



Jock O'Connell's Commentary: Musing Over CAAP 2017

Late last month, the Ports of Los Angeles and Long Beach released their proposed 2017 Clean Air Action Plan (CAAP) Update. The document, now open for public comment through September 18, outlines a highly aggressive strategy to “ultimately achieve zero emissions for trucks and terminal equipment.”

The two ports have also released a detailed cost analysis by EnSafe, a Tennessee-based consulting firm. The numbers in the EnSafe analysis quickly fall into the daunting “a billion here, a billion there” category. Unfortunately, as we shall see, the numbers that are not in the EnSafe study are likely to be even more daunting.

Here we don't propose to do a full-blown audit of EnSafe's cost estimates. Instead, we simply would like to emphasize just how extraordinarily conditional those estimates are by highlighting the several times the folks at EnSafe candidly concede that their cost estimates could very well prove to be, well, fantastic.

The following quotes – pre-emptive *mea culpas* if you will – are from the introductory pages of the EnSafe report.

- *“In many cases, assumptions have been made to estimate the cost of technology that is not commercially available.”*
- *“At this time, the state of near-zero and zero-emission technology development varies...The variability in the emerging near-zero and zero-emission market creates large uncertainties in the costs of future equipment and related infrastructure.”*
- *“This analysis assumes terminal and Port operations remain the same or similar to existing conditions.”*
- *“This analysis does not include maritime terminal costs resulting from implementation of the near-zero and zero-emission technology into ongoing terminal operations such as increased costs resulting from reduced productivity, lost revenue from repositioned cargo to other terminals during construction, or costs of phased construction.”*

- *“The analysis does not include cost estimates for fueling or charging infrastructure for heavy-duty trucks, which is likely to exist outside the Harbor Districts and throughout the region.”*
- *“Furthermore, estimates are based on costs in 2017; inflation and the ‘future cost of money’ have not been included in this analysis.”*

These are all very reasonable and honest allusions to the conditionality of economic forecasting. Projecting costs or even future levels of maritime traffic at the two ports is fraught with the perils of prophecy, especially given the fluid nature of today's shipping industry (e.g., alliance consolidation, ever larger vessels, shifting trade routes) as well as the fairly peculiar competitive challenges posed by California's aggressive regulatory environment.

I am prepared to wager heavily that, by 2030, the cost estimates offered by EnSafe will be a mere fraction of the actual expenditures that will ultimately be required to implement CAAP 2017. So that is why many of us find the reluctance of public officials to squarely address what we believe is the most fundamental issue here: Who's going to pay?

Right now, neither the State of California nor the United States Government appears eager to contribute more than token amounts. Will the shipping lines, terminal operators, truckers, railroads pony up the billions that will be needed? Will the ILWU offer wage and benefit concessions? Will port pilots hold a bake sale? Will beneficial cargo owners agree to a CAAP compliance surcharge or would they just take their business elsewhere?

Perhaps, taking a cue from the President, we should just demand that the Chinese pay.

Jock's comments are his own and do not necessarily represent the views of PMSA.



Parsing the June 2017 Loaded TEU Numbers

The Ports of Long Beach, Los Angeles, and Oakland have jumped ahead of us by posting their July container trade numbers. Collectively, the two San Pedro Bay ports saw inbound TEUs jump by 14.6% (or 101,606 TEUs) over last July. At the San Francisco Bay port, inbound TEUs meanwhile nudged up 2.6%. The numbers were much less gratifying on the outbound trades, with the Southern California ports reporting a 2.1% increase over July 2016, while outbound TEUs at Oakland actually fell by 3.5%.

Inbound traffic in June. The five major U.S. West Coast (USWC) container ports – Los Angeles, Long Beach, Oakland, Tacoma, and Seattle – collectively handled 29,422 more inbound TEUs than they did in June 2016 for a year-over-year gain of 3.4%. Growth was held down by a dreadful

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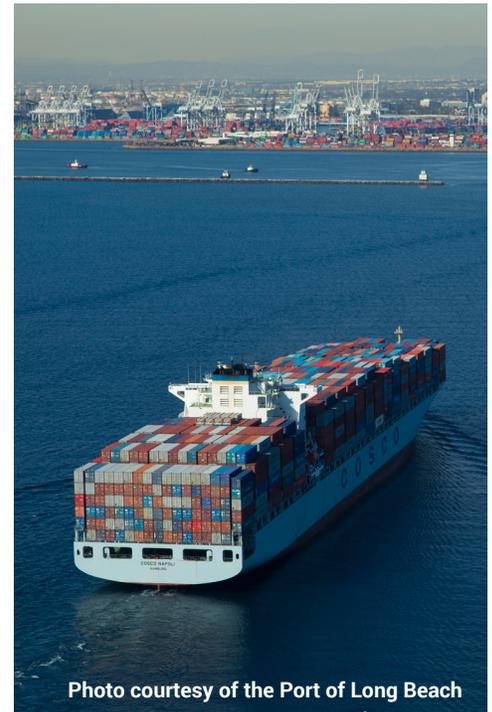


Photo courtesy of the Port of Long Beach

Exhibit 1 June 2017 - Inbound Loaded TEUs at Selected Ports

	June 2017	June 2016	% Change	June 2017 YTD	June 2016 YTD	% Change
Los Angeles	372,272	355,623	4.7%	2,245,281	2,127,146	5.6%
Long Beach	335,328	313,526	7.0%	1,758,412	1,673,477	5.1%
Oakland	80,253	76,368	5.1%	449,718	434,907	3.4%
NWSA	115,788	128,702	-10.0%	694,175	649,215	6.9%
NYNJ	295,321	270,617	9.1%	1,630,943	1,543,489	5.7%
Philadelphia	23,938	19,489	22.8%	134,828	113,213	19.1%
Maryland	40,581	39,298	3.3%	227,972	211,639	7.7%
Virginia	103,006	93,630	10.0%	602,602	553,626	8.8%
South Carolina	81,307	71,822	13.2%	480,691	427,918	12.3%
Georgia	154,738	132,299	17.0%	904,211	802,114	12.7%
Jaxport	23,932	20,889	14.6%	144,650	120,816	19.7%
Port Everglades	25,972	23,232	11.8%	186,742	173,495	7.6%
Miami	44,771	45,110	-0.8%	262,680	269,452	-2.5%
New Orleans	18,295	21,236	-13.8%	120,247	139,140	-13.6%
Houston	97,042	77,392	25.4%	514,116	407,623	26.1%
Vancouver	135,290	118,147	14.5%	803,553	719,044	11.8%
Prince Rupert	51,834	35,305	46.8%	242,711	220,137	10.3%
Manzanillo	72,148	63,842	13.0%	396,418	365,325	8.5%
Lazaro Cardenas	35,556	34,579	2.8%	195,220	180,565	8.1%

Source Individual Ports



Parsing the June 2017 Numbers Continued

month at the Northwest Seaport Alliance Ports of Seattle and Tacoma, which collectively reported a 10.0% (-12,914 TEU) drop in imports. North of the border, Vancouver and Prince Rupert posted a healthy 21.9% gain (+33,672 TEUs). South of the border, the Ports of Manzanillo and Lazaro Cardenas saw a 9.4% growth (+9,283 TEUs).

On other coasts, the ports we track mostly posted double-digit year-over-year gains in June. Savannah recorded a 17.0% increase (+22,439 TEUs) over June 2016, more than the increases seen at either Long Beach (+21,862 TEUs) or Los Angeles (+16,649 TEUs). Houston also continued to show impressive growth in import traffic (+25.5% or +19,650 TEUs). However, the expanded Panama Canal is apparently not bringing higher containerized import volumes to the Ports of Miami and New Orleans.

On the export side, the Big Five USWC ports handled 16,023 fewer outbound TEUs this June than they had a

year earlier, a decline of 3.7%. Meanwhile, the two British Columbia ports saw their outbound trades edge up 3.4% (+5,281 TEUs) and the two Pacific Coast Mexican ports we track saw a 2.8% rise (+1,046 TEUs) in June exports. East/Gulf Coast ports generally fared well, except for the declines at Virginia and New Orleans and the meager 0.7% increase in outbound TEUs at Miami in June.

Looking at U.S. Commerce Department value and weight trade statistics, USWC ports saw a meager 0.5% increase in imported containerized tonnage over June 2016, while all other U.S. mainland ports collectively enjoyed a 7.6% bump. By declared value, USWC ports recorded a 0.7% decline from June 2016 to June 2017, while all other U.S. mainland ports reported a 6.6% increase.

By declared weight of the containerized exports, USWC ports saw a 2.2% increase in tonnage over June 2016, while other U.S. mainland ports enjoyed a 4.5% rise.

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Exhibit 2 June 2017 - Outbound Loaded TEUs at Selected Ports

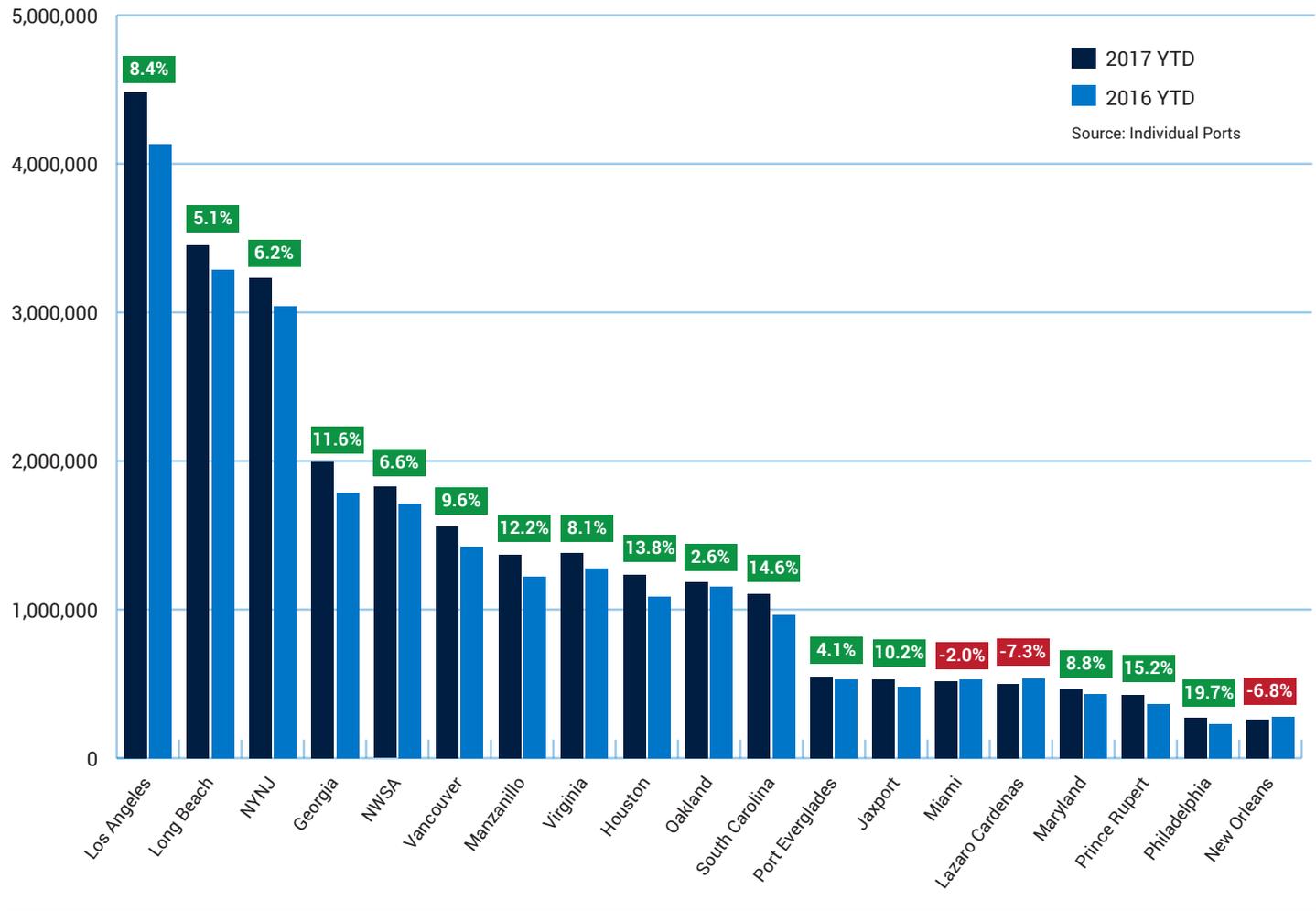
	June 2017	June 2016	% Change	June 2017 YTD	June 2016 YTD	% Change
Los Angeles	145,528	140,562	3.5%	982,379	879,246	11.7%
Long Beach	118,304	128,099	-7.6%	761,830	736,457	3.4%
Oakland	75,460	73,676	2.4%	460,199	457,472	0.6%
NWSA	73,916	86,894	-14.9%	476,745	469,188	1.6%
NYNJ	122,119	115,484	5.7%	692,521	676,319	2.4%
Philadelphia	22,190	19,197	15.6%	137,943	114,671	20.3%
Maryland	20,744	19,395	7.0%	120,753	118,445	1.9%
Virginia	81,534	81,810	-0.3%	520,959	492,742	5.7%
South Carolina	65,539	58,068	12.9%	405,822	364,828	11.2%
Georgia	112,845	104,995	7.5%	700,792	646,640	8.4%
Jaxport	36,975	31,030	19.2%	203,841	186,517	9.3%
Port Everglades	36,939	32,673	13.1%	213,169	198,056	7.6%
Miami	44,002	43,715	0.7%	257,681	261,330	-1.4%
New Orleans	22,851	23,317	-2.0%	142,153	142,268	-0.1%
Houston	78,667	75,609	4.0%	516,999	472,350	9.5%
Vancouver	91,015	89,789	1.4%	560,378	540,639	3.7%
Prince Rupert	13,166	10,949	20.2%	76,009	83,316	-8.8%
Manzanillo	32,513	27,232	19.4%	175,387	149,851	17.0%
Lazaro Cardenas	5,996	10,231	-41.4%	38,292	45,010	-14.9%

Source Individual Ports



Parsing the June 2017 Numbers Continued

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



Even though outbound TEU traffic was down in June from USWC ports, by declared value, those same ports recorded a 14.1% increase in exports from June 2016 to June 2017, while other U.S. mainland ports reported a 10.7% increase.

Now looking solely at the transpacific containerized trade, USWC ports held a 68.0% share of the declared value of containerized imports arriving at mainland ports from East Asia, down from 69.1% in May and from 70.1% in June 2016. USWC ports' share of the declared weight of the contents of containerized imports arriving at mainland

ports from East Asia in June was 58.5%, down from 60.5% in May and from 61.3% a year ago. For containerized exports to East Asia from mainland ports, the USWC share by declared weight stood at 62.6% in June, up from 62.0% in May and from 61.6% in June 2016. (USWC share rose because the weight of containerized exports from other mainland ports fell by 4.1% from last June.) On a value basis, the USWC share in June was 68.9%, down from 69.8% in May but up from 67.0% last June.

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Parsing the June 2017 Numbers Continued

Worldwide Destinations and Origins. By declared weight, China is by far the biggest destination of USWC containerized exports with a 34.5% share in the first half of 2017. That was down from 35.0% in the first six months of 2016. Japan was second with a 12.6% share, down from 13.0% a year earlier, while South Korea held an 11.0% share (up from 10.6% last year). However, June export tonnage to China dropped sharply (-14.2%) from June 2016, the second consecutive month of significant fall-off in the USWC's China export trade.

China's share of containerized imports via USWC ports was 54.5% in June, with Japan trailing behind with a 5.2% share. June import tonnage from China was up 2.4% over last June, while import tonnage from Japan fell 7.9% year-over-year.

By declared value, China was the top destination of USWC exports in the first half with a 23.2% share, followed by Japan (16.3%). China also originated 55.5% of the value of containerized imports entering USWC ports in the first half of 2017, followed by Japan (11.9%).

Containerized export tonnage from USWC ports grew by 2.2% y/y in June. One interesting development worth monitoring is that, while Scrap Paper (HS 4707) remained the single largest export commodity with a 16.8% share of the total, its tonnage fell by 8.5% from last June. Until now, Scrap Paper had been driving what looked to be an abnormally high rate of containerized export growth. On the upside, shipments of agricultural produce and forest products tended to show strong double-digit tonnage growth over last June. Containerized import tonnage in June was led by Furniture, up +7.3% over last June and Auto Parts (+0.8%).

The Scrape Over Scrap. On July 18th, China advised the World Trade Organization that, by the end of this year, it will no longer accept imports of 24 categories of solid waste as part of a government campaign against *yang laji* or "foreign garbage". In 2016, according to The Economist, nearly a quarter of America's biggest exporters by volume were recyclers of paper, plastic, or metal. Topping the list was America Chung Nam, a California-based supplier of waste paper which last year exported 333,900 containers, almost all of them to China.

As we have noted in previous issues of this newsletter, Scrap Paper (HS 4707) has been the single largest containerized export commodity (by declared weight) from USWC ports for several years now. Its share has been steadily increasing from 11.0% in 2014 to 12.4% in 2015 to 16.2% in 2016. Through the first half of 2017, HS 4707 accounted for 16.5% of all containerized exports from the USWC, roughly twice the share of the next largest export commodity (forage crops).

China, by far, is the biggest customer for our Scrap Paper, accounting for 84.5% of all tonnage shipped from USWC ports last year.

Fortunately, Beijing is not proposing a total embargo on all Scrap Paper imports. The Chinese notice to the WTO singled out Unsorted Scarp Paper (HS 470790), which last year represented 18.8% of containerized scrap paper exports from USWC ports to China. So far, the great majority of the Scrap Paper trade with China looks secure. Still, since USWC shipments of Unsorted Scrap Paper last year totaled just over 1.1 million tons, an outright ban on imports of HS 470790 would obviously leave a large number of outbound TEUs looking for new cargo.



The Clean Air Action Plan – Can Ports Compete If It Is Enacted?

By John McLaurin
President, Pacific Merchant Shipping Association

The Ports of Los Angeles and Long Beach have published a draft Clean Air Action Plan (CAAP), a document that was widely publicized and praised by the ports. According to port leaders, the CAAP, in terms that would make Star Trek's famous Captain James T. Kirk proud, would lead the ports to go "...where no port has gone before," through a "...new array of technologies and strategies to further lower port-related emissions in the decades ahead."

The success in reducing transportation emissions related to port activities is well-documented and a function of cooperative and voluntary efforts, as well as compliance with regulatory measures by marine terminal operators, ocean carriers, trucking companies and harbor craft. You would be hard pressed to name an industry that has seen such dramatic reductions in emissions in as such a short period of time as compared to the maritime industry.

But the CAAP will bring about even more transformational changes to the San Pedro waterfront. The draft CAAP represents a gamble on the part of those pushing for these changes to dramatically reduce emissions without negatively impacting jobs or trade volumes.

It is also a gamble by the International Longshore and Warehouse Union (ILWU), which has taken a back seat to the overall zero-emission debate – except to advocate the prohibition of the use of certain public funds for automated zero emissions equipment.

The CAAP's goals, while admirable, also raise significant questions – queries that must be answered before either port commission approves this document. The most fundamental questions revolve around whether the technology relied on in the CAAP will actually be in existence and commercially available to meet the zero-emission deadlines of 2030.

Second and equally important, where will the money come from (we're talking about billions of dollars) to pay for this equipment and will exceptionally high costs divert cargo to other gateways?

Why does the CAAP specify a specific technology, power source and operational mandate? The CAAP declares itself to be "...technology-neutral, fuel-neutral, and operations neutral" – but the current draft has a clear preference for non-automated zero-emissions equipment...equipment that currently does not exist.

With regard to the ILWU, despite the CAAP's preference for non-automated zero-emissions equipment, will the cost of zero-emissions equipment coupled with operational restrictions and fines be so high as to actually encourage marine terminals to use automation as a way of achieving the port's zero-emission goals?

Ultimately, all questions about the CAAP circle back to those involving cost, cargo availability and velocity. According to the Ports of Los Angeles and Long Beach, the cost of the CAAP is estimated to be between \$8.5 and \$14 billion. Cost estimates utilize prices for "...zero emission options that do not exist." The port estimates also do not include a number of costs that would directly impact their tenants and customers such as:

- A fee assessed against cargo owners for use of dirty trucks starting in 2023.
- "...increased costs resulting from reduced [terminal] productivity, lost revenue from repositioning of cargo to other terminals during construction, or costs of phased construction."
- Ongoing operational or maintenance costs.

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The Clean Air Action Plan – Can Ports Compete If It Is Enacted? *Continued*

- Fueling or charging infrastructure for heavy duty trucks, which will need to exist outside the harbor districts.
- Imposition of fines or penalties on trucking companies or terminal operators for failing to meet appointment window requirements – or the cost of reducing cargo volumes in order to avoid such penalties.

Despite these omissions, the CAAP repeatedly warns about the cost impacts that will be imposed on cargo owners, terminals, ocean carriers and the ports themselves by stating that, “Keeping the ports economically competitive... will be challenging” and that “...these strategies will place an enormous financial burden on the Ports and the goods movement industry.”

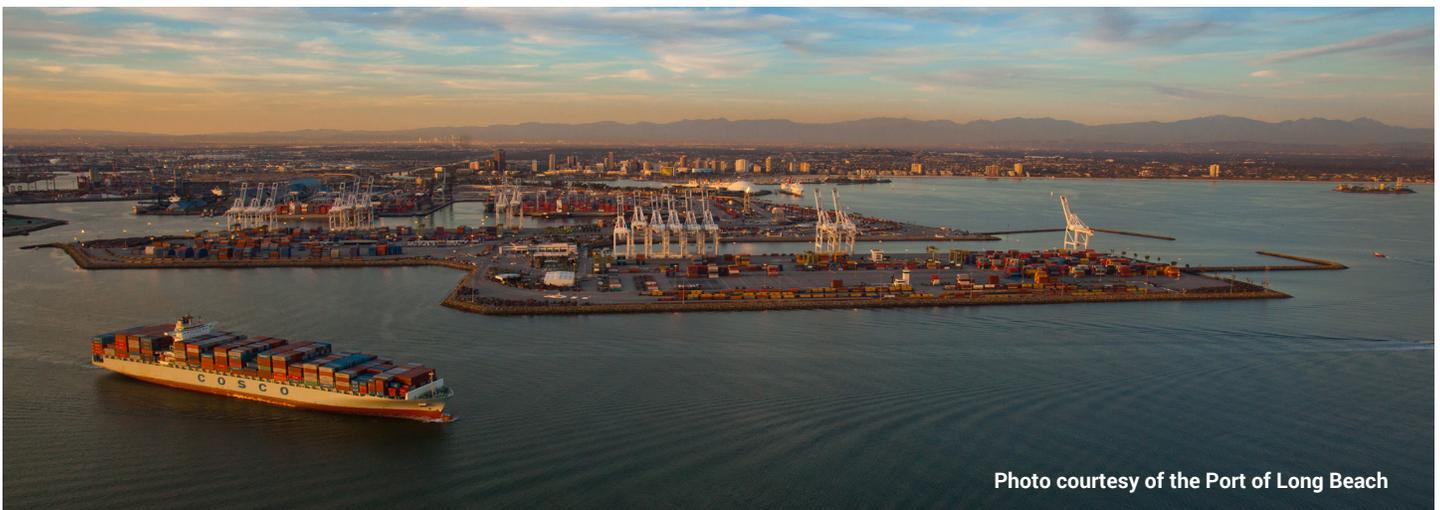
Interestingly, one solution offered by the ports is to impose some of the CAAP strategies and costs throughout the nation “...through state and federal mandates, in order to minimize impacts to economic competitiveness for our customers.” However, assuming

that other competing North American port gateways will follow the lead of the ports of Los Angeles and Long Beach is highly speculative, or naïve...or both.

The CAAP also acknowledges that it does not contain a “detailed economic analysis of individual CAAP strategies” and “does not purport to determine the net effect of the CAAP strategies on the industry or public health.” In other words, no one really knows what impact, either for good or bad, the CAAP will bring to the Ports of Los Angeles and Long Beach, surrounding communities and those that rely on the ports for jobs.

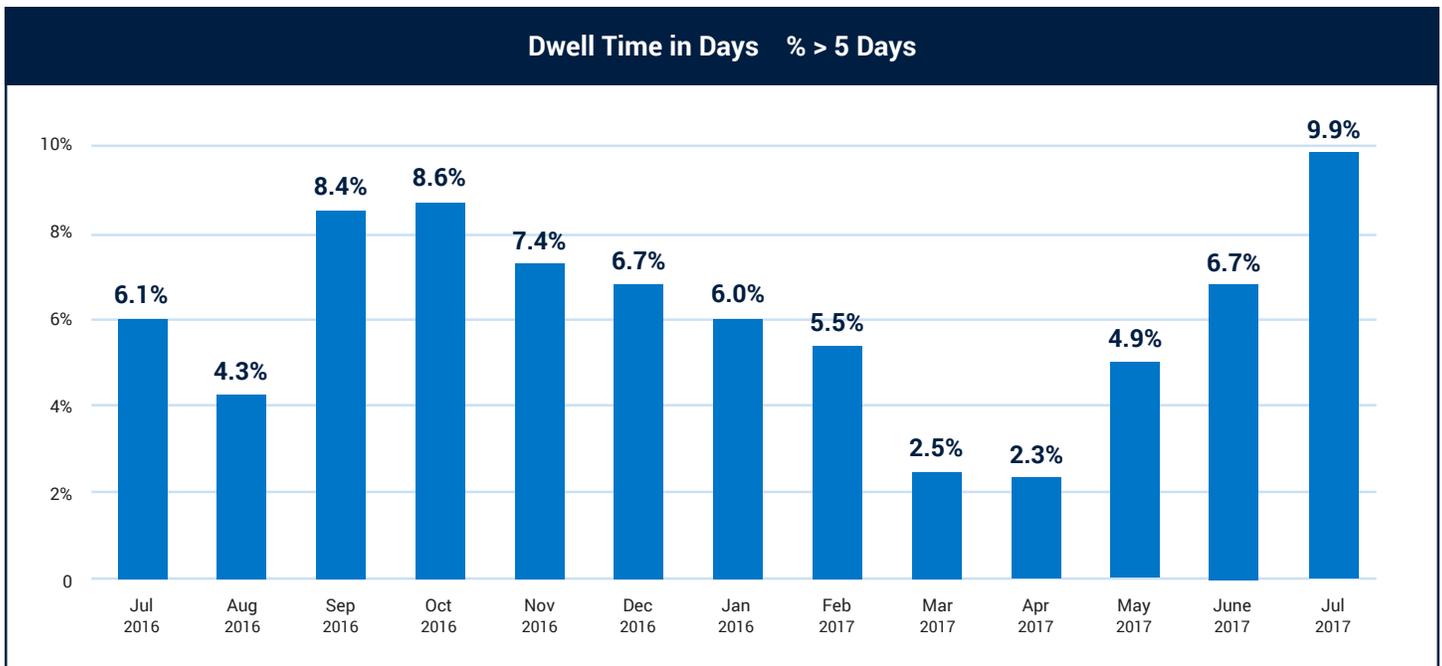
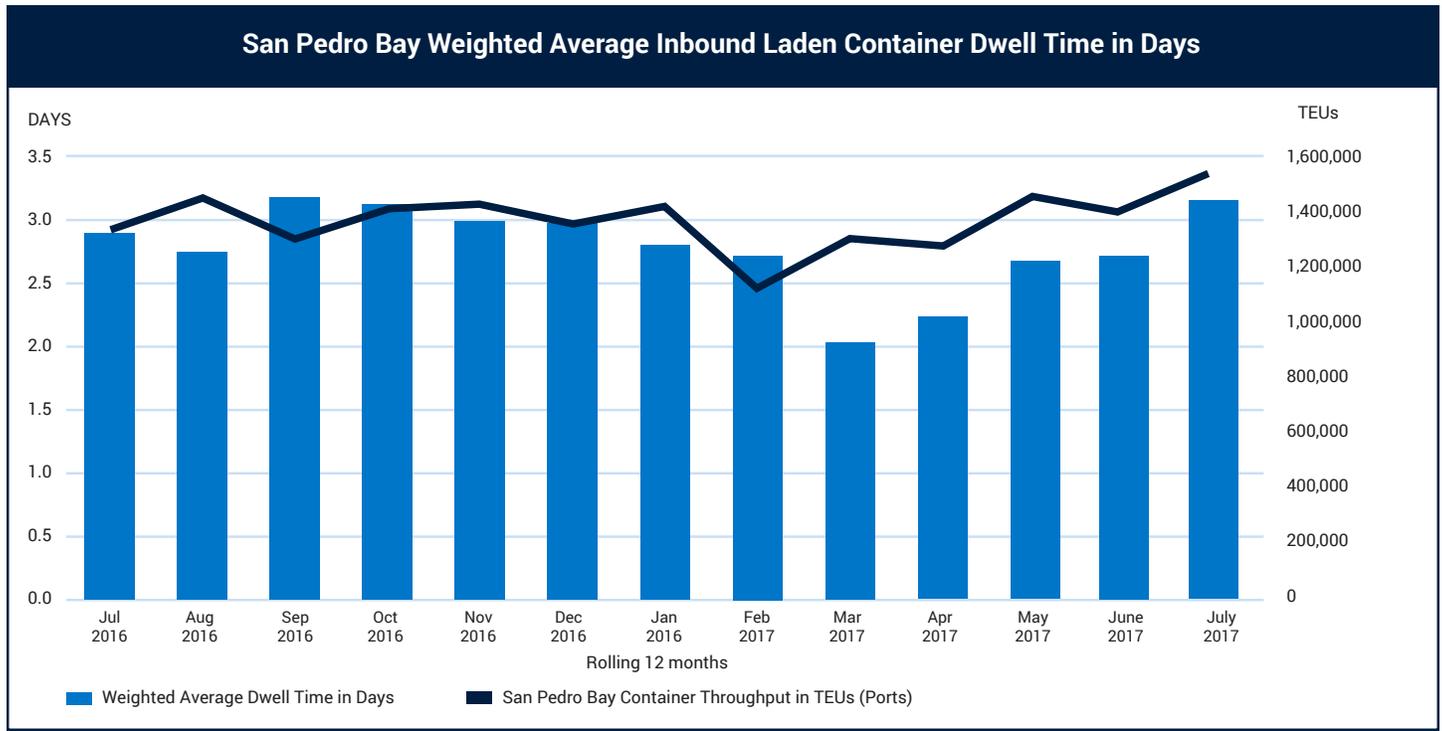
With as yet to be developed technology forming the basis of speculative cost estimates coupled with no reliable funding stream to meet a 2030 deadline that is without rationale, and in the absence of any analysis of the overall economic and environmental net effect, we are left with a CAAP that is based mostly on faith.

On behalf of all of us who work at the ports, let us all pray.





Container Dwell Time Increases In July



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