

DELAYS AT U.S. PORTS MAY PUSH NIPPON, MAERSK TO CANADA, MEXICO

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By Rip Watson

Jan. 13 (Bloomberg) -- Shipping companies such as Nippon Yusen K.K. are searching from Alaska to Mexico for ports able to handle goods from Asia because bottlenecks in Southern California are delaying cargo by as much as a week.

Nippon Yusen, Japan's biggest shipping line, is considering sending goods through Prince Rupert, on the Canada-Alaska border, and Manzanillo, on Mexico's Pacific Coast. The harbors are being sought as alternatives to Los Angeles and Long Beach, the biggest U.S. port complex, where a record of almost 13 million standard-sized containers crossed the docks in 2004.

Trade with Asia surged 15 percent last year amid a boom in Chinese goods, delaying merchandise to retailers such as Sharper Image Inc. Drewry Shipping Consultants in London forecasts a 14 percent increase in 2005. Idling a ship in the harbor costs as much as \$300,000 a week, for expenses such as salaries and fuel.

``With the lack of significant capacity expansion anywhere on the West Coast, everyone is looking to any alternative,'' said Peter Keller, chief operating officer of Tokyo-based Nippon Yusen's North American unit, who toured Prince Rupert in December. ``Prince Rupert has some viability. They have deep water, which is good. They have a very viable railroad.''

Neptune Orient Lines Ltd., the sixth-biggest cargo company, also is considering alternatives to Southern California, said Scott Dailey, a spokesman for the Singapore-based company.

MaerskSeaLand, the world's biggest cargo line, is reviewing routing choices and might consider Prince Rupert, Anne Kappel, a spokeswoman for the Copenhagen-based company, said in an e-mail.

Mexican Ports

More than 5,000 ships passed through Los Angeles last year, including a record 94 on Oct. 12. The harbor is designed to handle 30 to 50 vessels daily. A total of 118 ships were diverted, including 11 to Manzanillo, said the Southern California Marine Exchange, which tracks ship arrivals.

The ports aren't experiencing delays right now. Demand slows in January, after peaking in October and November ahead of the holiday season.

The Los Angeles and Long Beach ports are hiring 1,300 workers to handle rising Asian imports this year. The addition of 3,700 dock workers last year was inadequate to process the extra loads, port director Jim McKenna said. The ports will also extend working hours and handled cargo on weekends.

The delays forced retailers to carry more inventory to keep products on store shelves, said Robin Lanier, director of the Waterfront Coalition, a Washington-based trade group whose members include the 10 biggest importers.

San Francisco-based Sharper Image said Jan. 6 that shortages of ``key holiday items'' and higher shipping costs linked to the delays will reduce profit for its year ended Jan. 31 to as little as 90 cents a share, down from \$1.65 a year earlier.

Manzanillo

Last year, shares of shipping lines surged amid the increased

demand. Taipei-based Evergreen Marine Corp. rose 15 percent, while Neptune Orient climbed 39 percent and Nippon Yusen gained 14 percent.

Manzanillo, Mexico's biggest port, may handle 1 million standard-sized containers this year, a 20 percent increase. The port is negotiating with Wal-Mart Stores Inc. and Target Corp., the two biggest U.S. discount retailers, said Alfonso Perez Martinez, the port's marketing vice president. Nissan Motor Co. ships auto parts from Japan to a Tennessee plant using Manzanillo.

``The smart companies are looking at Canada and Mexico for the longer term,'' said Lanier. ``The big issue in Mexico is infrastructure. There are serious questions about the capacity of Mexico's rail network.''

Deep Water

Prince Rupert, aiming to handle 400,000 standard-sized containers by 2006, has a C\$195 million (\$159 million) plan to attract shipping companies, with C\$75 million pledged by Canadian National Railway Co., to build tracks at the port, and Maher Terminals Inc. of Berkley Heights, New Jersey, to build the terminal. Persuading a cargo company such as Nippon Yusen might help win additional support from the government.

``A year ago I would have said they were nuts in Prince Rupert,'' said Theodore Prince, senior vice president of Optimization Alternatives, which sells transportation software. ``Now it looks like they can make it. Canadian National and Maher are very serious about this.''

Based on Neptune Orient's average revenue per load of \$2,677 in the first nine months of last year, shipments through Prince Rupert would total about \$535 million in annual revenue by 2006 if the planned capacity is reached. Nippon Yusen doesn't disclose revenue per load.

Prince Rupert has other advantages, including a 118-foot channel that's more than twice as deep as New York's, as well as some drawbacks.

Asia Proximity

``It's nowhere,'' said Prince, former North American chief operating officer of Kawasaki Kisen K.K., Japan's third-biggest shipping line. The community's small population of 15,300 might discourage investors and cargo lines that prefer ports with larger local markets such as Los Angeles or Vancouver, he said.

Travel time also is a factor, because of delays on the typical three-week trip between Hong Kong, the world's No. 1 port and inland points such as Chicago. The trip through Manzanillo to the U.S. interior takes about two days more by sea, Perez said.

Prince Rupert also is promoting its proximity to Asia. The port is 1,259 miles, or about two days sailing, closer to Hong Kong than Los Angeles.

Ensenada, just south of the U.S. border, is building up a cargo business that handled fewer than 50,000 containers last year. The port's distance, about 200 miles, from Los Angeles is an advantage, though Ensenada lacks a railroad to move cargo inland. The lack of trains is a drawback, Keller said.

Prince Rupert has attracted interest from five of the 10 biggest cargo lines, Port Director Don Krusel said. He declined to identify any of the companies.

--With reporting by Thomas Black in Mexico City. Editors: Geimann,

Liedtka, Siler.

Story Illustration: See {9101 JP <Equity> CNP00094090108 <GO>} for a series of functions related to Nippon Yusen's share performance.

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