

THE IMPORTANCE OF SUPPLY CHAIN LOGISTICS CENTERS TO JACKSONVILLE IN A CHANGING GLOBAL MARKET

Summary

With declines in U.S. manufacturing, the amount of imported goods is on the rise. The increase in imports will necessitate the development of new supply chain logistics centers, which will provide economic benefits to communities that include increased port traffic. Because of Jacksonville's numerous infrastructure assets, the city is poised to attract new supply chain logistics centers and reap the benefits of the changing global market.

The Decline of Manufacturing

Communities throughout the U.S. are witnessing declines in their manufacturing sectors as a result of the availability of increased low-cost, foreign competition and increased worker productivity. In Duval County, the number of manufacturing establishments declined 12.7 percent from 2001 to 2004, resulting in a 10.5 percent reduction in manufacturing employment¹. In addition, worker productivity, or the increase in output per worker due to improved technology and processes, contributed to many manufacturing job losses in the U.S. since 1990².

As production shifts to overseas markets, imports of manufactured goods ranging from flatware to flat screen televisions will increase commensurately. Import statistics from the past five years illustrate this fact. From 2000 to 2005, Asian imports increased by 25 percent and Latin American/Caribbean imports increased by 40 percent³.

Foreign trade is increasingly being conducted via containership. In fact, U.S. container imports increased 58 percent between 1999 and 2004⁴. Companies shipping goods throughout the world are expanding their use of containers because it saves them money and time due to the increased security provided by containers, faster time to the final destination and ease of tracking with new technologies.

Competition among U.S. Ports for New Trade

While ports throughout the United States will try to capitalize on increases in containerized cargo, ports located on the East Coast are in the best position to succeed, for a number of reasons. Popular West Coast ports are close to their operating capacity, West Coast rail is often congested, and recent dock worker strikes have tarnished the reputations of West Coast ports with business. In addition, cargo entering on the West Coast must be moved by truck or rail to East Coast destinations, which incur more costs. This cargo movement over land will only become more expensive to businesses

as fuel costs continue to rise. East Coast destinations such as Florida and the Southeast region are rapidly growing and important consumer markets, which increases the desirability of JAXPORT.

Ports along the East Coast have been aggressively vying for containerized cargo because it is more lucrative for them to handle. Containerized cargo is more efficient to move and easier to manage within a port, ships with containerized cargo do not take up as much time in the berth space and their cargo does not take up as much wharf space. This makes room for more ships and goods to pass through the port thereby increasing revenue to the port. Additionally, port tariffs are usually higher on goods moved through containers.

Locally, JAXPORT faces its greatest competition for new container traffic from already established container ports such as Savannah, Charleston and Norfolk. These ports are well-known to businesses and have benefited significantly from continuing increases in container trade. The following chart illustrates changes in the amount of foreign containerized cargo trade at JAXPORT and its three nearby competitor ports from 1994-2004.

Changes in Containerized Cargo (in thousands of TEUs)⁵

Port	1994	2004	Percent Change
JAXPORT	481	728	51.4%
Charleston SC	897	1,864	107.8%
Savannah GA	562	1,662	195.7%
Norfolk VA	894	1,809	102.3%

It is clear that the most established ports will continue to be strong competitors for lesser established container ports. To further illustrate this point, foreign containerized cargo is consolidating in the top ten U.S. ports (which includes Charleston, Savannah and Norfolk.) From 1995 to 2004, the percentage of all foreign containerized cargo handled through the top ten ports increased from 76.5 percent to 83.9 percent, a 9.7 percent gain⁶.

Business Location Decisions

Businesses make critical logistics decisions, such as which port of entry to use and where to establish related supply chain logistics centers, based on a number of factors including: access to interstates and rail; available landside sites (such as Cecil Commerce Center); frequent and reliable containership service (like that to be provided by JAXPORT shippers such as Mitsui O.S.K. Lines, Ltd); a business-friendly environment and a qualified workforce. Jacksonville is a natural supply chain logistics center hub, though competition is intense. Regions throughout the country are strategically positioning themselves to take advantage of this changing global business environment by promoting their logistics assets in order to recruit, retain and expand

supply chain logistics facilities within their own communities. Jobs that have been lost due to manufacturing declines can be regained by a diversified economic development strategy that also focuses on supply chain logistics center recruitment, retention and expansion.

Supply Chain Logistics Centers and JAXPORT as Economic Drivers

Future supply chain logistics centers will be hubs of activity, creating jobs not only at the supply chain logistics center, but at the port and in supporting transportation activities such as trucking and freight forwarding. Capital investment to build logistics centers will be significant as the technology and tools used to distribute goods become more advanced. Just-in-time delivery systems, computerized tracking and radio frequency identification tags are now standard operating procedure for business.

Supply chain logistics centers are catalysts for further economic activity in the community. Clustering of these facilities is common because businesses feel more confident in their location decisions when they see companies with similar business needs thriving. As Jacksonville attracts more of these companies, others will seriously consider Jacksonville for their own relocations and expansions. Unlike a retail or small service establishment that just recycles the community's dollars, supply chain logistics centers benefit communities because they bring new dollars into the area by servicing markets beyond the immediate local market.

In addition, supply chain logistics centers are the landside complement to the recently announced Mitsui O.S.K. Lines expansion at JAXPORT. The economic impact of this new container service will be approximately \$870 million annually, creating more than 5,600 jobs. These benefits to the economy cannot be realized without the corresponding supply chain logistics centers to manage all of the new containerized freight that will be brought by shippers such as Mitsui O.S.K. Lines to JAXPORT.

Already, developments such as Mitsui O.S.K. Lines and new supply chain logistics centers associated with this expanded service have prompted inquiries from several major shipping lines looking to establish service to JAXPORT. New shipping lines to JAXPORT will mean more jobs, more supply chain logistics centers and more economic impact for Jacksonville.

How Jacksonville Can Benefit from the Changing Economy

Supply chain logistics centers clearly have significant positive impacts for those directly employed at the centers, as well as JAXPORT, retail and service establishments throughout Jacksonville that benefit from the increases in local consumption expenditures and government entities that will obtain increased tax revenue. Efforts to attract and retain these desirable economic drivers must be supported so that Jacksonville can adapt and thrive in the new global economy.

Sources:

1. U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.
2. U.S. Department of Commerce, International Trade Administration, Office of Trade and Industry Information, Trade Stats Express Database.
3. Ward, William A., "Manufacturing Jobs 2005 – 2010", Economic Development Journal, Winter 2006. p 7.
4. U.S. Maritime Administration, Office of Statistical and Economic Analysis, Containership Market Indicators, August 2005.
5. American Association of Port Authorities, U.S./Canada Container Traffic in TEUs.
6. U.S. Department of Transportation, Maritime Administration, September 2005; based on Journal of Commerce, Port Import/Export Reporting Services (PIERS) data multiple years.