



The Threatened Global Supply Chain

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Los Angeles, CA





Problem Overview

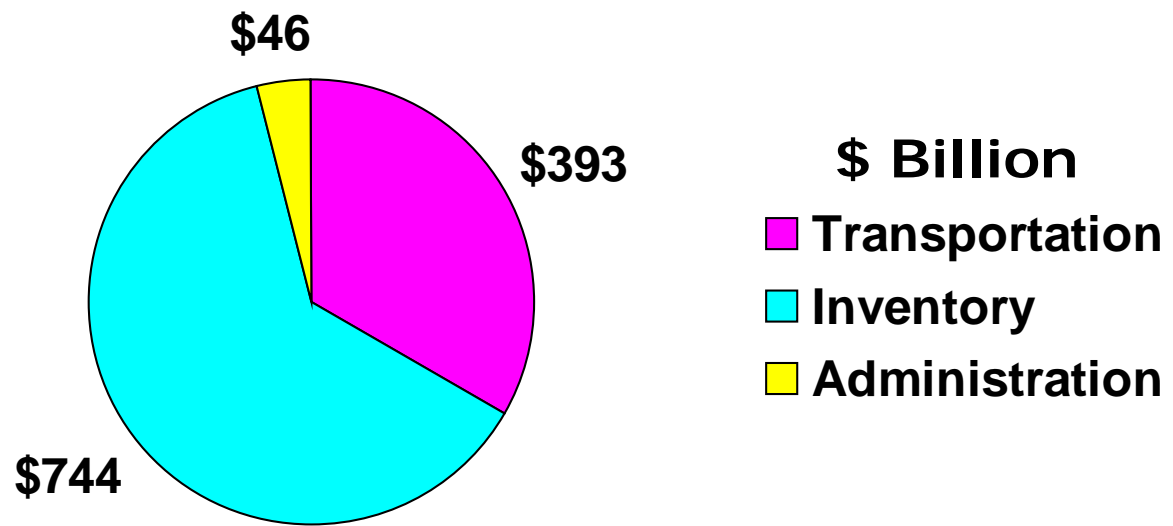
gridlock

- Commission findings on ~~terrorism~~
 - Should not have been a surprise
 - Advance warnings were ignored
 - Leaders did not understand threat's gravity
 - Government unable to address 21st century problems
 - Solutions were an inefficient response to a new challenge."
 - Attention of Congress was episodic and dysfunctional



Introduction

- Economic impact to the US economy in 2005
 - Total logistics = \$1.2 trillion (9.5% of total GDP)

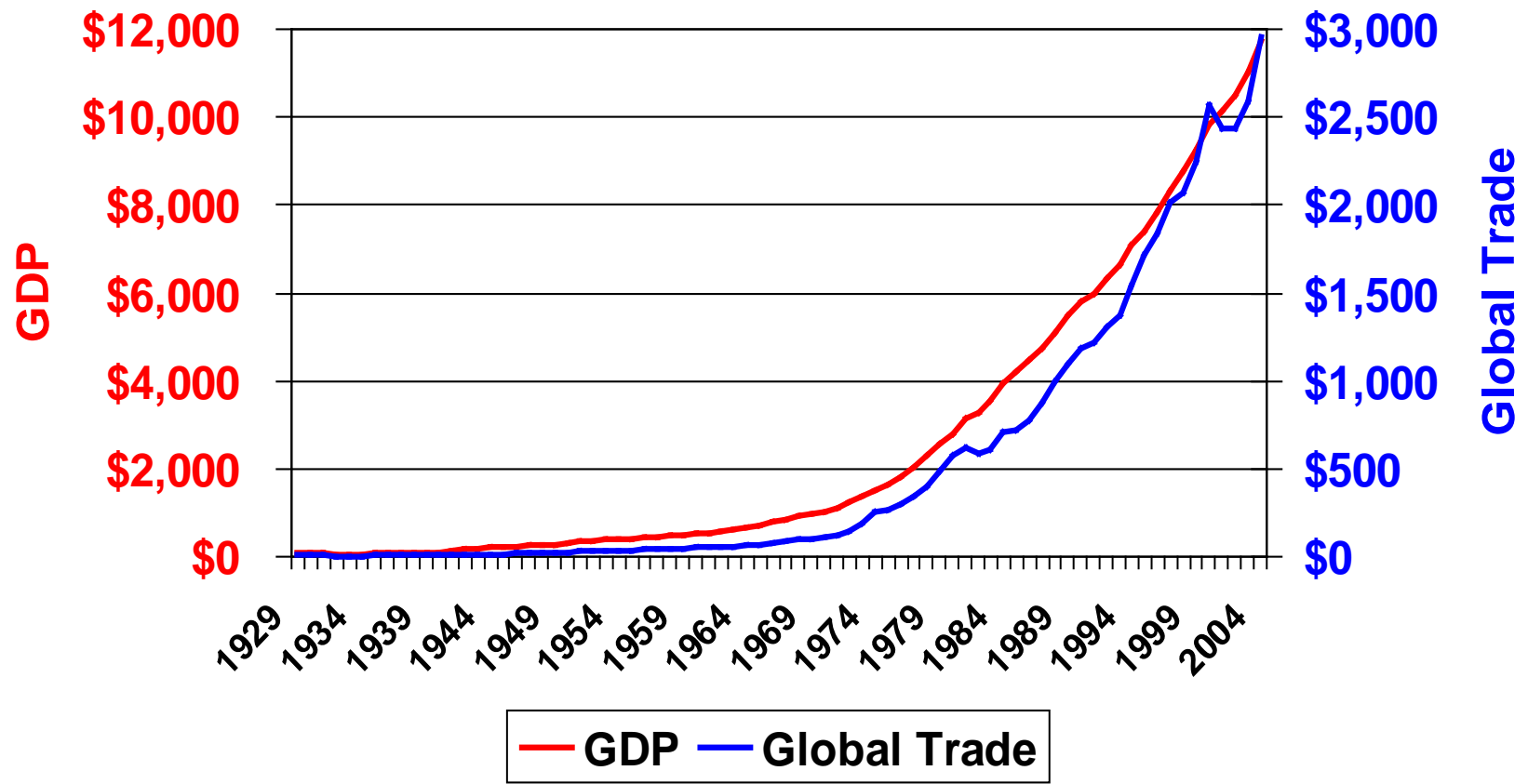


Source: CSCMP



International Trade

US Trade (\$Million)



Source: Global Insight



What has Deregulation Wrought?

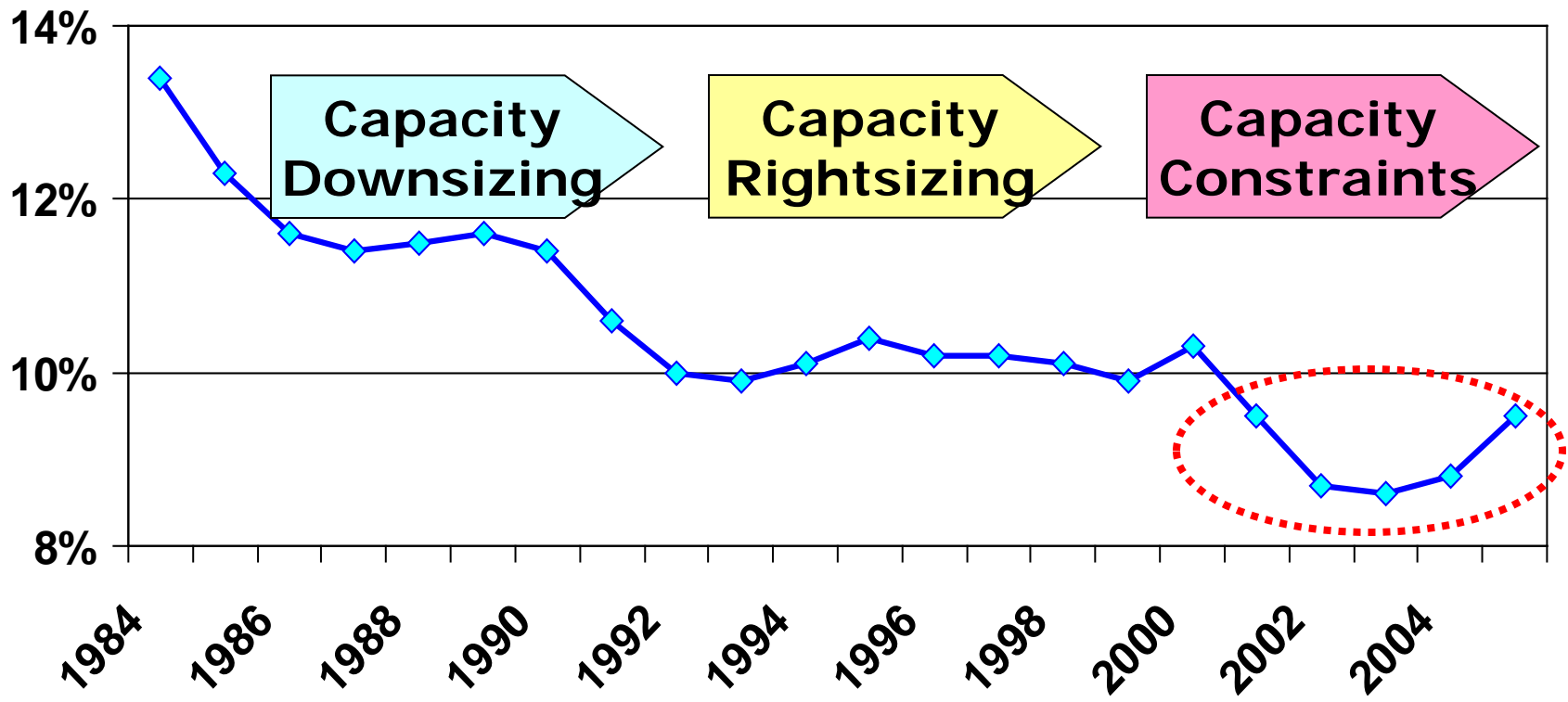
- Regulation
 - Cost driven pricing
 - Customer choice
 - Cost plus mentality
 - No expense control
 - Timing issue on rates
 - Excess capacity
 - Social contract
 - National emergency
 - Barrier to entry
 - Monopoly licenses
- Deregulation
 - Price driven costing
 - Carrier choice
 - Market price
 - Expense control
 - Timing as decided
 - Necessary capacity
 - Business decision
 - Daily operation
 - No entry barriers
 - No assigned rights

**Infrastructure bargain changed.
*Once-in-an-eternity free ride is over.***

Economic Impact of Transportation Problems



Logistics as % of US GDP

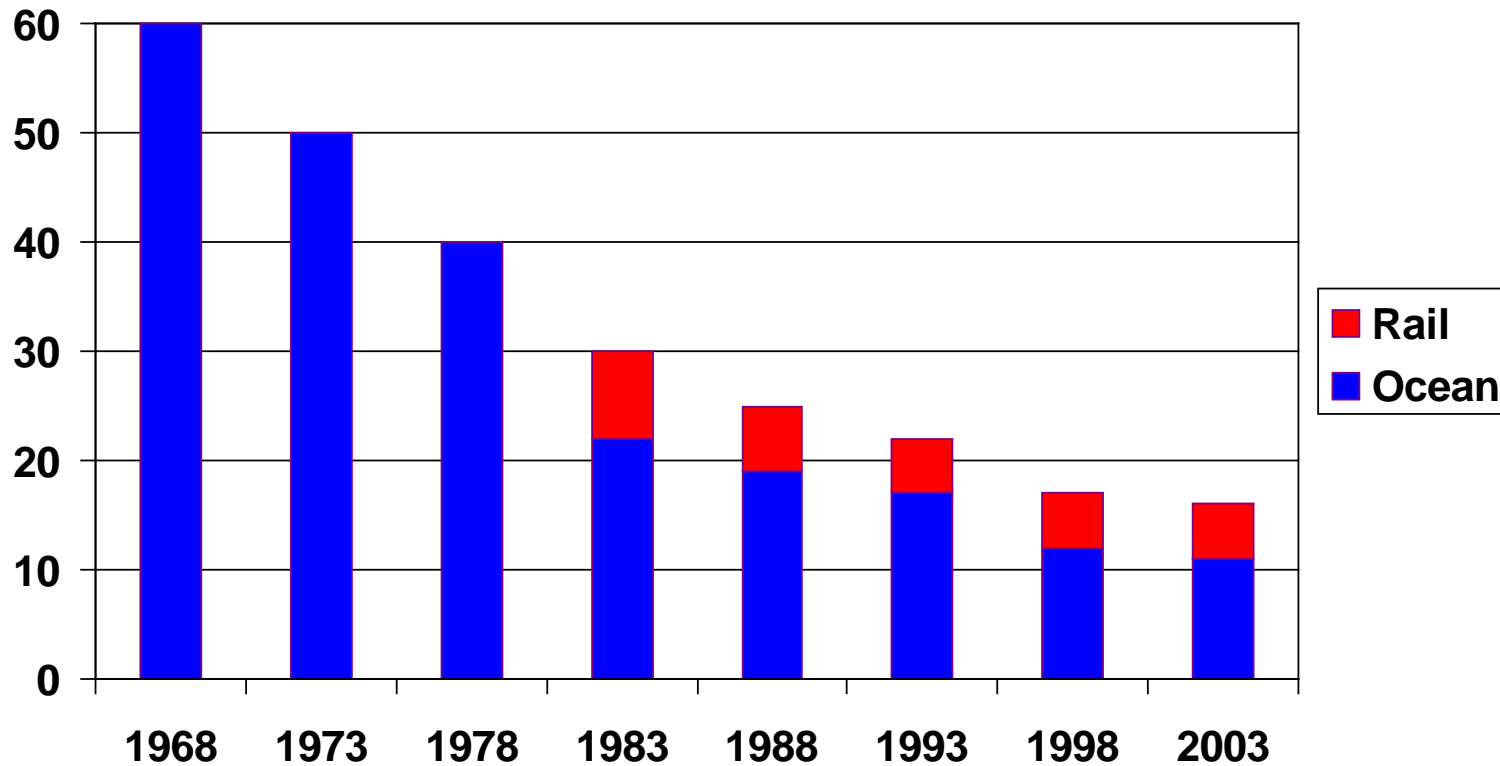


Source: CSCMP

Global Trade is an Intermodal System



Transit Days: Hong Kong to New York



1973: Containerization implemented
1978: Fewer port calls
1983: West coast intermodal/MLB

1988: Double-stack
1993: Rail service improvement
1998: Far East Express



Impact of Globalization



	1985	1995	2005
Manufacturing Site	South China	South China	South China
Load Port	Hong Kong	Hong Kong	South China
Ocean Freight Payer	Manufacturer	Footwear Company	Big Box Retailer
Manufacturer delivery	US destination	Hong Kong	South China
Retailer Possession	US Distribution center	US Distribution center	South China
Size of "Final Box"	40-ft (Marine)	45-ft (Marine)	53-ft (Domestic)
"Final Box" Decision	30-50 Days Out	20-30 Days Out	5-10 Days Out

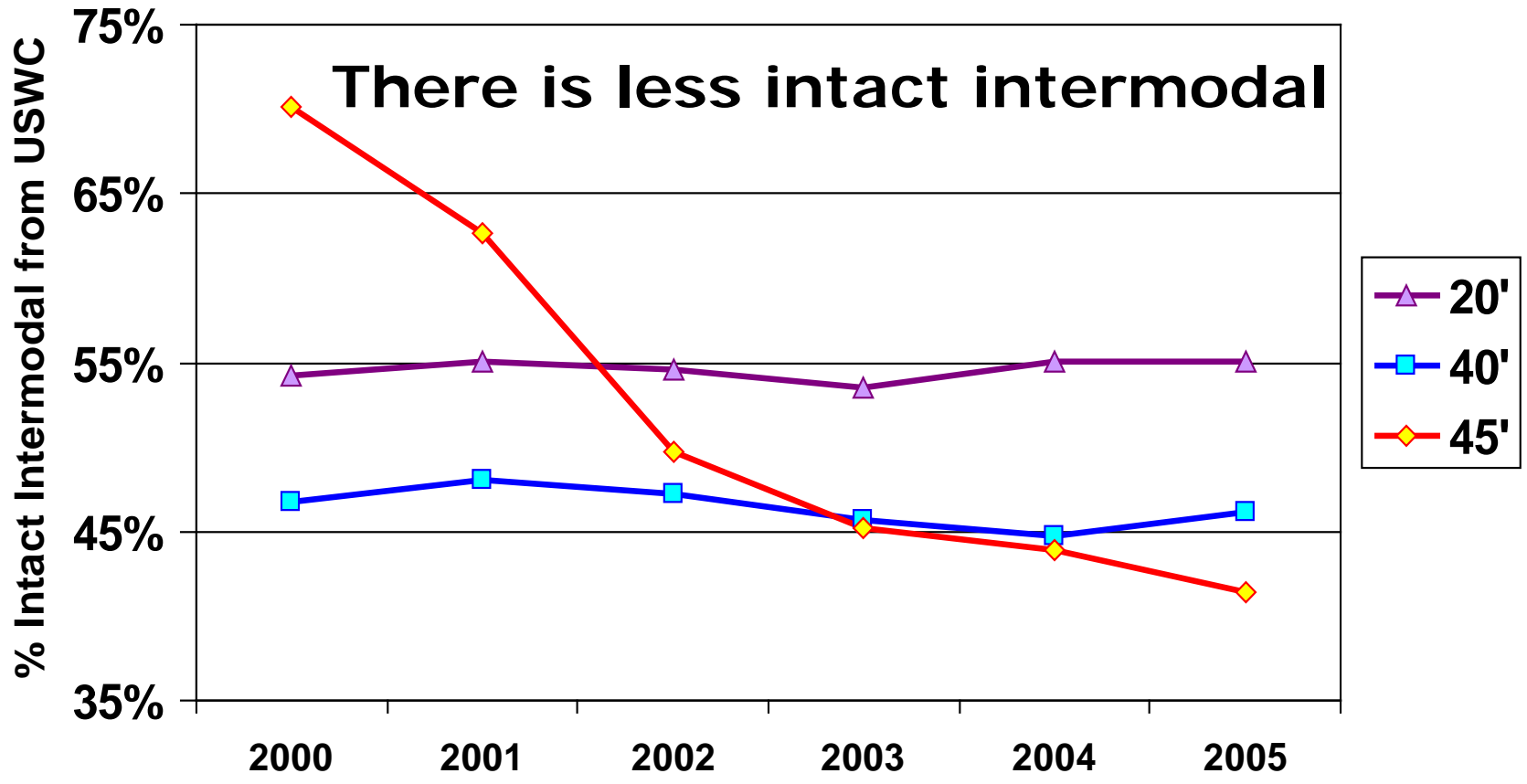


Solutions Can Increase Challenges

- Alameda Corridor as example
 - Designed for intact intermodal movement—didn't directly address access to nearby distribution hubs (1990 design vs. 2005 reality)
 - ***Economic obsolescence risk > than physical deterioration risk***
 - Removed bottleneck from port to railhead--but resulted in increased rail congestion at railhead
 - Design compromise led to more local truck traffic--both absolute and relative
 - Economic costs and benefits not assigned directly
 - Truck lanes removed from original plan

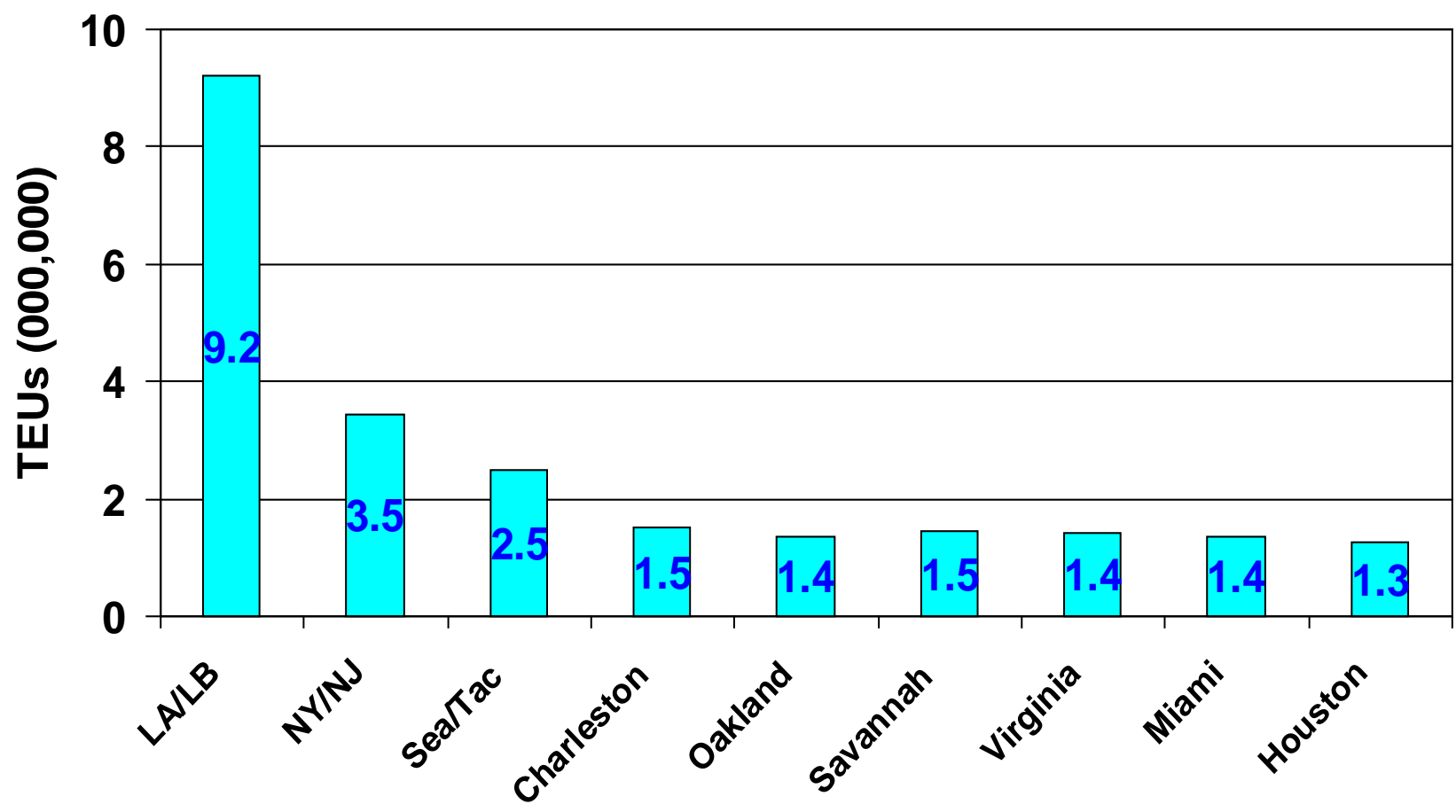


Trade Flows Are Changing

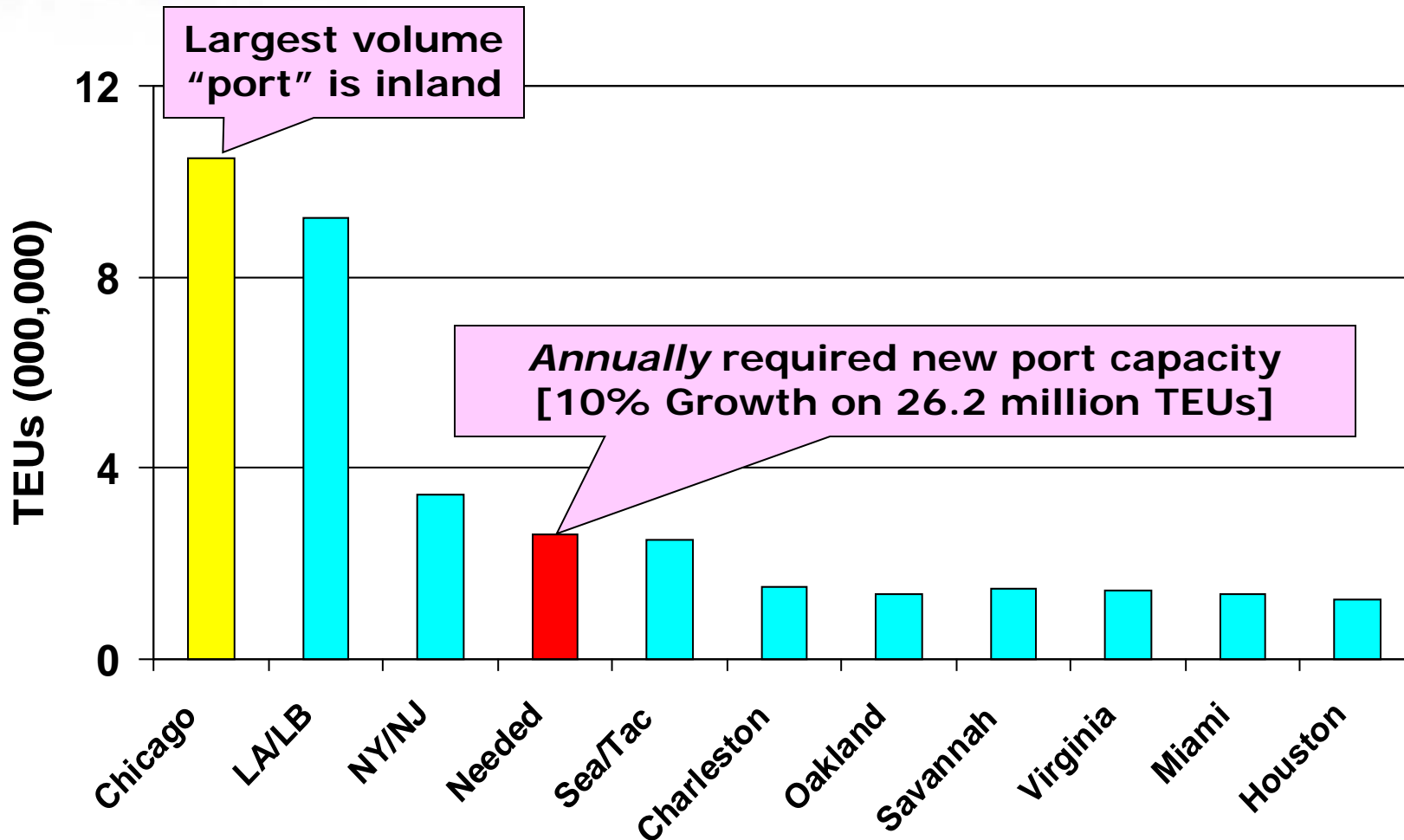


Source: PMA Web site(Discharge) and IANA (Intermodal)

2005 Container Volume The Traditional View



2005 Container Volume A Reality Check View

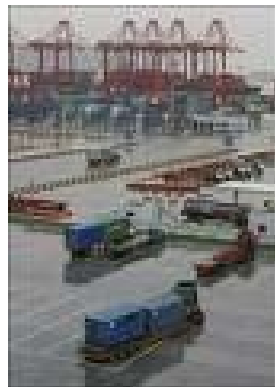




Conclusions

- Container volume is expected to more than double in the next twenty years and nearly all non-bulk cargo will be containerized.
- We must plan now to ensure that we have the people, training, technology, transportation assets, and the infrastructure to provide efficient and reliable transportation services.
- Solutions must be flexible to accommodate changes that will inevitable occur.

The Yangshan Example





Government is not Leading

gridlock

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The Lazaro Cardenas Solution





The Lázaro Cárdenas Opportunity



October 2006

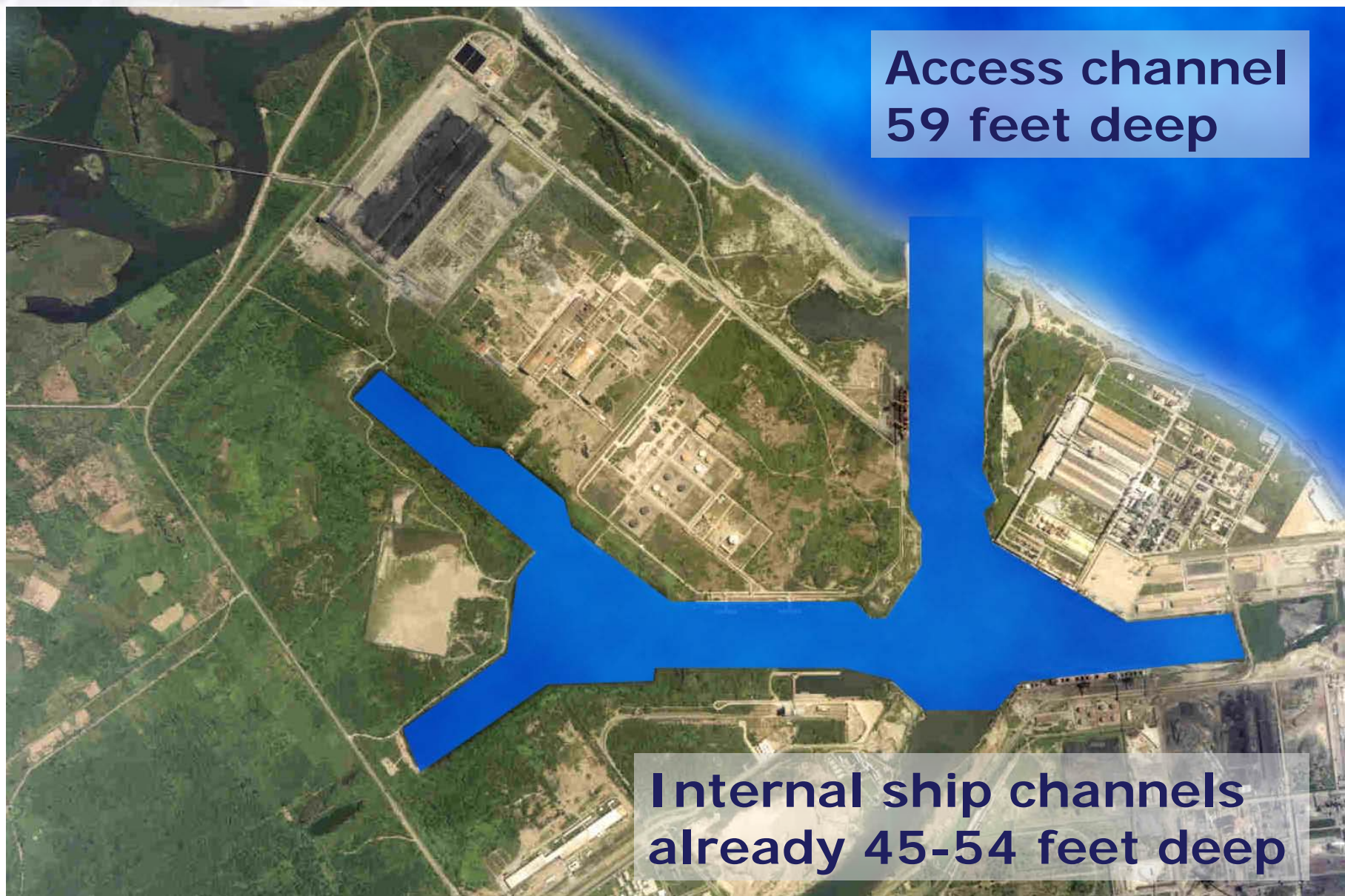


August 2007

- Ample capacity and water depth
- Robust US intermodal access
- Significant expense reduction opportunities
- Expansion plan already underway to a functioning port



Port Capacity



**Access channel
59 feet deep**

**Internal ship channels
already 45-54 feet deep**



Port Expansion Plans





Lazaro's Role

- The Port of Lazaro Cardenas
 - Is NOT a substitute for the US West Coast
 - Is a substitute for Gulf vessel calls
 - Offers additional capacity that can complement total service scope
 - Offers a way to hedge risk factors that may impact service
 - Is already an active container port
 - HPH expansion ready for 2007 peak season



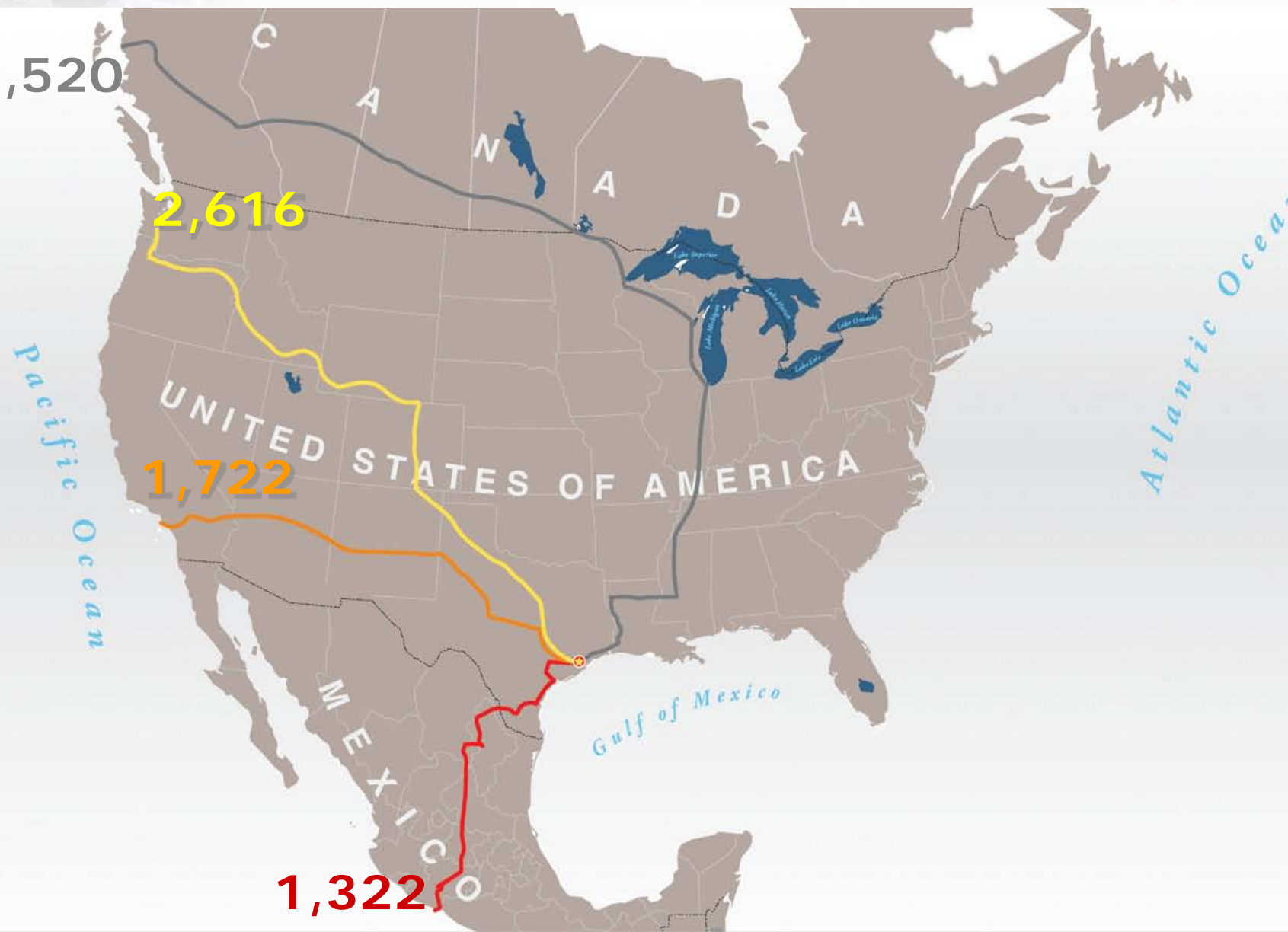
Houston Routes

3,520

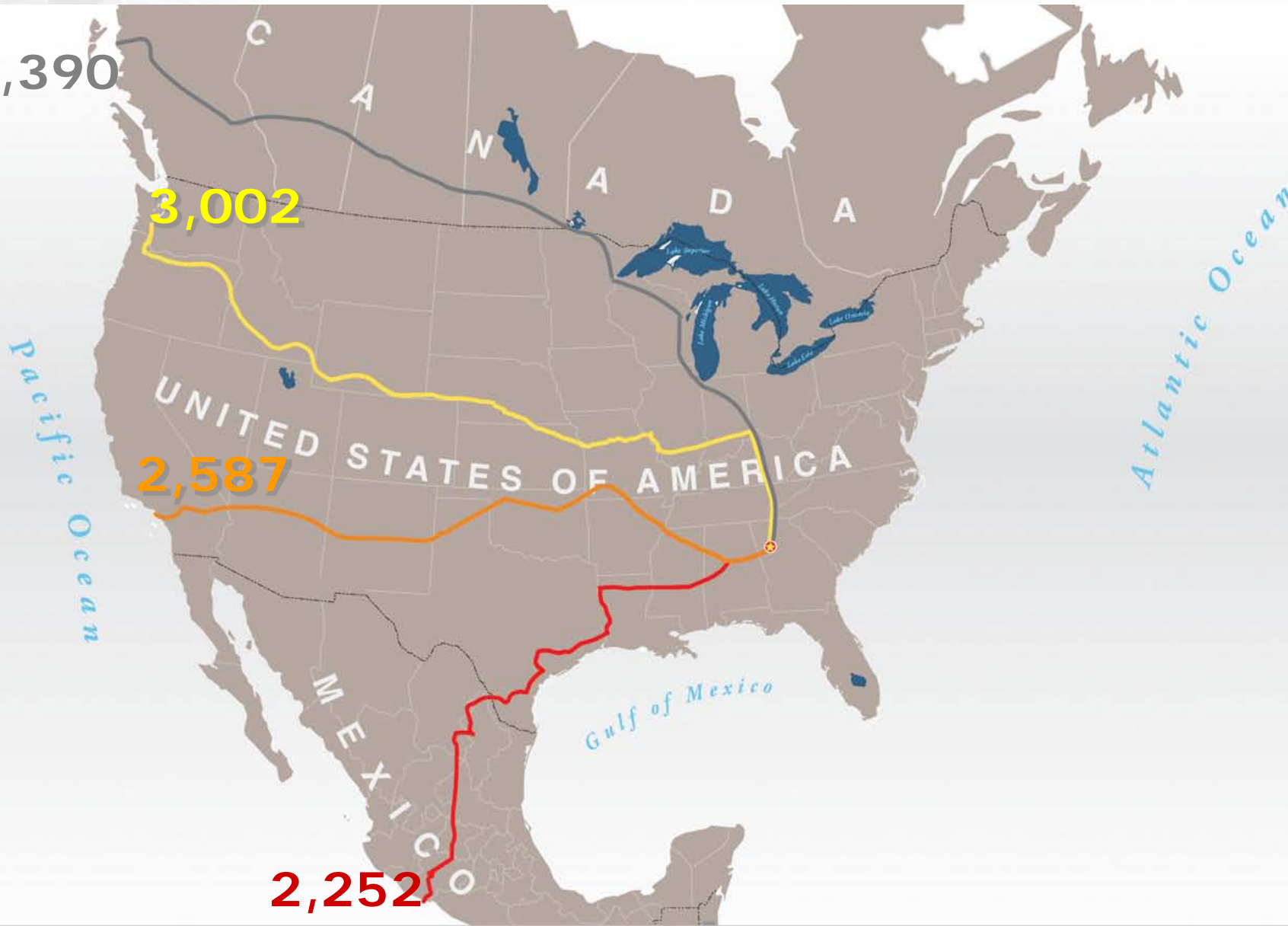
2,616

1,722

1,322



Atlanta Routes





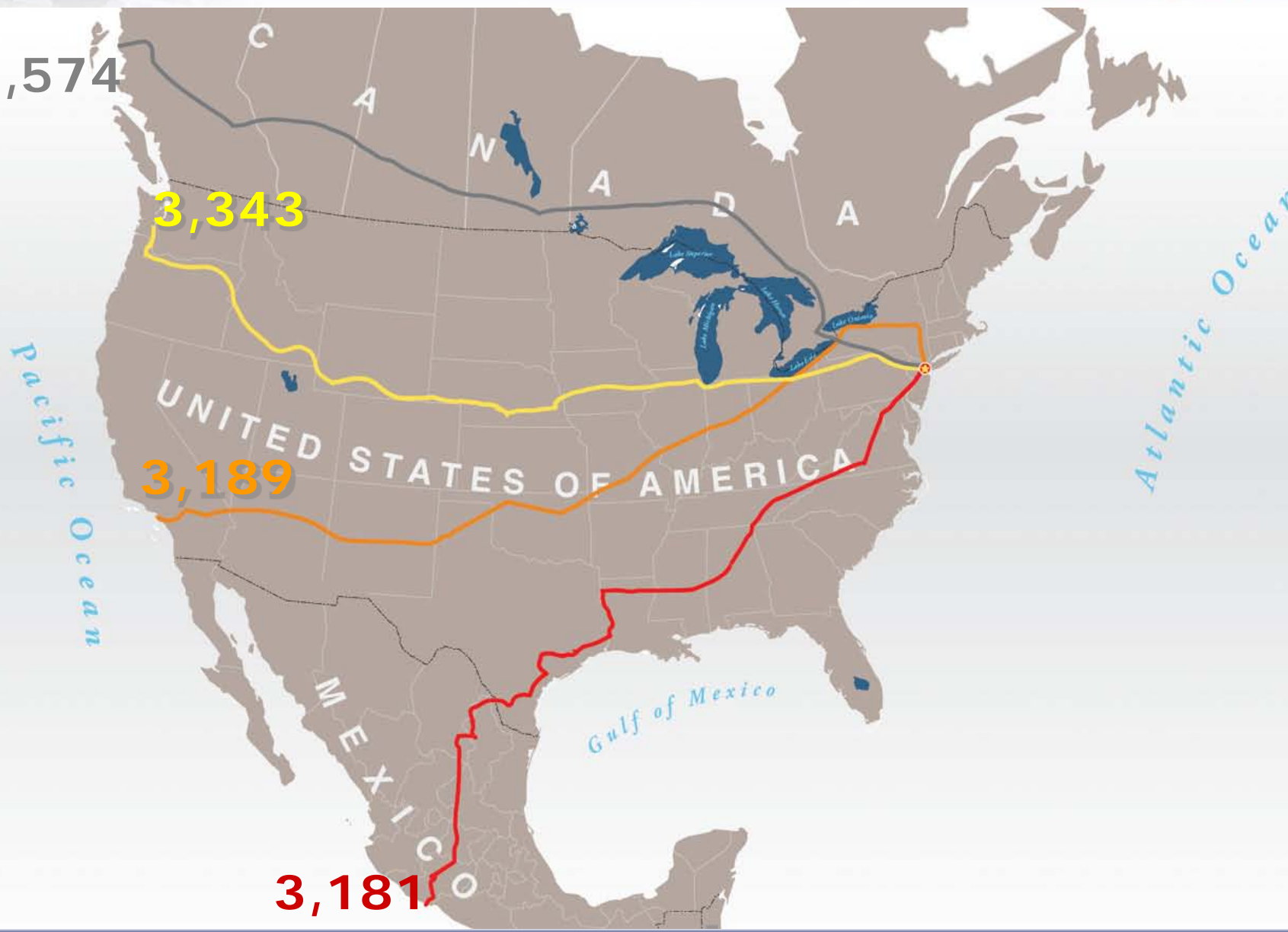
New York Routes

3,574

3,343

3,189

3,181





Thank You