PMSA

West Coast Trade Report

June 2017

Photo courtesy of the Port of Oakland

Parsing the April 2017 Numbers

Early returns for May show a lower than expected 2.4% y/y increase in inbound loaded TEUs and a 4.7% fall-off in outbound loaded TEUs at the three big California container ports. Meanwhile, ports in Virginia and Georgia posted robust growth numbers. In fact, Savanah reported a 19,035 TEU y/y jump in inbound loaded TEUs, compared to a combined y/y gain of 18,210 TEUs at the Ports of LA and Long Beach.

As for April, the five major U.S. West Coast (USWC) container ports – Los Angeles, Long Beach, Oakland, Tacoma and Seattle – collectively handled 78,444 more inbound loaded TEUs than they did in the same month a year earlier for a year-over-year gain of 10.2%. North of the border, Vancouver and Prince Rupert posted a 10.6% gain (+17,273 TEUs), while south of the border Manzanillo and

Continued

Exhibit 1 April 2017 - Inbound Loaded TEUs at Selected Ports

	Apr 2017	Apr 2016	% Change	Apr 2017 YTD	Apr 2016 YTD	% Change
Los Angeles	372,041	343,574	8.3%	1,459,988	1,270,758	14.9%
Long Beach	288,207	247,316	16.5%	1,086,489	1,020,312	6.5%
Oakland	74,957	72,296	3.7%	287,025	277,246	3.5%
NWSA	110,821	104,396	6.2%	462,427	415,407	11.3%
NYNJ	278,868	244,677	14.0%	1,052,256	1,004,011	4.8%
Maryland	36,982	33,282	11.1%	143,980	133,574	7.8%
Virginia	101,114	92,429	9.4%	399,002	367,557	8.5%
South Carolina	82,897	68,813	20.5%	320,987	278,872	15.1%
Georgia	149,258	130,208	14.6%	589,387	528,764	11.5%
Port Everglades	32,163	33,482	-3.9%	131,220	122,634	7.0%
Houston	84,399	75,346	12.0%	327,591	267,565	22.4%
Jaxport	22,111	19,377	14.1%	94,142	78,970	19.2%
Vancouver	136,935	121,134	13.0%	513,972	473,519	8.5%
Prince Rupert	43,819	42,347	3.5%	149,131	144,360	3.3%
Manzanillo	69,208	61,561	12.4%	272,065	247,017	10.1%
Lazaro Cardenas	31,480	33,501	-6.0%	133,387	133,613	-0.2%

Source Individual Ports

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Parsing the April 2017 Numbers Continued

Lazaro Cardenas reported a 5.9% bump (+5,626 TEUs) in inbound loaded trade.

Meanwhile, Atlantic Coast ports recorded very respectable import growth except for a dip at Everglades. The 20.5% jump in inbound loaded TEUs reported by South Carolina Ports Authority was inflated by an unusual surge in containerized imports of aggregates typically used in construction projects.

On the export side of the ledger, USWC ports handled 4.1% or 16,759 more loaded outbound TEUs in April than they had a year earlier. By contrast, the two British Columbia ports saw their outbound trades slip by 2.6% as they shipped 2,787 fewer loaded TEUs than in April of last year. Despite divergent experiences, Mexico's two premier Pacific Coast ports handled 5,178 more loaded outbound TEUs (+5.8%) than they had in April 2016.

Other than Maryland, East and Gulf Coast ports posted gains ranging from modest to strong. Jaxport has seen a substantial uptick in wood exports, while Houston's export trade continues to thrive on polymers.

Looking at U.S. Commerce numbers, USWC ports saw a 2.1% increase in the declared weight of containerized imports over April 2016, while the other U.S. mainland ports collectively enjoyed a 3.9% bump. By declared value, USWC ports recorded a 3.8% increase in containerized imports from April 2016 to April 2017, while the other mainland ports reported a 4.7% increase.

By declared weight of the containerized exports, USWC ports saw a 14.0% increase in tonnage over April 2016, while the mainland ports enjoyed a more modest 6.8% rise. By declared value, USWC ports recorded an 11.5% increase in containerized exports from April 2016 to April 2017, while the other mainland ports reported an 8.1% increase.

East-West competition. Looking now at how the USWC ports fared in vying for containerized trade at mainland U.S. ports, U.S. Commerce Department data show that USWC ports saw their share of the declared weight of inbound containers slip to 38.6% in April, down from 39.3% last April. The USWC ports also saw their share of

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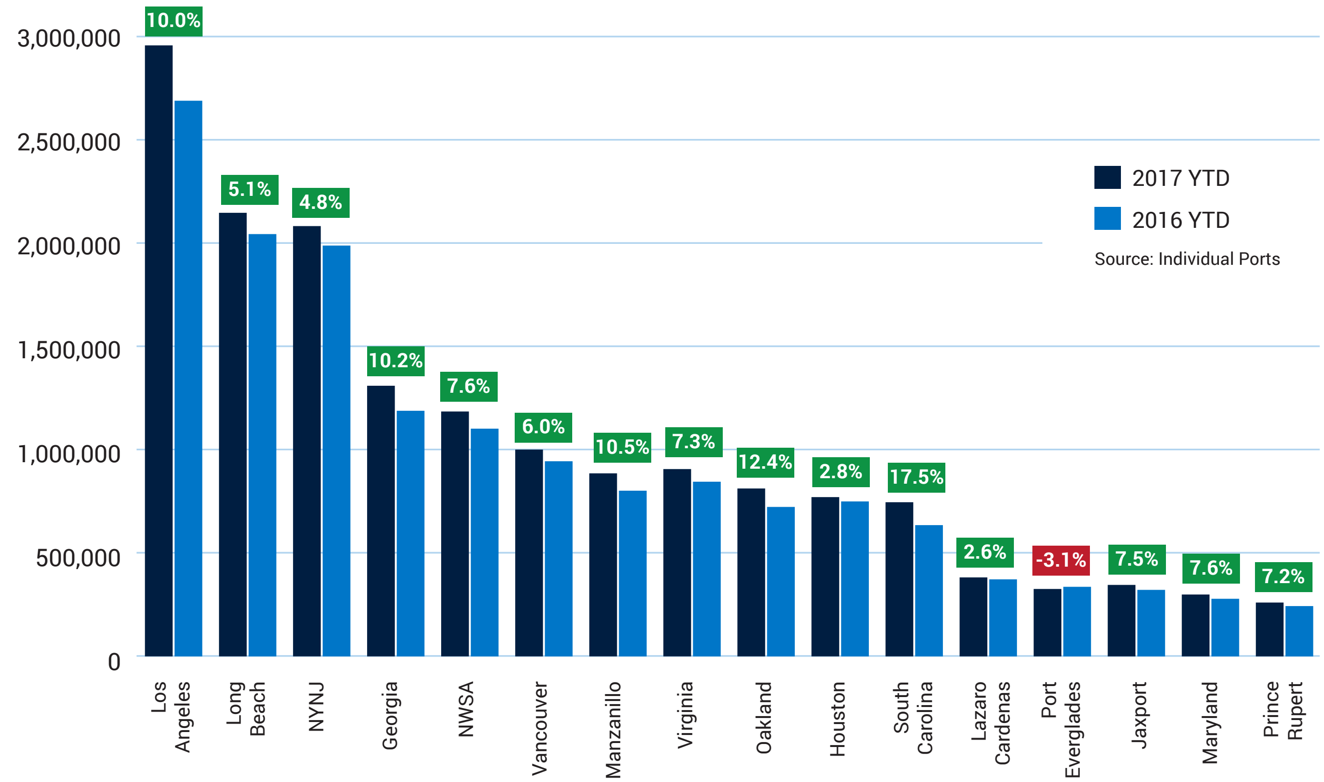
Exhibit 2 April 2017 - Outbound Loaded TEUs at Selected Ports

	Apr 2017	Apr 2016	% Change	Apr 2017 YTD	Apr 2016 YTD	% Change
Los Angeles	157,662	144,104	9.4%	677,212	576,197	17.5%
Long Beach	116,260	112,805	3.1%	474,738	469,764	1.1%
Oakland	77,798	78,613	-1.0%	306,154	299,827	2.1%
NWSA	77,558	76,997	0.7%	324,743	310,099	4.7%
NYNJ	119,415	114,824	4.0%	451,115	445,623	1.2%
Maryland	18,824	20,328	-7.4%	77,632	77,965	-0.4%
Virginia	85,623	82,323	4.0%	353,600	330,203	7.1%
South Carolina	66,911	61,560	8.7%	270,421	240,208	12.6%
Georgia	114,554	111,229	3.0%	470,686	429,958	9.5%
Port Everglades	35,812	35,079	2.1%	141,377	132,445	6.7%
Houston	84,399	75,346	12.0%	355,453	319,096	11.4%
Jaxport	33,985	30,630	11.0%	132,917	125,493	5.9%
Vancouver	91,570	91,149	0.5%	372,743	357,913	4.1%
Prince Rupert	13,263	16,471	-19.5%	50,266	57,223	-12.2%
Manzanillo	67,892	58,379	16.3%	275,747	242,703	13.6%
Lazaro Cardenas	25,357	29,692	-14.6%	110,940	110,240	0.6%

Source Individual Ports

Parsing the April 2017 Numbers Continued

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



the declared value of containerized imports decline to 47.9% from 48.3% in April 2016.

The USWC ports fared better on the export side. Their 40.2% share of the declared weight of containers exported from mainland U.S. ports in April was up from 37.7% in April of last year. Similarly, the USWC share of the declared value of export containers from U.S. mainland ports in April was 34.0%, up from the 33.0% share in April 2016.

The total number of TEUs handled at the five major USWC ports in the year's first four months of 2017 – both loaded and empties – rose to 7,049,226, 7.2% greater than in the same period a year ago.

Destinations and Origins. By declared weight, China is by far the biggest destination of USWC containerized shipments with a 34.8% share in April. Japan was second with a 12.6% share, while South Korea held an 10.9% share. China's share of containerized imports via USWC ports was 55.2% in April, with Japan trailing far behind with a 5.5% share. South Korea was third at 4.4%.

The 14.0% y/y increase in containerized export tonnage from USWC ports in April was led by a 30.1% increase in Waste and Scrap Paper shipments. Double-digit growth in exports of oil seeds, forage, cotton, and scrap metal helped propel the growth in outbound trade from USWC ports in April. Imports were led by a 32.6% increase in household furnishings, suggesting that importers expect that improved wage and employment numbers will encourage a higher rate of household formation, especially among millennials.

Jock O'Connell's Commentary:

CARB v. Ports

Last month was International Trade Month, a commemoration historically crowned by well-attended luncheons, dinners, and receptions at which business people and public officials mingle while reveling in the virtues of free trade and globalization. In few places had the celebrations been more upbeat than along the West Coast, the crossroads of America's trade with the burgeoning economies of East Asia.

This year, however, things were understandably a bit different. After six decades of a policy consensus in Washington that favored trade liberalization, the inauguration of Donald Trump has most certainly set the cat amongst the pigeons, an expression our British friends are fond of using.

But uncertainties about what the next presidential Twitter might imply for America's relations with our trading partners was not the only reason this year's celebrations seemed more restrained.

Here on the West Coast, port officials have been growing increasingly fretful about their ability to maintain their competitiveness in light of what seems to be an almost relentless erosion of West Coast market share. Although container numbers have been edging up, more of the nation's containerized trade has been heading away from West Coast ports. (See PMSA vice president Thomas Jelenić's thoughts elsewhere in this newsletter.)

Although diminishing market share appears to be coastwide, ports in California face an additional challenge posed by the nation's most aggressive air quality regulators.

As maritime journalist Chris Dupin observed earlier this month in American Shipper: "*California is setting ambitious new environmental goals, but questions remain about whether truckers, marine terminals, and other links in the supply chain will be able to reach those goals, let alone at a price that keeps the state's ports competitive*."

Two years ago next month, Gov. Jerry Brown issued an executive order calling on state agencies to develop "***an integrated action plan that establishes clear targets to improve freight efficiency, transition to zero-emission technologies and increase competitiveness of California's freight system***."

That sounded good. Or at least the rhetoric sounded the right notes: Collaboration with the transportation industry stakeholders; more empirical research to underpin future policy options; a transparent deliberative process.

There then ensued many months of meetings and workshops at which the relevant stakeholders debated the costs and benefits of the plan. Some in attendance held out hope (albeit fading) for a revised plan that might more optimally balance environmental goals and economic realities. But in the end (this past March 23), CARB unilaterally decided to proceed full-throttle with its clean-air objectives, suggesting that its models had no room for dollar signs.

So how much improvement in air quality does the administration hope to gain by saddling the state's seaports with such huge costs? Not very much, as it turns out.

As PMSA president John McLaurin pointed out in a recent Long Beach Press-Telegram op-ed: "*The equipment that is used at California's ports to move cargo on and off ships, trucks and trains contributes approximately 0.0747 percent of California's total greenhouse gas emissions. To convert this equipment to zero emissions, as recently advocated by the California Air Resources Board, is estimated to cost between $23 and $36 billion. This raises the question of how much CARB feels should be spent by other businesses and individuals to reduce California's remaining 99.9253 percent greenhouse gas emissions*."

And what overall gains would be achieved in reducing greenhouse gasses globally? Probably none, at all. Indeed, if the state's regulatory fervor drives up the cost of moving cargo through California's ports and importers/exporters decide to take their business to East and Gulf Coast ports, vessels will be at sea for another two weeks, burning fuel and releasing tons of green house gas emissions into the atmosphere.

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Commentary Continued

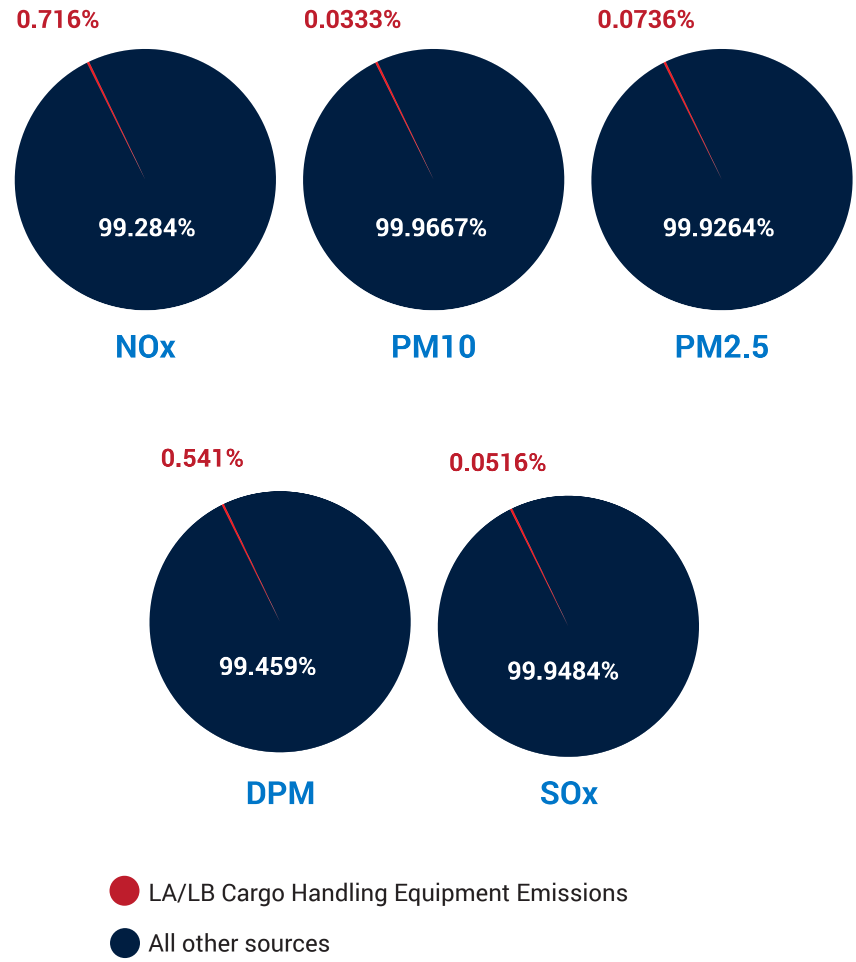
Despite these concerns, LA Mayor Eric Garcetti and Long Beach Mayor Robert Garcia just this week signed a joint declaration that sets ambitious goals for the Ports of Los Angeles and Long Beach to make the transition to zero emissions in their Clean Air Action Plan (CAAP). The mayors also affirmed that the CAAP will include new investments in clean technology, expanding at-berth emission reductions, and launching a zero-emissions drayage truck pilot program in the next few years. No details were immediately provided on the amounts and sources of those new investments. The Ports of Los Angeles and Long Beach reportedly will release a detailed timeline and process for CAAP within 15 days, and fully complete the update by November. But it's unlikely we'll know anything more about how the path to zero-emissions will be financed.

Such ~~posturing~~ inspired leadership has serious consequences for a lot of folks in Southern California who worry about keeping a roof over their heads. A new study from the Los Angeles Economic Development Corporation finds that the trade and logistics industry cluster employed 580,450 workers in Southern California in 2015. That was an increase of 9.7% since 2005, driven by the 55.1% increase in warehousing and logistics jobs. Many, if not the majority of those jobs are directly linked to the continued flow of goods over the docks in San Pedro Bay.

Who knew that public policymaking was so tough?

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

By The Numbers:
Port of Los Angeles and Long Beach Cargo Handling Equipment Contribution By Percentage To South Coast Air Basin Emissions (2015)



Source: Port of Los Angeles and Port of Long Beach 2015 Emissions Inventory Report.

It Wasn't the Recession and It's Not the Panama Canal Expansion

The fault dear Brutus, is not in our stars, but in ourselves.

By Thomas Jelenić
Vice President, PMSA

This year is shaping up to be a milestone year for San Pedro Bay. It will be the first year since 2006 that the San Pedro Bay port complex will set a new record throughput volume. In 2006, the ports of Long Beach and Los Angeles handled 15.7 million twenty-foot equivalent units (TEUs) of containers. In 2016, these two ports barely missed that prior high, tallying 15.6 million TEUs. Undoubtedly, there will be much talk of all the hard work that will have taken place to get us to this point and there will be press releases galore celebrating the milestone. But a decade on, what took so long to get here? And what does it say about the Southern California gateway's competitiveness?

Often the discussion surrounding the past decade centers on platitudes defending market share and preparing for a doubling of cargo volumes. There has been no serious discussion about how the competitiveness of San Pedro Bay and California ports in general stand up to the competitiveness of other ports. Often the lack of growth has been chalked up to the Great Recession or the opening of the expanded Panama Canal. Unfortunately, these meaningless responses are so oft-repeated that policy makers throughout the state have taken them for fact and ascribe competitive weakness to things outside their control.

Even a cursory look at cargo volumes since 2006 show that, while most ports suffered a dip from the recession, most bounced back immediately and continued to grow. East Coast and Gulf Coast ports have gained cargo at the expense of California ports; Savannah is at 169% of its 2006 volume. And for all the talk of the expanded Panama Canal, that discussion ignores two critical points: (1) most other ports captured growth well ahead of the expanded Canal's opening last year, and (2) the Panama Canal has been there for 100 years – San Pedro Bay successfully competed against east coast ports even before vessel size was a significant issue. Regardless of an expanded Panama Canal, San Pedro Bay also faces stiff competition from West Coast Canadian and Mexican ports that have excellent rail connections to the U.S. Midwest. Canada, with a population smaller than California, has seen its West Coast ports grow to 161% of its 2006 volume.

That is not to say that the expanded Panama Canal is not real and serious competitive threat to San Pedro Bay – it clearly is – it just cannot explain the past decade of no growth in San Pedro Bay. So, if it wasn't the Great Recession and it wasn't expanding the Panama Canal, why didn't these two ports grow?

Three factors are often cited in choosing a gateway for discretionary cargo: cost, speed, and reliability. To those three, another more nebulous factor should be considered: reputation. As you would expect, San Pedro Bay performs as the world-class gateway it is against many of these metrics. It remains one of the fastest gateways to inland destinations for cargo. In addition, a focus on addressing supply chain issues has resulted in improving dwell times, improving turn times, transitioning the chassis model, and successfully addressing the failure of Hanjin Shipping. To buttress these achievements, the ILWU will consider a contract extension this summer that should assure the reliability of this gateway for three more years until 2022.

But, while billions and billions have been spent over the past decade building infrastructure, expanding capacity, and improving the environment, so far those billions have not resulted in a single additional container of throughput.

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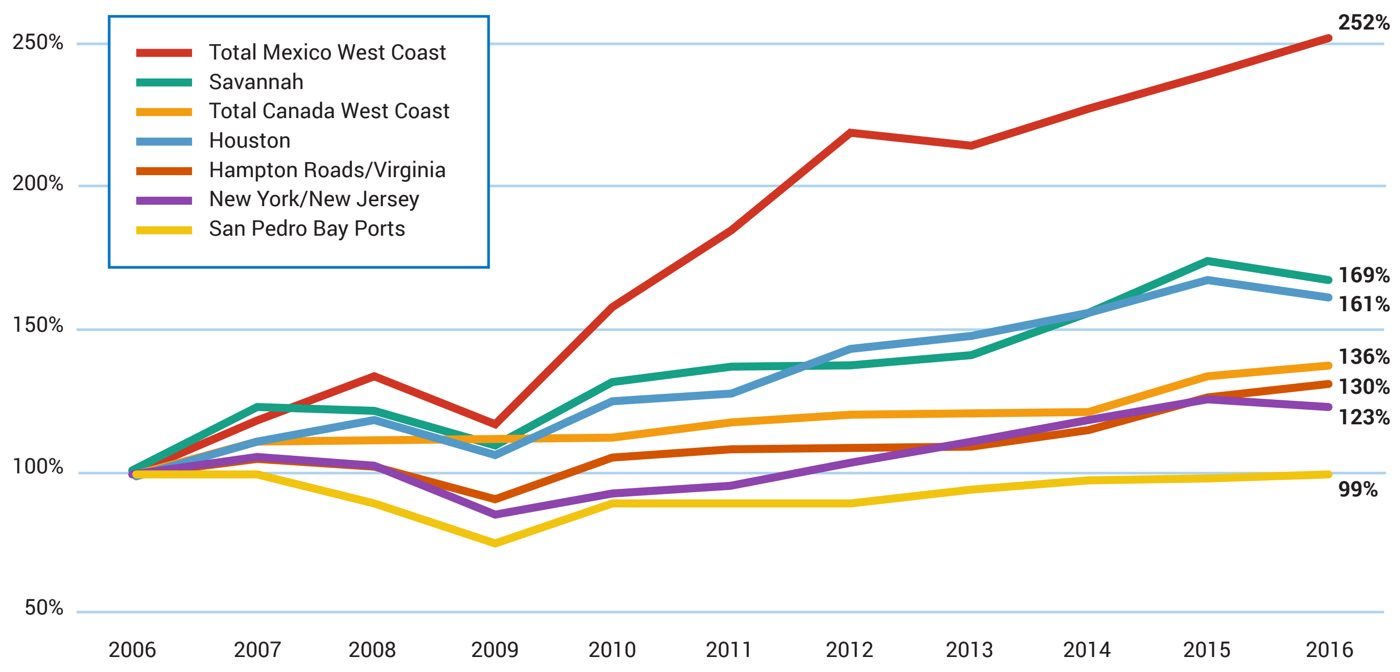
It Wasn't the Recession and It's Not the Panama Canal Expansion Continued

Shippers are not choosing this gateway and are choosing others; the question is why.

Is it one of the metrics that can be measured? We know that capital and operating costs – particularly with respect to environmental mitigation – are higher in San Pedro Bay. We also know that cargo owners have been vocal about a lack of reliability given the labor situations of several years ago and past congestion issues. And these factors have had an impact on Southern California ports' reputation. In all, the job of competing for discretionary cargo has become much harder.

One thing is clear; it is not due to events far away, like the expanded Panama Canal, or events beyond our control, like the Great Recession. The answer is here, in San Pedro Bay. Policy makers, not just locally but throughout the state, need to understand that the cause is not in our stars. Once that is understood, there is chance that we can find the answer to why and tackle it head on, as we have so many other problems, and regain this gateway's competitiveness.

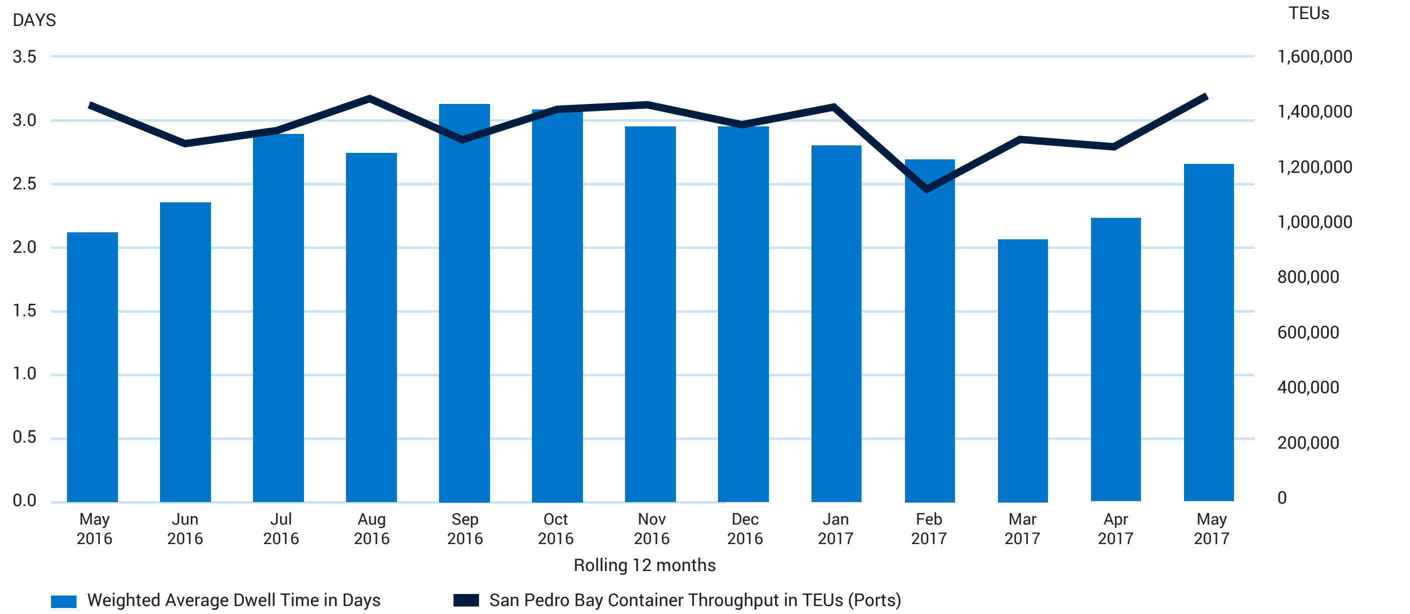
Port Cargo Volumes (2006-2016)
Selected Gateways



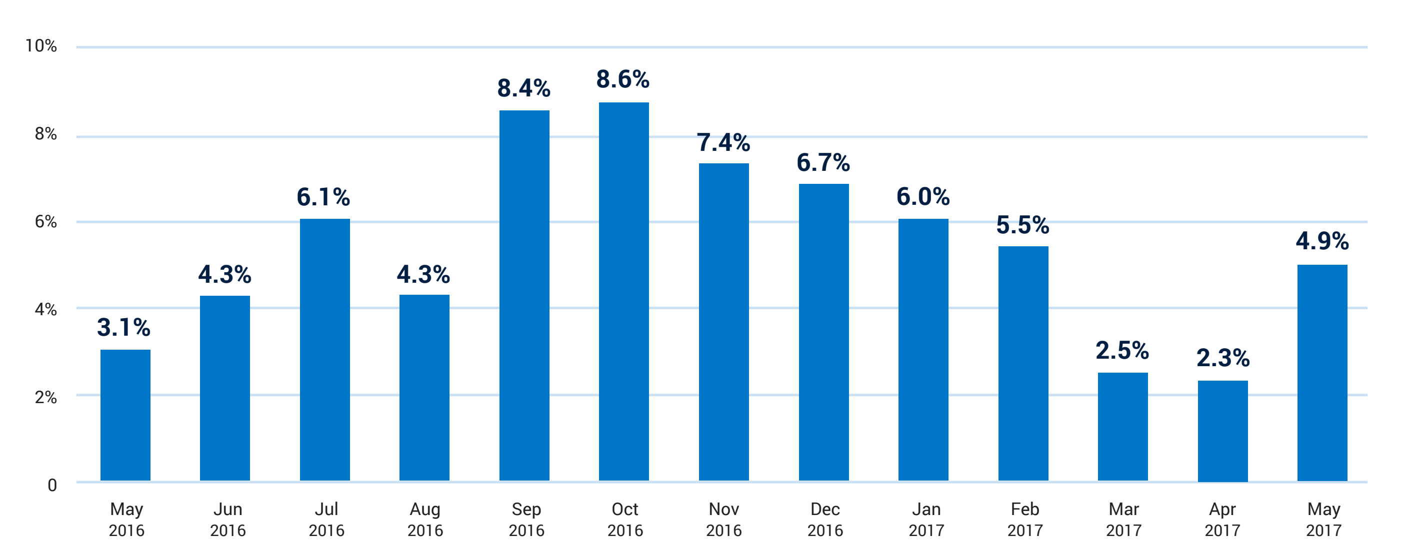
Source: American Association of Port Authorities (AAPA), NAFTA Port Container Traffic Data

Container Dwell Time Increases In May

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



Dwell Time in Days % > 5 Days



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