

U.S. seaports help deliver vital goods to consumers, ship exports overseas, and support millions of jobs. Seaports are a crucial economic engine for the U.S., and the volume of goods that pass through each port has a direct correlation to industrial real estate demand. During the COVID-19 pandemic, however, the major seaports across the country posted significant declines in both transaction and container volume. For instance, in the first quarter of 2020, the Ports of Los Angeles and Long Beach, one of the top port systems of the world, reported that cargo volumes decreased 18.5% compared to 2019 -- the lowest amount of cargo movement since February 2009. <sup>1</sup>

As the economies of the world are set to reopen in various stages, U.S. seaports and cargo vessel operators are gearing up to face the challenge of operating in a new geopolitical, public health, and logistical environment. Accordingly, this report will highlight the various kinds of operational challenges that vessel operators and ports are facing and how they are reacting to them.

## LATEST MONTHLY CONTAINER COUNTS

The table below shows container counts (TEUs) for the latest recorded month.

APRIL	2020	2019	CHANGE	% CHANGE
Loaded Imports	370,111.00	360,744.65	9,366.35	2.60%
Loaded Exports	130,321.25	155,532.75	(25,211.50)	-16.21%
Total Loaded	500,432.25	516,277.40	(15,845.15)	-3.07%
Total Empty	188,566.75	220,188.55	(31,621.80)	-14.36%
Total	688,999.00	736,465.95	(47,466.95)	-6.45%
Calendar Year 2020	2,488,748.35	2,945,199.15	(456,450.80)	-15.50%
Fiscal Year 2019/20	7,287,742.20	8,094,812.35	(807,070.15)	-9.97%

Source: <https://www.portoflosangeles.org/business/statistics/container-statistics>

## 1. THE COVID-19 PANDEMIC HAS EXACERBATED THE ALREADY STRAINED TRADING RELATIONSHIP BETWEEN GEOPOLITICAL RIVALS; HOWEVER, IT HASN'T CAUSED A RETREAT FROM GLOBALIZATION. THE FUNDAMENTAL ECONOMIC INCENTIVES WHICH DROVE NATIONSTOWARD GREATER INTERDEPENDENCE HAVE NOT CHANGED.

Even before the pandemic, the U.S. and China were already in a trade war. However, the coronavirus pandemic exposed the fragile nature of the trading system, with supply chains rattled by factory shutdowns, expensive ships sitting idle, and cargo terminals closed for the lack of trade. This realization led to growing calls by world leaders to rein in global supply lines and bring more manufacturing back to domestic markets. For example, Japan earmarked \$2.2 billion of its record economic stimulus package to help its manufacturers shift production out of China due to the coronavirus supply chain disruptions experienced between the two trading partners.<sup>2</sup> While similar repatriation policies were already proposed in the U.S. before the pandemic<sup>3</sup>, calls for implementing them have become more intense since the spread of COVID-19. However, the operators of massive cargo container vessels such as Maersk Marine<sup>4</sup> are not anticipating a retreat from globalization anytime soon. This is extremely important because these operators, which the ports of the world service, are the backbone of the global trading economy. Instead of departing from China entirely, operators such as Maersk, Hapag-Lloyd, and MSC are anticipating that companies and countries will adopt a "China + 1" strategy as a way to diversify and mitigate supply-chain risks while tapping into China's market opportunities.

Operators anticipate companies adopting this strategy because China's labor costs are about one-fourth of that of the U.S., and setting up factories in the West to replace Chinese goods or make up for temporary production lapses would be an enormous task. For example, to duplicate China's maritime infrastructure alone is well-nigh impossible. Of the 10 largest ports in the world, 7 of them are in China.<sup>5</sup> And the amount of cargo volume they handle is immense. The Port of Shanghai, for instance, handles nearly three times as many containers every year as the top U.S. counterpart, viz., the port system of Los Angeles and Long Beach.

Under pre-COVID-19 conditions, shipping operators handled the immense volumes of cargo from China by using a special kind of large container vessel. Typically, these ships are about three-football-fields-long and can each move 23,000 containers. Compared to the cost of using the previous generation of big container ships, shipping operators had cut costs by about 33% by sharing these vessels with rival operators to move cargo and make port calls. This strategy only worked, though, if the ships were full. However, due to decreasing demand caused by COVID-19 lockdowns, many of these ships are now sailing half empty or are mothballed into storage. Still, operators aren't planning on replacing these large ships with smaller vessels. Currently, most vessel operators are anticipating a gradual economic turnaround. Unfortunately, this is causing delivery delays because cargo container operators are waiting longer at ports to fill up their big ships and are making fewer port calls.

The top 10 container lines are looking at steep losses in the third quarter as the effects of the March-June lockdowns will be felt then. While many in the shipping industry do not expect a V-shaped recovery, they are expecting a "good slow and steady recovery [starting] in the fourth quarter."<sup>6</sup>

## **2. PORTS ARE TAKING EXTRAORDINARY PUBLIC-HEALTH AND LOGISTICAL MEASURES TO ENSURE OPERATIONAL SUCCESS IN A PANDEMIC ENVIRONMENT.**

Ports are an essential and unique working environment, merely wearing masks and keeping a distance of six feet is insufficient. Various port operators such as The Northwest Seaport Alliance of Seattle and Tacoma<sup>7</sup> don't require workers to wear masks at all given the kind of constraints dock workers face. Accordingly, in terms of health measures, daily enhanced cleaning protocols have been implemented to prevent the spread of Coronavirus at Port maritime and marine maintenance facilities including providing hand sanitizer and Clorox wipes for self-cleaning of desks, shops, Port vehicles, and disinfecting high-touch surfaces and floors throughout facilities, including kitchens, handrails, doorknobs, offices, conference rooms, and restrooms.

In terms of logistics, ports have to deal with the reality that, until the economy has fully reopened, many retailers and manufacturers will fail to pick up their cargo and containers because their warehouses are full or closed. Moreover, until ports have their entire workforce back, cargo congestion and disruption of the supply chain will continue. The cargo lying uncollected at ports creates a bottleneck and takes up space, reducing capacity for incoming cargo and containers. Some ports have taken the precaution to declare 'force majeure' to pre-empt claims of legal liability.<sup>8</sup> At the same time, ports have often provided rent relief for qualifying business tenants and customers throughout its maritime and landside properties, which include office, retail, and restaurants, along with recreational and commercial moorage.

Third-party data sources:

<sup>1</sup> NBC News/Port of L.A. Statistics: <https://bit.ly/2xY0tOk>

<sup>2</sup> Bloomberg: <https://bloom.bg/2Lj6qbt>

<sup>3</sup> Institute of Taxation and Economic Policy: <https://bit.ly/2zvmjct>

<sup>4</sup> Insight: List of top container shipping companies <https://bit.ly/2LkNgC7>

<sup>5</sup> WSJ: <https://on.wsj.com/2xToiGT>

<sup>6</sup> Hapag-Lloyd as reported by WSJ and BIMCO's Peter Sand: <https://on.wsj.com/2X28eLN> & <https://tinyurl.com/y8zef4jz>

<sup>7</sup> John Wolfe, CEO of TNSA, in Maritime Podcast at 18min mark: <https://bit.ly/2YUN3xF>

<sup>8</sup> The Maritime Executive: <https://bit.ly/2Lo7R8B>

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