Auto logistics driving port activity

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Halifax and Vancouver are epicenters of import vehicle logistics activity and rely on a highly effective short-line, and transcontinental rail network to serve the Canadian market. Car carriers, marine terminal operators, railways and auto transloading facilities are adapting to changing production and distribution patterns. While the automobile market in North America has ticked upward since the depths of the 2008 recession, Vancouver witnessed a decline in light vehicle traffic levels. In comparison, Halifax has experienced robust growth. This article will explore the winds of change that are buffeting the finished vehicle logistics industry that drives port activity.

Shipper and car carrier relationships

Market gyrations, changes in freight rates and service levels can strain shipper-carrier relationships. On July 19, 2016, the shipping world was rocked when the United States Department of Justice announced that Wallenius Wilhelmsen Logistics (WWL) had become the fourth car carrier confirmed to have been involved in price-fixing on international transport services between 2000 and 2009.

WWL pleaded guilty and agreed to pay a penalty of $98.9m for its involvement and that of its sister company, Eukor Car Carriers, in the conspiracy to fix prices on car carrier routes from the port of Baltimore, the largest port vehicle logistics complex in North America.

The probe of some of the large car carriers started in 2012. Three big Japanese lines (NYK, MOL, and K-Line) were visited by authorities from the Japanese Fair Trade Commission. Competition authorities in Japan, the U.S., Canada and Europe, soon launched a co-ordinated antitrust investigation against car carrier companies.

By the summer of 2013, two class-action civil claims had been filed in British Columbia and Ontario against NYK, Mitsui O.S.K., K-Line, Wallenius Wilhelmsen, Toyofuji Shipping, Nissan Motor Car Carrier, World Logistics Services and Compania Sud Americana De Vapores.

While the class actions suites in Canada have not been settled, other car carrier service providers have been fined in the United States. NYK Line paid out $59.4m in January 2015; K-Line agreed in September 2014 to plead guilty and pay $67.7m, and Chile’s CSAV accepted a fine of $8.9m in February 2014. Also, Mitsui OSK Lines (MOL) is reported to have paid a fine in August 2015.

Pure car carriers (PCCs) and pure car/truck carriers (PCTCs) transport most new cars. Ever since the early 1960s, the number of shipping lines has been concentrated in a relatively small number of Asian and European shipping lines. Examining the flow of vehicles through the ports of Halifax and Vancouver provides a lens into which comparisons and contrasts can be made of the different commercial practices that may have contributed to anti-competitive behaviour.

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Researcher Peter Hall and Daniel Olivier in their 2005 Maritime Policy Management article, ‘Inter-firm relationships and shipping services: the case of car carriers and automobile exporters to the United States,” revealed that four commercial options are available for the carriage of automobiles by ship: (1) market-based ‘tramp’ services chartered for a particular shipment; (2) quasi-market ‘liner’ services where the shipping line provides a regularly scheduled service; (3) network-based consignment guarantee arrangements, where the automobile importer and shipping line are involved in some longer-term agreement; and (4) ‘hierarchies’ or vertically integrated ‘house lines’ where the vehicle importer operates its own shipping line.

Liner consignment guarantee arrangements and house lines are commonly found in the industry. As a result, the carrier makes a vessel available on a regular and exclusive basis for a particular automobile manufacturer. Consignment guarantee arrangements (CGA) are especially common on the trans-Pacific routes.
European importers that use ports such as Halifax have tended to use more transient market-based type shipping methods or quasi-market liner service. Vehicles are carried by lines that have historically not shared the same close relationship with automobile manufacturers as the Asian lines.

Peter V. Hall, professor at Simon Fraser University, observed that the macro-trends set the global context carrier collusion. He stated that “it is not surprising given what we know about the trade. A small number of shippers with historically close, but weakening, ties to a limited number of carriers; stressful market conditions post 2008; and hence there were intense pressures for further vertical and horizontal consolidations among carriers (with WWL being a leader in this regard).”

Marine auto terminals trends

Two trends within the automobile import trade are driving port activity levels. The emergence of a small number of niche ports that specialize in handling vehicles and perhaps a few other commodities. Another trend is whereby manufacturers have tended to concentrate the bulk of their operation in fewer ports, although some ports, such as Halifax and to some extent Vancouver, have found it possible to accommodate several manufacturers.

While all car importers require access to at least some terminal space, there are several variations in logistics functions and in the policy response of port authorities to the demand for terminal space.

Halifax

Autoport, located on the eastern shore of Halifax Harbour in Eastern Passage, has been in business since 1971. Its business model was initially predicated on the westbound shipment of European imports, including Volkswagen Beetles, British Leyland (Austin Mini, MG, Triumph), Renault, Saab, and Fiat, amongst others, which were being imported into Canada; they were balanced eastbound with domestic autos for the local Atlantic Region marketplace. Today, Autoport handles most European autos imported into Canada, as well as some North American and Japanese vehicles destined for the Newfoundland and Labrador markets.

At a minimum, an automobile importer requires on-terminal ‘surge space’ during discharge operations and space to handle inspections and customs clearance. However, depending on how the outward distribution of imports is organized, the importer may also require space on or near the terminal for additional processing operations, such as fitting accessories, modifying vehicles for the local market, storage, minor repairs, quality inspection and so on.

An automobile importer may conduct these activities in-house or contract with a third party to provide these services. For example, Honda typically performs only the minimum processing at the port of entry. In contrast, Toyota’s port-processing facilities remain primary nodes within the entire distribution system of the firm.

Autoport is a subsidiary of Canadian National Railway that provides warehousing, distribution and vehicle preparation services across 19 locations in North America. The Eastern Passage Autoport occupies a 100-acre site (with a 262-metre dock) that accommodates the largest auto carriers afloat and can store about 13,500 vehicles. The terminal’s rail siding was expanded in 2013 and can accommodate 47 rail cars. Annual volume is about 225,000 units, including vehicles.

Autoport employs about 287 people including skilled technicians, vehicle handlers, rail loaders and off-loaders, supervisory and administrative staff. A 5,574-square-metre service building is used to perform value-added and inspection services.

Vehicle imports move to markets, including Vancouver, inland by CN Rail and to the Maritimes (Nova Scotia, PEI, New Brunswick) by truck. Oceanex’s weekly short sea service from Halifax delivers vehicles to St. John’s, while some other units move via Marine Atlantic’s ferries between North Sydney and Port aux-Basques. Some autos are also shipped via Oceanex’s Montreal-St. John’s service, on the new Oceanex Connaigra.

The issue of rail velocity of auto imports can be a problem from time to time given North American winters. Yet, Mark Hallman, CN Director, Communications and Public Affairs, stated, “CN Autoport’s efficient operations and value-added services at Eastern Passage in Dartmouth have become very attractive to importers of vehicles destined for markets in Canada, as well as shippers of North American produced vehicles to Canadian Atlantic markets. This success is directly attributable to CN’s drive to increase supply chain collaboration across all of its business segments.”

Vancouver

Vancouver receives nearly 100 per cent of all Asian-manufactured imports destined for the Canadian market. Katherine Bamford, Director, Trade Development for the Vancouver Fraser Port Authority stated, “Many of the world’s top vehicle manufacturers have shipped through auto terminals at the Port of Vancouver for years, reflecting Vancouver’s supply chain reliability. We continue to invest...
with industry and funding partners in Gateway infrastructure to sustainably support the movement of goods across our many business sectors. This unique collaborative model ensures economic prosperity through trade, while also considering communities and the environment."

The Port of Vancouver is adjusting to the winds of change in the vehicle logistics sector. The country composition of auto imports in Vancouver has evolved over the years — most notably, the decline in vehicle imports from Japan. This is in part due to rising car manufacturing in Canada. In addition, with the decline in fuel prices, the popularity of larger vehicles and SUVs (many of which are built in the U.S. or Mexico) has led to fewer imports at Vancouver as those vehicles move mostly by rail.

On the marine side, Vancouver Gateway partners include Fraser River Pilots and agents involved in the auto trade such as ACGI Shipping, Compass Marine Services, Interocean Steamship Corp., Montship, Norton Lilly International, NYK Line (Canada), NYK Line (North America) and Wilhelmsen Ship Services.

The Wallenius Wilhelmsen Logistics Annacis Island marine terminal receives, accessorizes and distributes new vehicles from manufacturers such as (General Motors Daewoo, Honda, Hyundai, Kia, Mazda, Mitsubishi, Nissan, Subaru, Suzuki and Toyota). The firm employs approximately 200 union and exempt staff.

Logistics infrastructure at the WWL 100-acre fenced facility includes two ship berths, eight railway tracks with 83 rail car spots. The facility receives between 135 and 160 ship visits per year with an average discharge of approximately 2,575 vehicles with each vessel call. Thus, a critical logistics issue is ensuring that there is sufficient ground space available when both berths are unloading vehicles.

The complex receives rail service seven days a week and vehicles are loaded into either bi-level (10 vehicles) or tri-level rail cars (15 vehicles). The capacity of the rail logistics system is about 6,000 vehicles a week which are approximately equal to the weekly import demand generated by the WWL facility. However, some vehicles might not be available for inland transport because they are not released by the manufacturer.

Gerald Linden, Director, Business Development for the Southern Railway of British Columbia (SRY) noted that vehicles are a significant portion of SRY’s carloads business. In the last few years, SRY has seen an upward trend in the volume of vehicles. The amount of traffic is linked to local population growth and GDP: an average growth rate of about 2.5 per cent. In the last 10 years, European automotive traffic has been increasing for SRY in Vancouver.

Hansen Releasing handles inbound automotive traffic both from North American car manufacturers, vehicles from Mexico and Europe. The European cars arrive initially in Halifax’s Autoport and then are shipped via CN to Vancouver for the local market. European manufacturers include VW, BMW, Mercedes, Land Rover, Audi, Austin Martin.

SRY has a fluid rail corridor — however, there are peaks in traffic in the spring of each year that can cause some congestion. SRY connects to Class 1 railway at New Westminster. CN and CP rail for outbound eastern Canada traffic. Inbound vehicle traffic is received from CN, CP, and BN.

Linden observed that Vancouver has an approximately 60/40 split in rail car demand, so there is less need for CN to move empty automotive rail cars into the market than Halifax. The market for vehicles in Vancouver creates a natural flow of rail cars that helps balance the traffic flow and the supporting equipment used by the marine import of vehicles from Asia.

**Conclusion**

The maritime vehicle logistics sector is characterized by a number of symbiotic relations. On an international level, the relationship between carriers and the automobile manufacturers have been strained as a result of the anti-competitive behavior exhibited by individual carriers that led to massive fines.

Within Canada, the synergetic relationship displayed at the ports of Halifax and Vancouver are the result of a logistic partnership that includes the Class 1 railways and local short line railway that deliver the vehicles to customers. It remains to be seen whether future trade deals will result in future vehicle export opportunities for Halifax and the Port of Vancouver, but it is evident that healthy commercial relationships and partnerships at the local level help drive automotive port activity.

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