

Will West Coast ports miss the boat?

Freight demand, GORDON PITTS writes, has fuelled a looming crisis. One analyst says build Prince Rupert into a 'gateway to China.'

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George Stalk has spent the past 20 years alerting the business world to the competitive power of shaving hours and days off production and delivery.

Now, the star management consultant has a new time-related mission -- to eliminate congestion snarls in North America's West Coast ports that are choking off the made-in-China cost advantage for importers and consumers.

Canada could profit mightily in breaking the massive container logjam, says Mr. Stalk, a senior vice-president of Boston Consulting Group. But he fears the country will toss away its logistical trump card by failing to build Prince Rupert, B.C., facilities quickly to the scale of a container mega-port that can be a prime destination for ships laden with Chinese goods.

"I don't think Canada can get its act together," says Mr. Stalk, the Toronto-based author of a number of books, including the 1990 classic on global supply chains, titled *Competing Against Time*.

Prince Rupert has become a focus for Mr. Stalk's four-year examination of the looming container crisis on the continent's West Coast, where freight demand, he says, has been growing at a rate equivalent to more than an entire Port of Vancouver a year.

"But if you look up and down the U.S. coast, nobody is building a Port of Vancouver a year," says the consultant, who has been talking to government and private interests in support of his concept of a fast-track corridor from Shanghai to the U.S. Midwest and beyond, to be used by importers willing to pay for faster, predictable delivery.

The prime hub could be Prince Rupert, a bulk cargo port 800 kilometres north of Vancouver, which is the most northern deep-water port in North America that is ice-free year-round and which is 1,800 kilometres closer to Shanghai than is Los Angeles.

The port is underused, as is the railway connecting it to consumer markets. Government and private interests have begun a \$500-million, two-phase expansion, including a new container terminal. That will allow the port, best known for exporting wood and coal, to handle two million TEUs (twenty-foot equivalent container units) of annual traffic starting in 2010 -- more than what Vancouver has today.

But Mr. Stalk describes that plan as "wimpy," reflecting a lack of foresight that could squander a chance to exploit political and physical barriers to port development in the south. What's needed is a multibillion-dollar, public-private initiative, he says, to build capacity to more than five million TEUs a year.

"I think this is an interesting opportunity to turn the West Coast into truly a gateway to China -- to build not just a rinky-dink terminal, which is what they are looking at now, but a five- to seven-million TEU facility."

Don Krusel, president of the Prince Rupert Port Authority, says land is available to bulk up the port to at least four million TEUs, but there is no timetable for expansion yet beyond 2010.

Mr. Krusel appreciates having an advocate like Mr. Stalk, and agrees there is the danger of moving too slowly. But he says it is the North American way to proceed gradually.

He says Prince Rupert's remoteness, once seen as a competitive disadvantage, is now an advantage. There is less NIMBY-like resistance to growth than in built-up areas and no local rail traffic. Containers could be whisked by Canadian National Railway lines directly to Chicago -- unlike in the south, where trains must be constantly switched and restructured.

Matt Holland, a consultant working with the port of Prince Rupert, says the great benefit would be time certainty -- the assurance goods will arrive when planned. By squeezing out delays, there is also the potential to reduce the entire trip from Chinese factory to U.S. Midwest store dock to about 20 days from 35 to 40 days.

The port that unlocks this bottleneck first will win a big share of the prize, he says, because shippers will naturally choose the destination with the most certainty.

Mr. Stalk sees Prince Rupert as a piece in a broader logistical puzzle outlined in an internal BCG paper, entitled *The China Rip Tide: Threat or Opportunity?* A preview summary appeared in the February issue of *Harvard Business Review*.

As supply chains get longer, he says, they get more costly, both in visible and subtle ways, such as the costs of not having what's selling or having to write off what doesn't sell.

He warns that "in their rush to source from China, many companies are blindly walking into a strategic trap. The trap is thinking that sourcing from China will result in lower product costs, when in reality, the supply change dynamics will drive up overall costs and reduce profitability, thereby creating an opening for a competitor."

Sourcing problems with China represent a giant non-tariff trade barrier, he says. In fact, the best strategy for North American protectionists may lie not in pushing import quotas but in backing efforts to hinder port expansion in places like Los Angeles and Vancouver.

The Vancouver Port Authority has blamed federally mandated environmental impact studies for delaying its own \$280-million expansion plans by a year. It is now expected that the new facilities will not be available until January, 2009.

Meanwhile, the Chinese, watching their goods pile up on the West Coast, will become increasingly frustrated and, ultimately, develop their own deep-water superport in Mexico.

Before that happens, Prince Rupert has an opportunity to be an alternative destination, if it moves quickly. At the moment, it has a five-year window to get a jump on the Mexican solution, says Mr. Stalk, who also sees potential for Halifax to grab a bigger cargo share.

To make Prince Rupert work, he would like to see an agreement that port unions do not strike, thus avoiding disruptions. There should be a single customs-handling process for both Canada and the United States, and a more efficient permit process. And native claims in the area must be quickly resolved.

Prince Rupert is fast approaching a fork in the road, Mr. Stalk says. If it takes one road, "it is a piddling little overflow port forever. With the other, it's a mega-terminal on the scale of some of the big ports in China."

The Prince Rupert port project

The rising tide of Chinese imports has clogged North America's West Coast ports, increasing costs for both business and consumers. The solution to the problem may lie in the sleepy B.C. town of Prince Rupert, the most northern ice-free deep-water port on the continent and, crucially, 1,800 kilometres closer to Shanghai than Los Angeles.

Capacity of West Coast ports

2004 Throughput (TEUs)

Vancouver	1,539,058
Seattle	1,775,858
Tacoma	1,127,261
Portland	274,609
Oakland	2,043,122
Long Beach	5,779,852
Los Angeles	7,321,440
Prince Rupert (2007)	500,000
Prince Rupert (2010)	2,000,000

SOURCE: PRINCE RUPERT PORT AUTHORITY