

Dear Readers:

In 2009 we announced that our 10th CITT Town Hall event would be the last of what the press branded an "institution." We hoped our new signature event, the Point/Counterpoint (P/CP) series, would garner the same popularity. Indeed, our inaugural event on the Panama Canal was a smashing success, thanks to the unique perspectives of such highly qualified presenters. We are grateful for the loyalty of our attendees and are exploring new topics for many informative P/CP events to come.

Meanwhile, we want to take a closer look at some of the key issues that surfaced at the Oct. 6th P/CP. We expect to convene a panel of experts next spring to explore the competitiveness of our ports. Stay tuned for more details.

We also want to hear from you. Send us trade and transportation issues that have attracted opposing opinions and that call for frank but respectful dialogue to help decision makers and the community understand all the perspectives.

For now, please enjoy the articles in this issue.

Marianne Venieris
Executive Director

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Reflecting on the Panama Canal Point/Counterpoint

The San Pedro Bay Ports of Los Angeles and Long Beach have earned and enjoyed a dominant position in American shipping, accounting for almost 37% of all imports to the U.S. and 70% of imports from Asia. But how long can they maintain that position in a rapidly changing

University in Halifax, Nova Scotia, Canada; and Todd Thomas of Expeditors International in Los Angeles. CITT Research Director Dr. Thomas O'Brien moderated the discussion and METRANS Director and USC Professor Genevieve Giuliano provided a summary at the end.

makes sense because the canal was operating at almost full capacity before the recession, said Thomas. And all-water routes that deliver cargo through the Panama Canal to Gulf and Atlantic ports are assumed to be cheaper.

By 2014, the Panama Canal will open a larger, third set of locks with wider, deeper channels that will accommodate ships with twice the capacity of current "Panamax" vessels. During a short introductory video from CSULB's Advanced Media Production Center, the audience collectively was astonished by a graphic illustrating the increased capacity on these ships from 2,250 to 6,000 containers.

There are some prevailing assumptions about what this will mean for West Coast ports, especially here in Southern California. The San Pedro Bay Ports handled 36.5% of total U.S. cargo traffic in 2008, and discretionary cargo counts for at least 40% of that traffic.

Since 75% of all U.S. inbound cargo traffic is ultimately headed for markets in the South and Northeast, many experts assume the majority of our "land bridge" cargo is

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Photo credit Robert Huizar

An audience of more than 700 included cargo owners, freight forwarders, national retailers, elected officials, labor, students, and community representatives.

world, especially considering the upcoming expansion of the Panama Canal?

That expansion, and implications for Southern California jobs and cargo volumes, were the subject of a provocative briefing on Oct. 6. "Panama Canal Expansion: The Battle for Jobs and Cargo. Who Wins? Who Loses? Who Decides?" was sponsored by the Center for International Trade and Transportation and the METRANS Transportation Center.

The expert speakers were Paul Bingham of Wilbur Smith Associates in Arlington, Virginia; Dr. Mary Brooks from Dalhousie

The intention of the event was not to give definitive answers about the future of the San Pedro ports but to clarify the questions.

Canal Expansion Makes Sense for Panama

The opening of the Panama Canal in 1914 changed patterns of trade around the world. By 2008, nearly 1 million ships had made the 48-mile transit. Currently, about 14,000 ships per year cross the isthmus.

Some believe the canal's new expansion will cause another major shift in global goods movement. Expansion



An expanded canal will accommodate ships with more than twice the capacity of current "Panamax" vessels.

Panama Canal Point/Counterpoint, Continued

automatically lost once the expansion opens. In that case, the battle for cargo — and jobs — will be fought over the smaller portion of our discretionary cargo that is destined for America’s heartland region.

This is why the most powerful line of the evening was when Mary Brooks said Southern California’s current, dominating market share “is yours to lose.”

San Pedro Bay Will Still Make Sense for Cargo Owners

However, not every expert agrees with these assumptions. West Coast ports continue to thrive because of natural advantages and strategic decision making and investing on the part of local actors, so there are still ways in which West Coast ports, including those here in Southern California, will make more sense than ports on the other side of the canal.

Canal routes add a week or more to the delivery time from East Asia compared to intermodal routes to the East Coast via San Pedro. Faster overland transit times still matter for high-value and time-sensitive cargo. Speed is also important because while fuel accounts for 56% of a ship owner’s costs to move a container, *inventory carrying costs* matter most for beneficial cargo owners (BCOs). That means all of the finance charges, insurance premiums, storage fees, security costs, and risks of depreciation or obsolescence that increase with every minute their cargo is in transit. These account for more than half of the total logistics costs to the BCO.

No Atlantic port offers the 50-ft depths in San Pedro Bay (and Oakland and Seattle/Tacoma) to accommodate the largest vessels, although Norfolk has 48-ft and New York/New Jersey will offer 52-ft by 2012.

Another advantage is the regional availability of warehouse and distribution space. While Jacksonville, Florida boasts of almost 10 million square feet available, Southern California offers more than 650 million square feet.

Meanwhile, the rest of the global cargo system was also operating at capacity before the recession, so canal expansion may simply *move the bottlenecks* to any ports that are angling for additional cargo until they expand as well — which many are doing. Ultimately, fees, tolls and fuel prices

may affect the economy of canal routes in the future as Panama and Gulf/Atlantic ports struggle to pay off the costs of their expansions.

Local stakeholders have not been standing still either. While Panama is spending at least \$5.25 billion to expand the canal, the Southern California goods movement community has committed about \$4 billion in new infrastructure redevelopment.

Finally, despite the drop in cargo volumes during the recent recession, long-term trends will certainly require more capacity in the maritime cargo system. Levels of international trade as a share of the global economy have risen steadily from about 18% in 1986 to a projected 36% by 2030. Therefore, the experts agreed, any inevitable loss in our ports’ *market share* due to Panama Canal expansion would most likely be outweighed by *cargo volume* growth due to increased world trade.

Maintaining Competitive Advantages

Nevertheless, to enjoy these competitive advantages, the Ports of Long Beach and Los Angeles have to overcome some negative perceptions that West Coast ports are congested, expensive, and not business friendly (because of labor relations, environmental regulations, etc.).

A reputation for unreliability is a particular problem for Los Angeles (LA) and Long Beach (LB). Inventory carrying costs become

even more expensive for BCOs when the time and costs are unpredictable. One research study found our ports are *frequently the most efficient and cost effective routes* to ship apparel from Shanghai to Chicago or Toronto, compared to shipping through either Vancouver or Halifax. However, when LA and LB are not operating at maximum productivity, they are *the most expensive gateways*, as shown in the table below.

Routes for “discretionary cargo” are literally decisions *at the discretion* of the shippers, who have more and more options to consider and more factors to complicate their decisions. “Since steamship lines and BCOs will have more options going forward, ports need to help them decide,” according to O’Brien. “The U.S. intermodal system — as a critical component of the West Coast supply chains — competes on transit time, but the industry needs to stay competitive on pricing.”

A critical point made by the speakers is that cargo competition isn’t between ports themselves anymore, but about the time, cost and reliability of different *supply chains* that include production, transportation, and distribution to consumer markets.

That makes infrastructure a more critical and complex factor, expanding out from the waterside to intermodal hubs, warehousing and distribution center capacity, and in particular, railroad connections.

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Total Logistics Cost Analysis of Competing Gateways

The Best of Ports and the Worst of Ports			
Total Logistics Cost (CA\$)	Vancouver	LA/LB	Halifax
Best Case	\$251,500	\$241,500	\$314,500
Worst Case	\$427,250	\$508,000	\$394,250

A study measured total logistics costs for moving apparel in the Shanghai-Toronto and Shanghai-Chicago trade lanes, using both marine-rail and marine-truck routings, through three alternative gateways: Vancouver, Halifax and Los Angeles/Long Beach. The result was that LA/LB could be both the cheapest and the most expensive gateways, depending on best-case or worst-case scenarios. Adapted by Prof. Mary Brooks from a presentation by Prof. Garland Chow, University of British Columbia: “A Total Logistics Cost Approach to Measuring Collateral Benefits of Security and Supply Chain Improvements at International Gateways.” International Conference on Gateways and Corridors, Vancouver May 4-5, 2007.

Panama Canal Point/Counterpoint, Continued

Of course, competitive ports are also expanding their own capacity. East Coast state governments are offering tax advantages for companies locating distribution centers in their states. Overall, more than 26 million TEU of new capacity is planned at Atlantic and Gulf Coast ports.

Norfolk, Virginia has used federal funds to improve infrastructure, but its competitiveness as a route option — not just as a port — is greatly enhanced by improvements to the Heartland Corridor rail line, which will soon accommodate double-stacked container trains all the way to Columbus, Ohio.

Point/Counterpoint speakers made it clear that the battle for jobs and cargo will be fought with the cheapest routes, best reliability, and biggest resources. Infrastructure and geographic advantages matter, but so will management strategies, job skills, and stakeholder cooperation. One thing is clear, as Gen Giuliano reminded the audience: “The productivity and ultimately market share of Southern California ports depend on the actors here today — the supply chain interests — and how they cooperate and collaborate.”

Reflecting on Predicting the Unpredictable

Nevertheless, the uncertainty over the future of Southern California jobs and cargo was demonstrated by press coverage of the event, in which different reporters took away very different messages.

In part, reflects Tom O’Brien, “The jury is still out because of multiple ‘X factors’ that cannot be predicted.” As different players try to stay competitive by reacting to each other’s moves, some of these factors will include:

- How East Coast ports and their supply chain partners adapt by dredging harbors, adding terminal space, and building new rail connections.



Panelist Dr. Mary Brooks from Dalhousie University (L) and Todd Thomas of Expeditors International (R).

- Future price changes for tolls, wharfage, dockage, and intermodal carriage.
- Ocean carrier decisions about vessel rotations, port calls, steaming speeds, and industry consolidation.
- Retailers resetting their supply chain strategies, such as consolidating large import distribution centers versus diversifying with smaller DCs close to markets, or taking advantage of transshipment opportunities.

- Changing manufacturing patterns ranging from Chinese in-sourcing (moving plants west to cheaper parts of the PRC), shifting production to India and other South Asian countries, near sourcing in Latin America, and eventually moving low-cost manufacturing to Africa.

- And finally, known and unknown factors, especially external “shocks” from security precautions, environmental policies, fuel prices, free trade agreements, government funding priorities, and escalating political and PR rhetoric between competitors, states, and countries.

At the same time, O’Brien sees another kind of uncertainty to match the uncertainty about external factors — a lack of vision or competitive strategy in the region. “There is anxiety about the role that freight and international trade will or should play in our future if we imagine ourselves as a post-industrial city,” he says. “We argue over the merits of individual projects like the Gerald Desmond Bridge, the Middle Harbor project, and the I-710 expansion. But we don’t have a fundamental agreement on what those projects should add up to.”

A complete “Summary Report” of the Point/Counterpoint event will be posted in January 2011 at www.mettrans.org. The mini-documentary, video of the presentations, speaker slides, and a timeline of the Panama Canal and West Coast Ports from 1869 to the present are already available at that website.

CITT to Launch North American Pacific Gateway Research Collaborative

CITT was awarded a grant from the Government of Canada to launch a tri-national group of academics to explore the economic competitiveness and environmental sustainability of Canadian, U.S., and Mexican Pacific port gateway regions.

“Economic changes in the trade sector make ports and port regions more connected than they have been in the past,” says Tom O’Brien, CITT Director of Research. Those trends include the development of land-based trade corridors, the growth of cross-border mega-regions, the rise of integrated and complex supply chains, and shared environmental regulations. “As a result, there is increasing awareness

that even gateway regions that *compete* for business may still benefit from *collaboration* on issues like infrastructure provision and environmental innovation.”

The centerpiece of the project, **The North American Pacific Gateway Research Collaborative**, will launch with a conference in Long Beach on March 3, 2011, to hear from industry, community, and governmental players about the potential for West Coast collaboration and to explore the state of current research in this area. This will be followed by a half-day March 4 meeting of academics to discuss an ongoing agenda for the initiative.

Building Bridges

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New Seminars: **Working and Living in a Port City**

The Ports of Long Beach and Los Angeles are gateways to a global marketplace, but they also have direct impact on local communities, businesses, economies, and employment. Beginning in January 2011, CITT's new seminar series, "**Working and Living in a Port City**," will provide a broad perspective on the value of international trade to local communities for anyone interested in learning about the ports, maritime operations, and international trade. Participants will learn about public policy issues affecting the industry and surrounding communities, and the growing need for a skilled goods movement workforce. This information is valuable whether you are new to the industry, a policy maker, or a local resident.

Ports: Local Actors and Global Trade (January 12)

Ports: Gateway to International Trade (January 18)

Careers: The Key to Success is an Educated and Skilled Workforce (January 19)

All seminars will be held at the CITT Offices at 1000 Studebaker Rd., Long Beach from 6:30 to 9:30pm. Seminars are \$75 each or all three for \$175. Customized training and onsite training are available. More information at <http://www.ccpe.csulb.edu/citt/> or by contacting citt@ccpe.csulb.edu or 562-985-2872.

CITT and METRANS Resources Online

The **CITT Alumni Network** is a LinkedIn community where you can gather with like-minded professionals for networking, industry news, events, and jobs of interest to the goods movement and trade industries. Subgroups are also open to alumni, instructors, and faculty from the GLS Professional Designation Program and the Master of Arts in Global Logistics.
<http://www.linkedin.com/groups?gid=2569782>

Trade and Transportation Perspective is a monthly column written for the Long Beach Business Journal by CITT Director of Research and METRANS Associate Director Dr. Thomas O'Brien.
<http://www.ccpe.csulb.edu/CITT/IndustryArticles.aspx>

Papers and presentations are available from the 3rd **METRANS National Urban Freight Conference (NUF)** held in Long Beach in October 2009.
<http://www.metrans.org/nuf/2009/index.html>

In addition, **TransCast** host Mat Kaplan conducted an audio interview with NUF keynote speaker Dr. Eddy Van de Voorde of the University of Antwerp about transportation issues from the international perspective. Another NUF interview posted to the METRANS TransCast catalogue is with Mike Onder, team leader for truck size and weight and freight operations and technology in the FHWA's Office of Freight Management and Operations.
<http://www.metrans.org/outreach/transcasts.html>

Reports on METRANS-funded research in the area of **Goods Movement and International Trade** include topics such as efficient infrastructures (ground transportation, ports operations, and intermodal facilities) for economic growth and productivity in congested metropolitan regions.
<http://www.metrans.org/research>

Meanwhile, in one of CITT's recent **ContainerCasts** (both audio and transcripts), Robert Thornburgh, chairman of the 85-year-old Los Angeles Transportation Club, talked about the group's educational, networking, and philanthropic activities.
<http://www.ccpe.csulb.edu/citt/podcast/containercast.aspx>

As part of the **Caltrans-UTC Seminar Series** co-sponsored by California's University Transportation Centers including METRANS, a program on "Freight and Goods Movement" included a presentation by METRANS researcher and CSULB Assistant Professor of Economics Seiji Steimetz on "Accident Rates and Safety Policies for Trucks Serving Ocean Container Ports" which challenges the assumption that port-bound trucks are inherently more dangerous than trucks on other urban highways.
<http://stc.ucdavis.edu/outreach/UTC-Caltrans-Materials-S2010.php>

The **Goods Movement Timeline** is METRANS' searchable database of news articles about goods movement, logistics, and international trade.
<http://www.metrans.org/timeline>