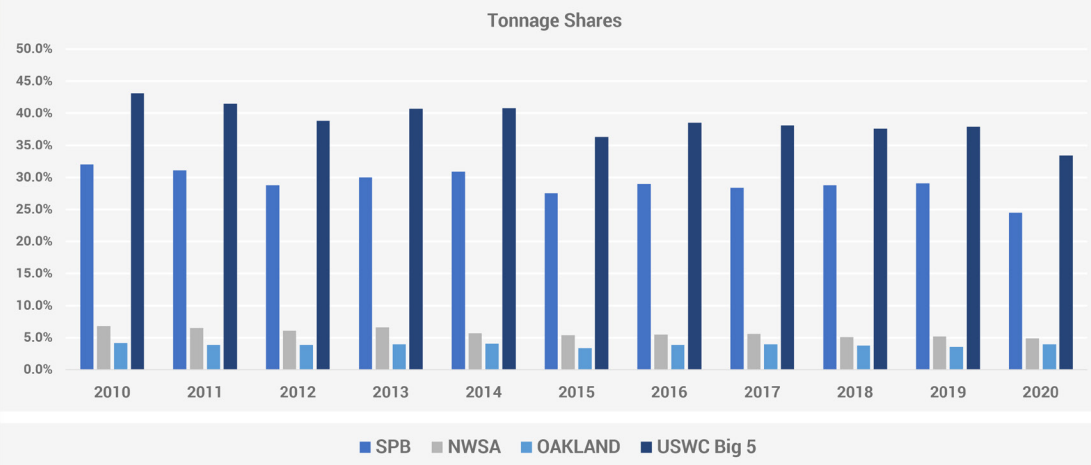
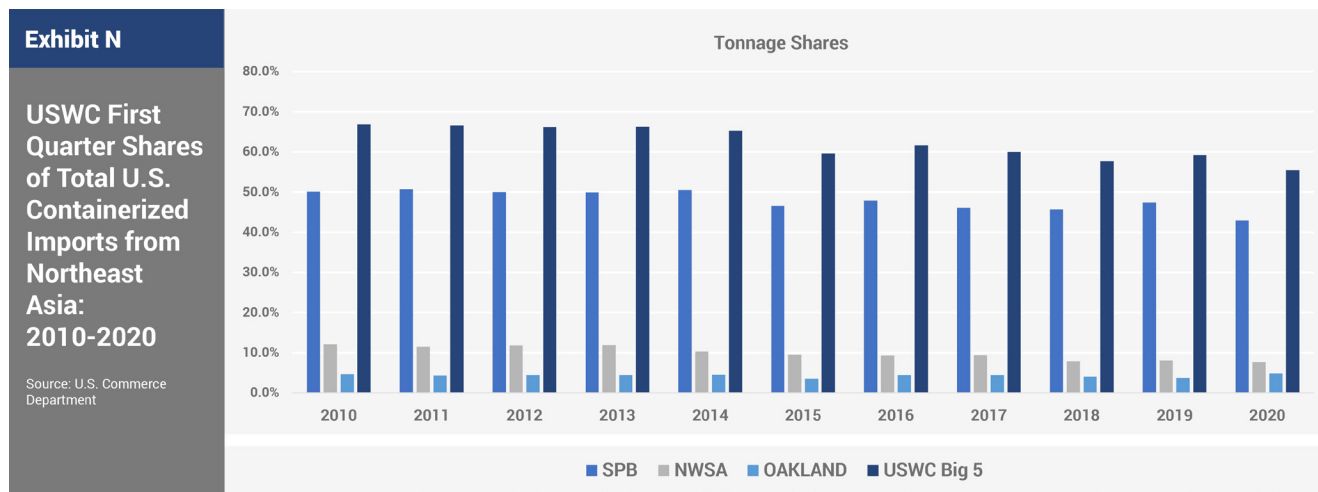


Exhibit N describes the share of U.S. containerized import tonnage arriving from the economies of Northwest Asia (Japan, South Korea, China, Taiwan, and Hong Kong) in the first quarter of each year from 2010 to 2020.



In the first quarter of 2010, the Big Five USWC ports collectively enjoyed a 66.9% share of all containerized import tonnage at U.S. mainland ports from Northeast Asia. By last year’s first quarter, that share had eroded to 59.2%. In this year’s first quarter, it had fallen further to just 55.5%. The Ports of Los Angeles and Long Beach accounted for 50.1% of containerized import tonnage from Northeast Asia in 2010’s first quarter. In last year’s first quarter, that share stood at 47.4% before collapsing further to 42.9% this year. Similarly, the NWSA ports’ combined share of containerized import tonnage from Northeast Asia declined from 12.1% in 2010’s first quarter to 8.1% last year and 7.7% this year. Only Oakland managed to increase its share of first quarter imports from Northeast Asia, from 4.7% in 2010 to 4.9% this year.