Moving right along

LA story

BY THEODORE PRINCE

In the movie Annie Hall, Woody Allen’s character laments living in Los Angeles, where the only cultural advantage is the ability to make a right turn on red. For steamship companies and their customers, such expeditious movement through Southern California may not even exist anymore.

First, let’s review the statistics. The San Pedro port’s growth has been phenomenal. From 1989 through 1997, volume has grown 82%. (Long Beach increased 129%, while Los Angeles increased 45%. 1994 was the first year that Long Beach exceeded Los Angeles.)

However, what stands out is that while traffic has grown throughout the United States, the West Coast’s share has remained fairly steady at about 50% of container throughput in the United States. San Pedro’s growth has come from cannibalizing volume growth from the Puget Sound and San Francisco Bay ports.

What factors led to this immense concentration of cargo and what does this mean for the future? Population was a primary attraction. Like New York, Southern California is a major metropolitan area and is a natural port location for steamship lines. Cargo can be delivered locally without the time and expense of long-distance movement.

Southern California also is attractive to shippers with cargo destined for the rest of the country. It was the only port on the transcontinental mainline of three railroads (Union Pacific, Santa Fe and Southern Pacific). Other ports had only two railroads competing. This made competition intense.

Southern Pacific, a notorious price-competitor, made rates low. Fast service and low rates are a surefire attraction for cargo. Finally, the development of deconsolidation infrastructure, (i.e., DSL at Southgate for Wal-Mart and Target) directed cargo for the rest of the country to San Pedro ports.

San Pedro ports also were fortunate to have access to funding and political influence necessary for massive infrastructure investments. California represents 54 electoral votes, 20% of the total needed to be elected president. Despite its status as a project of national significance, the Alameda Corridor was a traditional public works project.

Both ports were lucky to have competent management that avoided being trapped in the type of political morass that affected many other ports during this period of growth. Unfortunately, these ports have numerous problems.

As landlord ports, both ports are not involved in the day-to-day management or operation. Ports lease land to terminals (the port’s customers); terminals serve lines (the terminal’s customers) and only lines actually deal with real shippers.

The distorted food chain causes ports to avoid making direct decisions for fear that they will offend one of their “customers,” and the power vacuum created causes chaos — daily operations are a type of anarchy. Each terminal is its own self-contained community and there is no leadership to oversee individual entities for the overall good.

Congestion highlights the lack of overall direction. Most lines compete on similar trade lanes, and it is common for many vessels to arrive over the weekend. This causes a peak demand for resources and access. It’s impossible to imagine an airport where airlines takeoff and land as they please, but that’s the San Pedro ports.

Marine terminals have grown with the ports. Further growth is believed to be necessary, although it is likely that industry consolidation will result in terminals outnumbering major lines. Growth seems to continue without the financial community questioning the economics. There may be a revenue stream sufficient to warrant bond funding but has anybody really reviewed the financial viability of the underlying participant — the line? What will happen to the ports — and their bond ratings — if certain projects default because the line has departed and the terminal is unable to survive?

On-dock rail has been a great part of the port’s growth. Every line wants the capability. The port is only too glad to oblige. It is doubtful that the lines have closely reviewed the economics of this operation, otherwise they would reconsider the development of assets to accommodate high-cost and low-service operation.

In the meantime, the Alameda Corridor is not yet built, although the on-dock rail facilities that anticipated its availability are. Rail congestion gets worse by the week, and the ports can only resort to mere coordination.

Finally, the International Longshore and Warehouse Union is aware of the lines’ commitment to San Pedro. This makes it very difficult to bargain effectively. Also, it appears that the ILWU international is unable to control the Southern California locals. This just adds further expense and unpredicatable results to already stressed operations. This is a critical issue for the industry and needs industry-wide discussion.

The types of commitments— billions of dollars of public infrastructure based upon 20 to 50 year contracts — cannot be easily ignored. The development of other ports is not viable without a collapse in LA/LB — which would overwhelm the industry. Although private sector solutions are generally preferred, this might be the exceptional case requiring federal government review.