

**JOC TPM Speech
March 2, 2010**

You are going to have some lively discussions later today on the good, the bad and the ugly with regard to competitiveness of West Coast Ports, the battle over harbor trucking and the impact of environmental regulations. To prepare you for those discussions, I'd like to take you into the belly of the beast and offer some observations of the political challenges facing the West Coast port community – and also the opportunities that exist.

So on to the ugly and a brief political overview.

2010 will be an extremely challenging year, both from a business and political perspective.

Many companies in the supply chain are fighting to just hang on until the economic turnaround. Yet public policy proposals harmful to our industry continue to flourish and enjoy popular support. Displaying a bi-polar nature, elected officials talk about creating jobs, and then support measures that kill them.

In 2010, politics will be dominated by elections. All policy and financial decisions by elected officials will be made through the prism of the elections. California voters will choose a new Governor as well as new mayors and city council members in Oakland and Long Beach. Hundreds of state legislative seats in California and Washington are up for election.

In addition, approximately 120 different ballot propositions have been filed with the California Attorney General's office for possible inclusion on the June and November ballots. Initiatives

range from the legalization of marijuana to cutting back the legislature to part time to new taxes on business.

My personal favorites would require legislators to take drug and alcohol tests and require legislators to certify that they understand legislation and have not accepted a bribe or engaged in illegal vote swapping. Given that over 5,000 bills and resolutions have been introduced in the current legislative session, requiring that legislators actually understand all of them will be a challenge.

Both California and Washington are struggling to close massive budget deficits. California's budget deficit is projected to be approximately \$21 billion this year. The nonpartisan Legislative Analyst's Office is projecting budget deficits of over \$20 billion each year for the next five years – making California eligible for a bailout by the European Union.

Not to be outdone, the State of Washington's budget deficit is approximately \$2.8 billion – which is proportionately larger than the budget deficit in California. And the risk level of new taxes and fees on the goods movement industry increases in each state with each successive budget cycle.

Local government is experiencing its own financial melt down. Los Angeles is facing a \$200 million budget deficit that is forecast to grow to half a billion dollars next fiscal year. Some public officials are expressing concern that the City could slip into bankruptcy.

As a result of these deficits, cities will continue to siphon off port revenue to support general governmental programs. In Long Beach, the city is making the port fund a growing number of projects the city can no longer afford. In Los Angeles, in fear of laying off thousands of city employees to balance the budget – as recommend by their financial advisors, the city is pushing

hundreds of unwanted city employees on to the port – along with the ongoing financial liability for their salaries, benefits and retirement. If allowed to continue unchecked for very long, all of this calls into question the long term financial viability of ports to fund their own projects.

Pacific Northwest ports are more fortunate given their independence from local cities – along with port commissioners who are elected to their position rather than appointed. The good news is that Seattle’s leftist mayor was voted out last fall. The bad news is, the new mayor is to the left of the former leftist mayor – and he is trying to interject himself into port matters. While there are some local political issues, the Commissions in Seattle and Tacoma have not been caught up in the politics and hysteria that is found in Oakland, Long Beach and Los Angeles.

On the state regulatory front, the emphasis will shift somewhat from traditional pollution control to climate change and greenhouse gases. The maritime industry will confront specific regulations on cargo handling equipment idling and mandatory vessel speed reduction. It is also likely that local air quality districts in California will pursue regulatory packages that will seek to regulate various modes of transportation at the ports, above and beyond what the State requires. And if history is any indication, the local air districts and the State of California will fail to acknowledge the role of either the federal government or international authorities – ensuring a patchwork quilt of requirements and continued regulatory balkanization of an industry that moves not only between individual air districts and states, but also countries.

In the coming years, we will also see the full cost of existing air quality regulations enacted by the California Air Resources Board. Using CARB’s own figures, cost of compliance for existing California regulations on ocean carriers, marine terminal operators,

railroads and truckers is \$5 billion. These are costs that are specific and unique to California only and are not experienced anywhere else and do not include additional costs imposed by local port authorities or air districts.

Finally, we will continue to see port authorities, certainly in California because of the appointment of harbor commissioners by local mayors, continue to be heavily influenced by the ever shifting winds of local politics. This will hamper ports from openly challenging ill founded policy and financial proposals from the cities. The most visible example is the employee mandate component of the clean truck plan in Los Angeles. While there is a full panel dedicated to this issue, I would offer an observation that marketing the Port of LA is extremely difficult when the Port, at the direction of the Mayor of LA, has to defend a political patronage program that masquerades as environmental policy. The campaign for an employee mandate has been quite vicious at times – even extending to the Port of Seattle. But it is all part of plan, as described to me several years ago by a friend within the Teamsters who informed me that they were going to seek port truck reform in port cities that had democratic administrations: LA/LB, Oakland, Seattle, NY/New Jersey and Miami. Tens of millions of dollars has been spent in the development of websites, printing of flyers, mailers, full page ads in various publications, consultants, lobbyists, orchestrated demonstrations – and now legal fees. And it continues.

The litmus test as to whether California's political chaos will continue in 2010 will be determined with the delivery of a number of Environmental Impact Reports (EIRs') later this year. EIR's for the replacement of the Gerald Desmond Bridge, development of Pier S in Long Beach, the long awaited BNSF Southern California Intermodal Gateway (SCIG) and the UP ICTF project are just a few of the projects coming forward this year. If these EIR's are stalled, it will send a firm message to the trade community that,

despite all of the efforts and billions of dollars spent by the goods movement industry to reduce and mitigate impacts including emissions, the real objective of some groups is not environmental mitigation, but rather to slow or stop port growth altogether.

But opportunities do exist – but they require the active involvement and engagement of everyone in the supply chain. I would offer the following suggestions:

First, our industry has a good story to tell – but all of you need to tell it. West coast ports, and the various projects that are moving forward, offer one of the few opportunities to keep and grow good paying jobs while “greening” an industry and improving its long-term economic standing. The most recent inventory for the San Pedro ports in 2008 showed greater than a 30 percent reduction in diesel particulates and for sulfur oxides when compared to the 2005 emissions inventory – and these emission reductions occurred even though cargo volumes increased. Ports in the Pacific Northwest have also decreased emissions significantly. I don’t know of any other industry that can claim these levels of air quality improvement over this short of a time frame. We have a compelling narrative to tell policy makers – but it requires individuals and companies to step forward and be heard.

Second, historically, the goods movement industry is one which has been reluctant to step forward to a microphone and be heard whether at a harbor commission meeting, city council or state legislative committee hearing. Our collective silence has been taken as a lack of interest, acquiescence or cowardice by public policy makers. In reality, elements of the good movement industry, because of legitimate concerns, are more inclined to try to work behind the scenes. But this strategy bumps up against the reality that we are dealing with street level politics as opposed to well thought out diplomacy and public policy.

Third, we are in a marathon, not a sprint. Because many local and state office holders are subject to term limits, this means that the industry has to constantly educate politicians as they move from elected office to elected office. This constant turnover not only hurts institutional memory, it also ensures that our politicians long range planning goes no further than the next election cycle. This institutional attention deficit disorder ensures that the educational process is one that is ongoing. We need to repeat the benefits and innovation of our industry to everyone through trade publications, mainstream media, social networking sites and at every political hearing or meeting that is scheduled.

In addition, the EIR approval process is one in which the approval process shifts from months into years and fatigue can set in. Appearing at one public hearing in support of a project does not mean your work is complete. It is just one step of many that requires continued involvement and engagement. The regulatory process is no different – it is one that involves multiple workshops and public meetings – and unfortunately has become a process that favors “poly-science” – when political science trumps real science.

Finally, we need port officials, port commissioners and elected officials to treat the goods movement industry with equal respect as partners just as they do local community and environmental groups. We are an important component of the local community. We live here. We work here. We are the economic engine that provides revenue for governmental services. The public sector requires a healthy and vibrant private sector to provide funding. Until cargo volumes declined in late 2008 and through 2009, our presence and our role was at best barely acknowledged and certainly not appreciated. Various policy, regulatory and legislative proposals created a disincentive for cargo interests to conduct business through the West Coast and did little to attract job-creating businesses to the ports – and all of this while competitive threats continued to grow in various US ports, Canada

and Mexico. As cargo volumes slowly creep up, we need to avoid a reinstatement of the arrogance that cargo has nowhere else to go but through the west coast ports. We don't need press releases announcing greater cooperation. We don't need conferences to highlight our challenges. The time for talk is over. The time for action is now. Our West Coast port gateways are at a critical juncture – they have the opportunity to grow in terms of cargo volume and jobs along with continued efficiency and environmental advancements – or they may be forced down a path of political dysfunction, unnecessary costs and mediocrity. The future direction to be taken is one that rests with everyone in attendance today.