

Southern California's Role As A Major Trade Gateway



■ Trade and Transportation

By *Thomas O'Brien*

Last week's announcement that longshoremens and the Pacific Maritime Association reached a tentative deal on health benefits was welcome news to an industry still recovering from a nearly decade-long economic buffeting. A new contract will allow everyone to get back to the business at hand: moving cargo. While that means tracking TEU volumes at the port, the health and well-being of the goods movement industry also depends on other trade sectors. This includes air cargo.

Southern California's role as a major trade gateway is defined not only by our ports, but our airports as well, LAX in particular. LAX is the world's 14th largest air cargo airport, moving some 1.7 million tons of freight last year. It is the 5th largest air cargo facility in North America, trailing only Memphis and Louisville which are hubs for small package operations, Anchorage – a major air cargo transshipment center, and Miami.

Carriers across the globe experienced declines in business as a result of the recent global financial crisis. Currently, air cargo is making a rebound, but unrest in the Middle East, financial issues hampering Europe, complex security requirements, environmental regulations, and a need for greater collaboration within the industry are still holding air cargo back.

As the most expensive mode of goods movement, air cargo is particularly sensitive to shifts in supply and demand as well as global financial and political trends. But there are some bright spots. One of the greatest air cargo growth opportunities in California is in the agricultural sector. Maritime shipping can be unreliable for value-added goods movement (such as fragile produce products), worldwide demand for such goods is increasing rapidly, and more liberal import/export laws are opening new markets for California producers.

However, as international passenger and cargo volumes increase, a currently stressed California transportation infrastructure will be increasingly burdened. LAX and San Francisco International Airport

(SFO) together handle close to 100 percent of all airborne imports into California and more than 90 percent of all airborne exports from the state. Both airports face severe constraints on their ability to handle significantly greater levels of additional cargo. LAX has little room for expansion and faces very stiff political opposition from neighboring communities to any increase in flight operations. SFO suffers from high rates of weather-induced flight delays and diversions and has been slow to upgrade its air cargo handling capabilities. Highway access to both facilities is increasingly congested, posing a particular problem for shipments of perishable commodities.

And then there are the planes. As ever increasing ship size poses challenges for ports, the development of new airplanes challenges airports. New passenger aircraft types will require expensive improvements to airport facilities, especially for major airports like LAX, and impact overall airport capacity. As a result, land acquisition will play a pivotal role in future air cargo success as will creative funding approaches, such as private venture capital, that make expansion possible. The ability of airports to raise revenue from parking, retail operations or passenger facility charges may determine, in part, how accommodating an airport is to cargo operations.

So both large scale infrastructure and operational improvements will need to take place. But there are a number of smaller initiatives that can also be undertaken to streamline air cargo activities and improve the outlook for the industry. This includes facilitating risk-focused Transportation Security Administration (TSA) air cargo screening which makes for a more efficient and effective supply chain. The industry could also benefit from more inter-industry collaboration. Far-flung networks are the hallmark of the air cargo industry and help keep the supply chain moving despite economic fluctuations. Technological innovation will help facilitate information sharing as well as the development of new relationships from an operational and security perspective. Traditionally strong air cargo markets like those in North America and Asia are important but so are rapidly growing markets in places like Latin America. Collaboration will matter there too. Collaboration between the industry and local government is also critical. Currently, airport development and planning is disjointed. The continuing shift toward making transportation investment decisions from an intermodal perspective will require increased attention to the broader context of airport development. Increased coordination between airports and regions will achieve greater efficiency within the system while addressing major infrastructure needs.

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