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Modest Upturn In Trade To Continue After 'Robust' Year

San Pedro Bay Ports Remain Cautious Due To External Factors



China Shipping at the Port of Los Angeles recently completed a major phase of its terminal expansion project, including the addition of four container cranes expected to facilitate annual throughput of 1.5 million TEUs. The four Super Post Panamax gantry cranes are shown here on January 11 crossing under the Vincent Thomas Bridge on their way to the terminal. (Photograph by the Business Journal's Thomas McConville)

■ By **SEAN BELK**
Staff Writer

With a steady rise in international trade traffic for 15 months straight, it appears the San Pedro Bay Ports are back in the game.

The surprisingly high jump in container volumes through the twin ports in 2010 has continued this year, a sign the recession of two years ago may in fact be behind us. However optimistic, industry experts and economists still remain cautious. Adverse external forces have recently come into play, including: soaring oil prices; mounting inflation; the Japan disaster; Middle East conflict; and an unrelenting housing slump.

Retailers and wholesale distributors, however, see a continued rosy picture for consumer spending, along with slight relief in unemployment figures,

which may mean more positive import growth for the ports of Long Beach and Los Angeles, heading into the peak season. While prices for commodities appear to be on the rise, the declining value of the U.S. dollar, free trade agreements and a possible revival in agriculture and manufacturing may be a boon for exports.

At both ports, major infrastructure improvements and terminal expansion projects (worth more than \$5 billion) are expected to get underway after years of planning. Such projects bring to the forefront added capacity, continued environmental initiatives and new efficiencies at the seaports, in order to remain a leader in the global supply chain.

"I think we're in pretty good shape," said Nancy Sidhu, chief economist for the Kyser Center for

Economic Research of the Los Angeles Economic Development Corporation. "Port container numbers have been running reasonably well. What I was expecting to see was continued growth in 2011 for international trade activity for the U.S. because the economic recovery is continuing and also for international trade activity for our Southern California ports."

Sidhu, however, added that double-digit increases of 2010 were "a one time only," and this year expects to show more of a modest, or traditional, increase in trade. "I'm not talking about big huge double-digit increases of the sort that we saw last year. They were a response, or an undoing, if you will, of the big double-digit declines in 2009. What we are looking for, in general, is mid-single digit increases in both imports and exports."



Geraldine Knatz, Ph.D., has served as the executive director of the Port of Los Angeles since 2006. (Photograph courtesy of the Port of Los Angeles)

2010: “Biggest One-Year Increase In History For The Two Ports”

Last year brought a tremendous jump in both import and export trade traffic at the San Pedro Bay Ports, experiencing an increase of almost 18 percent compared with the sharp drop-off of 2009. John Husing, an economist based in the Inland Empire, said the jump last year was, “the biggest one-year absolute increase in trade in the history of the two ports.”

In fact, cargo volumes rebounded so much so that West Coast ports in general “regained market share” that was lost during the doldrums of the recession. The San Pedro Bay Ports gained 1.1 million TEUs (Twenty-foot Equivalent Units) in imports last year, which surpassed the highest on record of 2006, while exports increased by 3.4 million TEUs, which was an all time record as well. The U.S. share of L.A./Long Beach ports rose from 59.8 percent in 2009 to 60.2 percent in 2010, which may be a sign that trade diverting to other ports, as some predicted, may not be occurring, Husing said.

So far, market share at the twin ports this year rose to 60.9 percent, while other West Coast regions saw gains at ports such as Prince Rupert and Tacoma, he said. “We are seeing a continuation of the positive numbers that we were looking at last year, not quite as strong, but then again you wouldn’t have expected them to be that strong for two years in a row,” Husing said.

Port Leaders Optimistic For 2011, Despite Drop In March

As of March, import volumes slightly declined at both Long Beach and Los Angeles ports, for the first month in more than a year, a sign that overseas disasters and domestic inflation may be starting to come to bear. However, port executives remain optimistic for the year as a whole.

The Port of Long Beach, for instance, this year remains 15.5 percent above 2010 levels for imports and exports. “Obviously one month doesn’t a trend make at all,” said Port of Long Beach Executive Director Richard Steinke. He added that it’s typical to have a slight slowdown after the New Year, and especially after the Chinese New Year. Trade should begin to pick up again later in the year, he said.

“Consumers are continuing to purchase goods, so I think retailers are looking at anywhere from 5 to 7 percent growth,” Steinke said. “There’s some pretty good confidence out there. Railroads, ocean carriers and truckers are all feeling pretty confident that the economy will continue to truck along pretty decently . . . I don’t think the rebound in trade is going to be as robust as it was as in 2010, but we’re hopeful.”

Geraldine Knatz, Ph.D., executive director for the Port of Los Angeles, said, “The first quarter of 2011 has continued to show strong numbers. March export growth increased almost 20 percent, which is very positive.”

However, she added, “While there are some good economic signs out there, there is concern about rising oil prices and the effect that the disaster in Japan will have on global trade. So we’re optimistic, but cautious about the remainder of 2011.”

Some trade analysts predict Japan, which is the ports’ second largest trade partner, to quickly recover from the tsunami, earthquakes and nuclear threats, with more demand for U.S. exports as the nation rebuilds.

Meanwhile, the U.S. Department of Agriculture released studies that show California’s agriculture industry is expected to break records this year, which could boost local exports from a rise in demand from emerging economies in Asia. The department expects a \$47.5 billion agriculture surplus for the United States in 2011.

Husing said a majority of the push could be spurred on from the decline in the value of the U.S. dollar, which dropped by a third, making America’s products cheaper for foreign countries. “Major agricultural areas are very bullish on what’s taking place in their agricultural sectors and the value of the dollar is a key piece of that,” he said. While local ports don’t typically export agriculture as much as other California ports, Sidhu said the drop in the dollar value could also help spur exports in such products as recycled paper and scrap metal.

In addition, Husing said manufacturing jobs could be returning to the Southland after overseas disasters have created a lack of availability and loss of quality control, making major companies think twice about “off-shoring” their product lines. The largest manufacturing sector in Los Angeles County continues to be computer and electronic projects along with apparel products.

Major Port Projects Break Ground, Provide Jobs

Major infrastructure improvements and terminal expansions continue to be a cornerstone to the San Pedro Bay Ports’ aggressive commitment toward adding capacity for future trade growth,

providing jobs and at the same time reducing the environmental impacts on nearby communities. Many projects are expected to either break ground this year or begin the process of releasing environmental impact reports (EIRs).

At the Port of Long Beach, three major projects totaling about \$3.1 billion in capital improvements are expected to begin construction either this year or by early 2012. "It's an exciting time right now," said Nick Sramek, president of the Long Beach Board of Harbor Commissioners.

Projects in Long Beach include: the Middle Harbor redevelopment project, a 342-acre site, which plans to combine Piers D, E and F; the Gerald Desmond Bridge replacement project, which is expected to begin construction by either late 2011 or early 2012; and continuation of modernization of the Pier G terminal, all expected to provide for thousands of construction jobs over the next few years. In addition, Sramek said an EIR for the Pier S project is expected to be released in May to create a new modernized terminal after more than \$200 million was spent on remediation of a former oil field.

The departure of California United Terminals, owned by Hyundai Merchant Marine, from Pier E, announced last year, has now left an open spot for Orient Overseas Container Line of Long Beach Container Terminals to expand as part of the new Middle Harbor project. Once the project is finished, the terminal operator should be able to bring in double or triple the number of containers, making for a smooth transition during construction. "The challenge for us is to be able to continue to have these marine terminal operators operate as effectively as they can during work on these terminals," Steinke said.

Over at the Port of Los Angeles, an aggressive five-year, \$1.2 billion capital improvement program is well on track, expected to create 8,000 construction jobs during that time, Knatz said. The port is finishing a 13-year, \$379 million federal Main Channel



Richard Steinke, the executive director of the Port of Long Beach for nearly 14 years, announced he is retiring effective, September 30. (Photograph by the Business Journal's Thomas McConville)

deepening project to accommodate larger ships after being finished in late 2012. Other projects in Los Angeles this year include: the TraPac and China Shipping container terminal expansions; construction of the Harry Bridges Boulevard enhancement project; and waterfront projects such as the Wilmington Waterfront Park, a 30-acre open space project. An EIR for the APL/Pier 300 terminal expansion is being released this year as well.

Cindy Miscikowski, president of the Los Angeles Board of Harbor Commissioners, said the capital investment of both the port and its trade partners shows a commitment for the long-term. "Our partners show a commitment to long term investment to be ready for even more growth," she said. "That's probably the best economic model we have: that our business clients and tenants are committing with us to work through more and bigger terminals for the future. With all the environmental requirements now in place, they still feel that this is the place and market they want to compete in."

Environmental Efforts Forge Ahead Toward New Frontier

Major infrastructure projects not only increase capacity to accommodate the increasing cargo growth expected for years to come, but are also expected to elevate the San Pedro Bay Ports as a leader in environmental initiatives.

Innovative programs currently in action include the Technology Advancement Program – an initiative cooperated by both ports to introduce new "green" technological advancements at terminals – along with the Clean Air Action Plan (CAAP), which sets stringent emission reduction goals for the ports to achieve.

The twin ports are both expected to continue progressive programs this year, including vessel speed reduction programs, which provide incentives to shipping lines for reducing speeds to reduce air pollution. The Clean Trucks Program is already close to two years ahead of schedule with many trucks now already running on lower emission producing engines, in line with restrictions to be put in place by the California

Air Resources Board, banning pre-2007 model rigs statewide by 2012.

Marine terminals are aggressively being upgraded with shore-side power, known as cold ironing, which allows ships to plug in while they're docked at the ports. Matson Shipping in Long Beach is currently working with Southern California Edison to implement its cold-ironing capabilities, while three cruise lines at the World Cruise Center in Los Angeles earlier this year have hooked up to Alternative Maritime Power.

The next frontier, so to speak, is upgrading railroads with cleaner engines and such capabilities as on-dock rail, which cuts down on truck transfer trips by bringing rail cargo directly into terminals, allowing cargo to move quicker and more efficiently. Currently, Long Beach officials have been advocating a "zero-emissions" capability as part of the Intermodal Container Transfer Facility, utilized by both ports.

"Railroads have been around for quite a long time and we now need to bring them into the 21st century," Miscikowski said. "They recognize with the growth of our shipping lines, terminal operators and cargo movement that they have to be, literally, up to speed to handle the growth in a way that doesn't slow down the spectacular environmental strides that we've made."

Stakeholders Work Together To Resolve Congestion Issues

A steady rebound in trade, some experts say, brings back the possibilities of port congestion, such as backed up trucks on freeways and long lines of ships down the coast. However, nowhere near the congestion seen in 2004, some trucking companies have reported a long line of trucks backed up during certain parts of the day, mainly due to discrepancies within the supply chain.

For the most part, operators can agree the San Pedro Bay Ports continue to provide a large amount of capacity, whether at terminal gates or loading areas, and industry trade leaders and stakeholders, for the first time, have been coming



Josh Owen, president of Ability Tri-Modal, is the co-chair of the Truck Turn-Time Stakeholder Group, formed last year to create a working collective of industry leaders to address truck terminal turn times and areas of port congestion. Ability Tri-Modal is a trucking, warehousing and distribution company based in Long Beach. (Photograph by the Business Journal's Thomas McConville)

together to work concerns out this year.

Josh Owen, president of trucking and distribution firm Ability Tri Modal in Long Beach, has co-chaired the Truck Turn-Time Stakeholder Group, which was formed last year, bringing together port executives, terminal operators, shipping lines and trucking companies to address the issue over visit times. The collection of stakeholders is also co-chaired by Bruce Wargo, President of PierPASS, a non-profit entity formed in 2005 to implement a system that charges trucks during peak traffic times to eliminate congestion on freeways.

More recently, the group released an unprecedented study that provides detailed statistics to reflect the true situation at the ports, and in order to narrow down problems. "These truck visits really deal with more than one container transaction, so it's a good starting point," Wargo said. "We were facing a lot of concerns in our ability to react to a peak season last year, and 2010 was a pretty robust year for the ports of L.A. and Long Beach, so the stakeholder group came together to talk out these issues a bit and work on some solutions that made sense."

Owen agrees, now that industry leaders have been made aware of specific problems, much more work and compromise have yet to be done. "With the

economy, everybody has come to this window of humility and we all have to work together," he said. "I think we have a little more leverage to get some real change going." ■