

INTERNATIONAL TRADE – MID-YEAR ECONOMIC OUTLOOK

Ports' Budgets Reflect Impact Of Slumping Cargo Numbers

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The ports of Long Beach and Los Angeles are trimming their budgets this year as they cope with declining cargo volumes and terminal revenues, but port officials and trade industry experts are reporting some economic bright spots and a cautious hope for a year-end rally.

“Obviously the economic slump is a giant challenge for all ports,” says Mike Keenan, a harbor planner and economic analyst at the Port of Los Angeles. “The situation that L.A. and Long Beach are facing is [being] faced all up and down the West Coast and [by] our East Coast competitors as well. It’s how to adapt to the new environment. Our previous challenges were facing double-digit growth every year. To transition from that to what we’re expecting to be a period of slower growth, but still growth, to having this really sharp recession is an interesting challenge.”

The Port of Los Angeles began a new fiscal year on July 1, and the Port of Long Beach will begin its new year on October 1. Both have adopted slimmed-down budgets for 2010 that show the effect of double-digit declines in trade activity and the loss in revenue as imports and exports have fallen in response to the global economic downturn.

The \$881 million budget of the Port of Long Beach slashes spending by \$139 million, or 13.6 percent, from fiscal year 2009.

In addition, the port recently ordered all 400 plus of its workers, including top executives, to take five-day furloughs by September 30 in an effort to trim wage costs. The furloughs will be stag-



Port of Long Beach data indicates it supports more than 30,000 jobs in Long Beach, 316,000 jobs throughout Southern California and 1.4 million jobs in the U.S. It generates about \$16 billion in annual trade-related wages statewide. (Photograph by the Business Journal’s Thomas McConville)

gered so the port will maintain normal business hours.

“We still see some challenges on the revenue side next year, so we know that our container and our business revenue is going to be down,” says Chris Lytle, deputy executive director and chief operating officer at the port. “We expect 2009 will be down about 16 percent [for cargo revenue]. The biggest impact to us is on our operating revenues – these are the

rents and fees paid to the port by our tenants, and of course the tenants right now are suffering, and those revenues are down.”

“We have had negative impacts on our oil operations,” he adds. “Last year we had a net of about \$50 million in our oil operations. That number will be down dramatically in [fiscal year] 2009.”

The \$1.1 billion budget of the Port of Los Angeles is 1.8 percent lower than the previous year’s budget, says Keenan.

“We’re anticipating the budget that we prepared has about a 12.9 percent decrease in cargo revenues for the next year. We’ve done a bunch of cost cutting in terms of contracts, on salaries, [and] tried to find savings where we could, but we’re also continuing to move forward with our capital investment projects, and so we’ve actually increased the amount of money that we have for future projects next year. . . .

On balance, the overall budget is not that much lower, but we are anticipating a decrease in cargo revenue [and] projecting about \$311 million in cargo terminal revenue.”

Seeking New Strategies For Growth

Since the downturn, Lytle says the Port of Long Beach has been looking at ways to better balance the amount of import and export cargo to diversify the port’s base.

“What we’ve been building our strategies around is an even balance between import cargo and export cargo,” he says. “Over the past years, most of our growth has come on the import side. It’s not that we’ve ignored the exports, but now what we’ve done is

we're trying to find new ways to encourage export growth, particularly in the agriculture product area. California's got a tremendous agriculture product base. We want shippers in the Central Valley and the Imperial Valley to immediately think about our gateway here in Long Beach and the advantages that we have.

"We have gone out particularly to agriculture shippers, extolling the virtues of the port," Lytle adds. "That's been very effective. Those numbers are very solid for us, and it broadens [our export] base."

Both ports are also going after more discretionary cargo by offering potential customers incentives such as reduced fees.

"[We're seeking] cargo that goes deep into the United States and has multiple gateways it could go through," Keenan says. "We've offered incentive programs where if you bring additional intermodal cargo through the Port of Los Angeles, you would get an incentive fee. At this point, it's really hard to break out of the total number how much of an effect there's been, because there's so many different drivers of cargo. We're coming out of the spring season, which is basically the low part of the year, [and] heading into the part of the year where cargos are going to start coming in for the Christmas season. Heading into October, we're heading towards the peak."

Lytle says in addition to discretionary cargo, the Port of Long Beach is also going after more transship cargo to boost revenue.

"About six to eight weeks ago, we put another program out there to incentivize transship cargo," he says. "Transship cargo is cargo that comes in out of South America or Central America, that comes into our port and is taken off the ship and then put on another ship going over to Asia. We've helped to incentivize that cargo by cutting down the fees that the cargo would normally pay."

The Port of Long Beach has also stepped up efforts to reach out to customers, says Lytle. In fact, port Executive Director Richard D. Steinke recently traveled to the East Coast to meet with customers.

"We're talking about our incentive programs and talking about the advantages of shipping [through] the Port of Long Beach – that message is getting out there loud and clear," Lytle says. "There are a tremendous number of advantages for shippers to ship over Long Beach as the port of choice; it is

the premier gateway. . . . We just have to go out and sell that. We're selling that because there's no other port anyplace in the U.S. that has the same type of intermodal connections, deep-water berths, cranes and all of the infrastructure that can handle these big ships and handle cargo efficiently – there's no other port in the U.S. that can do that."

Aussies And Soybeans Drive Diversity

The Los Angeles County Economic Development Corporation (LAEDC) predicts in its annual International Trade Trends & Impacts report that both ports will see increased cargo volumes for 2010, with the number of containers expected to rise by at least 1.6 percent over 2009 figures.

According to the LAEDC, the top export commodities out of the Los Angeles Customs District in 2008 were computers, peripherals, machinery, appliances and parts, with a value of \$17.3 billion.

The top import commodities in 2008 were electrical equipment, TVs and electronic parts, with a value of \$58.2 billion.

According to Paul Rasmussen, CEO of Zepol Corporation, a Minneapolis-based trade data monitoring company that tracks import and export activity in the U.S. and abroad, there are some bright spots on the local trade horizon when the level of trade activity is compared with the declines hitting other ports around the globe.

"The Los Angeles Customs District has been down about 2.1 percent [in dollar value] compared to about a year ago, . . . [while] China's down 16 percent, Japan's down over 40 percent and South Korea's down 30 percent," he says.

"There are a couple of bright spots – imports coming in from Australia have actually increased."

The first quarter of 2009 saw \$119 billion of imports from Australia coming into the Port of Long Beach, he says. That was an increase from the first quarter of 2008, when it was only \$74 billion.

On the export side, Rasmussen says there's been an explosion in soybeans being shipped to Indonesia through the Port of Long Beach.

"Looking just over the past year, in the first quarter of 2008, exports to Indonesia were just under \$118 million," he says. "In the first quarter of 2009, it was \$125 million.

If you compare it back to 2007, our exports to Indonesia were only \$63 mil-

lion. . . . The increases have been in agricultural products, [such as] soybeans, flour, those types of things – it's been food-driven."

Lytle says reading the trade tea leaves shows that cargo volume levels, while not rebounding to 2006 peak levels, are inching back up.

"Probably . . . that February-to-March time frame has . . . been about the slowest," he says. "Effectively, that was the bottom, and things are starting to get a little bit brighter now."

"Looking ahead, we think 2010 is still going to be challenging, [but] I think we've definitely turned the corner," he adds. "We'll see some improvement as we go forward. Overall, as we finish up the [fiscal] year 2010, we think we're going to see a little bit of an uptick. [For] 2010, we expect our revenue over this year to be up 2 percent."

Exporter: "Working Our Way Back Up"

He's already seeing signs of economic recovery, says George Adams, president of Anaheim-based SA Recycling, a metal processing and recycling company that exports nearly 100 percent of their metal goods through the Port of Long Beach to clients in Asia.

"I'm a hundred percent convinced we've reached the bottom months ago, and we're working our way back up," he says. "I just don't believe it's going to be a V-shaped recovery, I think it's a long trough, gradual increase because people have a long way to go to rebuilding back up again. . . things will gradually pick up [but] I just don't think we're going to see a big spike. . . it's going to take years."

Adams said he worries that inflation will be the next problem to hit the market as a result of the trillions that have been pumped into the U.S. economy.

As an exporter, he's one of the lucky ones who is still seeing demand for his product, although supply has fallen, he says.

"My problem is I can't buy my scrap," he says, adding that because of the recession, more people are choosing to hang onto old metal appliances or aging automobiles rather than buying new ones.

Economist Paul Bingham of HIS Global Insight, a Washington, D.C.-based forecasting company, agrees that brighter days are ahead. He says the ports should see increased cargo volume by year's end.



Anaheim-based SA Recycling, a joint venture between Adams Steel LLC and Sims Group Ltd, is a world leader in metal recycling and processing and uses the Port of Long Beach to export to customers in Asia. The company reportedly ships around 1 million metric tons a year. (Photograph by the Business Journal's Thomas McConville)

"We've bottomed out, we've hit the trough," he says. "It's still horrible from a port business perspective with very low activity levels, but the freefall has stopped. We're no longer in the situation we were in earlier this year, when every month was getting worse and we didn't know where the bottom was going to be . . . and we didn't know how bad things were going to get."

"We're out of the conditions we were in before, when it just felt so uncertain in terms of what would be the path out of this, and even if or when there would be a recovery," he adds. "We're much more confident now that businesses and consumers are at least at the top level of a mindset that we're going to have a recovery and that the economy will get back on its feet."

Bingham says the peak shipping season of August through October should see trade levels pick up at the twin ports, translating into more jobs.

"At least as far as the longshore workers and perhaps even port authority employees that have been worried about furloughs and cutbacks, there may not need to be in the future additional rounds to cut further," he

says. "From this point forward, demand starts to inch up. . . . By the time you get into the fall traditional peak season, . . . there will be some need even for some of the labor that right now . . . is . . . underemployed. . . . Perhaps we could get to the point where even a casual might get a shift amongst the longshoremen."

He adds that this upturn in activity should also extend to the port truckers and some of the railroad employees that move cargo, as well as warehouse workers and other positions that indirectly rely on port traffic.

Clean Truck Program Hits High Gear

Both ports continue to move ahead with the goals of the San Pedro Bay Ports Clean Air Action Plan (CAAP), including the fee-based Clean Truck Program (CTP) introduced last year. The CTP mandates the retirement or conversion of old diesel trucks entering the ports in favor of new diesel and alternative-fuel trucks using natural gas. Natural gas vehicle fuel produces lower emissions than gasoline and diesel and reduces pollutants. The program expects to remove up to 16,000 older diesel trucks from the road and reduce harmful emissions by 80 percent.

Use of the clean trucks has soared since the program was implemented. In June, Clean Energy Fuels Corp. of Seal Beach opened a second natural-gas fueling station to meet increased demand by port drayage trucks. The new station features two 25,000-gallon liquefied natural gas (LNG) storage tanks, six LNG dispensers and two compressed natural gas (CNG) dispensers. The station, located on property leased from the Port of Long Beach, can provide fuel for hundreds of natural gas trucks daily.

"We have seen demand for LNG and CNG fuel grow significantly as major trucking companies secure and deploy new natural gas-powered trucks at the ports," Andrew Littlefair, Clean Energy president and CEO, said in a written statement. "As demand for the environmentally friendly fuel continues to increase, Clean Energy plans to add 50,000 gallons of fuel storage to the new station's current capacity, as well as four more LNG/CNG fueling lanes."

The company's first fueling station opened in December 2007 and is located at Southern Counties Express, a major port-trucking firm. The station currently supplies approximately 10,000 gallons of LNG fuel daily. ■