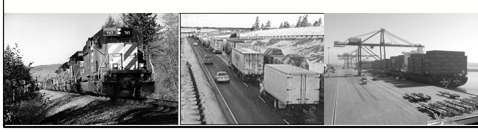
Maritime Trade: What next…

Jon Hemingway, SSA Marine
Bell Harbor Conference Center
November 12, 2003

NW Maritime Trade Summit
Commit to Compete



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Thank you for the opportunity to be here today.

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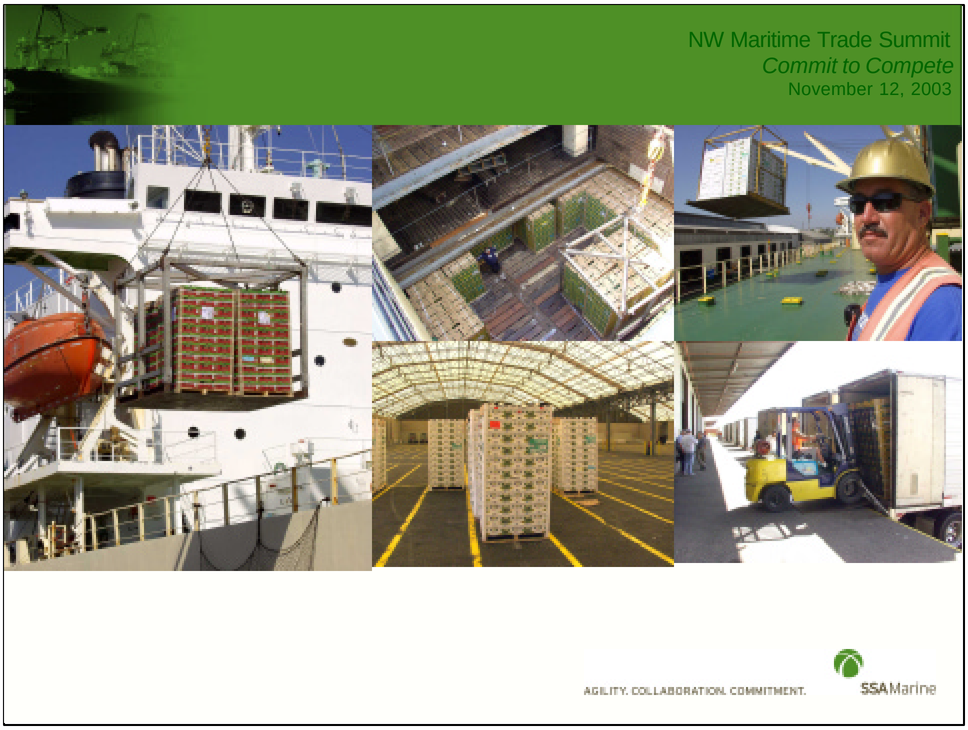
Agenda

- Setting the scene….
- Our perspective from maritime and rail ports

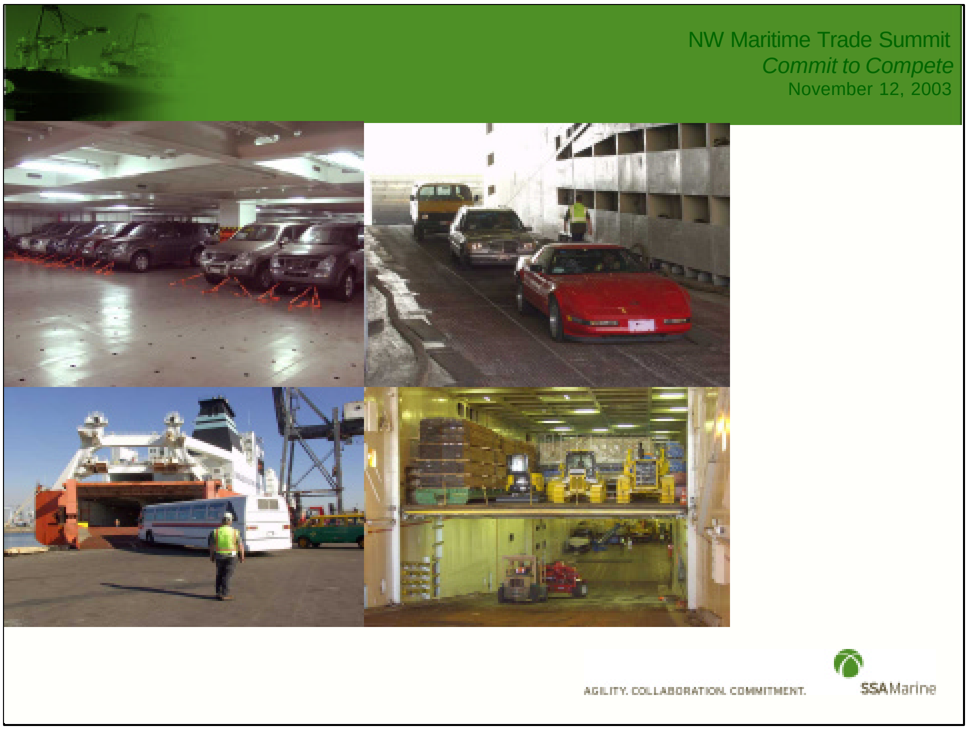
I've been asked to help set the scene for this conference and will do my best from our perspective as a port operator.

SSA Marine is a local, family owned company. Our headquarters is based here and this is where we grew up in the business.

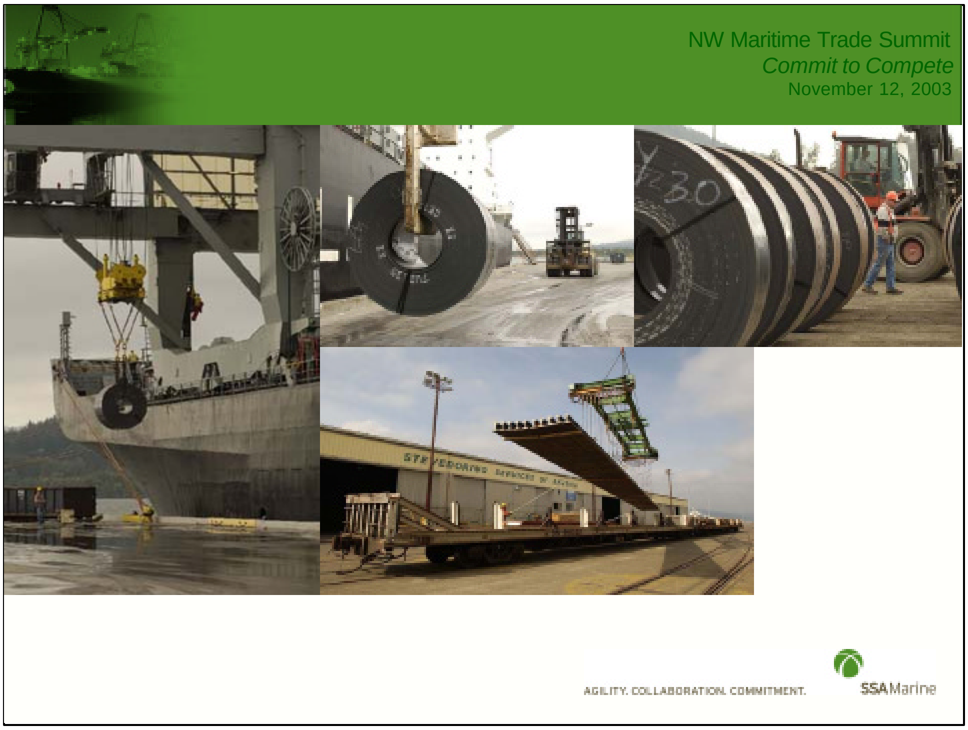
Our roots are in handling forest products for export, initially logs and lumber, and graduating to more value added commodities. The lessons learned working with fine NW companies like Weyerhaeuser have allowed us to successfully compete throughout the United States and, as far away as, New Zealand.



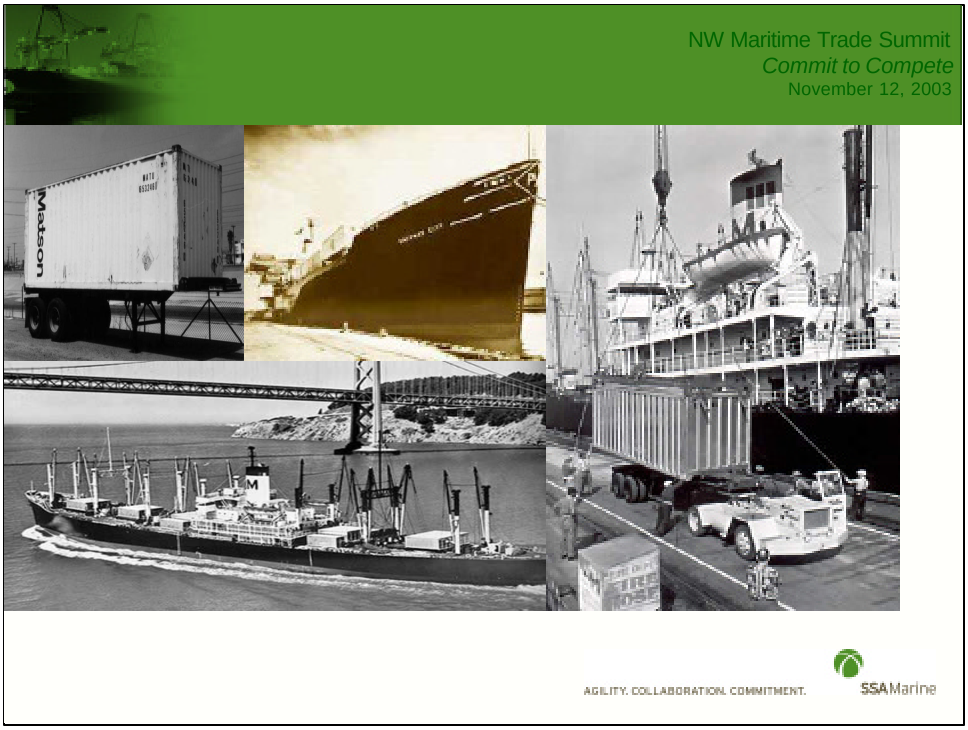
In handling Washington apple exports, we also got involved in imported fruit.



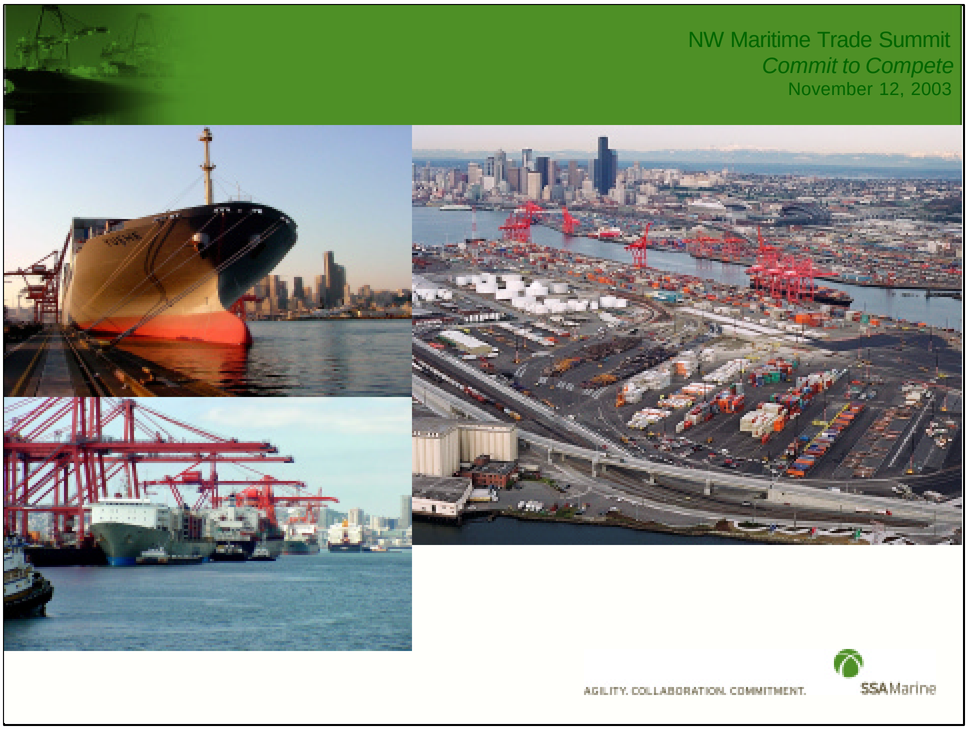
We also got our first taste of RoRo operations here in the automobile business, working on the TOTE vessels to Alaska and then extending to all manner of RoRo vessels.



We also handle a fair amount of steel. There may be more in the near future with the recent WTO ruling.

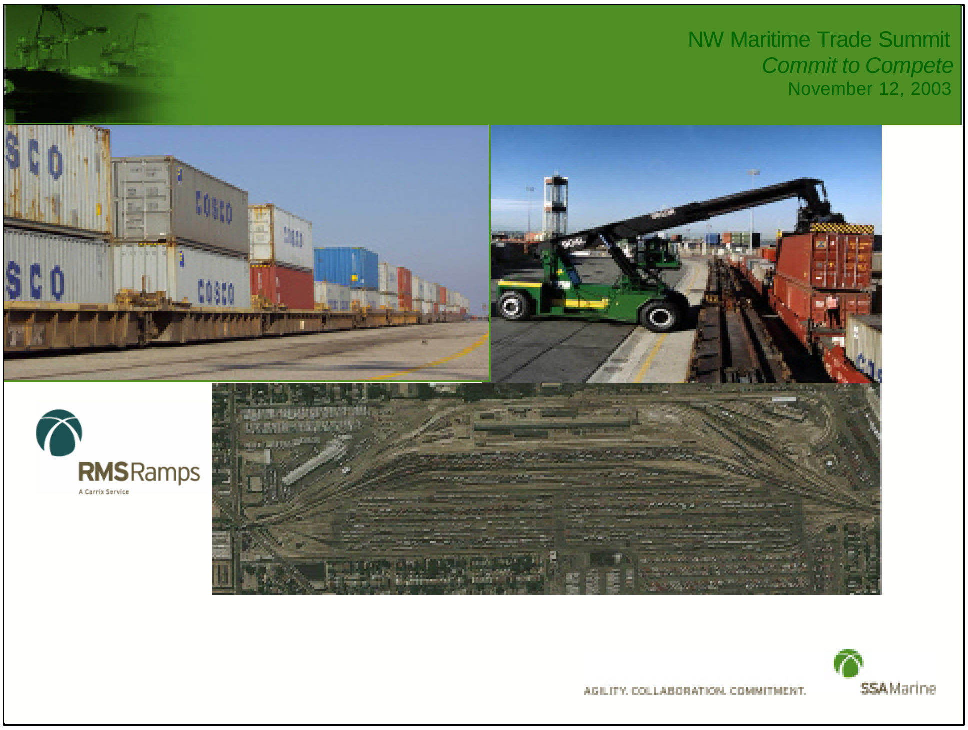


About the time I was born, and we were still in our first generation of ownership, someone got the bright idea to put cargo in containers. Sealand in the East and Matson in the West began pioneering the container trade that changed the world.

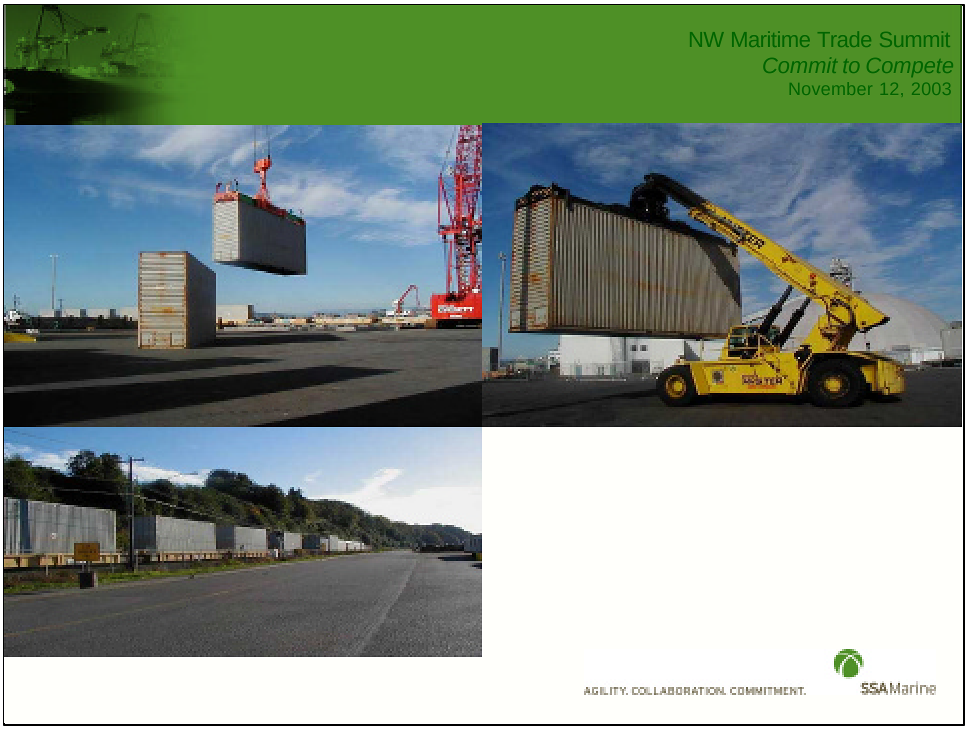


It only took us about 20 years, but we finally got into the container trade starting in Seattle at Terminal 18 with Hapag-Lloyd who is still a customer today.

The lessons we learned in Seattle and Tacoma terminals allowed us to grow in the container business and expand into California in the early 1980s. Today, we are fortunate to operate several terminals in California both container, as pictured here in Oakland and Long Beach, but also several conventional cargo terminals as well.



In 1985, when Tacoma opened its south intermodal yard, we had an opportunity to participate in our first rail operation. Through steady growth, our RMS joint venture now includes over 40 rail ramps which handle as much intermodal cargo as the Ports of Long Beach and Los Angeles combined.



The rail and container experience has allowed us to assist Boeing in the handling of aircraft parts for Paine Field through the Port of Everett.

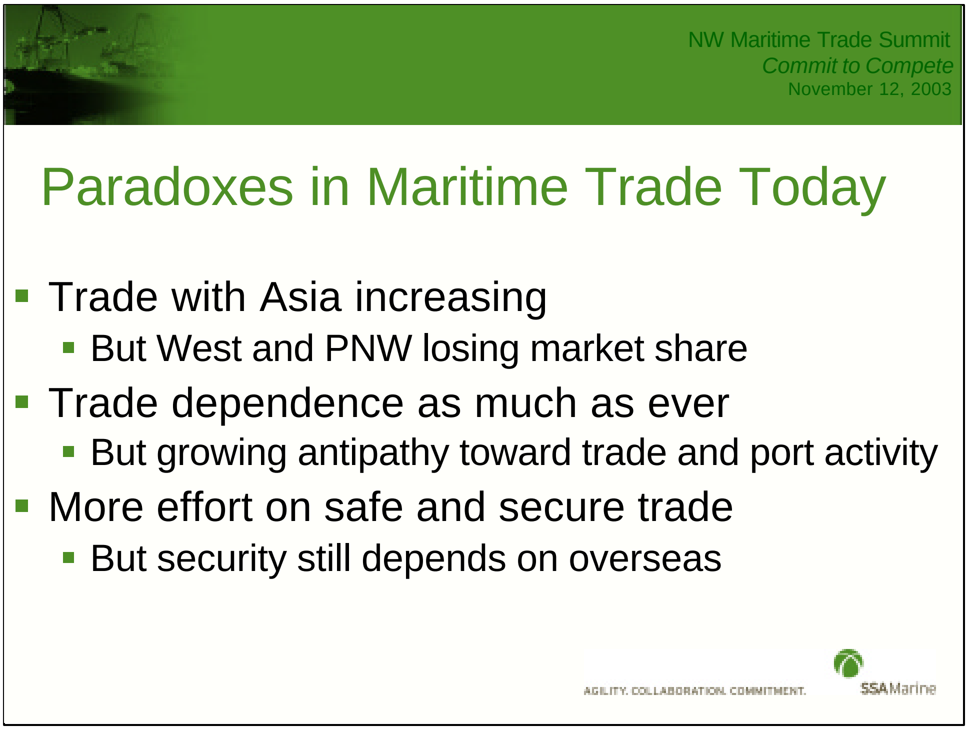
In the late 80s and early 90s, we began operations on the East and Gulf Coasts, as well as on several inland river systems. Today, we are the largest employer of ILA and ILWU labor and the largest tenant and manager of port facilities in the US.

In the mid 90s, we began to privatize and build a number of ports internationally. In doing so, a number of Northwest companies both large and small helped in the effort: Washington Lift Truck, Berger/Abam engineers and the Port of Seattle who sold us some surplus cranes as we started operations in Panama.

As the size of these operations increased, so did the demand for information systems to manage them. Today our information technology company, Tideworks Technology, supplies software and systems integration to over 30 marine terminals, about half of which we do not operate ourselves.

When the cruise business finally made it to Seattle, we were able to apply the lessons learned elsewhere back home. We bring a unique mix of local and international perspective in viewing the maritime scene today.

We have been very fortunate to see our employees grow the business into more than 150 operations worldwide, but we also feel lucky to still call Washington home.



What struck me in preparing for this talk are three things that puzzle me about trade today.

In the Northwest we consider ourselves the gateway to the Pacific Rim. However, it seems that lately the booming Asian trade has resulted in more growth in other corridors.

As the most trade dependent state, it also surprises me how much antipathy there is toward transport and trade with some disturbing developments in California

And finally, you cannot discuss trade today without addressing security. And I'll do that briefly.

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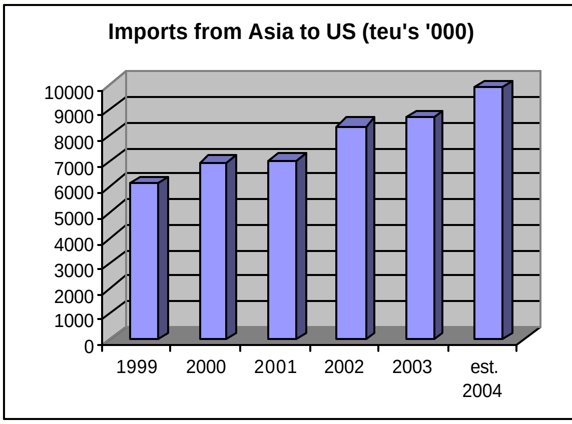
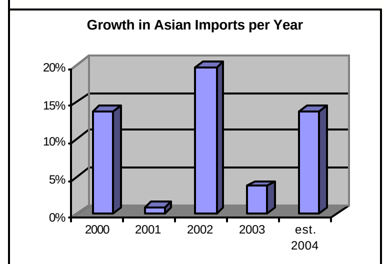
Surging Asia Imports
Good for PNW Port Industry?





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Clearly, Asian imports have been booming. And China's annual growth is actually about 6% above this average growth. So they have been taking more than their share of this growth from Japan and Korea.

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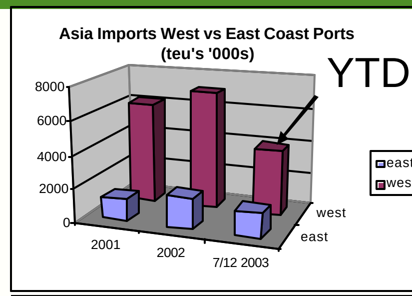
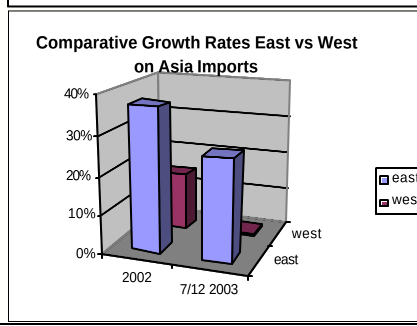
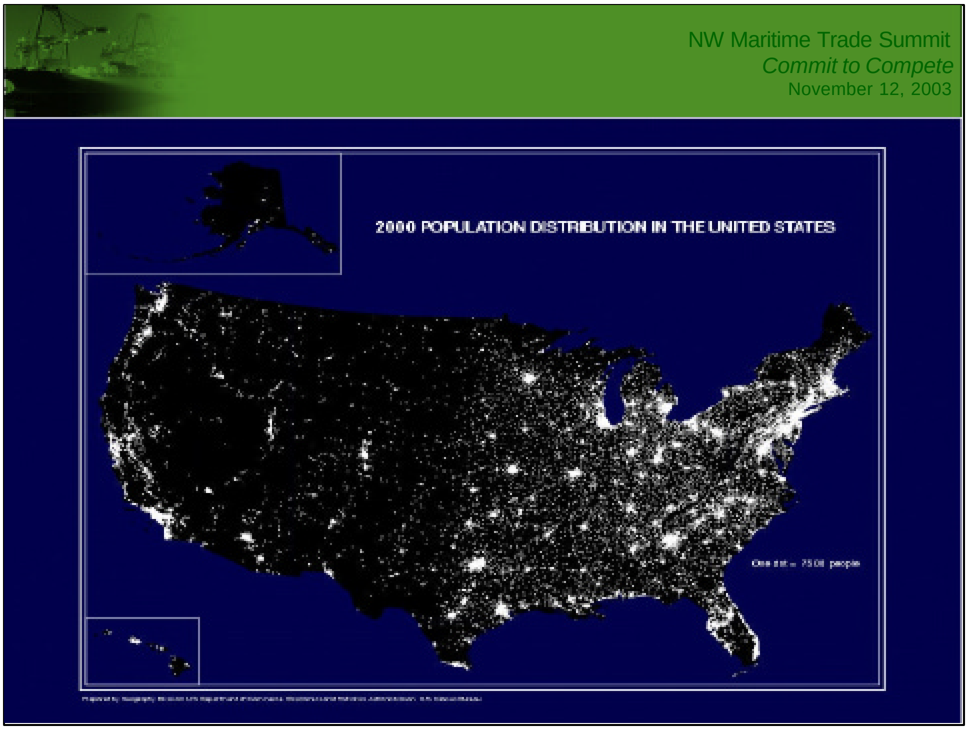
West Coast handles the lion's share but more growth to East Coast…



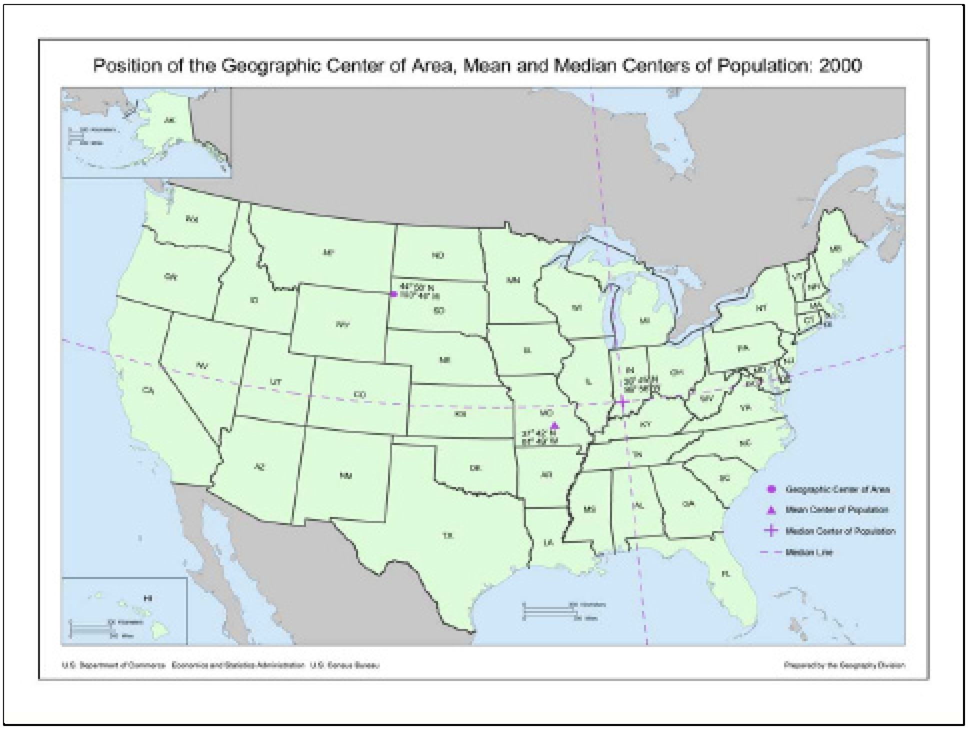
70% of PNW international traffic is discretionary in that it can move by other channels



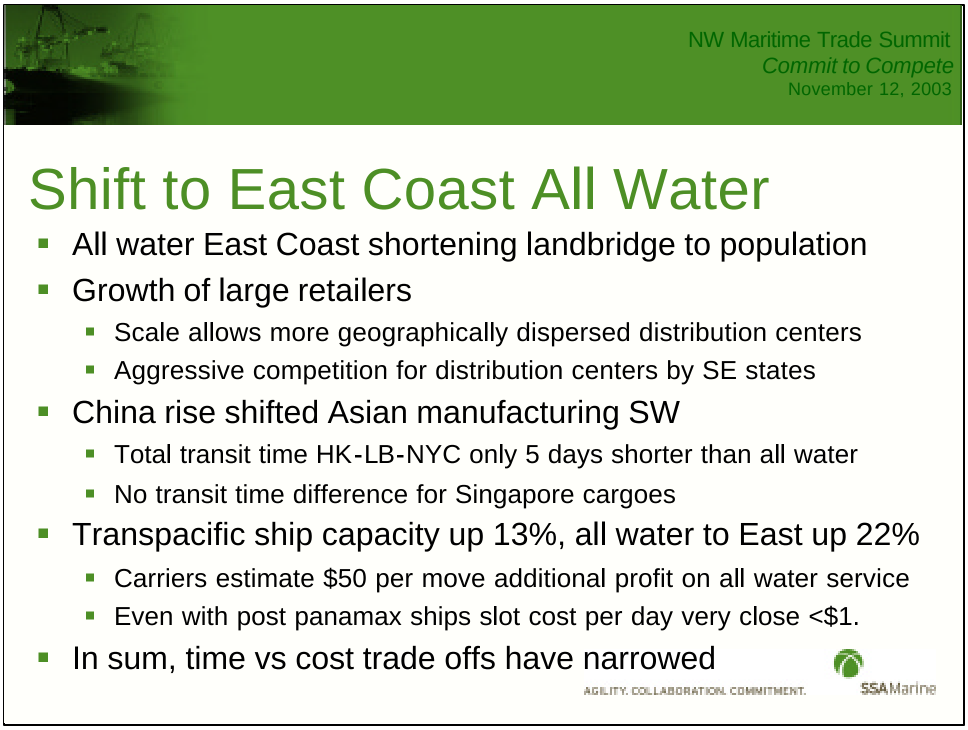
For years, with the innovation of double-stack trains providing what is known as the land bridge to the US Midwest, we considered the Asian trade to be the province of the western US ports and rails. However, recently there has been a resurgence of all water service from Asia through Suez or Panama. What is particularly surprising is that 2003 YTD East Coast ports are handling over 27% more Asian cargo while West Coast ports are relatively flat.



Being a native Seattleite, I forget that 70% of the US population is still east of the Mississippi.



And that Chicago remains the distribution hub, as it is only a few miles from the median center point of our nation’s population.



So what is going on? Ordinarily, the decision to ship via a West Coast port, or all water to the east, was a tradeoff of shorter transit time via West Coast ports versus lower cost of all water service. It seems that this equation is changing somewhat.

With retailers like Wal-Mart and Target getting larger, their scale allows them to operate more distribution centers throughout the US. Much of this new development has taken place in the SE.

It also seems that with China's accession to WTO the locus of manufacturing has shifted markedly SW. This means that the difference in transit time is much less. Singapore cargoes can go to Chicago or NYC, either direction, in roughly the same time.

In effect, importers and carriers are shortening the inland leg of the journey. And carriers are now adding capacity in favor of the all water East Coast service as the economics for the ocean carrier seem to favor all water when there is not a strong shipper preference.

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Advantages of SoCal Ports

- Population base begets:
  - larger vessels/express service to SoCal
  - More frequency of ocean and rail service
  - More local distribution centers
  - Transload activity too

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Until this year, Southern California has also taken more than its share of growth in the Asian trade but due to factors in place for a long time. Its huge population base creates frequency of service and large ships with economies of scale that are attractive to shippers and carriers.

It also provides for transloading activity in the southland where a huge amount of international cargo is taken out of containers and reloaded in trailers to go out by truck and as trailers on flat cars.

This map shows the flow of international cargo coming out of LA and traveling by truck trailer, not containers, to the rest of the US, the width of the lines denoting volume. The widest corridors shown exceed 500,000 moves. While the map is a bit dated, it shows the amazing amount of international traffic that travels by long haul truck.

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Advantages of SoCal Ports

- Volume discounts & west bound domestic moves make east bound moves about $150 move cheaper
  - Offset by higher port cost approximately $50 per move
  - Alameda corridor costs $22teu/$10 TOFC
  - Higher drayage $10-20 per move

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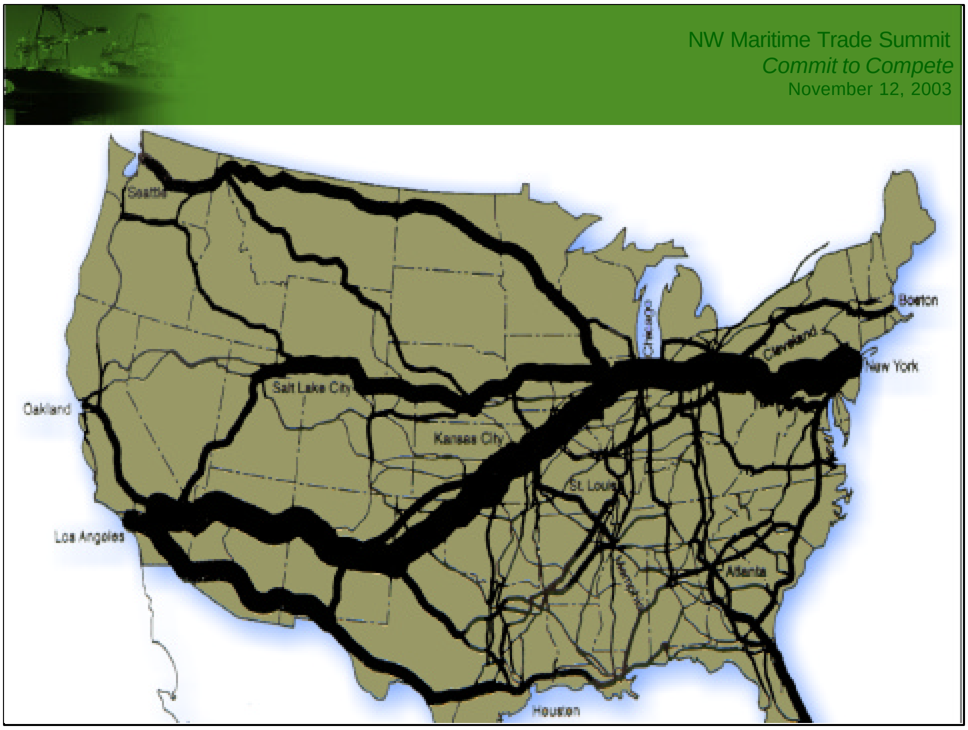
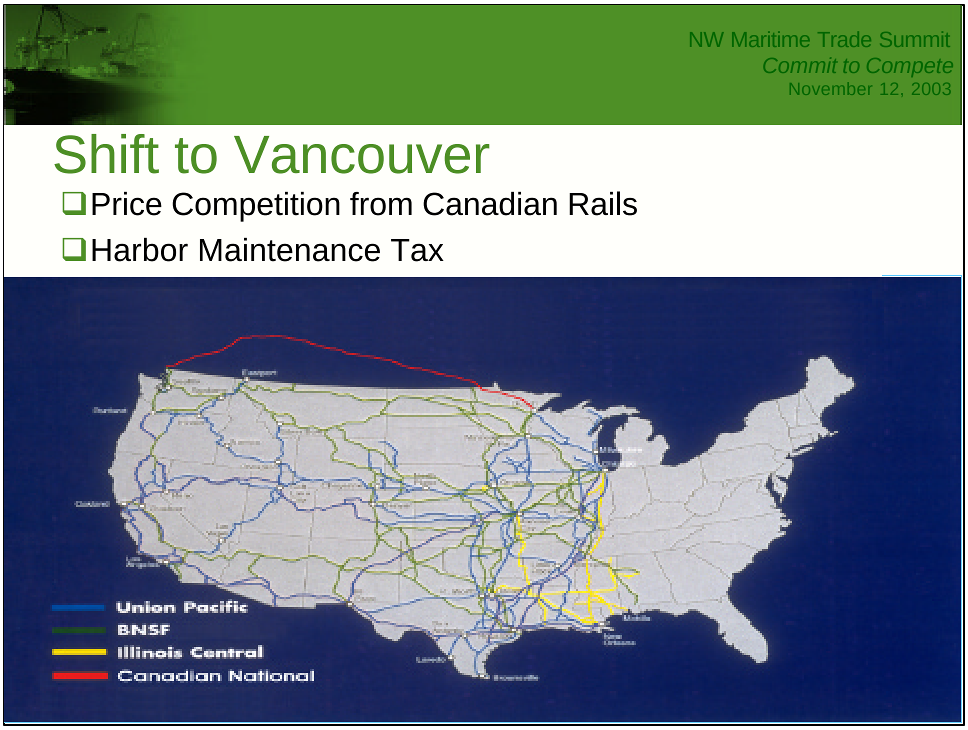
Southern California ports also enjoy favorable rail rates to the hinterland—while LA is quite a bit further than Seattle and Tacoma from Chicago, its rail rates are currently best guessed at about $150 cheaper per FEU. This is because containers and trailers finding their way to Chicago can be used in sending domestic cargo back to the LA market.



This map, also a couple of years old, depicts the relative size of Intermodal movements on the rails. However, this difference in total cost on land bridge business favoring LA over the northwest seems to be narrowing in our favor.



Vancouver has also taken a fair share of this growth. As the Canadian rails got improved access to the US market through NAFTA, the purchase of the Illinois Central Gulf and expansion and improvement of Canadian terminal operations, they were able to quote quite aggressively on US Midwest destinations.

Of course this channel also has the advantage of no harbor maintenance tax on imports which puts us at a significant disadvantage in the US.

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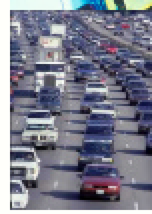
Antipathy toward cargo



- Scarce freeway capacity
  - NIMBY for new roadway
  - More dollars to environmental assessment/mitigation
  - Resistance to taxes for infrastructure
  - 20 years; vehicles up 72%; road miles up 1%
- Containerization is remote by nature
- Internationalization of business
- California situation
  - Looming budget crisis
  - Term limits in legislature—unilateral quick fixes
  - Push for gate operations at night
  - Taxing daytime use
  - No growth mentality: "if you don't like it take your cargo elsewhere"

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The next puzzle is the growing antipathy toward cargo on our freeways. It's harder to tell whether citizens enjoy sharing the road with trucks less than they like paying the taxes to build more roads. Over the last 20 years, vehicle counts are up over 70% while road mileage has barely increased.

Part of the problem is the nature of containerization itself. It took the people out of the port and, in doing so, detached the community from its operation. Compounding this is the internationalization of the business. Local agents are a thing of the past and of the seven container terminals in the Seattle Tacoma area only one is leased by an American-owned company.

The problem is particularly acute in southern California where the political rhetoric has turned against the Intermodal industry. With the budget crisis limiting options and term limits limiting understanding, various legislators are proposing a slew of bills that have no chance of accomplishing anything except increasing cost and driving business away, which may in fact be their aim. One popular proposal is to require container terminals to operate at night even though the distribution centers we serve are closed at night, many by local ordinance, and there are no truckers working those hours. One state representative from the Long Beach area recently told a carrier that "if they don't like it just take your business elsewhere."

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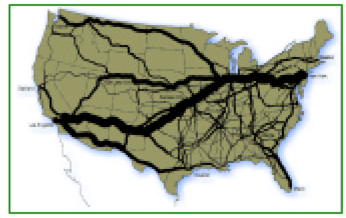
PNW Freight Opportunities



- Market share from California?
  - Cost differential narrowing
  - No more growth in California ports?
  - Traffic looms as a very real constraint
- Industry Initiatives:
  - Environmental & Traffic Mitigation

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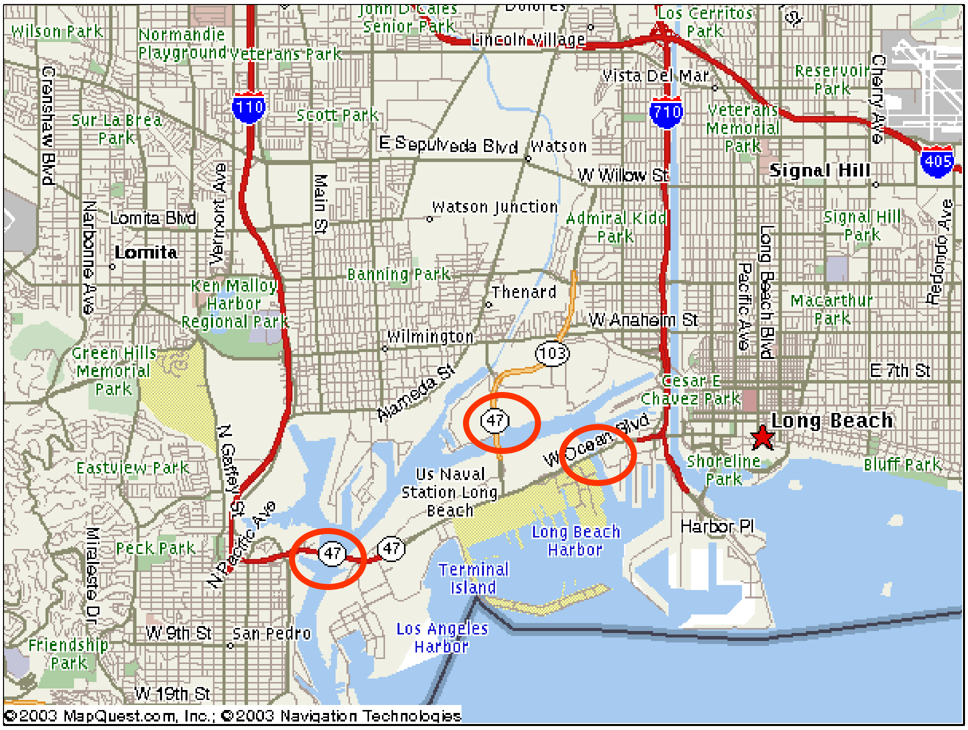
So, if growth in southern California ports is severely constrained, the PNW corridor stands to benefit.

There is a legitimate and severe long term congestion problem in southern California. The Ports of Los Angeles and Long Beach only have three bridges off Terminal Island and have not expanded their capacity despite adding two 1 million plus TEU terminals in the last year.



The Harbor Freeway and I-710 are also facing big problems with much future growth as local community opposition has blocked any meaningful expansions despite well known port growth projections and needs.

So, lacking any desire or ability to upgrade the infrastructure, the politicians point their fingers back at the industry which provided no small measure of jobs and economic prosperity to that section of LA.

The industry has been doing some things of late.

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Industry Initiatives

Traffic & Environmental Mitigation

- Improved interchange efficiencies
  - Streamlined gate processes
  - Broadcast of status information by web
  - Appointment systems to smooth flows
  - Automated gate process thru optical character recognition
  - Automatic vehicle identification thru RFID
- Elimination of unnecessary trips by “street turns”
  - 1.1 million containers emptied & 98% trucked back empty to terminals
  - 500,000 empty containers trucked from terminals to DCs
  - So, two extra moves for 500,000 containers
  - 10% doing street turns is 100,000 trips reduced
- More intermodal by rail?

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For the most part, the terminal operators have streamlined their gate operations and improved queuing areas so that public streets are not chronically impacted. There is better coordination with truckers by using the Internet to broadcast container availability information which has now been extended to include appointment systems to help smooth gate flows throughout the day.

Many terminals are investing in optical character recognition so that gate interchanges will be even more seamless, and the industry is investigating automatic vehicle identification, using RFID tags, to further smooth the movement of trucks through terminals.

Another opportunity is using the web to try and create more street turns—exchanges of equipment near the DCS saving a haul back to the port.

And, of course, having more local cargo go by on-dock rail and supplanting long haul trucking, would have a positive impact on traffic.

abcNEWS

Border Breach?

Customs Fails to Detect Depleted Uranium Again

Sept. 10— For a second year, U.S. government screeners have failed to detect a shipment of depleted uranium in a container sent by ABCNEWS from overseas as part of a test of security at American ports.

Shielded by a steel pipe with a lead lining, 15 pounds of depleted uranium was packed in a suitcase that sailed through customs. (ABCNEWS.com)

Just the kind of journalism we want terrorists to see….

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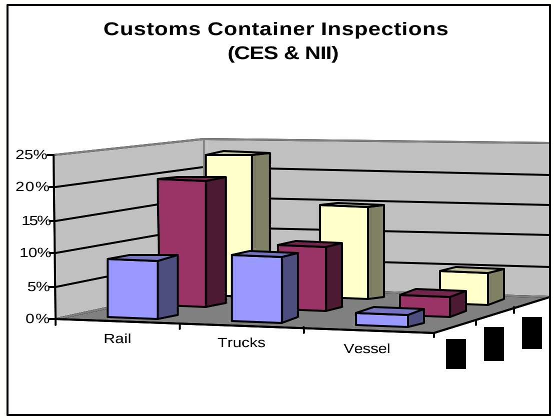
Security

- Inspections on increase
- Efficiency and security not mutually exclusive



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Inspections are on the increase and Customs has introduced a number of programs being embraced by the industry.

Our present port infrastructure limits the number of inspections we can do both at CES with Vacis machines, slowing the velocity of containers much will clog what we have. Efficient systems can also be secure systems but, as yet, the industry doesn't have technological silver bullets and is struggling with how to introduce new measures.

The non-intrusive inspections offered by the Vacis machines are of questionable value in finding WMD by a sophisticated entity. Currently Customs is testing different approaches toward passive radiation detection on 100% of containers but, so far, they don't have a durable approach. Managing false positives will also present interesting challenges.

So far the carriers have not been able to agree on the implementation of electronic seals which reputedly provide a better chain of custody and tracking. An added benefit is that they also hold potential efficiencies as a labor saving device for tracking containers. One problem is that electronic seals can be fooled by removing doors.

And, even if we adopt electronic seals, customers perceive the primary threat as infiltration of legitimate shipments at the point the container is loaded prior to sealing.

Colors

Red: Points of vulnerability

Blue: Major stakeholders with substantial systems & controls

Yellow: Moderate: not much control

We start with the traditional programs employed in the US. We can see how the agencies have worked back through the chain to extend our borders.

- Point of vulnerability back where it has always been
  - at the point the cargo is placed in the container
  - and during trucking
- How will nations regulate/inspect when stuffing/sealing the container

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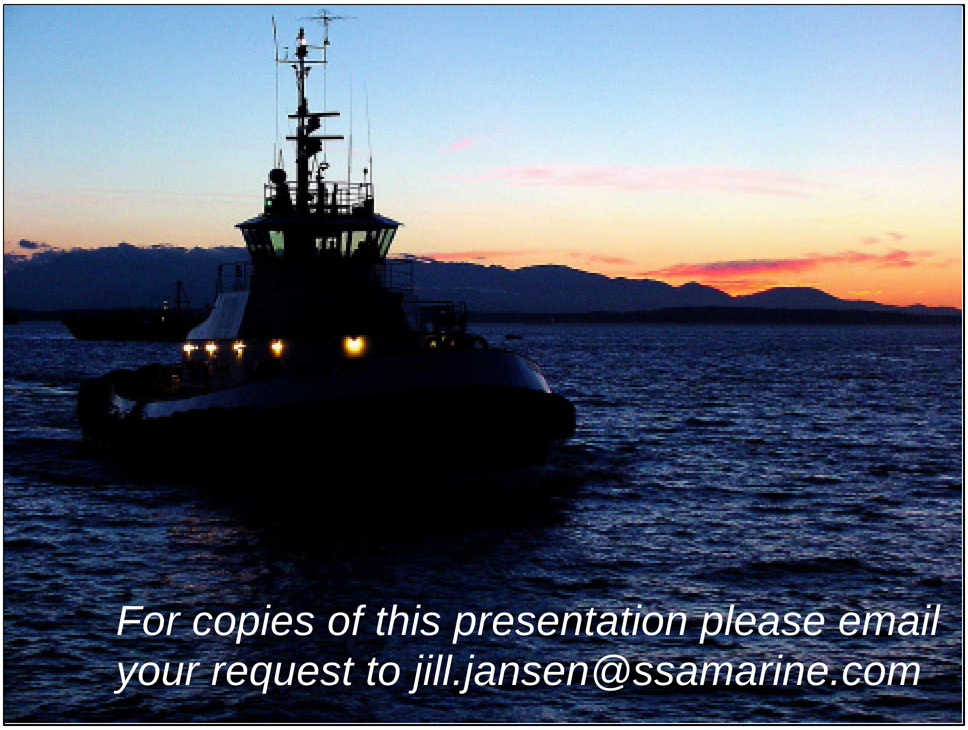
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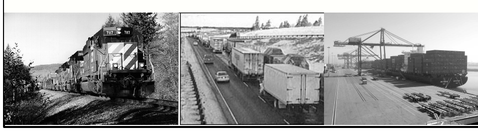

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