PMSA

West Coast Trade Report

February 2017

Photos courtesy of the Port of San Diego

Assessing the Numbers for December and All of 2016: Big Dogs Bite Off Larger Share of Box Trade

2016 saw U.S. West Coast (USWC) ports increase their collective share of containerized trade through seaports on the U.S. mainland. Outbound or inbound, value or weight, the Pacific ports gained market share last year.

Measured by the declared **value** of the contents of containerized shipments as reported to the U.S. Government, USWC ports saw their share of containerized imports entering mainland U.S. ports rise from 47.4% in 2015 to 49.2% in 2016. The USWC share of the declared **weight** of the contents of containers entering mainland U.S.

Continued

Exhibit 1 December 2016 - Inbound Loaded TEUs at Selected Ports

	Dec 2016	Dec 2015	% Change	Dec 2016 YTD	Dec 2015 YTD	% Change
Los Angeles	394,217	321,408	22.7%	4,544,748	4,159,462	9.3%
Long Beach	271,599	296,002	-8.2%	3,442,575	3,625,263	-5.0%
Oakland	73,939	69,661	6.1%	883,647	844,234	4.7%
NWSA	123,540	108,869	13.5%	1,391,590	1,308,214	6.4%
NYNJ	264,710	251,802	5.1%	3,202,690	3,214,338	-0.4%
Maryland	39,316	30,911	27.2%	426,367	399,810	6.6%
Virginia	97,714	83,026	17.7%	1,174,894	1,082,520	8.5%
South Carolina	70,813	66,381	6.7%	883,334	835,197	5.8%
Georgia	133,423	111,401	19.8%	1,670,871	1,622,592	3.0%
Port Everglades	34,627	29,818	16.1%	340,877	323,001	5.5%
Houston	74,390	63,658	16.9%	884,831	839,482	5.4%
Jaxport	19,445	24,448	-20.5%	252,489	233,778	8.0%
Vancouver	N/A	N/A		N/A	N/A	
Prince Rupert	36,024	34,583	4.2%	437,124	435,908	0.3%
Manzanillo	64,332	56,951	13.0%	797,465	806,853	-1.2%
Lazaro Cardenas	32,776	30,274	8.3%	458,275	457,913	0.1%

Source Individual Ports

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Assessing December's Numbers Continued

ports in 2016 also jumped from 39.4 % in 2015 to 40.2% in 2016.

On the export side, the USWC share of the declared **value** of containerized shipments departing mainland U.S. ports rose from 31.7% in 2015 to 34.5% in 2016. Also increasing was the USWC share of the declared **weight** of containerized exports from mainland ports, from 35.4% in 2015 to 39.6% in 2016.

December saw no slackening in **import** container traffic along the U.S. West Coast. To be sure, the number of inbound loaded TEUs at the Port of Long Beach did fall by 8.2% in December from the same month a year earlier, but that was more than balanced by the hefty 22.7% year-over-year increase at the Port of Los Angeles. That left the nation's largest maritime complex with a combined 7.8% year-over-year gain for the month. Posting equally if not even more impressive percentage growth was the Port of Oakland with a 6.1% bounce in inbound loaded TEUs in December and the Northwest Seaport Alliance Ports of Seattle and Tacoma with a 13.5% surge.

On the **outbound** side of the ledger, December saw significant gains in **loaded** exports at the big California container ports, with the San Pedro Bay Ports of Los Angeles and Long Beach combining for an 11.8% increase year-over-year. Oakland topped that with a 13.5% gain in loaded outbound traffic, while the Northwest Seaport Alliance Port saw a more modest 5.8% uptick from December 2015.

Perhaps the biggest bit of news for all of 2016 was that, despite the setback dealt the Port of Long Beach by the Hanjin bankruptcy at the end of August, the San Pedro Bay ports came within a half percentage point of eclipsing their peak year (2006) in terms of total full and empty TEUs handled. The 2016 total (15,631,954 TEUs) represented a 1.8% increase over 2015. Further up the coast, Oakland had one of its busiest years ever, handling 2,369,641 TEUs. That was remarkable in itself since, a year ago, the port's second-largest terminal operator declared bankruptcy and abruptly ceased operation. Meanwhile, total TEUs handled at the Ports of Seattle and Tacoma saw a 2.4% increase from 2015.

Continued

Exhibit 2 December 2016 - Outbound Loaded TEUs at Selected Ports

	Dec 2016	Dec 2015	% Change	Dec 2016 YTD	Dec 2015 YTD	% Change
Los Angeles	164,901	131,239	25.6%	1,818,502	1,656,677	9.8%
Long Beach	122,933	126,118	-2.5%	1,529,497	1,525,560	0.3%
Oakland	78,722	69,384	13.5%	948,574	858,146	10.5%
NWSA	86,490	81,770	5.8%	984,274	871,522	12.9%
NYNJ	111,572	109,804	1.6%	1,356,127	1,391,625	-2.6%
Maryland	13,939	18,502	-24.7%	232,815	222,135	4.8%
Virginia	86,917	79,134	9.8%	1,006,120	997,828	0.8%
South Carolina	62,618	53,739	16.5%	748,708	733,413	2.1%
Georgia	104,758	90,131	16.2%	1,274,272	1,251,460	1.8%
Port Everglades	38,315	32,513	17.8%	418,737	421,266	-0.6%
Houston	71,601	76,486	-6.4%	916,080	948,740	-3.4%
Jaxport	31,016	29,199	6.2%	382,468	359,679	6.3%
Vancouver	N/A	N/A		N/A	N/A	
Prince Rupert	14,098	14,493	-2.7%	166,291	153,612	8.3%
Manzanillo	80,269	65,945	21.7%	792,716	767,896	3.2%
Lazaro Cardenas	34,657	36,402	-4.8%	380,943	372,132	2.4%

Source Individual Ports

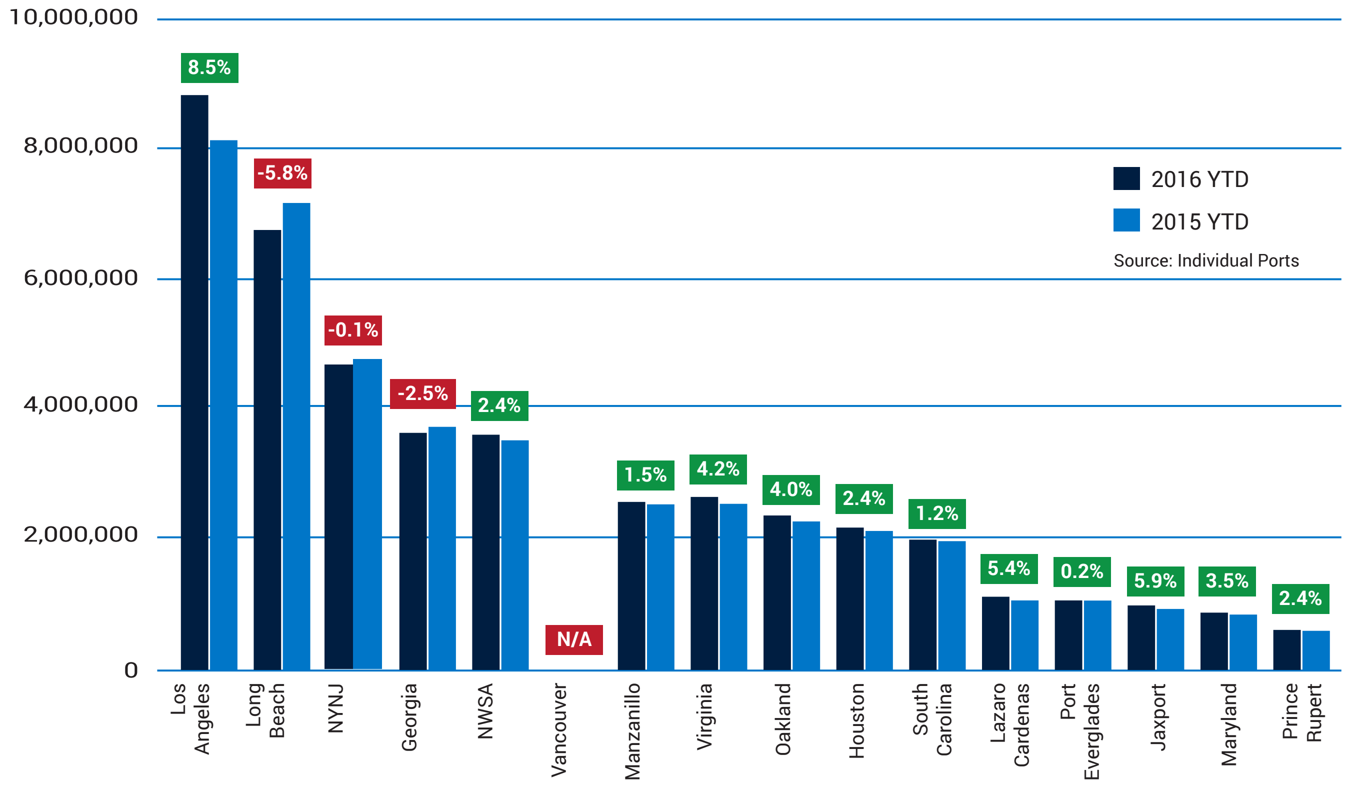
Assessing December's Numbers Continued


Photos courtesy of the Port of San Diego

The high value of the dollar should continue to buoy import volumes through much of 2017. Among other factors, higher interest rates and expected cuts in corporate tax rates should perpetuate the strong dollar, although the actual effect on the tax cuts is unlikely to be felt until 2018. Despite the dollar's strength, containerized exports have shown no sign of backing off as overseas demand for waste paper and scrap metals has remained unabated, while exports of agricultural products have picked up as well.

(We are assessing the Port of Vancouver (British Columbia) a delay-of-game penalty. As we go to print, our Canadian friends have not released their December TEU counts and thus have been lapped by the Ports of Los Angeles, Long Beach and Oakland, which have just posted their January 2017 TEU numbers. Sad.)

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



Jock O'Connell's Commentary:

Trump's World

Nearly all economic forecasts are extensions of the existing narrative, unless forecasters have reason to believe that circumstances warrant a change in course. Expectations, such as those authored by the World Trade Organization, that volumes of world trade will rise by 1.7% in 2017 are based on standard economic models. Since that forecast was issued, much has changed in the context of global trade.

Specifically, the past month has seen a regime change in Washington, not just a change in administrations. Starting with the Bretton Woods conference in 1944 at which 44 nations met to establish a postwar framework for international trade and finance, America policymakers have maintained a broad consensus that was favorably disposed to trade liberalization and to constructive engagement (rather than confrontation) in dealing with our trading partners.

That consensus has been shattered. We have entered a period of unprecedented uncertainty about the future of the global trading system and the rules that govern how business is to be done among nations. With Donald Trump in the White House, all international trade forecasts should now prudently default to the worst-case until administration policies are clarified.

We have long known that the benefits of trade are broadly, almost imperceptibly felt, while the costs tend to be localized. Trump's campaign tapped into the frustrations of those who felt themselves victims of free trade agreements and the larger phenomenon of globalization. The President now seems bent on completely reversing the distribution of gains and losses. Henceforth, the winners are to be those fortunate to find work in manufacturing plants that will be increasingly populated by robotic machinery. The losers could be just about everybody else.

Upon taking office on January 20, President Trump promptly squashed any remaining hope that the Trans-Pacific Partnership (TPP) might be approved. While he has indicated a preference for bilateral accords, implementation of TPP would have yielded near-term benefits for a wide range of U.S. industries from farms to pharma as well as more business for U.S. West Coast ports. Dickering over the details of bilateral deals is apt to be a time-consuming exercise that will only delay outcomes without any assurance of more advantageous results. In effect, Trump risks turning a silk purse into a necklace of sows' ears.

His belligerent demeanor in dealing with other world leaders is unlikely to be productive. Still, in recent days, there have been signs that presidential bravado may be giving way to more measured deliberations as the new administration gradually discovers the real-world constraints on policymaking. With respect to NAFTA, both the U.S. and Mexico now seem prepared to reappraise an agreement that was drafted nearly a quarter century ago when negotiators could not have comprehended the changes that have since occurred in supply-chains, industrial processes, and product lines.

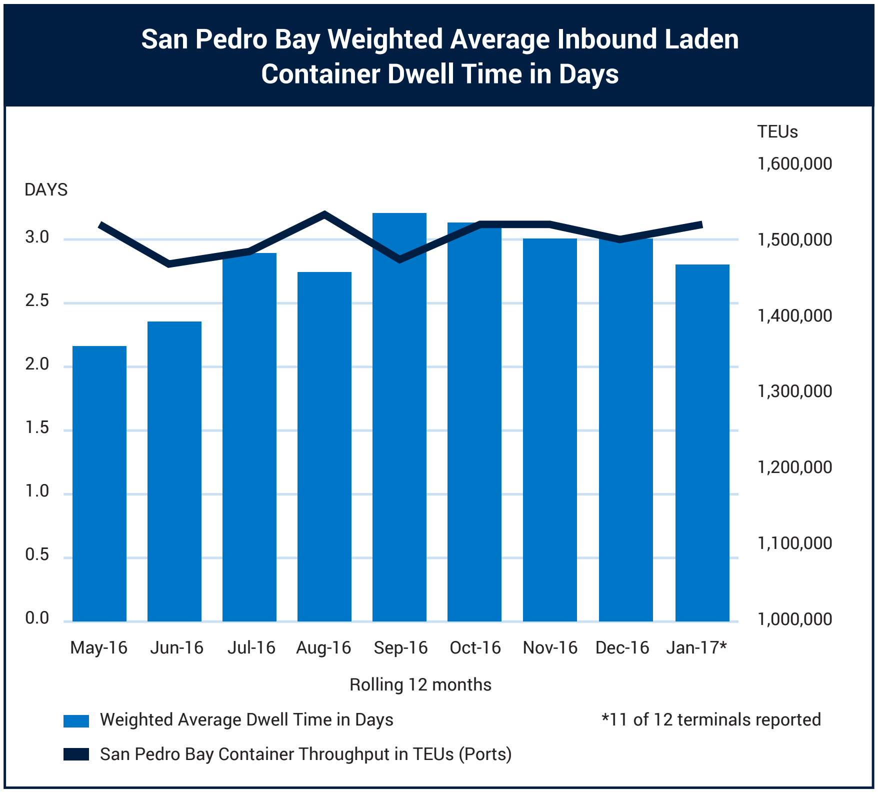
On the other hand, relations with China remain fraught with risk not only of a trade war but an actual military conflict in the South China Sea. Trump's appointment of Peter Navarro to head a new National Trade Council and his nomination of Robert Lighthizer as U.S. Trade Representative put two virulently anti-China hardliners in positions of great influence. At the same time, the new Secretary of State, Rex Tillerson, has overtly challenged China's territorial claims to artificial islands in the South China Sea. That language, coupled with Trump's telephone conversation with Taiwan's President Tsai and the subsequent doubts raised about whether the U.S. would continue to observe the One-China Policy, hardly represented a promising prelude for whatever Sino-American trade talks eventually take place. Fortunately, Trump was evidently persuaded to wind back at least that rhetorical excess in a belated telephone conversation with President Xi.

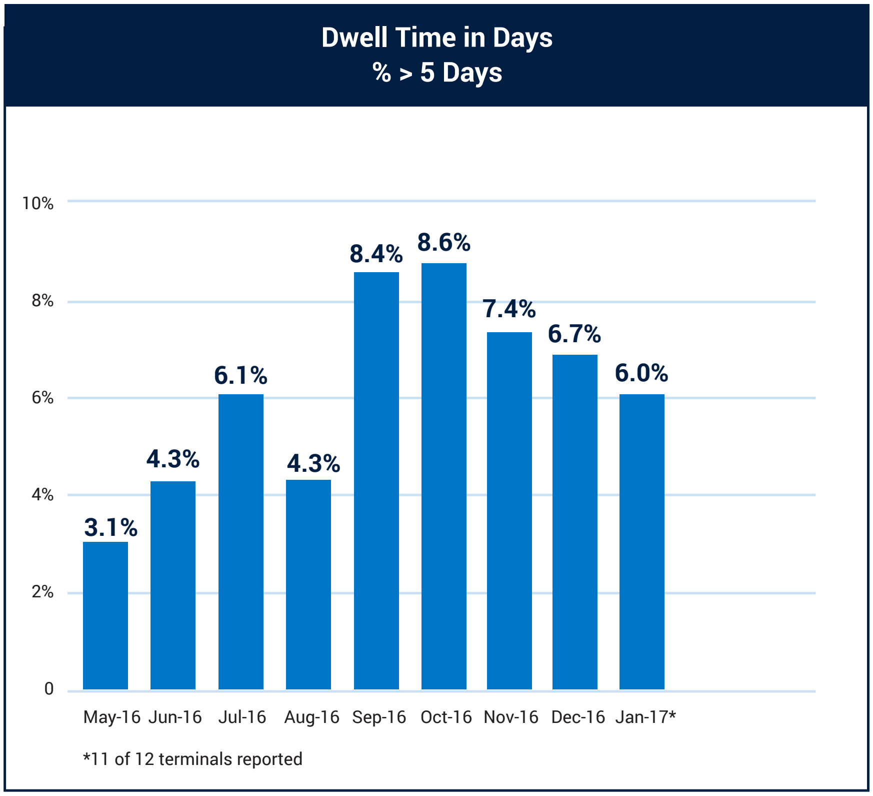
Commentary Continued

U.S. West Coast seaports handled two-thirds of America's containerized China trade. Anything that would diminish the flow of trade through those ports would have a serious economic impact not just on the ports themselves and importers and exporters they serve but also on the legions of blue-collar workers involved in processing the goods transiting those ports.

So far, though, the Trump White House has had little of substance to say about trade with China. With some trepidation, we wait for the first shoe to fall.

Container Dwell Time Continues to Improve





Gender Discrimination in the Pacific Northwest

By John McLaurin
President, PMSA

In 2016, a jury awarded a woman $3.6 million in a gender discrimination lawsuit filed against the Puget Sound Pilot Commission, a Washington State agency. The woman, a former deep draft vessel master, was awarded the money after she was denied a state pilot license. She was the first woman to successfully apply and enter the training program to be a Puget Sound pilot.

Following the multi-million-dollar jury verdict, the State of Washington filed an appeal. But at some point the State halted their appeal and entered into settlement negotiations with the plaintiff, resulting in a doubling of the jury award, bringing the total settlement to just over six million dollars.

The training program for pilot candidates is essentially managed by pilots – assessing and evaluating the trainees. Pilots ultimately provide the key input and recommendations to the Washington State Board of Pilotage Commissioners as to whether to license a pilot candidate or not. In this particular case, the pilots recommended that the Board not issue a pilot's license, and the Board concurred. In the end, the State lost the gender discrimination lawsuit and paid a $6.1 million settlement.

The Pilot Commission operates with limited funds, and all costs for pilotage are ultimately borne by the users of the pilot service that provide revenue via a mandatory tariff set by the state. Given the budget of the Pilot Commission and how the state of Washington funds settlements and lawsuits, ocean carriers who are required by law to utilize Puget Sound Pilots may be forced to pay a lawsuit settlement they had no role in. These day-to-day users of pilot services don't really know anything about the pilot training program other than a trainee might be on the bridge of their ship. Any performance evaluation, critique, or review of the individual pilot would not be known by a ship operator coming into Puget Sound. Still, ocean carriers may be tapped to become the financial backstop for the acts of others.

Pilotage in Puget Sound, like most ports across the nation, is mandatory and provided by an exclusive monopoly. The fate of pilot trainees is a function of the training and subsequent evaluations done by their potential future business partners.

At the state Capitol, PMSA has been pointing out the unfairness of this situation and has received acknowledgement from legislators and the Governor's office about the absurdity of ocean carriers taking on this cost burden. While state mandated pilotage has a long tradition in this country, this case illustrates a need for a fresh look. PMSA is working to ensure that the underlying discriminatory behavior identified by the court will be changed and be prevented going forward; but it also requires that full responsibility be placed on those who were the cause of such actions.

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