

Will West Coast Ports Choke Again?

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Outline

- Recap of 2004
- Responses to the debacle
- Current state
- Outlook for West Coast traffic
- Key near term risks

Recap of 2004

- Vessels stranded in West Coast harbours
- Lease rates: sky-high
- Multi-modal difficulties
- Immediate solutions: in short supply
- No risk plans
- Retailers in panic mode

Railways

Problems

- Not enough car capacity
- Track capacity problems
- Intermodal: movement from port to rail = sclerotic

Responses

- Huge investment in rolling stock
- Investment in track capacity
- Legislators demanded guarantees from industry

Trucking

Problems

- Intermodal issue
- Road congestion

Responses

- ?

Shipping

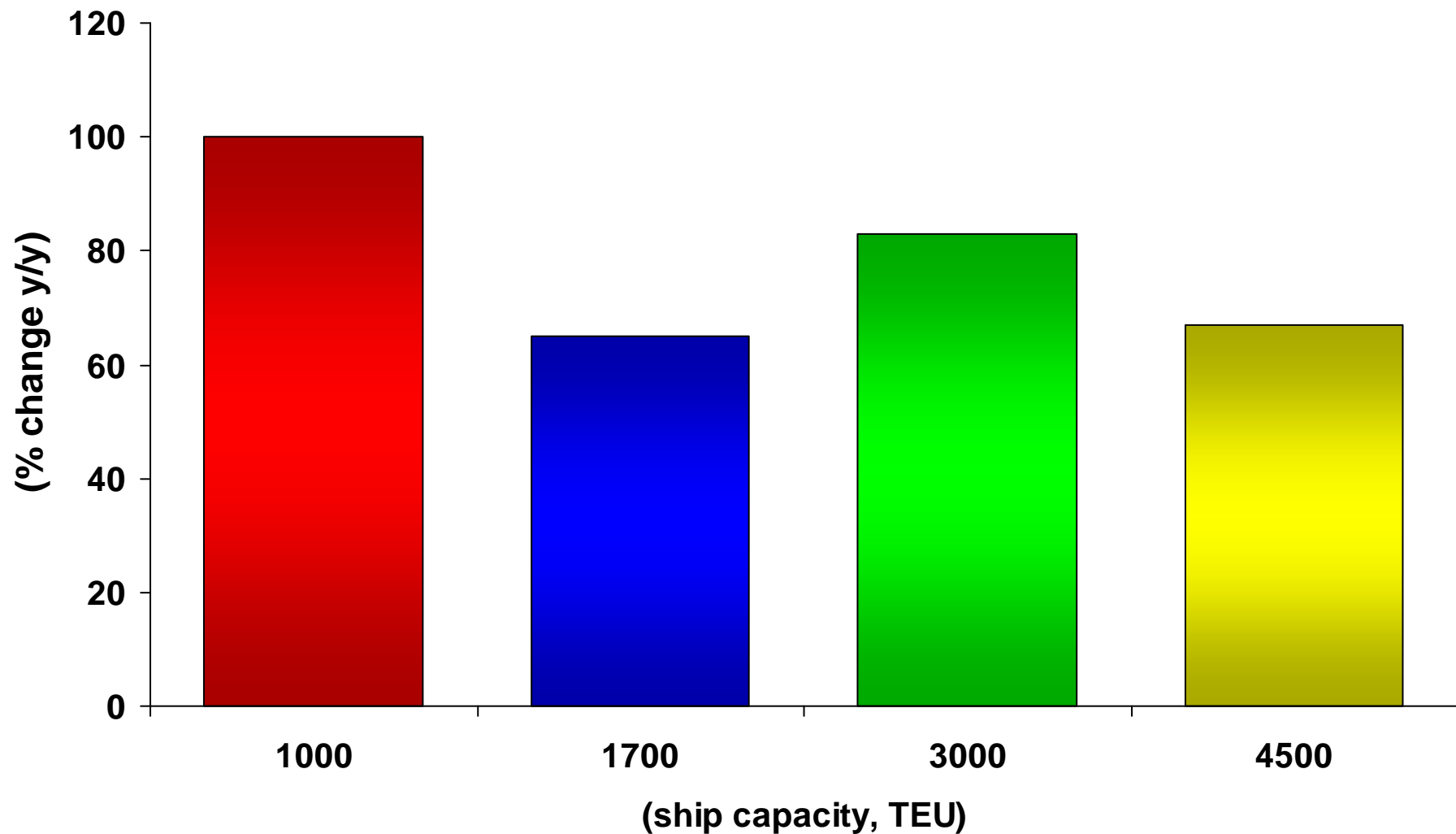
Problems

- Vessels in short supply
- Applied to container, bulk carriers, tankers
- Low levels of shipbuilding
- Lease rates soared

Responses

- Scrappage: nil, for well over a year
- Shipbuilding boom
- Super-capacity container ships (4,500-6,000 TEU)

Charter rates for container ships (y/y increase, early 2005)

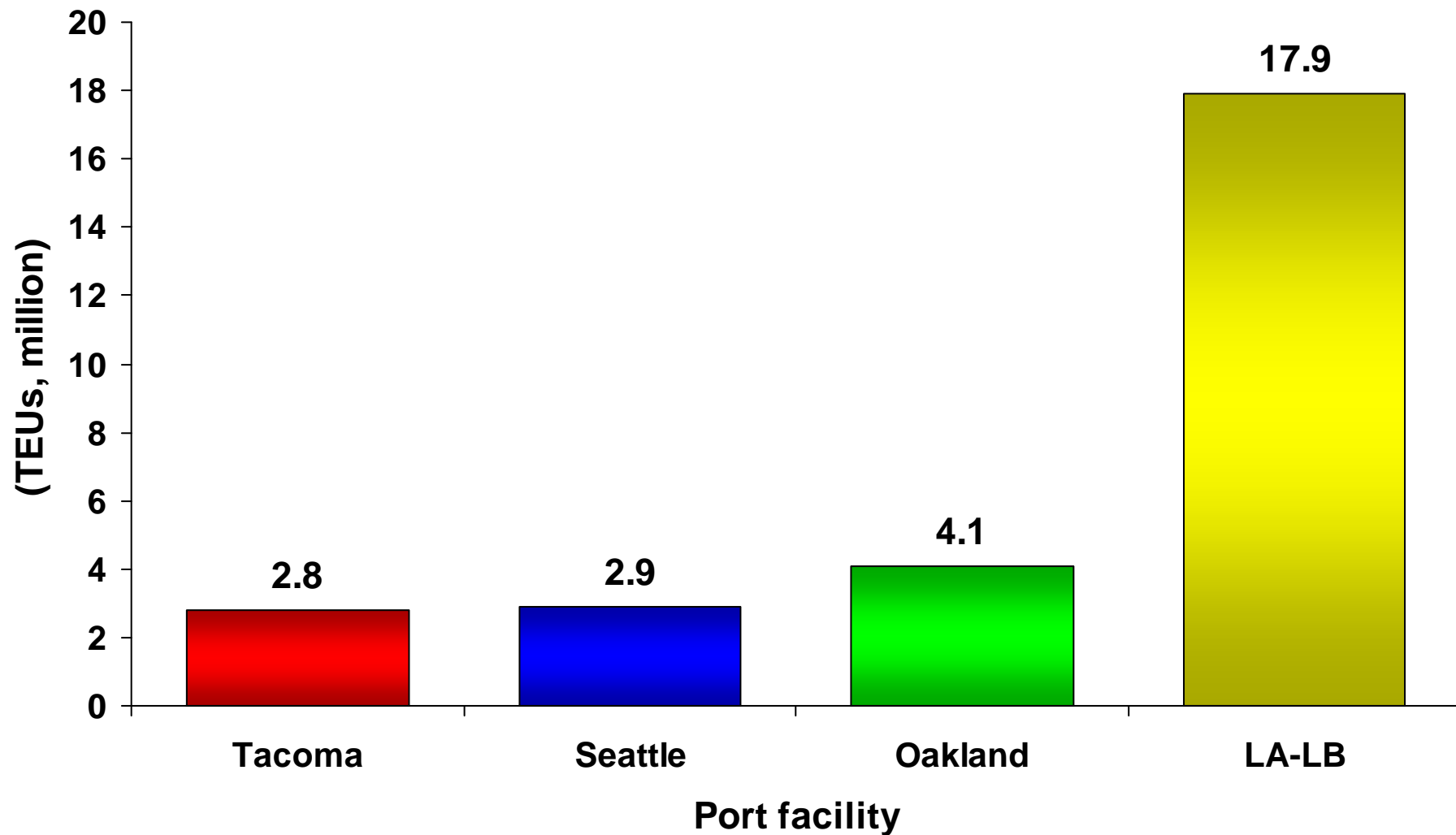


Port facilities

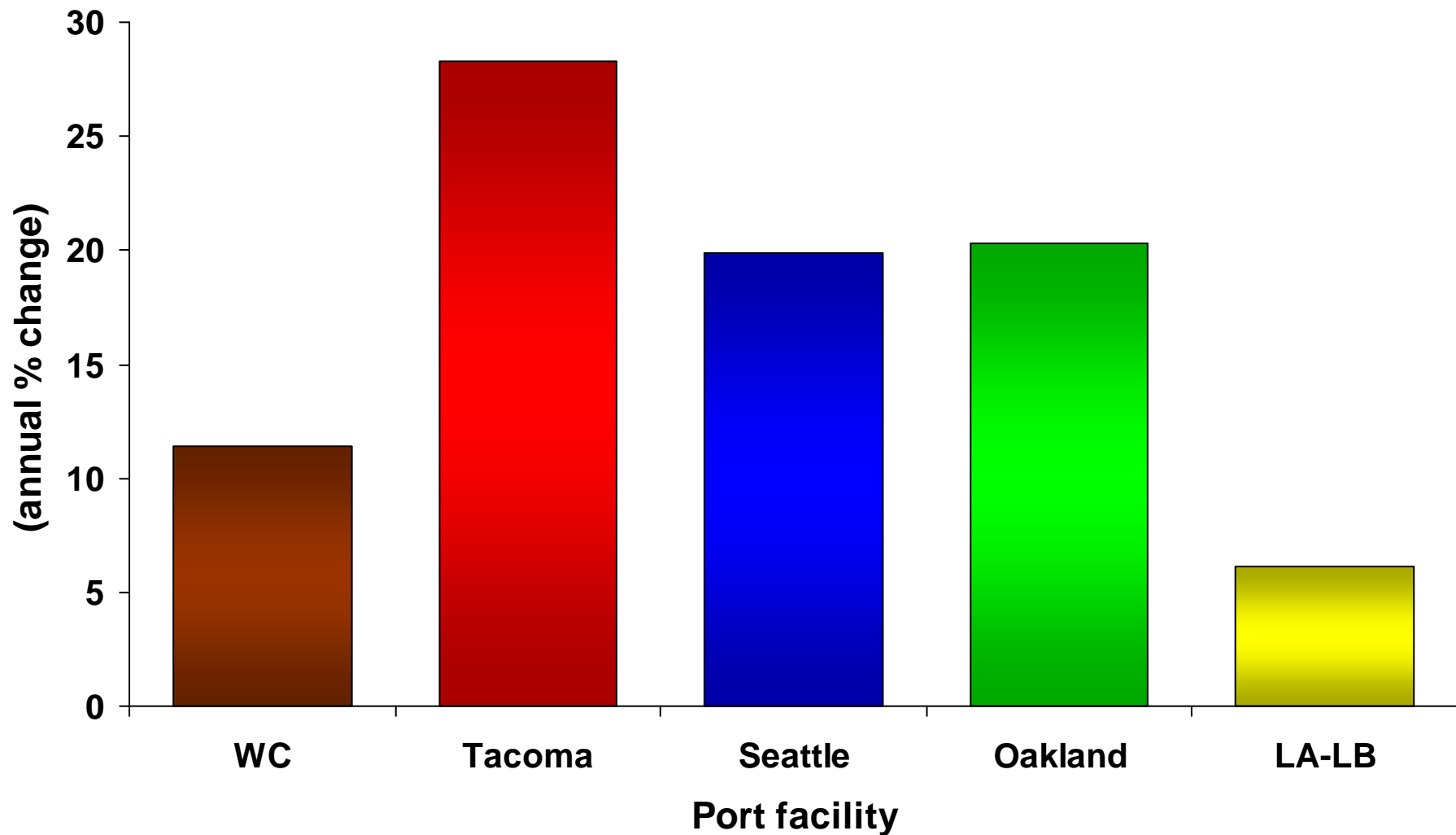
Problems

- Low investment
- Perception of stable investment
- Labour relations
- Responses
- Revamped investment plans
- Additions to labour force
- Inter-modal discussion, cooperation

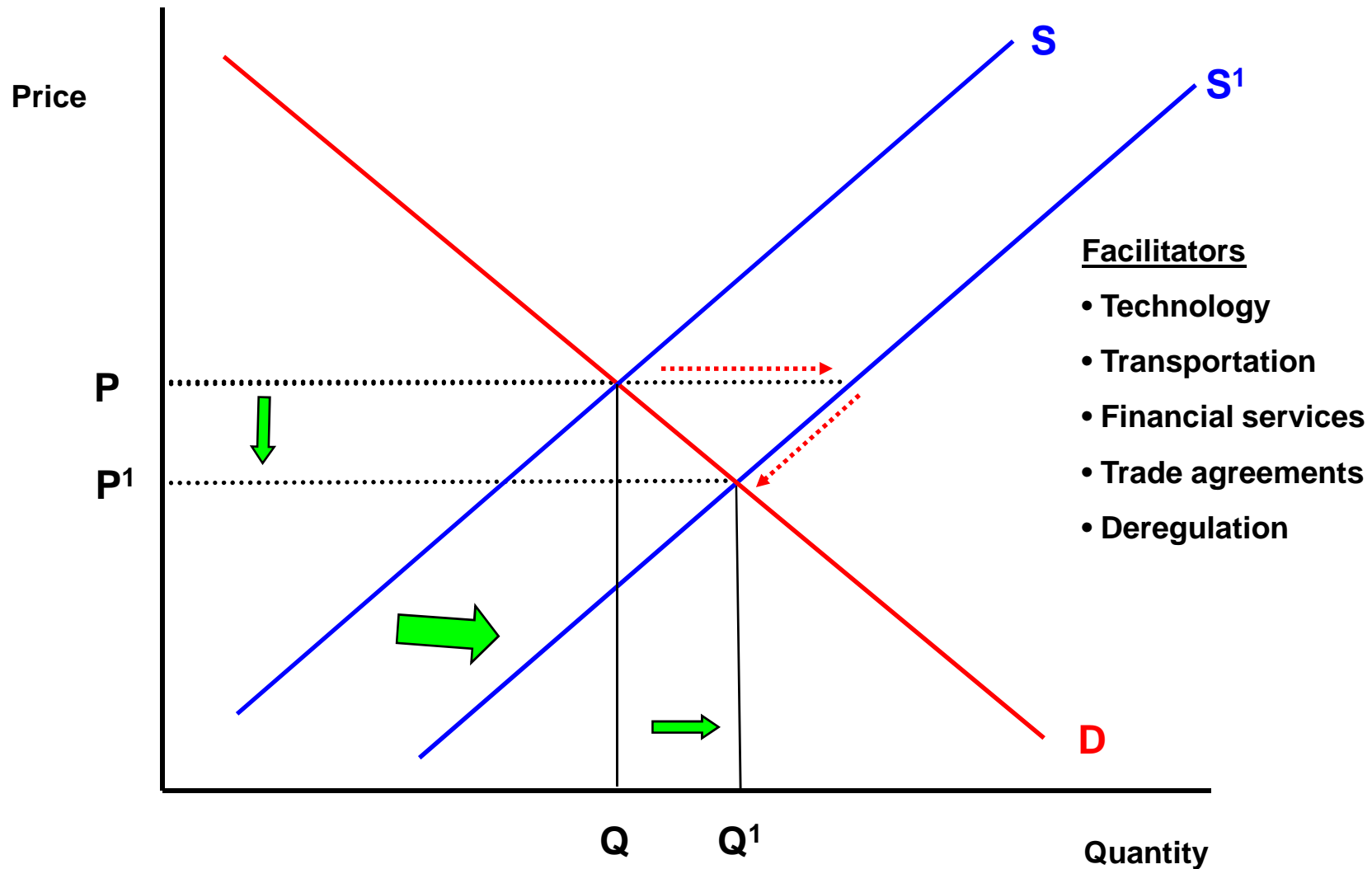
Capacity, US West Coast ports (containers, million TEUs, 2006)



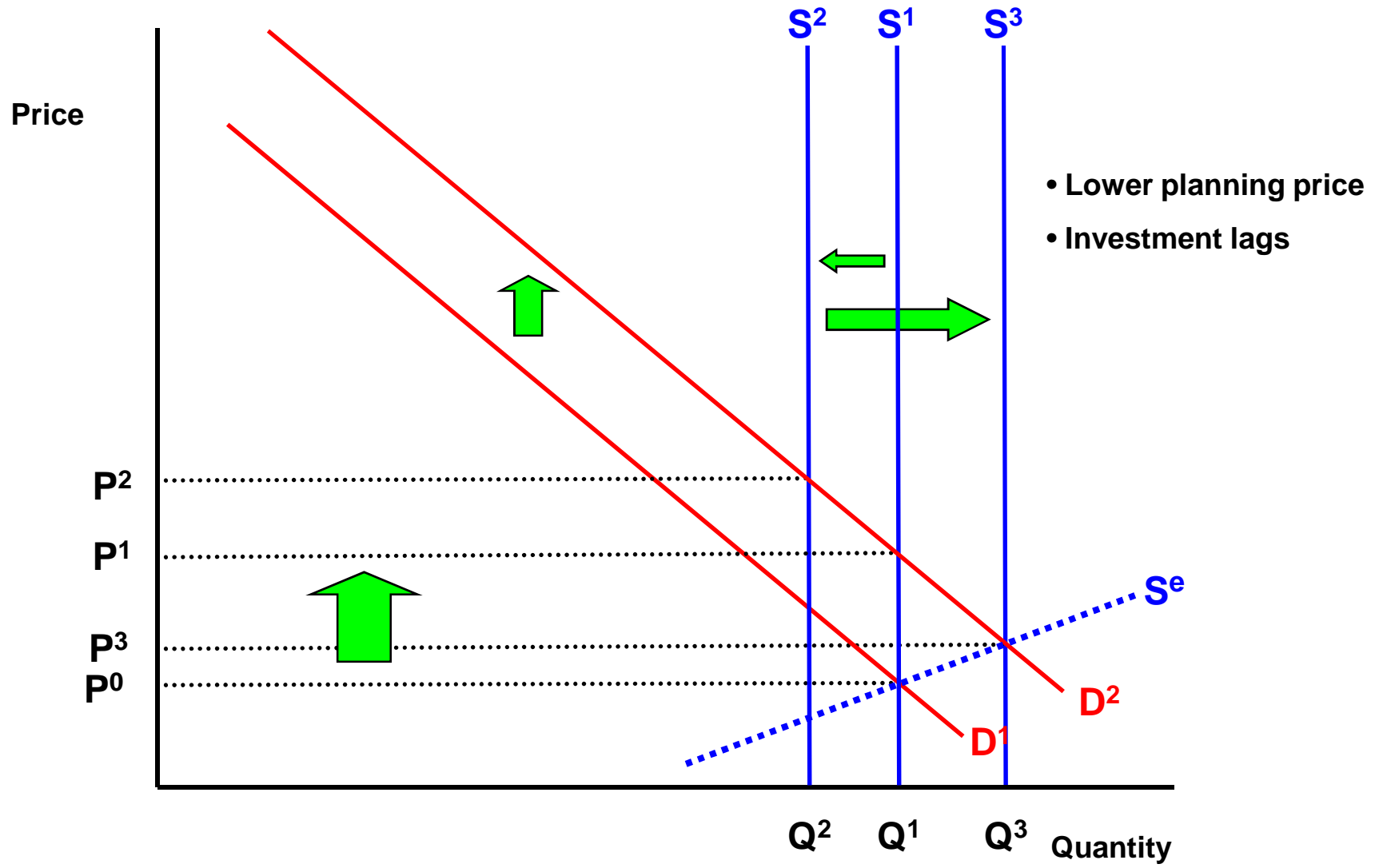
Investment activity, US West Coast ports (average annual % increase, 2005-06)



Global supply shock increases production

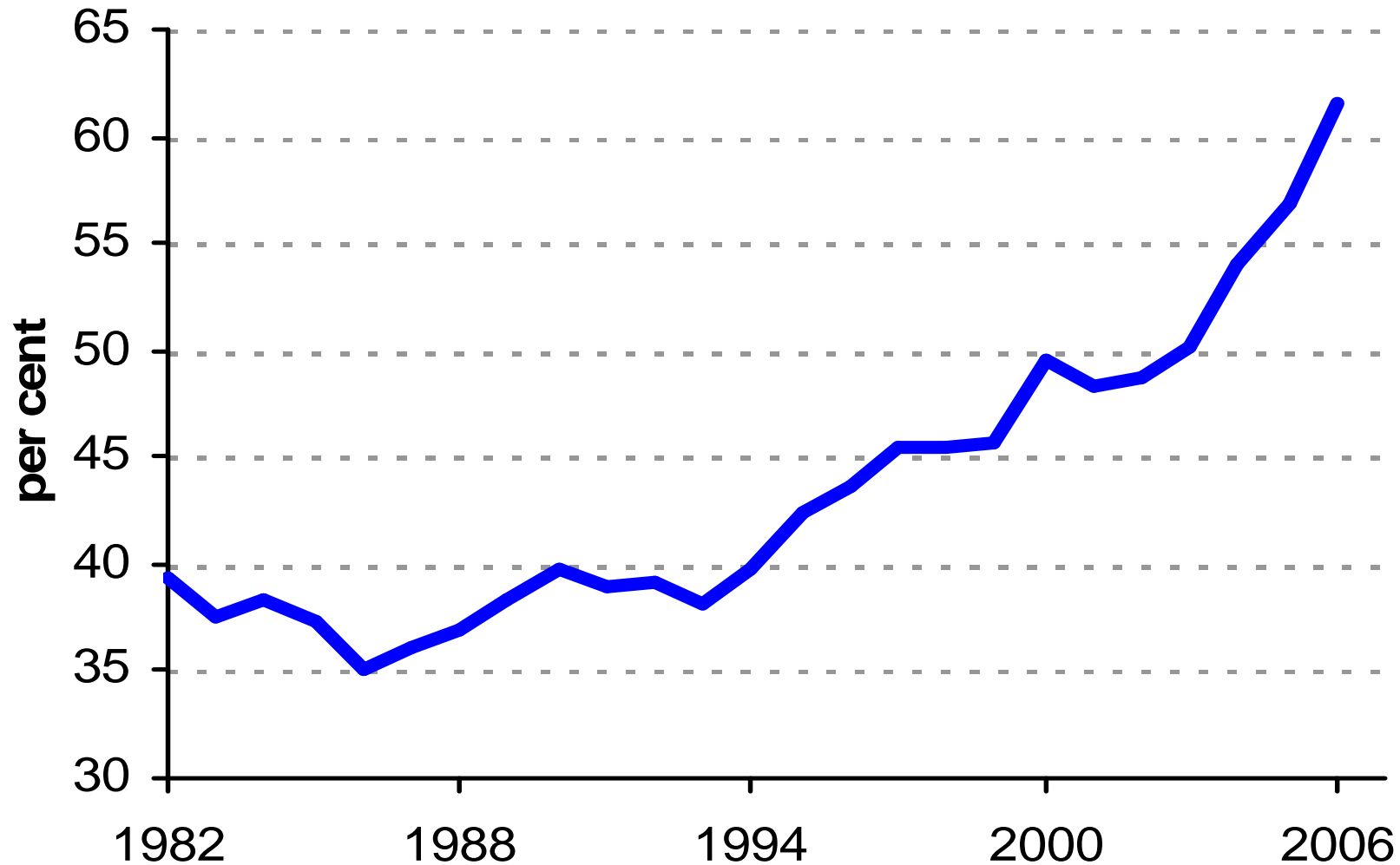


Effect on “inelastic” industries



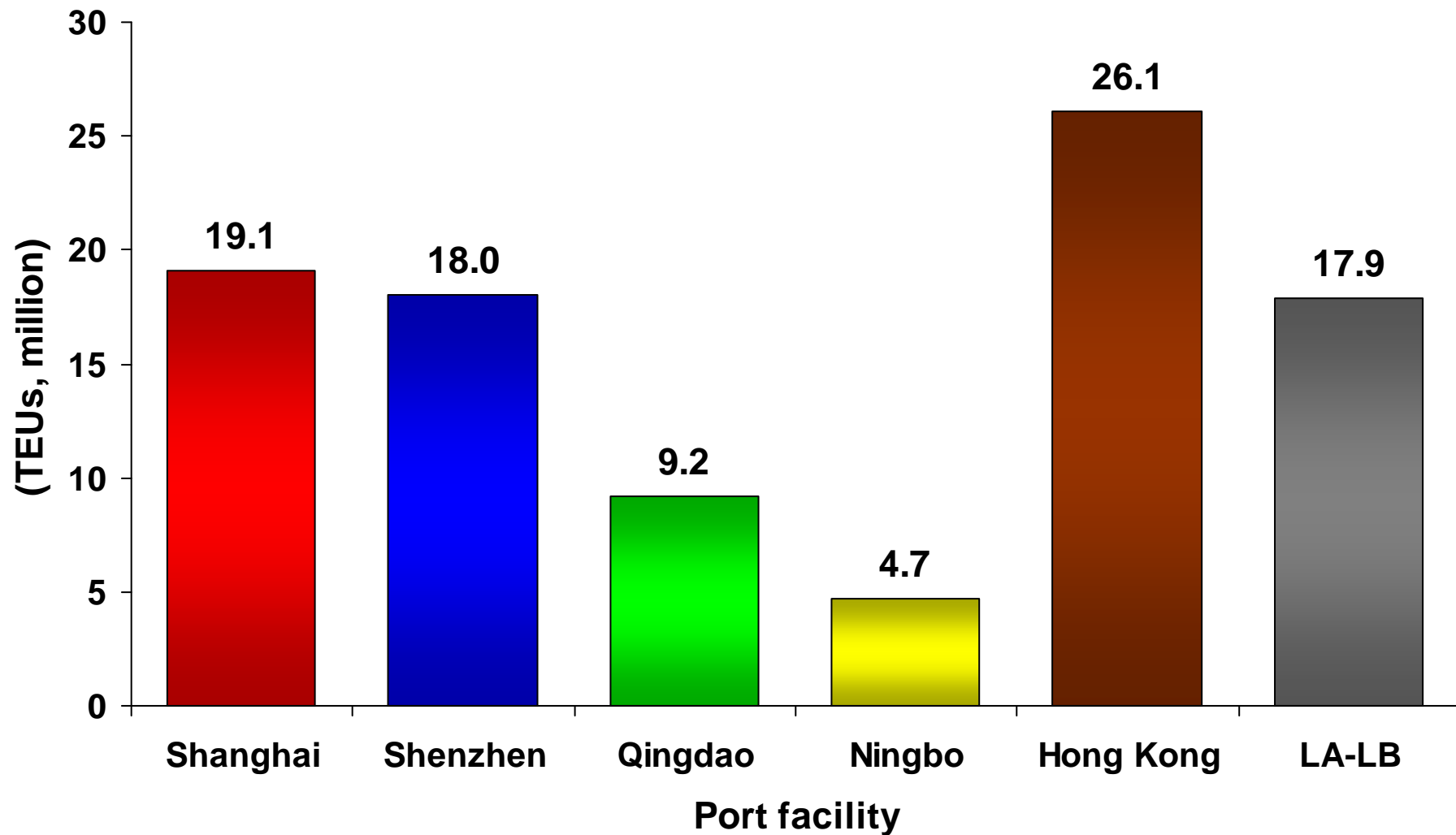
World trade intensity: on the rise

(Exports + Imports)/World GDP

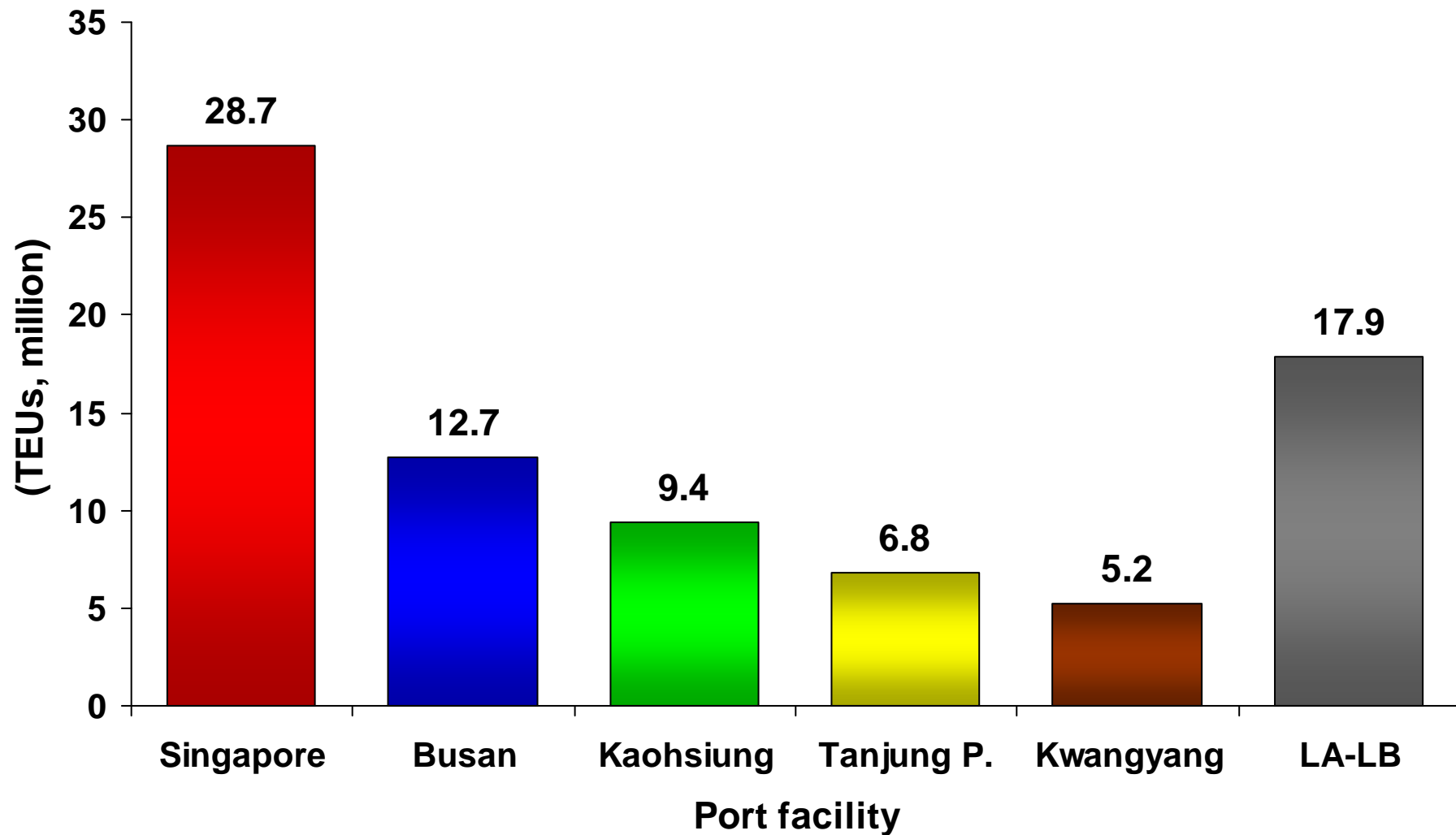


Source: EIU, EDC Economics.

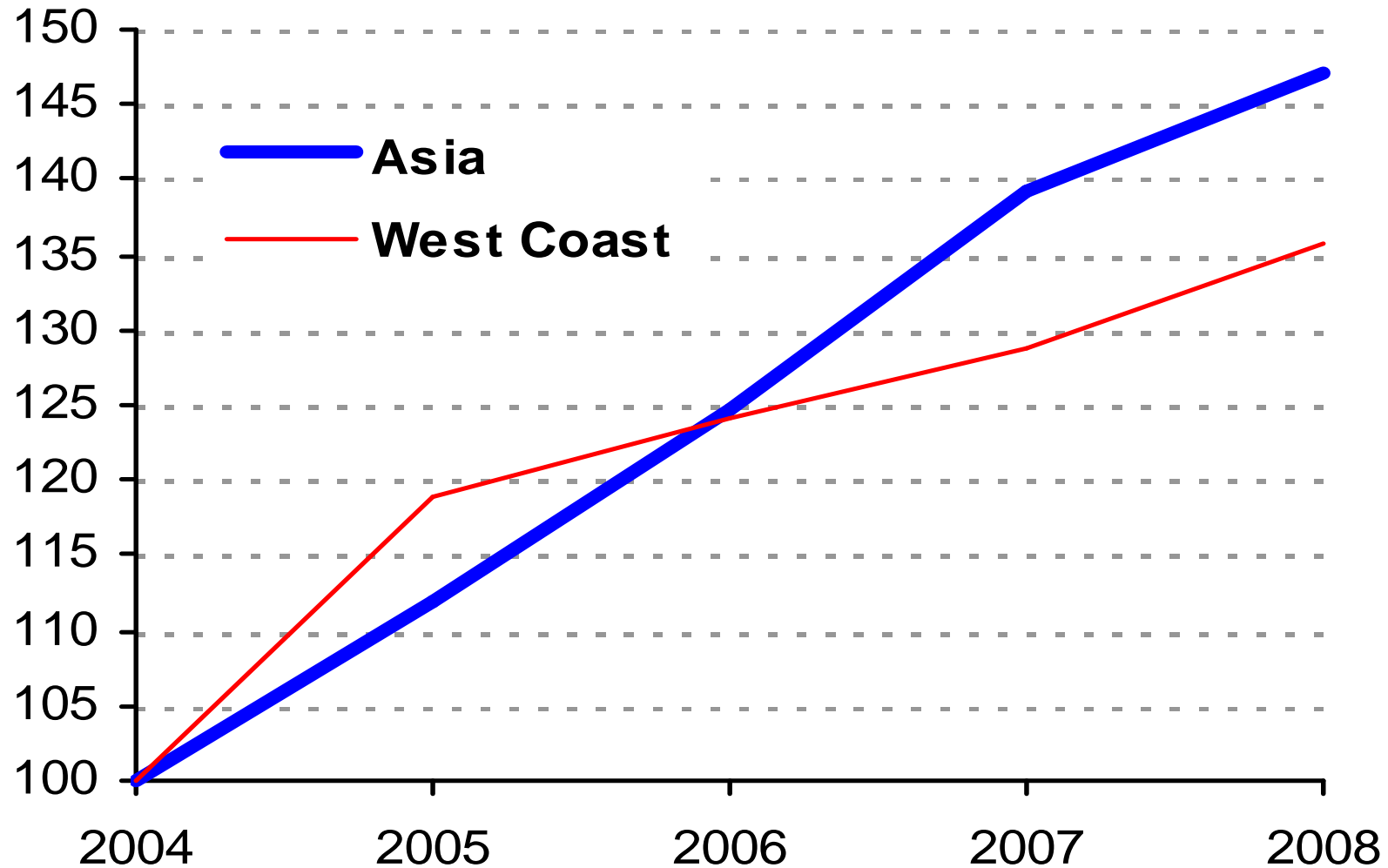
Capacity, Chinese ports (containers, million TEUs, 2006)



Capacity, other Asian ports (containers, million TEUs, 2006)



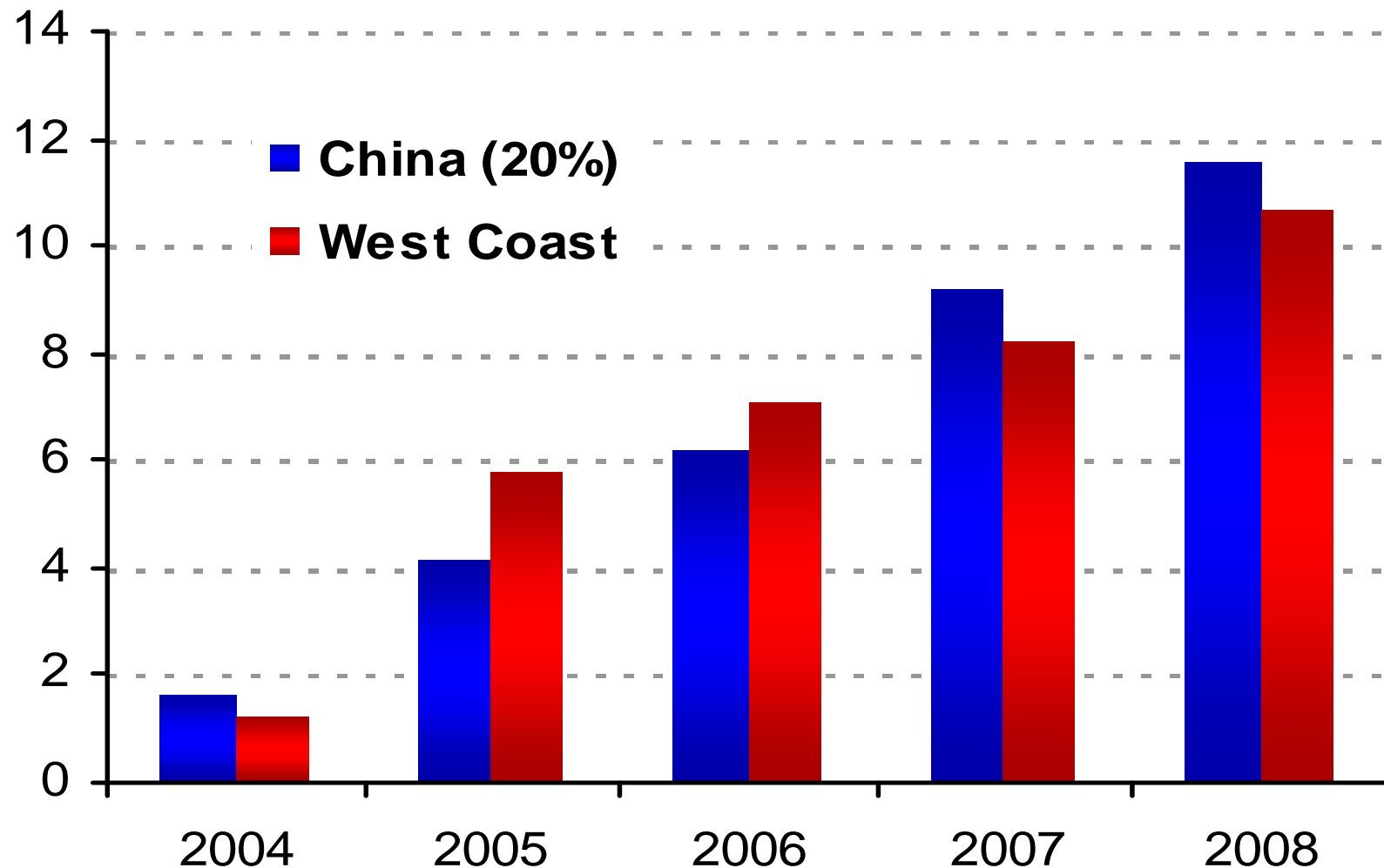
Port investment: West Coast vs. Asia (Index, 2004=100)



Source: Drewry

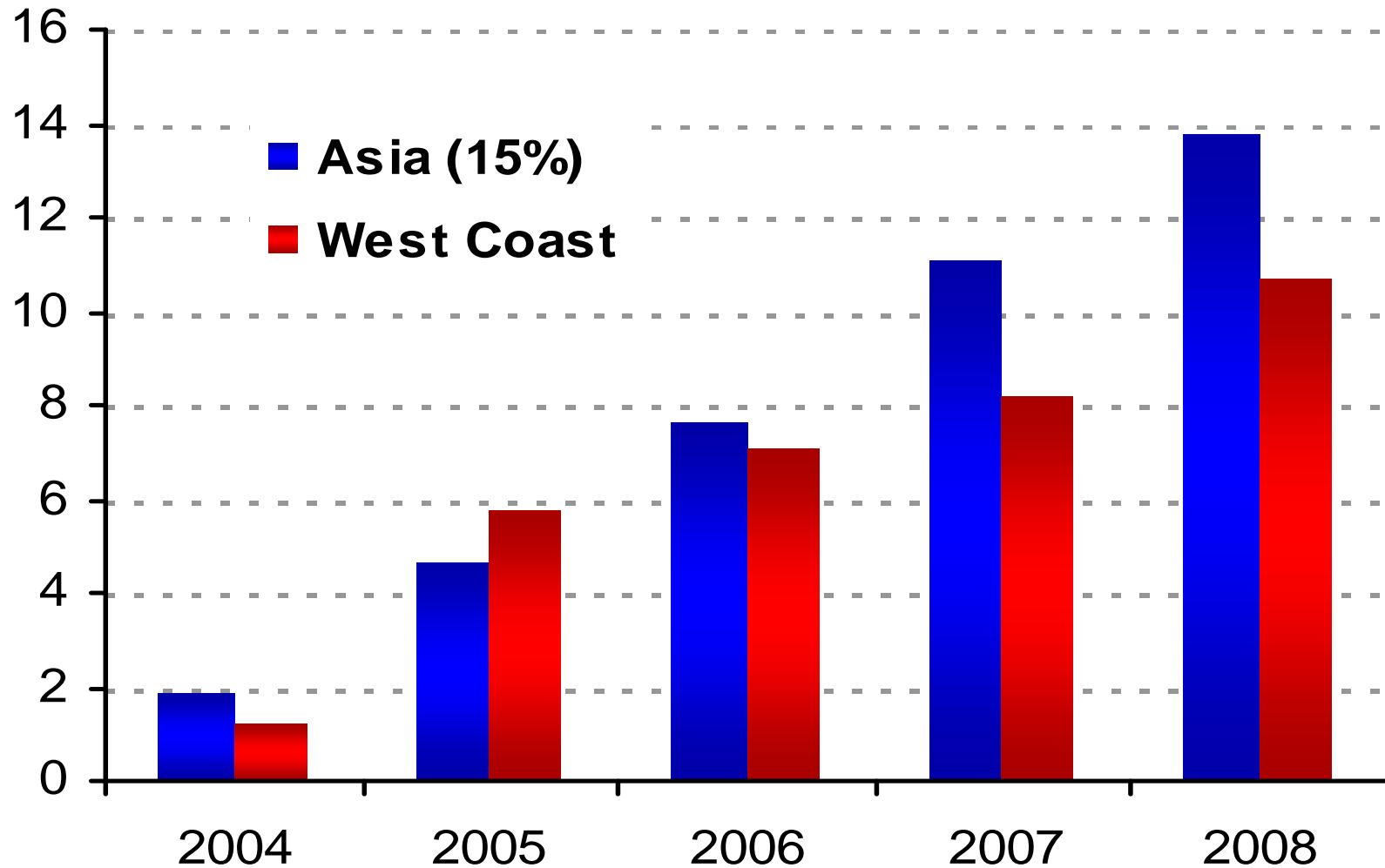
Increased TEUs: West Coast vs. China

(Cumulative additions, million TEUs)



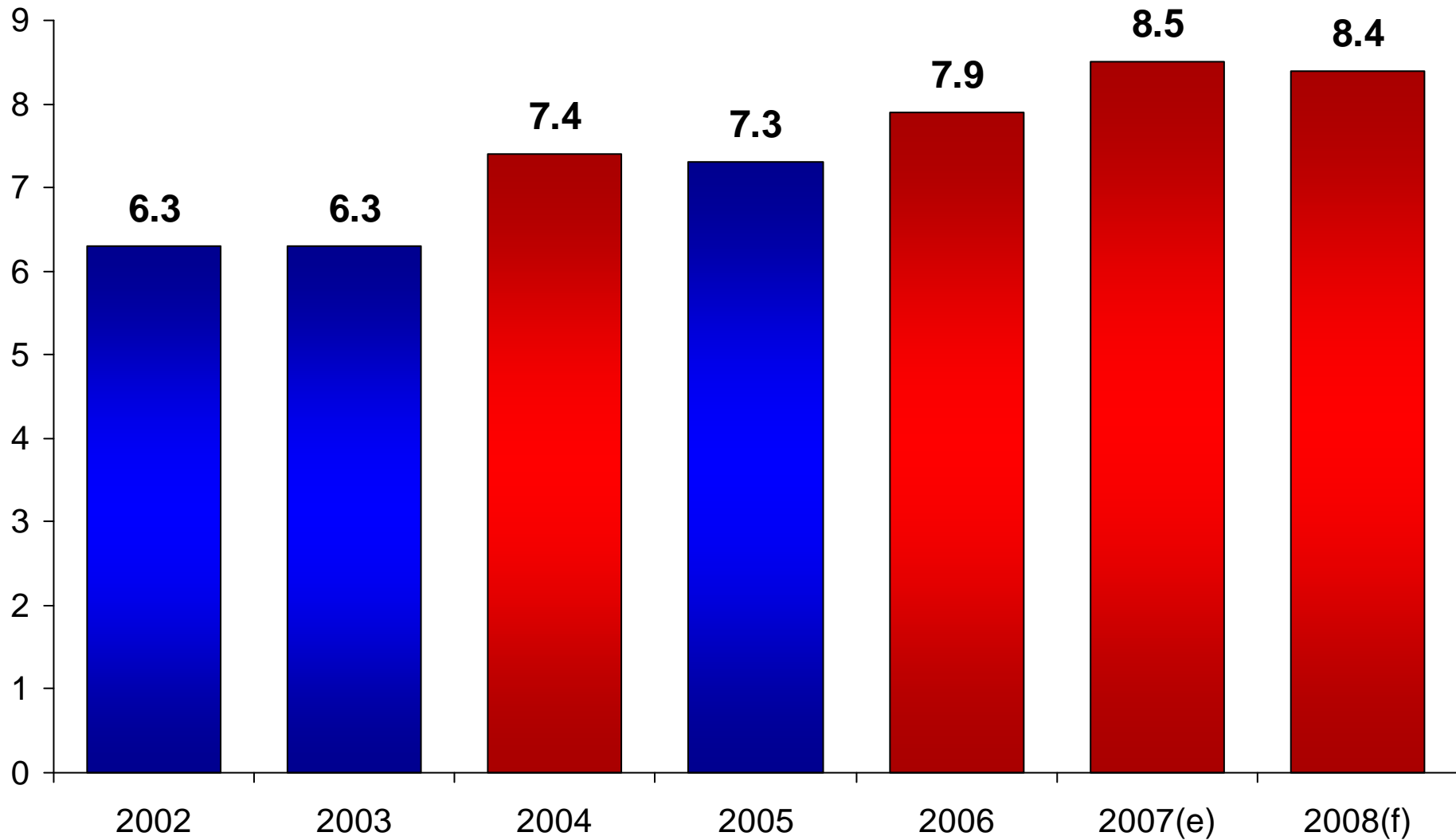
Source: Drewry

Increased TEUs: West Coast vs. Asia (Cumulative additions, million TEUs)



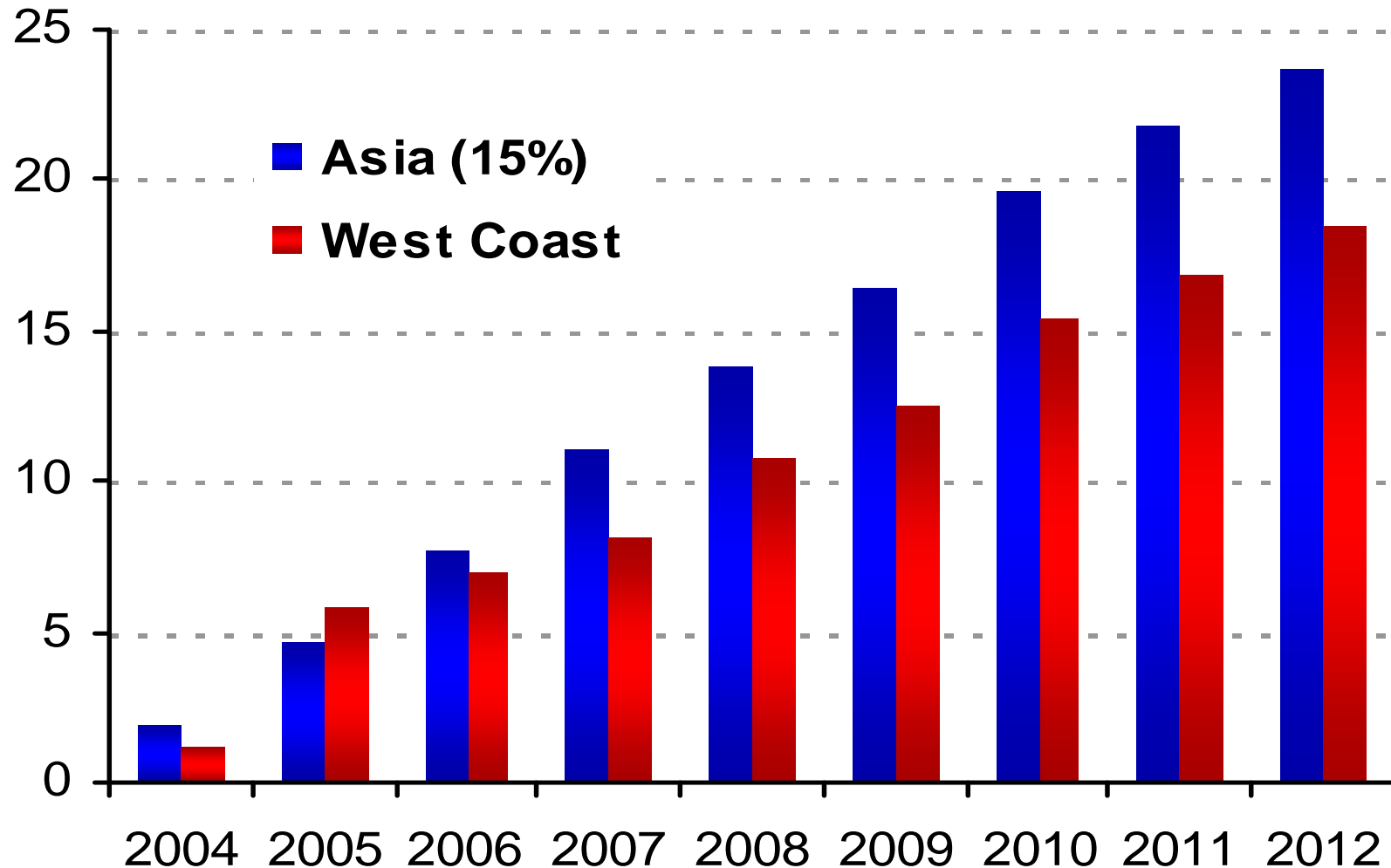
Source: Drewry

Did increased investment help at all? (ratio of US imports from China to total TEU capacity)



Source: Drewry, US Census Bureau, EDC Economics.

Longer outlook: West Coast vs. Asia (Cumulative additions, million TEUs)

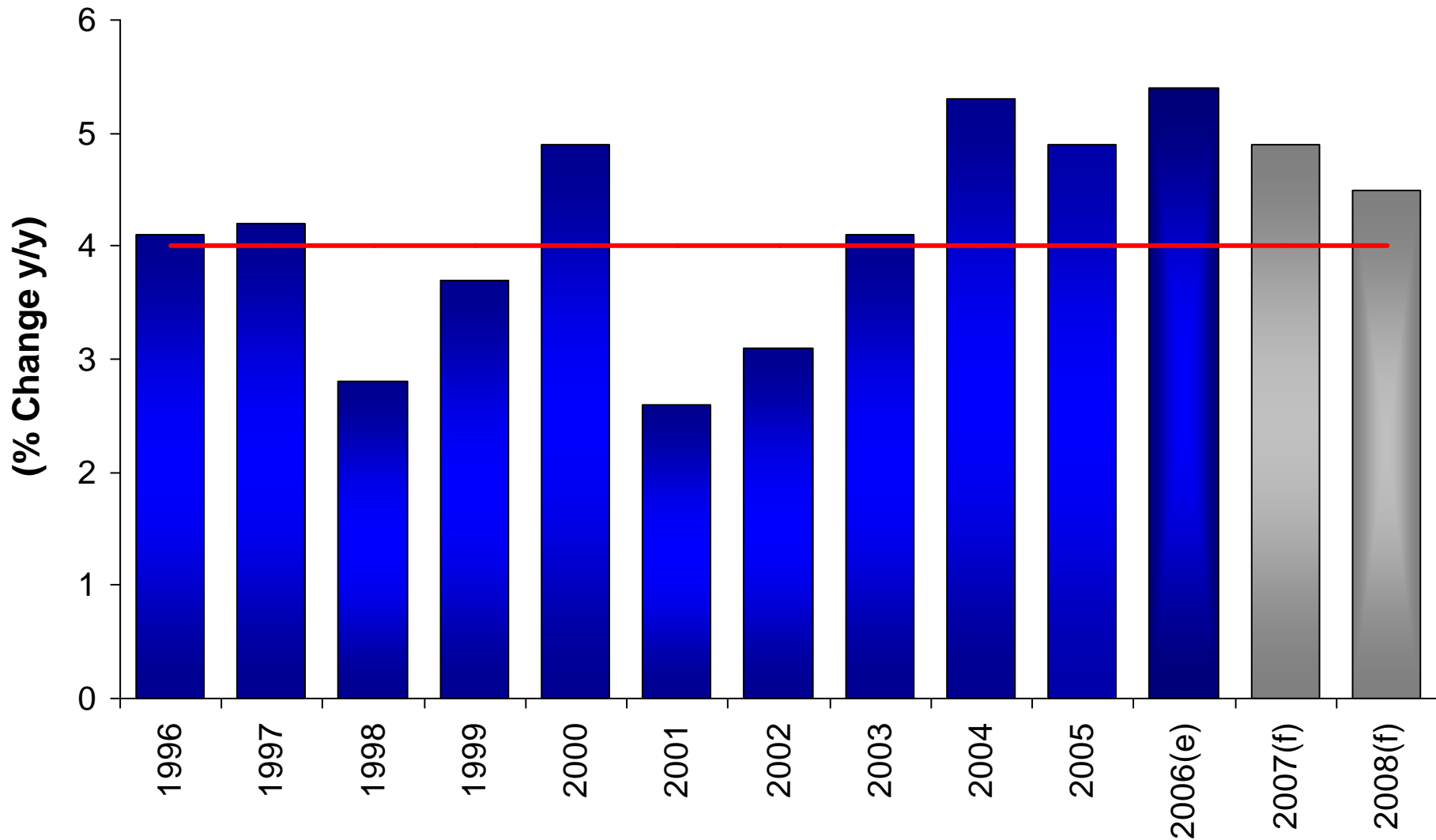


Source: Drewry

Can North America address the deficit?

- Immediate vs. long-term solutions
- LA-LB – capacity to expand, pollution concerns
- East Coast, Gulf ports: feasible shock absorbers?
 - Halifax as a possibility
- Congestion problems: here to stay
- Productivity solutions; hours of operation
- Possible new ventures
 - Non-populous ports as a trend
 - Mexico in the game
 - Canada first past the post with Prince Rupert

Global economy: weakest in 5 years



Source: WEO, EDC Economics.

Global growth: Key features

- Still above overall potential
- Emerging markets well ahead of developed world
- Monetary policy is on hold
- Lower commodity prices
- Economic risks are on the downside
 - US recession
 - Global links are stronger than expected
 - More severe lagged effect of tighter monetary policy
 - Further significant financial market turbulence

The bottom line?

- Port capacity crunch is on the way
- Without the slowdown, 2008 would be the year
- Speed of recovery will determine timing
- Globalisation ensures that trade activity will continue to outgrow GDP in the medium term
- Necessary for infrastructure to be in place before getting into a capacity crunch
 - Decision process takes time
 - Investment cycle is protracted

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