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Cheapest Route to Walmart From China May Skip Buffett's Railway  
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By Kyunghee Park and Eric Sabo

Jan. 28 (Bloomberg) -- Chinese toys and sneakers headed to Walmart Stores Inc. and Target Corp. on the U.S. East Coast may bypass Warren Buffett's \$33.8 billion railway as the expansion of the Panama Canal slashes the cost of shipping them by sea.

The deeper, wider canal will allow A.P. Moeller-Maersk A/S, China Ocean Shipping Group Co. and other lines to ship more cargo directly to New York and Boston instead of unloading it on the West Coast for trains and trucks to finish the journey east.

That could save exporters 30 percent, the canal operator said.

The \$5.25 billion Panama Canal project, scheduled for completion during its centennial in 2014, may take business from ports including Los Angeles and Seattle, and railroads including Berkshire Hathaway Inc.'s Burlington Northern Santa Fe Corp. It costs as much as \$1,000 more per cargo container to use trains than ships, said Lee Sokje, a shipbuilding analyst at Mirae Asset Securities Co. in Seoul.

"It is inevitable that railways, such as Burlington Northern, will lose some of their cargo once the Panama Canal is expanded," said Jee Heon Seok, a shipping analyst for NH Investment & Securities Co. in Seoul. "Many more containers can be moved in a single voyage on a ship than going through the West Coast ports."

#### More Cargo

China, poised to overtake Japan this year as the world's second-biggest economy, may boost exports by 20 percent during the first quarter as the global economy recovers, according to Macquarie Securities Ltd. and Royal Bank of Scotland Group Plc.

China Cosco Holdings Co., Asia's biggest shipping company by market value, and 14 other container lines said Jan. 14 they expect a "significant" increase in transpacific cargo this year on rising U.S. consumer sentiment. China Cosco rose 2.5 percent, the most since Jan. 19, to HK\$9.60 in Hong Kong trading.

That prospective growth spurred Berkshire to pay \$26 billion for the remaining 77.4 percent of Fort Worth, Texas-based Burlington Northern it didn't already own. Buffett, the Berkshire chairman, said the largest U.S. railroad will benefit from "moving around more and more goods." The acquisition is pending and expected to be completed by March 31.

Burlington Northern customers in Gulf of Mexico ports -- including Houston and Galveston, Texas -- may benefit from more traffic going through a wider canal.

Buffett didn't respond to a request for comment. A Burlington Northern spokeswoman, Suann Lundsberg, said trains deliver cargo from the West Coast to the East Coast as many as nine days faster than ships using the canal.

30 Percent Savings

Rail traffic is expected to continue growing, although probably at a slower rate than in the past, Lundsberg said.

"We know he doesn't make short-term investments," Art Wong, spokesman for the port in Long Beach, California, said of Buffett. "He must be making it because he thinks it's a great long-term investment."

About 43 percent of Asian cargo shipped to East Coast ports -- including Savannah, Georgia, and Jacksonville, Florida -- goes through the Panama Canal, said Rodolfo Sabonge, director of marketing for the Panama Canal Authority. That share may increase to 49 percent by 2025.

"It will become less expensive overall to ship through the canal," Sabonge said. "Savings could go up to 30 percent."

The expansion project, started in 2007, is building locks on both sides of the 50-mile canal, digging a new channel linking the locks and deepening the waterway connecting the Pacific Ocean with the Caribbean Sea.

#### New York Harbor

Currently, ships loading fewer than 5,000 20-foot boxes use the canal. The expansion will accommodate vessels carrying about 12,600 containers and may generate cargo growth of about 5 percent a year, Sabonge said.

"It will, of course, help reduce costs for exporters to the U.S.," said Victor Fung, chairman of outsourcer Li & Fung Ltd., the world's biggest supplier of toys, clothes and furniture to retailers including Walmart, Target, Macy's Inc. and Marks & Spencer Group Plc.

The company reported HK\$46.3 billion (\$5.96 billion) in sales during the first half of last year, with 61 percent of that coming from the U.S.

East Coast ports are readying for the changes. The Port Authority of New York and New Jersey is deepening more channels to 50 feet and considering options for a 78-year-old bridge between New Jersey and New York City that may be too low.

"Increasing numbers of big ships are anticipated at our port facilities following an expansion of the Panama Canal," the agency said in September.

#### Ports, Railroads Collaborate

Hanjin Shipping Co., South Korea's largest shipping company that operates two California terminals, is building its first East Coast terminal in Jacksonville to handle an increase in cargo through the canal. The facility opens in 2013.

The ports around Charleston, South Carolina, are dredging to accommodate vessels carrying more than 8,000 20-foot containers.

Six ports on the opposite coast -- Los Angeles; Long Beach; Oakland, California; Seattle; Tacoma, Washington; and Portland, Oregon -- handle about 70 percent of containerized trade between Asia and the U.S., according to an Oct. 12 statement.

They are collaborating with Burlington Northern and Union Pacific Corp. to convince Asian exporters they are better options than the canal for reaching East Coast markets. They cite advantages including deep-water terminals, connections to inland transportation networks, and storage and distribution facilities.

Trains also use less fuel, reducing costs and carbon emissions, they said.

"We don't think those alternative gateways will go away," said Tay Yoshitani, chief executive officer for the Port of Seattle. "If we don't improve our competitiveness, we could lose a lot of cargo."

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