PMSA

West Coast Trade Report

April 2019

Parsing the February 2019 TEU Numbers

*Please note: The numbers here are not derived from forecasting algorithms or incomplete information available from Customs and Border Protection but instead represent the actual TEU counts as reported by the North American seaports we survey each month. The U.S. mainland ports we monitor collectively handle over 90% of the container movements at continental U.S. ports. Unless otherwise stated, the numbers in this portion of our analysis do **not** include empty containers.*

Import Traffic

On the inbound side, the latest numbers show that last year's fourth quarter surge in imports, having slowed markedly in January, was plainly over by February, at least through U.S. West Coast (USWC) ports. Coastwide traffic fell from the same month last year by 10.1% (-92,394 TEUs). All major USWC gateways saw year-over-year declines in February.

In terms of sheer volume, the slowdown was most evident at the Ports of Los Angeles and Long Beach, where February saw combined inbound loads tumble by 10.2% (-74,156 TEUs). Oakland's inbound container trade was down a more modest 3,689 TEUs (-5.0%), while the Northwest Seaport Alliance Ports of Tacoma and Seattle sustained a 12.7% (-14,549 TEUs) dip from last February.

By comparison, the U.S. East Coast ports we monitor posted a combined increase of 3.3% (+24,502 TEUs) over February 2018. The only USEC ports reporting a fall-off were Savannah, Port Everglades,

Exhibit 1 February 2019 - Inbound Loaded TEUs at Selected Ports

	Feb 2019	Feb 2018	% Change	Feb 2019 YTD	Feb 2018 YTD	% Change
Los Angeles	348,316	383,090	-9.1%	778,239	805,922	-3.4%
Long Beach	302,865	342,247	-11.5%	626,703	666,903	-6.0%
San Pedro Bay Totals	**651,181**	**725,337**	-10.2%	**1,404,942**	**1,472,825**	-4.6%
Oakland	69,977	73,666	-5.0%	151,872	148,802	2.1%
NWSA	99,669	114,218	-12.7%	228,284	211,041	8.2%
USWC Totals	**820,827**	**913,221**	-10.1%	**1,785,098**	**1,832,668**	-2.6%
Boston	12,057	12,283	-1.8%	23,785	23,011	3.4%
NYNJ	295,523	274,638	7.6%	622,868	583,641	6.7%
Maryland	42,287	40,195	5.2%	86,156	83,380	3.3%
Virginia	105,357	100,368	5.0%	215,114	204,518	5.2%
South Carolina	77,667	70,397	10.3%	165,774	148,566	11.6%
Georgia	149,685	158,890	-5.8%	359,268	328,648	9.3%
Jaxport	25,702	25,044	2.6%	56,023	50,771	10.3%
Port Everglades	27,361	31,315	-12.6%	65,091	62,293	4.5%
Miami	32,125	30,132	6.6%	71,411	64,571	10.6%
USEC Totals	**767,764**	**743,262**	3.3%	**1,665,490**	**1,549,399**	7.5%
New Orleans	7,393	8,910	-17.0%	20,244	17,599	15.0%
Houston	86,953	84,799	2.5%	182,271	174,242	4.6%
USGC Totals	**94,346**	**93,709**	0.7%	**202,515**	**191,841**	5.6%
Vancouver	127,691	135,844	-6.0%	298,061	274,821	8.5%
Prince Rupert	34,758	42,533	-18.3%	89,246	88,934	0.4%
BC Totals	**162,449**	**178,377**	-8.9%	**387,307**	**363,755**	6.5%
US/BC Totals	**1,845,386**	**1,928,569**	-4.3%	**4,040,410**	**3,937,663**	2.6%
US Total	**1,682,937**	**1,750,192**	-3.8%	**3,653,103**	**3,573,908**	2.2%

Source Individual Ports

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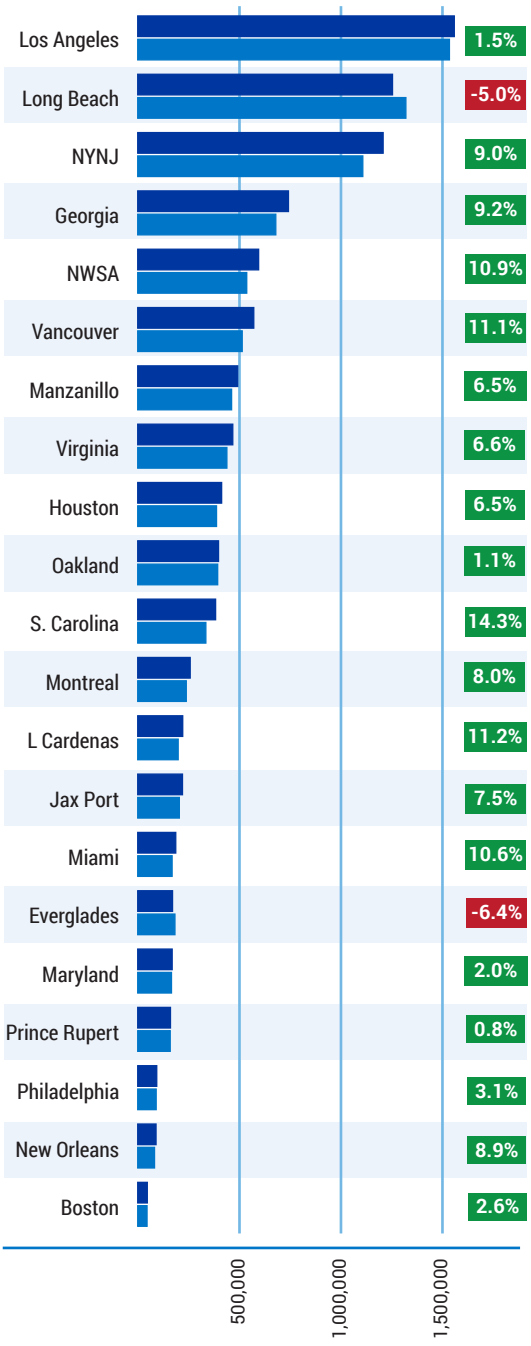
Parsing the February 2019 Loaded TEU Numbers Continued

Exhibit 2 February 2019 - Outbound Loaded TEUs at Selected Ports

	Feb 2019	Feb 2018	% Change	Feb 2019 YTD	Feb 2018 YTD	% Change
Los Angeles	142,555	157,591	-9.5%	287,548	307,626	-6.5%
Long Beach	105,287	130,916	-19.6%	222,575	251,419	-11.5%
San Pedro Bay Totals	**247,842**	**288,507**	**-14.1%**	**510,123**	**559,045**	**-8.8%**
Oakland	67,837	73,905	-8.2%	143,187	148,788	-3.8%
NWSA	65,610	76,088	-13.8%	138,469	143,659	-3.6%
USWC Totals	**381,289**	**438,500**	**-12.5%**	**791,779**	**851,492**	**-6.0%**
Boston	5,858	7,221	-18.9%	11,581	14,142	-18.1%
NYNJ	113,358	116,702	-2.9%	225,191	229,595	-1.9%
Maryland	18,556	19,211	-3.4%	34,503	37,874	-8.9%
Virginia	76,642	82,104	-6.7%	154,590	158,398	-2.4%
South Carolina	62,086	69,063	-10.1%	125,835	128,808	-2.3%
Georgia	105,260	120,734	-12.8%	229,628	228,233	0.6%
Jaxport	38,837	38,806	0.1%	79,582	80,064	-0.6%
Port Everglades	32,664	35,985	-9.2%	66,326	70,388	-5.8%
Miami	30,627	30,316	1.0%	69,479	62,809	10.6%
USEC Totals	**483,888**	**520,142**	**-7.0%**	**996,715**	**1,010,311**	**-1.3%**
New Orleans	18,517	20,939	-11.6%	44,199	41,170	7.4%
Houston	86,460	85,606	1.0%	174,421	156,752	11.3%
USGC Totals	**104,977**	**106,545**	**-1.5%**	**218,620**	**197,922**	**10.5%**
Vancouver	92,869	80,766	15.0%	184,269	156,895	17.5%
Prince Rupert	11,677	14,261	-18.1%	28,833	28,744	0.3%
British Columbia Totals	**104,546**	**95,027**	**10.0%**	**213,102**	**185,639**	**14.8%**
US/Canada Total	**1,074,700**	**1,160,214**	**-7.2%**	**2,220,216**	**2,245,364**	**-0.7%**
US Total	**970,154**	**1,065,187**	**-8.7%**	**2,007,114**	**2,059,725**	**-2.1%**

Source Individual Ports

Exhibit 3 February Year-to-Date Total TEUs (Loaded and Empty) Handled at Selected Ports



Source: Individual Ports

Parsing the February 2019 Loaded TEU Numbers Continued

and Boston. The Georgia port saw a 5.8% decline (-9,205 TEUs), while the smaller Everglades sustained a 12.6% drop (-3,954 TEUs). Boston inbound loads in February slipped by 1.8% (-226 TEUs). The Port of NYNJ posted the most impressive numbers, with inbound loads in February up 20,885 TEUs (+7.6%). Charleston also reported an impressive gain of 7,270 TEUs (+10.3%).

Along the Gulf Coast, Houston recorded a 2.5% (+2,154 TEUs) year-over-year gain in inbound loads in February but import traffic at New Orleans slumped by 17.0% (-1,517 TEUs).

The two British Columbia ports we track also shared February's import pain, with Prince Rupert down 18.3% (-7,775 TEUs) and Vancouver off 6.0% (-8,153 TEUs) owing in part to a toppled crane.

Focusing now just on the mainland U.S. ports we track, import loads in February totaled 1,682,937 TEUs, down 3.8% (-67,255 TEUs) from the same month in 2018. The Big Five USWC ports accounted for 820,827 TEUs for a 48.8% share, down from 49.5% in January and from a 52.2% share in February of last year.

Export Traffic

Lackluster does not come close to describing the 12.5% (-57,211 TEUs) year-over-year drop in outbound loaded container traffic from USWC ports in February. In San Pedro Bay, exports were down 14.1% (-40,665 TEUs) from the same month last year. Oakland posted a smaller 8.2% (-6,068 TEUs) decline, while export shipments from the NWSA ports waned by 13.8% (-10,478 TEUs).

Back East, USEC ports were also posting negative export numbers. Savannah recorded the most precipitous drop (-12.8% or -15,474 TEUs) with Charleston down by 10.1% (-6,977 TEUs). Altogether, the USEC ports we track saw outbound loaded traffic slide by 7.0% (-36,254 TEUs) from February 2018.

Along the Gulf Coast, Houston eked out a 1.0% gain (+854 TEUs) that was more than offset by an 11.6% (-2,422 TEUs) fall-off at New Orleans. Together, the two USGC ports we monitor saw exports slip by 1.5% (-1,568 TEUs) from last February.

In British Columbia, the ports we track went different ways in February. At Prince Rupert, outbound loads plunged by 18.1% (-2,584 TEUs) from the same month a year earlier, while Vancouver recorded an impressive 15.0% (+12,103 TEUs) gain.

Looking solely at the U.S. mainland ports that we survey, February's container export trade was down by 8.7% (-95,033 TEUs) from February 2018. Of that volume, the Big Five USWC ports accounted for a 39.3% share, down from a 41.2% share a year earlier.

Northwest Seaport Alliance. Statistics compiled by the Pacific Maritime Association show that February loaded imports at the Port of Tacoma fell by 3.9% (-2,393 TEUs) from last February, while outbound traffic slid by 13.5% (-7,505 TEUs). At the Port of Seattle, import containers rose 2.9% (+1,552 TEUs), while outbound shipments were up 3.2% (+1,127 TEUs). We hasten to add our usual caveat that PMA numbers often differ from those collected by the ports themselves. We offer the PMA statistics only to shed light on how the two partners in the NWSA are faring individually.

Empty import TEUs have also surged. Starting last July, the number of inbound empty containers arriving at the Port of Los Angeles swelled at year-over-year rates even steeper than the influx of loaded inbound TEUs. Between July 2018 and January 2019, inbound empties were up an average of 50.9% over the same period a year earlier, with some months seeing jumps as high as 90.4% (August) and 75.6% (September) and 70.0% (January). However, unlike the surge of loaded imports, empty containers continued to arrive at the Port of LA at heightened rates in February (69.2%) and March (47.8%).

Weights, Values, and the Federal Government Shutdown. That federal government shutdown earlier this year continues to affect the publication dates of official U.S. trade statistics. The detailed import/export numbers for February 2019, originally scheduled for publication on April 3, did not become available until April 17. Port TEU counts and federal data on containerized maritime trade won't sync again until May 9, when we'll all be on the same page eyeing the March 2019 numbers. Exhibits 4 and 5 present the USWC shares of the U.S. mainland port

Parsing the February 2019 Loaded TEU Numbers Continued

Exhibit 4 USWC Port Regions' Shares of U.S. Mainland Ports Worldwide Container Trade, February 2019

	Feb 2019	Jan 2019	Jan 2018
Shares of U.S. Mainland Ports Worldwide Containerized Import Tonnage			
LA/LB	27.5%	34.6%	30.0%
Oakland	3.6%	3.3%	3.9%
NWSA	5.4%	5.2%	5.4%
Shares of U.S. Mainland Ports Worldwide Containerized Import Value			
LA/LB	35.7%	37.1%	38.2%
Oakland	3.5%	3.5%	3.4%
NWSA	6.9%	6.4%	7.4%
Shares of U.S. Mainland Worldwide Containerized Export Tonnage			
LA/LB	21.9%	21.9%	21.4%
Oakland	6.7%	6.5%	5.5%
NWSA	8.2%	8.7%	7.7%
Shares of U.S. Mainland Worldwide Conatainerized Export Value			
LA/LB	21.4%	20.3%	22.4%
Oakland	6.7%	6.5%	6.3%
NWSA	4.1%	4.4%	4.5%

Source: U.S. Commerce Department.

Exhibit 5 USWC Port Regions' Shares of U.S. Mainland-East Asia Container Trade, February 2019

	Feb 2019	Jan 2019	Jan 2018
Shares of U.S. Mainland Ports' East Asian Container Import Tonnage			
LA/LB	43.3%	51.4%	46.6%
Oakland	4.3%	3.3%	4.1%
NWSA	8.3%	7.2%	8.0%
Shares of U.S. Mainland Ports' East Asian Container Import Value			
LA/LB	51.3%	52.7%	54.4%
Oakland	4.3%	3.9%	3.7%
NWSA	9.9%	8.9%	8.8%
Shares of U.S. Mainland Ports' East Asian Container Export Tonnage			
LA/LB	36.6%	35.6%	36.1%
Oakland	9.4%	8.6%	7.9%
NWSA	13.5%	13.7%	12.3%
Shares of U.S. Mainland Ports' East Asian Container Export Value			
LA/LB	44.0%	41.7%	45.5%
Oakland	8.5%	8.4%	9.1%
NWSA	11.5%	10.5%	10.4%

Source: U.S. Commerce Department.

container trade in terms of the declared weight and value of containerized shipments.

Exhibit 4: USWC Ports and the Worldwide Container Trade. Exhibit 4 underscores just how much the surge in containerized imports late last year that drove up volumes, especially at the Ports of Los Angeles and Long Beach, sharply subsided in February. The two San Pedro Bay ports saw their combined share of containerized import tonnage arriving at mainland U.S. seaports drop from 34.6% in January to 27.5% in February. The exhibit also demonstrates their year-over-year loss of market share from 30.0% in February 2018. Overall, the Big Five USWC ports handled 43.1% of the import volume at mainland U.S. ports in January before falling back to a 36.5% share in February, lower than the 39.2% share they had held in the same month last year.

Exhibit 5: USWC Ports and the East Asia Trade. Now looking strictly at those latest figures on containerized imports arriving from East Asia, we see that the wave of imports, driven predominantly by the threat of rising U.S. tariffs, crested in January when 10,468,961 metric tons of containerized shipments from East Asia arrived at U.S. mainland seaports. USWC ports handled 61.9% of that volume. However, by February, imports had slowed markedly as the threat of new tariffs subsided and as supply-chains grew hopelessly congested. Not

Parsing the February 2019 Loaded TEU Numbers Continued

surprisingly, the USWC share of East Asian imports slipped to 55.8%, significantly smaller than the 58.7% share in February of last year.

First Glimpse at March's Numbers

March numbers for the Port of Long Beach were simply dreadful, while those for the Port of Los Angeles were fairly robust (at least on the inbound side). At Long Beach, the number of inbound loaded TEUs was down 7.8% from March of last year. At the Port of LA, inbound loads were up 12.4%, leaving the two neighboring gateways with a paltry 2.2% combined increase in inbound loaded TEUs. The numbers were much better up the coast as Oakland (+12.7%) and the Northwest Seaport Alliance Ports of Seattle and Tacoma (+11.9%).

Exports, on the other hand, continued to lag last year's numbers, except at Oakland. The East Bay port saw outbound loads grow by 7.6% over March 2018. Elsewhere, export loads declined at LA (-2.9%), Long Beach (-7.7%), and the NWSA (-5.7%). Altogether, export loads from the five major U.S. West Coast ports were down 5.7% year-over-year in March.

First quarter figures were similarly discouraging. Now counting total container traffic (loaded and empty, inbound and outbound), the five major USWC ports handled 126,511 more TEUs than they had in last year's first quarter. That may first seem like a healthy increase… until we consider that Savannah saw its first quarter volume jump by 117,345 TEUs from the same period a year ago.

In an interesting emerging development, the Port of New York/New Jersey appears to be catching up on the Port of Long Beach in the category of total boxes handled. For the first quarter of the year, the San Pedro Bay port reports that 88,155 fewer TEUs (loaded and empty) crossed its docks than in the same quarter last year. Although PNYNJ will likely not post its first quarter tally until sometime in May, it would take only a modest 4.6% year-over-year increase in its March traffic to overtake Long Beach. To be sure, as either Ben Franklin or Yogi Berra would doubtless have reminded us, one quarter does not a year make yet. Still, we'll be watching the competition. For those keeping tabs of annual TEU totals, PNYNJ last bested Long Beach in 1992.

Jock O'Connell's Commentary:

An Easter Sermon on Being Disingenuous

Like any good former altar boy schooled (but not scarred) by the Jesuits, I'm spending part of Easter Sunday doing my homework for the PMSA newsletter. So a sermon seemed to flow naturally.

I see that the would-be proprietors of a glimmering new major league baseball stadium on Oakland's waterfront have lately turned to billing themselves chiefly as saviors of the East Bay city's housing crisis rather than as a famously low-budget sports entertainment franchise. Appearing on "CBS This Morning: Saturday" over the past weekend, Oakland A's president Dave Kaval prominently touted the 6,000 new housing units his organization would be building in Oakland in conjunction with the new ballpark. Many of these, he promised, would be "affordable". In the Bay Area, that term normally translates as anything but affordable. Last year, the average rent in Oakland topped $2,600 a month.

"Well, what it means for Oakland is jobs, economic development, over $3 billion in economic stimulus from this project alone, 5,000 new jobs, a huge investment," Mr. Kaval insisted to the CBS program's co-host, Michelle Miller.

Being somewhat skeptical by nature (and made even more so by experience), I'm not as willing as certain East Bay politicians to take Mr. Kaval at his word. Not that I think he's lying, mind you. It's just that, in sales as in lobbying, being a shade liberal with the numbers goes with the turf.

Commentary Continued

For example, how many of those "new" jobs will be construction jobs that will go away after the architects' plans are brought to fruition? (Or just how many of those ballpark construction jobs would do little more than divert labor from other local construction projects?)

Right now, the legions of parking lot attendants, ticket-takers, ushers, security personnel, and food vendors aren't employees of the Oakland A's but rather work for contractors like AEG (Anschutz Entertainment Group), Landmark Event Staffing Services, and Spectra, the coliseum's food service provider. Since few of the jobs at sports arenas are full-time positions paying much more than minimum wage, it's worth pondering how workers holding those "new" jobs Mr. Kaval is promising would be able to move into one of those "affordable" homes he's promising to build.

One thing we know, there will likely be fewer jobs for parking lot attendants since there are no plans for a parking lot at the proposed Howard Terminal stadium.

The A's have been a fun team to watch over the years, especially in the David vs. Goliath 'Money Ball' era. Last year, despite having baseball's third-lowest payroll, they won 97 games and went to the American League Wild Card game, only to lose to a club – the name of which Red Sox fans mention only with an expletive attached – whose players were paid about $100 million more than the A's shelled out to theirs. While that level of success is remarkable, what must worry team management is that the A's drew an average crowd last year of only 19,427 at the Oakland/Alameda County Coliseum. That was the fourth-lowest attendance in major league baseball. Worse still is that the team's average rating on NBC Sports California was just 0.56, 15% below the previous season and the lowest in baseball. Forbes magazine reports the A's revenue in 2018 was $218 million or rather than less than half the $462 million the San Francisco Giants took in.

It's easy to appreciate that the A's would like a brand-new home. But building one in what's clearly such an access-challenged location as Howard Terminal seems ill-advised for a team that struggles to draw a crowd to a facility with freeway access, acres of parking, and BART and Amtrak stops. What's a fan to do once the A's are playing on the wrong side of the eternally-congested Nimitz, a full mile from the nearest BART station? Mr. Kaval is going to need a bigger gondola.

On the other hand…In my commentary in last month's PMSA newsletter (which the American Journal of Commerce kindly reprinted), I took issue with the scheme to build the A's new ballpark at the Port of Oakland's Howard Terminal. One point I neglected to mention then is that those elected officials and community activists who seem so cavalier about the threat a new ballpark and upscale housing project would pose to the Port should ponder how vital the Port would be if the Bay Area found itself struggling to recover from a devastating earthquake.

Instead, I extrapolated from 2011 figures cited in the Port's then-latest economic impact analysis to demonstrate the Port's importance to the economy of not just Oakland but of the entire Northern California mega-region. Well, last week, the Port released its updated economic impact study by Martin Associates, the Lancaster, PA firm that all but monopolizes the business of seaport economic impact analyses.

According to the new report, maritime operations at the Port of Oakland directly support 11,393 jobs. That includes the over 1800 dock workers represented by the ILWU, the truckers serving the Port's marine terminals, the rail crews, yardmen and dispatchers moving the containers by rail to and from marine terminals, the terminal operators, steamship agents, freight forwarders, chandlers, warehouse operators, container repair and leasing companies, pilots, tug operators, etc.

It's safe to say that pretty much all of these jobs pay more than the A's subcontractors reward the legions of ticket-takers, ushers, and hot dog vendors roaming the stands during the relatively few hours each year the A's are at home. Yet the port's well-compensated jobs would be jeopardized should fluid maritime operations be compromised by the arrival of a wholly incompatible new neighbor.

In addition to the jobs supported, the Martin Associates study puts the overall economic value of the maritime

Commentary Continued

cargo and vessel activity at the Port at $60.3 billion. Of that amount, businesses providing direct services to the marine terminals received $2.2 billion of direct business revenue.

Were the seaport operations forced to shut down, that $2.2 billion of direct business revenue would be lost from the Bay Area economy. Broken down, $641 million of direct wages and salaries (excluding benefits) were paid to the direct job holders, for an average salary of $56,275; $546 million of local purchases were made, supporting the 5,831 indirect job holders, with an annual personal income of $333 million; and $281 million were paid in state and local taxes.

For those fans keeping score at home, please note that the maritime operations at the Port of Oakland yielded more in state and local taxes ($281 million) than the Oakland's A's total revenues last year ($218 million).

Disclaimer: *The views expressed in Jock's commentaries are his own and may not reflect the positions of the Pacific Merchant Shipping Association.*

Will Sanity Prevail for Future Regulation of Ballast Water in California?

By John Berge
Vice President, Pacific Merchant Shipping Association

In 1996, *Stemming the Tide: Controlling Introductions of Nonindigenous Species by Ships' Ballast Water* was published by the National Research Council. It spelled out in a no-nonsense technical report the urgent need to manage this vector of invasive species transport. Even the most skeptical had to acknowledge the problem.

It has been 23 years since publication, yet only recently has the goal of actively removing invasive species from ship's ballast become a reality. Since the late 90's, mid-ocean exchange has been the only tool to reduce invasive species in ballast. And although this management strategy can greatly reduce the number of organisms, it has always been recognized as an interim solution. Actively treating ballast water onboard has always been the goal.

In 2012 the Coast Guard issued their final rule on ballast water management, predicated on a strategy of ships using treatment systems that have received Coast Guard Type Approval after rigorous testing to meet the D2 discharge standard. There was initial excitement that treatment systems that had already met IMO certification through their flag states would rapidly be submitted to the Coast Guard for approval and installed onto ships calling U.S. waters. That turned out to be premature for a variety of reasons, and it wasn't until December of 2016 when the first type approval was granted. After Optimarin's treatment system received the first approval other systems followed, and now there are sixteen approved systems with ten more under review. We should expect to see most ships entering US waters to be outfitted within the next five years.

So what took so long? There are a host of technical and logistical issues that slowed progress, but perhaps the greatest impediment to moving forward has been the pursuit of the perfect at the expense of the good. The D2 standard achieves an approximate 4 log or 99.99% reduction in the number of organisms. That sounds pretty good, doesn't it? Yet some viewed that as a failure of public policy. Why can't we have a 100% reduction? How about a 99.999% reduction?

Nowhere has that sentiment been expressed more than California. Over the last decade California has

Regulation of Ballast Water Continued

been defending a discharge standard up to 1,000 times more stringent than D2. Scientific consensus agrees that it cannot be met, and in fact cannot practically be measured to an acceptable, statistical level. There is a refrain in California that by setting technology forcing standards, lo, it shall appear. But the result of this rigid adherence to orthodoxy has been to place the state's aquatic invasive species program in a Catch-22 scenario of having a discharge standard that can't be met, and consequently cannot be enforced, forcing the state to delay enforcement of the standard four times since its adoption in 2006.

It appears that California is now trying to extricate itself from this no-man's land it has found itself. Of course from a political perspective the state can't abandon its unachievable standard; this is still California after all. But there is a bill in the Legislature sponsored by the agency responsible for regulation of ship's ballast water that, in addition to yet again delaying implementation of their unachievable standard, would align California with the federal D2 standard for the immediate future; something I thought I would never live to see.

The California invasive species program statutes are founded on the use of Best Available Technology (BAT), and Coast Guard type approved treatment systems absolutely qualify (BAT) for ships. Our industry is proud of supporting ballast water regulation to a BAT standard. How can anyone envision opposition to this? The cynic in me is waiting for someone in California to say "hold my beer."

Know Your Customer

By Thomas Jelenić
Vice President, Pacific Merchant Shipping Association

There has been a lot of discussion in the maritime industry lately about knowing and understanding your ultimate customer. That seems to make sense. You can't serve your customer's needs and maintain a long-term business relationship if you don't know and understand your customer. And it would seem obvious to identify who your customer is: the folks who pay you for your product or service.

But it's that word "ultimate" that has recently been added to "customer" that has made a mess of this seemingly obvious notion. By declaring that they are serving the "ultimate customer", an organization is freed of the pressures of serving their immediate customer and can claim to provide value to the customers further down the value-chain for products or services that they do not directly provide.

In California, there has been a recent trend among landlord ports to declare that their ultimate customers are the beneficial cargo-owners. You can see the attraction that would have for ports; container ports are ranked by cargo volume and cargo-owners often select their preferred gateway for moving cargo into and out of the country. There is only one problem with this seemingly natural relationship: there is no actual business relationship between the port and cargo-owner. In most cases, it is at least two parties removed and sometimes more.

There is a real risk to this type of "customer service" approach. Landlord ports do not negotiate shipping rates with cargo-owners, they do not negotiate terminal charges with ocean carriers, they do not order or pay labor, they are not a party to the PMA/ILWU collective bargaining agreement nor a party to the byzantine process surrounding disputes and arbitrations, they do not invest in equipment, and they do not move cargo.

When landlord ports "negotiate" with cargo-owners to serve their customer's needs, landlord ports only have half the story: what the cargo-owner wants. Unfortunately, the

Know Your Customer Continued

missing half of the story, what cargo-owners are willing to pay for, is not of particular concern to landlord ports because landlord ports do not incur costs for moving the cargo nor will they be compensated by the cargo-owner. And this is something that you cannot ignore because it is customer pressure from cargo-owners that have turned the marine freight business into a commodity business where low rates, not value-added services, drive cargo-owner decisions.

In fact, this arrangement can be ideal for the landlord port because their revenue model is based on cargo volumes through a terminal regardless of whether those volumes were profitable. If volumes decline though, landlords are protected through guaranteed annual minimums from their tenant. This structure was based on the long-standing relationship where landlords developed facilities and terminal operators moved cargo.

As landlord ports begin to claim they exist as a hybrid between a landlord port and an operating port, there is a real risk that the normal incentives of the customer relationship will be seriously harmed. Imagine if a property developer declared that the supermarket was not their customer, but the supermarket shopper was the developer's "ultimate customer." While the developer will not be successful unless the supermarket is successful, the developer's customer is not the shopper. While the developer can do a lot of things to make the shopper's experience better, the developer does not make the day-to-day decisions that will make the supermarket successful. It is probably obvious to everyone that the developer's customer is the supermarket and what the developer needs to do is provide the best product (the storefront) for the money. The problem with identifying the wrong customer is that one can end up responding to the wrong pressures. It will not matter how happy the shopper is that the developer installed an electrical vehicle charging station, if that same customer decides that the groceries inside are too expensive. In the end, both the developer and supermarket will lose.

If landlord ports are going to be increasingly inserting themselves in the relationship between terminals, carriers, and cargo-owners, it may be the old business model is no longer valid. Since landlord ports are increasingly dictating modes of operation, capital equipment investments, and weighing in on labor issues, it may be that lease structures should not only provide for upside gain to landlords, but landlords should face downside risk. If landlords are unwilling to share the downside risk, then landlord ports should stick to what they have done so well: developing world-class facilities and letting their customers manage the risk and reward of working with their own customers.

Interested in membership in PMSA?
Contact Laura Germany for details at: lgermany@pmsaship.com or 510-987-5000.

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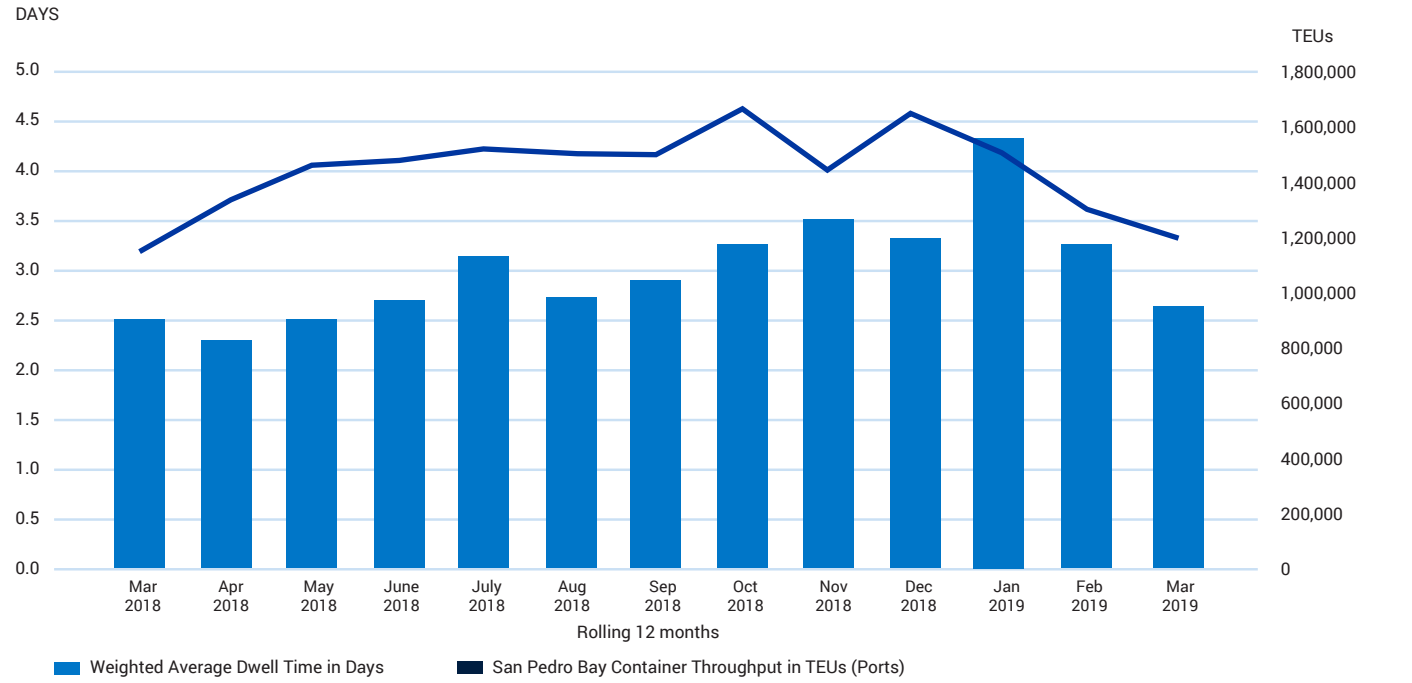
March Dwell Time Numbers Are Down

San Pedro Bay Weighted Average Inbound Laden Container Dwell Time in Days



Dwell Time in Days % > 5 Days