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THE IMPACT OF SURGING PETROCHEMICAL VOLUME ON INTERMODAL CAPACITY

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Thanks to the shale drilling boom of recent years, natural gas prices remain low, while the U.S. chemicals industry is benefiting from all time low feedstock prices. This has reversed the fortunes of manufacturing in the way few ever imagined, at a break neck pace. The U.S. has become globally competitive, seemingly overnight, shifting the plastics industry to export, where finished goods are then produced. Long term, U.S. manufacturing regains a competitive advantage by sourcing its own plastic locally and more cost effectively vs importing.

Chemical companies, labor providers, ports, local and state municipalities, and transportation companies all face massive challenges to ensure that an unprecedented rise in new plastics production can first be produced and then be transported and exported overseas in a cost effective and timely manner.

U.S. production is expected to soar in 2017-2018 with over 150 record plant expansions coming online, specifically along the U.S. Gulf Coast. Each expansion represents massive volumes which must be moved to market.

THE FACTS





THE CHALLENGE How do we move this production to market?

Each petrochemical exporter is essentially on its own to develop a strategy. Deciding on which ocean carrier service to use, committing volumes to trucking providers and ensuring there will be enough chassis, drivers, and equipment available is only the start.

FACTORS AT PLAY

U.S. container volume for trade with Northeast Asia alone is slated to more than triple by 2040, a two-year-old Department of Transportation study shows, exacerbating competition for ship cargo space. The larger vessels expected post Panama Canal expansion should however help to offer lower bulk ocean rates and more direct service from Houston to Asia as steamship lines adapt to the new demand.

The driver shortage remains a key component and largely unsolved, which will surely put upward pressure on container drayage rates across ALL industry sectors.

The chassis environment continues to change as steamship lines got out of the business of providing wheels a few years ago. The result has been a chaotic and ineffective model, which puts much on the burden on the transportation provider. Unnecessary costs have been passed along to shippers, but the real issue is efficiency loss in the face of volume increases noted above. Some ports have adopted grey pools and others will follow, but equipment shortages whether using owned or leased equipment must be considered.



WHAT'S NEXT?

So, what can chemical companies, along with other high volume importers/exporters do to ensure they are prepared? After all, disruption in the flow of material to market is not an option.

It is not too early to start planning now. In fact, many of our customers have starting having these discussions with their providers and stakeholders. 18 months is a relatively short period of time, considering the volumes at stake.

From the logistics standpoint, these conversations should revolve around a multi-faceted solution where both the shipper and carrier recognized the mutually beneficial partnership.

Driver turnover, retention, safety records, historical fleet growth, and an in depth discussion on company culture are all important factors to understand how your provider will be able to support your business for years to come. Now is the time to start discussing the need to minimize exposure to the tsunami of freight that is coming.

Finally, the drayman's ability to secure safe and reliable chassis in a flexible and cost effective manner will be a key factor. Systems visibility and container/chassis management tools will be paramount to more effectively move cargo and communicate any delays, equipment shortages, backlogs and costs.

These are all important items to consider as we steward these precious resources we have been blessed with as an industry. The next 3 years will certainly be an exciting time as we have the opportunity to take advantage of dynamic market conditions.

The question remains, how will we respond?

