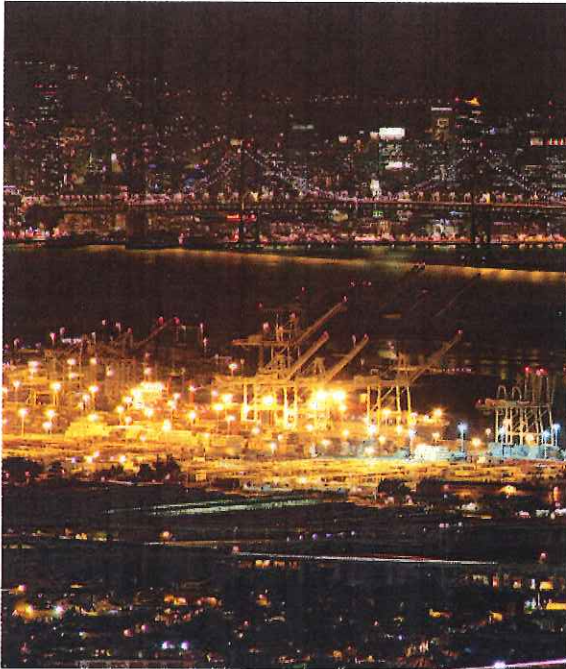




West Coast Trade Report

April 2017

Photos courtesy of the Port of Oakland



Parsing the Year-to-Date Numbers

Update: March was very busy at the three big California ports. The Ports of Los Angeles, Long Beach and Oakland saw their combined inbound loaded TEU counts soar 25.2% over last March, while the number of outbound loaded TEUs rose by 7.6%. YTD, exports were up 8.5% and imports 4.2% over the first quarter of last year. We'll have more details in our May issue as other ports post their container trade numbers.

As usual, the Lunar New Year seriously messed with transpacific trade during the first couple of months of the year. Containerized trade, which had swelled in January, fell sharply – at least along the Pacific Coast – in short February.

At the five major U.S. West Coast (USWC) ports, the month's inbound loaded TEU traffic plunged by 15.5% from February a year ago. North

Continued

Exhibit 1 February 2017 - Inbound Loaded TEUs at Selected Ports

	Feb 2017	Feb 2016	% Change	Feb 2017 YTD	Feb 2016 YTD	% Change
Los Angeles	298,975	372,744	-19.8%	714,398	739,953	-3.5%
Long Beach	249,759	295,870	-15.6%	548,748	574,361	-4.5%
Oakland	64,110	70,620	-9.2%	144,551	148,259	-2.5%
NWSA	102,697	107,249	-4.2%	231,589	215,690	7.4%
NYNJ	262,875	258,249	1.8%	523,600	505,378	3.6%
Maryland	33,653	33,999	-1.0%	73,955	68,906	7.3%
Virginia	96,921	99,883	-3.0%	198,223	184,069	7.7%
South Carolina	73,855	69,477	6.3%	156,963	135,772	15.6%
Georgia	154,363	140,624	9.8%	302,737	270,178	12.1%
Port Everglades	31,474	29,343	7.3%	62,456	57,842	8.0%
Houston	73,389	64,395	14.0%	157,978	129,591	21.9%
Jaxport	23,838	18,353	29.9%	48,848	40,078	21.9%
Vancouver	126,759	117,820	7.6%	255,898	253,298	1.0%
Prince Rupert	29,789	36,215	-17.7%	70,777	75,755	-6.6%
Manzanillo	65,252	66,798	-2.3%	136,668	130,889	4.4%
Lazaro Cardenas	35,113	36,492	-3.8%	71,427	71,656	-0.3%

Source Individual Ports



Parsing the Year-to-Date Numbers *Continued*

of the border, Vancouver and Prince Rupert eked out a modest 1.6% gain, while south of the border Manzanillo and Lazaro Cardenas posted a 2.8% decline. As Exhibit 1 attests, East and Gulf Coast ports generally fared better in February.

USWC numbers on the export side of the ledger were also disappointing. Collectively, the five ports shipped 418,997 loaded TEUs, just 0.6% more than last February's total. (Considering that last February featured one additional working day, the modest gain is somewhat better than it looks.)

Looking now at how the USWC ports fared in vying for a share 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 fall to 37.0%, down from 39.8% in January and down from 39.2% the previous February. The USWC ports also saw

their share of the **declared value** of containerized imports drop to 46.7%, down from 49.2% in January and from 49.7% in February 2016.

Okay, we know the Lunar New Year always skews trade statistics at the outset of each year. Depending on when the holiday starts, trade gets shifted to either January or February to minimize the impact of the holiday on trade flows. To help erase that factor, we combined January and February and compared the results with the preceding two months and with the same two-month period a year earlier. The data show that, in January-February 2017, the USWC share of the **declared value** of containerized imports fell to 48.0%, down from 50.2% during the last two months of 2016 and down from 49.5% in the first two months of 2016. In terms of **declared weight**, USWC ports' share of import containers in January-February was 38.5%, down from 40.1% in the final two months of 2016 and off from 40.8% from the first two months of 2016.

Exhibit 2 February 2017 - Outbound Loaded TEUs at Selected Ports

	Feb 2017	Feb 2016	% Change	Feb 2017 YTD	Feb 2016 YTD	% Change
Los Angeles	155,358	146,489	6.1%	317,778	272,730	16.5%
Long Beach	119,811	123,010	-2.6%	238,045	229,749	3.6%
Oakland	72,585	70,620	2.8%	145,937	140,727	3.7%
NWSA	71,243	76,460	-6.8%	147,583	141,890	4.0%
NYNJ	105,638	109,641	-3.7%	216,596	212,310	2.0%
Maryland	17,362	19,969	-13.1%	39,878	38,342	4.0%
Virginia	85,827	82,065	4.6%	175,594	158,425	10.8%
South Carolina	66,296	63,961	3.7%	133,164	116,250	14.5%
Georgia	119,090	105,745	12.6%	236,480	206,470	14.5%
Port Everglades	34,776	32,152	8.2%	67,221	63,587	5.7%
Houston	88,553	76,551	15.7%	176,956	143,645	23.2%
Jaxport	31,135	30,563	1.9%	61,135	59,309	3.1%
Vancouver	94,027	85,202	10.4%	179,491	168,467	6.5%
Prince Rupert	12,692	14,251	-10.9%	23,986	26,612	-9.9%
Manzanillo	62,772	64,021	-2.0%	131,547	118,887	10.6%
Lazaro Cardenas	29,002	27,863	4.1%	59,107	55,890	5.8%

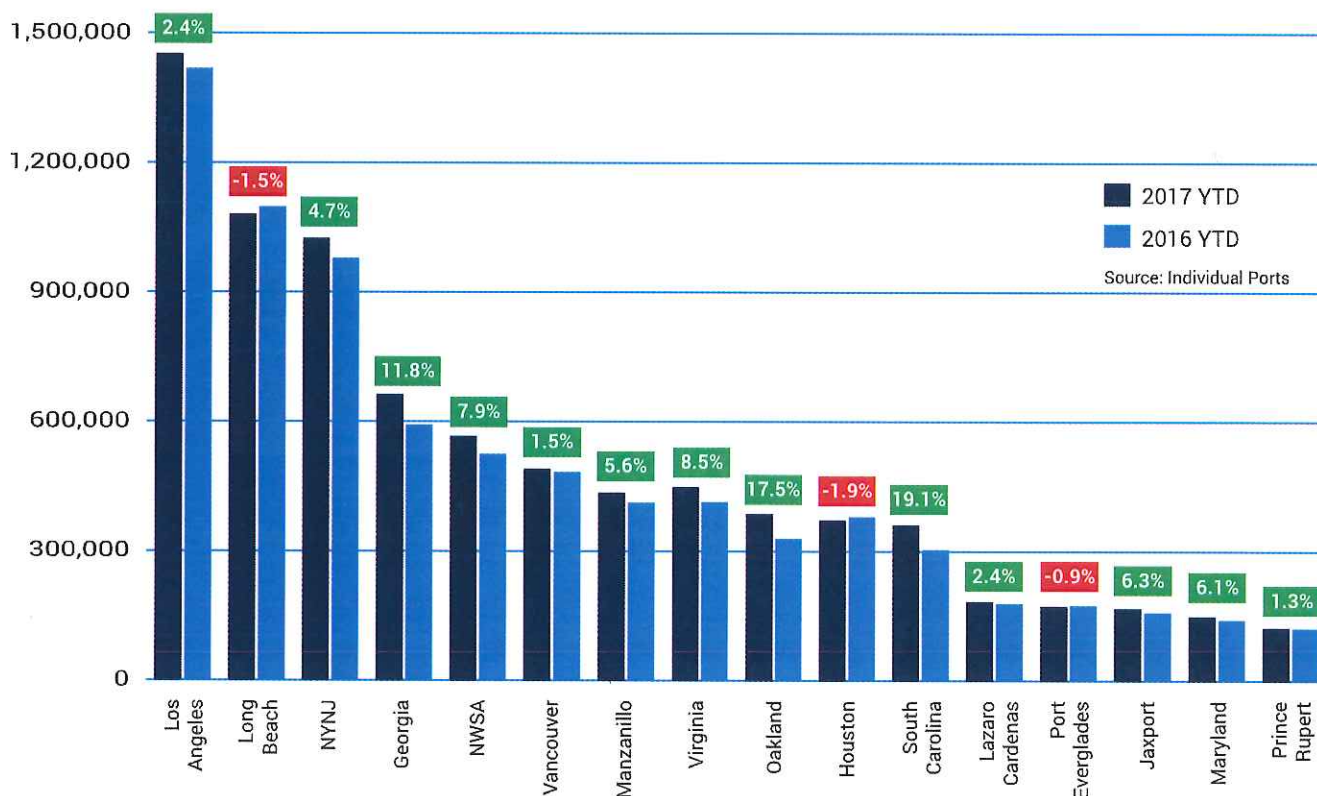
Source Individual Ports



Parsing the Year-to-Date Numbers *Continued*

Exhibit 3

February Year-to-Date Total TEUs (Loaded and Empty) Handled at Selected Ports



Jock O'Connell's Commentary:

Port Competition in the Greater Pacific Northwest

A recent phone call from a Canadian newspaper reporter up in Vancouver prompted me to revisit the question of just how much the longshore labor dispute that jammed up U.S. West Coast (USWC) ports during the winter of 2014-15 has had a lingering impact on container trade in the Pacific Northwest.

The only nugget my caller's internet search had yielded was a June 2015 Journal of Commerce article which reported that U.S. importers were "rapidly moving more containers through Port Metro Vancouver and to Chicago and the upper Midwest, dealing another blow to the ports of Seattle and Tacoma."

Had the USWC ports' sullied reputation for labor relations continued to influence routing decisions or had an *ante bellum* balance of trade been restored?

Let's see.

Waterfront lore has it that frustration over an evident lack of progress in negotiating a new contract between the ILWU and Pacific Maritime Association began to spill over onto the docks in October 2014, three months after the former contract had expired. From then, until after a tentative settlement was reached late the following February, the flow of containerized trade through ports



Commentary Continued

in California, Oregon and Washington was anything but smooth.

Data published by the respective ports reveal an interesting dichotomy between the handling of imports versus exports.

While containerized exports slumped almost immediately, the impact on import volumes was not as immediate or dramatic as many seem to recall. In fact, during the final quarter of 2014, not one of the five major USWC container ports reported a year-over-year decline in inbound loaded TEUs. In the Pacific Northwest, the Ports of Seattle and Tacoma (since August 2015 rechristened as the Northwest Seaport Alliance or NWSA) actually handled 8.3% more inbound loaded TEUs than they had a year earlier.

But export traffic was an entirely different matter. The number of outbound loaded TEUs at the two ports plummeted by 26.0% from same quarter the year before. The financial losses to exporters soared, and their plight drew national and international attention,

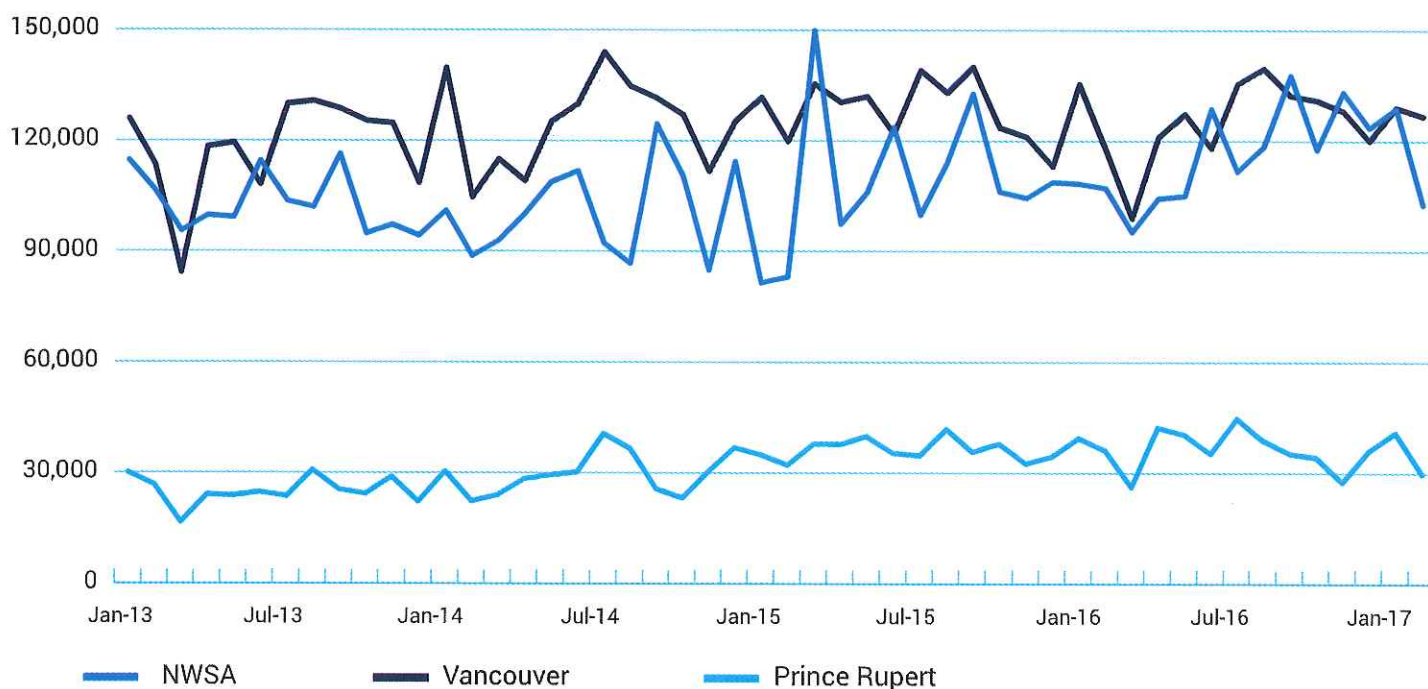
further muddying the reputation of USWC ports. (A study later commissioned by the Washington Council on International Trade found that "Washington state lost \$769.5 million in economic activity during that approximately six month period.")

Any pity that importers may have felt for the plight of exporters soon dissipated, however, as the fate that had already befallen exports caught up with the import trade with the start of the new year. In January-February 2015, import traffic at the NWSA ports plunged by 13.7% as 25,163 fewer inbound loaded TEUs were discharged than in the same two months a year earlier. Meanwhile, exports remained disastrously low, down by 27.7% or 41,556 TEUs year-over-year.

Certainly, by that January, shippers throughout North America were scrambling to redirect their inbound cargos away from USWC ports by routing Asian imports to seaports along the East and Gulf Coasts. At USWC ports, fears grew that these emergency measures might prove permanent.

Exhibit 4

Inbound Loaded TEUs at Ports in the Greater Pacific Northwest: January 2013-February 2017





Commentary Continued

For shippers accustomed to using the Ports of Seattle and Tacoma, relief was seemingly close at hand at the Ports of Vancouver and Prince ("Cut your cargo's transit time by days") Rupert. Surprisingly, though, Vancouver doesn't appear to have been the recipient of much diverted cargo. While Canada's largest Pacific Coast port did handle 7,188 more inbound loaded TEUs in January-February 2015 than a year earlier, that represented only a 2.9% increase in traffic – a gain that, even in less peculiar circumstances, an ambitious port might regard as disappointing. Instead, it was relatively tiny Prince Rupert that saw its inbound trade swell those two months by 14,417 TEUs, a 27.3% year-over-year jump. (Neither Vancouver nor Prince Rupert saw any increase at all in exported TEUs during those calamitous first two months of 2015.)

So, what happened next? Well, next came the heroic dock-clearing exercises at USWC ports in March. At the NWSA ports, 149,910 inbound loaded TEUs were discharged, 61.2% more than in March 2015. But exports stuck outside port terminals fared much less well. Indeed, it would not be until August that export volumes began to exceed the levels reported a year earlier.

And then?

Here's what the TEU scorecard reveals. In the six-month period a year prior to the Winter of Discontent (i.e., from October 2013 through March 2014), the NWSA ports handled 569,124 loaded imported TEUs, while Vancouver and Prince Rupert combined to handle 870,954. That gave the two Washington State ports a 39.5% share of the combined Greater Pacific Northwest import trade.

During the six months of the USWC port disruptions, the NWSA ports handled 624,607 loaded import TEUs, while the British Columbia ports processed 947,439. Surprisingly, the NWSA share in fact edged up slightly from a year earlier to 39.7%.

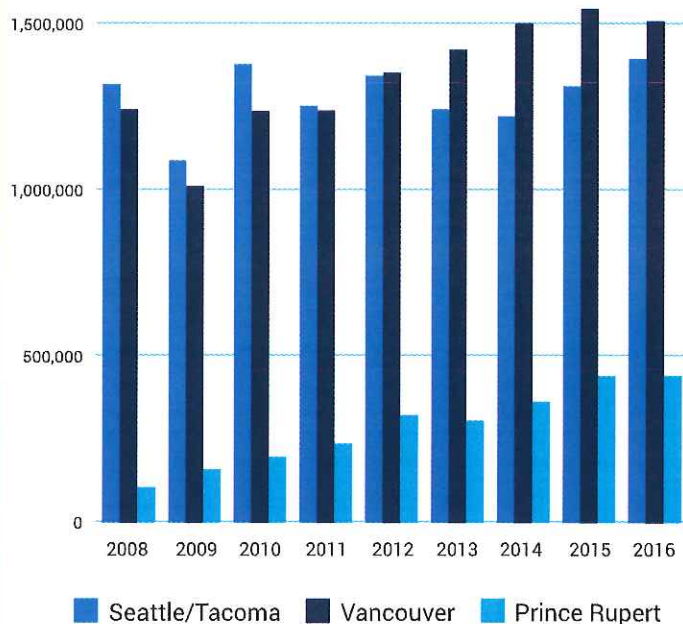
A full year after the labor impasse had gummed up USWC port operations, the NWSA ports were moving 630,630 inbound loaded TEUs from October 2015 through March 2016, while the BC ports handled 917,480 TEUs. The NWSA share again rose, this time to 40.7%.

Exhibit 4 provides a month-by-month look at inbound loaded container traffic through the four Pacific Northwest ports from January 2013 through February 2017. **Exhibit 5** shows how the competitors stack up against each other.

To be sure, the fact that the NWSA ports predominantly serve U.S. import markets while Vancouver and Prince Rupert send containers to destinations in both Canada and the United States vitiates head-to-head comparisons. It is also difficult to measure growth opportunities that were lost at the NWSA ports as a result of any lasting ill-will the prolonged USWC port slowdown spawned among importers, exporters, and steamship lines. Still, neither graphic points to a sustained diversion of Asian imports away from the NWSA ports. Indeed, while the declared weight of the merchandise contained in TEUs imported from the Far East rose just 1.1% between 2015 and 2016 at all U.S. ports, the NWSA ports saw their inbound trade with Asia increase 3.6%.

Exhibit 5

Comparative Shares of Loaded Inbound TEUs at Ports in the Greater Pacific Northwest: 2008-2016



An Opportunity for Leadership

By Thomas Jelenić
Vice President, PMSA

Over the next 24 months, the San Pedro Bay ports and their tenants will need to come to terms on how the ports will operate over the next two decades. Rather than responding to organic growth and fluctuating global trade, this reckoning will be forced by two new significant factors. One is the recent action by the California Air Resources Board's (CARB) to dramatically expand the At-Berth (cold-ironing) Regulation and to mandate the adoption of zero-emission cargo-handling equipment. The other factor will be how the San Pedro Bay ports respond to that action. As PMSA president John McLaurin's observed in a recent op-ed in the *Journal of Commerce*, CARB acted without any input, without any technical analysis, without any examination of feasibility, and without examination of cost. In effect, the California Air Resources Board lifted the aspirational, if technically unfounded, goals of the San Pedro Bay Ports Clean Air Action Plan Draft Discussion Document and turned them into a regulatory directive.

As the ports and terminal operators consider compliance with a zero-emissions mandate, there are two possible pathways to meet CARB's requirements. One would involve cloning the Port of Long Beach's Middle Harbor solution and extending it across the entire port complex. But that's out of the question because neither the ports nor industry have the financial wherewithal to finance that solution by 2030. The tens of billions of dollars needed as documented by the Moffat & Nichol *study* is simply out of reach for all parties. The other supposed pathway would rely on electrifying existing equipment. Ignoring that the ports have been trying to demonstrate an electric yard hostler for over a decade without success and that no electric top pick has ever been built, this is neither an inexpensive nor an assured route. On the technical side, we are two to three years from the completion of the first demonstration of an electric top pick (and, again, keep in mind no demonstration of an electric yard hostler has been successful) – a technology that will be an order of

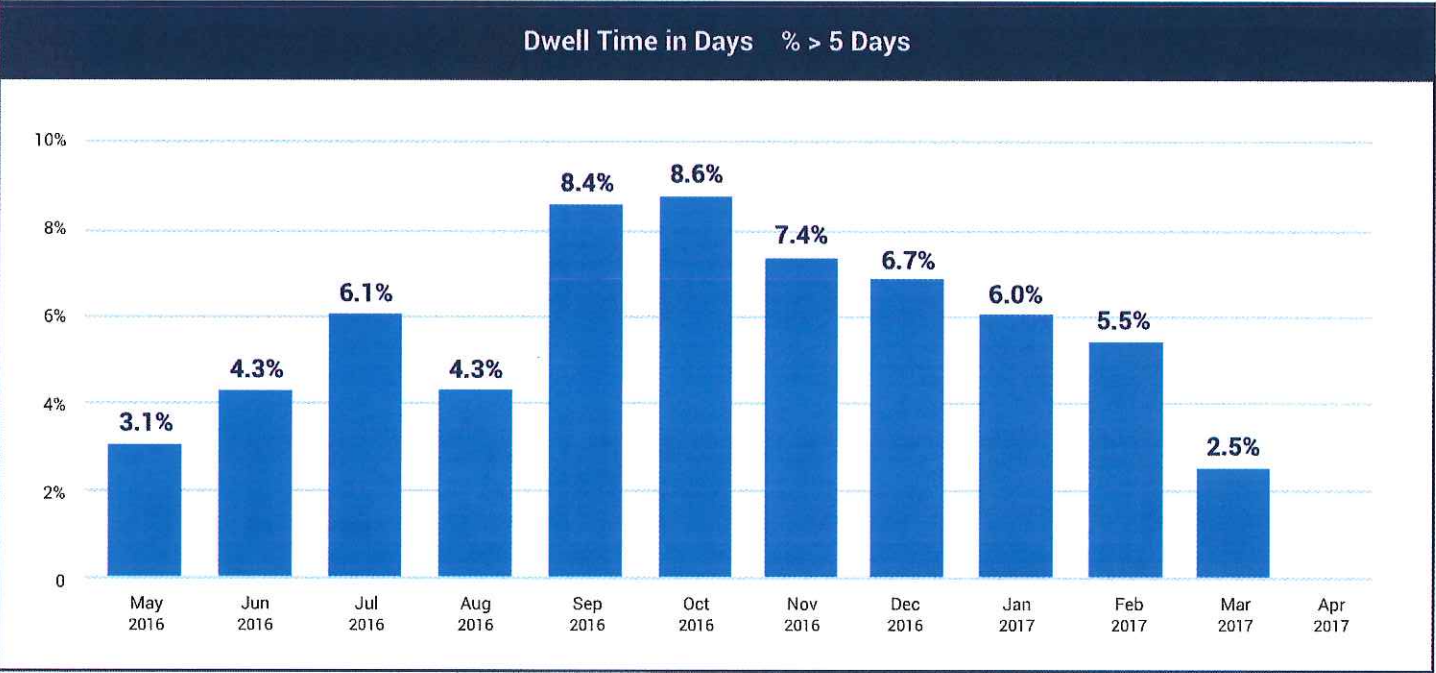
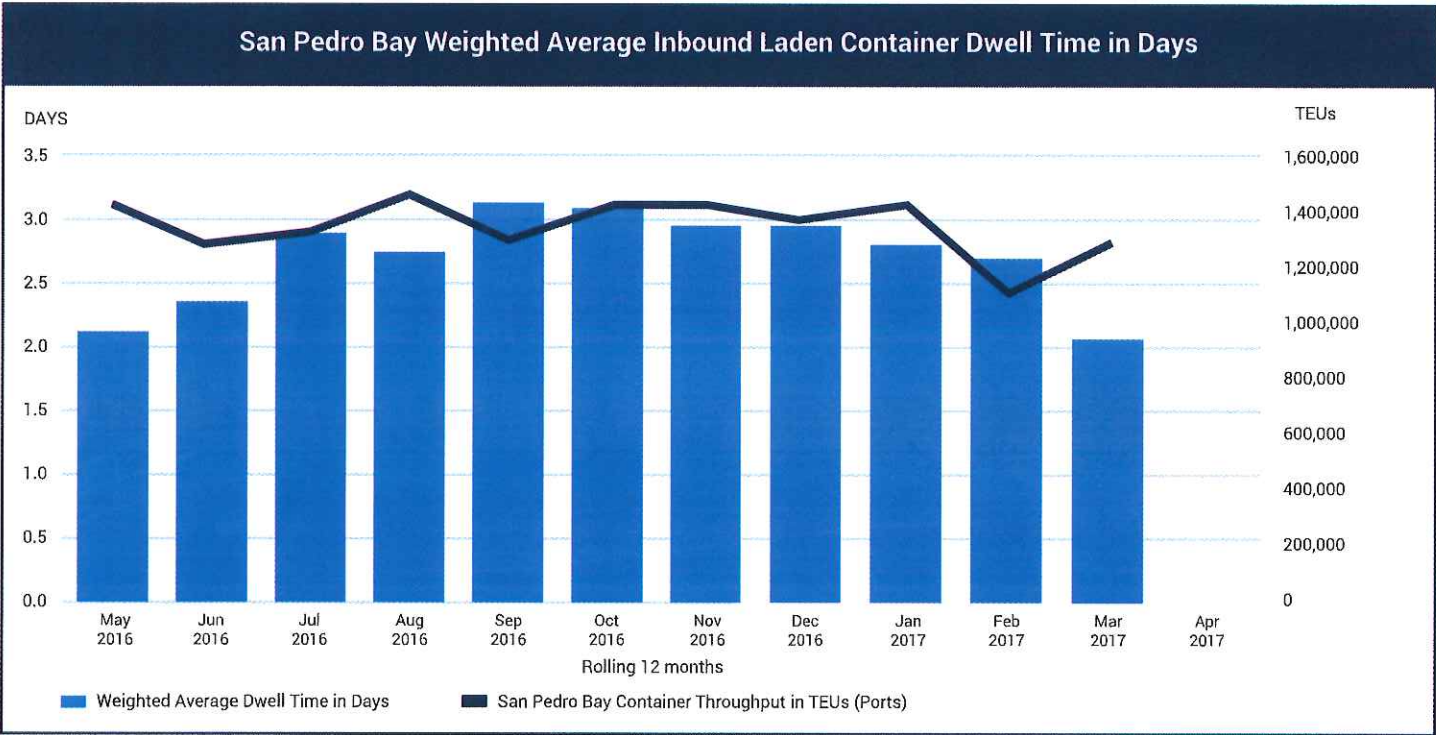
magnitude more difficult than a yard hostler. But even assuming something entirely preposterous (namely, that we can wave a wand and make this technology available by 2030), the ports and terminals would still face billions in electrical infrastructure, billions in new equipment, and billions in charging infrastructure.

The San Pedro Bay Ports will need to make these investments with a decade of declining market share in the rear-view mirror and uncertainty ahead. But they will also need to make these investments while answering the question of what these ports should look like 10 years from now and 20 years from now. The level of investment required, regardless of the pathway, is nothing short of full-scale redevelopment of every marine terminal in San Pedro Bay. How will the ports of Long Beach and Los Angeles invest for capacity and competitiveness for the future? Or will their investment lock in today's mode of operating and capacity?

Now that CARB has taken the regulatory field, the other factor in planning for the future will be the ports' response. Today, it is unclear what that response will be. The ports face two choices. The instinctual choice will be to double down on aspirational goals in the hope of forestalling or shaping CARB regulatory action. However, CARB made clear in both word and deed that they are California's regulator. However far the ports push, CARB will push farther. The other option is to work with industry to plan for the future needs of this gateway in a manner that preserves its competitiveness and achieves real emission reductions that are not founded on a faith-based system of speculative technology.



Container Dwell Time Continues to Improve



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