



**PORT OF OAKLAND  
SEAPORT**

DECEMBER 2016

# MARITIME e-NEWS



## Executive Director's Year-End Message



*Executive Director Chris Lytle*

**Container shipping's shakeout has commenced. In fact, it's well underway. What most observers anticipated—financial downturn, consolidation, bankruptcy—has actually happened in 2016. We could see more of the same next year. The Port of Oakland will continue to have a front-row seat to the change.**

During this past year, two regular callers at Oakland docks, APL and CMA CGM, combined. Another—Hanjin—declared bankruptcy. One of our own tenants, Outer Harbor Terminal LLC, closed its doors. Hapag Lloyd acquired UASC, COSCO and

China Shipping merged, CMA acquired APL, the three Japanese carriers announced a merger for 2017.

The Port of Oakland's response? We changed forever...and for the better. We took excess capacity out of the system. We transformed the operating model. We began measuring performance and as a result, got improved performance. What does it all mean? We're now well-positioned for the new carrier landscape.

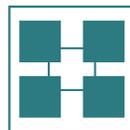
This may sound counterintuitive, but I think 2016 has been one of our finest years at the Port. Here's what we accomplished despite the maritime crisis:

- Laden container volume growth of 7.4 percent, highlighted by 10.3 percent growth in exports;
- A record \$338 million in operating revenue and a debt rating upgrade from Fitch; and
- Long-term stability in our tenant base as terminal operators demonstrated faith through extended hours of operation, lease extensions and multimillion dollar improvements.

Exhausting work went into achieving these results. It came from all parts of our organization: Maritime Division, Engineering, Finance, Legal. These groups deserve credit for transforming the Port of Oakland in a difficult year.

The biggest thank you, however, is reserved for our external stakeholders. They brought us practical solutions to problems that bedevil ports nationwide. The list of collaborators includes shippers and shipping lines, marine terminal operators, motor carriers, longshore labor, waterfront employers, railroads and maritime regulators. Some served on our Port Efficiency Task Force. Others advised individually. Either way, we couldn't have advanced our agenda without them.

And what did we achieve together? Quite a lot. Here's an update on 2016 accomplishments and what they portend for the year coming up:



**Consolidation:** The Port of Oakland successfully reduced from five-to-four active marine terminals without losing cargo or vessel calls. The impact? Severe overcapacity disappeared. So did non-compensatory pricing that darkened the P&L of terminal operators. Our four terminals are now run by three operators who handle much more cargo-per-acre leased. This has led to healthier bottom lines. It has also prompted investment in terminal improvements. The other good news: we've still got room to grow. Our inactive Outer Harbor Terminal has been 25 percent leased. Prospective tenants have expressed interest in some of the remaining

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acreage. However, in an abundance of caution, we're holding back to prevent a return of the space glut that once upon a time destabilized our terminals. We'll put that land back into the game when demand dictates.



**Marine terminals:** It's been a long time since the outlook has been this encouraging for marine terminals. We have four active terminals: Everport, Matson, Oakland International Container Terminal (OICT) and TraPac. The terminal operators all made long-term commitments to the Port of Oakland in 2016. Everport re-opened in January after a temporary hiatus to complete a multimillion dollar modernization. SSA invested heavily in labor, equipment, additional land and extended hours. It will soon raise the height of four ship-to-shore cranes. TraPac has just signed a new 14-year lease to double the size of its operation. It will invest more than \$25 million in infrastructure, including raising two existing gantry cranes on berths 25/26. These moves demonstrate the faith our industry has in Oakland's future. They give us stability on the waterfront.



**Transformation:** We've changed everything to move cargo faster. No more 8-to-5, our two largest terminals are now open at night for truck transactions—OICT Monday-through-Thursday until 3 a.m. and TraPac Monday, Tuesday and Thursday until 2 a.m. TraPac is still deciding if night gates will become permanent. OICT and TraPac have adopted an appointment system. Dray-offs and one-stops have been implemented to hasten import delivery. There's a container yard devoted exclusively to empty container pick-up and return.



**Operating performance:** This is easy to summarize. We were not so good. Now we're better. Not great—there's still work to do. But improvement has been dramatic. Ships now routinely spend less than 24 hours in Port. Our largest marine terminal—OICT—reduced turn times from 2.5 hours last summer to 77 minutes or less in November. The terminal consistently reaches 35 gross container moves per hour on vessels. TraPac is addressing long wait times caused by increased cargo volume. Performance will improve.



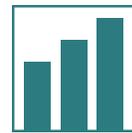
**Technology:** We're often asked: why don't you implement new technology? Well don't look now, but we did—quite a bit—in 2016. There's a new gate system at Everport and another due at TraPac. Automatic in-gates have just been introduced at OICT. DrayQ has provided the industry's first real-time measurement of terminal transactions available via mobile phone. Jupigo brings truckers together on mobile phones to transact street turns.



**Labor relations:** We're not naïve. We know longshore labor and waterfront employers won't always agree on everything. That's the nature of things. But in 2016 the relationship was collaborative. The result was better and more transparent service to cargo owners. There were no significant contract disputes. Vessel operations remained the most productive on the West Coast. Initial discussions were held to extend the current labor contract. Shippers enter 2017 hoping for a continuation of this cooperative spirit between labor and employers.



**Leadership:** Unique issues dogged our industry for much of 2016. That's a nice way of saying that no one had a roadmap to problem resolution. Wherever possible, the Port of Oakland tried to create one. Since then, we've been recognized by customers, media and industry regulators for leadership. Here were the key issues and our attempt to address them: 1) terminal congestion—the Port invested \$1.6 million to help terminals introduce night gates, a move others are now emulating; 2) SOLAS—controversial new requirements for container weight verification became a non-issue in Oakland as terminal operators offered their weight data as acceptable proof; 3) performance metrics—the Port developed the industry's first mobile phone app to measure real-time terminal performance; 4) Hanjin bankruptcy—Oakland was one of the first ports to accept and work Hanjin vessels following its filing; and it was the first port to receive Hanjin empty containers.



**Future growth:** We took giant steps in 2016 toward sustainable future growth at the Port of Oakland. We finalized an agreement for construction of a 280,000-square-foot Cool Port, a state-of-the-art cold storage transload facility. It will lift overall cargo volume by redirecting chilled and frozen meat exports through Oakland. We continued to work on launching the 30-acre first phase of the Seaport Logistics Complex. It will be the West Coast's only transshipment center operated within a port complex. We opened a \$100 million rail storage yard to serve both operations.



**Sustainability:** Best of all, we reported results indicating that trade growth and environmental health can be compatible. The Port announced in 2016 that it has cut diesel particulate emissions by 76 percent since 2005. Emissions from trucks have been reduced 98 percent! We're not done with the effort to mitigate the impact of global trade on local air quality. But these numbers give us confidence that we can grow responsibly—protecting air quality while we stimulate the economy.



**Outlook:** It's likely to be another year of uncertainty in 2017. There are some positive signs for shipping. Freight rates have bottomed out. Overbuilding of fleets has slowed. Consolidation is creating stronger liner companies. But it's still a long way back to profitability for the industry. How will the Port of Oakland cope with the unsettled nature of shipping? As we always do: collaborating with partners up and down the supply chain to improve service for our customers.

## Port a ‘Center of Gravity’

The Port of Oakland can be a “center of gravity” for trade and travel because of its competitive advantages. That’s the word from two transportation experts whose companies rely on the Port, to move people and cargo. They told an audience here in November that key infrastructure projects and geography give Oakland a competitive advantage.

The East Bay Economic Development Alliance sponsored a business luncheon where experts praised the Port’s key infrastructure investments.

“One example of a well-timed infrastructure investment is the Port’s planned cold storage facility,” said MOL (America) Inc. President & CEO Richard Craig. “This will give Oakland a competitive advantage by bringing California Central Valley products and Midwest beef and pork products to growing Asian markets faster.”



Another upcoming seaport project is the 57-acre expansion of TraPac terminal, the Port’s second-largest marine operator. “When completed, TraPac will be the most modern and most efficient terminal,” said Craig. “The Port is really making it easier for importers and exporters to do business in Oakland.”

According to the Senior Manager of Business Development at Southwest Airlines, Michael Sikes, Oakland International Airport has been seeing strong passenger growth, and Southwest has been a part of that significant growth over the past three years.

“We’re already seeing double-digit passenger growth at Oakland International Airport,” said Sikes. “The center of gravity is shifting to Oakland as a lot of the economic and population growth is in the East Bay and Southwest is taking part by growing with our community. There is a desire for continued growth in international air service, and the airport is doing its part by investing in its terminal facility to accommodate that growth.”

## Appointment System Comes to TraPac

A third marine terminal operator wants truckers to make appointments before picking-up cargo at the Port of Oakland. Wilmington, Ca.-based TraPac began requiring appointments for all import container pick-ups Dec. 6. TraPac said the appointment system will reduce waiting times by more evenly distributing truck arrivals throughout the day.

TraPac becomes the third of four terminals to require appointments in Oakland. The others are Everport and Oakland International Container Terminal. Together they handle more than 90 percent of the containerized cargo moving through Oakland.

“We commend TraPac for taking this step,” said Port of Oakland Maritime Director John Driscoll. “It’s not easy introducing new operating procedures, but customers and harbor truckers benefit whenever we can speed up container throughput.”

Oakland is one of only a handful of ports nationwide with an appointment

system. Appointments are viewed as essential to accelerating cargo flow at ports coping with bigger ships and growing container volumes.

TraPac said truck dispatchers can log on to the nationwide port information system eModal to make appointments. It added that the requirement for appointments applies only to loaded import containers for now. TraPac said truck drivers won’t need reservations for export deliveries, or to pick-up or return empty containers. It said it will communicate well in advance when it plans to expand appointments to all transactions.

Appointments are the second measure implemented at TraPac this fall intended to improve terminal performance.

Two months ago, the terminal began opening selective night gates to ease daytime crowding. In October, Port Commissioners approved a new lease enabling TraPac to double its size in Oakland next year.

## Export Boom Explained

Growth in high-value agricultural shipments is driving a containerized export boom at the Port of Oakland. Port figures show sizable increases in fruit, nut and meat exports destined primarily for Asia. The agricultural surge lifted Oakland total export volume 10 percent over 2015 levels through November.

“We’re seeing a favorable confluence of events,” said Beth Frisher, the Port’s Manager of Business Development and International Marketing. “Demand for high-quality U.S. agricultural commodities is growing and producers here have been able to respond thanks to good harvests and higher yields.”

Agricultural exports have increased 16 percent in the past year, the Port said. Farm products now account for 40 percent of Oakland’s 2016 total exports, up from 38 percent last year.

The Port said much of the increase comes from a 30 percent rise in shipments of edible fruits and nuts. The Port exported the equivalent of 65,600



20-foot containers full of those products through September. That was up from 50,306 containers a year ago. Grain and seed shipments increased 35 percent in that period, the Port said. Meat exports climbed 15 percent.

The Port attributed much of its export growth to the rise of Asia’s middle class. It said that consumers with newfound purchasing power are clamoring for higher-quality American farm products. The Port said its top five export destinations are China, Japan, South Korea, Hong Kong and Taiwan. Its top five export commodities: wood pulp, fruits and nuts, beverages and spirits, meats and cereals.

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"California agricultural exports have exceeded expectations so far in 2016 and in no small part due to Oakland's performance," said Dr. Walter Kemmsies, Managing Director, Economist and Chief Strategist for the U.S. Ports, Airports and Global Infrastructure Group at JLL, the commercial real estate and investment management firm. "While U.S. agricultural exports have declined in 2016, Oakland has registered an increase."



Dr. Kemmsies said exports are stronger than expected due to tighter stocks in Asia and higher production in the U.S. He added that improvement has occurred despite the relatively high foreign exchange value of the dollar. A strong dollar makes U.S. exports less competitive. In that case, transportation efficiency is critical to export competitiveness, he said.

According to Dr. Kemmsies, the 2017 export outlook looks more positive due to improving global economic conditions. "Regardless of other factors, Oakland looks poised to outperform again," he said.

The Port said exports make up 52 percent of its total laden container volume. Imports account for the other 48 percent. The near 50-50 split in cargo mix is unique, the Port said. Other major U.S. ports are heavily skewed toward imports, reflecting the country's \$36.4 billion trade deficit. The Port attributed its export emphasis to two factors:

- Proximity to California's major growing regions in the Central, Napa and Salinas valleys; and
- Its role as the jumping off point for ships returning to Asian markets from the U.S.

## Port of Oakland Exports Up 11.5 Percent

There's no stopping the export rally at the Port of Oakland. The Port said that containerized export volume increased 11.5 percent in November from the same period last year. It was the third straight month of double digit growth and the 10th time exports have risen this year.

The Port said exports are surging despite a strengthening dollar that makes American products more expensive overseas. Strong Asian demand for California farm products, wine and other beverages is spurring the rally, the Port said.

"If you listen to conventional wisdom, exports should be facing headwinds," said Maritime Director John Driscoll.

"But the clamor overseas for high-quality American commodities hasn't peaked, so our volumes keep climbing."

The Port said it shipped the equivalent of 85,915 20-foot export containers last month. That was the second-highest total of 2016.

Through 11 months of this year Oakland export volume is up 10.3 percent. Containerized imports are up 4.5 percent. Total loaded container volume has increased 7.4 percent.

The Port said exports have accounted for 52 percent of its loaded cargo volume in 2016. Imports account for the other 48 percent.

## Local Hiring Hits Target

Local workers made \$6.5 million in earnings while working on Port of Oakland construction projects in 2016. More than 60 percent of those who worked on Port projects live within Alameda and Contra Costa counties. This result exceeded the Port's annual local hiring goal of 50 percent.

"The Port of Oakland contributes to the local economy by being a major job creator," said Port of Oakland Director of Social Responsibility Amy Tharpe. "We work closely with the general contracting community to ensure that they are doing everything possible to support local hiring."

The percent of total work hours from those workers who reside in Oakland, Alameda, San Leandro and Emeryville is 37 percent. This represents a 3.5 percent increase from 2015 data.

Some examples of local contracting and hiring at the Port of Oakland in 2016:

- Local contractors provided North Field Runway Safety Area Improvements at Oakland International Airport
- Local contractors designed and constructed the Oakland Outer Harbor Terminal support yard Phase 1
- Local workers renovated Building M102 Air Traffic Control Tower at Oakland International Airport

The Port of Oakland adopted a Maritime Aviation Project Labor Agreement (MAPLA) in 2000. It was updated in February 2016 to further promote local hire and promote more access for local workers interested in the

construction industry. The agreement covers maritime and aviation-related construction projects funded through the Port's Capital Improvement Program. It was designed to ensure employment of local residents, promote project labor stability, and promote the utilization of small business. The Port MAPLA was the first of its kind and is still a national model among PLAs.

Project labor agreements are collective bargaining agreements between public agencies, contractors, and local labor organizations. The agreements are authorized under the National Labor Relations Act.

