THE PANAMA CANAL EXPANSION

COMPLETION IS FINALLY UPON US

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The expansion of the Panama Canal and its impact on global trade has been discussed quite extensively over the last five or more years in the port, maritime and logistics world. In the US, the discussion has largely focused around the potential impact for West Coast ports and transcontinental rail, as well as preparations at US East and Gulf Coast ports to accommodate the new and larger vessels. Ports in areas of Latin America and the Caribbean have also had visions of upside growth fueled by the potential of larger vessels and the opportunity associated with changed vessel route patterns. The very long lead time ahead of this massive infrastructure project is nearly complete, and we shall begin to see the extent of real-world supply chain adjustment. With a focus on North America, this brief article provides a summary look behind the issue of seaport competition to review how an expanded canal may be an influencing factor for some global corporate supply chains.

For more than a century now, the Panama Canal has enjoyed a prime location at the crossroads of two oceans and two continents as the fastest all-water route between Asia and the eastern areas of North and South America. With the lock expansion now nearing its final stages, the expanded canal will provide new options for supply chain managers, including both in-house and outsourced logistics managers. The issues are far more complex than pure transportation considerations and instead reference a wider set of company and sector-specific supply chain considerations including sourcing/procurement strategy, customer market development strategies, and decision-making around production centers and distribution facilities. The net result of these amalgamated decisions over time could have dramatic impacts on ports, railroads, industrial property and for regions that will suffer or benefit from changes.

PLANNED OPENING AND PROGNOSTICATIONS

As is well-understood in the shipping and logistics industries, the expansion of the canal will allow for larger vessels that provide per unit cost efficiencies, and offer the physical option to cross between the Pacific and the Atlantic is perhaps part of a larger supply chain evolution. More than 100 neo-Panamax ships have already made reservations to transit the waterway's new larger infrastructure following the opening and the COSCO Shipping container vessel Andronikos is scheduled to make the first transit through the Canal on June 26, 2016. So after a long, long wait the moment of truth is upon us.

For inbound to North America cargo from Asia, direct ocean transit has been the fastest pattern for cargo, shipped to West Coast ports and moved eastward by rail or truck. There has been much debate about the impact of the expanded canal on this pattern, with many suggesting that the impacts could be quite significant, with some guessing that 25% of imports currently traveling through the US West Coast could change travel patterns to go through the expanded canal instead. Perhaps, but this tends to gloss over the how shippers in tandem with their outsourced logistics partners will blend a wider set of supply chain issues for their specific business.

SUPPLY CHAIN MANAGER PERSPECTIVE

An expanded Panama Canal will provide some corporate managers powerful new flexibilities by introducing fundamental supply chain options that were previously not available. New options can sometimes have a function of increasing complexity – which isn't necessarily good but as part of a wider and sometimes quickly changing supply chain puzzle, more flexibility can be a potent driver.

Keeping in mind that today's senior corporate supply chain manager has a wider and more interconnected remit than ever before, their roles are now integral to much more than minimising transit time and cost, and increasing reliability for product movements. There are an array of issues that set the backdrop for today's corporate supply chain decision-making including market migration, technological product evolution, and competition and regulatory changes. These issues set the direction for strategic corporate planning decisions regarding sourcing markets, new/expanding clients markets and manufacturing and distribution site locations.

A fundamental shift will significantly change the region-of-origin orientation of the two North American coasts. Today the west is largely focused on Asia and the east on Europe with both more modestly focused on the Americas. Going forward, Asian imports will be more prevalent in eastern ports in part because of the Panama Canal, but more importantly because the Asian manufacturing center-of-gravity continues to shift westward toward India and then through the Suez.

As we think about supply chain issues we must refer to certain specific and related challenges on the West Coast. West Coast-market distribution centers are being pushed out further from the ports themselves. Today, it's difficult for an importer to build a large distribution center with easy proximity to the San Pedro ports. The current example of the World Logistics Center's legal challenges to develop their mega-logistics hub tells the story. Transport congestion is another important consideration for supply chain managers, with road transport becoming more challenging in California and this is not likely to get easier. With that said, the Ports of Los Angeles and Long Beach are reviewing ways to use rail for the intra-regional move to distribution hubs within say 100 miles - which could on its own change West Coast competitiveness quite a bit.

GLDPartners is working with a range of sectors that are reviewing how the Panama Canal could impact their business. Below are some supply chain scenario examples:

MANUFACTURING AND DISTRIBUTION

- With changes in lower-cost manufacturing points seeing shifts from East Asia (Japan-Korea-China) to other Asian countries such as Indonesia, Vietnam and India, many corporate supply chains are sourcing from multiple Asian locations. This means that some companies are now managing two very separate supply chain systems which is taxing and complicated. We don't see this as a sustainable situation for some companies and depending on their locations in North America, some may review alternatives. We see that the new canal can provide an outlet for some to provide better inflow or outflow management. Because of higher flows through the Suez and the potential for Asian-origin vessel strings directly to east coast ports, some sectors may find it easier to assemble, customise or manage inventory in the US with components coming from both east and west
- We expect that the expanded canal will prove to be a driving factor in a new wave of both regional and super-regional distribution center capacity in the US, particularly in the Southeast. Not only will more facilities be needed, but distribution networks are already undergoing a significant shift in anticipation of this. We foresee an evolution from super distribution centers to a hub-and-spoke model of smaller DCs. A driving force is the high cost of energy and the low efficiency of less-than-truckload shipments typical of the large DC model. Ecommerce is yet another story and its march forward continues unabated
- Panama is clearly hoping to become a convergence point and not simply a transit pass-through. As we understand the specific nuances of the disbursed supply chains referenced above and others, there is additional credence to this possibility, at least for certain supply chains where it makes sense. We don't see Panama being an answer for everyone, but if the on the ground business competitiveness can be demonstrated, it could work for some, especially of those chains that have a growing Latin American supply or consumption element. We're thinking about food, and some electronics, just as examples
- Depending on inbound flows from the likes of ecommerce goods movements, there are likely to be new kinds of backhaul opportunities to Asia from the US Gulf and Eastern Coasts. Some industry sectors in these US locations have not had much opportunity in this and in our field of view this will benefit a range of export sectors

AGRICULTURE

- Shippers are likely to benefit from decreased accessorial or specialised charges: perishable foods from South and Central America may no longer need to be transported on "reefer" ships to the US East Coast – the shorter transit times through the canal may permit shipment in regular containers. This could lead to food processing activity in the vicinity of the destination port due to changed raw-processed-product dynamics
- For grain transport from the Midwest US to Asia. With the maximum capacity of ships able to traverse the Panama Canal set to more than double, there is much more incentive for the growers in the US to sell grains to Asia. If vastly more product can be loaded onto a ship, then this makes the shipping process easier and less expansive per unit shipped. That suggests impact to crop and supply chain for domestic consumption

Independent of logistics issues, over the past 10-20 years there have been some pretty structural changes to a number of global supply chains and the new canal will provide some supply chain managers helpful new options. For the majority, we don't foresee a dramatic shift in the short-term from the current supply chain patterns as the system works pretty efficiently for the majority. Over time, and with California becoming perhaps less competitive and more challenging for various shippers and manufacturers, this could change.

ABOUT THE AUTHOR

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ABOUT THE ORGANISATION

Global Logistics Development Partners LLC is an international investment and advisory firm that is a specialist in creating value surrounding fast changing global supply chains. With offices in both North America and Europe, GLDPartners operates two businesses: advising global manufacturers on supply chain strategy and facility location, and working on market acquisition and infrastructure projects at and around seaports, airports, and inland logistics and trade hubs.

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