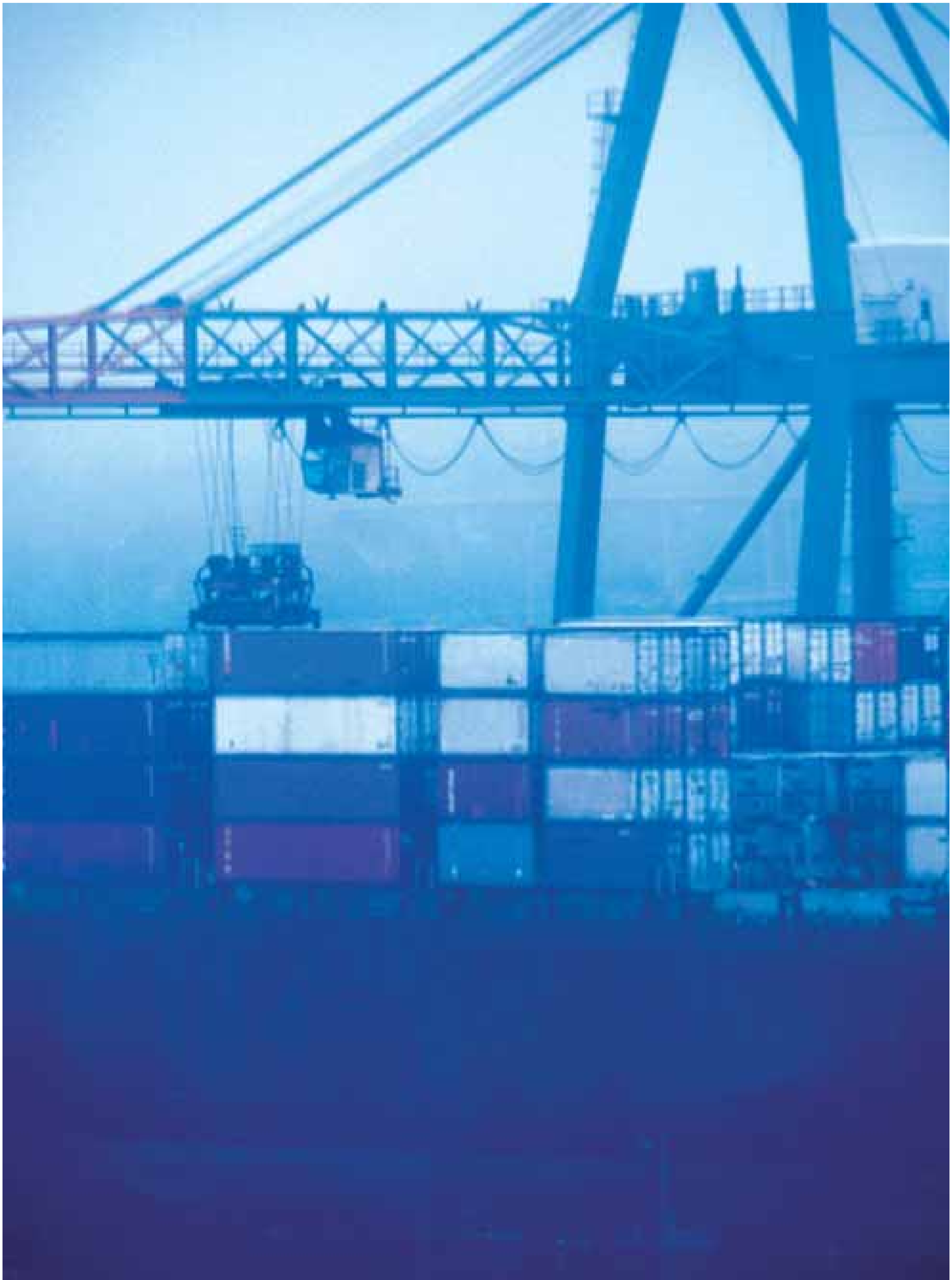


CONTAINER CRUNCH

BY JACK KOHANE

If Tony Anzivino could find a faster way to move his munchies to market, he'd probably say nuts to container transportation. "We're experiencing significant delays in bringing raw materials into Canada and that's starting to impact on our operations," says the supply chain director for Trophy Foods Inc., which sells over $100 million a year in processed nuts, dried fruit, chocolate, snacks and baking supplies. Some 60 per cent of the company's business is for private labels, including A&P, Zellers, London Drugs and Wal-Mart.

Current transportation bottlenecks are triggering more frequent production line downtimes at his three plants in Mississauga, Calgary and Montreal. Anzivino emphasizes that "three- to six-week backlogs in off-loading containers at ocean ports, particularly on the West Coast, are causing logistical headaches for food processors." And because he foresees the situation worsening over the coming years, he's now re-assessing his supply chain network.

A proactive approach to supply chain management is a good idea, especially for food processors dealing in perishable commodities and short shelf-life products, according to Al Leger, an industry consultant in outsourcing and logistics with the Supply Chain Alliance, based in Unionville, Ont. "In Canada there are also issues in terms of numbers of readily available containers," he says. "It's a matter of supply and demand – if supplies are restricted, the price for containers goes up, and it doesn't look like the supply will increase any time soon."

Leger sees similar problems emerging in other container haulage modes. "As for railroads, there's not a lot of new track being built, nor are new locomotives being purchased to handle increasing volumes of goods transported into, out of and across this country," he says. Coupled with a shortage of skilled drivers plaguing the ground transportation sector, Leger laments that food suppliers really don't have the option today to switch from rail to road in a pinch.

Compounding the manpower drought, soaring insurance costs mean increased risks for freight forwarders when putting more drivers behind the wheel. "Because of the volumes moved, many carriers see increased tonnage as a detriment," adds Leger. "For high-volume food suppliers, who once commanded enormous influence on their carriers, they've suddenly lost their leverage."

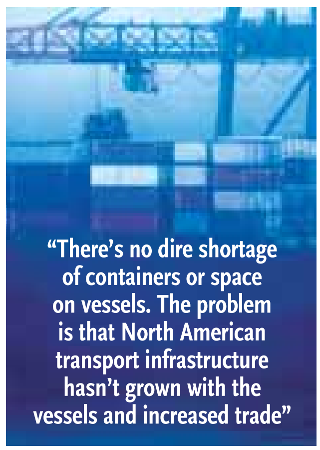
This is in a time when food producers are funneling ever more freight across international borders.

According to the latest report by Statistics Canada in 2003, Canada exported $16.8 billion worth of processed food products and imported $12.6 billion. The food processing industry accounts for about four per cent of Canada's total merchandise trade, with meat products representing Canada's single largest food industry export (at least, prior to the discovery of mad cow disease). Seafood remains firm as the second largest food export product, accounting for 20 per cent of all processed food exports and having recorded a 57 per cent ($1.2 billion) increase between 1995 and 2002. Other major commodity exports include salty snacks, peanut butter, coffee and tea, flavourings, seasonings and dressings, salads, fresh pizza and fresh pasta. Fruit and vegetable product exports in 2003 increased by 176 per cent ($1,045 million) followed by bakery and tortilla products (up 157 per cent that year, or $701 million).

Canada's largest import product increases in value terms were for beverages, which more than doubled to $2 billion annually, a rise of $1 billion between 1995 and 2002.

The U.S., Japanese and Asian markets continue as the prime export growth areas for the domestic food industry. The U.S. is Canada's single largest export market, the destination for almost 75 per cent of exports by the Canadian food processing industry.

A steady strengthening in the Canadian dollar against the American greenback, which rose from (U.S.) 62 cents to 75 cents in 2003, then from (U.S.) 75 cents to (U.S.) 85 cents over 2004, is another factor putting burgeoning pressure on food exports, while the juggernaut of Pacific Rim trade penetrating Canada and the U.S. is straining the continental transportation system.



"Everyone is blaming everyone and everything else, instead of talking with each other about solving the problem together," says George Kuhn, executive director of the Canadian International Freight Forwarders Association in Toronto. He also notes that for the system to harmonize, close co-operation with transporters in every avenue – road, rail, sea and air – is imperative. "What I see is gridlock all along the line, stemming not from a shortage of containers, rather from a shortfall in infrastructure that's clogging up our ports and taxing railroads to the max."

Agreeing with that assessment is John Ferguson, chief marketing officer for PBB Global Logistics, a leading provider of third party international logistics services, headquartered in Fort Erie, Ont. "There's no dire shortage of containers or space on vessels. The problem is that North American transport infrastructure hasn't grown with the vessels and increased trade," he insists, stating that freight vessels now being built cart ever-increasing numbers of containers. In the early '90s a vessel with capacity for 4,300 to 4,500 TEUs (20-foot equivalent unit – the international standard measure of containers) was considered to be the norm. As the new millennium dawned, ships capable of carrying 8,500 TEUs became a reality, and soon 9,000 TEU vessels will be plying the high seas. "But while container vessels have been growing in capacity, port and rail facilities haven't kept pace," he argues.

Ferguson notes that only about 10 per cent of North America's 50 containerized ports can handle these larger vessels. The huge growth in transpacific volumes, accentuated by the fact that traffic is primarily eastbound, he points out, will ensure that West Coast ports will remain a bottleneck at key times of the year (that is, peak season). "Import and export delays will be the order of the day for some time to come," he adds.

Stressing that ports around the world are grappling with similar issues, Anne McMullin, spokesperson for the Port of Vancouver (VPA), says Canada's largest and most diversified port has had its challenges, conceding that, "Yes, there is more product coming through than there is capacity to handle it."

Citing that Canada's import and export trade through the VPA grew 11 per cent to 73.9 million tonnes in 2004 (containers increased eight per cent to 1.66 million TEUs, and major grain volumes increased 27 per cent to 8.5 million tonnes, driven predominantly by surging demand from China and other Asian economies), Captain Gordon Houston, the Port's president and chief executive officer, says the VPA has plans in place to swell its capacity to capture that growth and much more over the coming decades. "With similar investments in infrastructure from our partners in Canada's road and rail systems, we will be able to continue to strengthen the economy and add more than 50,000 Canadian jobs," he says.

But the VPA is only one piece of the transportation network, says McMullin. "Governments also need to invest in transportation to enhance the competitive position of Canadian business, retain and attract customers and the jobs, taxes and benefits that transportation produces."

In response to studies indicating that container traffic on the west coast of North America is expected to triple by the year 2020, the VPA is looking at a three-pronged approach to habouring vast container volumes, including increasing capacity at the port's two existing Burrard Inlet container terminals, Centerm and Vanterm. A container terminal expansion plan at Centerm alone is expected to more than double its container handling capacity from 360,000 TEUs to approximately 783,000 TEUs by the first quarter of 2006.

"There will also be upgrades to existing berths and installation of two new modern container cranes to accommodate the largest container vessels in use," McMullin continues. The Roberts Bank Container Expansion Program is a VPA initiative to expand container handling facilities at Roberts Bank in Delta, B.C., which will initially add a third berth to the existing Deltaport container terminal, followed by the development of a new three-berth container terminal known as Terminal 2. It is anticipated that the new terminal will include: the construction of approximately 90 hectares of new land for terminal infrastructure, eight to ten gantry cranes, and on-site container storage and intermodal facilities.

In the east, berth-busted Port of Montreal (MPA) is also enlarging. The port's total traffic grew 13.7 per cent to 23.6 million tonnes in 2004, an increase of 2.8 million tonnes. Port spokesman, Michel Turgeon, attributes most of that growth to a strong economy. "Montreal's container traffic reached unprecedented levels, reaching 10.9 million tonnes (an increase of 1.1 million tonnes, or 11.2 per cent). Of course, the arrival of new container-shipping lines definitely helped. Twelve out of 15 of the world's largest container-shipping lines now call on Montreal."

To harness the surge in volume flow over the next five years, the MPA intends to spend more than $150 million to improve and augment its facilities, chiefly container terminals, combined with an immediate infusion of more than $30 million in capital investments for 2005.

Tracking his piece of the transportation pie, John McBoyle, Canadian Pacific Railways' (CPR) vice-president of Intermodal says that from frozen fish to frozen french fries, food producers and food retailers are among the biggest users of his company's container cars. "Food is our fastest growing sector," he says, while cautioning producers that railroads are not immune to the problems in the movement of goods – a dilemma international in scope.

Locomotives for all railroads were firing on all cylinders in the first quarter of 2004 due to the unparalleled growth of imports, he says. "Traffic was up by at least 25 per cent in Q1 last year (compared to five per cent during the same period in the past). We were all caught by surprise." To address this, CPR is set to increase its carrying capacity by 20 per cent, is extending its rail siding lines in Northern Ontario and is investing in lighter-weight and larger containers. "We believe in the future of intermodal and will work with our customers to grow together," says McBoyle.

But while new docks are put on deck and railroad tracks tentacle into the territorial hinterland, what can food processors do to move their produce quickly? Ferguson suggests that food companies explore new state-of-the-art reefer boxes where cargo can be maintained at a desired temperature throughout the voyage.

"Most important of all, develop a 12-month supply chain management strategy," recommends Mike Cutone, vice-president of business development for EFillAmerica Inc., one of North America's largest logistics solutions providers, based in Alpharetta, Ga. "Food producers must formulate an overall plan to secure transportation equipment during both peak- and low-volume times. For instance, it will be easier to move goods in the early part of 2005, as the third and fourth quarters of this year will bring more logjams to the major ports on the coastlines of North America."

Cutone advises that producers consider moving their containerized freight into and out of smaller, less overburdened ports to escape the capacity jolts at Vancouver, Montreal and Los Angeles. "Also, solidifying a lasting relationship with your carrier should ensure your freight arrives to market with minimal spoilage," he urges.

Anzivino remains unconvinced. In his view, there's too little being done to alleviate the container crunch now. "Neither shipping lines, nor ports, nor railroads are telling us how they will resolve this issue in the near and medium terms. For me, that's the most frustrating part."

*Jack Kohane is a Toronto-based freelance writer and regular contributor to **Food in Canada**.*