

Perspectives on the 2004 Peak Season Crisis

Proceedings of the 7th Annual CITT State of the Trade and Transportation Industry Town Hall Meeting

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1.0 Seventh Annual CITT State of the Trade and Transportation Industry Town Hall Meeting

The 2005 Town Hall is an attempt to discuss the response of goods movement stakeholders to the unprecedented volumes of cargo moved through the ports of LA and Long Beach during the

Seventh Annual CITT State of the Trade and Transportation Industry Town Hall Meeting	
Lessons Learned from the 2004 Peak Season Crisis: Causes, Impacts, Solutions	
6:15 - 8:30 PM Agenda	
Call to Order	Marianne Venieris, CITT
Welcome Remarks	Dr. Gary Reichard, CSULB
Keynote Speaker: “What the Region”	Logistics Industry Means for the Dr. John Husing Economics & Politics, Inc.
Video Presentation	<i>A visual summary of 2004 Peak Season Crisis</i>
Stakeholder Panel Discussion	
<u>Moderator/Facilitator</u>	Richard Hollingsworth, GCPI
- PMA	Steve Hennessey, PMA
- ILWU	Dave Arian, ILWU
- Railroad	George Fetty, George R. Fetty & Associates
- Carriers/TSA	Tom Harrold, P&O Nedlloyd
- Ports/Terminals	Douglas Tilden, MTC
- Trucking	Staci Heaton, CTA
- Retailer/shipper	John Ficker, The National Industrial Transportation League
Q & A with the Audience Panel wrap-up	Dr. Genevieve Giuliano, USC
Closing remarks	Dr. Domenick Miretti, ILWU
Thanks and Adjourn	Marianne Venieris

summer and fall of 2004. The focus is on solutions. The Town Hall format allows for both summary presentations and a question-and-answer period. The former provides valuable context for discussion. The latter provides a framework for the discussion itself.

1.1 Setting the Stage: Why the 2004 Peak Season matters

The inevitability of port growth has been matched by not only capacity constraints but also environmental consciousness and community success at challenging port expansion. The off-peak program known as PierPass suggests that the goods movement industry is willing to consider new responses to these checks on growth. Solutions will inevitably require different industry segments to overcome obstacles to cooperation and coordination. The 2004 peak season crisis encouraged both out of necessity. The Town Hall offers an opportunity to consider what led up to the crisis, how various stakeholders responded

and what can be done to avoid future breakdowns in the system. By focusing on solutions for the future, the Town Hall provides a forum in which industry segments consider how to be proactive, and not just reactive, when it comes to an increase in trade volumes.

The Town Hall format allows for airing of all possible opinions and the respectful discussion of those opinions. Since the goal is to ensure that opinions are shaped by facts, the Town Hall begins with an introductory video that highlights the events leading up to the 2004 peak season congestion. The complete video is included as part of the Town Hall webcast, which may be accessed at <http://www.uces.csulb.edu/citt> or you may purchase the video by calling 562-296-1170.

1.2 Summary of Introductory Comments and the 7th Annual Town Hall Video

Marianne Venieris, CITT Executive Director, welcomed the 7th Town Hall participants and invited them to take part in a discussion of the state of the goods movement industry in the spirit of education. She emphasized that CITT and California State University Long Beach offered a neutral forum for such a discussion.

Ms. Venieris stated that participants of the 6th Town Hall recommended mobility and congestion as possible topics for future discussion, even before the peak season crisis occurred. Other recommended topics included cargo volume, capacity limits, the role of dock workers, mega-ships, and homeland security. All played a role in the events of 2004; and there is a concern that nothing has been done to prevent a recurrence. There is therefore a need to examine if there was something particular about the events of 2004, what lessons can be learned from the responses of stakeholders, and what can be done to prevent something similar from happening again.

Dr. Gary Reichard, CSULB Provost, stated that the Town Hall is the epitome of regional and local service by the university. CSULB provides a forum for a reasoned educational discourse to be applied to the solutions presented. He hoped for both unpredictable and successful outcomes leading to the emergence of many new partnerships.

Following Dr. Reichard, Dr. John Husing of Economics and Politics, Inc. provided a context for the discussion to follow. His presentation focused on what it means to blue collar mobility if in fact the goods movement industry can solve the problems which brought about the peak season congestion.

He began by offering some perspective on employment in Southern California. In 1987 Southern California ranked 4th out of 17 consolidated metropolitan statistical areas (CMSAs) in per capita income. By 2001 the region had fallen to 16th. It is now last. In 1991, Southern California was 4th in the average pay per job. In 2005, it is 10th. Why is this the case? Dr. Husing argues that the loss of high paying manufacturing jobs contributed to this. The annual salary for the average job lost was \$45,165. The jobs that replaced those lost and which are primarily service-related average far less, \$33,145 per annum.

Dr. Husing largely attributes the loss of the manufacturing employment base to increasing workers' compensation costs and energy costs as well as competition from China and other Asian countries. The jobs that do not have to be located in this region physically are leaving. Still, he argues that Southern California has historically been helped by our strong educational institutions and by a culture of risk-taking which has drawn people to the area. Education and risk taking contribute to a healthy economy.

Unfortunately, high end economic development is missing a large segment of the population. 46.8% of Southern California has not taken a college level class and nearly 70% has no post-secondary degree.

There is therefore a need for good paying jobs that have to be located in the region for people without higher education and that offer good entry level opportunities, a defined skill ladder, and on-the-job learning (particularly learning that involves increased use of information technologies).

In Southern California, there is already a logistics related employment base of more than 550,000 jobs. These include courier jobs which pay on the average \$34,000 per year; but the average annual salary approximates \$45,000, a figure higher than in the construction or manufacturing industries.

Wholesale furniture offers an example. The average for all jobs in this sector is \$16 per hour and these do not require a degree. This is due in part to the fact that the industry has been overhauled through the use of technology. Orders are made by computer; and there is widespread use of personal digital assistants (PDAs), robotic handling of goods, random product testing, Global Positioning Systems (GPS), scanning and tracking of orders, warehouse-based manufacturing and just-in-time delivery systems. Growth in trade and the use of post-Panamax size vessels that must call on west coast ports including LA and Long Beach have also contributed to growth in this sector in Southern California.

It is telling that logistics has facilitated trade-related growth even in a recession. E-commerce was a \$51.3 billion industry in 2001 and grew to \$72.1 billion by 2002 alone. It is projected that there will be 503,000 new blue collar jobs in logistics by 2020.

Capacity constraints, the subject of this Town Hall, pose an obstacle however. Will the goods movement industry be able to unload bigger ships rapidly? Will there be adequate infrastructure to handle the goods once they leave the port, to support more than 1.2 million containers traveling by truck to the Inland Empire, or the expected 123% increase in the number of trains carrying cargo in the region each day between 2000 and 2025?

There is never enough public money to solve these problems, particularly at the state and local level. The federal government and the private sector need to play a role. Is there political leadership to bring all parties together?

The first step in answering that question is to understand how various parties responded to the challenge of the 2004 peak season. The 7th Annual Town Hall Video titled *2004 Peak Season Crisis: Causes, Impacts, Solutions* and prepared by the CSULB UCES Advanced Media Production Center, offered some preliminary answers.

The video began by considering the economic cost of congestion at the ports. Some shifting in operations and ship diversions are likely with increased congestion. It makes economic sense to avoid the costs of having a vessel sit idle in the harbor, estimated to be \$50-\$100,000 a day. The industry determined that the costs of diverting 100 ships over the course of a five-month period (including the extra time it might take for an all-water route to the east coast of the US) were outweighed by the benefits of meeting the just-in-time demands of retailers.

In response to rapidly changing conditions, the railroads hired new employees and added new track. The terminal operators, in conjunction with the labor union, added 1,800 new permanent longshore workers and 3,000 of the part-time “casual” workers and adopted new estimating procedures and metrics to be able to better predict the demand for dockside labor. Increases in infrastructure capacity are desirable but could cost the State \$16.5 billion.

The video cautions that there are three corollaries to the issue of congestion. The first is tied to operating hours. Los Angeles Harbor Commissioner Tom Warren argued that terminals cannot really grow any further and must look to operational changes that will allow them to operate as round-the-clock transit docks and not storage docks. The second is environmental in nature. The goods movement can only solve congestion related problems in a way that meets the increasing demands for greener port operations. Finally, there is the question of security. Can the increased throughput of goods occur without a reduction in safety?

The video concludes by reminding the Town Hall participants that the local and regional goods movement problems are also the nation’s problems. It finds, like Mr. Husing, that the federal government and the private sector must also be brought on board.

Following the video moderator Richard Hollingsworth, President and CEO of the Gateway Cities Partnership, Inc. introduced the 7th Annual Town Hall Panel and invited them to make an opening statement. John Ficker, the President of the National Industrial Transportation League, offered a shippers perspective of the 2004 peak season crisis. He reflected that in recent years there have been three industry-related crises: the Union Pacific meltdown in 1998, the 2002 lockout and now the 2004 peak season crisis. He asks if there has been a pattern and what circumstances might cause a 4th crisis. How will members respond to a similar series of events?

Mr. Ficker argued that there is both a shortage of infrastructure and a human resource problem. Weather creates even more of a challenge; however the road user shows incredible ingenuity, creativity, and flexibility in responding to challenging conditions. There is more upfront planning occurring in 2005. The hope is that the industry will be able to respond to new levels of cargo volume as long as some new catastrophe does not occur.

Doug Tilden, President and CEO of Marine Terminal Corporation offered that the 2005 problems were different than in previous years. The 2004 labor shortage masked a larger problem, namely infrastructure. Hundreds of thousands of containers arrived by ship in 2004. The freight will make it onto infrastructure in 2005 because the labor will be available to unload

it. Mr. Hollingsworth asked if there is anything that the terminals can do to improve the infrastructure problem. Mr. Tilden answered that the extended gate program PierPass will help but that it will take time. Changes in operations at distribution centers are required as well as the implementation of new technologies. It won't be possible to "divert our way" out of the current problem.

Dave Arian, then-President of Local 13 of the International Longshore and Warehouse Union, said that the key is how each segment responds. The industry as a whole has not developed a level of coordination and cooperation needed to avoid a crisis. How do you increase capacity and velocity? Infrastructure is critical and how containers are moved off of ships and onto roads. Inland ports and other innovative responses will also play a role.

Mr. Arian argued that the industry is really faced with a challenge, and not a crisis; and that this challenge will remain until it deals with both infrastructure and the inability to cooperate. The restructuring of the Pacific Maritime Association (PMA) was a problem but new leadership has facilitated efforts at repairing the relationship between the Association and the ILWU. Increased numbers of longshoremen have also helped but training must be accelerated to meet current needs.

Tom Harrold, Vice President and General Manager of P&O Nedlloyd, Los Angeles, warned that another crisis could result from too lax security at the terminals. He suggested that cargo needs to be moved more quickly. Trans-Pacific contracts are being negotiated and the discussion should include extended free time, which the industry has relied upon too frequently.

Staci Heaton, Director of Environmental Affairs for the California Trucking Association, underscored the shortage of truck capacity. Truck registrations have decreased from 680,000 to 350,000 statewide since 1993 while the rest of the nation has seen only a modest increase from 1 million to 1.4 million over the same period. Rate structure is the cause. Trucking is no longer a generational industry handed down from parent to child. The CTA is working on new lines of communication and via the legislature to improve rates. Increased rates elsewhere have not trickled down to the driver.

Steve Hennessey, the Vice President of Labor Relations for the PMA agreed that infrastructure was the key problem. In January 2005, the industry saw 14% volume growth over the previous year. The PMA had estimated that 38,000 shifts would be needed to reduce the backlog from the previous year. In week nine of 2005 alone, labor recorded working 37,000 shifts.

Terminal congestion has a direct impact on productivity. The PMA estimates that the problems in 2004 resulted in a 9% reduction in productivity. The challenge is for the infrastructure to keep up with demand.

George Fetty, a rail consultant, concluded the panel's opening remarks. He stated that the railroads are scrambling to increase line capacity. The BNSF is adding a third track through the

Cajon Pass; and the Union Pacific RR is adding a 2nd main track for a distance of 250 miles between Los Angeles and El Paso. There will be two tracks to Chicago by the end of the decade.

The railroads in some ways are able to increase capacity more rapidly because they are to a certain extent exempt from federal and state guidelines with regard to Environmental Impact Statements and Reports. Mr. Fetty does caution however that a crisis could be forthcoming in 2009-10, driven by a lack of intermodal lift capacity. The implications are profound. If capacity is reached at intermodal facilities by the end of the decade, the 22% of containers that are loaded on-dock to rail cars would then have to be transported by truck.

In the short term, the railroads are changing business practices and processes as a means of increasing throughput. They are limiting dwell time, increasing penalties for the violations of the same, reducing storage area by live loading, and increasing the amount of vertical stacking off-wheels. These changes are having an impact. The Hobart Yard facility near downtown Los Angeles moved 1,318,000 TEUs in 2004 when it was believed that it had a capacity of 1 million. There is a limit however to how quickly these changes can come about, and without infrastructure improvements, they will have limited impact as well.

1.3 Panel Discussion

The Question and Answer session was directed by Mr. Richard Hollingsworth. Questions were taken from the floor and from cards submitted to the moderator.

Given record trade deficits, \$100 billion seems a worthwhile investment to improve our trade capacity. What is the role of the PMA in securing funds for infrastructure improvements?

Mr. Hennessey responded that in industry must work as a whole to determine where funds should come from and then lobby with a united front.

How will the surge caused by mega-ships affect carriers and the community?

Mr. Harrold replied that the impact would be more congestion because of a change in the nature of the peak season. There has recently been a dip only at the holidays and Chinese New Year and then volume returns. You will also see changes in economies of scale. The economies of scale from the carrier side are there but you may not see as many ship turns. This could affect the bottom line. Midwest customers don't really understand how the west coast operates, particularly smaller customers. There may also be an impact resulting from an increase in chassis shortages.

Doug Tilden added that the dynamics of 1 8,000 TEU ship are different than the dynamics of 2 4,000 TEU ships in a week. There aren't many terminals which can dedicate 140 acres to work that 1 8,000 TEU ship per week. Free time starts when a ship finishes discharging. It can take 6-7 days to complete work on a large vessel. This results in more free time and thus more

congestion. You may need to see changes in the way discharge is measured, i.e. counted from the point of discharge.

Dave Arian added that crane drivers have been sorting cargo “under hook” for the last four years or so. This is not efficient. Business decisions are based on who the client is. Moving cargo and profitability may sometimes be at odds. The decision as to which containers get off the ship, out the gate and on rail first is not always the most efficient. Some containers are just allowed to sit.

If there was a 9% productivity decrease last year, what role did the inefficient use of labor play in this Why did the PMA remove a 4th man under the hook?

Steve Hennessey stated that it was primarily a question of safety. The PMA works with local officials on a regular basis to make the waterfront as safe as possible. If there are positions that do not need to be retained, then an additional person becomes a question of safety and security.

Why was the forecasting wrong and the congestion so unexpected?

Mr. Ficker expressed his belief that the economy turned so sharply. There was growth beyond single digits but a lack of human resources and capital to match the growth. Forecasters take a moderate approach but they will be more realistic in 2005. The NITL forecasts moderate growth for the coming year. Fuel costs and other economic factors could change the forecast, and bring the numbers down.

Why can't the ports unload cargo and get it off the docks as quickly as it can be loaded?

Staci Heaton said that, from the trucking point of view, drivers can only pick-up containers when they're directed to do so. Tom Harrold added that cargo has to be entered and cleared. Sometimes delays can be attributed to the steamship line and sometimes to the consignee. Dave Arian said that it is not acceptable for a trucker to make 1.4 moves per shift. There are examples elsewhere of staging areas outside of the gates. Why should a trucker come to the terminals in the evening if (s)he is not paid more to do so?

Does the ILWU support PierPass?

Dave Arian respond affirmatively but cautioned that it is not feasible to ask the trucker to make all the accommodations. The ILWU does support 24/7 operations. The workforce is ready.

Are there enough trucks for PierPass to work?

Staci Heaton cautioned that this remains to be seen. The trucking community hasn't been engaged in the discussion; truckers are still learning about it. They are ready and willing but will they be willing to accept the same amount of pay to change their lifestyle? And, will the trucker have to hold a container at night or be charged if a daytime pick-up takes place?

Why can't the shipper and retailer pay for infrastructure improvements?

Dave Arian stated that the industry is faced with the question of infrastructure keeping up with productivity. You can't just point the finger at 1 individual sector. Production, distribution, all sectors have to work together to put pressure on elected officials. This includes the union as well. It is a question of political policy.

Doug Tilden added that every exporting nation with the exception of the US has a national policy to support trade and transportation. There is no framework in which to develop one. The state of CA is beginning but not the nation as a whole.

John Ficker concurred that the US needs a National Freight Transportation Policy. Legislators listen to constituents not the people on this panel. Political focus is on personal mobility, i.e. the pothole. The industry has to be the voice of freight because it's good for the economy.

Southern Californians pay \$28.5 billion per year for medical bills tied to pollution. How do we come up with the money to pay for the infrastructure improvements so that we're not sitting on congested freeways breathing emissions?

Dave Arian again argued that it was a question of national policy. As people communicate with elected officials, this point needs to be raised. He also stated that there needs to be an industry wide call to conscience. America needs to understand the relationship between trade and health; and the first steps toward a national policy start with the industry.

Who brings the different parties together?

Tom Harrold responded that this has to be a collaborative effort. The industry has done a poor job of advertising and promoting itself. People in the Midwest don't realize what happens on the west coast, the east coast or in the Gulf unless there are problems.

Dave Arian added that the ILWU can't always be blamed. The union does not want to fight; it wants to be part of a collaborative effort. He said that there is a need for an organizational forum to allow industry to speak with one voice.

Mr. Tilden added that a National White Paper was prepared under former Secretary Rodney Slater. A National Advisory Council was established but this was all derailed by 9/11. Where is the money coming from now? The effort needs to be re-energized. The decision to open a Southern CA MARAD office in Long Beach is a good first step but it's only a small one.

John Ficker responded that 9/11 did distract the nation and rightfully so. Energy is also another linchpin. Security and capacity are the two issues that must be addressed.

Mr. Hennessey argued that safety and security are not being ignored but that the industry hasn't always reacted in the past to needed change. Now a response mechanism is in place. Things aren't just being discussed but acted upon.

What can be done about aging equipment?

Doug Tilden answered that with the expansion of cargo volume, the age of equipment is coming down rapidly. It all depends on the individual terminal.

Where is the panel representative from retail? How are the chains stepping up to the plate? Are they willing to accept 24/7 operations? Can they keep up with increases in labor dockside?

John Ficker said that disincentives in the form of increased demurrage and PierPass fees will likely encourage changes in behavior with many or most retailers.

What are rail company plans to deal with increased congestion?

George Fetty said that the rail roads are looking at balanced flows. Some traffic has been diverted to the Pacific Northwest and there has been an aggregation of westbound intermodal equipment into the northwest. An increase in the number of ships there helps to balance things out. There is a lot of east bound flow out of Los Angeles which results in a lot of deadheading. There are five BNSF trains per day with empties arriving in the area. Still, the back and forth flow is easing out. The congestion did force some changes in the rail operating environment. This ultimately helped the railroads. They had been behind the curve understanding what was happening in the San Pedro Bay. That's no longer the case.

Is there any opportunity to use US Commerce Department influence to build another canal through Central America?

John Ficker responded that there had been some talk of a Nicaragua Canal to handle post-Panamax ships; but other countries would of course have to be involved. And even expanding the Panama Canal would cost billions and billions of dollars which the US won't fund.

With available labor, why not reinstitute the 3:00 AM shift?

Steve Hennessey said that his terminals did reinstate the "hoot" gate in January 2005. It all comes down to vessel schedule however. Working 5 hours vs. 8 hours is not the most efficient way to operate, and he doesn't think that the terminals are facing the same level of congestion as in 2004. Hoot shifts can be filled if needed.

1.3.1 Summary of the Panel Discussion

Dr. Genevieve Giuliano, Director of the METRANS Transportation Center, offered some concluding remarks that served as a summary of the panel discussion. She emphasized the fact that capacity problems occur throughout the supply chain: dockside, on the highways, on rail and at distribution centers. Furthermore, any bottleneck at a single node will have impacts elsewhere along the chain. There are two primary responses to this congestion: operational changes and improved infrastructure.

Operational changes can mean faster turnaround time and shorter berth dwell time. They can move intermodal cargo more quickly, getting it off the docks and minimizing warehouse time. However, operational changes require coordination and choreography across the supply chain; and it is not entirely clear where the leadership will come from to bring about better cooperation.

Improved infrastructure can have a dramatic impact on supply chain capacity but it is not a short term solution. The environmental review process alone means it could be ten years before any increases in capacity are realized. The cost of major projects can also be prohibitive; and the cooperation that is required to bring about operational changes is also needed to argue for more money for goods movement projects in Southern California.

Until recently, the supply chain system has proven flexible enough to survive increased volume and increased in population growth and travel without an increase in capacity. The system appears to be out of flexibility at this point. There is a need to adjust the use of time and space, i.e. 24/7 operations on the docks and at the retail end are inevitable.

Adjusting use of space means taking technology use beyond what the supply chain has done up to now; otherwise, there will be costs to the entire system in the form of higher prices, more congestion and a diminished quality of life. The key challenge at this point is to identify leaders to make sure that the cooperation that is just beginning continues.

Dr. Domenick Miretti, the ILWU Senior Liaison for the Ports of LA and Long Beach, concluded the evening's discussion. He asked, "What happened to Just-In-Time delivery?" The answer is frustration and chaos. China supplies the goods we no longer make. An American appetite for bargain process and an increase in population means that this trend is likely to continue.

The industry needs plans and procedures to avoid a future crisis. This means ensuring that there are enough trucks to transport cargo and responding to an increased volume of goods without sacrificing a clean environment. This requires commitments from all stakeholders and possibly industrywide environmental standards.

Dr. Miretti also argued that the supply chain needs to extend the boundaries of the port by looking at opportunities for inland port development and near-dock facilities to free up space at the marine terminals. There is also a need for more training.

When there are legislative pressures for the supply chain to change, that means that the industry has fallen short of its goals. This reflects a short-sighted, not a broad-based approach to problem-solving. The individual industry segments no longer have the right, nor the luxury, of making self-interested decisions.

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