PMSA

West Coast Trade Report

August 2023

July 2023 – Partial Container Tallies

As a reminder to our readers, we have a strict policy of only citing the container statistics released by the U.S. and Canadian ports we survey. Unfortunately, not all ports post their numbers prior to our publication deadlines. So here's what we have for July. Please note that, unless otherwise indicated, the container numbers appearing below represent TEUs.

According to an August 7 statement from the National Retail Federation's Global Port Tracker (GPT), 1.91 million inbound loaded TEUs were expected to arrive at the thirteen major U.S. ports GPT monitors. That volume would be down 12.7% from a year earlier but would also be about a half-million fewer inbound loads than GPT says arrived in the pre-pandemic month of July 2019.

It's much too early to tell whether the new labor accord between the ILWU and the Pacific Maritime Association will persuade shippers to return to U.S. West Coast (USWC) ports. Certainly, the numbers we've seen so far for July suggest that shippers are still mulling things over as we await final ratification of the contract by ILWU locals. In the meantime, that persistent drought in Central America that has been restricting shipping through the Panama Canal could benefit USWC ports. On the other hand, proposals for ever more stringent and costly air quality regulations in California may discourage shippers from routing cargos through that state's seaports.

In any event, here's what we're hearing from the ports themselves.

July was a comparatively relaxed month at the **Port of Long Beach**. The volume of inbound loads (271,086) was the lowest this year since February and was down 27.9% from a hyper-active July of 2022. July's inbound volume was not only down 13.5% from the pre-pandemic July of 2019, it also represented the fewest inbound loads the port had handled in any July since 2012. The 90,134 outbound loads the port processed in July were the fewest of any month since January 2009. Altogether, loads and empties moving through the Southern California gateway YTD totaled 4,310,925, a gain of 2.6% over the same period in pre-COVID 2019.

Next door, the 364,208 Inbound loads discharged at the **Port of Los Angeles** in July represented a 25.0% fall-off from a year earlier and also a 23.6% decline (-112,230) from July 2019. Outbound loads (110,372) were up 6.2% from last year but were off by 31.6% from the 161,340 the port shipped four years earlier. Total YTD traffic (4,821,670) was down 11.5% from the 5,450,793 America's Port handled during the first seven months of 2019.

July brought a semblance of positive news at the **Port of Oakland**. Inbound loads (78,122) were up 12.5% year-over-year, while outbound loads (58,059) also rose by 23.1%.

Pacific Merchant Shipping Association
475 14th Street, Suite 300, Oakland, CA 94612
510-987-5000 info@pmsaship.com

July Tallies Continued

Those positive numbers, however, mask how far container volumes at the Northern California port remain below pre-pandemic levels…or even pre-pre-pandemic levels. Inbound loads this July were down by 13.8% from July 2019, while outbound loads were off by 24.0%. On a YTD basis, this year's total container traffic (1,193,709) was down 14.2% from a year earlier. It was also the lowest total volume for the first seven months of any previous year since 2009.

Further north, the July numbers from the **Northwest Seaport Alliance Ports of Tacoma and Seattle** provided alarming evidence that the Washington State ports have a very long way to go before seeing container flows return to pre-pandemic levels. Inbound loads in July (88,684) were down 27.9% from July 2019, while outbound loads plunged by 9.1%. Total container traffic through the two ports so far this year amounted to 1,631,448 loads and empties, down 27.2% from the same period in 2019.

A strike by members of the International Longshore and Warehouse Union Canada for several days in July obviously suppressed container volumes through the **Ports of Vancouver and Prince Rupert** in British Columbia. Even before the walkout, Prince Rupert had been struggling to realize its promise as a thriving gateway for transpacific trade. Its July numbers remained highly discouraging. Inbound loads (27,628) were down 15.8% from a year earlier but, more critically, were down by 58.3% from July 2019. Similarly, outbound loads were off by 19.4% year-over-year but down 50.1% from July 2019. Total container traffic (loads + empties) YTD amounted to 430,904, 34.7% lower than the port's volume in the same period in 2019. At Vancouver, inbound loads in July (115,701) were down by 29.0% from July 2019, while outbound loads (36,407) were off by 60.2%. The port's YTD container total (1,752,415) was 12.2% below that for the first seven months of 2019.

Back East, the **Port of Virginia** reported 141,575 inbound loads in July, a 13.0% gain over pre-pandemic July 2019. Outbound loads (88,942) meanwhile increased 9.9% from the same month in 2019. Total traffic through the mid-Atlantic gateway through the first seven months of the year amounted to 1,878,649, up 9.2% from this point in 2019.

The **Port of Charleston** handled 107,777 inbound loads in July, up 16.3% over July 2019. Outbound loads (53,827) were down 25.4% over the same period. Total container traffic YTD through the South Carolina port (1,433,890) represented a slender 1.1% gain over the same months in 2019.

At the **Port of Savannah**, inbound loads (230,225) were 16.7% over the volume seen in July 2019, while outbound loads (105,640) were down by 10.3%. Total traffic YTD at the Georgia port (2,822,996) was up 7.0% from this stage four years ago.

On the Gulf Coast, **Port Houston** continues to post outstanding numbers. July's inbound loads (166,151) represented a 49.6% improvement over the pre-pandemic benchmark of July 2019, while outbound loads (117,652) outdistanced July 2019 by 12.6%. On a YTD basis, the Texas port's 2,202,538 loads and empties this year ran ahead by 28.0% of total container traffic by this point in 2019.

For the Record: Complete June 2023 TEU Numbers

Exhibits 1-3 provide the details on inbound and outbound loads as well as total container traffic (loads plus empties) through the North American ports this newsletter surveys.

June saw inbound loads at the seventeen mainland U.S. ports we monitor amount to 1,868,380, an increase of 1.9% (+35,329) over the number of boxes handled at the same ports in June of pre-pandemic 2019. Outbound loads, meanwhile, totaled 883,175, down 16.4% (-173,342) from June 2019.

Comparing the first half of this year with the same period in 2019, there was a 2.4% (+45,411) gain in inbound loads at the mainland U.S. ports we track but a 16.3% (-175,658) decline in outbound loads. Traffic in both loaded and empty containers during the first half of this year totaled 23,739,120, a 1.0% fall-off (-236,841) from the first half of 2019.

In the Top Port competition, Exhibit 3 attests to the Port of Los Angeles' status as the nation's busiest container port through the first-half of this year, with 4,137,379 loads and empties, topping the Port of New York/ New Jersey (3,740,272), which edged out Port of Long Beach (3,732,676) for second place.

Exhibit 1 June 2023 - Inbound Loaded TEUs at Selected Ports

	Jun 2023	Jun 2022	Jun 2021	Jun 2020	Jun 2019	2023/2019 % Change
Los Angeles	435,307	444,680	467,763	369,189	396,307	9.8%
Long Beach	274,325	415,677	357,101	300,714	331,617	-17.3%
San Pedro Bay Totals	**709,632**	**860,357**	**824,864**	**669,903**	**727,924**	**-2.5%**
Oakland	66,295	95,530	95,060	82,464	80,895	-18.0%
NWSA	90,768	113,295	133,904	104,115	122,645	-26.0%
Hueneme	9,595	12,840	8,623	2,431	5,080	88.9%
San Diego	6,086	5,812	6,386	5,764	6,404	-5.0%
USWC Totals	**882,376**	**1,087,834**	**1,068,837**	**864,677**	**942,948**	**-6.4%**
Boston	8,626	8,186	9,014	8,923	13,874	-37.8%
NYNJ	326,681	440,804	386,771	264,054	301,708	8.3%
Maryland	48,921	51,610	46,319	36,936	38,839	26.0%
Virginia	124,338	151,380	138,737	95,502	112,664	10.4%
S. Carolina	95,831	90,090	105,688	69,775	86,076	11.3%
Georgia	180,369	236,481	219,840	161,363	168,799	6.9%
Jaxport	25,642	27,291	26,805	24,555	33,461	-23.4%
P. Everglades	24,316	34,743	30,910	19,235	22,463	8.2%
Miami	42,365	45,642	46,733	29,609	34,226	23.8%
USEC Totals	**877,089**	**1,086,227**	**1,010,817**	**709,952**	**812,110**	**8.0%**
New Orleans	11,200	8,758	11,793	10,408	11,673	-4.1%
Houston	146,636	157,778	139,488	86,903	105,159	39.4%
USGC Totals	**157,836**	**166,536**	**151,281**	**97,311**	**116,832**	**35.1%**
Vancouver	135,052	167,982	151,075	139,965	137,495	-1.8%
Prince Rupert	34,289	45,056	28,025	48,361	57,754	-40.6%
British Columbia Totals	**169,341**	**213,038**	**179,100**	**188,326**	**195,249**	**-13.3%**

Source Individual Ports

June 2023 TEU Numbers Continued

Exhibit 2 June 2023 - Outbound Loaded TEUs at Selected Ports

	Jun 2023	Jun 2022	Jun 2021	Jun 2020	Jun 2019	2023/2019 % Change
Los Angeles	108,050	93,890	96,067	109,586	139,318	-22.4%
Long Beach	94,508	115,303	116,947	117,538	133,833	-29.4%
San Pedro Bay Totals	**202,558**	**209,193**	**213,014**	**227,124**	**273,151**	**-25.8%**
Oakland	54,138	68,371	71,192	70,638	74,901	-27.7%
NWSA	44,788	51,964	56,976	70,431	76,559	-41.5%
Hueneme	1,944	3,350	1,438	607	1,270	53.1%
San Diego	473	788	330	250	424	11.6%
USWC Totals	**303,901**	**333,666**	**342,950**	**369,050**	**426,305**	**-28.7%**
Boston	4,292	3,420	5,833	5,114	7,366	-41.7%
NYNJ	101,509	109,843	112,987	97,769	122,663	-17.2%
Maryland	17,811	21,665	21,186	16,164	20,127	-11.5%
Virginia	82,414	86,098	78,853	71,591	76,535	7.7%
S. Carolina	59,485	44,694	68,990	57,935	66,496	-10.5%
Georgia	111,104	122,332	114,266	117,424	119,295	-6.9%
Jaxport	41,738	46,009	50,619	43,682	38,424	8.6%
Port Everglades	30,707	36,871	31,505	21,915	34,705	-11.5%
Miami	24,627	26,017	28,828	25,679	32,401	-24.0%
USEC Totals	**473,687**	**496,949**	**513,067**	**457,273**	**518,012**	**-8.6%**
New Orleans	19,672	13,872	21,847	20,890	25,898	-24.0%
Houston	103,726	102,889	84,614	97,635	106,429	-2.5%
USGC Totals	**123,398**	**116,761**	**106,461**	**118,525**	**132,327**	**-6.7%**
Vancouver	65,149	54,951	76,484	83,970	101,715	-35.9%
Prince Rupert	10,603	12,213	9,224	17,133	15,254	-30.5%
British Columbia Totals	**75,752**	**67,164**	**85,708**	**101,103**	**116,969**	**-35.2%**

Source Individual Ports

June 2023 TEU Numbers Continued

Exhibit 3 June 2023 - YTD Total TEUs

	Jun 2023	Jun 2022	Jun 2021	Jun 2020	Jun 2019	2023/2019 % Change
Los Angeles	4,137,379	5,413,901	5,427,874	3,761,888	4,538,639	-8.8%
NYNJ	3,740,272	4,903,459	4,395,072	3,365,625	3,652,841	2.4%
Long Beach	3,732,676	5,007,778	4,753,829	3,433,035	3,581,170	4.2%
Georgia	2,375,409	2,891,093	2,740,544	2,091,401	2,252,228	5.5%
Houston	1,858,375	1,897,065	1,607,793	1,427,809	1,461,409	27.2%
Virginia	1,580,449	1,854,024	1,681,702	1,274,115	1,454,453	8.7%
Vancouver	1,554,905	1,803,479	1,944,092	1,564,479	1,695,377	-8.3%
NWSA	1,394,347	1,806,732	1,881,337	1,564,263	1,915,250	-27.2%
South Carolina	1,225,756	1,436,697	1,335,146	1,096,216	1,207,417	1.5%
Oakland	1,012,154	1,231,279	1,301,782	1,168,815	1,254,985	-19.3%
Montreal	759,185	873,047	839,497	826,704	859,410	-11.7%
JaxPort	640,576	649,001	713,593	590,170	669,706	-4.3%
Maryland	548,848	512,980	525,000	497,707	536,520	2.3%
Miami	547,399	619,170	636,563	497,511	562,669	-2.7%
Port Everglades	514,932	567,570	525,976	464,586	522,238	-1.4%
Prince Rupert	382,405	521,879	491,707	480,423	550,083	-30.5%
Philadelphia	363,280	379,204	351,629	305,739	297,879	22.0%
New Orleans	237,457	211,752	271,877	298,512	316,050	-24.9%
Hueneme	127,888	134,249	106,637	89,846	65,418	95.5%
Boston	109,471	62,587	110,548	131,121	148,822	-26.4%
San Diego	71,499	79,450	79,045	76,889	72,795	-1.8%
Portland, Oregon	63,106	73,820	43,213	25,624	20	∞
Everett, WA	6,695	12,393	3,881	1,333	1,972	239.5%

June 2023 TEU Numbers Continued

Container Contents Weights and Values

The figures in **Exhibits 4 and 5** represent the U.S. West Coast shares of the nation's box trade passing through mainland U.S. ports. Both exhibits show that the USWC shares in June remained well down from their shares a year earlier.

What the exhibits do not indicate is the extent to which the USWC shares are down from pre-pandemic levels. For example, the USWC share of the containerized tonnage imported from worldwide origins in June 2019 was 38.4% and 57.2% from East Asia, both significantly higher than this June's shares.

Tracking Loaded Container Traffic at the Top Three U.S. Container Ports

Exhibit 6 displays the number of inbound loads through the nation's three busiest container ports in every month since January 2019. Not surprisingly, the numbers have been trending lower since last spring. Please note the usual one-month time lag in data reported by the Port of New York/New Jersey, which typically takes more than a

Exhibit 4 Major USWC Ports Shares of U.S. Mainland Ports Worldwide Container Trade, June 2023

	Jun 2023	May 2023	Jun 2022
Shares of U.S. Mainland Ports Containerized Import Tonnage			
USWC	**34.8%**	**34.6%**	**36.7%**
LA/LB	26.3%	25.6%	26.1%
Oakland	3.0%	3.4%	4.7%
NWSA	3.9%	3.7%	3.7%
Shares of U.S. Mainland Ports Containerized Import Value			
USWC	**40.8%**	**40.9%**	**41.5%**
LA/LB	32.2%	31.9%	33.0%
Oakland	2.7%	2.9%	3.2%
NWSA	4.7%	4.6%	4.5%
Shares of U.S. Mainland Containerized Export Tonnage			
USWC	**31.7%**	**32.0%**	**34.2%**
LA/LB	19.3%	20.3%	21.0%
Oakland	5.5%	5.3%	6.3%
NWSA	5.5%	5.5%	5.6%
Shares of U.S. Mainland Conatainerized Export Value			
USWC	**26.4%**	**27.5%**	**27.2%**
LA/LB	17.6%	18.6%	16.9%
Oakland	5.4%	5.1%	6.2%
NWSA	2.9%	3.0%	3.1%

Source: U.S. Commerce Department.

Exhibit 5 Major USWC Ports Shares of U.S. Mainland Ports Containerized Trade with East Asia, June 2023

	Jun 2023	May 2023	Jun 2022
Shares of U.S. Mainland Ports Containerized Import Tonnage			
USWC	**54.0%**	**53.2%**	**55.6%**
LA/LB	43.2%	42.1%	43.6%
Oakland	3.8%	3.9%	4.1%
NWSA	6.0%	5.8%	6.0%
Shares of U.S. Mainland Ports Containerized Import Value			
USWC	**61.6%**	**61.5%**	**61.3%**
LA/LB	49.7%	49.2%	50.3%
Oakland	3.4%	3.5%	3.6%
NWSA	7.3%	7.0%	6.1%
Shares of U.S. Mainland Containerized Export Tonnage			
USWC	**52.1%**	**54.2%**	**58.0%**
LA/LB	32.9%	34.9%	38.0%
Oakland	8.7%	8.3%	8.8%
NWSA	9.2%	9.8%	10.0%
Shares of U.S. Mainland Conatainerized Export Value			
USWC	**56.2%**	**58.0%**	**53.5%**
LA/LB	38.0%	39.4%	35.5%
Oakland	11.0%	9.7%	9.9%
NWSA	6.5%	7.0%	6.7%

Source: U.S. Commerce Department.

June 2023 TEU Numbers Continued

New York minute to release its maritime trade numbers.

On the other side of the trade ledger, **Exhibit 7** reveals that the volume of outbound loads leaving the three major U.S. gateways has been waning since before the start of the pandemic, despite the relatively steady numbers posted (at least until this June) by the Port of Long Beach.

Wine Imports

Historians of the late Middle Ages have used statistics on wine imports as a surrogate indicator of how well (or poorly) the elites within various European nations were faring during any particular era. Higher imports were seen to be the hallmark of a confident upper class, just as a decline in inbound casks usually heralded woeful times. So we thought it would be interesting to see how America's wine-sipping nobility have been faring with imported wines.

Wines flow into the country via numerous ports, but the Port of New York/New Jersey and the Port of Oakland have long been the principal ports-of-entry in terms of both tonnage and value, as **Exhibit 8** shows. Last year, PNYNJ accounted for 40.8% of all containerized wine imports by tonnage followed by Oakland's 24.8% share. Port Houston, with a 6.0% share of wine import tonnage, ran a distant third. The Ports of Los Angeles and Long Beach held a 4.3% tonnage share, while the Northwest Seaport Alliances handled a negligible 0.8% share. So it's really a trade that pits the Big Apple versus the former home of the Raiders, Warriors, and (presumably) the A's.

That's just part of the story, though. Wines come in all price ranges. By value, the Port of New York/New Jersey last year handled exactly 50.0% of the $7.06 billion in containerized wine imports that entered U.S. mainland seaports. The Port of Oakland's share was 16.3%, while

Exhibit 6 Inbound Loads at Ports of LA, Long Beach, and PNYNJ

Source: Individual Ports

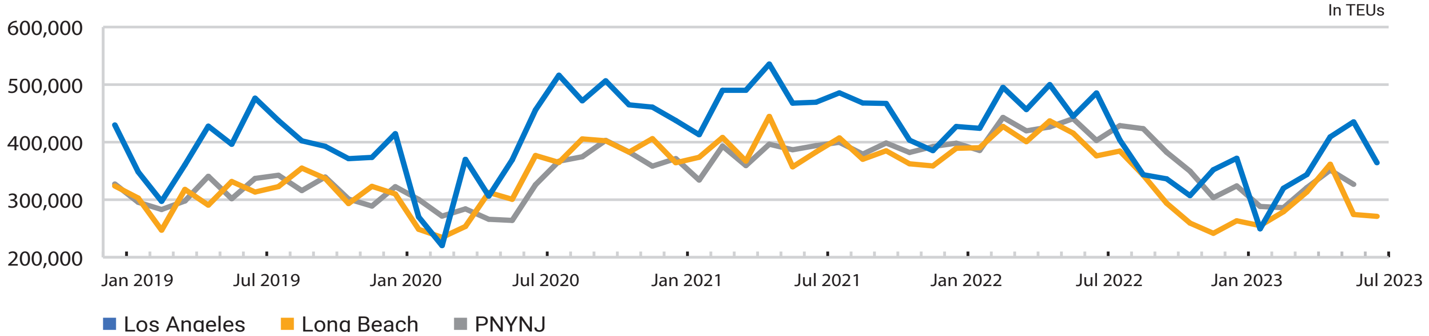
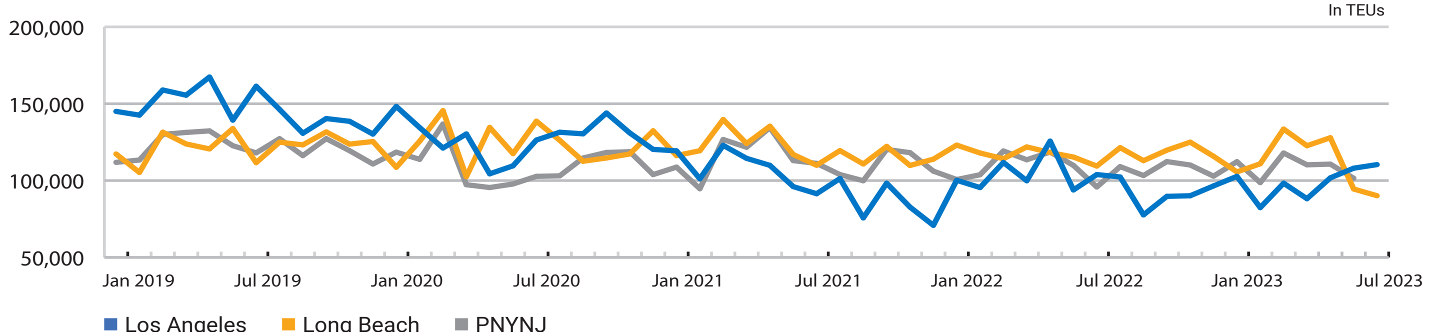


Exhibit 7 Outbound Loads at Ports of LA, Long Beach, and PNYNJ

Source: Individual Ports



June 2023 TEU Numbers Continued

the two San Pedro Bay ports in Southern California and the two Washington State ports operating as the Northwest Seaport Alliance accounted for 4.4% and 0.6% of the trade, respectively.

It is intuitively understandable that the New York/New Jersey port complex should handle a very high share of the nation's wine imports. After all, the bi-state ports serve an enormous, affluent, and highly cosmopolitan consumer base throughout the Northeast. It is somewhat more surprising that the nation's second largest consumer market – Southern California – should attract less of the wine import trade than the much smaller consumer market in Northern California. Are residents of the San Francisco Bay Area that much more indulgent consumers of imported wine?

Perhaps we are. But the most important factor in explaining the Port of Oakland's prominence in the global wine trade is not what gets poured by individual consumers but what grows on the vines in the counties surrounding the Bay Area.

The disparity between volume and value of wine imports between PNYNJ and Oakland has everything to do with the nature of the wine industry on the respective coasts. The majority of the wine imported through Oakland (62.7% last year by weight) is bulk wine intended for either blending with domestic output or filling the private label bottles of retail chains. By contrast, bulk wine has seldom represented more than 2.0% of the wines entering the U.S. through PNYNJ. Those wines are almost invariably destined for restaurants and wine sellers.

Bulk wine is customarily defined as any wine not transported in bottles or smaller packaging. Much of it travels in containers (ISO tanks, Flexitanks, etc.) in plastic bladders that can contain upwards of 25,000 liters. Importers of bulk wines can include domestic wineries as well as retail stores offering their own private labels. It's often derided as plonk, often unfairly. Some of it is simply surplus production by a top-flight winery being sold anonymously. Some of it is simply dreadful. To a large extent, it is blended with domestic wines or other imports to alter the alcohol content or color or taste. More cowbells, fewer tannins.

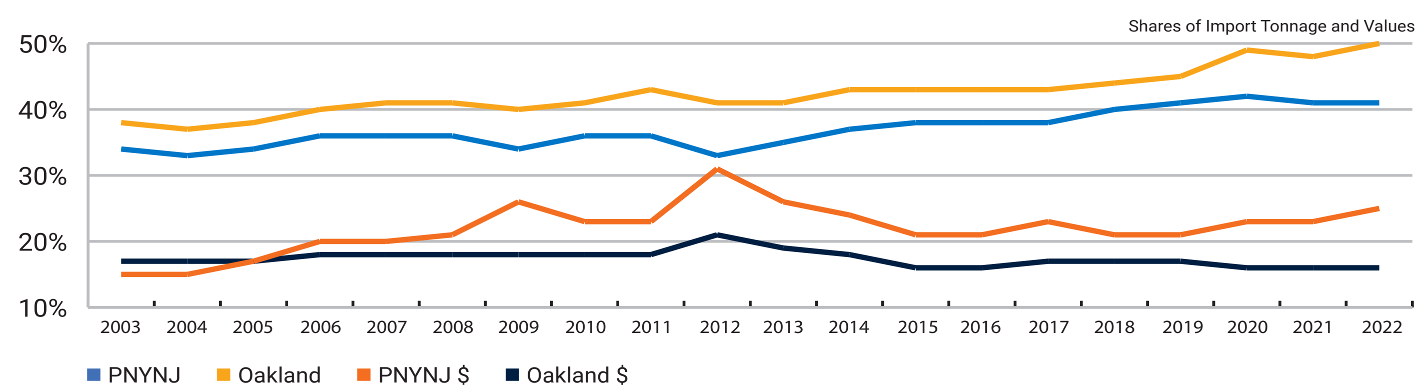
Bulk wine imports through the Port of Oakland also tend to move in tandem with inbound containerized shipments of empty wine bottles, where the two commodities usually meet up in non-descript industrial parks in Fairfield, Vallejo, and Sacramento. There, the bladders are emptied for bottling or blending. If there's a Horace Rumpole swilling his Chateau de Fleet Street anywhere in America, this is where it was bottled.

Cost of Doing Business in the Golden State

California features just about the highest energy costs in the nation, according to numbers supplied by the California Center for Jobs and the Economy, a unit of the California Business Roundtable. The July average price per gallon of diesel in California rose 13 cents from June to $5.18. The

Exhibit 8 **U.S. Containerized Wine Imports: PNYNJ v. Oakland**

Source: U.S. Commerce Department



June 2023 TEU Numbers Continued

California premium above the average for the US other than California ($3.84) rose to $1.34, a 34.8% difference. In July, California had the highest diesel price among the 48 contiguous states and the District of Columbia.

California average Commercial electricity rate for the 12 months ended May 2023 was 22.44 cents/kWh, 87.6% higher than the US average of 11.96 cents/kWh for all states other than California. California's commercial prices were the highest among the contiguous states and D.C.

California average Industrial electricity rate for the 12 months ended May 2023 was 18.07 cents/kWh, 122.8% higher than the US average of 8.11 cents/kWh for all states other than California. At least in this case, California's industrial prices were not the highest in the nation, just the 3rd highest among the contiguous states and D.C.

For the 12 months ended May 2023, California's higher electricity prices translated into Commercial & Industrial ratepayers paying $16.4 billion more than ratepayers elsewhere in the US using the same amount of energy. Compared to the lowest rate states, Commercial & Industrial ratepayers paid $21.2 billion more.

Quote of the Month

"The US is resorting to purchases of European wheat after a drought pushed local prices higher. While there are enough American supplies for the nation's flour mills, it's cheaper to bring in grain from Poland than to haul it from the Midwest to places like Texas and Florida." -- Bloomberg News, August 11.

Jock O'Connell's Commentary:

Trading Beers

Now that China's economy is finally imploding, and ports worldwide are ratcheting back their cargo forecasts for the next few decades, what's left to talk about on a hot summer day?

Well, there's always beer.

Actually, there's nearly always been beer, the first written records of which date to 4,000 BC in either Mesopotamia or China. The debates among academics on the question of provenance can presumably get very rowdy. Similarly, the Vatican can't seem to settle on a single patron saint of beer. Who else but the reformed libertine St. Augustine has been widely touted, as has Wenceslas, the allegedly Good King who imposed the death penalty on anyone caught exporting hops from his realm in Bohemia.

This month's commentary might also be considered an ode to Anchor Steam, Ballantine Ale, and my Polish grandmother Amelia.

While still reeling from the news that San Francisco's iconic Anchor Steam brewery was being shut down after a run that started in 1896—when Amelia was 18 years old living in a village ruled by Czar Nicholas II—I was scrolling through the internet platform formerly known as Twitter and noticed with some amusement that the Port of Vancouver had opted to commemorate International Beer Day (August 4) by crowing about "the over 15,000 million metric tonnes of beer" that had flowed through the port last year.

That's an awful lot of beer, even for Canadians. For their sake, I'm hoping the "million" was a misplaced modifier.

The Port of Vancouver's boast naturally prompted me to wonder how much beer has been coursing through U.S. seaports, and whether either the pandemic or the emergence of a thriving craft beer industry had affected the trade. And, like Justice Kavanaugh, I've long had a personal affinity for beer.

My first taste was from a can of ale back in the 1950s. From time to time, Amelia, who lived in the flat just downstairs from my parents and me, would send me down the street to Ginsburg's Market, where either Sidney or Saul, the brothers *who owned the store, would oblige my grandmother's relayed request by stuffing a six-pack of her favorite brew, Ballantine ale, into a brown paper bag along with a loaf of bread on top. Sidney insisted on the charade to conceal the contents from any prying eyes who might report them for furnishing alcohol to a minor. His brother Saul, who had been a Manhattan Project engineer in Oakridge, Tennessee during the war, was more skeptical of the ruse. Perhaps I was a slow learner, but it eventually dawned on me I could obtain beer for the asking. Which I proceeded to do for a few months around the age of twelve before questions were raised about the spike in Amelia's alcohol consumption. That taught me the virtues of off-book accounting.*

Back now to the nation's trade in beer.

The first thing to realize is that most of America's foreign trade in beer is conducted overland rather than by sea or air. While fine dining establishments might fetishize about an obscure Belgian bilge or a Japanese beer brewed from a rare strain of rice, Mexico dominates the U.S. market for imported beers with a share that has exploded from 40.0% twenty years ago to 80.2% last year (and 82.4% through the first half of this year). Canada, which held an 8.5% share of the market in 2003, has seen its share dip to 1.5%. So much for the appeal of Labatt and Molson.

As for the maritime trade in beer, statistics gathered by the U.S. Commerce Department reveal that 1,748,144 metric tons of beer (HS 2203) moved through American seaports last year. It would probably surprise no one that America imports a great deal more beer than it exports. After all, the Budweiser brewed in America is universally dismissed as a much less tasty quaff than the suds brewed in, say, Budajovicě, the Bohemian city in Czechia (aka the Czech Republic) known in German as Budweis.

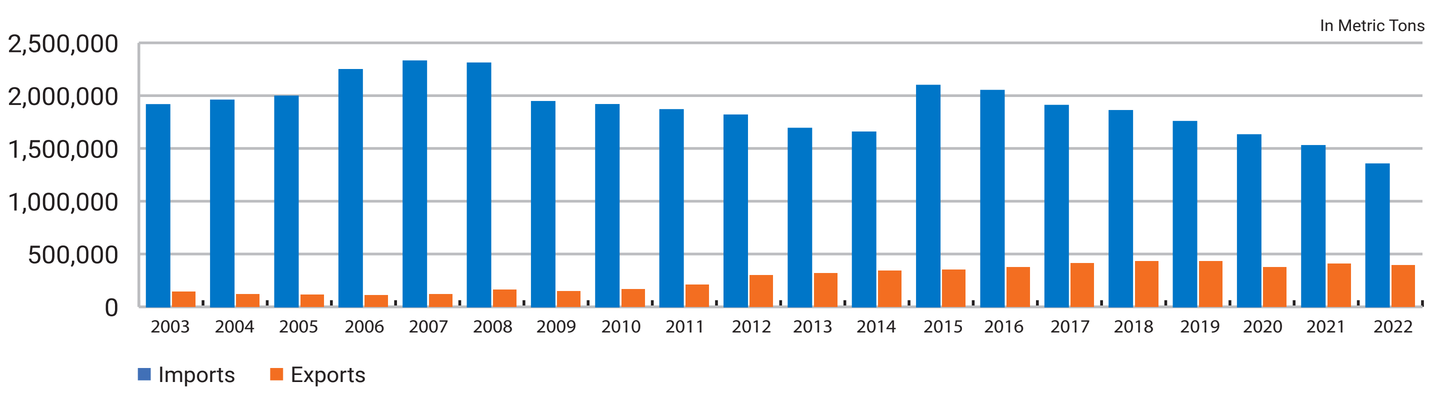
I speak with some personal authority here. My first taste of Czech lager came at a horrendously inopportune time for the Czechs. It was in the fall of 1968, and Prague had suddenly filled up with heavy-armed Russian "tourists" who had arrived to oust a Soviet bloc government (Alexander Dubcek's) that had strayed too far from Kremlin orthodoxy. Perhaps the drama playing out on the streets enhanced the taste of the local brews I then sampled, but I haven't noticed a decline in quality on any of the periodic quality-control visits I've made there since.

Even though our North American trading partners rule the U.S. market for imported beer, U.S. seaports haven't been entirely cut out of the beer trade. But they do have a very serious trade deficit, as **Exhibit A** reveals.

What's apparent from this graph is that U.S. beer imports, which peaked in the run-up to the Great Recession before stumbling badly, did stage a brief recovery before steadily falling off since 2015. At the same time, exports of American brews have been gaining, although the trade is, by most measures, relatively small beer. What's interesting, though, is that the recent rise in U.S. beer exports closely parallels the rise of craft brews by small crafty brewers. Suddenly, it seems, we had ourselves a product foreign beer drinkers might buy, although the appeal of double and triple IPAs continues to elude me.

Exhibit A **Beer Flowing Through U.S. Mainland Ports: 2003-2022**

Sources: U.S. Commerce Department



Commentary Continued

Exhibit B **Coastal Shares of U.S. Maritime Trade in Beer: 2012-2022**

Source: U.S. Commerce Department

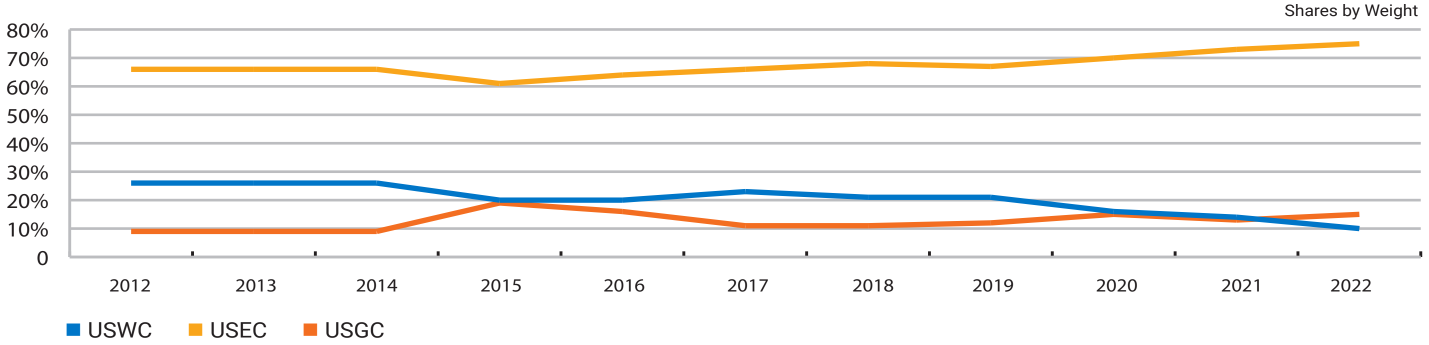
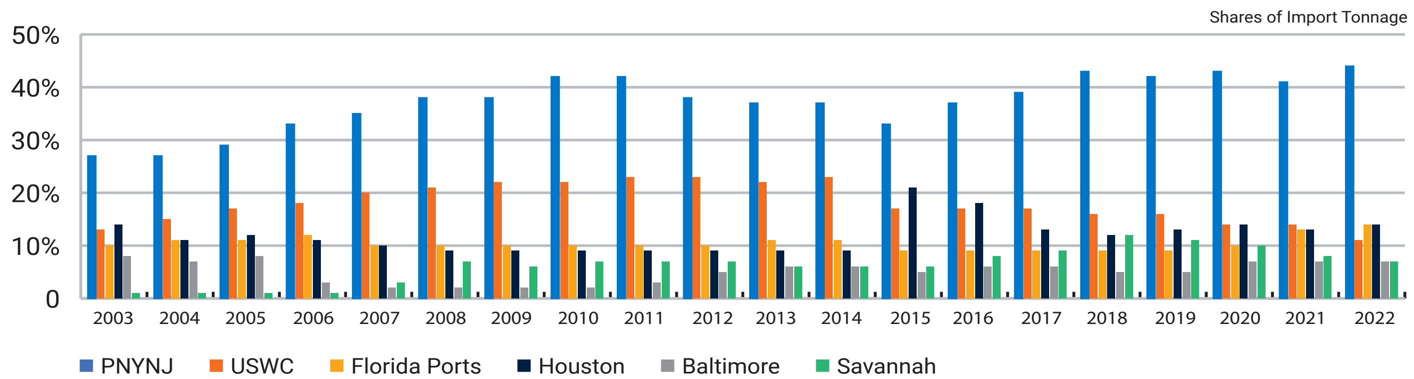


Exhibit C **Leading Mainland U.S. Ports for Beer Imports: 2003-2022**

Source: U.S. Commerce Department



In truth, the products of some small brewers did make it abroad even during the depth of the export trade. In November 2014, for example, anyone in town to tour the new ditch being dug through the isthmus could find a certain hole-in-the-wall bar in Panama City's Casco Viejo district which kept a small supply of ale from the Shipyard Brewery in far-off, exotic Portland, Maine, a city oddly enough perched on Casco Bay. Small world.

U.S. West Coast (USWC) ports have had a fairly paltry share of the suds trade. Indeed, as **Exhibit B** testifies, ports along the Atlantic Seaboard handle most of the nation's beer trade. Gulf Coast ports have lately overtaken West Coast ports as conduits for beer shipments.

Exhibit C displays data on U.S. beer imports by port-of-entry. I was taken aback to see that only 10.6% of the nation's total beer trade (by weight) moved through the country's Pacific Coast ports last year. By contrast, 44.1% was traded through the Port of New York/New Jersey alone. In fact, more beer was traded through Port Houston (14.0%) and the ports of Florida (14.0%) than through all USWC ports. The Ports of Los Angeles and Long Beach together accounted for 8.6%, while the Port of Oakland (1.5%) and the Northwest Seaport Alliance (0.3%) saw relative trickles. Indeed, the Ports of Tacoma and Seattle handled 5,714 metric tons of suds last year, much less the spurious volume Vancouver claimed.

Commentary Continued

What's the story here? Are residents of the Western States that much more into wine or coffee or bottled water or has the soaring cost of coastal living driven more people to the hard stuff? Or has the proliferation of craft breweries west of the Rockies suppressed the demand for imported brews? (Note to self: More research is obviously needed.)

The U.S. Department of Agriculture keeps tabs on the dollar value of American beer exports. As **Exhibit D** reveals, exports have not shown impressive growth.

One major reason for the parlous growth numbers in offshore sales is that America's dominant label, Budweiser brews some of its product overseas. Budweiser has been produced in Canada since 1980. Elsewhere, Anheuser-Busch claims that its masthead lager is available in over 80 countries worldwide, although it is marketed as simply Bud in much of Europe. Otherwise, the lawyers in Budajovicĕ would raise a hackle or two about the ancient rights to the Budweiser brand.

Conversely, not all "foreign" beer sold in this country is brewed abroad. Beck's beer, *zum Beispiel*, trades heavily on its German heritage. But the Beck's sold in the U.S. has been brewed in St. Louis since 2012. Similarly, Foster's may play on its ties to, well, Australian boorishness, but chances are the can of Foster's you've been drinking was produced in Fort Worth, Texas.

Even though America's export trade is far from awesome, the USWC share of the outbound trade has plunged from 43.9% in 2003 to just 8.9% last year. The biggest gains

Exhibit D **U.S. Beer Exports: 2013-2022**

Source: U.S. Department of Agriculture, Foreign Agriculture Service

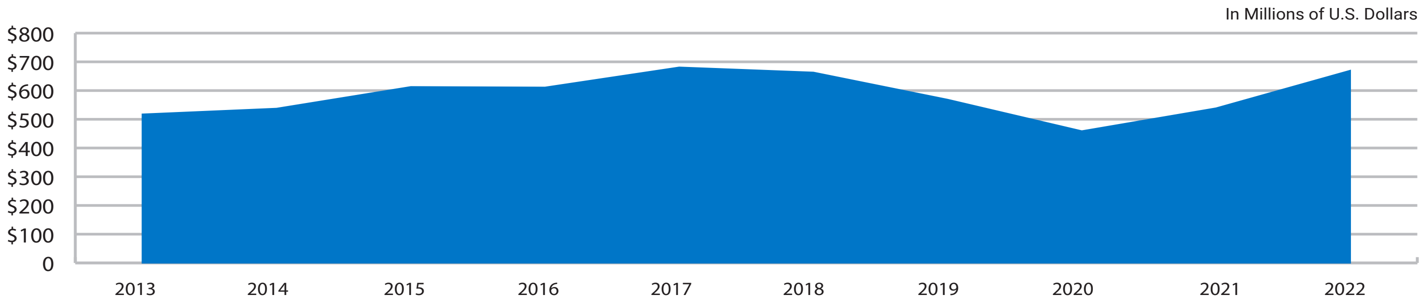
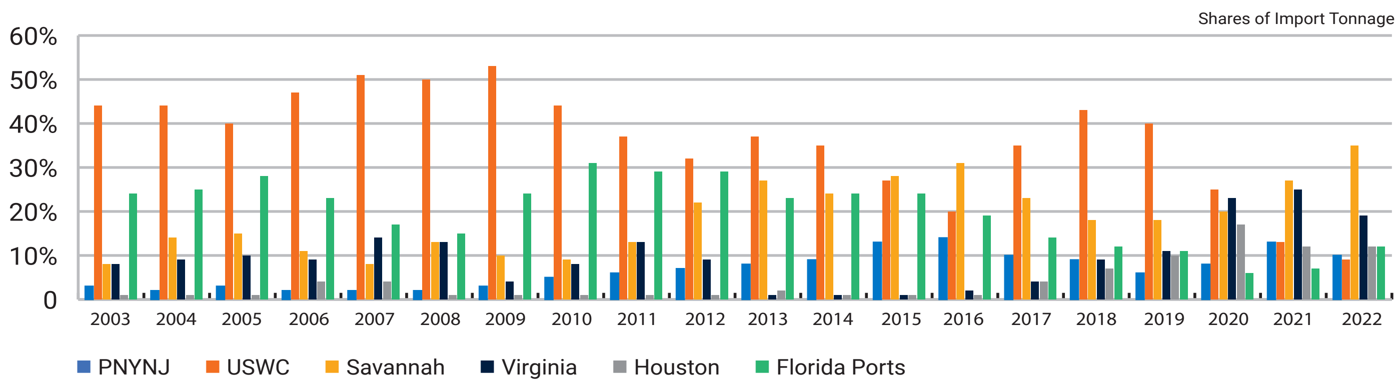


Exhibit E **Leading Mainland U.S. Ports for Beer Exports: 2003-2022**

Source: U.S. Commerce Department



Commentary Continued

were recorded by Savannah (7.8% to 34.65%) and Virginia (7.6% to 18.8%). Export shares at the Port of New York/ New Jersey jumped from 2.7% to 10.0%, while falling from 30.2% to 5.7% at the two San Pedro Bay ports. As with imports, Oakland and the Northwest Seaport Alliance accounted for a negligible share of U.S. beer exports.

For the record, the top supplier of oceanborne imported beers to the U.S. market is the Netherlands (think Heineken), followed by Ireland (think Guinness), then Mexico and Germany with Italy rounding out the top five.

U.S. exports, on the other hand, go principally to Chile, Panama, and Honduras. Obviously, no respectable beer-brewing nation imports much American beer.

Right then! Who's got the next round?

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

NUMBERS OF THE MONTH

0 and $0.00

The number of new and novel Puget Sound Pilot arguments for increases to pilot "net income" that were accepted by the Washington Utilities and Transportation Commission in its recent pilotage tariff Order and, as a result, the total amount of new pilot "net income" which was awarded on any basis other than application of inflation factors to prior pilot income levels.

Reforms Separating Ratemaking from Safety Issues and Standardizing Tariff Adoption Processes are Improving the Regulation of West Coast Pilotage

By Vice President Capt. Mike Moore and Vice President Mike Jacob, Pacific Merchant Shipping Association

This month, the Washington State Utilities and Transportation Commission (WUTC) issued an Order in a rate case for the Puget Sound Pilots (PSP). The WUTC was responding to a petition by PSP for a tariff increase of $15 million or 42.3% to pay for more pilots than are actually licensed, run-away expenses, and to provide more than $605,000 per pilot in net income plus medical insurance.

The WUTC denied the PSP proposal. However, it did nevertheless choose to increase the tariff to fund additional pilots and provided for an inflation-adjusted increase to pilot income levels. For context, the targeted total revenue in the Order is $5.6 million more than the highest level set in the WUTC's 2020 Order and will require tariff rate increases of more than 18%.

And, as representatives of the industry ratepayers vigorously fighting to ensure safety while keeping costs down amidst fierce competition for discretionary West Coast cargo, PMSA will not be contesting the award.

Why not? While we feel that some of the increase is excessive and unjustified, it was nonetheless based on the logical application of facts produced by a vigorously litigated hearing process before an independent panel of three rate-setting professionals and an Administrative Law Judge. This process resulted in a well-reasoned 119-page Final Order , accompanied by 37 conclusions of law and 42 findings of fact, some of which benefitted pilots and some which benefited ratepayers. In short: it was the product of a fair, honest, apolitical, and impartial conclusion.

This was just the second tariff-setting process in front of the WUTC since a set of reforms were adopted by the Washington State Legislature in 2018. Prior to these reforms, the Washington State Board of Pilotage Commissioners (BPC) handled both the economic regulation of pilotage – ratesetting – and the safety regulation of pilotage – training, licensing, and discipline of pilots. This co-mingling of safety and economic regulation was criticized in a report done for the Washington State Legislature in 2018 as a system which "lacks methodological structure" and "serves as a distraction and limits discussion on other important items under BPC jurisdiction, such as safety." The 2018 reforms were based on this report and were supported by both the pilots and industry. Ultimately, the BPC kept its jurisdiction over the licensing and training issues that it had expertise in, and rate-making and tariff-setting was transferred to the independent WUTC to administer with an Administrative Law Judge process. Since these reforms were adopted, the BPC has been able to focus exclusively on safety while the WUTC focuses exclusively on rates and the economic regulation of the pilotage monopoly.

Last year, PMSA and the San Francisco Bar Pilots (SFBP) crafted a similar compromise measure to the one exercised in Washington state. The California State Board of Pilot Commissioners (BOPC) system was very similar to

Washington UTC Order Highlights

- Rejected PSP request for income based on a "national average"
- Found that PSP's petition failed to establish that existing compensation is too low to attract or retain qualified candidates
- Maintained existing formula for setting a target Net Income but excluded COVID-19 years of 2020-2021 in order "to avoid penalizing PSP" for anomalous business disruptions and unprecedented reductions in vessel traffic during the pandemic
- Set target Net Income on "an inflation adjusted average"
- Required PSP pilots, who operate businesses as independent contractors, to pay their own medical benefits
- Declined to adopt all of PSP's requested automatic adjusters
- Rejected PSP proposed increases in expenses for general legal expenses and transportation
- Directed all interested stakeholders to participate in a Commission-led workshop to address rate-of-return methodology for pilots

Reforms Continued

Washington's original system. And while the California BOPC did not set rates directly, it had the sole jurisdiction to hold hearings on rates and made recommendations to the State Legislature for potential rate changes, in addition to handling licensing, training, and discipline. Additionally, California's BOPC has been on the national forefront of several new pilot regulations for fatigue management, medical and physical reviews, and navigation technology. A central hallmark of the pilot and ratepayer compromise, which was also negotiated with representatives from the cruise and tanker industries in California, is a process very similar to Washington's: all ratemaking decisions will now be made by an independent Administrative Law Judge and substantively divorced from the day-to-day licensing, training, and disciplinary functions of the state BOPC.

With these two reforms, the U.S. West Coast has successfully standardized and institutionalized all of its pilotage systems such that the public tariffs and rate-setting processes are independent of the core safety systems and licensing missions of the organizations that manage pilots. In Southern California, with municipal pilots at the Port of Los Angeles, and independent contractor pilots operating under a set Port tariff in the Ports of Long Beach, Port Hueneme, and San Diego, this has always been the case.

This development is good for pilots and for the vessels that rely on pilotage services to provide safe, efficient, and reliable services. This is true because these pilotage systems are standardized independent rate-setting systems which are "cost-plus," meaning that they are directly based on providing a rate which reimburses the service provider pilots with their justifiable and necessary costs plus a reasonable rate of return, just as if they had been participants in a competitive market. Rates based on essential cost causation is legally sound, logical and fair.

And, in exchange for the right to control this business without competition, the pilot monopolies are obligated by law to provide a safe, rested, efficient, regular, and uninterrupted pilotage service to all prospective vessel customers at the lawfully mandated rates. This also requires the pilots to be adequately staffed, but in order to maximize revenues and profits per pilot they must also manage the number of licensees to avoid excessive labor overhead and to eliminate unnecessary expenses. These pressures have created incentives for other pilotage grounds to be prudent managers of their costs and to avoid over-staffing their pilotage corps. As a result, we do not have over-staffing issues in Long Beach, Los Angeles, Port Hueneme, San Diego or San Francisco. These systems align the interests of pilots and their customers, as it provides pilots with the incentive to safely work more because they earn more, and conversely if pilots work less they earn less. Proper incentive and disincentives promote better overall system efficiency including more effective pilot dispatching. In the Puget Sound, part of PSP's rate-setting strategies at the BPC were seemingly based on seeking increases in the number of pilots and hope for higher tariffs to cover these extra licensees, but under the new WUTC system that should no longer be an attractive approach, especially given the decreasing overall workload and revenues being experienced now in the pacific northwest.

There is no perfect rate-setting process for pilots, but before the Washington and California reforms were put into place the pilotage hearing processes for both the BPC and BOPC were distracting at best and the wild, wild West at worst. At times the rate hearings themselves more resembled auctions with bids being made by competing parties than the well-reasoned, arm's-length, objective deliberations coupled with analysis one might expect from an independent state commission. And the contentious, and often excessively-political aspects of pilot rate-setting would not only consume the state board's time and attention, but it would discourage people who really cared about the core pilotage issues of safety, training, and licensing from becoming engaged as volunteers for these state agencies.

Ultimately, we are very proud of the progress that we have made in the last several years to get consensus with state agencies, legislatures, and our pilot stakeholders on the need for systemic improvements to pilotage and to bring these systems into the 21st century. While we might not always agree on what constitutes a good rate for pilotage services, we look forward to having a fair forum, fair litigation, and collegial approaches to setting the costs of the pilotage system. These improvements should, in turn, allow our state licensing boards to focus on what they do best – recruit, train, and license pilots which have maintained impeccable safety records on the West Coast – without having these important goals compromised or undermined by debates about expenses or pilot income.

Container Dwell Time Is Up in July