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California's Schizophrenic Zero-Emission Goals Signal Abandonment of Its Sustainable Freight Action Plan

By Mike Jacob
Vice President, General Counsel, PMSA

Everything in California's freight infrastructure and freight air quality policy world seemed to be in order just a few months ago. Having just finished a multi-year planning effort, formalized in 2015's Executive Order B-32-15, which resulted in 2016's Sustainable Freight Action Plan, everyone began 2017 on the starting line of a new, collaborative implementation phase to begin to transform freight toward zero-emissions.

The Plan was ambitious, but it was developed in conjunction with all stakeholders at the table and had at its core a logical, organized, and measurable policy consistency. This policy consistency rested on meeting multiple, laudable goals: introducing a new generation of zero-emission and near-zero equipment while simultaneously making the supply chain more efficient and creating the financing for these investments by turning California's freight system back into an economically competitive powerhouse. The state vision was nothing less than a Plan to achieve the ultimate win-win-win in investment and productivity. All sides applauded the Governor for having the wisdom to understand that true sustainability requires ongoing public and private investment in both infrastructure and environmental improvements.

One of the many things that the Sustainable Freight Action Plan got right was its acknowledgement that, given the large economic and environmental consequences at stake, the State needed to do things right and not just fast. Given the reach of freight-dependency to roughly one-third of the State economy, this is no simple task. The consequences of doing the transformation incorrectly are significant. The Plan acknowledged these consequences and concluded that to be successful at transforming some of the world's most complex and economically significant supply chains, a large amount of research and data gathering would need to occur prior to the State implementing aggressive regulations, incentives or restrictions.

Unfortunately, even before the young Sustainable Freight Action Plan can celebrate its first birthday, the State's policies on zero-emissions and freight infrastructure have lost their clarity. Instead, two recent actions demonstrate that the Plan is devolving into a rudderless, contradictory, and inconsistent policy jumble.

First, in March, the Air Resources Board took a big step backward by jumping ahead of the Plan's measured timelines. Instead, the Board directed its staff to begin the process of developing Indirect Source Rules concepts for freight facilities. And, with no warning or notice to the public whatsoever, the Board unilaterally began a new rulemaking to require up to 100% zero-emissions cargo handling equipment at most of California's seaports by 2030.

This arbitrary policy-making approach from CARB presuming the need for regulatory action is not how the Sustainable Freight Action Plan proposed to deal with the question of introducing zero-emissions equipment at marine terminals.

The Plan came to the sobering (and correct) conclusion that the industry would need incentives to help accelerate the transition to new technologies, to assist early adopters, and to fund and finance the investments

California's Schizophrenic Zero-Emission Goals Continued

needed to make this transition. But, the Air Resources Board ignored this and instead accelerated itself into an extremely aggressive rulemaking stance. By prospectively requiring Port zero-emissions equipment by 2030, along with freight facility Indirect Source Rules and up to 100% at-berth rules, CARB has completely undermined the processes outlined in the Plan.

Not long after CARB set its accelerated regulatory goals for 2030 for zero-emission Port equipment operations in March, the State Department of Finance (DOF) proposed Budget Trailer Bill language which runs directly counter to the policies and direction of Executive Order B-32-15 and the Sustainable Freight Action Plan. In this language, (now in SB 103, recently passed by the Legislature) the DOF endorsed a ban on the use of any funds on "fully automated" cargo handling equipment and would instead require that these state funds only be spent on zero-emissions cargo handling equipment which is "manned."

This restriction effectively prohibits any of the $3 billion in new freight funds raised by increased gas taxes from being used as an incentive for the early introduction of zero-emission equipment at Ports. When this new ban was challenged in recent budget hearings by several legislators as being counter-productive, the DOF replied that private companies are still free to purchase any equipment that they wish with their own money and with private investments at their own pace.

The internal inconsistencies of these CARB and DOF policies are as stark as their goals are contradictory. While regulators now seek to accelerate zero-emissions outcomes, SB 103 is specifically intended to put the brakes on the same zero-emissions investments. It seems as though just a year after the Plan adoption, the focus has been lost. Indeed, the State looks to be more concerned with setting unrealistic, but politically correct goals, and moving ahead with regulations and funding bans without data or an investment plan.

If the State is serious about transitioning to a zero-emissions future at our seaports, then it needs to abandon these contradictory policy foibles. Achieving emissions reductions, enhanced competitiveness, and improved efficiency at ports and marine terminals that we all desire is possible, but only if the Plan, which counseled a measured balance and review of rulemaking and incentives, of costs-and-benefits, and cooperation with industry to facilitate the private investments, is followed.

Taken separately, each of these actions to abandon the path agreed to in the Sustainable Freight Action Plan is frustrating. Taken together, the schizophrenic juxtaposition of these divergent policies is maddening.

Photo courtesy of the Port of Everett

Parsing the May 2017 Numbers


Photo courtesy of the Port of Everett

June looks a bit mixed on the West Coast, with early returns showing import volumes at the Ports of Long Beach and Los Angeles up a combined 5.7% (+38,451 TEUs) over June 2016, while outbound traffic was down 1.8% or 4,829 TEUs. (We're thinking a year-long surge in scrap paper exports may have finally crested.)

Inbound traffic in May. The five major U.S. West Coast (USWC) container ports – Los Angeles, Long Beach, Oakland, Tacoma, and Seattle – collectively handled 30,213 more inbound loaded TEUs than they did in May 2016 for a year-over-year gain of 3.3%. North of the border, Vancouver and Prince Rupert posted a healthy 16.8% gain (+28,186 TEUs).

On other coasts, the most impressive gain was reported at Houston, which saw a 42.8% jump

Continued

Exhibit 1 May 2017 - Inbound Loaded TEUs at Selected Ports

	May 2017	May 2016	% Change	May 2017 YTD	May 2016 YTD	% Change
Los Angeles	413,021	400,766	3.1%	1,873,009	1,771,524	5.7%
Long Beach	336,594	330,639	1.8%	1,423,083	1,359,951	4.6%
Oakland	82,440	81,291	1.4%	369,465	358,539	3.0%
NWSA	115,960	105,106	10.3%	578,387	520,513	11.1%
NYNJ	283,466	268,861	5.4%	1,335,722	1,272,872	4.9%
Maryland	43,411	38,767	12.0%	187,391	172,341	8.7%
Virginia	100,594	92,439	8.8%	499,596	459,996	8.6%
South Carolina	78,398	77,225	1.5%	399,385	356,097	12.2%
Georgia	160,086	141,051	13.5%	749,473	669,815	11.9%
Port Everglades	29,550	27,629	7.0%	160,770	150,263	7.0%
Houston	89,483	62,666	42.8%	417,074	330,231	26.3%
Jaxport	26,576	20,957	26.8%	120,718	99,927	20.8%
Vancouver	154,291	127,378	21.1%	668,263	600,897	11.2%
Prince Rupert	41,747	40,474	3.1%	190,878	184,834	3.3%
Manzanillo	76,655	69,775	9.9%	348,574	316,792	10.0%
Lazaro Cardenas	41,108	40,236	2.2%	174,495	173,849	0.4%

Source Individual Ports

Parsing the May 2017 Numbers Continued

in inbound laden containers. The Texas port's increase of 26,817 TEUs over last May far exceeded the 18,210 TEUs gain at the Ports of Los Angeles and Long Beach. Savannah also saw a larger year-over-year increase (19,035 TEUs) than the two San Pedro Bay ports.

On the export side of the ledger, the Big Five USWC ports handled 12,150 fewer outbound loaded TEUs this May than they had a year earlier, a decline of 2.7%. By contrast, the two British Columbia ports saw their outbound trades edge up 1.0% (+1,116 TEUs) over last May, despite a subpar showing at Prince Rupert. East and Gulf Coast ports generally posted gains ranging from modest to strong.

Looking at U.S. Commerce numbers, USWC ports saw a 5.5% increase in imported containerized tonnage over May 2016, while all other U.S. mainland ports collectively enjoyed a 9.6% bump. By declared value, USWC ports recorded a 5.0% increase from May 2016 to May 2017, while all other U.S. mainland ports reported a 6.5% increase.

By declared weight of the containerized exports, USWC ports saw a 0.4% increase in tonnage over May 2016, while other U.S. mainland ports enjoyed a 2.0% rise. By declared value, USWC ports recorded a 10.1% increase in exports from May 2016 to May 2017, while other U.S. mainland ports reported a 4.1% increase.

Now looking solely at the transpacific containerized trade, USWC ports held a 68.7% share of the declared value of containerized imports arriving at mainland ports from East Asia, up from 68.0% in April and from 66.0% in May 2016. Their share of the declared weight of the contents of containerized imports arriving at mainland ports from East Asia in May was 60.5%, up from 60.1% in April, but down from 61.3% a year ago. For containerized exports to East Asia from mainland ports, the USWC share by declared weight stood at 62.0% in May, the same as in April but less than the 62.4% share in May 2016. On a value basis, the USWC share in May was 69.8%, up from 67.8% in April and from 68.6% last May.

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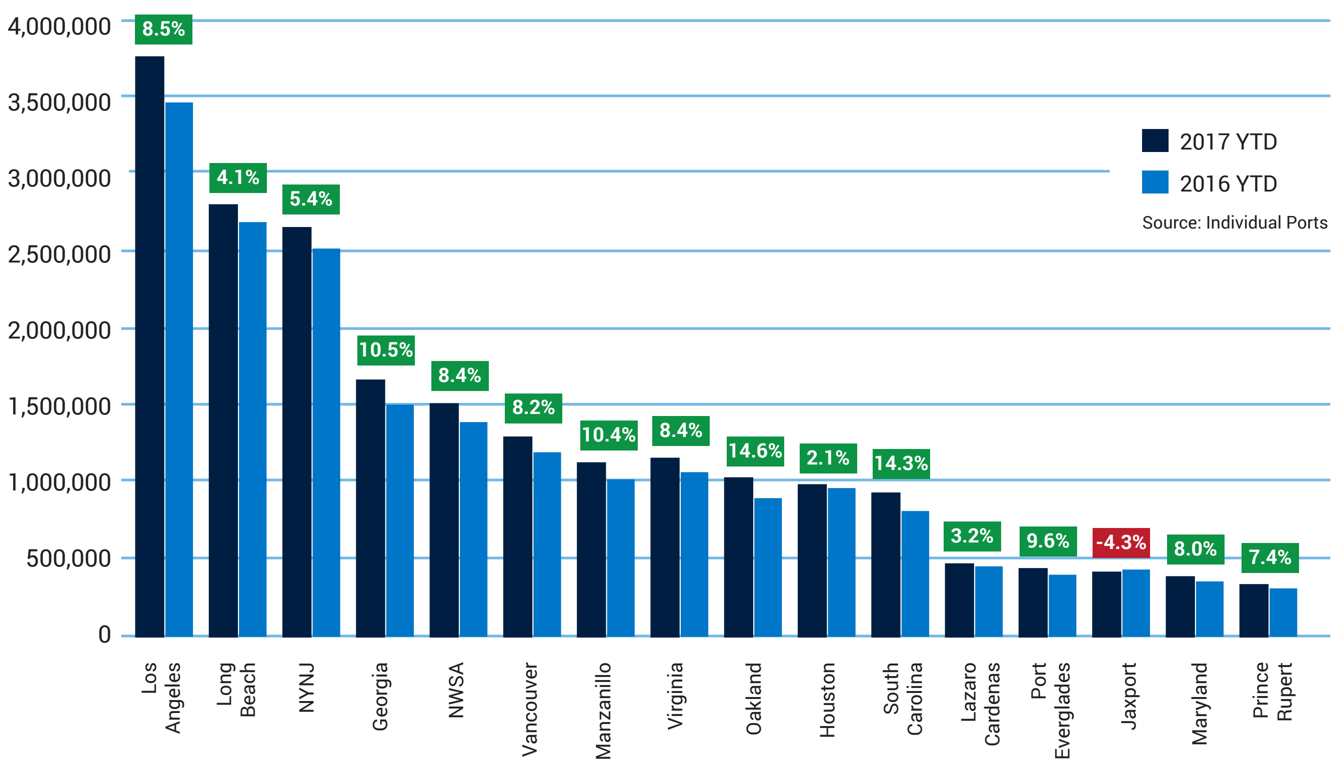
Exhibit 2 May 2017 - Outbound Loaded TEUs at Selected Ports

	May 2017	May 2016	% Change	May 2017 YTD	May 2016 YTD	% Change
Los Angeles	169,639	162,487	4.4%	836,851	738,684	113.3%
Long Beach	118,786	138,594	-14.3%	593,524	608,358	-2.4%
Oakland	78,585	83,969	-6.4%	384,739	383,796	0.2%
NWSA	78,086	72,196	8.2%	402,829	382,294	5.4%
NYNJ	119,287	115,212	3.5%	570,402	560,835	1.7%
Maryland	22,377	21,085	6.1%	100,009	99,050	1.0%
Virginia	85,824	80,729	6.3%	439,425	410,932	6.9%
South Carolina	69,862	66,552	5.0%	340,283	306,760	10.9%
Georgia	117,261	111,687	5.0%	587,947	541,645	8.5%
Port Everglades	34,853	32,938	5.8%	176,230	165,383	6.6%
Houston	82,879	77,645	6.7%	438,332	396,741	10.5%
Jaxport	33,949	29,994	13.2%	166,866	155,487	7.3%
Vancouver	96,620	92,937	4.0%	469,363	450,850	4.1%
Prince Rupert	12,577	15,144	-17.0%	62,843	72,367	-13.2%
Manzanillo	64,827	66,522	-2.5%	340,574	309,225	10.1%
Lazaro Cardenas	27,120	28,973	-6.4%	138,060	139,213	-0.8%

Source Individual Ports

Parsing the May 2017 Numbers Continued

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



Worldwide Destinations and Origins. By declared weight, China is by far the biggest destination of USWC containerized exports with a 34.8% share in May. Japan was second with a 13.3% share, while South Korea held a 9.8% share. China's share of containerized imports via USWC ports was 55.9.2% in May, with Vietnam trailing far behind with a 4.4% share. Taiwan was third at 4.3%.

By declared value, China was the top destination of USWC exports in May with a 21.7% share. Followed by South Korea (16.6%) and Japan (15.9%). China also topped the list of USWC containerized imports with a 56.7% share of the total value, with Japan (11.1%) and Vietnam (6.1%) behind.

Containerized export tonnage from USWC ports grew by 3.8% y/y in May. 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, it grew by just 1.7% from last May. Until now, this category had been driving what looked to be an abnormally high rate of containerized export growth. Shipments of agricultural produce and forest products tended to show strong double-digit growth over last May. Imports once again led by household furnishings (+15.9%) and Industrial Machinery (+11.1%).

Jock O'Connell's Commentary:

USWC Market Share Losses Are Pretty Much Across the Board

Okay, let's get the good news out of the way first.

Last year, U.S. West Coast (USWC) ports held higher shares than they had in pre-recession 2006 of U.S. containerized imports from the Far East in four categories of goods – ink-jet printers, athletic footwear, TV receivers, and vacuum cleaners.

That's it. None of these four categories loom especially large – at least weight-wise – in the whole scheme of transpacific trade. The largest category, the printers, ranked as the 26th largest containerized import (by declared weight) handled at U.S. ports in 2016. The sneakers were 29th, followed by the TVs at 45th and the vacuum clears at 83rd. (I could have scrolled further down the list of imported goods, but there didn't seem much point in searching for another pony.)

As our friend Bill Mongelluzzo over at the Journal of Commerce has long been remorselessly chronicling, the story of the West Coast ports over the past decade or so has been one of relentlessly diminishing shares of the transpacific import trade. Where America's Pacific Coast ports earlier in this century once handled three-quarters of containerized shipments from the Far East, the share now hovers around the 60% mark.

And with the opening of the expanded set of locks at Panama, the diversion of TEUs from West to East and Gulf Coast ports in the past 12 months seems to be accelerating as shipping lines have been sending larger vessels through the canal faster than anticipated by most analysts.

The danger, as PMSA vice president Thomas Jelenić opined in last month's edition of this newsletter, is that a downward spiral in market share could eventuate in an outright drop in container volumes moving through USWC ports.

Not surprisingly, evidence of the diminishing importance of West Coast ports to the national economy is causing

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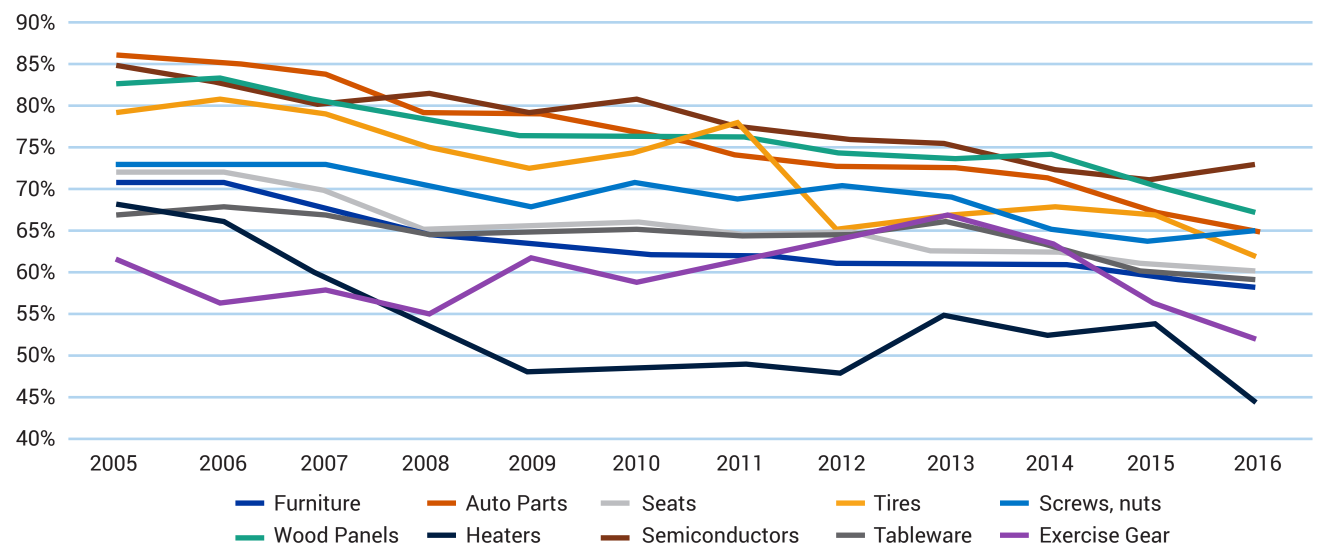
Exhibit 4 **USWC Declining Share of U.S. Top 10 Containerized Imports from East Asia By Declared Weight 2005-2016**



Source: U.S. Commerce Department

Commentary Continued

restlessness among maritime industry leaders up and down the coast, even if public officials up and down the coast tend to be exasperatingly indifferent to such mundane matters.

In some import categories, the fall-off in USWC trade shares can be attributed to factors over which port authorities have little or no control. For example, the massive investments American and foreign automakers have made in assembly plants in the Southeast helps explain why shipments of automotive parts and accessories from East Asia to USWC ports have dropped from 85.3% of the U.S. mainland total in 2006 to 64.7% ten years later. Similarly, containerized imports of new tires from East Asia via USWC ports have fallen, with a 79.3% share of containerized imports from East Asia shrinking to 62.0% last year, while Charleston and Savannah saw substantial growth in their Asian tire imports.

What a closer examination of U.S. trade data reveal, though, is that the fall in USWC share of containerized imports from East Asia is much broader than generally feared. In fact, in not one of the 10 leading categories of containerized imports (at the four-digit HS Code level) did USWC ports NOT see a decline in market share. That much is evident in Exhibit 4 on the previous page.

The chart is admittedly congested. But take my word for it. These merchandise categories were – by declared weight – the Top 10 containerized imports into U.S. ports last year. Together, they accounted for slightly less than one-fourth of all containerized imports last year.

In several instances, there were absolute declines in containerized import loads. Among the top 50 containerized imports from the Far East (again, by declared weight), 8 categories of goods at the 4-digit HS code level of classification saw absolute drops in containerized tonnage between 2006 and 2016 nationally. For USWC ports, there were 21 such categories.

USWC ports have also seen their shares of the declared value of containerized shipments from the Far East drop from 78.7% in 2006 to 68.6% last year.

Still, the news from the data mines is not entirely bad for USWC ports. It's long been supposed that the ability to speed Asian goods to markets through North America is the major advantage of USWC ports. That may not be a critical factor for importers of low-cost goods (or the spices peculiar to Cajun cuisine). But it is typically a foremost consideration for shippers of pricier merchandise that yearns to be consumed as quickly as possible.

The latest data suggest that the USWC ports have maintained this unique marketing advantage. Even though their overall share of the transpacific containerized import trade has been dwindling for over a decade, the five big California and Washington State ports continue to handle containerized goods that are – pound for pound – significantly more valuable than containerized goods entering the U.S. via East and Gulf Coast ports.

In pre-recession 2006, according to U.S. Commerce Department statistics, the average value per pound of containerized imports from East Asia through the neighboring Ports of Los Angeles and Long Beach exceeded the average value at the nation's second largest port complex, New York/New Jersey, by 33.9%. By 2016, that differential had grown to 35.0%. Similarly, the San Pedro Bay ports last year also enjoyed favorable value-to-weight ratio advantages ranging from 17.1% (Norfolk) to 115.0% (Houston), with Charleston (44.7%) and Savannah (32.4%) in the middle.

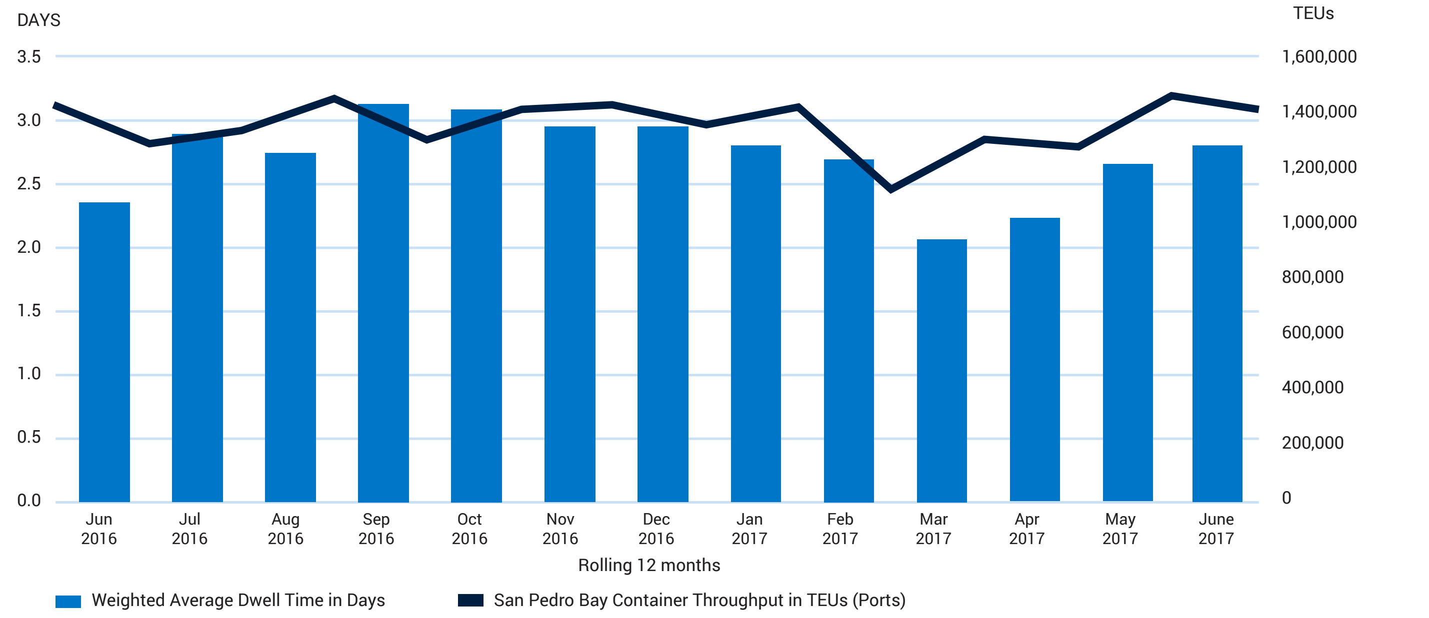
What may surprise many is that the Ports of Los Angeles and Long Beach are not at the very top of the dollar-per-pound ranking. That distinction instead belongs to the Port of Tacoma, which has consistently led the category over the past decade. In 2006, Tacoma's containerized imports were – by average pound – 18.8% more valuable than even the higher-than-average value imports crossing the docks at the Southern California ports.

So for those shippers of high-value or time sensitive merchandise, Tacoma – along with other U.S. West Coast ports – continue to offer a decided advantage for importers with a need for speed.

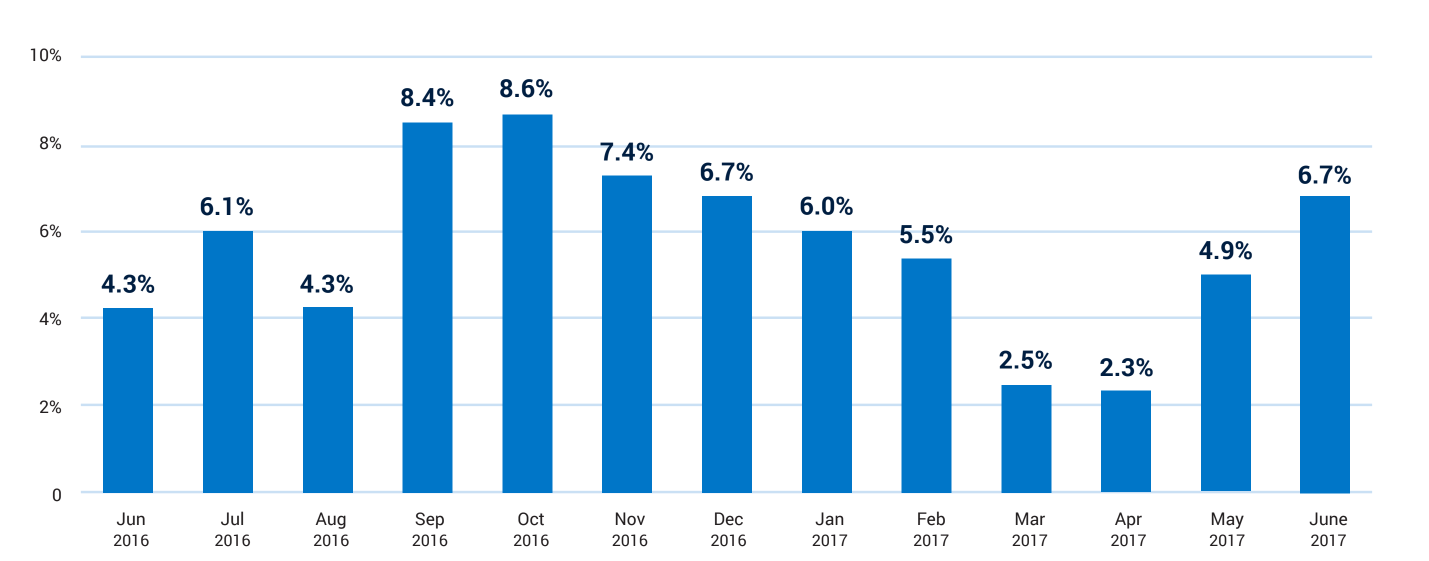
Jock's comments are his own and do not necessarily represent the views of PMSA.

Container Dwell Time Increases In June

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



Dwell Time in Days % > 5 Days



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