PMSA

West Coast Trade Report

January 2018

Parsing the November 2017 Loaded TEU Numbers

Returns for December are starting to trickle in, and they are mixed. Both inbound and outbound loaded TEU totals at the Port of Los Angeles were down from the same month a year earlier. Next door at the Port of Long Beach, December inbound traffic soared by 27.3% year-over-year, while outbound shipments were up 11.8%. Together, the San Pedro Bay ports posted a healthy 9.8% rise in inbound TEUs but a meager 0.9% increase in outbound TEUs. The Port of Oakland, meanwhile, posted year-over-year increases in both directions as did the Northwest Seaport Alliance. The NWSA and the three big California ports all boasted of having their Best Year Ever in terms of total TEU volumes (loaded plus empties).

Inbound loaded container traffic in November. November saw the Ports of Los Angeles and Long Beach reassert themselves as the nation's dominant container import terminals. The two San Pedro Bay ports handled 75,241 more loaded inbound TEUs than they had in November 2016, a gain of 10.6% and more than twice the combined increases in inbound loaded TEUs of the principal Atlantic Coast container ports from New York to Miami.

Continued

Exhibit 1 November 2017 - Inbound Loaded TEUs at Selected Ports

	Nov 2017	Nov 2016	% Change	Nov 2017 YTD	Nov 2016 YTD	% Change
Los Angeles	463,691	437,050	6.1%	4,330,597	4,150,530	4.3%
Long Beach	319,210	270,610	18.0%	3,517,466	3,170,976	10.9%
Oakland	72,330	73,473	-1.6%	836,741	809,707	3.3%
NWSA	113,451	133,221	-14.8%	1,262,909	1,268,049	-0.4%
NYNJ	285,070	271,755	4.9%	3,119,148	2,935,287	6.3%
Philadelphia*	17,852	19,031	-6.2%	245,429	211,368	16.1%
Maryland	37,698	34,554	9.1%	432,715	386,571	11.0%
Virginia	110,673	101,861	8.7%	1,170,469	1,077,183	8.7%
South Carolina	76,580	73,910	3.6%	874,862	812,521	7.7%
Georgia	144,181	139,732	3.2%	1,727,813	1,527,448	13.1%
Jaxport	22,972	22,532	2.0%	265,574	233,043	14.0%
Port Everglades	30,580	29,133	5.0%	325,732	306,250	6.4%
Miami*	48,008	45,808	4.8%	483,205	482,239	0.2%
New Orleans*	21,261	20,820	2.1%	221,613	239,284	-7.4%
Houston	87,306	79,266	10.1%	982,262	810,441	21.2%
Vancouver	152,686	128,159	19.1%	1,545,997	1,385,790	11.6%
Prince Rupert	46,493	27,592	68.5%	480,400	401,100	19.8%
Manzanillo*	72,762	67,992	7.0%	813,534	733,133	11.0%
Lazaro Cardenas*	40,771	37,812	7.8%	442,368	425,499	4.0%

*Does not distinguish loaded from empty containers.

Source Individual Ports

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Parsing the November 2017 Numbers Continued

The import surge through San Pedro Bay was not, however, matched at either the Port of Oakland which fell short of last November's total by 1.6% (-1,143 TEUs), or at the Northwest Seaport Alliance Ports of Seattle and Tacoma which posted a year-over-year decline of 14.8% (-19,770 TEUs).

Collectively, the five major U.S. West Coast (USWC) container ports – Los Angeles, Long Beach, Oakland, Tacoma, and Seattle -- handled 54,328 more inbound TEUs in November than they did in November 2016 for a year-over-year gain of 5.9%.

North of the border, Vancouver and Prince Rupert combined to post a robust 27.9% gain (+43,428 TEUs). South of the border, the Ports of Manzanillo and Lazaro Cardenas posted a combined 7.3% increase in import traffic (+24,707 TEUs).

On other coasts, the ports we track posted favorable year-over-year gains in November. New York/New Jersey recorded a 4.0% (+13,315 TEUs) increase over November 2016. From NYNJ to Port Everglades, the seven Atlantic Coast ports we track that distinguish empty from loaded containers in their containerized trade statistics saw a 34,277 TEU (+5.1%) increase in loaded outbound TEUs over November 2016.

On the export loaded TEU side, things were much less positive. The Big Five USWC ports handled 22,007 fewer outbound loaded TEUs in November than they had a year earlier, a decline of 4.6%. The two San Pedro Bay ports posted a combined 2.0% increase (+6,020 TEUs). But that was more than offset by a 10.3% decline (-8,873 TEUs) at the Port of Oakland and a 20.1% drop (-19,154 TEUs) at the Northwest Seaport Alliance ports.

Meanwhile, the two British Columbia ports saw their outbound trades slip by 2.4% (-6,383 TEUs). Numbers at the East/Gulf Coast ports we track were mixed. The

Continued

Exhibit 2 November 2017 - Outbound Loaded TEUs at Selected Ports

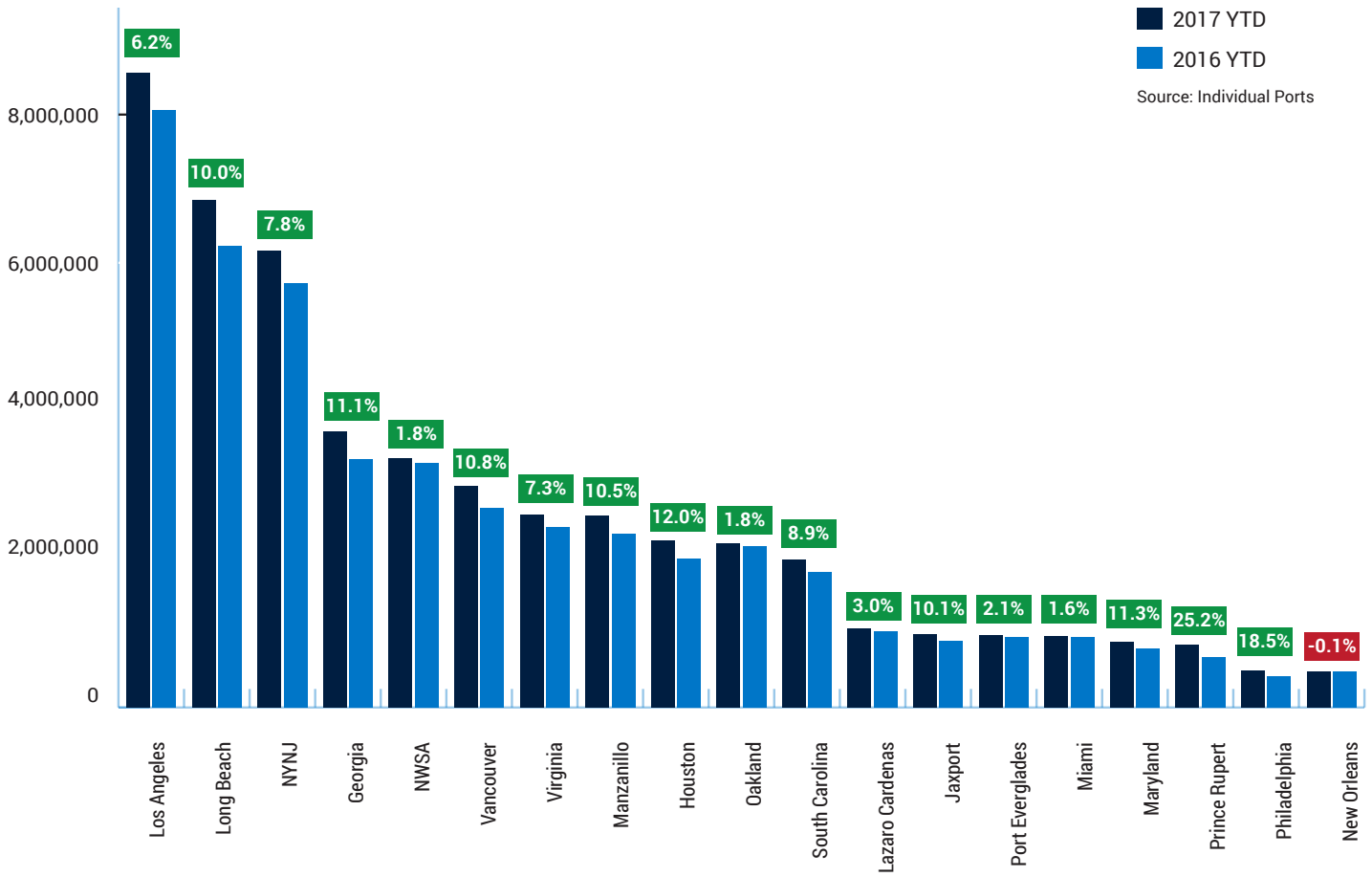
	Nov 2017	Nov 2016	% Change	Nov 2017 YTD	Nov 2016 YTD	% Change
Los Angeles	177,913	177,360	0.3%	1,747,068	1,653,603	5.7%
Long Beach	126,364	120,897	4.5%	1,333,068	1,406,566	-5.2%
Oakland	77,042	85,915	-10.3%	849,400	869,852	-2.4%
NWSA	76,288	95,442	-20.1%	846,665	897,784	-5.7%
NYNJ	128,760	114,884	12.1%	1,293,368	1,244,555	3.9%
Philadelphia*	23,175	16,434	41.0%	254,734	210,613	20.9%
Maryland	18,631	21,721	-14.2%	220,786	218,876	0.9%
Virginia	87,695	94,159	-6.9%	924,331	919,204	0.6%
South Carolina	63,782	65,099	-2.0%	734,510	686,091	7.1%
Georgia	113,278	107,145	5.7%	1,254,153	1,170,178	7.2%
Jaxport	49,001	36,085	35.8%	389,187	351,451	10.7%
Port Everglades	40,229	36,579	10.0%	402,200	380,422	5.7%
Miami*	45,227	42,973	5.2%	476,644	462,845	3.0%
New Orleans*	22,600	21,918	3.1%	267,837	247,685	8.1%
Houston	74,791	73,501	1.8%	881,317	844,492	4.4%
Vancouver	89,949	96,332	-6.6%	1,003,395	1,006,623	-0.3%
Prince Rupert	17,284	13,548	27.6%	151,772	152,193	-0.3%
Manzanillo*	77,535	65,183	18.9%	808,441	712,447	13.5%
Lazaro Cardenas*	34,247	29,621	15.6%	345,174	346,286	-0.3%

*Does not distinguish loaded from empty containers.

Source Individual Ports

Parsing the November 2017 Numbers Continued

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



Port of New York/New Jersey posted an impressive 12.1% gain (+13,876 TEUs) bump in loaded exports in November. The three major Florida ports (Jaxport, Miami, and Port Everglades) recorded a combined 16.3% growth in outbound loaded trade (+18,820 TEUs). By contrast, outbound container shipments were off at Maryland, South Carolina, and Georgia.

Looking at U.S. Commerce Department value and weight trade statistics, USWC ports recorded a 4.3% year-over-year rise in containerized import tonnage in November, while all other mainland ports saw only a slight 0.6% rise. As a result, the USWC share of mainland U.S. containerized import tonnage rose to 42.0%, up from a 38.2% share in October and from a 40.6% share in November 2016. At the San Pedro Bay Ports of Los Angeles and Long Beach, the share of U.S. mainland containerized import tonnage in November was 32.0%, markedly higher than 28.4% in October and from 29.6% a year earlier.

By declared value of containerized imports at U.S. mainland ports, USWC ports held a 50.4% share in November, up from 48.1% in October and from a 49.7% share in November of 2016. At the Ports of Los Angeles and Long Beach, the combined share of the value of mainland U.S. containerized imports in November was

Continued

Parsing the November 2017 Numbers Continued

39.8%, up from 37.4% in October and from 38.5% the previous November.

By declared weight of containerized exports, USWC ports saw a marked rebound from the previous month as their collective share in November stood at 36.0%, up from 33.9% in October, down sharply from 36.3% a month earlier and but nonetheless still down from 43.1% share in November 2016. The San Pedro Bay ports saw their November share recover to 22.0% from 19.7% in October but remain below the 25.7% share a year earlier.

By declared value, USWC ports held a 33.6% share of containerized shipments from mainland ports in November, up from 32.3% in October but down from 36.2% a year earlier. The Los Angeles/Long Beach port complex saw its share of the value of containerized exports from mainland ports recover somewhat to 22.0% from 21.1% in October and but still below the two ports' 23.6% share a year earlier.

The Transpacific Trade. Now looking solely at U.S. containerized trade with the economies of East Asia, USWC ports' share of the declared weight of the contents of containerized imports arriving at mainland ports from East Asia rebounded strongly in November to 62.3%, up sharply from 55.8% in October and even ahead of the 60.8% share recorded in November 2016. The increased shares came despite negative year-over-year showings at the Northwest Seaport Alliance ports and the Port of Oakland, where containerized import tonnage dropped by 9.2% and 4.7%, respectively. Importantly, the Ports of Long Beach and Los Angeles saw their combined share of containerized import tonnage from East Asia in November jump back to 50.2% from 43.8% in October and from 46.8% in November 2016. In dollar-value terms, USWC ports likewise saw their share of containerized imports from East Asia trade jump to 70.5% from 65.8% in October and from 69.6% in November 2016. The Ports of Los Angeles and Long Beach together held a 56.7% share of containerized imports by dollar-value, up from 51.9% in October and ahead of 54.8% in November 2016.

For containerized exports to East Asia from mainland ports, USWC containerized tonnage fell by 3.1% from November 2016. As a result, the USWC share stood at 54.8% in November, up a smidge from 54.7% in October but still well below the 62.1% share in November 2016. Containerized export tonnage to East Asia from the San Pedro Bay ports slipped by 0.2% from November 2016. At the Port of Oakland, the year-over-year decline was 10.9%, slightly better than the 9.7% fall-off at Tacoma. Seattle, meanwhile, showed a 10.2% increase. On a value basis, the USWC share of containerized exports to East Asia in November edged up to 63.6% from 63.3% in October but remained well below the 68.3% share that they held a year earlier.

Worldwide Destinations and Origins. Weight-wise, while China is by far the leading destination of USWC containerized exports with a 29.5% share, trade was down 15.0% from November 2016. Export tonnage to Japan also slipped by 2.9%. Shipments to South Korea rose by 5.0% but fell by 8.9% to Taiwan. On the positive side, exports soared to Vietnam (+55.5%); Indonesia (+19.4%); Thailand (+31.7%); and Australia (+11.5%).

China not surprisingly dominated the containerized import trade via USWC ports with a 55.1% share in November, down slightly from its 55.4% share in November 2016. Japan accounted for 5.8% of import tonnage, up significantly from its 4.6% share a year earlier. Trailing behind were Vietnam (4.9%, up from 4.0%), Taiwan (4.4% up from 4.3%), and South Korea (4.6% up from 4.4%).

NWSA Woes. The Northwest Seaport Alliance Ports of Tacoma and Seattle continued to underperform in November. Statistics compiled by the Pacific Maritime Association continue to reveal widely divergent experiences at the two ports. At Seattle, PMA figures show a 41.5% (+16,757 TEUs) jump in inbound loaded containers over November 2016 but a 22.1% drop (-18,154 TEUs) year-over-year slide at Tacoma. Likewise, Seattle's outbound trade was up 19.4% (+7,241 TEUs) while Tacoma was down 8.2% (-5,471 TEUs).

U.S. foreign trade statistics reveal a similar dichotomy in terms of the declared weight of foreign shipments moving through the two ports. Seattle's containerized imports were up 31.1% over November 2016, while its containerized export tonnage rose 6.1%. Tacoma, meanwhile, handled 23.5% less import tonnage than it had a year earlier and 5.8% less export tonnage. Container traffic at Tacoma began a pattern of year-over-year declines in both imports and exports last May.

Jock O'Connell's Commentary:

Best Years Ever? Let's see about that.

January has brought the belated clamor of trumpets from California port officials proclaiming 2017 as their "Best Year Ever". Down in San Pedro Bay, the neighboring Ports of Los Angeles and Long Beach each boasted of handling record high numbers of TEUs last year. Same for the Port of Oakland. And, while the recently forged Northwest Seaport Alliance did achieve a new high of 3.67 million TEUs as a joint enterprise, the Ports of Seattle and Tacoma actually handled more containers (4.15 million TEUs) in 2005 when they operated independently.

"In 2017, the Port of Los Angeles moved just over 9.3 million twenty-foot equivalent units, which broke our own record, set just last year, for the largest amount of cargo moved in the history of the Western Hemisphere," Executive Director Gene Seroka announced at a January 10 State of the Port luncheon speech.

Over at the neighboring Port of Long Beach, port chief Mario Cordero declared that the port had "finished its busiest year in our 107-year history" with a through-put of over 7.54 million TEUs.

Maritime industry curmudgeons will naturally respond by pointing out, as **Exhibits 4** reminds us, that the huge Southern California ports are only now exceeding the levels of container traffic they saw a decade earlier, before the Great Recession sent maritime trade (not to mention my retirement portfolio) reeling.

There is no denying the cogency of the complaint, even though the ports did handle some 1.26 million more TEUs last year than in the previous year. As a single maritime gateway, the two San Pedro Bay ports saw their combined TEU through-put crest in 2006 at 15.76 TEUs before plummeting 25% to 11.82 TEUs in 2009. Volumes bounced back briskly the next year, but growth then remained uninspiring for the next couple of years. And then any prospects for a robust jump in container volumes ran afoul of a labor-management dispute that slowed traffic through all U.S. West Coast ports from the Fall of 2014 through the following Spring. Since then, though, TEU numbers have increased steadily…but not, as we shall see below, in every respect. If anything, the celebratory focus lavished on the total number of TEUs handled in 2017 diverts attention from some other numbers that are far less flattering.

For one thing, the San Pedro Bay ports have not been operating in a vacuum the past several years. Nearly

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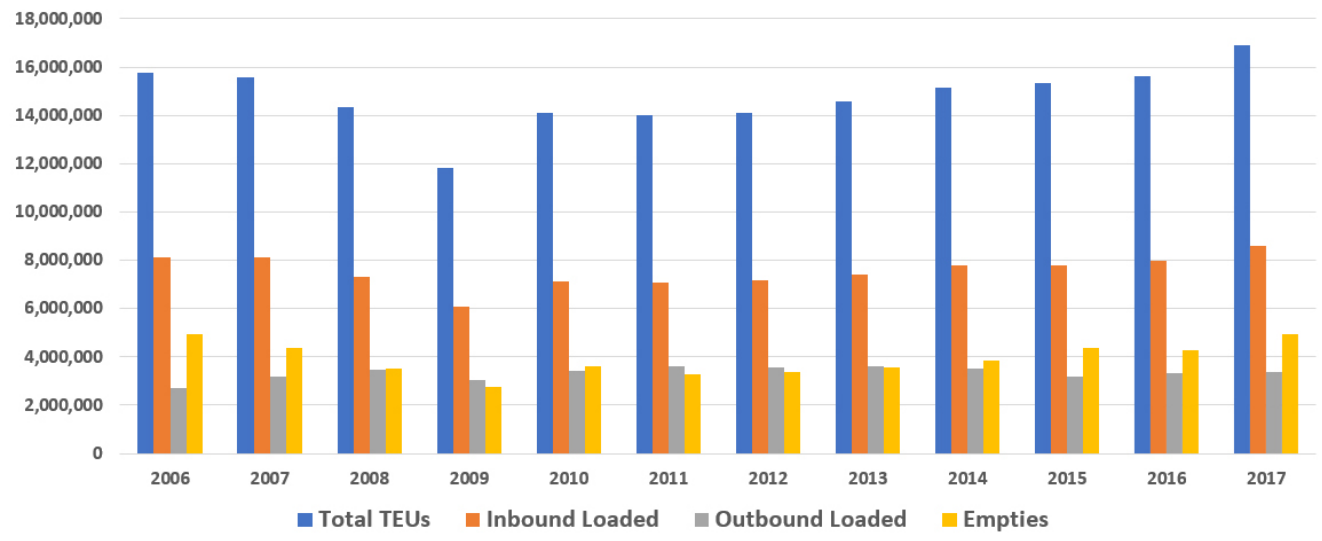
Exhibit 4 **Container Traffic at the San Pedro Bay Ports: 2006-2017**



Best Years Ever? Continued

every other major U.S. container port was much quicker to rebound from the recession. New York/New Jersey eclipsed its pre-recession high in 2011. Savannah bounced back even earlier in 2010. Although the Port of Charleston did not do so until 2016, Virginia recovered its former volumes in 2013, while Houston maintained a remarkable string of uninterrupted annual increases in TEU volumes throughout the recession.

Not surprisingly, the San Pedro Bay ports, while now handling more containers than ever before, have seen their share of America's maritime container trade gradually diminish as their East and Gulf Coast rivals grabbed off a growing portion of the nation's maritime trade with East Asia.

This is not how things were supposed to be.

In a forecast published in December 2007, the base-case scenario for the Ports of Los Angeles and Long Beach expected TEU volumes growing from 15.8 million TEUs in 2006 to approximately 31.04 million TEUs by 2017. Clearly, that estimate badly missed the mark. But then virtually no one anticipated either the abrupt onset of the recession, or its severity, or its global reach. (In what's probably the most astonishing example of forecasting ineptitude from that period, Fitch, one of the three major bond rating services, gave Lehman Brothers a thumbs-up just three days before the financial giant imploded into the largest single bankruptcy in American history on September 15, 2008 and triggered the worst global economic crisis since the 1930s.)

The recession sent the ports' forecasters back to the drawing board to produce a revised bit of guesswork that was published in July 2009, when the global economic downturn was just hitting bottom. The update was prescient in one important respect: "Recovery will be slow, without the sharp rebound that has characterized some previous recessions." Still, the revised outlook expected the two ports to regain their previous peaks of container trade in "about 2013" and that 2017 would see the ports handling some 18.88 million TEUs. In the end, 16.89 million TEUs passed through the two ports last year.

Reality, often in the form of black swans, has a way of upsetting the best-laid forecasts. The updated forecast, for example, could not have foreseen the setback of a coastwide labor dispute that sullied the ports' reputations as reliable conduits for maritime trade and doubtless led numerous shippers to take their business to other maritime gateways in the U.S. and Canada.

But the report also underestimated the impact of another development then on the horizon, if dimly. Perhaps it was sheer serendipity, but in the same year the two San Pedro Bay ports jointly reached the apex of their pre-recession growth, the citizens of Panama voted overwhelmingly in a national referendum to authorize construction of a new set of locks that could accommodate vessels with triple the container capacity of those Panamax ships then squeezing through the existing, nearly century-old locks. That development did not factor much in the ports' revised forecast. Indeed, other than a brief episode of political hysteria in Southern California ("Beat the Canal"), the initial consensus among trade economists was that the new locks would have a relatively minor net impact on container traffic at the San Pedro Bay ports. The possibility that a substantial volume of imported goods might be diverted through the expanded canal to East and Gulf Coast ports tended to be dismissed. As one analyst cavalierly argued: "Goods that will go to East and Gulf Coast ports through the new canal are already going there through the old canal."

That assessment proved more comforting than accurate in terms of market share as shipping lines responded to the opening of the Bigger Ditch through Panama by accelerating the deployment of vessels able to carry upwards of 14,000 TEUs to Atlantic and Gulf Coast ports that had spent mightily to ready themselves for unprecedented volumes of maritime trade.

To be sure, one important reason transpacific container traffic has been increasingly shifting toward ports from Maryland to Houston is that the states that constituted much of the Confederacy have seen higher than average rates of population and industrial growth. Militantly resistant to unions and excessive local regulation and taxes, they have become meccas for investment in manufacturing, most notably in the automotive and aerospace sectors. So, it should shock no one that that shippers would seek out ports nearer these markets,

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Best Years Ever? Continued

especially if enabled by a broader path through Panama.

Still, there is more to competitiveness than tallying up the total containers handled each year. In fact, a closer look at the San Pedro Bay numbers reveals a brace of disturbing concerns. First, with respect to imports, the two ports have not been keeping pace with local growth. Second, as the ports featuring the largest number of sailings to East Asia, the San Pedro Bay ports have been unable to sustain a consistently strong export trade.

Remarkably, until 2017, the total number of inbound loaded TEUs entering the two ports never exceeded the 2006 record of 8,127,865 TEUs. Even the new high in 2017 was only 5.6% higher than the number of inbound loaded TEUs handled in 2006. That is especially noteworthy because, despite a severe recession, the Southern California region immediately served by the two ports was hardly in stasis.

From 2006 through 2017, the population of the four-county region surrounding the ports increased by 7.7% to 17,980,341, according to the Demographic Research Unit of the California Department of Finance. Over the same period, data from the U.S. Bureau of Economic Analysis show that real (i.e., inflation-adjusted) Gross Domestic Product for the Los Angeles-Long Beach-Anaheim metro area rose by about 17.5%. The adjoining Riverside-San Bernardo-Ontario metro area meanwhile saw its real GDP rise by 16.2%. In other words, the pace of growth in inbound containerized goods through the Ports of Los Angeles and Long Beach failed to keep pace with the economic growth of the ports' immediate service area.

On the export side, the story is even more disappointing. The 3.37 million loaded outbound TEUs in 2017 were not only below the pre-recession high set in 2006 but were also less than the ports handled in every year from 2010 through 2014. So, although the value of U.S. merchandise exports has increased in real terms by 43.1% since 2006, you wouldn't know it by looking at the statistics of the Ports of Los Angeles and Long Beach.

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

Miscellaneous Observations on Maritime Trade

Curious impact of China's Get-Clean restrictions on recyclable imports. Chinese restrictions on imports of scrap paper, metals, plastics, and other recyclables are more than just gnawing away at the back-haul trade from West Coast seaports. Shipments of scrap paper (HS 4707) should be of foremost concern because this low-value commodity had been filling so many containers being back-hauled to the People's Republic in recent years. While the new restrictions do not officially kick in until this March, containerized HS 4707 exports to China began to drop last fall and in November were down 93,393 metric tons or 30.1% from the same month a year earlier. In the twelve months preceding the announcement of import restrictions last year, HS 4707 accounted for an average 42.7% of containerized export tonnage from USWC ports to China.

Rather less consequential in terms of the impact on container volumes are the Chinese policies aimed at improving the quality of recyclable plastic imports. Shipments of HS 3915 (Waste, Parings, and Scrap of Plastics) from USWC ports to China were down 72.6% in November from a year earlier. In the twelve months prior to the announcement of new quality standards on imported recyclables, plastic scrap accounted for an average of 2.7% of the containerized export tonnage from USWC ports to China. However, contrary to what has lately been reported in the MSM and the generally but not always better-informed

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Miscellaneous Observations Continued

trade press, not all seems lost. While China may be raising its standards for various waste product imports, others are not. And not necessarily because their own industrial needs demand it. Rather, it seems what we have here could just be a case of someone in, say, Haiphong or Kaohsiung possibly knowing someone in, say, Hong Kong who conceivably may know someone in, say, Guangzhou or Ningbo. So perhaps that helps explain why November USWC exports of scrap paper to Vietnam leapt by 1130.4% (+36,232 metric tons) over the same month a year earlier, while shipments to Taiwan were up 342.1% (+31,878 metric tons). HS 4707 exports from USWC ports also surged to Indonesia and India in November, with tonnage up 256.2% (+10,020 metric tons) and 308.1% (+7,744 metric tons), respectively. So, at least as 2017 drew near to a close, a largely opportunistic trade is mightily helping offset the lost scrap paper exports to China. It will be interesting to see how long the buoyant gray-market trade persists.

Yes, we [may soon] have no bananas. In 2016, the USWCS ports (mostly Port Hueneme and San Diego) handled 1,196,470 metric tons of imported bananas (HS 080390). Through November of 2017, the volume was running 4.8% ahead of 2016. Nationally, banana imports represent slightly more than 2.0% of all containerized imports by declared weight. Along the West Coast, they account for closer to 1.4% of containerized imports.

But it's a trade at risk. The Cavendish, by far the most popular variety of banana in the United States, is threatened by extinction. Plant scientists have yet to devise a response to a soil-borne fungus that has been decimating banana plantations in Asia and Australia and has been making inroads in Africa and the Middle East. The great fear is that if the fungus reaches Central America and the Caribbean, where some 85% of the world's bananas are sourced, America's favorite breakfast fruits could be wiped out. Guatemala (39.6%), Ecuador (32.3%, and Mexico (17.6%) supply nearly 90% of the bananas imported through USWC ports through the first eleven months of 2017.

While it's a bit premature to rush out to buy the greenest bananas at the corner store, it's worth saying a prayer that the plant genetics people come up with a solution soon.

Washing machines. In November, the U.S. International Trade Commission recommended that the Trump administration impose tariffs bigly on imported washing machines after anti-dumping complaints were filed by Whirlpool Corp. On January 23, President Trump acted on the recommendation by imposing a 20% tariff on the first 1.2 million washing machines imported each year, with a 50% on additional imports.

Earlier this month, *The Wall Street Journal* reported that ships brought 9,063 containers loaded with residential washers to U.S. ports in November, more than double the previous year's volume. Census Bureau trade statistics do show that U.S. ports saw a 58.5% year-over-year surge in containerized washing machine imports (by declared weight). At USWC ports, imports in November were up 75.6% over the same month a year earlier.

There has been an intriguing development regarding the trade in imported washing machines that we plan to explore in next month's newsletter. For now, though, the point we wish to raise is this: In the fetid atmosphere of trade policy politics today, news about trade in a specific commodity can quickly become distorted. For example, we have seen and heard comments from parties less astute than *WSJ* reporters suggesting that washing machine importers seeking to avoid threatened tariffs had been the main drivers behind a late-year surge in overall U.S. container imports. Not even close. While washing machine imports have certainly been up, they play a fairly minor role in America's containerized import trade. By weight, washing machines rank as the 123rd largest containerized import via U.S. ports, with a share of the nation's total containerized import trade that climbed all the way from 0.2% in November 2016 to 0.3% this past November. That's not going to move many numbers.

Comprehensive Washington State Pilotage Study Delivered to Legislature

By Captain Michael Moore
Vice President, Pacific Merchant Shipping Association

On January 18th, a study was published for the Washington State Joint Transportation Committee on pilotage. The study was in response to a $6.1 million dollar gender discrimination settlement involving a female Puget Sound pilot trainee. As a result of the lawsuit settlement, the Legislature last year appropriated $200,000 to pay for an independent study of pilot diversity and best practices for tariff and fee setting. The study offers recommendations for improving diversity within marine pilotage and for improving pilot oversight and tariff and fee rate-setting.

Overview

As noted in the report, "Marine pilots' primary objective is to facilitate the safe movement of vessels into and out of ports situated in coastal and inland water bodies." Pilotage in Puget Sound is mandated and operated as a monopoly through a state licensing program under the oversight of the Washington State Board of Pilotage Commissioners. In 2016, 52 Puget Sound Pilots generated more than $34 million in tariff and fee revenues.

Key Findings and Challenges of the Report

Consultants retained by the Joint Transportation Committee identified the following issues:

Lack of Diversity

- The report states that there is a lack of formal data collection on gender and ethnic diversity for pilots, concluding that "What little information exists is anecdotal at best. This is both a local and national problem." Lack of data makes the Board of Pilot Commissioners "ill equipped to establish a baseline" or to "track progress on improving diversity."
- The report noted past "subjectivity and bias in training and evaluation is a potential challenge to overcome" with respect to pilot trainees.
- The report noted that the lack of diversity is "endemic" in the maritime industry and a problem across all pilotage districts in the United States – and a problem that is "…beyond the scope and capabilities of any one agency or organization" and called for a "more holistic

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The Northwest Seaport Alliance

Comprehensive Washington State Pilotage Study Continued

approach, leveraging the resources and expertise of government and the private sector."

Tariff and Fee Rate-Setting Is Contentious and Lacks Methodological Structure

- Washington state law currently requires that the Board of Pilot Commissioners "annually fix the tariffs for pilotage services." The report noted that an annual rate hearing results in ongoing advocacy for rate adjustments that is a distraction and limits discussion on other important issues such as safety.
- The report noted that the current rate-setting process in Puget Sound lacks established and agreed-upon methodology, lack of consistency, clarity, and timeliness in the submission of data to make informed rate adjustment decisions. It further observed that the Board of Pilot Commissioners does not have enough staff to provide objective analysis.
- The report recommended the use of a public utility commission (PUC) process for setting rates, noting that the benefits "of a PUC model include a clearly defined, transparent, rigorous, and enforceable timeline and process."
- The report also observed that the membership of the Board of Pilot Commission includes pilots, industry representatives and public members. The report found that pilot and industry representatives "often vote in their own self-interest, leaving the remaining Commissioners to cast deciding votes" – who, while they "represent the public and environmental considerations, may not have relevant financial expertise."

Recommendations

The report offered a number of recommendations for consideration by the Washington State Legislature and Board of Pilot Commissioners.

The recommendations included:

- Develop a voluntary data collection protocol to track gender and ethnicity among pilot exam applicants, trainees and licensed pilots.
- Expand and continue to improve upon efforts to minimize subjectivity and eliminate bias in the pilot application, training and licensing process.
- Establish a statewide Task Force on Maritime Sector Workforce Development with a specific focus on increasing diversity.
- Transfer rate-setting authority to the Washington Public Utilities and Transportation Commission (UTC) to provide structure, rules, expertise, and rigor necessary to achieve an analytically driven rate setting process. According to the report, "This is the single most effective action the Legislature can take to improve rate-setting in Washington state…"
- As an alternative to the UTC setting rates, rate-setting only would occur "at the request of stakeholders (eliminating the annual review requirement) and "establish an evidentiary, petition-based process for tariff and fee rate-setting…" The goal would be to have rate hearings that "reflect economic necessity rather than arbitrary guidelines" and hiring a staff analyst or economist to administer an evidentiary-based process that would include data analysis.

While a bill has been introduced to shift rate-setting over to the UTC, it is uncertain at this point what final action the Washington State Legislature will take with regard to the findings and conclusions of this report. The Board of Pilot Commissioners has already made some positive changes and improvements with regard to diversity. The report provides a good basis for additional reform of the pilotage system – providing for greater diversity, oversight, and transparency.

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