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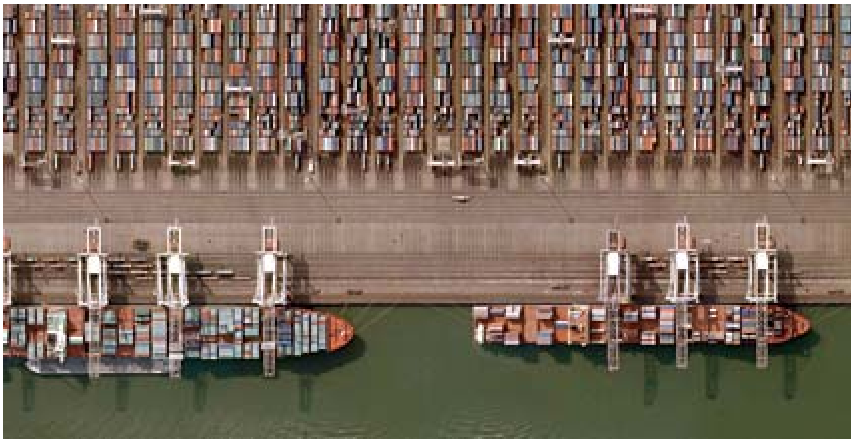
Demand Calls, Mexico Responds

As congestion and capacity concerns threaten cargo movement through the West Coast, Mexican ports present an alternative distribution point for U.S. supply chains.



By Robert Sberna

For decades, Mexico's coastal ports primarily served as a destination for cruise ships. But in recent years, the country's Pacific and Gulf Coast ports have become known more for their inflow of cargo than tourists.

While U.S. West Coast ports continue to battle terminal, freeway, and rail congestion, Mexico's ports have become increasingly attractive to global shippers -- especially for cargo originating in China and other Asian countries.

Retail leaders, including Wal-Mart, Home Depot, and Target, now regularly look to Mexico as a conduit to expedite delivery of their Asia-sourced goods.

The Los Angeles-Long Beach port facilities continue to handle the bulk of imports from the Far East, but Mexican ports such as Lazaro Cardenas, Manzanillo, Veracruz, and Altamira are recording rapid growth.

Volume at Mexico's busiest port, Manzanillo, for example, surged 43 percent between 2005 and 2006. Last year, the Pacific Coast port handled 1 million TEUs. In comparison, volume at Long Beach and Los

Angeles reached a combined total of 14 million TEUs.

"We receive a large volume of cargo from Asia that is used domestically in Mexico," says Mario Cuen, the Port of Manzanillo's marketing manager. "In the past, this cargo was shipped to California ports, then forwarded by rail or truck to Mexico. But as the Port of Manzanillo becomes more competitive and efficient, shippers increasingly choose to ship cargo directly here."

Until Mexico privatized its ports in the mid-1990s, they lacked the infrastructure and capacity to handle significant cargo volumes. With privatization came capital improvements that enabled port operators to leverage their lower overall costs and faster cargo-handling time to aggressively compete against U.S. facilities.

California Complement
Ask U.S. port officials and shippers about the importance of Mexican ports in the global supply chain, and they typically say they serve a complementary role to California ports, which handle more than 40 percent of all cargo shipped into the United States, and about 80 percent of imports from Asia.

But surging international ocean trade is exceeding the carrying capacity of California ports, positioning Mexico as a viable alternative entry point.

The stakes are high for port operators. More than $200 billion is spent transporting container cargo through the ports of Los Angeles and Long Beach annually, and traffic volume is expected to double in the next decade.

With an eye toward capturing a share of the L.A.-Long Beach shipping volume, Cuen and other Mexican port officials have launched marketing campaigns touting the benefits of importing goods through Mexico.

Along with significantly less congestion than California ports, Mexican ports offer a labor cost advantage. "Mexico's port workers are unionized, but wages are less than one-fourth what they are at the ports of Los Angeles and Long Beach," Cuen says.

Mexico also logs an advantage with its record of labor stability. In October 2002, the West Coast dockworkers' strike crippled 29 U.S. ports, leaving hundreds of ships stranded offshore waiting to offload cargo. "Mexico has gone 85 years without a strike at its ports," Cuen notes.

The marketing efforts of Mexican ports are paying dividends. A growing number of U.S. importers now make Mexican ports a linchpin in their logistics planning. Using Mexican ports can reduce shipping expenses, which improves product pricing and allows companies to transport goods out of the port faster to wholesale and retail customers and, ultimately, to consumers.

Speed to market, as all shippers know, is a primary consideration. "When comparing California ports to Mexican ports, the key differentiation is how quickly shippers can move goods," says Marcio Stewart, transportation and logistics practice director with InfoAmericas, a Florida-based research firm.

The difference in labor costs is only an advantage "if labor problems at U.S. ports are creating friction and contributing to congestion," Stewart says.

"When deciding whether to import to Mexico versus the United States, differential costs are not the major issue for shippers. The crucial factor is delays -- companies don't want their goods stuck at a West Coast port waiting to be unloaded."

Congestion at U.S. West Coast ports can be especially tough during peak shipping seasons. "Normally, it takes roughly 19 days to transport a shipment from Southeast Asia to Los Angeles or Mexico.

"But West Coast ports operate at roughly 130 percent of capacity, so the total shipment time is longer because the ship has to wait to unload," says Stewart.

"By comparison, when a ship arrives at a Mexican port, it is often unloaded within eight hours," he adds.

Costly Delays

Cargo handling delays at the Long Beach and Los Angeles ports cost shipping companies an estimated $300,000 each week in salaries and fuel. That said, it's no surprise Mexican ports have experienced 30-percent annual increases in U.S.-bound imports.

For certain sectors, such as automobile imports from Japan, trade volume has grown exponentially. At the Port of Lazaro Cardenas, on Mexico's Pacific Coast, vehicle imports rose 250 percent between 2004 and 2005.

"Toyota, Mazda, Isuzu, and other Japanese automakers are shipping vehicles in containers to Lazaro Cardenas to avoid port congestion," Stewart explains. "They then ship the containers via train or truck to the United States or to other cities in Mexico."

Export trade volume at Mexican ports is also growing. Rising cargo volume reflects China's tremendous appetite for energy resources and raw materials, much of it coming from Latin America. China is consuming commodities such as Chilean copper, Brazilian iron ore, and Argentine soybeans at ever-increasing rates, with Mexican ports serving as primary distribution points.

"China's main trade objective is to transport raw materials out of South America as quickly as possible, and to ship value-added or finished products into North America as quickly as possible," Stewart explains.

Asian suppliers aren't the only ones increasing their reliance on Mexican ports. North American transportation groups have also recognized Mexico's growing importance in the continental supply chain.

Mexico's Pacific Coast ports, for example, are key points along North America's SuperCorridor trade route, which traverses 2,500 miles through Canada, the central United States, and deep into Mexico.

"Based on projections for increased trade volume from Asia, it's clear that California's ports are running out of capacity, so we must proactively find viable alternatives," says Tiffany Melvin, executive director of Dallas-based North America's SuperCorridor Coalition

(NASCO), a tri-national, nonprofit organization founded in 1994 to maximize efficient and secure freight movement along existing highway and rail infrastructures.

Melvin sees Mexico's deepwater ports playing a large role in the multi-modal SuperCorridor.

The ports of Lazaro Cardenas and Manzanillo can provide a strategic link to key Asian markets, enabling importers to bypass L.A.-Long Beach chokepoints, and speed trade flow throughout Mexico, the United States, and Canada, Melvin adds.

Though Mexico's ports are key components of the NASCO transportation corridor, they are not a competitive threat to stateside ports, according to Melvin.

"California's ports dominate import trade now and will continue to do so," she says, explaining that NASCO has no control over the flow of trade from Asia to the United States or Mexico.

"Our goal is to prepare our corridor to handle increased trade and transportation whether it moves to or from the east, west, north, or south.

"Ultimately, we're trying to create job opportunities and enhance the quality of life for workers, residents, and consumers along the corridor," she adds.

The Inland Port Connection

In addition to increased trade with China, several factors are driving increased volume at Mexico's ports. Among them are recent changes to Mexican import laws that allow sealed containers to enter the country without undergoing customs inspection until they reach their ultimate destination, which is often in the United States.

In a typical scenario, cargo is inspected at its overseas shipping point, sealed in containers, and transported to Mexico. The cargo is then moved to a U.S. inland port such as Kansas City SmartPort, where it is inspected, sorted, and distributed.

"Under new Mexican laws, cargo can move straight from Asia to U.S. destinations without going through the inspection process, which saves time and money," says Juan Carlos Villa, a researcher with the Texas Transportation Institute, an affiliate of Texas A&M University.

Because of their capacity to quickly clear cargo, inland ports are becoming a vital link in the North American supply chain. In 2005, Kansas City officials signed cooperative agreements with their counterparts at the ports of Manzanillo and Lazaro Cardenas, and the Mexican state of Michoacan, aimed at facilitating the flow of goods to and from Mexico through SmartPort.

The agreement works as follows: freighters carrying goods from Asia will unload at Lazaro Cardenas, bypassing any congestion at West Coast ports. The shipments -- which are pre-screened at the point of origin -- pass through multiple X-ray screenings upon their arrival in Mexico so any containers with suspicious contents or incongruous documentation can be removed for closer inspection.

Cargo containers are then transported via rail to Monterrey, Mexico, where they are transferred to trailer trucks for their northbound journey. To speed the border crossing at Laredo, Texas, and other checkpoints, eligible trucks receive expedited entry via the Free and Secure Trade program, which uses windshield sticker tags and driver identification cards to expedite pre-approved shipments across the border.

Delays No Longer Routine

Processing freight in Kansas City, rather than at choked border crossings such as Laredo, can eliminate hours and perhaps even days of routine shipping delays. Once the cargo containers reach Kansas City, they can be transferred to semi-trailers or rail cars heading east or west, or remain on trucks into Canada.

Going forward, it seems inevitable that Los Angeles, Long Beach, Seattle, Oakland, and other U.S. West Coast ports will lose market share to Mexico's ports. Without room for expansion, the bottlenecked West Coast ports lack the capacity to absorb the increase in Asian imports -- despite extending working hours and hiring thousands of additional dockworkers.

Retailers, automakers, and apparel companies in particular are looking to Mexican ports for long-term efficiencies. To keep pace with projected volume increases, Lazaro Cardenas, Veracruz, and several other Mexican ports have initiated large-scale expansions and upgrade projects.

Growth at the ports, however, may outpace the limited capacity of Mexico's rail and highway networks.

"Shippers may find it easier to import goods to Mexico, but once the goods are at the port, they have to deal with Mexican train lines, which aren't as developed as the U.S. rail system," explains Stewart. Mexico's transportation infrastructure will need upgrading if its ports are to handle a significant increase in shipping volumes, agrees Texas Transportation Institute's Villa.

While rail freight carriers -- including FerroMex and Kansas City Southern de Mexico -- serving Mexico's ports have made improvements over the past few years, they need additional revamping to handle more cargo.

"Mexico's new administration has made investing in the country's infrastructure a top priority," Villa says. "This administration is competitive; it wants to make Mexican industry more prominent in the world market."

As a result, shippers can expect improvements to Mexico's roads, ports, and rail lines, he adds.

Mexican government and global shipping officials are eyeing Punta Colonet, roughly 150 miles south of the U.S.-Mexico border, as a proposed site to develop a 27,000-acre deep-sea port. Located on Baja's desolate Pacific Coast, the plan would transform Punta Colonet into a major container port on the scale of Long Beach or Los Angeles.

The multi-billion-dollar development, if approved, would be financed by a public-private consortium, and create one of the largest maritime transportation centers on North America's West Coast.

Punta Colonet would initially process close to one million containers annually, with capacity to handle as many as five million after five years of operation, officials say. The port would serve only containerized cargo ships, off-loading containers to railcars that would transport goods on a corridor integrated with existing lines at the U.S./Mexico border.

Big box retailers such as Wal-Mart and Costco support the project, as do leading ocean carriers including Maersk Line and Nippon Yusen KK that are frustrated with growing backlogs at U.S. West Coast ports. At present, the development partnership is navigating legal and environmental issues; construction could take at least five years.

A Backup Plan

While time and cost advantages are prime factors in the rising use of Mexican ports, logistics professionals maintain other practical reasons for shipping cargo through Mexico.

"For companies that plan to finish goods in Mexico, it makes sense to import components directly to a Mexican port, rather than bringing them in through California ports and transporting them via rail or road to Mexico," says Chuck Odom, vice president of sales and global development for Averitt Express, a freight transportation and supply chain management provider headquartered in Tennessee.

"Apparel or auto component manufacturers that distribute portions of their product in Mexico -- perhaps to a store in Monterrey or a Guadalajara factory -- are smart to avoid congestion at Long Beach and ship directly to Mexico," Odom says.

In general, he views Mexico's ports as an essential backup to California ports.

"If 100 percent of the goods a company imports go eventually to the United States, the company won't achieve greater speed to market using Mexican ports instead of Long Beach," he notes. "But companies in today's global supply chain need to consider Mexico as a secondary port to protect business continuity.

"Shippers need a backup plan in case of a dock strike, terrorist incident, political conflict, or natural disaster," he adds. "To protect their brand name, margins, and stock price, they must -- at least as an emergency response -- include Mexican ports in their contingency plans."