PMSA

West Coast Trade Report

May 2020

First Glimpse at the April TEU Tallies

Most everyone has been bracing for April's numbers to be subpar, if not appallingly dreadful. Even without firm TEU counts from the thirteen ports it monitors, the National Retail Federation's Global Port Tracker's May 7 outlook for the month of April expected a 13.4% year-over-year drop in containerized imports. At least that was a more optimistic read than GPT's forecast a month earlier, when it feared April would be down 17.6%.

So what do we know so far? That forecasting during a pandemic remains an iffy business.

For the record, inbound container trade through the Ports of Los Angeles and Long Beach teeter-tottered in April. The number of loaded TEUs discharged at LA were actually up by 2.6%, but down a dismal 20.2% across the road at Long Beach. Together, the nation's largest maritime gateway handled 8.1% fewer loaded inbound TEUs than they had a year earlier. Elsewhere in California, the Port of Oakland reported that its inbound loads were down, but only -0.9%. Up in the Pacific Northwest, import loads through the Northwest Seaport Alliance Ports of Tacoma and Seattle fell 13.9%, leaving the Big Five U.S. West Coast ports down 8.2% from April 2019. Further northwest, the British Columbia Ports of Vancouver and Prince Rupert saw modest year-over-year gains of 2.8% and 2.0%, respectively.

Over on the East Coast, the Port of New York/New Jersey has still not reported its April numbers, but Charleston and Savannah each rang up negatives (-5.5% and -5.1%, respectively), while Baltimore showed a 5.3% gain over April 2019. Virginia meanwhile sustained a 15.9% fall-off. Inbound loads at the Port of Houston were down, albeit slightly at -0.6%.

As for exports, loaded outbound TEUs were down 16.2% at Los Angeles and 17.2% at Long Beach. Oakland, however, posted a respectable 3.6% year-over-year gain. But almost everywhere else, exports fared much worse than imports. The NWSA ports recorded a 17.6% drop in export loads, leaving the Big Five USWC ports with a combined 13.2% decline. Prince Rupert saw an 11.1% gain over last April, but Vancouver was off by 5.9%. On the East Coast, Charleston (-22.8%), Virginia (-16.7%), Houston (-13.9%), Savannah (-6.8%), and Baltimore (-25.9%) were all decidedly down from a year ago.

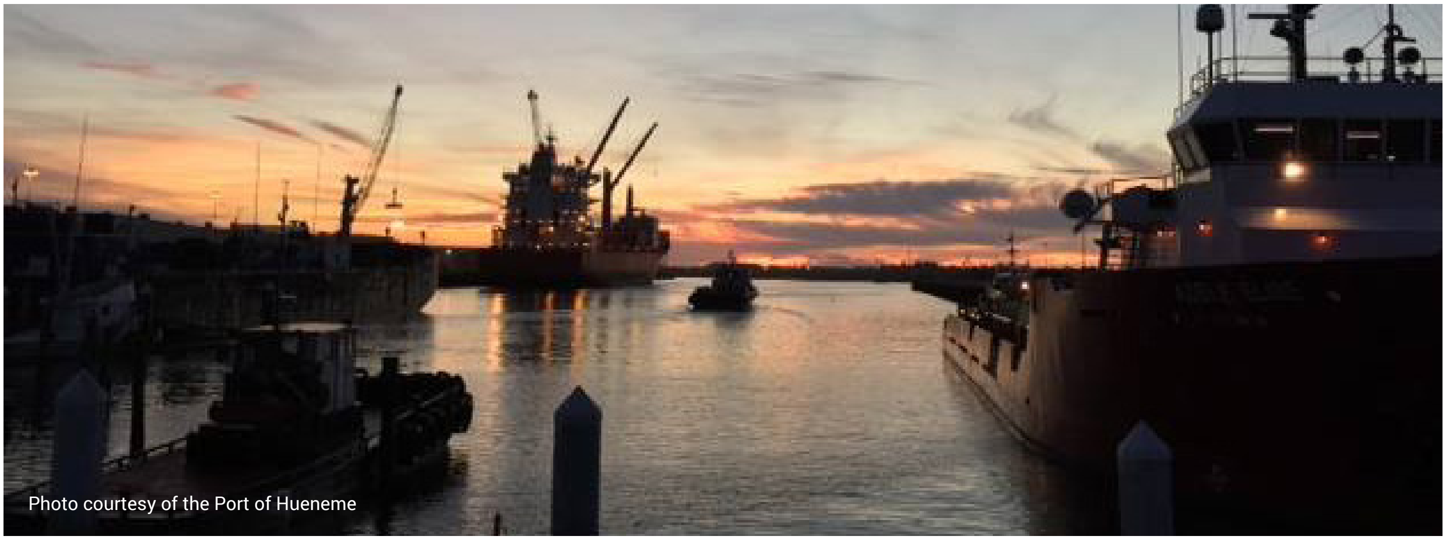

Photo courtesy of the Port of Hueneme

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Parsing the March 2020 TEU Numbers

Please note: The numbers here are not derived from forecasting algorithms or the partial information available from U.S. Customs and Border Protection but instead represent the actual TEU counts as reported by the major North American seaports we survey each month. The U.S. mainland ports we monitor collectively handle over 90% of the container movements at continental U.S. ports. Unless otherwise stated, the numbers in this portion of our analysis do not include empty containers.

Import Traffic

March import numbers reflected the pandemic-extended Asian New Year holiday in China as well as the initial, if sporadic efforts in Europe and the United States to impose measures to stymie the spread of the COVID-19 virus. With the exception of the Ports of New Orleans and Port Everglades, all of the eighteen ports whose import/export traffic this newsletter regularly monitors showed sharp declines from a year earlier.

Inbound loads at the Port of Los Angeles in March were down 25.9% year-over-year, while next door at the Port of Long Beach inbound loads were off just 5.0%. Together, the year-over-year drop in inbound loads at the two San Pedro Bay ports – the nation's largest port complex -- was 16.4%. Worth noting is that March was the first month since September 2016 that Long Beach handled a higher volume of inbound loads than its generally busier neighbor.

Elsewhere on the West Coast, inbound loads declined by 10.3% at the Port of Oakland, while plunging 28.2% at the

Exhibit 1 March 2020 - Inbound Loaded TEUs at Selected Ports

	Mar 2020	Mar 2019	% Change	Mar 2020 YTD	Mar 2019 YTD	% Change
Los Angeles	220,255	297,187	-25.9%	905,010	1,075,426	-15.8%
Long Beach	234,570	247,039	-5.0%	793,123	873,742	-9.2%
San Pedro Bay Totals	**454,825**	**544,226**	-16.4%	**1,698,133**	**1,949,168**	-12.9%
Oakland	67,035	74,714	-10.3%	218,474	226,548	-3.6%
NWSA	84,035	117,007	-28.2%	278,573	345,291	-19.3%
USWC Totals	**605,895**	**735,947**	-17.7%	**2,195,180**	**2,521,007**	-12.9%
Boston	11,326	11,856	-4.5%	36,350	35,641	2.0%
NYNJ	271,511	282,981	-4.1%	894,599	905,849	-1.2%
Maryland	40,530	43,700	-7.3%	122,703	129,856	-5.5%
Virginia	99,129	107,040	-7.4%	305,572	322,154	-5.1%
South Carolina	76,019	92,875	-18.1%	254,862	258,649	-1.5%
Georgia	147,034	186,369	-21.1%	505,803	545,637	-7.3%
Jaxport	24,431	30,202	-19.1%	77,204	86,225	-10.5%
Port Everglades	30,602	28,507	7.3%	84,704	83,598	1.3%
Miami	33,887	38,690	-12.4%	106,668	110,101	-3.1%
USEC Totals	**734,469**	**822,220**	-10.7%	**2,388,465**	**2,477,710**	-3.6%
New Orleans	13,696	13,179	3.9%	35,550	33,423	6.4%
Houston	88,302	109,604	-19.4%	283,272	291,875	-2.9%
USGC Totals	**101,998**	**122,783**	-16.9%	**318,822**	**325,298**	-2.0%
Vancouver	111,378	130,472	-14.6%	369,185	430,336	-14.2%
Prince Rupert	29,820	43,122	-30.8%	134,721	132,361	1.8%
BC Totals	**141,198**	**173,594**	-18.7%	**503,906**	**562,697**	-10.4%
US/BC Totals	**1,583,560**	**1,854,544**	-14.6%	**5,406,373**	**5,886,712**	-8.2%
US Total	**1,442,362**	**1,680,950**	-14.2%	**4,902,467**	**5,324,015**	-7.9%
USWC/BC	**747,093**	**909,541**	-17.9%	**2,699,086**	**3,083,704**	-10.2%

Source Individual Ports

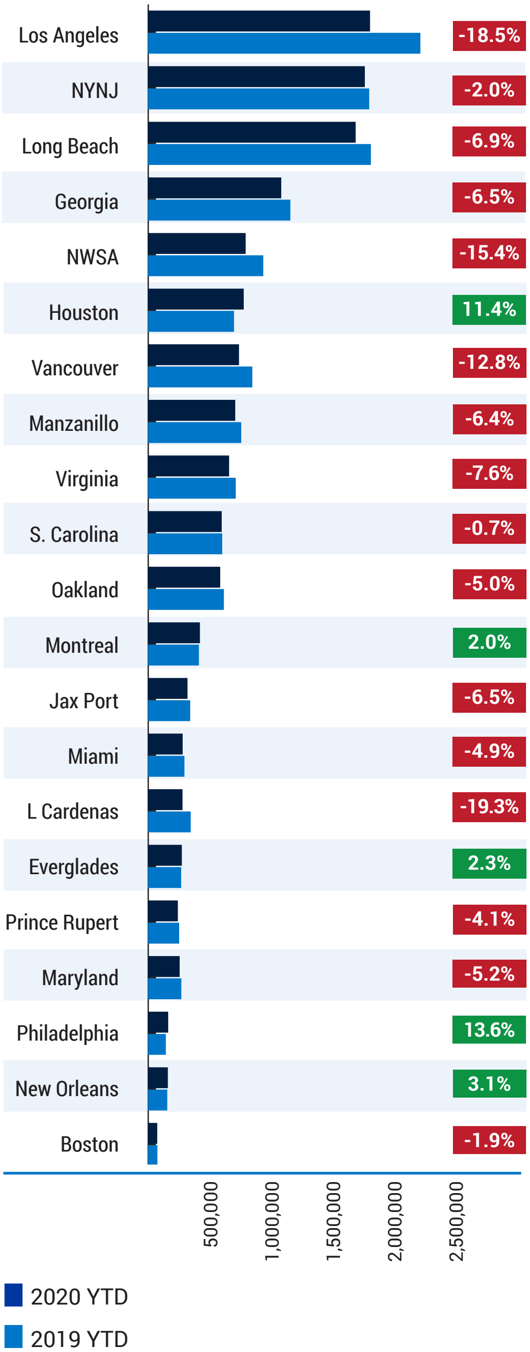
Parsing the March 2020 Loaded TEU Numbers Continued

Exhibit 2 March 2020 - Outbound Loaded TEUs at Selected Ports

	Mar 2020	Mar 2019	% Change	Mar 2020 YTD	Mar 2019 YTD	% Change
Los Angeles	121,146	158,924	-23.8%	408,821	446,472	-8.4%
Long Beach	145,442	131,436	10.7%	379,624	354,010	7.2%
San Pedro Bay Totals	**266,588**	**290,360**	-8.2%	**788,445**	**800,482**	-1.5%
Oakland	83,782	88,202	-5.0%	239,904	231,389	3.7%
NWSA	79,395	86,856	-8.6%	214,359	225,325	-4.9%
USWC Totals	**429,765**	**465,418**	-7.7%	**1,242,708**	**1,257,196**	-1.2%
Boston	6,513	6,645	-2.0%	19,245	18,226	5.6%
NYNJ	136,780	130,038	5.2%	369,069	355,229	3.9%
Maryland	21,450	20,589	4.2%	61,860	55,092	12.3%
Virginia	90,761	89,282	1.7%	250,923	243,872	2.9%
South Carolina	73,077	77,704	-6.0%	215,816	203,539	6.0%
Georgia	136,774	155,083	-11.8%	384,687	384,716	0.0%
Jaxport	48,902	45,740	6.9%	128,904	125,322	2.9%
Port Everglades	33,810	37,351	-9.5%	101,906	103,677	-1.7%
Miami	31,703	38,947	-18.6%	101,070	108,426	-6.8%
USEC Totals	**579,770**	**601,379**	-3.6%	**1,633,480**	**1,598,099**	2.2%
New Orleans	27,944	26,364	6.0%	77,619	70,957	9.4%
Houston	114,972	118,295	-2.8%	344,608	292,716	17.7%
USGC Totals	**142,916**	**144,659**	-1.2%	**77,619**	**70,957**	9.4%
Vancouver	92,766	103,472	-10.3%	255,840	287,739	-11.1%
Prince Rupert	15,520	17,832	-13.0%	44,635	46,665	-4.4%
British Columbia Totals	**108,286**	**121,304**	-10.7%	**300,475**	**334,404**	-10.1%
US/Canada Total	**1,260,737**	**1,332,760**	-5.4%	**3,254,282**	**3,260,656**	-0.2%
US Total	**1,117,821**	**1,188,101**	-5.9%	**3,176,663**	**3,189,699**	-0.4%
USWC/BC	**538,051**	**586,722**	-8.3%	**1,543,183**	**1,591,600**	-3.0%

Source Individual Ports

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



Source: Individual Ports

Parsing the March 2020 Loaded TEU Numbers Continued

Northwest Seaport Alliance Ports of Tacoma and Seattle. Collectively, the five major U.S. West Coast container ports recorded a 17.7% fall-off (-130,052 TEUs) in inbound loads from March 2019.

Things were nearly as bad along the East Coast. Charleston sustained an 18.1% slump, and Savannah's inbound laden traffic tumbled by 21.1%. The Port of New York/New Jersey, however, fared less worse, posting a 4.1% year-over-year decline in inbound loads. Altogether, the nine East Coast ports we track ended March with a 10.7% (-87,751 TEUs) fall-off from a year earlier.

Along the Gulf Coast, Houston recorded a 19.4% drop in inbound loads from March of 2019, but New Orleans managed a 3.9% gain, leaving the two Gulf Coast ports we track with a combined 16.9% (-20,785 TEUs) decline.

The two British Columbia ports we track also saw unpleasant import numbers in March, with Vancouver down 14.6% and Prince Rupert off by 30.8%. Combined import traffic through the two ports fell 18.7% (-32,396 TEUs) in March.

In market share terms, the Big Five USWC ports saw their share of inbound loads discharged at the U.S. mainland ports we track slide in March to 42.0% from 43.8% a year earlier.

Export Traffic

As is often their wont, the Ports of Long Beach and Los Angeles went in different directions in March. At the Port of LA, outbound loads plummeted by 23.8% (-37,778 TEUs), while Long Beach posted a strong 10.7% (+14,006 TEUs) gain over the previous March. Together, outbound loads at the two Southern California ports were down by 8.2% (-23,772 TEUs).

Outbound loads in March fell by 5.0% (-4,420 TEUs) at the Port of Oakland and by 8.6% (-7,461 TEUs at the two NWSA ports. Outbound loads through the Big Five USWC ports in March were accordingly off by 7.7% (-35,653 TEUs) from the same month a year earlier.

Along the Atlantic Seaboard, export numbers were mixed. Savannah and Miami both posted double-digit declines, but PNYNJ was up 5.2%. Coastwise, outbound loads at the nine USEC ports we follow were down 3.6% (-21,609 TEUs). Meanwhile, the two Gulf Coast ports we monitor saw outbound loads dip 1.2% (-1,743 TEUs). Up in British Columbia, outbound loads at Vancouver and Prince Rupert were off by 10.7% (-13,018 TEUs).

Altogether, outbound loads from the U.S. mainland and two British Columbia ports we track were down 5.4% (-72,023 TEUs) from last March.

The Big Five USWC ports saw their share of outbound loads sailing from the U.S. mainland ports we track slip in March to 38.4% from 39.2% a year earlier.

Weights and Values

Even though the TEU is the shipping industry's preferred unit of measurement, we offer two alternative metrics – the declared weight and value of the goods contained in those TEUs -- in hopes of further illuminating recent trends in the container trade along the USWC. For the most part, these numbers contain little good news for USWC port officials.

Exhibit 4: USWC Ports and the Worldwide Container Trade. Exhibit 4 illustrates the pretty much relentless decline in the overall USWC share of containerized imports (regardless of point of origin) entering mainland U.S ports. The two San Pedro Bay ports saw their combined percentage of containerized import tonnage tumble in March to 21.7% from 23.5% a year earlier. The two also experienced a drop in the declared value of containerized imports to 28.2% from 30.4%. Meanwhile, the Port of Oakland's share of import tonnage slipped to 4.0% from 4.1%, with its share of import value edging down to 3.7% from 3.8%. Further north, the two NWSA ports saw a decline in their shares of import tonnage to 4.9% from 5.1%. However, they stayed even at 6.7% in value terms.

On the export side, the Southern California ports continued to shed market share, whether measured in tonnage or dollar value. Oakland had mixed results, with a substantial year-over-year gain in export value while holding serve in its share of export tonnage. The NWSA ports' export shares trended downward in both tonnage and value.

Exhibit 5: USWC Ports and the East Asia Trade. The figures on containerized imports arriving at U.S. mainland ports from East Asia, which normally cause USWC port officials to reach for the antacid bottle, brought some relief in March. The Ports of Los Angeles and Long Beach saw their combined share of containerized import

Parsing the March Loaded TEU Numbers Continued

Exhibit 4 USWC Ports Shares of Worldwide U.S. Mainland, March 2020

	Mar 2020	Feb 2020	Mar 2019
Shares of U.S. Mainland Ports Containerized Import Tonnage			
LA/LB	21.7%	23.4%	23.5%
Oakland	4.0%	3.8%	4.1%
NWSA	4.9%	4.5%	5.1%
Shares of U.S. Mainland Ports Containerized Import Value			
LA/LB	28.2%	30.5%	30.4%
Oakland	3.7%	3.4%	3.8%
NWSA	6.7%	6.2%	6.7%
Shares of U.S. Mainland Containerized Export Tonnage			
LA/LB	20.9%	19.6%	22.7%
Oakland	6.5%	6.6%	6.5%
NWSA	7.3%	7.4%	8.2%
Shares of U.S. Mainland Conatainerized Export Value			
LA/LB	20.7%	19.8%	21.0%
Oakland	7.0%	7.9%	6.2%
NWSA	4.0%	4.2%	4.4%

Source: U.S. Commerce Department.

Exhibit 5 USWC Ports Shares of U.S. Mainland Trade With East Asia, March 2020

	Mar 2020	Feb 2020	Mar 2019
Shares of U.S. Mainland Ports' East Asian Container Import Tonnage			
LA/LB	41.9%	38.4%	39.4%
Oakland	5.0%	4.7%	4.8%
NWSA	8.7%	7.1%	8.1%
Shares of U.S. Mainland Ports' East Asian Container Import Value			
LA/LB	48.5%	45.9%	47.9%
Oakland	4.8%	4.3%	4.8%
NWSA	11.2%	9.3%	10.2%
Shares of U.S. Mainland Ports' East Asian Container Export Tonnage			
LA/LB	37.4%	34.0%	37.8%
Oakland	10.5%	10.1%	9.6%
NWSA	12.7%	12.7%	13.2%
Shares of U.S. Mainland Ports' East Asian Container Export Value			
LA/LB	42.9%	39.8%	43.5%
Oakland	12.8%	13.6%	11.1%
NWSA	8.3%	8.5%	8.6%

Source: U.S. Commerce Department.

tonnage from East Asia increase to 41.9% from 39.4% a year earlier. At the same time, their collective share of containerized import value rose to 48.5% from 47.9%. Elsewhere along the coast, Oakland improved its tonnage share and stayed even in terms of value. But the NWSA ports saw important increases in both measures.

On the outbound side, the San Pedro Bay ports' share of containerized export tonnage to East Asia slipped to 37.4% from 37.8% a year earlier, while their combined share of the value of those containerized imports dropped to 42.9% from 43.5%. Oakland experienced a year-over-year bump in both its import tonnage and value tonnage shares. However, the two NWSA ports saw their shares of U.S. containerized exports headed to the Far East decline in both tonnage and value terms.

Soybeans

In the weeks just prior to the outbreak of the COVID-19 pandemic, talk about trade policy was focused very much on so-called Phase One agreement Washington and Beijing had hammered out (or thought they had hammered out) late last year. A key part of the accord was a Chinese commitment to buy more agricultural goods from us than they had ever bought before (and even in volumes for which they had no evident need). To growers in the Upper Midwest as well as to ports in the Pacific Northwest, the pledge to sharply increase purchases of U.S. soybeans was certainly a welcomed development. If anything, soybeans had become the poster crop for U.S. agricultural trade losses since President Trump began imposing import tariffs two years ago. American soybean exports to China tumbled by 74.0% in 2018 as the tariff

Parsing the March Loaded TEU Numbers Continued

conflict between the U.S. and China emerged. Although the soybean trade improved considerably last year, it has been down 41.7% through the first quarter of this year as economic activity in China was plagued. Although some observers have been skeptical about China's earnestness, word in the agricultural press is that Chinese buyers have lately resumed large-scale purchases of American soybeans.

Even though soybean shipments this spring are apparently being largely routed through USGC ports, there are new reports that authorities in Beijing have been directing importers to substantially bolster Chinese inventories of oil seeds and grains against further supply chain disruptions. So, it is worth emphasizing the key role USWC ports normally play in transporting soybeans from the Upper Midwest to China. Even though first quarter soybean exports to China were lower than last year, they still totaled 2,820,053 metric tons. Ports in Washington State accounted for 57.1% of those shipments, with Kalama leading the way with a 28.2% share, edging out the 26.7% share that went through the NWSA Ports of Seattle and Tacoma. Kalama, a river port on the Columbia River, even accounted for the larger share of the nation's soybean exports to China in the year's first quarter than did the Port of New Orleans.

Who's #1?

For more than a year now we have been keeping an eye on the rivalry between the Port of Long Beach, long the nation's second busiest container port, and the Port of New York/New Jersey. However, March brought an interesting development. For the second straight month, PNYNJ not only eclipsed Long Beach as the nation's second busiest container port, it also leap-frogged into first place over the Port of Los Angeles. More than that, normally dominant LA placed third behind neighbor Long Beach in terms of total container traffic in March.

For the month of March, a total of 560,830 loaded and empty TEUs crossed PNYNJ's docks as opposed to the 517,663 TEUs handled by the Port of Long Beach and the 449,568 TEUs at LA.

Now, if you insist that only loaded boxes count in ranking the ports, PNYNJ was still the country's busiest container port in March, with 408,291 loaded TEUs as opposed to 380,012 loaded TEUs at Long Beach and 341,401 loaded TEUs at Los Angeles.

For total TEUs in the first quarter of the year, Los Angeles clung to its #1 rank with PNYNJ in second place followed by Long Beach.

Jock O'Connell's Commentary:

A Lot of Supposin' Goin' On

As economists puzzle over which letter of the alphabet will most accurately depict the curve of U.S. economic recovery, port officials across the country are trying to assess how gravely their operations over the next few years will be affected by the rechanneling of global supply chains.

One thing that's certain is that the cargo forecasts ports have been using to inform their planning and investment decisions have all now gone seriously sour.

Optimists profess confidence in a V-shaped recovery, with a robust upsurge in economic output and commensurate drop in unemployment starting late this summer or in early fall.

That, though, is a minority view. A Bank of America survey of 223 fund managers over the week ended May 14 found just 10% expecting a V-shaped recovery, while 75% forecast more prolonged U- or W-shaped recoveries.

Federal Reserve Chair Jerome Powell thinks recovery will follow a bumpier trajectory, with stops and starts until an effective treatment or vaccine can be found. The Congressional Budget Office is leaning in favor of a swoosh, a sustained but gradual growth curve that will

Commentary Continued

not bring the economy back to 2019 levels until well into 2022. Still others, like Nobel Prize winner Paul Krugman, think a W is more likely, especially if there is another spike in virus-related deaths this fall or if America's recovery does not sync with the pace of the recoveries in Europe and Asia. In the end – if there is ever an end to this plague – we may ultimately need Greek or Cyrillic alphabets to chart the economy's travails.

How will all of this play out down on the docks? The short-term outlook is unmistakably grim. The numbers already in hand for the number of blank sailings scheduled through mid-summer point to months of continued pain. The National Retail Federation's Global Port Tracker (GPT) expects container imports will decline 20.4% in May, 18.6% in June, 19.3% in July, 12.0% in August, and 9.3% in September. The GPT forecast takes us through the third quarter, when, as the V crowd believes, economic growth will have already begun to soar.

Raise your hand if you see a disconnect between these respective guesses.

What lurks beyond Q3?

Should COVID-19 deaths surge again this fall in tandem with the start of the normal flu season, it's an even bet that Christmas – at least for commercial purposes – will be cancelled. At the very least, little Emma and Liam won't be sitting in Santa's lap at Higbee's department store this December.

But enough about the dangers posed by a public health crisis. This is an election year in which the politics of trade policy are poised to make further hash of the coping plans port directors are now busily devising. Recent statements by President Trump and Secretary of State Pompeo have taken on an increasingly anti-China tone as have the administration's latest actions against the multinational technology giant Huawei and Chinese companies listed on U.S. stock exchanges. Presidential advisor Peter Navarro, who seems singularly bent on using the virus to not merely disengage the U.S. from China economically but to isolate China as an international pariah, said on ABC's "This Week" program earlier this month that "this election will be a referendum on China." For their part, Chinese officials have stepped up anti-American rhetoric at home while seeking to take advantage of the unsettled situation in Washington to outmaneuver the United States on several diplomatic fronts, including those involving the future of both the World Health Organization (WHO) and the World Trade Organization (WTO).

In short, there is virtually no hope American ports will see any relief anytime soon from the trade tensions between Washington and Beijing that have driven container volumes down.

The prospect of a trade war without end will give further impetus to those U.S. shippers looking to diversify their overseas businesses into newer markets. Two years of tariffs and higher import levies have certainly given importers all the more reason to partner with suppliers outside of China, with countries like Vietnam and India being major beneficiaries of the migration. In 2003, U.S. containerized import tonnage from Vietnam was less than the amount we imported from Nigeria. By last year, Vietnam had jumped into third place among America's largest sources of containerized imports, ahead of South Korea, Japan, Brazil, and every European nation. (So much for the domino whose fall was supposed to imperil all of Southeast Asia.) China, of course, has remained the top exporter of containerized goods to the U.S. but who is second? The answer is India. Between 2010 and last year, India's rank had risen steadily past South Korea, Japan, Germany, and Brazil.

The point here? That by diversifying their sources and seeking out new markets for U.S. products, shippers are establishing supply chains that are increasingly handicapping USWC ports geographically. No doubt, this is the logic that informed the recent statement of Port of Los Angeles Executive Director Gene Seroka that "in my estimation" diversification will result in "a loss of 15% of our inbound traffic over time" as shippers seek sources in locations better served by all-water routes to the East Coast via Suez.

This is going to pose some fairly daunting challenges. Like all businesses, ports have numerous financial obligations. Unfortunately, their current fiscal year budgets were all presumably based on forecasts that had predicted growing revenues from growing traffic. Those forecasts have now been knocked off the rails, and dramatically changing circumstances have swept away the empirical foundations upon which those forecasts

Commentary Continued

had been built. Any attempt right down to rejigger existing forecasts would have to contend with the risks implicit in Fed Chair Powell's recent remark that he has been studying epidemiological statistics closer than unemployment data.

In most instances, American seaports are public agencies operating under the auspices of municipal or state governments. They are expected to be financially self-sustaining. But, especially at those ports that rely for much of their revenue on operations not related to maritime trade – like air travel and cruise ships – the financial threat posed by the coronavirus pandemic could prove existential without bailout funding from government coffers. That, pretty much, was the message in a press release from the Port of Oakland that juxtaposed the port's public responsibilities as an essential transportation asset with the sharp decline in port revenues, largely the result of a 95% drop in passenger traffic through the port's Oakland International Airport. And the San Francisco Bay Area port is hardly alone facing dire financial straits. The Port Authority of New York/New Jersey is currently seeking $3 billion in federal assistance to help offset its virus-related revenue losses.

The current plight of the ports, alas, has not much deterred air quality regulators from pursuing costly new demands that not only defy current budgetary realities but, in the case of California's ports, further threaten to drive shippers to other gateways, even if doing so increases the volume of toxic emissions being discharged into the world's atmosphere. (Not our problem, seems to be the prevailing attitude.) Indeed, the sole lesson, it would seem, that organizations like the California Air Resources Board (CARB) have taken from the last couple of months is that the surest way to achieve the clean air goals that CARB has otherwise been incapable of achieving is to shut down vast swaths of the economy.

Disclaimer: *The views expressed in Jock's commentaries are his own and may not reflect the positions of the Pacific Merchant Shipping Association.*

Looking to the Future: Is it too Early?

By Thomas Jelenić, Vice President, Pacific Merchant Shipping Association

We are in the midst of a crisis. Forget the Great Recession, the pandemic is creating Great Depression levels of economic harm. Throughout the maritime industry, ocean carriers, marine terminals, port authorities, trucking companies and countless other stakeholders are focused on basic survival. Obviously, job number one is keeping everyone safe: workers, customers, and our communities. Job number two is keeping the companies that run the global supply chain from sinking.

But at some point, we will need to collectively look to the future. When we do is a matter of timing. Uncertainty reigns, survival is unknown. But if we are ever to have a revitalized future, we need to consider how to ensure our success. In the past, economic decline was accompanied by broken supply chains. And when economic improvement returned, supply chain planners reassessed the supply lines. That, unfortunately, often meant lost market share for Southern California to the benefit of East Coast and Gulf Coast ports and lost cargo translates to lost jobs, lost tax revenue, and lost economic investment in our communities. When this crisis passes, how do we encourage cargo owners to choose Southern California as their preferred gateway? How do we work together to make Southern California the inevitable gateway choice? Here are four actions we can do now.

First, we need a plan for labor peace. We all now know the pain of declining cargo volumes. We need to make sure that declining volumes will be a bad memory of the pandemic and not our future. There is no stronger signal in terms of certainty and assured reliability that can be

Looking to the Future Continued

sent to cargo owners than beginning and concluding contract negotiations well ahead of the 2022 deadline. Without a contract, cargo owners will only see more future uncertainty when we emerge from the present crisis. Labor peace must provide them with the confidence to select Southern California.

Second, marine terminals and port authorities need to work cooperatively – not independently – to attract cargo to Southern California. When cargo owners select a gateway, they are selecting both a marine terminal and a port. Marine terminals and port authorities are truly partners, it is only the sum of their business terms that will appeal to a cargo owner. Port authorities and marine terminals that do not appear indivisible will only sow the seeds of uncertainty and provide the hint of unreliability to cargo owners. Only through the joint marketing of facilities will Southern California be successful.

Third, the railroads must be partners in retaining and improving market share. Retaining and improving market share means competitively delivering cargo to the Midwest and beyond. Ports, terminals, and ocean carriers will only be successful if Class 1 railroads prioritize competitive intermodal cargo. Canadian rail represents a real threat to Southern California market share. That threat can only be countered by the pricing and efficiency measures that Southern California's Class 1 railroads take.

Finally, we need to ensure that our hinterland fully supports the ports. One of Southern California's greatest assets is the one billion plus square feet of industrial space that can process imports that enter North America through Southern California. That industrial space may be the ports' most unheralded competitive advantage as compared to other gateways. However, that competitive advantage is at risk through lack of development and modernization. For example, some believe the abnormally low (pre-crisis) vacancy rates is a sign of a strong market but is really the product of California's out of control development prohibitions that prevent new industrial space from coming to market. If Southern California ports will be competitive in the future, the ports must work today with its inland partners and elected officials in order to allow needed development that supports warehouses and distribution centers that are responsible for countless jobs.

We need to focus on these issues now. If we wait until the economy improves it will be too late.

At that point, other gateways will emerge as the choice of cargo owners. The San Pedro Bay ports will be left with higher costs to be spread over less cargo that will push more cargo away: a negative, self-fulfilling feedback loop. As a reminder of what is at stake locally and for California:

- Jobs: Over 700,000
- Income: Nearly $40 billion
- Economic Activity: $110 billion
- State and Local Tax Revenue: $7.3 billion
- Economically Vibrant Communities: Unquantifiable

Some leaders are taking initial steps to address competitiveness collaboratively. If we act now, decisively, we can maintain Southern California as the leading North American gateway. Let's turn the COVID -19 crisis into an opportunity – a time when the economic decline turned around and became a market share gain.

Dwell Time Went Up in April