

MAERSK, DUKE AND U.S. RAILS TO BRING CHINA TO OHIO

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NORFOLK, VA (Reuters)

The hundreds of empty containers stacked beside the rails near the Norfolk Southern Corp. Portlock rail yard in Chesapeake, Virginia, look ready to board ship here on the U.S. East Coast and head back to China, but they are going nowhere.

China is shipping so many goods to the United States that the Chinese often find it cheaper to build new containers with low-cost labor and leave their empty ones in the United States than send them home empty.

"These containers are here to stay," Portlock trainmaster Brian Stanley said, pointing at the piles.

The empty containers reflect the changing shape of the U.S. economy as manufacturing goes overseas. Shippers, railroads and real estate companies are all scrambling to deal with the fundamental question of how to deal with an ever-increasing U.S.-bound flow of shipping containers.

Concerned about strained capacity at West Coast ports, shipping companies are looking to East Coast ports for additional routes into the U.S. market.

No port is likely to challenge the dominance of the vast complex at Los Angeles-Long Beach, but as importers have seen annual double-digit growth for three years, other U.S. ports want to provide additional routes for the growth still to come.

Danish shipping and oil group A.P. Moeller-Maersk <MAERSKb.CO> – the largest shipper of goods for U.S. retail giant Wal-Mart Stores Inc. – is sinking \$450 million into expanding its Portsmouth port terminal to do just that.

The project is expected to be a boom for Portsmouth, but also for railroads like Norfolk Southern and real estate companies such as Duke Realty Corp., which is developing a site for distribution more than 1,000 miles (1,600 kilometers) inland by train, outside Columbus, Ohio.

"We expect significant growth from this terminal," Norfolk Southern Chief Executive Officer Wick Moorman said.

The Maersk Portsmouth project involves dredging the sea bottom to increase the depth to 55 feet. (17 meters).

As of July 2007 this will enable large container ships – carrying up to 6,000 20-foot equivalent containers (TEUs) – to berth at the terminal and raise annual capacity to 1 million TEUs – eventually 2 million in a second phase – from 260,000. The company declined to discuss possible Wal-Mart involvement.

"Maersk does not comment on customers," the company's U.S. press office said in an e-mail.

Shipping volumes at U.S. East Coast ports have risen with imports, with more expected to come through the Suez Canal or the Panama Canal.

"We are moving an increasing number of containers through the U.S. East Coast," said Kevin Kennedy, chief executive officer of container ship operator Seaspan Corp. Seaspan has ordered 13 new large container ships that will raise its fleet to 29 vessels, with an option for eight more.

Eighteen of those vessels will be leased to major Chinese shipper China Shipping Container Lines Co.

Norfolk Southern is gearing up for the opening of Maersk's Portsmouth facility. The railroad will spend \$130 million – plus \$90 million in U.S. government funding – either raising the roof or lowering the floor of 29 tunnels along a track called the Heartland Corridor, its most direct route from Portsmouth to Columbus, Ohio.

This will enable Norfolk Southern to run double-stacked trains – double-stacked containers mean more goods on the rails and higher profits for the railroads – on this route, instead of sending them on detours via Pennsylvania or Tennessee.

"This will save a day's travel and hundreds of miles," Norfolk Southern's Chief Marketing Officer Don Seale said.

The railroad will also build an intermodal facility at Columbus. Intermodal transport refers to the containers, which are standard-size and can be shifted easily between modes of transport, from ship to train to truck.

In Columbus, Duke Realty has up to 20 million square feet available for retailers and logistics companies looking to distribute goods to consumers. Duke touts the fact that this Ohio city is within 600 miles (965 kilometers) of 150 million Americans – half the U.S. population.

"We are getting a lot of interest in this project," said Jim Clark, Duke's Senior Vice President in charge of the company's Columbus development. "The agents coming to see us know exactly what they're looking for."

Another major railroad, CSX Corp., also has lines from Portsmouth up to Columbus and is likewise investing to prepare for additional container volume from China.

Jim Hertwig, head of CSX's intermodal business, said the company is preparing its lines into the southern United States for double-stack trains and will expand its Parsons Yard intermodal facility at Columbus.

CSX has announced plans to invest \$800 million in capacity expansion in 2006 and 2007. The company is also gearing up for a \$100 million project to expand a terminal in its hometown of Jacksonville, Florida, by Japanese shipping company Mitsui O.S.K. Lines Ltd.

"We're going to see more containers coming into the country through the East Coast," Hertwig said. "Our job is to make sure we have the capacity to handle those goods when they get here."