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Open Letter to Mr. Robert McEllrath, President, ILWU and Mr. James McKenna, President & CEO, PMA:

Thank you for conducting your negotiations out of the glare of the media. Our membership hopes you will take a moment to read this letter; it sets forth reasons why now is the critical time for you to take action to keep US West Coast ports (and the cargo that is dependent upon them) viable.

Powerful global and national trends that are out of your (and our) control are beginning to determine how much import and export cargo will flow through West Coast ports. These trends are of concern to us and should be of concern to you - we are in the same boat. The trends threaten your terminals, your jobs, and our ability to sell our exports overseas. So it is imperative that those factors which you, as terminal management and labor can control, such as productivity and cost, be mobilized to help mitigate projected long term risks.

We hope you find this letter constructive and accept our offer to engage in a discussion which could mitigate the threatening trends, and keep as much cargo flowing through West Coast ports as possible.

Trends Challenging US West Coast Ports and US Ag Exports.

The following trends, some of which are only now emerging, must be understood for the long-term challenges they pose to West Coast ports and to the industries, and jobs dependent upon them.

- Production of consumer goods, including consumer electronics, toys, processed foods, footwear, apparel, household goods, furniture, etc. will continue to migrate from North Asia (Korea, Japan, China) towards South Asia (Vietnam, Singapore, Bangladesh, India). As manufacturing moves south, it also is moving closer to the Suez Canal; what moves through the Suez Canal goes directly to the US East Coast ports.
- The eastern third of the country contains two thirds of American consumers. Since the last Census, six of the seven fastest growing states were in the East/South. That is why importers of consumer goods are increasingly bringing those cargoes through the most direct route, via the Suez Canal to the ports closest to those consumers.
- Major US importers, recognizing the population density on the East Coast and some of the trends above, are locating their largest distribution centers strategically, close to the East Coast populations and ports. Whether Memphis or Spartanburg or Houston, these distribution centers are closer to East and Gulf Coast ports, than to the West Coast ports, and could increasingly take market share from the West Coast.
- As manufacturing returns to the US, such as auto plants, it appears to be going to the "Right to Work" states, which are close to Southeastern ports. Imported components could enter through nearby Southeast ports, and finished products would then exit those ports.
- If an increasing share of our imports start entering predominantly through Gulf and East Coast ports, that is where the "empties" will be. The railroads will have to bring the containers from those locations, to the places where our agriculture is produced, or bring that agriculture by rail and transship into containers at those East and Gulf Coast ports. This will be more costly, but it will not be impossible for the flow of some (but certainly not all) ag and forest products to change directions. Instead of heading west from our Midwest, it could head east or south before being loaded on a ship. That is already happening.
- Some Eastern and Gulf ports lift containers at the pace of 42 per hour - significantly faster than the average at US West Coast ports.

- Puget Sound and Southern California ports enjoy virtually unlimited navigation channel depth, and Oakland has been dredged to 50+ feet. But this advantage is being lost as East and Gulf coast ports are now being dredged sufficiently deep to handle the latest generation of mega container ships.
- Canada and Mexico are not sitting still. Vancouver and Prince Rupert British Columbia enjoy locations closest to North Asia manufacturing centers, as well as to the fastest growing consumer market for US exports of food and fiber, Asia. Imports via Prince Rupert arrive to Midwest distribution centers days faster than imports from the US West Coast. They enjoy service by Canadian railroads which have demonstrated ambitions to significantly grow their market share, as reflected in their rates and service. This has already proven attractive to US importers in the Midwest.
- It remains unclear if the Panama Canal will divert cargo and ships from the West Coast to the East and Gulf Coast ports closer to the US population centers. But we know that it will be a new option. Thus far, most of the analysis has been on import cargo. However, recent analysis has indicated that the Panama Canal could be economically viable for agriculture exports to China.
- The energy boom creates new business for Burlington Northern and Union Pacific railroads to carry oil, gas, coal from the Midwest to West Coast, destined for Asian markets. This is creating rail capacity competition against container and hopper car traffic. Will this make access to and from Asia for containerized imports and exports through West Coast ports problematical?
- Since 9/11, the US government has continuously imposed new documentation and inspection requirements on cargo entering and leaving the United States. This puts enormous pressure on US importers, exporters and ocean carriers to obtain, organize and submit information much earlier in the shipping process than has been the case previously. The delays and penalties for mistakes are draconian. This is imposing costs on US exporters and importers that are not borne by our foreign competitors. While the scrutiny applies whether cargo moves through West Coast, East Coast or Gulf Coast ports, it does not apply to cargo transiting Canadian, Mexican or most other ports around the world. This is already creating a powerful incentive for foreign buyers to look to suppliers in Brazil and other countries where exported cargo is not subject to such intense regulatory mandates and penalties - leading to less cargo transiting US ports.

While not all of these factors are immediately impacting West Coast cargo volume, all of them loom as threats to permanently divert cargo from West Coast terminals. That would not be in the interests of either imports or exports. If unchecked, they will limit agriculture export access to global markets, and cargo volume for your terminals and jobs.

Bedfellows: US West Coast Ports and US Agriculture Exports.

Like the ports, ILWU, and terminals, we (agriculture and forest products) are stuck in place - physically. Cotton fields, lumber mills, almond orchards, citrus groves, dairy farms, meat packing houses, hay/straw fields cannot and will not move. So if agriculture and forest products are stuck here, does that ensure a steady flow of US agriculture and forest products across West Coast ports? As much as our growers and processors would like that to be the case, the answer, unfortunately, is no due to global competition.

- **The Agriculture Transportation Coalition was founded on this reality: "There is nothing that we produce in agriculture and forest products in the United States, that cannot be sourced somewhere else in the world. If we cannot deliver dependably and affordably, our foreign customers will simply shift their sourcing to other countries."**

Yes we produce a lot of wheat, soybeans, french fries, cotton, citrus, beef and hay. But so does Canada, Brazil, Australia, Turkey, Chile, Argentina, Holland. When the West Coast ports were shut down 10 years ago during labor negotiations, Japanese confectioners, unable to gain timely delivery of California almonds, simply substituted Turkish almonds. Over a decade later, superior California almonds have not reclaimed every lost Asian customer.

- Ag and forest products require the most efficient access route to the largest and fastest growing market for our ag and forest products -- Asia. Increasing Asian discretionary income means they will buy more and better food, fiber, building materials; more beef, pork, fruits and vegetables, higher quality soybeans, grains, etc. The most direct route to Asian customers is from inland points to the West Coast ports and by ship directly to Korea, China, Japan, etc.
- Foreign consumers, like US consumers, increasingly demand delivery of our agriculture and other goods by container.
- If due to some of the factors described above (growth of Southeastern ports), import containers are not available for West Coast port transit, or the cost of West Coast port transit - in terms of price and delay - continues to escalate, our foreign customers will be looking to ag producers in those countries which are efficient and cost-competitive.
- Agriculture and forest products are fungible. Unlike many consumer goods, agriculture and forest products have no name brands which trend-conscious and status-seeking shoppers demand. The shopper in the Korean grocery store, or in the Chinese market, or the Japanese restaurant does not know precisely where the asparagus or oranges came from. They do not know where the cotton in their shirts was grown. If the beef they are eating is from Iowa, Canada, Brazil or Australia? Did the paper come from Mississippi or Scandinavia? The lumber framing materials may have come from Oregon or North Carolina or Russia. Ideally, we would prefer foreign customers to demand US ag, handled by US longshore labor, at US marine terminals, but they do not and will not. They will go to suppliers everywhere in the world, who can deliver dependably and affordably.
- Forest products and agriculture have extremely low margins. A few pennies per unit determines if the potatoes, lentils, soybeans, etc. are going to be sourced from this country or another.
- Agriculture is time and treatment sensitive. Delays at the port are the death knell of the perishable cargoes that move in refrigerated containers. Just a day or two longer means the difference as to whether the supermarket in Japan or Korea will accept the cargo at all, due to the remaining limited shelf life. One or two instances of delay is sufficient for the supply-chain managers of a supermarket chain to simply shift its sourcing of beef and mutton to Australia or New Zealand.

What do we propose?

As all shippers, we hope that during the course of your negotiations this summer that port operations are not disrupted. However, we think the stakes for all of us are much higher than just the short term conclusion of negotiations. So we seek the following:

- That you recognize and address the emerging trends listed above.
- That you work towards assuring long-term cost and operational competitiveness of US West Coast ports, as measured against US East and Gulf Coast, Canadian, European, and Asian ports.
- That you see the US farmers and agriculture and forest products exporters as your long term partners anchoring business flows and waterfront jobs on the West Coast.
- That you accept our invitation to enter into a serious dialogue to understand why agriculture and forest products are, like you, captive to our geographic location, and what it will take to keep our cargo flowing across West Coast docks.

Regards,
 Peter Friedmann
 Executive Director
 Agriculture Transportation Coalition
 Washington, D.C.