Jock O’Connell’s Commentary: Smaller Ports in an Age of Tariffs

PMSA West Coast Trade Report

We have heard an awful lot about how the nation’s principal maritime gateways have been affected by higher tariffs in the months since President Trump decided to wage trade wars with…well, just about everyone.

This newsletter has already pointed out that nearly half of the maritime trade that passes through the Ports of Long Beach and Los Angeles involves China, Trump’s main global trade foe (if we exclude Canadian Prime Minister Justin Trudeau).

Nationally, nearly every port director and harbor commissioner has challenged the use of tariffs. Officials at the American Association of Port Authorities recently observed that “The impact of expanding Section 301 tariffs on cargo and equipment moving through American ports is already proving to be significant.”

Less well reported is the impact the tariffs are having on U.S. smaller ports, especially those who traffic primarily in bulk shipments of commodities such as grains and soybeans. Soybeans, famously, were targeted by Chinese authorities after the White House imposed tariffs on steel and aluminum imports. In July, China started to impose a 25% tariff on the U.S. crop, a bit more than 40% of which makes its way to China via U.S. West Coast ports.

But let’s start with rail and steel.

The Port of Stockton in the San Joaquin Delta in northern California has reported job and revenue losses as the result of a slowdown in shipments of 150-meter segments of rail that the Union Pacific Railroad imports from Japan. Manufactured by the Sumitomo Corporation, the rail segments are shipped to Stockton aboard a specially designed vessel, the Pacific Spike. The segments are then welded at the Port of Stockton into 450-meter segments that UP uses in upgrading trackage along its 32,000-mile network in 23 states.

Stockton had been receiving shipments roughly every other month since December 2014. Last year, the trade amounted to 110,457 metric tons or $89.4 million, according to federal trade statistics. So far this year, the trade has been off by around 30 percent due to tariffs the White House imposed on imported steel and aluminum.

Fortunately, UP was eventually able to obtain a tariff exemption to continue rail shipments. Still, according to Port Director Richard Aschieris, Stockton's "steel tonnages are down about 25% with a loss of about 150 longshore jobs" in one of the state's more economically challenged regions.

Stockton’s liquid fertilizer imports from China have also fallen sharply, although that decline began prior to Trump’s election. In 2015, that trade amounted to 241,429 metric tons. The following year, it declined to 197,995 metric tons before tumbling to 36,235 metric tons last year. So far this year, the trade is negligible, not good news for farms throughout the Central and San Joaquin valleys that use that tariff-afflicted fertilizer.

Stockton isn't alone. Because they are still the principal gateways for Asian imports entering the U.S., the nation's West Coast ports -- as well as the trucking lines, warehouses and distribution centers that constitute the maritime supply chain -- will absorb a disproportionate share of the tariffs' impact. But larger ports handling a more diverse array of goods are better able to withstand the blow of higher tariffs. That is not the case for smaller ports that are primarily in the business of handling bulk shipments from the grain and soybean farms of the Midwest.

Up in the Pacific Northwest, China's retaliatory tariff on U.S. soybeans will hit ports like Kalama, Longview, and Vancouver (Washington) hard during a shipping season that normally starts in August or September, peaks in October and November, and then tails off into early the next spring.

Comparing August 2018 (the latest month for which numbers are available) with the same month last shows that U.S. soybean exports to China had fallen by 94.5% by tonnage and 94.9% by value, according to data from the U.S. Census Bureau's Foreign Trade Division. That has helped drive soybean prices down sharply. That politically sensitive development prompted the White House to engineer a program to compensate soybean growers in the upper Midwest for their losses.

But that subsidy will not benefit anyone along the supply chain from the farm gate to the eventual market.

At the Port of Kalama, soybean exports to all destinations in 2017 totaled $1.62 billion. That amounted to 48.1% of the port's total export trade last year. Virtually all (98.7%) of those soybean exports went to China. So, the impact of a collapse of the soybean trade with China is likely to prove very disconcerting for those families whose livelihoods depend on the Port of Kalama.

While still substantial, the impact of the Chinese soybean tariff should be less acute at the nearby Port of Longview, where soybean exports accounted for 31.6% of all exports last year. Still, 99.8% of those soybeans were shipped to China.

At the Port of Vancouver (Washington), soybeans last year accounted for 27.7% of all exports, again with virtually all going to China.

This August, neither Vancouver nor Longview exported any soybeans. However, Kalama did ship 66,000 metric tons of soybeans to China that month -- just about the only U.S. port to do so.

Weather adverse for harvesting soybeans in some parts of the Upper Midwest may be delaying shipments, but it remains that these three small ports are now entering the period when U.S.

soybean exports to China have historically surged, with Pacific Northwest ports typically hitting their peaks in October and November. For example, at Kalama in 2017, soybean shipments to China rose from 267,698 metric tons in August to 1,116,299 metric tons in October. The prospects for that happening this year are singularly dim.

We can always hope that Chinese authorities will reduce or remove a tariff that limits their ability to feed the pigs that are so essential to the Chinese diet. Some pundits are confident that Beijing will soon have to give way on this tariff once supplies from Brazil and other soybean producing nations run out this fall. But China has threatened to permanently reduce its dependence on American soybeans by cutting the percentage of soymeal used in pig feed. The soy ration for hogs could be slashed from the normal 20% to 12% without affecting the health of the animals. A reduction of that magnitude would equate to a saving of 27 million metric tons of soybeans per year – an amount equal to over 80% of the volume of soybeans China imported from the United States last year.

In other words, the lost business could become permanent.