West Coast Ports

When Will Conditions Improve?

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ISSUES

- Port volumes and projections
- Big ships
- A need for improved port productivity
- ILWU contract negotiations and slowdowns
- The new chassis regime

PORT VOLUMES & PROJECTIONS

- 2014 could have been a better year
- U.S. economy expanding
- Unemployment rate dropped steadily
- Consumers resumed normal spending habits
- Sales of furniture, autos, apparel, shoes up
- Los Angeles and Long Beach cargo volumes strong in first half of year

PORT VOLUMES & PROJECTIONS (CONT'D)

- Ports got a bump in spring; retailers shipped early before July 1 ILWU contract expired
- After July 1, though, diversions to East Coast and Canada
- PMA numbers Jan.-Nov. West Coast volume up only 1 percent
- PIERS numbers: East Coast volumes up 3.7%

PORT VOLUMES & PROJECTIONS (CONT'D)

- Prince Rupert imports up 15.2%
- Vancouver imports up 4.9%
- This continued a long-term trend of eroding market share for West Coast ports
- West Coast share of U.S. container trade not very long ago was more than 50%
- Now down to 47.6%

PORT VOLUMES & PROJECTIONS (CONT'D)

- Yet POLA-POLB share of West Coast market has been increasing
- Q1 2012 – 58.6%
- Q1 2013 – 59.6%
- Q1 2014 – 61.4%
- Why? Big ships!

BIG SHIPS AND THEIR IMPACTS

- CARRIERS ARE RAPIDLY EXPANDING THEIR FLEETS

Cellular ships deliveries by year: 2014, 2015, 2016, 2017
based on order books as of 01 March 2014

	2014 Deliveries		2015 Deliveries		2016 Deliveries		2017 Deliveries	
TEU nominal	Ships	TEU	Ships	TEU	Ships	TEU	Ships	TEU
13,300–19,000	30	468,254	53	855,449	19	270,000		
10,000–13,300	27	301,711	16	171,708	9	94,000		
7,500–9,999	48	437,883	60	541,458	23	212,320	2	18,800
5,100–7,499	22	132,220	11					
4,000–5,099	23	109,997	3	13,200	1	4,957		
3,000–3,999	21	77,141	12	45,500	1	3,100		
2,000–2,999	14	33,025	29	67,977	10	24,378	2	4,800
1,500–1,999	23	40,543	13	22,88	14	24,536		
1,000–1,499	13	13,991	14	16,087				
500–999	6	4,782	1	606	2	1,642		
100–499								
TOTAL	**227**	**1,619,547**	**212**	**1,803,993**	**79**	**634,933**	**4**	**23,600**
Exp. Slippage	**-30**	**-170,000**	**15**	**80,000**	**10**	**90,000**		
TOTAL after Slippage	**197**	**1,449,547**	**227**	**1,883,993**	**89**	**724,933**		

Note: The addition of the capacity by range at 1st Jan 2014 and the capacity planned for delivery during the year 2014 leads to a figure which is higher than the capacity stated as of 31 Dec 2013. The difference comes from the capacity removed from the fleet (scrappings and losses) since 1st Jan 2014, or committed for scrap at that date (i.e. 40 ships for 126,795 TEU).

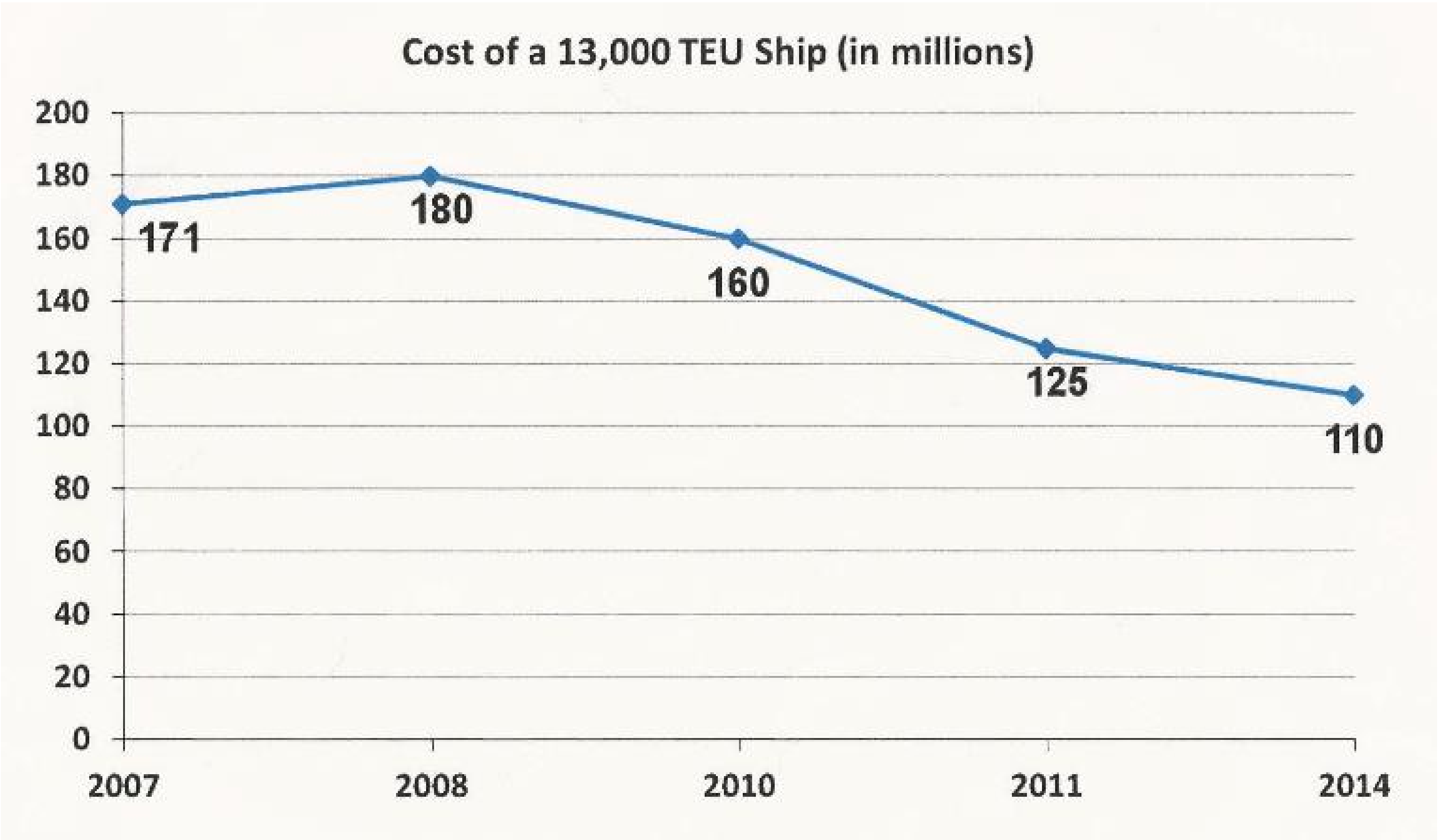
Source: Alphaliner

BIG SHIPS

- Carriers are ordering big ships – lots of them
- From 2014 through 2016, delivery of 285 ships with capacities greater than 7,500 TEUs
- Big ships favor Los Angeles-Long Beach
- Large local market
- 1.5 billion square feet of industrial real estate
- More than 100 train arrivals/departures daily

BIG SHIPS AND THEIR IMPACTS

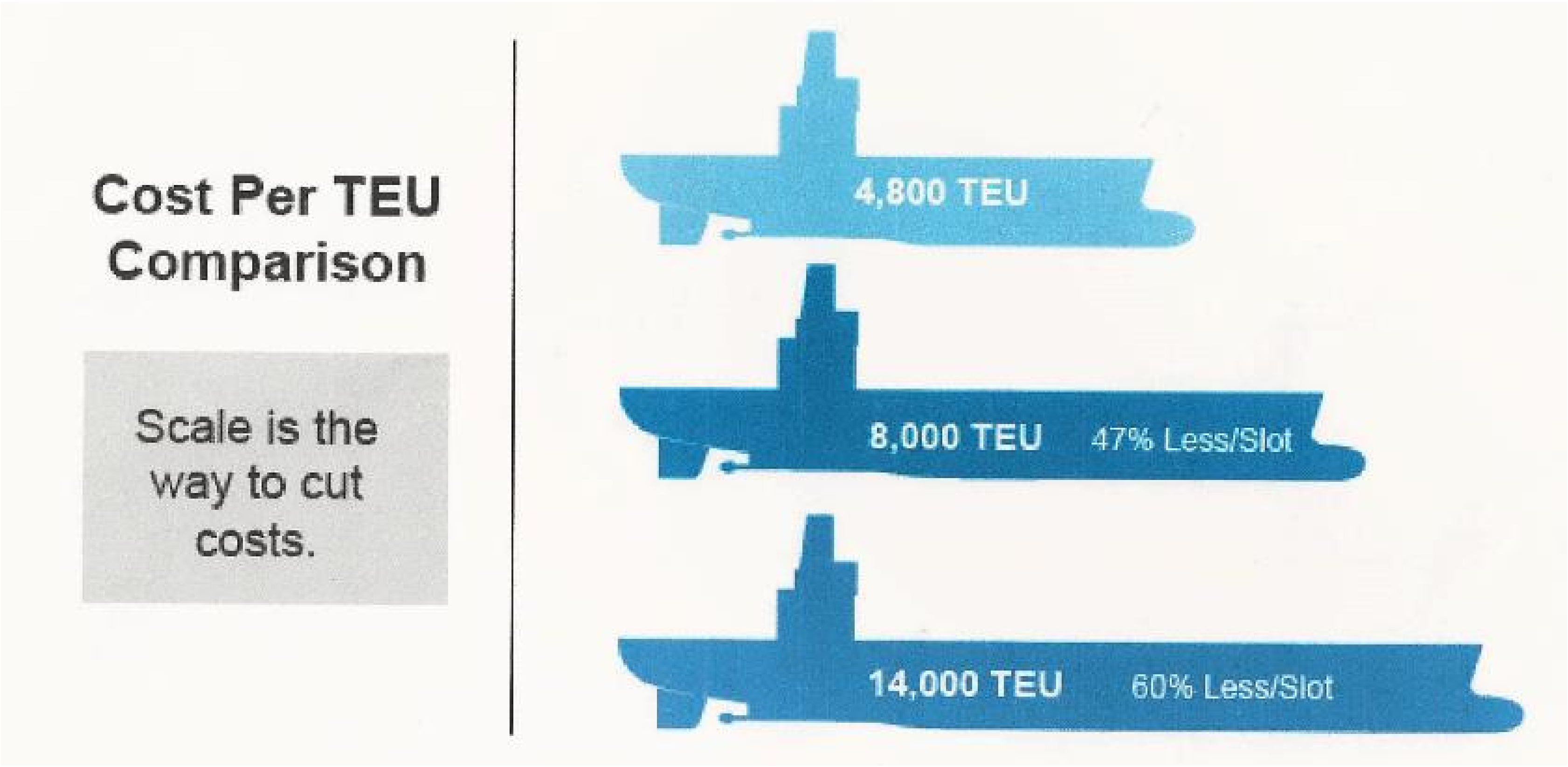
- ECONOMICS OF BIG SHIPS ARE COMPELLING



BIG SHIPS (CONT'D)

- Why are carriers ordering so many big ships?
- "To cut costs, pure and simple." – Lars Jensen
- Big ships' per-unit operating costs 47-60% lower than Panamax ship (4,500 TEUs)
- Carriers' rates have actually declined each year past four years
- Only way they can stay afloat is by cutting costs

COST PER TEU COMPARISON



IMPACT OF BIG SHIPS ON PORTS

- Big ships are great for the carriers, but terrible for ports and marine terminals
- Require costly dredging and infrastructure
- Stronger wharves to support super post-Panamax cranes
- Larger, more efficient, automated terminals for denser operations and cargo surges

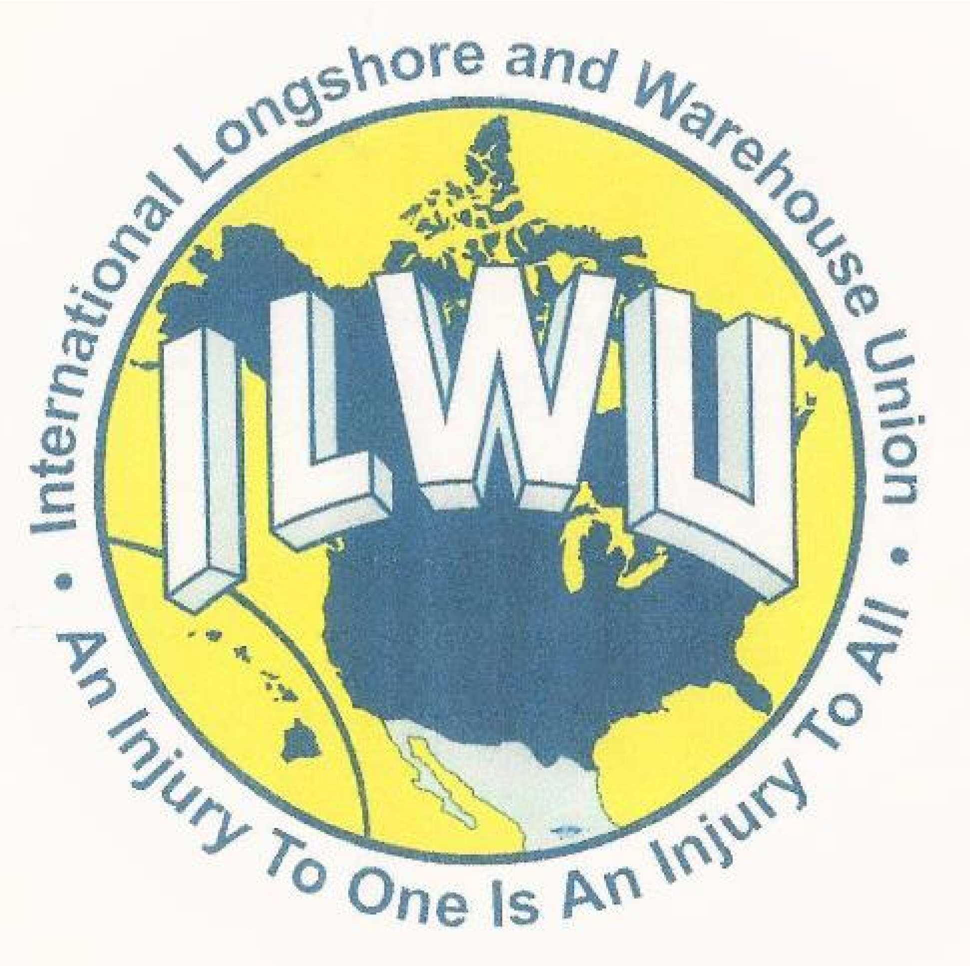
IMPACT OF BIG SHIPS ON PORTS (CONT'D)

- In Los Angeles-Long Beach, big ships discharge and reload 5,000 to 10,000 containers per vessel call
- Terminals automating to stack containers wider and higher
- Big ships operated increasingly by powerful alliances
- Alliances squeeze ports, MTOs on rates

IMPACT OF BIG SHIPS ON PORTS (CONT'D)

- POLA-POLB became increasingly congested this year
- Big ships generating up to 10,000 moves
- Bad winter in East disrupted rail service
- Containers backed up on docks
- Long delays for truckers
- Chassis shortages and dislocations

ILWU-PMA CONTRACT NEGOTIATIONS



ILWU CONTRACT NEGOTIATIONS

- Knock-out punch delivered by ILWU during the on-going contract negotiations
- ILWU working without contract since July 1
- No contract = no grievance machinery
- Employers powerless to stop work slowdowns
- Slowdowns began Oct. 31 in PNW and spread immediately to POLA, POLB and Oakland

ILWU NEGOTIATIONS & JOB ACTIONS

- Crane productivity in PNW dropped from about 28 moves per hour to about 18
- Similar drop in Oakland
- In SoCal, ILWU shorted terminals skilled yard labor to operate transtainers
- Dispatch went from 110 per day to 35
- MTOs now operating at 90% of capacity and that equals gridlock

ILWU NEGOTIATIONS & JOB ACTIONS (CONT'D)

- West Coast pots' reputation harmed irreparably
- Some shippers who diverted cargo will never come back
- Negotiations finally under auspices of FMCS
- West Coast needs a new labor contract now!

NEED FOR IMPROVED PRODUCTIVITY

- U.S. port productivity already lower than ports in Europe and especially Asia
- Latest JOC vessel productivity numbers show the top port in the Americas is now Balboa
- Only half of top 10 ports in Americas are U.S.
- POLA number two; POLB not even in top 10
- And that was for first half of 2014 before the real trouble began in October

NEED FOR IMPROVED PRODUCTIVITY (CONT'D)

- POLA-POLB struggling to handle ships up to 14,000-TEU capacity
- Larry Nye, Moffatt & Nichol, predicts 18,000-TEU ships will be here by 2020
- Why? 18,000-TEU ship compared to 14,000-TEU ship save $62 per loaded TEU on fuel alone

NEW CHASSIS REGIME

- After 50 years of providing chassis to their U.S. customers, lines now out of chassis business
- Why? Chassis purchase, M&R cost each line literally hundreds of millions of dollars a year
- Carriers' exit fro chassis business in SoCal not well planned
- Severe chassis shortages and dislocations

NEW CHASSIS REGIME (CONT'D)

- Truckers forced to make split moves
- Questions about labor union M&R jurisdiction
- Chassis an important issue in the ILWU contract negotiations
- Ports working with four largest chassis-leasing companies and other stakeholders
- Roll-out of gray chassis pool scheduled to begin on Feb. 1

CONCLUSION

- Dynamics of trans-Pacific trade still favor POLA-POLB
- Much work remains to be done, though, to rebuild trust in the ports
- Current labor-relations model on West Coast is horribly broken and must be fixed
- Ultimately, automation will be a costly but necessary solution

THANK YOU!

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