



April 2018

Parsing the February 2018 Loaded TEU Numbers

Preliminary March Figures. Well, it looked good for a couple of days at least. On April 10, the Port of Long Beach posted container trade numbers that painted a decidedly upbeat picture, with inbound trade up 7.3% (+18,290 TEUs), while outbound moves jumped 18.3% (+21,984 TEUs). Alas, three days later, the neighboring Port of Los Angeles reported numbers so dreadful as to suggest that U-boats had spent

the month torpedoing LA-bound ships off Angel's Gate. The port's inbound container volume stumbled by 29.2% (-109,089 TEUs) from a year earlier, while outbound trade was down 14.6% (-28,065 TEUs). That brought the total San Pedro Bay numbers to -14.6% on the inbound side (-90,799 TEUs) and -1.9% (-6,016 TEUs) on the outbound. Also less than buoyant were the March numbers from the Port of

Exhibit 1 February 2018 - Inbound Loaded TEUs at Selected Ports

	Feb 2018	Feb 2017	% Change	Feb 2018 YTD	Feb 2017 YTD	% Change
Los Angeles	383,090	298,975	28.1%	805,922	714,398	12.8%
Long Beach	342,247	249,759	37.0%	666,903	548,749	21.5%
San Pedro Bay Totals	725,337	548,734	32.2%	1,472,825	1,263,147	16.6%
Oakland	73,666	64,106	14.9%	148,802	144,547	2.9%
NWSA	114,218	102,697	11.2%	211,020	230,934	-8.5%
USWC Totals	913,221	715,537	27.6%	1,832,647	1,638,628	11.8%
Boston	12,283	9,821	25.1%	23,011	21,428	7.4%
NYNJ	274,638	262,875	4.5%	583,641	523,600	11.5%
Philadelphia*	23,610	20,327	16.2%	47,329	44,976	5.2%
Wilmington DE*	15,114	15,350	-1.5%	32,090	31,588	1.6%
Maryland	40,195	33,653	19.4%	83,380	73,955	12.7%
Virginia	100,368	96,921	3.6%	204,518	198,223	3.2%
South Carolina	70,397	73,855	-4.7%	148,566	156,953	-5.3%
Georgia	158,890	148,374	7.1%	328,648	302,737	8.6%
Jaxport	25,044	23,838	5.1%	50,771	48,848	3.9%
Port Everglades	31,315	31,474	-0.5%	62,393	62,456	-0.1%
Miami	30,132	32,361	-6.9%	64,571	67,045	-3.7%
USEC Totals	781,986	748,849	4.4%	1,628,918	1,531,809	6.3%
New Orleans	8,910	7,236	23.1%	17,599	17,421	1.0%
Houston	84,799	73,389	15.5%	174,242	157,978	10.3%
USGC Totals	93,709	80,625	16.2%	191,841	175,399	9.4%
Vancouver	135,844	126,759	7.2%	274,821	255,898	7.4%
Prince Rupert	42,533	29,789	42.8%	88,904	70,777	25.6%
British Columbia Totals	178,377	156,548	13.9%	363,725	326,675	11.3%

*Does not distinguish loaded from empty containers.

Source Individual Ports



Parsing the February 2018 Numbers Continued

Oakland, which indicated a slight dip in both directions of container trade. Inbound TEUs were down 1,595 TEUs (-1.9%) from a year ago, while 445 fewer outbound TEUs (-0.7%) were shipped. Rounding out a decidedly off month for USWC ports, the Northwest Seaport Alliance reported a 12.9% fall-off in inbound TEUs (-15,492) and a 7.5% drop in outbound TEUs (-7,498). Adding up the West Coast numbers, 107,586 fewer TEUs entered USWC ports this March than last, while the outbound traffic was down 13,920 TEUs or 2.8%. As much as the USWC ports might like to blame the timing of the Asian New Year for their lackluster trades, British Columbia's ports fared much differently. Up at the Port of Prince Rupert, inbound TEUs

totaled 11.9% higher (+4,119 TEUs) than a year earlier, while outbound traffic surged by 43.5% (+5,667 TEUs). At Vancouver, imports were up 16.1% (+19,501 TEUs), while exports slipped by 4.0% (-1,036 TEUs). Meanwhile, back East, late winter snow storms notwithstanding, the March numbers released so far look uniformly solid. At what is presumably the Official Port of the Boston Red Sox, imports were up 46.8% (+3,677 TEUs) in March, while exports edged ahead by 6.6% (+402 TEUs). Container traffic at the much larger Port of Virginia was up 13.5% (+13,458 TEUs) inbound and 6.8% (+6,264 TEUs) outbound. Charleston handled 9.1% (+7,346 TEUs) more inbound trade than a year earlier and 4.7% (+3,290 TEUs) more

Exhibit 2 February 2018 - Outbound Loaded TEUs at Selected Ports

	Feb 2018	Feb 2017	% Change	Feb 2018 YTD	Feb 2017 YTD	% Change
Los Angeles	157,591	155,358	1.4%	307,626	317,778	-3.2%
Long Beach	130,916	119,811	9.3%	251,419	238,045	5.6%
San Pedro Bay Totals	288,507	275,169	4.8%	559,045	555,823	0.6%
Oakland	73,905	72,581	1.8%	148,788	145,909	2.0%
NWSA	76,088	71,243	6.8%	143,660	148,313	-3.1%
USWC Totals	438,500	418,993	4.7%	292,448	294,222	-0.6%
Boston	7,221	6,177	16.9%	14,142	15,277	-7.4%
NYNJ	116,702	105,638	10.5%	229,595	216,596	6.0%
Philadelphia*	21,749	21,905	-0.7%	44,181	47,408	-6.8%
Wilmington DE*	5,594	7,002	-20.1%	11,322	13,602	-16.8%
Maryland	19,211	22,516	-14.7%	37,874	39,878	-5.0%
Virginia	82,102	85,827	-4.3%	158,398	175,594	-9.8%
South Carolina	69,063	66,296	4.2%	128,808	133,164	-3.3%
Georgia	120,734	119,090	1.4%	228,233	236,480	-3.5%
Jaxport	38,806	31,135	24.6%	80,064	61,135	31.0%
Port Everglades	35,985	34,776	3.5%	70,387	67,221	4.7%
Miami	30,316	29,339	3.3%	62,809	60,508	3.8%
USEC Totals	547,483	529,701	3.4%	1,065,813	1,066,863	-0.1%
New Orleans	20,939	22,247	-5.9%	41,170	44,315	-7.1%
Houston	85,606	88,553	-3.3%	156,752	176,956	-11.4%
USGC Totals	106,545	110,800	-3.8%	197,922	221,271	-10.6%
Vancouver	80,766	94,027	-14.1%	156,894	179,491	-12.6%
Prince Rupert	14,261	12,692	12.4%	28,744	23,986	19.8%
British Columbia Totals	95,027	106,719	-11.0%	185,638	203,477	-8.8%

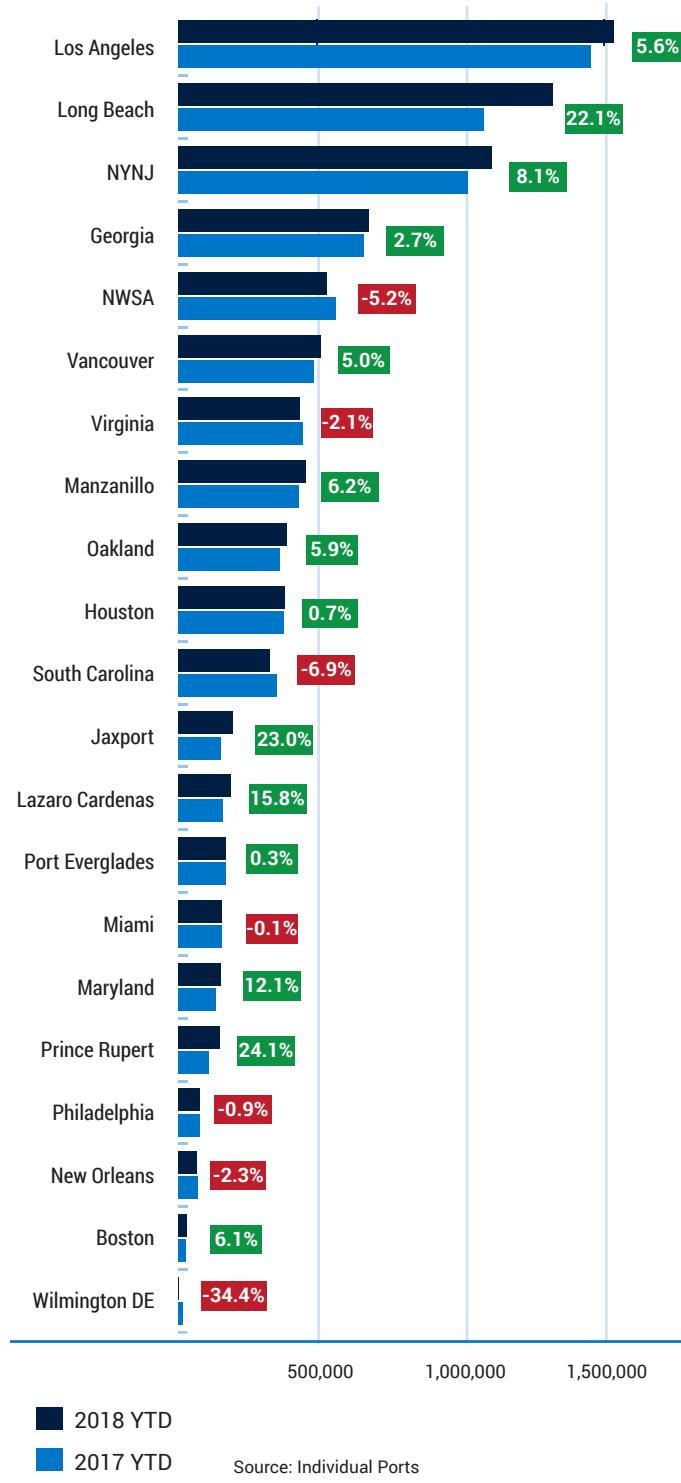
*Does not distinguish loaded from empty containers.

Source Individual Ports



Parsing the February 2018 Numbers Continued

Exhibit 3 February Year-to-Date Total TEUs (Loaded and Empty) Handled at Selected Ports



outbound. Savannah's inbound container trade was up a robust 16.2% (+22,307 TEUs), while its export traffic increased by 11.0% (+13,170 TEUs).

February's Inbound loaded container traffic. For U.S. West Coast (USWC) ports, February produced the first month of uniform coastwide increases in inbound TEU traffic since May 2017 as the Northwest Seaport Alliance posted an impressive 11.2% (+11,521 TEUs) bump over February of last year. The Ports of Long Beach and Los Angeles astonished everyone with a combined 32.2% year-over-year jump in inbound TEUs over last February. That translated into handling 176,603 more inbound TEUs than the two ports had processed a year earlier. Meanwhile, the Port of Oakland reported a solid 14.9% increase in inbound trade (+9,560 TEUs). Taken together, the Big 5 USWC container ports recorded a remarkable 25.1% (+197,684 TEUs) surge in import containers over February 2017.

The USWC experience in February contrasted sharply with the eleven Atlantic Coast ports we monitor. But unlike in recent months, it was the West that bested the East. Snowstorms and frigid temperatures up and down the Eastern Seaboard no doubt had a lot to do with dampening ship movements and port operations on that side of the country as did the timing of the Asian New Year. At the Port of New York/New Jersey, inbound traffic in January was up 4.5% (+11,763 TEUs) in February, but three major East Coast gateways (Charleston, Everglades, and Miami) saw imports decline year-over-year.

On the export TEU side, USWC ports' February numbers were positive but much less impressive. To be sure, outbound container traffic at the two San Pedro Bay ports was up 4.8% (+13,338 TEUs) from last February. Oakland reported a relatively meek 1.8% (+1,324 TEUs) gain, while the Seattle/Tacoma alliance posted a 6.8% (+4,845 TEUs) increase. Altogether, the five major USWC container ports handled 19,507 more export TEUs (+ 4.7%) than in February 2017.

Here again, the USWC ports topped their East Coast rivals, albeit with a substantial boost from the weather. Collectively, the eleven ports we survey grew their export trades by 3.4% (+17,782 TEUs). As for the Gulf Coast Ports of New Orleans and Houston, February was



Parsing the February 2018 Numbers Continued

disappointing, with container exports down a combined 3.8% (-4,255 TEUs) from a year earlier.

Weights and values. The adjacent **Exhibit 4** employs U.S. Commerce Department's data on the declared weight and value of containerized shipments arriving and departing at U.S. mainland ports in February to determine the trade shares held by USWC ports. Overall, containerized imports at USWC ports in February was 12.4% higher by weight and 20.5% by value over the same month a year earlier.

Exhibits 5 and 6 on the next page provide a breakdown by major USWC port region: Los Angeles/Long Beach, Oakland, and the Northwest Seaport Alliance Ports of Seattle and Tacoma. Exhibit 5 looks at USWC ports' shares of worldwide U.S. mainland container trade, while Exhibit 6 spotlights U.S.-East Asian container trade.

Worldwide Destinations and Origins. Tonnage-wise, China is by far the leading destination of USWC containerized exports with a 30.5% share in February. In next place was Japan with an 11.6% share, followed by South Korea (10.2%), Taiwan (9.4%), and Vietnam (6.6%).

China continued to overwhelmingly dominate containerized import tonnage entering USWC ports with a 56.9% share in February, up from 52.5% a year earlier. Trailing far behind in second place was Japan (4.9%); Vietnam (4.5%); Taiwan (4.3%); and South Korea (3.8%).

NWSA Woes. The Northwest Seaport Alliance Ports of Tacoma and Seattle finally posted some positive numbers, +11.2% on the inbound side and 6.8% on the outbound. However, Seattle continues to carry Tacoma in this marriage. Statistics compiled by the Pacific Maritime Association reveal widely divergent experiences at the two ports. At Seattle, PMA figures show a 38.7% (+14,781 TEUs) jump in inbound containers over February 2017 and a 21.7% (+6,187 TEUs) increase in outbound trade. But at Tacoma, inbound traffic was down 16.0% (-11,537 TEUs) from a year earlier, while inbound trade was off 10.9% (-6,819 TEUs).

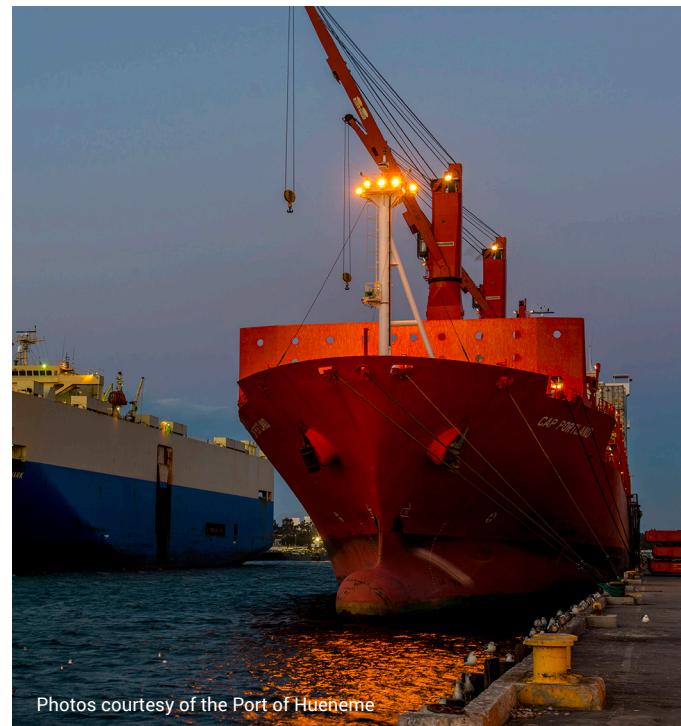
U.S. foreign trade statistics reveal a similar dichotomy in terms of the declared weight of foreign shipments moving through the two ports. Seattle's containerized imports were up 38.6% over February 2017, while its containerized

Exhibit 4

USWC shares of Mainland U.S. Containerized Imports and Exports by weight and by value

	Feb 2018	Jan 2018	Feb 2017
USWC Share of Mainland U.S. Containerized Imports			
By Weight	39.9%	41.0%	37.4%
By Value	49.0%	49.1%	46.7%
USWC Share of Mainland U.S. Containerized Exports			
By Weight	35.3%	32.9%	39.4%
By Value	33.2%	32.3%	35.0%
USWC Share of Mainland U.S. Containerized Imports from East Asia			
By Weight	58.8%	58.0%	56.5%
By Value	68.5%	67.1%	65.8%
USWC Share of Mainland U.S. Containerized Exports to East Asia			
By Weight	56.20%	53.30%	59.20%
By Value	64.90%	62.00%	66.60%

Source: U.S. Commerce Department.



Photos courtesy of the Port of Hueneme



Parsing the February 2018 Numbers Continued

export tonnage rose 26.9%. Tacoma, meanwhile, handled 16.0% less import tonnage than it had a year earlier and 1.9% less export tonnage. Container traffic at Tacoma began a pattern of year-over-year declines in both imports and exports last May following a rejiggering of shipping alliances.

The China Scrap Paper Flap. China's effective ban on HS 470790 scrap is obviously going to restrain export growth at USWC ports this year. Last year, USWC ports shipped to China 1.08 million metric tons of what Chinese officials alleged, in a filing last summer with the World Trade Organization, was some pretty nasty scrap paper and cardboard. (Think bales of recycled pizza boxes with a slice or two of pizza still inside...after a long ocean voyage...

arriving on a hot, humid Chinese summer day.) So, earlier this year, Beijing formally upped the standards of import quality to a level nearly every scrap paper exporter in the U.S. and Europe argued was unattainable. Not surprisingly, China imported just 1,939 metric tons in February.

Why is this worth mentioning? Exports to China of HS 470790 containerized tonnage from USWC ports, which had amounted to 97,093 metric tons in February 2017, plummeted to just 1,939 metric tons this February, a drop of 98%. A year ago, HS 470790 accounted for as much as 8.7% of total containerized shipments to China. That trade now represents about 0.2% of total USWC container export tonnage to China. ■

Exhibit 5 USWC Port Regions' Shares of U.S. Mainland Container Trade, February 2018

	Feb 2018	Jan 2018	Feb 2017
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Shares of U.S. Mainland Ports Containerized Import Tonnage

LA/LB	29.9%	31.4%	27.0%
Oakland	3.8%	3.6%	3.7%
NWSA	5.3%	5.0%	5.4%

Shares of U.S. Mainland Ports Containerized Import Value

LA/LB	38.1%	39.1%	35.6%
Oakland	3.3%	3.3%	3.4%
NWSA	7.40%	6.40%	7.30%

Shares of U.S. Mainland Containerized Export Tonnage

LA/LB	21.2%	19.7%	23.8%
Oakland	5.5%	5.5%	6.1%
NWSA	7.6%	7.3%	8.6%

Shares of U.S. Mainland Containerized Export Value

LA/LB	22.1%	21.3%	23.5%
Oakland	6.3%	6.5%	6.3%
NWSA	4.5%	4.4%	4.9%

Source: U.S. Commerce Department.

Exhibit 6 USWC Port Regions' Shares of U.S. Mainland-East Asia Container Trade, February 2018

	Feb 2018	Jan 2018	Feb 2017
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Shares of U.S. Mainland Ports' East Asian Container Import Tonnage

LA/LB	46.6%	46.3%	43.0%
Oakland	4.1%	4.2%	4.5%
NWSA	8.0%	7.0%	8.6%

Shares of U.S. Mainland Ports' East Asian Container Import Value

LA/LB	54.3%	54.1%	51.0%
Oakland	3.7%	3.8%	3.9%
NWSA	10.3%	8.8%	10.5%

Shares of U.S. Mainland Ports' East Asian Container Export Tonnage

LA/LB	36.00%	33.60%	38.00%
Oakland	7.90%	8.00%	8.20%
NWSA	12.30%	11.50%	12.90%

Shares of U.S. Mainland Ports' East Asian Container Export Value

LA/LB	45.3%	43.4%	46.2%
Oakland	10.4%	10.5%	11.1%
NWSA	13.1%	12.1%	14.1%

Source: U.S. Commerce Department.



Jock O'Connell's Commentary: Will Calamity Befall Kalama?

Developments have been exceptionally fast in coming in the trade imbroglio between the United States and China. So, too, have any number of conflicting, confusing, and sometimes shark-jumping reports warning of how much we all have to fear if things escalate into a full-on trade war.

What springs to mind is Herman Wouk's couplet in *The Caine Mutiny*: "When in danger or in doubt, run in circles, scream and shout."

Still, as next to impossible as it has become to provide timely commentary on the day's all-important tariff tribulations in a newsletter that's published just once a month, here's what we know.

USWC ports are at risk. Any trade dispute involving China obviously creates problems for U.S. West Coast ports. Last year, USWC ports handled 63.5% (\$247.59 billion) of the total U.S.-China maritime trade valued at \$390.08 billion. Of that, 48.8% went through the Ports of Los Angeles and Long Beach alone. Including the 8.2% share that transited the NWSA Ports of Seattle and Tacoma and the 3.9% portion that the Port of Oakland handled, 60.9% of U.S.-China maritime trade went through the five major USWC ports last year. Smaller USWC ports like Longview and Kalama, Washington handled 2.6% of all U.S.-China maritime trade.

On the import side, 55.3% of the 68,094,005 metric tons of Chinese goods that entered U.S. ports last year came through USWC ports. As for exports, those same ports handled 25.9% of the 104,602,580 metric tons of exports that were shipped to China in 2017 from U.S. ports.

All of the major USWC ports do a sizable share of their business with China. Last year, the Ports of Los Angeles and Long Beach handled \$386.04 billion worth of two-way trade, 46.9% of which involved China as either the destination or origin. Oakland was rather less dependent on its China trade, with the People's Republic accounting for just 31.5% of its \$48.34 billion in two-way trade last year. At the Northwest Seaport Alliance Ports of Seattle and Tacoma, 41.8% of last year's \$76.51 billion in maritime trade was conducted with China. Even a smaller,

niche ports like Longview does over 40% of its business with the PRC.

Where we are now. For the record, we are not in a trade war...yet. Apart from the initial volleys of higher tariffs aimed at curtailing imports of aluminum and steel into the U.S. and China's retaliatory tariffs that targeted a cornucopia of U.S. fruits, nuts, and wines (along with pork, steel pipes, and aluminum scrap), subsequent exchanges between the two nations have been rhetorical exercises aimed at establishing bargaining agendas, while unnerving the people who actually trade goods internationally.

As for the impact of the new tariffs that have been imposed, there is currently only anecdotal information to go by, and that is seldom reliable. A local television station airing a story highlighting the woes of a local exporter too often goes viral, leading many viewers to conclude that entire American industries rather than individual firms are hurting. Reliable, statistics detailed enough to permit analysts to gauge just how much trade is being affected will not be available until June 6 when the Commerce Department releases trade data for April.

There is, though, ample cause for concern about what those numbers will reveal about the higher tariffs now in place.

The opening shot. On March 1, acting under Section 232 of the Trade Expansion Act of 1962, the President announced the imposition of a 25% tariff on steel and a 10% tariff on aluminum imports that "threaten to impair the national security." Although the tariffs were originally intended to be applied universally, the administration soon moved to exempt several allied countries. However, China (along with Japan) was not among the countries shielded from the higher import levies. Those tariffs took effect on March 23.

Last year, USWC ports handled 27.6% of the 529.2 metric tons of iron and steel the U.S. imported from China and 51.6% of the 946.4 metric tons of imported Chinese aluminum.

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Jock O'Connell's Commentary Continued

China's response. Almost predictably, Beijing fired back by announcing a new 15% tariff to be levied against U.S. fruits, nuts, wines, and some steel pipes, along with a 25% tariff on pork and aluminum waste and scrap. Those levies took effect on April 2.

The Port of Oakland last year handled 42.3% of the nation's 140,598 metric tons of edible fruits and nuts exports to China. Another 31.8% went through San Pedro Bay, while the NWSA accounted for 17.3%. Not surprisingly, Oakland, with its proximity to Northern California's wine producing regions, shipped nearly 93% of U.S. wine exports to China last year.

It is worth noting, though, that for all the attention being devoted to the plight of wine, fruits and nut exporters, it's the 25% tariff on aluminum waste and scrap that will likely have a greater impact on USWC port operations. Why? Because, at 388,602 metric tons last year, aluminum waste and scrap shipments to China from USWC ports easily outweighed the 109,471 metric tons of exports of fruits and nuts to the PRC or the 21,267 metric tons of wine.

Caveats. So how are these new Chinese tariffs likely to affect business at USWC ports? The answer will be determined not by trade theory so much as by how individual Chinese importers respond. Imposing a higher tariff does not necessarily close a market to imported goods. Although a higher tariff on, say, California wines going into China will certainly increase the cost to the importer, a lot depends on what then happens on the ground. In the case of wine, it seems highly unlikely that a 15% increase in import duties will automatically cause a Chinese importer of high-quality California wines to walk away from years invested in building a presence for those wines in China, especially if the tariff is viewed as a temporary inconvenience that might soon be negotiated away.

In the case of the higher tariff Beijing has slapped on pork imports from the U.S., three-quarters of that trade is actually controlled by the Chinese multinational that owns Smithfield Foods and produces Nathan's Famous hotdogs along with Armour and John Morrell bacon. We'll see whether certain "accommodations" will be made to minimize harm to a Chinese firm and its customers. But

it is still the case that U.S. pork shipments to China have been increasingly routed through USWC ports in recent years, with the share growing from 22.8% in 2015 to 39.0% in 2016 to 46.1% last year.

What's next? The U.S. Trade Representative is expected to announce any day now the details of the next tranche of higher tariffs on imports from Chinese. Up to now, most consumer items like cell phones, apparel, footwear, and furniture have been excluded from higher levies. However, to meet the target of imposing an additional \$100 billion in tariffs on Chinese goods, that will certainly have to change. Again, it will be some time before such proposed tariffs would be employed, if they ever are.

Those increased tariffs would be imposed on consumer goods that typically arrive in containers. Those new tariffs would have special significance for USWC ports which, in dollar terms, handled 68.2% of the \$302.54 billion in containerized imports from China last year. Just by themselves, the Ports of Los Angeles and Long Beach accounted for 55.3% of those imports. By declared weight, 59.2% of the 61,253 million metric tons of containerized goods that arrived from China at U.S. ports last year went through USWC ports, with the San Pedro Bay ports alone holding a 47.3% share of the trade.

Actions that would erode trade volumes would have a wide range of immediate consequences from reduced port revenue to lay-off notices throughout the complex logistical systems that support the ports. These impacts would be particularly large in Southern California, given the disproportionate share of the China trade that moves through San Pedro Bay. But further rounds of tariffs could prove even more debilitating for smaller ports like Washington State's Port of Kalama.

Speculation has it that Beijing could ultimately seek to impede exports of U.S. soybeans or Boeing aircraft in the next round of higher tariffs. Such a development could have a particularly damaging impact on Washington State, not so much because Boeing has major operations there but because the state's ports play a key role in transporting soybeans to China. At Kalama, for example, soybean shipments to China accounted for one-third of its entire export volume in 2017.

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Jock O'Connell's Commentary Continued

Just what we don't need right now. A brewing trade dispute between the world's two largest economies comes at a particularly inopportune time for USWC ports planning on investing billions of dollars to upgrade facilities to meet the growing competitive challenge posed by rivals on the East and Gulf Coast ports and in British Columbia but also increasingly stringent air quality standards being set by state and local governments. Ports derive their revenue largely from the volumes of containers or cargos crossing their docks. A major trade dispute that could easily curtail the volume of goods flowing through USWC ports isn't going to be at all helpful.

Still, it bears stressing, threats of new tariffs are not tariffs. They are bargaining chips that negotiators will have to address in the coming months. At the same time, there is growing pressure within the U.S. to roll back or rescind the higher tariffs on steel imports and to think long and hard about the virtues of using tariffs on goods to resolve issues that are more and more coming to involve intellectual property.

For the time being, at least, Beijing's warning that it might impose a 25% tariff on imports of U.S. soybeans is merely a red flag. So, for now at least, the Columbia River Port of Kalama probably won't have to hold bake sales to supplement its maritime revenue.

Kudos for Candor

I know one economist who insists that, as a lad, he had predicted Bill Mazeroski would hit Ralph Terry's second pitch over the left field wall in Pittsburgh's Forbes Field for the walk-off homerun that gave the Pirates a seventh game victory in the 1960 World Series. I know this because he reminds me of his (alleged) precocious prognostication every year at World Series time.

His may be an extreme case, but it's not unusual. Economic forecasters are notorious for shamelessly advertising the ones they got right. (And, if they were nearly alone among their peers in doing so, you'll never

hear the end of it...as Paul Krugman incessantly reminds us about his warnings prior to the 2008 financial crisis.)

As for the forecasts they blew, most authors of aberrant predictions pray to Lethe, the Greek goddess of forgetfulness, in hopes that no one will recall the times their educated guesswork went seriously awry.

Of course, one sure way of abetting the public's amnesia is to avoid going around reminding everyone of how very far off your predictions have been. That's why we should be impressed by the forthrightness shown by Drewry's senior quantitative economist Mario Moreno at last month's "Pulse of the Port" confab down at the Port of Long Beach. Before presenting his estimates of U.S.-Asia container trade volumes in 2018, Mr. Moreno took pains to remind his audience of just how poorly he did with the forecast he presented at the same conference a year earlier.

For example, he noted that U.S. container imports from Asia grew by 3.5% in 2017, or just about half of the 6.9% growth he had expected. Similarly, he conceded that the 0.8% decline in U.S. containerized export volumes to Asia in 2017 was much lower than the 1.3% increase he foresaw in that trade.

The self-confessed margins of error that characterized Mr. Moreno's 2017 trade forecasts were roughly consistent with his 2016 forecasts. Standing before last year's "Pulse of the Port" audience, he noted that the actual 6.0% increase in U.S. container exports to Asia in 2016 differed substantially from the 0.8% decline he had anticipated. He likewise conceded that the 4.1% growth in container imports from Asia in 2016 was rather less than the 5.5% increase he had predicted.

As for 2018, Mr. Moreno thinks that, in the absence of a major trade war with China, U.S. containerized imports from Asia should increase by 6.8%, while U.S. exports to Asia should grow by 4.9%. ■

Jock's comments are his own and do not necessarily represent the views of PMSA.



The Never Ending Story: Indirect Source Rules

By Thomas Jelenić

Vice President, Pacific Merchant Shipping Association

For almost a decade, the logistics industry has faced the threat of “indirect source rules” or ISRs. Indirect source rules are a clever way of saying that facilities should be responsible for emissions from sources they do not control. That is why it is referred to as “indirect”. So, under the ISR logic, a warehouse in the Inland Empire would be responsible for the trucks picking up and dropping off freight – this would be similar to a grocery store telling its customers what kind of car they could use on a shopping trip. For the moment, put aside the absurdity of making someone responsible for something they do not control – I will come back to that.

I want to start off with the interminable process that industry has faced. This process, through all its twists and turns, is really about one thing: power. More specifically, who has the power to regulate mobile sources in California and, through that power, influence or control land-use decisions.

Authority to regulate mobile sources has been vested in the Air Resources Board (CARB) since California began controlling emissions for the simple reason that mobile sources move throughout the State (not to mention the country) and vehicle operators could never comply with a patchwork of different regulations from county to county. CARB has often implemented this authority through two straightforward mechanisms. The first is new engine standards, by which CARB has ensured that each new generation of vehicles is cleaner than the last. Through the second, CARB often accelerates the impact of new engine standards by issuing in-use standards, basically requirements that vehicles be retired before the end of their useful life forcing the adoption of newer, cleaner equipment. Through these requirements, new vehicles are more than 90% cleaner than older vehicles...and are getting cleaner still.

Local air pollution control districts were granted authority over stationary sources for the simple reason that, as the name implies, these sources do not move and cannot be subject to multiple jurisdictions. Local air pollution control districts have always coveted CARB’s mobile source

authority. Indirect source rules are a means through which local districts can wield mobile source authority. To date, no indirect source rules have been initiated by a local air pollution control district on freight facilities.

The current battle over indirect source rules arguably begins with the South Coast Air Quality Management District’s (SCAQMD) 2017 Air Quality Management Plan. In that plan, SCAQMD once again put indirect source rules on the table. After years of development, the approval of the 2017 plan in March of last year accelerated the discussion of indirect source rules. A month later, CARB also took up the issue of indirect source rules – despite the fact it has direct regulatory authority to set emissions standards for engines. A year later, CARB staff concluded that its authority is better exercised through establishing new engine standards and in-use standards.

However, during Board discussion and public discussion of the topic, it was revealed that community activists are unhappy with the local land-use decisions made by their local elected representatives and they seek tools from CARB to block or overturn local land use decisions. Apparently, the CARB Board is sympathetic to wading into local land-use decisions. As a recent Los Angeles Times article concluded:

“Responding to residents urging rules at a meeting last month, [CARB Chair] Nichols said the proliferation of warehouses has ‘not gone unnoticed. It’s a really serious problem,’ and the Air Resources Board was watching the South Coast district very closely and ‘hoping that they will do the right thing.’

“And if some reason they don’t,’ Nichols said, ‘then we will have to take action.”

This past March, SCAQMD heard public testimony on staff’s proposal to initiate a regulatory process for freight facility indirect source rules (or as SCAQMD calls them “facility-based measures”). Following public testimony, the Board postponed the item since not all Board members



The Never-Ending Story Continued

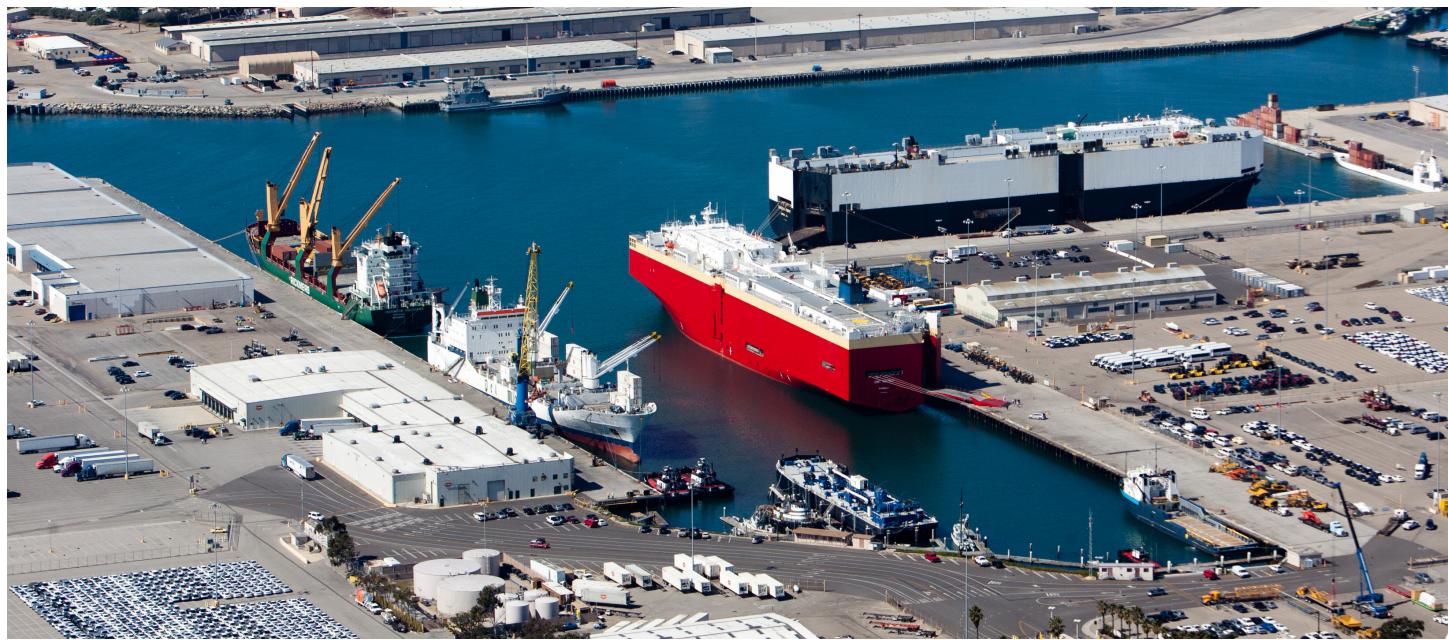
were present. In April, with more Board members absent, the Board again voted to postpone consideration. In May, if enough Board members are present, the public may finally know where the SCAQMD stands on indirect source rules – a phenomenally bad public policy that, if implemented, would have dire consequences for the logistics industry, the ports and consumers throughout the United States.

Why dire consequences?

Unlike the straightforward regulatory approach taken by California for decades, indirect source rules call on freight facilities, like marine terminals, to be responsible for emissions from mobile sources like trucks – sources they do not control. Indirect source rules have no requirement that equipment manufacturers build compliant trucks, unlike new engines standards. Indirect source rules have no

requirement that fleet owners accelerate their purchase of new, cleaner equipment, unlike in-use standards. Instead, indirect source rules would fine freight facilities, when truck manufacturers don't produce cleaner trucks and fleet owners don't purchase those vehicles. The only other option would be to shut down facilities when they reach their emission threshold. Imagine how that would play out in a global trade environment?

Which raises the question, how is indirectly regulating something more effective than doing so directly? How are indirect source rules a better strategy to clean up the air than new engine standards and new in-use standards? Or are indirect source rules simply a power grab by regulators attempting to exert control over a vibrant part of California's economy? ■



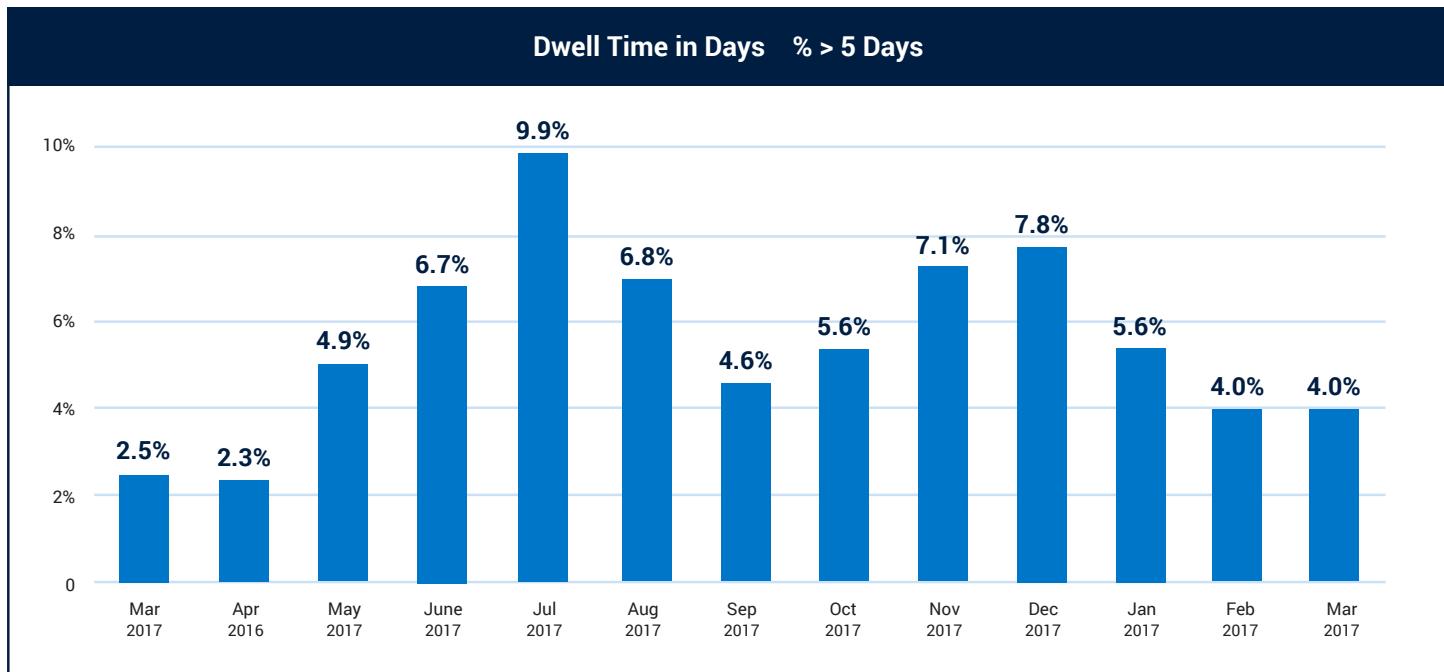
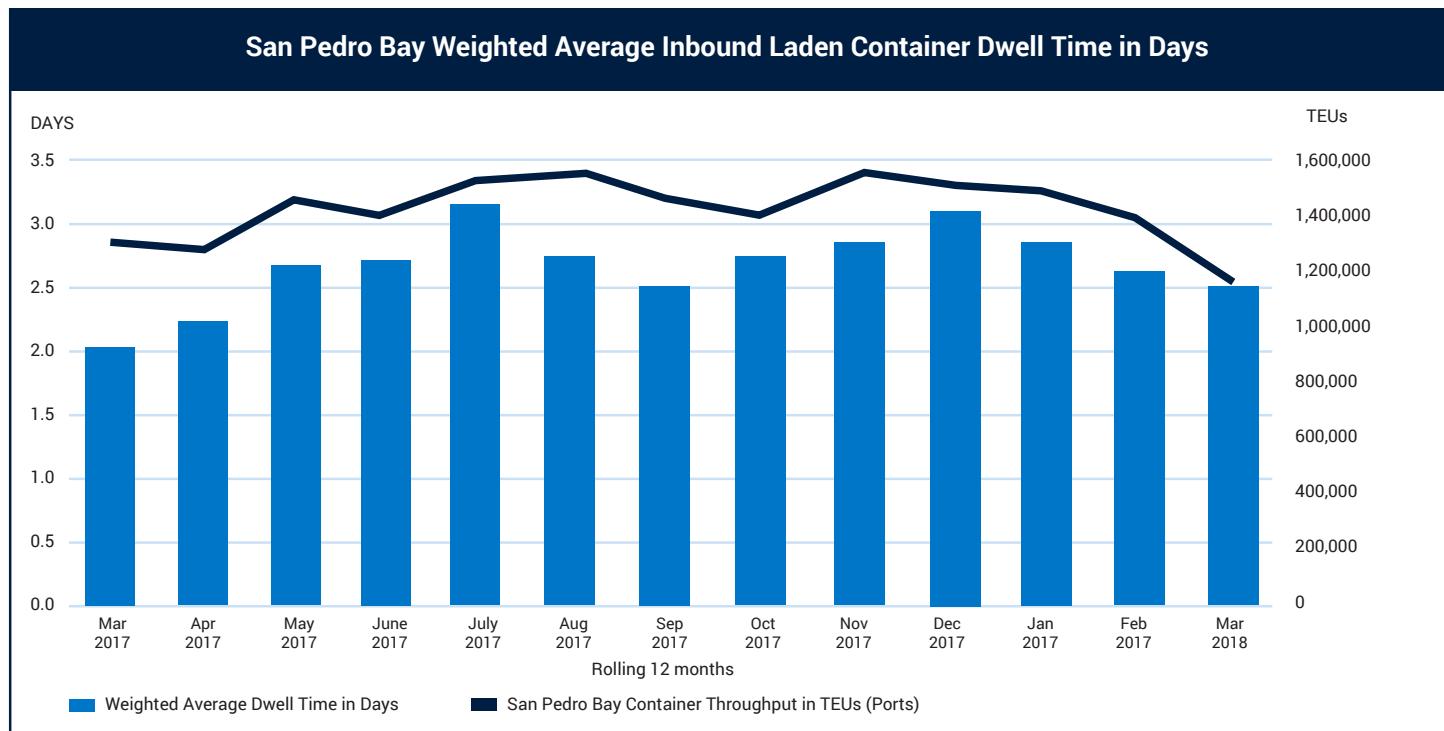
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March Dwell Time Numbers Continue to Decline



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