# PMSA 2010 Tariff Proposal

## Submitted to

## WASHINGTON STATE BOARD OF PILOTAGE COMMISSIONERS

April 13, 2010

# PMSA 2010 Tariff Proposal

Last year has been one of the most challenging in recent memory for the shipping industry. We are confident that the Board will again seriously consider its dual responsibility to provide for safe and competent pilotage while promoting and encouraging maritime commerce as called for in the Pilotage Act (Chapter 88.16 RCW).

## Pilotage Act Tariff Yardstick

The RCW based yardstick used to measure the tariff includes concepts like safety, competency, efficiency and competitiveness. Important questions include: are there enough pilots? Are pilots leaving to pilot elsewhere? Does pilot workload, time off, vacation, overall compensation and quality of life attract enough qualified candidates to compete for openings as they become available? What are the competitive issues being faced by our ports? How can the pilot tariff impact the need to promote and encourage maritime commerce and avoid jeopardizing it? Below we provide information to help the Board answer these questions. We then provide a 2010 tariff recommendation.

## Workload, Vacation and Time Not Piloting

The 2009 data indicates pilots engaged in assignments on approximately 141 days. This leaves approximately 225 days combining off duty, duty days not piloting including any training days and vacation days. A fraction of those days involve non-piloting activities as reported by PSP. The current PSP workload is significantly less than Washington State Ferry tug and deep sea masters that comprise the pilot candidate pool. The average assignment workload discussion at the April 2010 Commission meeting revealed that the workload has been reduced significantly from the 80's to the 90's and on to 2009 where it is 10 assignments less than the average of the last 15 years.

## Compensation and Cost of Living

The Pilotage Act requires a setting of the tariff annually. <u>The Act does not require the Board to set earnings or compensation levels</u>. However, given the near continuous posturing regarding earnings produced by the tariff, we offer the following to provide "context" for any discussions the Board may have during tariff setting.

Puget Sound Pilots Earned More than Ever Before in 2009: The Puget Sound pilots earned more per assignment and per hour in 2009 than at any time in their history. This unprecedented level of earnings has led to annual individual earnings[1] that are easily the highest of any pilots on the west coast. When cost of living is factored in, the following table is produced and reveals what Puget Sound Pilot earnings would look like in other pilot ground cities. Clearly Puget Sound Pilot earnings adjusted for COLA of other cities shows how far ahead they are – see following table. We continue to see pilot rate demands across the country referring to the need to match the compensation in Puget Sound; this means other pilot grounds are chasing Puget Sound pilot compensation, not the other way around.

# Puget Sound Pilot Earnings

### When Adjusted for Cost of Living

## Significantly Higher than Others on West Coast

| City | **What PS Pilots Earnings look like in other cities when adjusted for COLA compared to the $373,264 they earned in 2009 in Puget Sound** |
|---|---|
| San Francisco | **$540,313** (in Puget Sound Pilot $'s) |
| LA | **$483,595** (in Puget Sound Pilot $'s) |
| Portland, OR Col. River Bar | **$354,785** (in Puget Sound Pilot $'s) |
| San Diego | **$440,579** (in Puget Sound Pilot $'s) |
| Honolulu | **$520,760** (in Puget Sound Pilot $'s) |
| New York | **$558,224** (in Puget Sound Pilot $'s) |
| SE Alaska Pilots Assoc. | **$374,547** (in Puget Sound Pilot $'s) |

**Source**: Salary.com

[1] PSP 2009 Financials Show $530,431 before deduction for expenses of pilot organizations and $373,264 after deduction of expenses of pilot organizations; these are annual reporting requirements per RCW 88.16.035. These figures do not include any extra compensation referenced in the RCW.

## Quality of Life

It would be unfair to say pilots -- and pilot candidates -- only care about compensation when considering where to pilot. We know that the vast majority of active pilots are here because they came from the local maritime community and they want to stay here because of the quality of life and their local knowledge of the marine environment. This hard earned acquisition of local knowledge, obtained from other pursuits, is a powerful incentive for those interested in piloting to stay in this area and take on the challenge of becoming a Puget Sound Pilot.

## Pilot Candidate Pool

We are lucky to have a large labor pool here in Washington State that provides experienced mariners to the pilot corps. The vast majority of current pilots and pilot candidates come from the PNW and they have experience as masters or mates on Board Washington State ferries, local tug boats, or deep draft vessels.

The Board attempted to expand the pool of candidates by eliminating a requirement that candidates needed to have federal pilotage prior to taking the pilotage exam. However, many if not the majority of candidates have most if not all of their pilotage qualifications. Further, we are not seeing a large number of pilots or pilot candidates coming here from other areas, nor do we see masters or current Puget Sound pilots opting to move to other pilotage grounds.

So it seems logical to compare Washington State Ferry (WSF), tug, and deep draft vessel compensation in the PNW to that of state licensed pilots here. While the economy has been tough on everyone and most in the maritime community have had to take pay freezes or cuts, Puget Sound Pilot compensation continues to be several-fold that of pilot candidates. This is the very pool from which we recruit pilots, so the Board should be confident that becoming a Puget Sound Pilot will continue to be an extremely attractive and competitive proposition.

The facts show that we have more qualified candidates than can be licensed under the Board's rules. In fact, the Board recently reduced the number of pilots from 57 to 54. Although we believe this number could be reduced even further with no impacts to safety, it does demonstrate that we have a surplus of pilots with a long list of qualified candidates in waiting.

The following chart illustrates how annual and hourly pay of pilot candidates compares with annual and hourly earnings of Puget Sound pilots highlighted by the fact that individual pilot earnings per bridge hour are more than ten times the straight time hourly wage of a Washington State Ferry Master. This gap has widened considerably since 2005 as the pilot earnings dramatically increased following the 24% increase in tariff in 2006 compounded by an additional 5% and 4% in the following years.

## Pilot Earnings Compared to Pilot Candidate Pay

| Occupation | Annual | Hourly |
|---|---|---|
| Puget Sound Pilot | **$373,264**<br>Individual Pilot Earnings after deducting expenses of PSP | $540/Bridge Hour |
| WSF Master[2] | **$90,000 to $120,000**<br>Depending on Overtime and Master vs Staff Master | $45.85/Hour<br>Master – Straight Time |
| Tug Master | **$70,000 to $140,000**<br>Wide range per interviews with tug companies | N/A<br>Job requires more than Bridge Hours so bridge hour rate not applicable |
| Tanker Master | **$140,000 to $200,000**<br>Based on current survey of company officials | Same comment as tug master |
| Container Vessel Master | **$182,000 to $211,000**<br>Based on PMSA U.S. member company survey | Same comment as tug master |

[2] Collective Bargaining Agreement By and Between the State of Washington and masters, Mates & Pilots Effective July 1, 2009 Through June 30, 2011 (Tab A)

## What is the Compelling Need?

So the question must be: Is there a compelling need to adjust the tariff? We believe there is no reason to raise the tariff level, because quite simply, we have more than enough pilots and pilot candidates, and we maintain 100% retention. In fact, pilots earned more per hour and per assignment in 2009 than any prior year[3]. Unlike other maritime sectors, the 2009 pilot costs were not frozen or reduced. Instead 2009 Puget Sound pilotage costs increased. Ship owners/operators overall paid an increase of 3% per assignment on average in 2009 and this translated into more earnings per hour and per assignment than ever before[4]. On the other hand, each pilot worked less in 2009 as they added 1.4 pilots and had 504 fewer assignments, far below previous norms.

It is clear that we have a healthy pilotage district with more than enough pilots to do the job now and well into the future. Even if the Board decides to leave the tariff as is again this year, pilots will enjoy more annual earnings as the number of pilots is reduced. In fact, that will occur even if the Board reduces the tariff a few percent. This should be excellent news for the pilots and the Board.

## Promoting and Encouraging Maritime Commerce

Maritime commerce in Washington State continues to struggle. And even the current fragile recovery is not assured. Given the efforts by ports and others to reduce costs, so as to encourage the momentum of recovery, there are compelling reasons to lower the costs of pilotage in Puget Sound.

The competitive threats to the PNW ports continue to accelerate. Everyone in the industry is freezing or lowering costs while assessing all expected competitive challenges. Gulf and East Coast ports are working hard to position themselves for the widening of the Panama Canal in 2014, while ports on the West Coast, including Mexico and Canada are trying to capture market share by providing incentives to shippers. Everyone is working to reduce fees and costs. The Port of Seattle CEO, Tay Yoshitani has made it clear that his customers are emphasizing like never before that all costs matter, even small costs.

Yoshitani noted that the port's seaport and airport customers continue to feel

[3] First half of 2009 involved a 4% increase in tariff (tariff year vs calendar year).

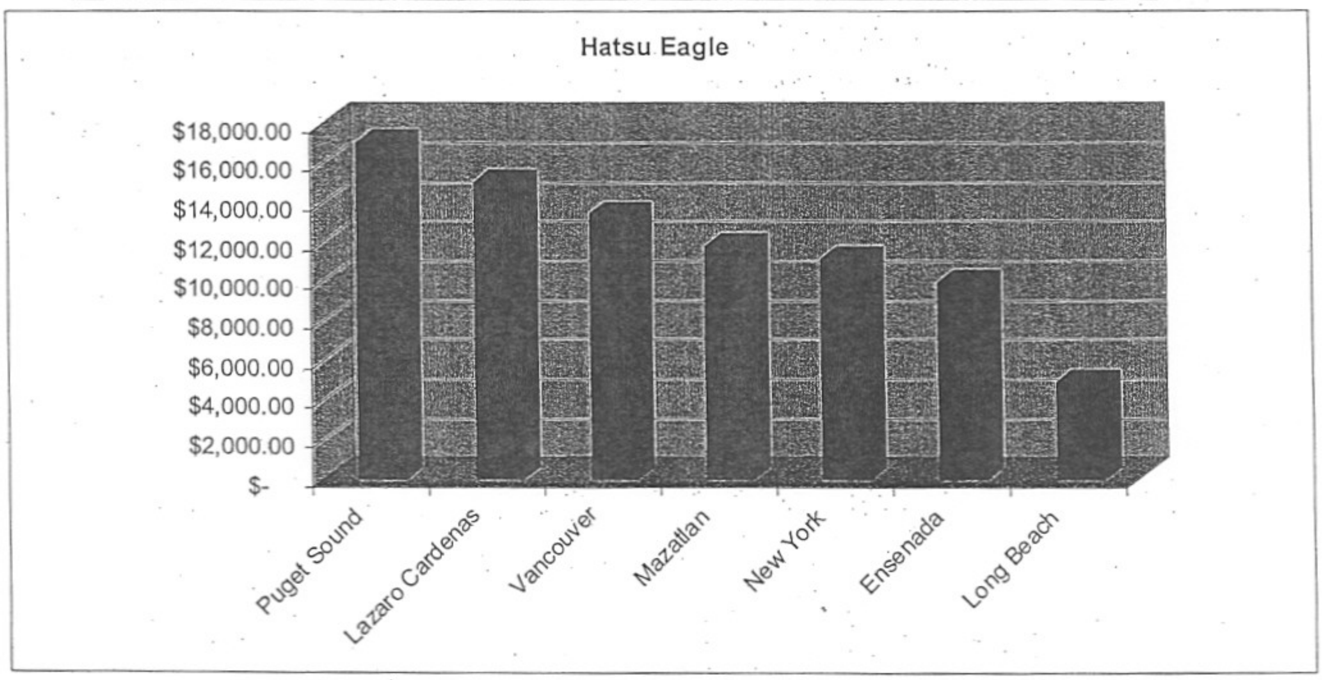
[4] Total revenue divided by number of assignments for 2008 compared to 2009 PSP financials

the pinch of the recession, and that further cuts could come. "Like families and organizations everywhere, we've made some cuts that hurt," Yoshitani said. "I'm pleased with 2009's performance, and I think we're positioned well for 2010. We have to keep our eye on the ball, though – doing our part to maintain the jobs and revenue the region needs to recover." **(Tab B)**

Puget Sound Pilot Costs: Pilot tariffs, just like all other costs, matter in the world of shipping, both international and domestic. A recent example of the differences in tariff is exemplified by comparing pilot costs for arrival and departure at the Port of Long Beach versus Puget Sound. **(Tab C)**

- M/V Zim DJIBOUTI would have paid $5,855 in Long Beach in 2009 (3 bridge hrs; in limited visibility, extra senior pilot assist at no cost)
- M/V Zim DJIBOUTI paid a **whopping $22,248** in pilotage for the Seattle port call in August of 2009 -- **380% more** than Long Beach
- The PSP proposal would add **another $2,222** to this Seattle port call.

# Pilotage Cost Comparisons: M/V Hatsu Eagle




These differences are highlighted even more when the very real competitive threats come on line in 2014, coupled with our economic disadvantage of long transits inland under new international regulations that will come into play in the same time frame.

## A New Unintended Competitive Threat Looms

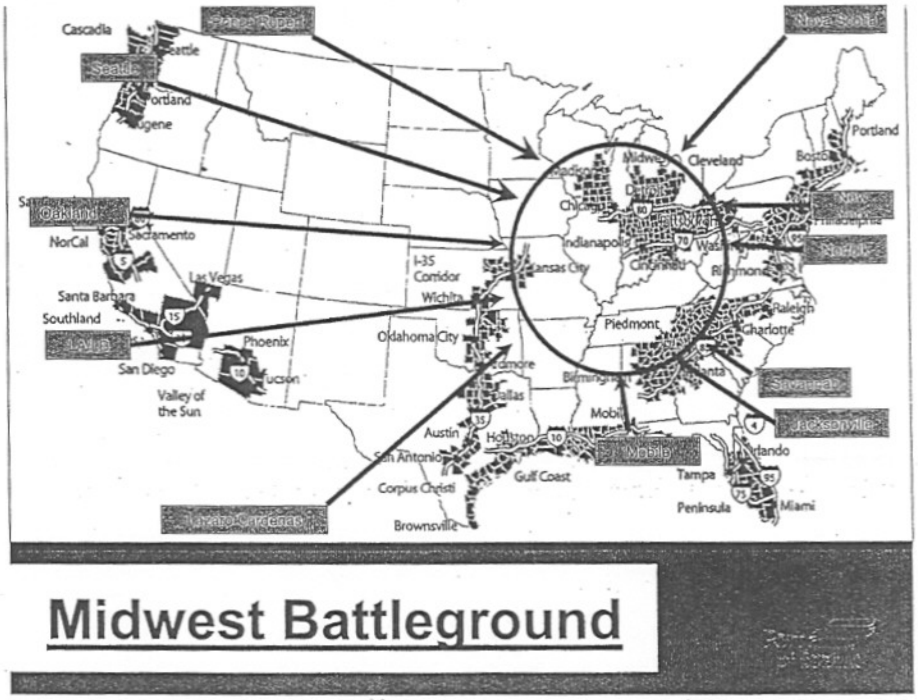
While the latest news from the International Maritime Organization on the North American Emissions Control Area (ECA) is certainly welcomed news (PMSA advocated for this, seeking uniformity through international or federal standards as opposed to inconsistent state standards) there are consequences. The ECA stipulates cleaner more expensive fuels in the main engines at a distance of 200 nautical miles from the coast. LA, Long Beach and Prince Rupert ports are on the coast, while the ports of Seattle and Tacoma are an additional 123 and 147 miles inland respectively. This is an additional cost to operations not experienced in coastal ports competing as they compete with PNW ports for discretionary cargo. There are also concerns about the impact to the Alaska-Tacoma trade lane that some percentage of cargo might be diverted to tug/barge or other alternatives.

## Another Cost Paid By U.S. Bound Vessels and Not Canadian

Industry has spent over a year negotiating a cost-share agreement for a state-mandated Emergency Response Towing Vessel (ERTV) at Neah Bay. Industry was focused on obtaining a high quality, fully compliant and capable service provider but the cost share negotiations were tough due to concern over the impacts to various industry sectors, the differences in vessel types/risk and the competitive disadvantage of Washington ports with Canadian ports. Because Canadian bound vessels can not be required by the State of Washington to help pay the cost, there is concern among the ports of Tacoma and Seattle that this is another example of added costs in Puget Sound that undermines their marketing effort focused on reduced costs and no extra fees. By comparison, the Puget Sound Pilots are requesting to increase the cost of their mandated service **annually by an amount that would <u>exceed</u> the cost of the industry funded ERTV at Neah Bay.** To place this in context, the tug and associated costs have received significant attention from legislature, the federal delegation, the Governor and all industry sectors for more than 10 years.

## Developing Trade Routes Create More Options for Shippers

Costs cannot continue to rise in one gateway without an impact to another. The map below illustrates what we call the "Midwest Battleground." Competition among the gateways for the most cost effective and efficient routes to the Midwest will continue to accelerate.




**Source**: Port of Seattle

Shippers, receivers and vessel lines are looking at **<u>every</u>** cost. In 2009, ports up and down the West Coast have reduced costs to their tenants by 5% hoping to keep them as customers. The Port of Tacoma is giving back $4.2 million to terminal operators in exchange for a commitment to continue operations at the port. The Port of Seattle continues to promote a "fee free" approach in order to hold on to market share. **(Tab D – Ports of Tacoma and Seattle Customer Support Packages)**

## <u>A Fragile Recovery</u>

We are seeing a fragile, <u>economic</u> recovery taking hold worldwide. We are hopeful that it will continue. A recent Associated Press economic survey highlighted some challenges that remain <u>for the U.S.</u>:

- *The unemployment rate will stay stubbornly high the next two years. It will inch down to 9.3 percent by the end of this year and to 8.4 percent by the end of 2011. The rate has been 9.7 percent since January. When the recession started in December 2007, unemployment was 5 percent.*

- *Home prices will remain almost flat for the next two years, even after plunging an average 30 percent nationally since their peak in 2006.*

*The economists forecast no rise this year and a 2.3 percent gain next year.*

- *The economy will grow 3 percent this year, which is less than usual during the early phase of a recovery and the reason unemployment will stay high. It takes growth of 5 percent for a year to lower the jobless rate by 1 percentage point, economists say.* **(Tab E)**

Most shipping industry analysts agree with this assessment, hoping for a more consistent recovery in 2011. However, an international and domestic shipping recovery does not mean that Washington's ports are entitled or guaranteed a market share of that recovery.

We have consistently stated that pilotage tariff is not set based upon profits and losses of vessel owners/operators but rather it is set based upon the requirements set forth in the Pilotage Act: the need to provide safe, competent and efficient pilotage and the need to not jeopardize maritime commerce but rather to promote and encourage it. Companies over time must be profitable or they won't continue to exist – the very notion that pilots may hint or feel entitled to profits is absolutely wrong and pilots never hint at wanting to be entitled to the losses. The Washington State Pilotage Act never intended the tariff to be a profit sharing plan for pilots. We reiterate to the Board that discussion of shipping challenges throughout the year and in this proposal are based upon two very relevant issues:

- The potential impact on pilot assignments, training queue and setting of the number of pilots; and
- Impacts on the competitiveness of our ports and the need to consider actions to promote and develop maritime trade without jeopardizing safety.

As we have continuously demonstrated, there are competitive ports on the West Coast, Canada, Mexico, the Gulf and East Coast that are working hard to attract our discretionary cargo. Everyone must do their part to make sure we are competitive. It has been difficult for ports, companies and vendors to freeze or cut costs but they have. Because we have more than enough pilots to do the job and no threat of losing pilots or candidates, and ongoing continuous improvements to licensing and safety, the Board is positioned well to join others in making our gateway more competitive by freezing or reducing costs. In the long run it will mean more jobs and more revenue for everyone if we get it right and continue to be an attractive gateway for Asia and the Midwest. Times have never been so tenuous in the shipping business. **(Tab F – Port of Seattle Commissioner Bill Bryant and Seattle Times Columnist Bruce Ramsey)**

**Tariff Proposal – 5% Reduction**

Therefore, we request a reduction of 5% in the tariff in all categories with the exception of transportation and the trainee surcharge to match the team efforts of the ports of Tacoma and Seattle in making our gateway more competitive. Recall that we have seen a huge cumulative increase of 42% in Puget Sound pilotage costs since July 1, 2005 including 2009 where costs continued to climb in the first half of the year by 4% when others in industry were reducing or freezing costs and fees.

PSP Proposal: We categorically do NOT support a disproportionately high increase in the "Boarding Fee" as proposed by PSP. This would in effect represent a structural change in the tariff that is not needed and should not be the province of the pilots; industry input should be critical particularly when it comes to fair allocation of costs to various ship types and sizes.

PSP sought to dramatically increase costs of larger vessels in 2006 via a surcharge proposal and now they seek to do the opposite by shifting costs significantly onto smaller vessels and away from larger vessels. The only consistency we can identify is that both the 2006 and 2010 PSP proposals were designed to produce more pilotage revenue while creating industry winners and losers in the process.

Pilot boat operations are already covered by the tariff as a legitimate expense of piloting. Like their retirement line item proposal, PSP is once again attempting to "itemize" the tariff in order lock in costs and limit the ability of the Board to consider all costs and expenses before setting the tariff. It is unnecessary and would create a bad precedent for the Board. If anything, the Board should eliminate the Boarding Fee and raise the other, general tariff elements accordingly.

PSP Desired Income: We also note that at the April meeting, PSP referred to the target net income phrase as "desired pilot income" or whatever the Board wanted to call it. We submit there is no RCW mandate or reference to target income or desired income and that tariff decisions should not be based on desired income levels sought by the pilots but rather on RCW mandates that guide the Board to setting an overall tariff.

Safety and More Than Enough Pilots: We have demonstrated that we have more than enough licensed pilots (safe, competent, no delays) and more than enough pilot candidates. This complies with critical mandates of the Pilotage Act and lowering the tariff a small amount will in no way impact safety. The Pilotage Act also includes mandates to promote and develop maritime commerce. With safety addressed, now is the time to support the maritime economy and help to ensure our competitiveness while safeguarding and protecting Puget Sound.

We appreciate the Board's efforts and respect the responsibility bestowed upon the members by the Governor. We believe reducing the tariff at this time is consistent with the RCW and the duties of the board. the facts support a small tariff reduction. Such an action will set a course that continues to ensure safe, efficient pilotage while also promoting and encouraging maritime commerce. The Board has already met requirements to supply safe, competent pilotage and now per the Pilotage Act should join the ports and others in supporting our maritime economy and the people who depend on it.

A

# 2009-2011

## Collective Bargaining Agreement By and Between

## The State of Washington

## and

## Masters, Mates & Pilots

Effective
July 1, 2009 through June 30, 2011

the reason or reasons for each such rejection are communicated in writing, within five (5) working days, to both the Deck Officer involved and to the Union.

5.05 **Rejections**

In the event that either the Union or any Deck Officer rejected by the Employer feels aggrieved by any such rejection, the matter shall be handled as a dispute, and adjudicated under the provisions of this Agreement relating to Grievances, Rule 22.

## RULE 6 - WAGES

6.01 **Rates of Pay**

Effective July 1, 2008, the following rates of pay shall apply:

| Classification | S.T. | O.T. | 80 Hours |
|---|---|---|---|
| Staff Master | $49.16 | $98.32 | $3,932.00 |
| Master | $45.85 | $91.70 | $3,668.00 |
| Mate | $36.64 | $73.28 | $2,931.20 |
| Second Mate | $33.52 | $67.04 | $2,681.60 |
| Temporary Mate | $27.22 | $54.44 | $2,177.60 |

6.02 **Calculation of Overtime Pay**

Whenever the payment of overtime is required or authorized under any of the terms or provision of this Agreement, such payment shall be made at two (2) times the appropriate straight time rate of pay for each classification of Deck Officer receiving such pay.

6.03 **Calculation of Pay During Jury Duty**

No Deck Officer shall be required to report for work on any day that the Deck Officer is called for jury duty, nor shall any Regular Deck Officer be required to report for work during any calendar week in which the Deck Officer has been on jury duty call for five (5) days. Each Regular Deck Officer required to report for jury duty on a regular working day, whether actually impaneled on a jury or not, shall be paid the difference between any fee received for jury duty and eight (8) hours straight time wages for each such day. No payment shall be made for jury duty on a regular Deck Officer's assigned days off. Any regular relief Deck Officer or Vacation Relief Deck Officer required to report for jury duty, whether actually impaneled or not, shall be paid the difference between any fee received for jury duty and eight (8) hours straight time pay for each such day, but not to exceed eighty (80) hours in any two (2) week work period. An extra relief Deck Officer shall be compensated in the same manner as a regular relief Deck Officer for the remaining portion of any assignment interrupted by jury duty.

B

Port of Seattle

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March 9, 2010

# Tightened Belts Leave Port of Seattle in the Black for 2009

## Early, aggressive spending cuts helped protect bottom line

The Port of Seattle ended 2009 in the black, thanks in large part to early, aggressive budget cuts throughout the organization. As directed by the commission and CEO Tay Yoshitani, port staff members conducted a thorough review of all port costs, and Yoshitani instituted mandatory furloughs for staff as well as reductions in travel, training, and other expenses. The reductions were implemented in February of last year and lowered expenses by $16 million. Those cuts combined with a significant reduction in the organization's capital program resulted in a net operating income of $46 million for the year.

"We've made some hard decisions this year, cutting programs and projects in each division," said Commission President Bill Bryant. "We'll continue watching every dollar to make sure we're using the public's resources wisely, investing in projects that keep us competitive and improve the environment."

There are several demands for the organization's financial resources in the near future, including major transportation projects that are crucial to moving goods and people in and around port facilities. Several major environmental programs and habitat restoration projects are also underway – part of the port's Green Gateway initiative to implement sustainable business practices throughout the organization.

Yoshitani noted that the port's seaport and airport customers continue to feel the pinch of the recession, and that further cuts could come. "Like families and organizations everywhere, we've made some cuts that hurt," Yoshitani said. "I'm pleased with 2009's performance, and I think we're positioned well for 2010. We have to keep our eye on the ball, though – doing our part to maintain the jobs and revenue the region needs to recover."

Read the full 2009 performance report here.

C

# PUGET SOUND PILOTS

**Remit To:** **P.O. Box 952442**
**St. Louis, MO 63195-2442**
**(206) 728-6400**

ZIM DJIBOUTI
Agent PO #
PO #
Attn:

MERIT S/S AGENCY, INC.
ATTN: ACCOUNTS PAYABLE
1011 SW KLICKITAT WY STE 209
SEATTLE, WA 98134

SEP - 1 2009

| | |
|---|---|
| **INVOICE NO.** | 355989 |
| **INVOICE DATE** | 08/27/2009 |
| **CUSTOMER ACCOUNT NO.** | MER |
| **L.O.A.** | 1145.01 |
| **DUNS NO.** | **067682070** |

**ATTORNEY IN FACT FOR:**
CAPT.MCCURDY, JR., R. F.
PUGET SOUND PILOT

| DATE OF SERVICE | PILOTAGE | CHARGES |
|---|---|---|
| 08/26/2009 | PILOT STATION TO SE TERM 18 BERTH | |
| 08/26/2009 | TONNAGE CHARGE (114044 TONS) | 8,918.53 |
| 08/26/2009 | TRANS FROM SEATTLE | 18.75 |
| 08/26/2009 | ZONE 4 (1145 FT) | 2,116.00 |
| 08/26/2009 | PILOT BOAT CHARGE | 47.00 |
| 08/26/2009 | PILOTAGE COMMISSION (4 TRAINEES) | 40.00 |

OK
JF

**A FINANCE CHARGE OF 1.5% WILL BE ASSESSED IN ACCORDANCE WITH WAC 363-116-300, AS AMENDED.**

PLEASE PAY THIS AMOUNT -> 11,140.28

# PUGET SOUND PILOTS

**Remit To:** **P.O. Box 952442**
**St. Louis, MO 63195-2442**
**(206) 728-6400**

SEP - 1 2009

ZIM DJIBOUTI
Agent PO #
PO #
Attn:

MERIT S/S AGENCY, INC.
ATTN: ACCOUNTS PAYABLE
1011 SW KLICKITAT WY STE 209
SEATTLE, WA 98134

| | |
|---|---|
| **INVOICE NO.** | 355990 |
| **INVOICE DATE** | 08/31/2009 |
| **CUSTOMER ACCOUNT NO.** | MER |
| **L.O.A.** | 1145.01 |
| **DUNS NO.** | **067682070** |

**ATTORNEY IN FACT FOR:**
CAPT.FLAVEL, M. R.
PUGET SOUND PILOT

| DATE OF SERVICE | PILOTAGE | CHARGES |
|---|---|---|
| 08/28/2009 | SE TERM 18 BERTH 1 TO PILOT STATI | |
| 08/28/2009 | TONNAGE CHARGE (114044 TONS) | 8,918.53 |
| 08/28/2009 | TRANS TO SEATTLE | 18.75 |
| 08/28/2009 | ZONE 4 (1145 FT) | 2,116.00 |
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OK

**A FINANCE CHARGE OF 1.5% WILL BE ASSESSED IN ACCORDANCE WITH WAC 363-116-300, AS AMENDED.**

PLEASE PAY THIS AMOUNT -> 11,140.28

D

## COMMISSION AGENDA

Item No. 2A
Meeting of: 12/30/09

**DATE:** December 28, 2009

**TO:** Timothy J. Farrell, Executive Director

**CC:** John G. Wolfe, Deputy Executive Director

**FROM:** Anna Soderstrom, Container Line of Business

**SUBJECT:** 2009 Customer Commitment Program

### A. ACTION REQUESTED OF COMMISSION

Request Authorization for the Executive Director or designee to enter into Agreements designed around a one-time Customer Commitment Program with the international container lessees of the Port of Tacoma whose Lease and Operating Agreements contain minimum intermodal rail lift volume guarantees.

### B. BACKGROUND

The fiscal loss to international steamship lines during the last two and a half years has been tremendous and the highest in history of container trade. Collectively, carriers this year are expected to lose an estimated $20 billion. Customers have experienced an unexpected change in economic conditions where Asia-United States container trade plummeted, negatively impacting US west coast ports container volumes, including the Port of Tacoma's volumes. In addition to lower cargo volumes, worldwide vessel capacity increased, creating a supply-demand imbalance, which in turn, forced ocean freight rates to decline. As a result, our customers are simply struggling to survive this historical economic downturn, and are requesting assistance from their supply chain partners, including the Port of Tacoma.

In response to the dire economic situation, several U.S. ports have launched programs aimed at providing financial assistance to their customers. The Port of Tacoma, as one of the few west coast strategic gateways for trade between Asia and the U.S., participates in a highly competitive marketplace for handling discretionary cargo. In an attempt respond to our international container customers and to remain competitive, Port staff are recommending implementation of a Customer

Commitment Program. This is to be viewed as an investment for the future commercial well-being for the Port of Tacoma.

The specifics of the program are as follows:

1. Port Lessees with a minimum annual lift guarantee will receive a one-time credit of $17.50 per executed IPI Intermodal lift in calendar year 2009.
2. In return, the lessee will agree to a one-year lease extension at the Port of Tacoma.
3. The lessee and/or their terminal operator will agree to support the Port of Tacoma's Truck Emissions Improvement Program.

## C. FINANCIAL IMPLICATIONS:

The program will provide support by crediting the Lessee with $17.50 per international intermodal lift made in 2009. If all qualified terminal lessees choose to participate in the program, the credit will reduce the Port's 2009 revenue by approximately $4.2 million. Customers must be current with all outstanding invoices to be eligible for the program.

In return for the 2009 support, each participating terminal will extend the term of their existing lease by one year and participate in the Port of Tacoma's Truck Emissions Improvement Program. The extensions of leases offset by the value of the 2009 support result in a positive net present value of $10.4 million at a 10 percent discount rate. The $4.2M reduction in 2009 revenue will reduce the Port's projected 2009 debt service coverage ratio from 2.8 to 2.6. The debt service coverage for 2010 through 2014 is not impacted by this action.

## D. CONCLUSION

Request Authorization for the Executive Director to enter into agreements designed around a Customer Commitment Program with Lessees of the Port of Tacoma whose Lease and Operating Agreements contain minimum intermodal rail lift volume guarantee.

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6b

Date of Meeting April 14, 2009

**DATE:** March 17, 2009

**TO:** Tay Yoshitani, Chief Executive Officer

**FROM:** Michael Burke, Senior Manager, Container Leasing and Operations

**SUBJECT:** The Customer Support Package and the Clean Air Program.

## ACTION REQUESTED:

Authorization for the Chief Executive Officer to execute lease amendments with Total Terminals, Inc. for Terminal 46, SSAT (Seattle) for Terminal 25/30, SSA Terminals for Terminal 18, and Eagle Marine for Terminal 5 to incorporate the Customer Support Package and the Ports Clean Air Program into those leases.

## BACKGROUND:

Shockwaves from the current global economic crisis are rippling through the port industry. Shippers, carriers, terminal operators, longshore workers, and truck drivers alike have been impacted by the sudden drop in consumer spending. The jobs created by cargo are more crucial than ever, and port authorities across the US are taking steps to remain competitive. Southern California ports are creating incentive packages to attract intermodal rail cargo from the Pacific Northwest.

Port container tenants need temporary cost reductions while the Port needs their cooperation to implement the Port's clean truck and other environmental programs. Port staff is therefore proposing a program that combines these customer recovery efforts with the implementation of Port environmental initiatives. Port staff is requesting two separate but integrated Commission actions today: Adoption of a customer recovery program that will be added to the container leases in consideration for the Port's new environmental language and authorization to transfer $2.3 million to the Puget Sound Clean Air Agency (PSCAA).

As terminal leases are modified to include the measures that will maintain our competitiveness, the Port is including language that:

- Requires terminal operators to implement and enforce the proposed clean truck program;

- Formalizes the emissions reductions in cargo handling equipment that terminal operators have already begun implementing voluntarily;
- Establishes protocols for Port and marine terminal operators to meet regarding continued progress on environmental practices.

The following questions and answers further describe these integrated programs:

*When cargo returns to previous levels, will the Port attempt to "make up" the lost revenue?*

No. The Southern California ports have enacted incentive programs aimed directly at attracting intermodal cargo from other ports, such as Seattle. Our Customer Recovery Program will help our container terminal tenants retain business in these tough economic times. Attempting to recover lost revenue from this program at a later date will create additional costs for cargo in the future, potentially leading to diversion of cargo to other ports. To our knowledge, no other port has sought or received any considerations in exchange for the financial support they've given their customers during these difficult economic times.

*What environmental requirements beyond those already required under state law and permits may be added to the leases?*

The major elements of the draft lease amendments that go beyond regulatory requirements include:

- Implementation by the terminal operators of the Port's truck program standards for 2011 and beyond.
- Acknowledgment by the terminal operators to meet the goals of the Northwest Ports Clean Air Strategy (NWPCAS) for cargo handling equipment by 2011, something the terminals are on track to do.
- Annual meeting to discuss operations and to look for ways to reduce environmental impacts and implement the goals of the Port's air program.

*What monitoring and enforcement mechanisms would be attached to these new lease requirements?*

The Port will have several mechanisms for ensuring that these new lease requirements are met.

- Port staff, PSCAA, and the terminal operators will work together to develop a system of periodic audits of the entrance records and ensure that the program is implemented and enforced thoroughly and consistently.

- Equipment lists for cargo handling equipment are submitted to the Port annually for review. This will allow us to determine compliance with the NWPCAS standard.

*How much money is needed to implement the proposed truck buy-back and scrapping program?*

Enrollees in the buy-back program will receive the fair market value of their truck or \$5,000, whichever is greater, for participation in the program. Using the PSCAA's estimate of 300 pre-1994 trucks remaining in the fleet, approximately \$1.5 million will fund the initial buy-back and scrapping program.

*How will the program ensure that Port of Seattle dollars are spent on the trucks that service our terminals?*

PSCAA will require a document summarizing the truck's port drayage activity during the previous year, verifying that the truck is part of the Seattle drayage fleet. Requiring this information should eliminate trucks that are not part of the drayage fleet or that are no longer used for drayage due to the economic downturn.

*What criteria or certification or registry will be used to distinguish compliant from non-compliant trucks?*

The Port will work with terminal operators and the PSCAA to develop a registry verification system once the Commission has approved a clean truck program. Only trucks that have been confirmed as compliant will be registered initially. Ideally, verification will use RFID or some other automated technology. If automated technologies are not in place by Dec. 31, 2010, we will begin with a simpler verification method, such as a registration and sticker system.

*How will POS ensure that terminal operators are only permitting the entry of trucks that are certified or on the registry?*

Port staff, PSCAA and the terminal operators will work together to develop a system of periodic audits of the entrance records. The audits may include visual checks of VIN numbers to ensure that they match registered trucks.

*How much money would the Port give to the Puget Sound Clean Air Agency (PSCAA)?*

Port staff is requesting authorization to transfer \$2.3 million total to PSCAA to support the agency's air emissions reduction programs between 2009 and 2010. Of that \$2.3 million, \$800,000 has already been approved by the Commission and is in the Port's 2009 budget. PSCAA anticipates using an additional \$1.5 million would be used by PSCAA to support a buy-back and scrapping program for pre-1994 drayage trucks. PSCAA is a longstanding, reliable partner with a solid track record of results in projects with the Port and other partners.

We do not yet know what funding will be required or available via grants, WSDOE or PSCAA beyond our current request. The current focus is on meeting the 2010 NWPCAS goals; once that is accomplished, Port staff will determine what resources are required to meet goals established for 2015 and 2017.

*How will PSCAA be accountable to the Port for the use of the funds?*

The Port will provide funding to PSCAA in quarterly installments. Any unused funding will be returned to the Port at the end of the agreement, unless otherwise agreed to by the Port in writing, once all reimbursements and administrative costs are covered.
PSCAA will provide Port with a written report every three months showing how the agency spent the Port funds transmitted under the agreement. The Port can terminate the agreement on 30-days notice.

*How would the proposed program incorporate the Northwest Ports Clean Air Strategy (NWPCAS) 2015 goals?*

On average, drayage trucks are replaced every ten years. The truck standards and timelines in the NW Ports Clean Air Strategy were designed to work with the natural turnover of trucks in the drayage industry. In addition, the CSS program would put $100 per month from truckers' lease payments into a savings account to go toward the purchase of a 2007 truck. If the trucker chooses to withdraw from the program, the money will be his or hers (along with the interest). If the driver chooses to stay with the program, by 2015, he or she will have accumulated a significant down payment toward the cost of a 2007 or newer truck.

On January 22, 2008, the Port of Seattle Commission adopted the Northwest Ports Clean Air Strategy ("Strategy"), a voluntary and collaborative effort of the Ports of Seattle, Tacoma and Vancouver (B.C.) to reduce maritime and port-related emissions that affect air quality and climate change in the Pacific Northwest.

On March 31, 2009, Port staff briefed the Commission on the proposed lease amendments for T-46, T-25/30, T-18 and T-5 to incorporate the Customer Support Package and the Clean Air Program into our container terminal leases. A copy of that presentation is attached.

## MAJOR ELEMENTS OF THE PROPOSED AMENDMENTS:

The four proposed lease amendments have some items that are similar in all the leases and some items that are specific to each individual terminal lease. The following are items that are the same for each proposed lease amendment:

1. The Port will reduce the crane hourly rate on Port owned cranes, currently at $647/hour, by 25% and remit reduction savings for one year from the date of execution of these amendments.

2. Once a terminal has reached the previous 12 month volumes, defined as paying the same revenues (before the 25% rebate) as the previous 12 months for crane

use, then the Port will reduce crane hourly rate to 50% and remit reduction savings for the remainder of the 12 month period established in item 1. This item is aimed at giving an incentive for new cargo volumes.

3. For a one year period, tenant terms of payment for space rent will be extended by 30 days. At Terminal 18 this condition will be subject to bond insurer approval because of the special financing conditions for the T-18 expansion.

4. The Terminal Operators agree to the conditions of the Environmental Attachment, a copy of which is included with this memo.

5. As part of the Environmental Attachment, the Port and the Terminal Operators agree to work on energy saving projects. An example of this is the Seattle City Light program to upgrade terminal lighting to save energy. The Port, Seattle City Light, and our tenants may share in the costs to implement this lighting improvement to take advantage of City Light's incentive program.

6. The Terminal Operators agree to implement the Port's truck program by requiring all trucks entering the terminal on Jan. 1, 2011 or later be 1994 or newer trucks.

7. Port will waive the Intermodal Yard ("IY") lift fee once any minimum guarantee is met for one year following execution of this amendment. The IY lift fee relates to on-dock rail operations at either Terminal 5 or Terminal 18. Terminal 5 has a minimum guarantee of 50,000 lifts per year; Terminal 18 has no minimum guarantee.

The following are specific terms for each terminal that would be part of the specific amendment for that terminal:

- At Terminal 5, the Eagle Marine lease boundaries will be adjusted by swapping approximately 9.75 acres of existing terminal for an equivalent amount of property from the Terminal 5 option area, making this exchange of land revenue neutral to the Port. The site of the existing CFS building, and it's rail and road access will be removed from the Eagle leasehold. In addition enough area at the north end of the terminal will be removed from the existing lease to give the Port an independent access road to the unleased option property, required for the Port to make any revenue generating use of that area. Finally, Eagle Marine agrees to give up its option committing the Port to a dock extension, due to expire at the end of this year.

- At Terminal 25/30, the premises will be reduced by five acres for one year following completion of T-30 expansion, expected to be May 2009. The Port will have the ability to try to rent the five acre site during that one year period.

- At Terminal 46, for the next four years, TTI will owe the Port $600,000 each year if they do not achieve 320,000 TEU annual through-put, per the agreement in the Ninth Amendment to the lease. This agreement would defer this obligation, giving TTI up to three more years to achieve that volume level. In other words, TTI would need to achieve the 320,000 TEU annual volume level in four of the next seven years to meet the obligation and avoid any payment. Also the Port will contribute up to $600,000 to Seattle City Light for the lighting upgrade program for Terminal 46, improving the energy efficiency of that lighting system. In addition, the Box Risk Premium fee, which applies to volumes between 180,000 TEUs and 220,000 TEUs and which doubles with the removal of Crane 54 per current lease language, will remain at the current rate. The Box Risk Premium fee is currently at $3.46 per lift.

## ENVIRONMENTAL BENEFITS:

Puget Sound Clean Air Agency has identified reduction of diesel particulate matter (DPM) emissions as one of its top priorities because of the public health and environmental impacts. In 2005, the Port conducted the Puget Sound Maritime Air Emissions Inventory (EI), which located and quantified DPM from maritime sources in the greater Puget Sound region. Based on the results of the EI, in 2005 Port operations accounted for 9% of all of the DPM emitted in the four county Puget Sound Clean Air Agency region (ocean-going vessel hotelling: 44%, cargo-handling equipment: 32%, rail: 12%, ocean-going vessel maneuvering: 9%, trucks: 3%, fleet vehicles <1%, harbor vessels <1%).

The expected environmental benefits of implementation of the Northwest Ports Clean Air Strategy truck performance measures is a reduction in pollutants of DPM, oxides of nitrogen (NOx), and volatile organic compounds (VOCs), as well as a reduction in fuel consumption. A truck that meets 1994 U.S. EPA particulate matter (PM) emission standards is 6 to 2.5 times cleaner than a truck built before 1994. Similarly, a truck that meets 2007 U.S. EPA PM standards is 10 times cleaner than a truck built between 1994 and 2006, and 5 to 60 times cleaner than a truck built before 1994.

## FINANCIAL ANALYSIS:

### Source of Funds

The Terminal 46 lighting program is a capital project and was not included in the 2009 Draft Plan of Finance. The $600,000 required to fund this capital project is available due to anticipated timing delays in other 2009 Draft Plan of Finance committed projects, such as purchase of container support yard land. This project will be funded from the general fund.

The remaining components of the one-year customer savings program are operating items and will reduce amounts available from the general fund.

## Financial Analysis Summary

| | |
|---|---|
| **CIP Category** | N/A |
| **Project Type** | N/A |
| **Risk adjusted Discount rate** | N/A |
| **Key risk factors** | • Amendment to the Terminal 18 lease is subject to approval by MBIA, per terms of the special facility financing for the Terminal 18 expansion.<br>• The proposed rebates and deferred payments in the one year customer savings program may not provide enough incentive in the current economic climate to significantly increase cargo volumes.<br>• Other Port tenants may request similar discounts/rebates. |
| **Business Unit (BU)** | Container Operations |
| **Cash Flow Impacts** | An estimate of the impact to the Port's cash flow from the one year customer savings program is shown below. These cash flow impacts include both temporary deferrals of rent payments (for which payment is due in full at the end of the one year program), and specific rebates/fee waivers which permanently reduce the amount of rent owed to the Port during the one year program. Estimates are based on the 2009 Operating Budget and the 2010 NOI Forecast, and are shown here on a cash flow basis. The NOI impact of the one year customer savings program is shown in the "Effect on Business Performance" section below. |

| Customer Savings Program | | | |
|---|---|---|---|
| Cash Flow (in $000's) | 2009 | 2010 | Total |
| 25% Crane Rent Rebate | (1,008) | (813) | (1,821) |
| 50% Crane Rent Rebate | 0 | 0 | 0 |
| Space Rent - 30 day deferral | (4,623) | 4,623 | 0 |
| IY Fee Waiver above annual min | 0 | (145) | (145) |
| Terminal 25/30 - rent abatement | (302) | (216) | (518) |
| Terminal lighting program (capital) | (600) | 0 | (600) |
| Terminal 46 - defer min volume | 0 | 0 | 0 |
| | (6,533) | 3,449 | (3,084) |

*Note: The reconfiguration of 9.75 acres of the Terminal 5 leased facilities is not reflected in the cash flow impacts above. This acreage swap is revenue neutral to the Port and does not impact cash flow.*

| | |
|---|---|
| **Effect on Business Performance** | **Customer Savings Program**<br>The estimated impact on Net Operating Income (NOI) and NOI after Depreciation resulting from the one year customer savings program is shown below. The one year program is expected to begin on June 1, 2009 and end on May 31, 2010. |

| Customer Savings Program | | | | | |
|---|---|---|---|---|---|
| NOI (in $000's) | 2009 | 2010 | 2011 | 2012 | 2013 |
| NOI | ($1,310) | ($1,174) | $0 | $0 | $0 |
| Depreciation | ($6) | ($12) | ($12) | ($12) | ($12) |
| NOI After Depreciation | ($1,316) | ($1,186) | ($12) | ($12) | ($12) |

*Notes: The extension of payment terms by 30 days for terminal space rent represents a timing difference in cash flows, but does not impact NOI.*

## PREVIOUS COMMISSION ACTION:

- On January 22, 2008, the Port of Seattle Commission adopted the Northwest Ports Clean Air Strategy ("Strategy"), a voluntary and collaborative effort of the Ports of Seattle, Tacoma and Vancouver (B.C.) to reduce maritime and port-related emissions that affect air quality and climate change in the Pacific Northwest.

- On March 31, 2009, Port staff briefed the Commission on the proposed lease amendments for T-46, T-25/30, T-18 and T-5 to incorporate the Customer Support Package and the Clean Air Program into our container terminal leases. A copy of that presentation is attached.

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**AP survey: Recovery to remain sluggish into 2011**

By JEANNINE AVERSA
*AP Economics Writer*
The pillars of Americans' financial security - jobs and home values - will stay shaky well into 2011, according to an Associated Press survey of leading economists.

The findings of the new AP Economy Survey, released Monday, point to an economic recovery that will move slowly and fitfully this year and next. As a result, the Federal Reserve will be forced to keep interest rates near zero until at least the final quarter of this year, three-fourths of the economists said.

The new AP survey, which will be conducted quarterly, compiles forecasts of leading private, corporate and academic economists on a range of indicators, including employment, home prices and inflation. Among the first survey's key findings:

- The unemployment rate will stay stubbornly high the next two years. It will inch down to 9.3 percent by the end of this year and to 8.4 percent by the end of 2011. The rate has been 9.7 percent since January. When the recession started in December 2007, unemployment was 5 percent.

- Home prices will remain almost flat for the next two years, even after plunging an average 30 percent nationally since their peak in 2006. The economists forecast no rise this year and a 2.3 percent gain next year.

- The economy will grow 3 percent this year, which is less than usual during the early phase of a recovery and the reason unemployment will stay high. It takes growth of 5 percent for a year to lower the jobless rate by 1 percentage point, economists say.

The economy began growing again last summer, 18 months after the recession started. To keep the recovery on track, the soonest the Federal Reserve will begin raising short-term interest rates is the fourth quarter, 34 of the 44 economists surveyed told the AP.

Those continued low rates will help stimulate home sales.

Economists think sales of previously occupied homes, the biggest chunk of the market, will tick up to 5.4 million this year and to 5.9 million in 2011. That would mark continued improvement from the low of 4.9 million in 2008 and be in line with sales in a healthy economy.

But there's a catch. Sales are forecast to rise in part because of another anticipated wave of foreclosures. That will keep prices from rising - and consumers from spending freely. Surging home equity spurred spending during the housing boom of the last decade.

"Our houses are no longer cash machines," says Allen Sinai, chief economist at Decision Economics, who took part in the AP survey.

By keeping interest rates at record lows, the Fed intends to encourage people and companies to spend more and invigorate the recovery. But anxiety over unemployment, and a reluctance or inability to borrow, will also restrain consumer spending, economists say.

"We're not going to see any irrational exuberance from consumers this year," says Joel Naroff, president of Naroff Economic Advisors, another survey participant.

Like many Americans, Michaela O'Brien of Northampton, Mass., is trying to cope with personal damage from the worst recession since the 1930s. O'Brien's husband, Nathaniel Reade, 51, lost his job two years ago as a magazine editor. Since then, they've seen the value of their home slip. So they're spending less.

Gone are the health club memberships, ski passes and camp for their two children. "We mostly cut back on what people would consider frivolous things," O'Brien says.

She gets around in a 2000 Toyota Corolla, her husband in a 13-year old Subaru.

"We hope we don't have to buy a car anytime soon," says O'Brien, 49, a self-employed publicist. Still, she says they are fortunate because they're able to pay their mortgage.

Economists say it may take until at least the middle of the decade for home values to begin rising normally again. The biggest asset for many Americans, homes have appreciated an average 4 percent a year since World War II, economists say.

National house prices have never remained flat while the economy was growing, says Mark Zandi, chief economist of Moody's Analytics, which reviewed data going back to 1969. Adjusted for inflation, however, home prices were essentially flat throughout the 1980s and the first half of the 1990s, says Zandi, who also took part in the survey.

The recession wiped out 8.2 million jobs. Zandi and other economists had previously forecast that unemployment, which reached 10.1 percent in October, would peak at 11 percent this year. Zandi now expects joblessness to climb again from the current 9.7 percent and reach 10.2 percent by December. That's because many people who have quit looking for work and aren't counted as unemployed will start looking again and because job creation will remain weak.

Employers have begun to add jobs recently, including 162,000 in March. Economists surveyed foresee additional job creation over the next three months, but not enough to reduce the unemployment rate significantly. They predict job gains of roughly 200,000 in April, 250,000 in May and 125,000 in June.

About 125,000 new jobs are needed each month just to keep up with population growth and prevent the unemployment rate from rising. To reduce the jobless rate significantly, employers would need to consistently add 200,000 to 300,000 a month.

"The labor market is the scar left over from the economic trauma that we've been through," says Sean Snaith, economics professor at the University of Central Florida, who took part in the survey. "It will be slow to fade."

Ann DeRoo, 40, of Fairfield, Ohio, began digging into savings to pay home and car loans after her husband was laid off from a trucking job earlier this year. DeRoo, who has three children, has also put off buying new clothes or shoes. Her son, who graduates from college in June, may have to move back home if he can't find a job.

"We just have to really watch what we're doing and worry about getting through today," DeRoo says.

# Damn Lies

Paul Page | Apr 12, 2010 4:00AM GMT
The Journal of Commerce Magazine - Commentary

Benjamin Disraeli is supposed to have said there are three kinds of lies: "lies, damn lies and statistics." Mark Twain is the one who says Disraeli said that, however, and some very solid statistics show Twain was known to bend the truth on more than one occasion.

But the underlying truth is what's important here, and what Twain, er, Disraeli, said in fact offers an important lesson to the transportation industry, shippers and carriers alike, at what we believe is a critical juncture for much of the shipping world.

That's because stories backed by some very solid statistics are filling the media, this publication included, showing some remarkable growth and a recovery in the trade economy that might even look like we are on the verge of boom times.

On the macro level, U.S. GDP figures are dazzling, exceeding 5 percent. And closer to the trade, transportation and logistics world, the statistics are just as striking. Imports through the Port of Los Angeles grew 29.8 percent in February over the same month a year ago, and outbound volume at the Port of Savannah surged even faster, growing 31.6 percent over February 2009.

The numbers in the air are equally gaudy. Los Angeles International Airport reported a 26.6 percent increase in freight tonnage in February, and cargo volume at Hong Kong International Airport grew a stunning 30.1 percent in February, including 36.5 percent more export tonnage than in February 2009. Those numbers would have been more breathtaking had Hong Kong not seen cargo grow more than 43 percent in January.

All these numbers are absolutely true, but anyone taking them at face value without looking behind the numbers might end up believing they have been lied to. Everyone knows, of course, that any comparisons to the period between the last quarter of 2008 and the first half of 2009 are going to bring some odd results. We're talking, after all, about comparisons to the absolute depths of deepest recession to hit the United States in several generations, and one that spread throughout much of the developed world.

**What's truly remarkable about the statistics from the just-ended first quarter is how weak the numbers still look compared to previous years, suggesting how far the economy still must travel to reach a real recovery and the reason many companies remain cautious in restoring capacity and planning expansion this year. (Emphasis added)**

That dazzling growth in container imports at Los Angeles, for instance, gave the port 267,361 loaded TEUs in February, still 24 percent behind what the port handled in February 2007, and fewer than the port handled in February 2005. The nearly one-third growth in Savannah's loaded container exports still was 2.7 percent behind 2008. Likewise, Hong Kong's overall air cargo volume in February was only a bit more than the airport handled in the same month three years ago.

None of that diminishes the very real expansion and recovery going on across the world. But looking at the growth without longer perspective would leave carriers and shippers planning for the rest of the year while deceiving themselves, something Mark Twain would never recommend.

*Paul Page is executive director of The Journal of Commerce. He can be contacted at 202-355-1170, or at ppage@joc.com. Follow Paul Page on Twitter, www.twitter.com/paulpage.*

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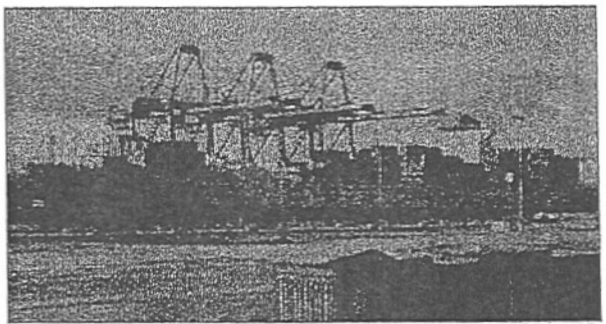
The Seattle Times

Tuesday, March 16, 2010 - Page updated at 06:46 PM



# Puget Sound ports need to get ready for Panama Canal widening



KEN LAMBERT / THE SEATTLE TIMES
Cosco, the container line, now calls at Prince Rupert twice a week and sends its boxes to the U.S. Midwest on the Canadian National.

**By Bruce Ramsey**
*Seattle Times editorial columnist*

On Aug. 27, 2009, the containership Zim Djibouti docked at the Port of Seattle's Terminal 18. The ship was a fifth of a mile long. With a capacity for 10,060 containers, it was the largest containership ever to dock here.

Big ships come to Puget Sound, but not mostly for us.
They come because we make it convenient for them to serve the U.S. interior. Their market is Chicago. The Windy City sits in a circle of territory that reaches to the Ohio River. Inside that circle is where Puget Sound ports are competitive in the Asia trade.

Our success invites competition. Canada has built a container port at Prince Rupert, just south of the Alaska panhandle. Cosco, the container line that linked Seattle with China 31 years ago, now calls at Prince Rupert twice a week and sends its boxes on the Canadian National to the U.S. Midwest.

"Our circle is getting smaller," says Tay Yoshitani, the Port of Seattle's CEO.

In the past few years the Port of Savannah, Ga., has attracted Asian cargo through the Suez Canal. They would do it through the Panama Canal and save thousands of miles, but ships like the Zim Djibouti are too big. Panama's locks date to 1914, which makes them older than the locks at Ballard.

Panama is modernizing. In 2014 it is slated to open new locks â€" longer, wider and deeper. The Zim Djiboutis of the world will then be able to slide through the isthmus to the Gulf Coast and unload Asian boxes for that charmed circle around Chicago. Houston is already preparing for this with Texas-sized investments in warehouses and terminals.

For the West Coast ports, the Panama Canal "is clearly a potential threat," says Paul Bingham of the Washington, D.C., consultants IHS Global Insight. Much of the actual effect, he says, will depend on decisions under no one's control here â€" such things as the price of oil, and how much Panama charges to get through its locks. But some things can be done now.

Ports can get ready â€" and Bill Bryant, president of the Port of Seattle Commission, says Seattle and Tacoma have done that. Together they handled 3 million containers last year, but are set up to handle 8 million. The weak points now are the road and rail connections.

Here's the pitch: to accommodate trucks from the ports, the state needs to finish Highway 509 at Sea-Tac and Highway 167 at Tacoma. For more trains to move through Auburn and Yakima, those cities need overpasses. These are "projects of statewide significance," Bryant says, and the state should pay for them.

The railroads also need to invest. When container volume tops 5.5 million, the Burlington Northern Santa Fe will have to enlarge its Stampede Pass tunnel for double-stack cars. At that point, Yoshitani, the Port of Seattle's CEO, expects the BNSF to ask for the ports' help.

"We would probably need to put some money into it to make their investment pencil out," he says, "but to do it right, BNSF would have to put more into it than we would."

All big U.S. ports have problems of rail connections, says consultant Ron Brinson of Charleston, S.C., former CEO of the Port of New Orleans. The railroads are old; the BNSF's Stampede Pass tunnel was opened in 1888. Of course it needs work.

These matters are not crises. They are only problems. They do need to be addressed, if the seaports of Seattle and Tacoma are to continue to fund payrolls and profits here.

*Bruce Ramsey's column appears regularly on editorial pages of The Times. His e-mail address is bramsey@seattletimes.com*

PACIFIC MARITIME
Marine Business for the Operations Sector MAGAZINE



## Keeping Up with Other Ports

By Bill Bryant

April 2010

The future of Puget Sound ports and the tens of thousands of jobs they generate in King and Pierce counties depend on Seattle and Tacoma moving freight to the Mid West more efficiently than our competitors.

Those competitors include the ports of British Columbia and, after 2014, when the Panama Canal expands, also Houston, Charleston and Savannah.

Canada understands the connection between jobs and the efficient movement of cargo to the American mid-west. Just two months ago, the Port of Vancouver launched a $392M project that adds 49 acres and increases its capacity. The Port of Prince Rupert, with significant government assistance, is expanding its capacity and by some accounts aspires to move as much cargo as Seattle and Tacoma combined prior to the recession.

Most importantly, with significant federal funds and integrated transportation decision-making, Canada is building a freight corridor from BC directly to Chicago and St. Louis. Canada's freight corridor is a competitive threat to Puget Sound's ports.

And it's not just Canada. The governor of Georgia just announced a project to move trucks more efficiently, and the Heartland Corridor that opens this year will shave off a day between the East Coast and the Midwest.

There is no need to hit an alarm bell, but we need to act. The Port of Seattle is.

We rejected new fees to pay for our clean air program.

Third parties determined moving cargo to the Midwest through Puget Sound is the most carbon sensitive route from Asia, and we are talking with shippers about that, and it matters to them.

We have joint marketing efforts with the Port of Tacoma to bring cargo into Puget Sound, and Port of Seattle CEO Tay Yoshitani has pulled together the directors of all the other US West Coast ports to collaboratively address common competitive issues.

Over the last ten years, the Port of Seattle spent $45M helping build overpasses and roads important to freight movement, and over the last 15 years, Seattle and Tacoma combined have spent nearly a billion dollars transforming aging port facilities into competitive 21st century terminals.

As a result of these initiatives and capital projects, within port gates, we can increase the volume of marine cargo we move, but as a state, outside port gates, Washington has underinvested in our freight infrastructure, and that could undermine future competitiveness.

To correct this we need to transform how we prioritize and fund transportation projects. The Canadian transport minister recently quipped that one advantage Canada has over the US is that Canadians consider transportation projects strategic investments, and, he said, Americans consider them pork.

He was right. We spread transportation dollars around, rather than focusing on those projects that will generate the most private sector jobs and move the most cargo and people.

Our approach is political, but it is not smart. Some mayors have told me it is easier – not easy, but easier – for them to get funds to build a new transportation project than it is get funds to maintain existing truck routes, even though we have $90M in deferred maintenance for deteriorating truck routes in South King and North Pierce counties. This reveals that our system for setting priorities is broken.

How we fund transportation also needs to be transformed. The fact that the port has spent $45M over the past ten years on roads and overpasses, or that the port needs to contribute hundreds of millions of dollars to build a state highway, reveals our system for funding transportation is broken.
The fact that projects that should be funded by the gas tax are being pushed onto local property owners indirectly through ports reveals our system is broken.

So what do we do?

First, we consolidate decision-making authority on transportation priorities.

Second, we build the projects needed for our corridor. That means finishing highways 509 & 167; maintaining truck routes in and out of distribution centers in South King and North Pierce counties; eliminating rail bottlenecks in Southwest Washington; improving Stampede Pass rail tunnels and building rail overpasses in Kennewick and Yakima.

Third, we support new funding mechanisms such as tolling and public-private sector partnerships.

Fourth, we get going.

Not everyone appreciates the urgency. Earlier this year I was talking with a legislator about finishing highways 509 and 167, and he told me he didn't think the state could work on those projects for a few more years.

That's not acceptable.

Canada and Houston and Georgia are not going to politely wait for us to get our act together.

If our state government's governance and financing mechanisms cannot fund the projects we need to nurture our competitiveness and protect our jobs, we should transform our state's transportation governance and financing.

Make no mistake, transforming transportation governance and financing will take courage and political will. Legislators will fight to keep control over where transportation dollars are spent. Constituencies will rise up to oppose new construction. Some will oppose private sector involvement in public infrastructure. The dozens of agencies involved in transportation will fight to defend their turf.

But it is not as if we have much choice. If our jobs and competitiveness depend upon transforming transportation governance and financing, we need to elect leaders who have the courage and political will to do it.

*Bill Bryant is chairman of Bryant Christie Inc., and president of the Seattle Port Commission. The views presented here are entirely his own.*