

Container Cast: Front Lines

MAT: Welcome to ContainerCast, the trade and transportation podcast for the Center for International Trade and Transportation, at California State University, Long Beach. I'm Mat Kaplan. Our guest is Dr. Thomas O'Brien, the CITT's Director of Research and Research Coordinator for the METRANS Transportation Center at CSULB and USC. Tom welcome back to ContainerCast.

TOM: Thank you, Mat. It's good to be here.

MAT: Interesting topics to cover today and a little bit of a potpourri, so we're going to go pretty quickly I think, beginning with a new administration in Washington. We're now beyond the fabled first hundred days. How would you size up the Obama administration from the world trade viewpoint?

TOM: Well, there really hasn't been much, not surprisingly, on the President's agenda with regard to global trade. The President is obviously distracted with other major issues; everything from GM and Iran to banks...

MAT: ...and a couple of wars and an economy to save.

TOM: It's not to say that global trade sort of isn't part and parcel of some of those. Obviously markets for US automobiles should be part of the discussion, I would think, to what happens to American carriers or American car manufacturers, but it really hasn't been part of the discussion, at least on the front burner. So, a lot that's been happening with regard to global trade has sort of happened independent of the President's actions. There's still some discussion about implementation of free trade agreements with places like Korea and Colombia, but you're not seeing much action on that front. It's clearly not a priority of either the Department of State, Department of Commerce, or the administration at this point. Although for many people in the industry looking to markets for exported goods, it's clearly a priority.

MAT: Well, hopefully other things will settle down and the administration's attention will be able to turn more to this worldwide issue. You know, you said in the piece that you wrote a while back something that has, of course, been a theme underlying all of these ContainerCast broadcasts, that we are inextricably linked to the rest of the world. We certainly continue to see proof of that.

TOM: Yea and the issues that come to mind include things like piracy, which has been on everybody's radar screen from the global perspective; also, trade volumes are down not only at local ports but at ports worldwide, that's a concern; Labor agreements and how they affect the movement of goods across national and international borders. These are all international issues that have local impacts because our trade happens along international systems.

MAT: Let's turn to some of these local issues, local or national issues, I guess. It wasn't that long ago we were speculating about the effect of a Clean Truck Program that was going to slap a fee on every truck or TEU coming into the port. It hasn't exactly come out that way, quite yet anyway.

TOM: No, portions of the Clean Truck Program are being implemented. The phase-in of regulations designed to prohibit access to trucks of a certain age with engines of a certain model year - that's being

implemented, but truck fees are not being collected at this point; and the big controversial issue of employee drivers that the Port of L.A. wanted to implement looks, at least for the moment, like it is not going to happen. There's been court action that suggests that that's not going to go anywhere and that the Clean Truck Program will be moving forward but without that component that certainly was critical to the Port of Los Angeles.

MAT: Do you suspect that if the Port of LA had not insisted on including that provision, which was obviously a highly political one, that we might now have that \$35 per TEU fee in place?

TOM: I think possibly. I mean the ports have actually looked to minimize the amount of fees that are being collected because of the economy. So, it's very possible that fees might be you know held back for a couple of months. That's certainly the case with the \$15 per TEU infrastructure fee that the ports were expecting to begin collecting in January of this year, so it is likely that the Clean Truck fee might have been stalled for that; but certainly the debates surrounding the employee driver provisions was the principle factor in making sure that that fee's not collected right now.

MAT: Some other things may be gone in directions other than we might have expected a few months ago, one of those being this issue having to do with antitrust and the Transpacific Stabilization Agreement?

TOM: Yea the TSA is a collection of 14 ocean carriers that service the U.S.- Asia trade lanes. And in the fall of 2008 they had proposed to the Federal Maritime Commission, which sort of regulates issues of competitiveness on trade lanes involving the U.S. , to be able to discuss together as a group of carriers vessel capacity - limiting vessel capacity - certainly there was a concern that as they were going into the very slow months of January and February which are slow regardless of the economy, that they would be able to limit vessel capacity, reduce the number of calls at west coast ports. The Federal Maritime Commission came back and was requesting more information and the TSA came back and said, "well thanks, but no thanks," by the time we actually get some resolution to this problem we'll be back into what's traditionally the peak season and we will probably need, we will not need to reduce the vessel capacity. But it's an indication of how complex the relationships are between the many players and how something that is discussed in Washington with 14 carriers that operate around the globe actually has an impact on the ability of our local ports to thrive in tough times.

MAT: And another lesson I guess in how policy can lag behind reality.

TOM: Most definitely.

MAT: Let's go back to the labor question, turning to the East coast first, you wrote in February about the decision by Maersk to make some moves in Charleston, of all places, that had to do with their relationship with the equivalent to the ILWU there.

TOM: Right, that's the ILA, the International Longshoremen's Association, and you know ports there operate very differently. We're much more used to a landlord port operation here on the West coast, where the port authorities enter into lease agreements with terminal operators. On the East coast, it's

more common to actually have the ports themselves operate, and/ or the states operate the ports, and there was some attempt to use non-union labor. The ILA was sort of making it more difficult for that to happen in the state of South Carolina and so Maersk said, well we can look elsewhere, we have other alternatives, and Maersk is responsible for about a quarter of the container trade in the port of Charleston, so their decision to look elsewhere is not insignificant. And at the same time, you have the port of Jacksonville opening up a new facility, so you know there is this shifting, and these adjustments that are being made and of course you know when people look to move out of one port into another, that means an opportunity for places on the West coast as well.

MAT: So, even in bad times, one port's loss can be another's gain.

TOM: Sure, sure, that's the case always.

MAT: Here's one that surprised me. You think of these kinds of labor difficulties at the ports happening, I did anyway, in the more developed world, but no reason why they shouldn't affect the less developed world. In fact you bring up a situation that was taking place in a port in India.

TOM: Yea, and in fact, in some cases, it's much more difficult to predict labor unrest in a place like India which is increasingly critical to global trade. It's an important lynchpin, but you're more often to have one day strikes, week-long strikes, for a host of issues. In the port of Cochin in India it was an issue over truck parking regulations that sort of set off the strikes. My purpose of bringing it up in the piece is that it's sort of emblematic of how sort of bottlenecks in one part of the supply chain can have ripple effects downstream, and how labor is sort of one thing that is very unsettling and why the threat of extended labor agreements on the West coast of the U.S. means people may hedge their bets and use alternative ports; but you know labor strikes are an issue for India, for France, for a lot of places. Perhaps not surprisingly it's less of an issue in China.

MAT: It is a flat earth, more proof of that. Not getting quite the coverage it was a few weeks ago, but piracy, which was at the top of the news of course with that major incident that took place with an American flag vessel, that settled down a little bit although I guess that one poor schmuck of a teenage pirate is being brought to trial in the U.S.

TOM: Right

MAT: What really fascinated me though about your addressing of this issue is the realization that shippers have to build piracy into their business plans.

TOM: Right, and the interesting thing about this story is that piracy was an issue before the Maersk Alabama was hijacked, or they attempted to hijack, and it's still an issue; but we saw a lot of attention here because as you said it was an American flag carrier. But piracy has been a risk; there's been a spike in that part of the world over the past year and half or so, so companies are having to make a business decision about whether they invest in additional security, whether they build in the possibility of a ransom as the cost of doing business. In some cases, some of the carriers have actually shifted their trade lanes to avoid that area, but that is a significant cost in terms of additional travel time, which

means additional money. And yea, the sort of pragmatic approach that a lot of companies take with the risk of piracy surprises a lot of people; but I suppose given the number of vessels that move through the Suez Canal or the Gulf, companies decide that maybe it's better for us to risk, risk a pirate attack than arm every single vessel that goes through. If you are one of the captains of the vessel, or one of the crew members, I think I know which side of the argument you're likely to fall down on. But to be honest, the owners of the vessel, for them it's a business decision.

MAT: Amazing 200 years after it was an issue at the very beginning...

TOM: The Barbary pirates right?

MAT: Yeah. Mostly bad news or at least tending toward the negative that we have covered here, but it's not all bad news, I mean you mentioned this new facility in Jacksonville.

TOM: Right, I mean while the economy was still good, a lot of plans were underway to expand facilities, to bring new facilities on board, new vessel capacity; and so you're seeing new terminals open You're seeing some movement in Southern California on environmental clearance that's going to bring new projects on board - the Middle Harbor Project at the Port of Long Beach - so there is some good news, meaning that when the economy does recover, and I say when and not if, we're actually going to be perhaps in a better position to handle the excess traffic that hopefully comes our way. And you know you're starting to see people talk about recovery, if not the end of this year, the first quarter of 2010 and because it does take so long to get new projects under way, I would think that people who think ahead want to take advantage of this opportunity by moving forward on environmental clearances, opening up new terminals, and thinking about where vessel capacity is going to come from.

MAT: Buy low, sell high.

TOM: There we go.

MAT: Listen, we've covered a lot in this one. I hope that our listeners have found this as fascinating as I have, but we thank you once again for sharing all this and we'll be talking with you again soon.

TOM: Thank you, Mat.

MAT: You just heard ContainerCast, where our guest has been Dr. Thomas O'Brien. ContainerCast is produced by the Center for International Trade and Transportation, a division of the College of Continuing and Professional Education at California State University, Long Beach, and in partnership with the METRANS Transportation Center. We'd love to hear from you, write to us at citt@ccpe.csulb.edu. We offer an outstanding selection of events, programs, and courses, including the Global Logistics Specialist program. Visit us online at www.ccpe.csulb.edu/CITT or call (562) 985-2872. That's (562) 985-2872.

