

Long Beach

BUSINESS JOURNAL

May 26, 2009- June 8, 2009

No Longer the Front- Page Story, But Still News



■ Trade and Transportation

By Thomas O'Brien

Earlier this month, the Long Beach City Council unanimously approved the Middle Harbor Project, a \$750 million plan to modernize and expand two terminals at the port. The plan increases the size of the terminal complex, in the process allowing for a doubling in cargo volume. The project enjoyed broad-based support from a diverse group of stakeholders, including union members. The promise of thousands of new jobs resonated with a community uncertain about the future of the local economy. The port's efforts to increase the use of on-dock rail, along with the project's other environmental benefits, help make the case that the port is committed to growing greener.

But there may be more to come. It was an appeal by the City of Riverside along with some environmental and community groups that put the item before the city council; and a lawsuit challenging the Middle Harbor's environmental clearance is still possible. Opponents argue that the project's impact on the Inland Empire has not been adequately addressed. For some residents of these communities, the potential for more noise and traffic - including rail traffic - outweighs the benefit of new jobs, many of which, they argue, would be located at or near the port and not in the immediate vicinity.

The council action made news. It was a definitive statement by a governing body at a specific point in time. What is harder to capture from a news perspective is the decision-making process that leads stakeholders to take one position over another on key projects. The coalitions built by both the port and its opponents occurred over time. Arguments were made and then further honed; parties negotiated and ultimately staked out a position, at least until the next round of negotiations or the next public hearing.

The Middle Harbor project brings to a mind another round of more dramatic negotiations, one with life- or-death implications, but one which also seems to have lost the attention of the public in the absence of a defining moment. When the Maersk Alabama, a U.S.-flagged cargo ship, was boarded by pirates in the Gulf of Aden in April, the nation was captivated by the story of the heroic captain, his attempt at escape and his ultimate rescue. The public seems less interested in the background events leading up to the attack, and the subsequent debate over the steps that vessel owners should take to protect both cargo and crew.

But the Maersk incident will have implications far beyond this one ocean carrier. Piracy threatens the stability of supply chains in general, causing carriers to increase security measures in some cases and avoid certain trade lanes in others. This has impacts for economic activity in ports and regions serving those trade lanes.

The International Chamber of Commerce's International Maritime Bureau's Piracy Reporting Center reported a worldwide total of nearly 300 incidences of piracy and armed robbery involving oceangoing vessels in 2008. Forty-nine vessels were hijacked and nearly 900 crew members taken hostage; 11 were killed. Container vessels as well as bulk carriers and tankers were targets. This is the most in any one year since the Piracy Reporting Center began tracking incidents in 1991. While the majority of attacks occurred in the Gulf of Aden, a principal route for cargo ships between Asia and Europe, there were also 40 separate incidents off the Nigerian coast.

Piracy - and even the threat of piracy - imposes significant costs on the supply chain. Operating costs increase as a result of increased insurance premiums, piracy premiums - i.e. hazard pay for crew members - and the cost of increased transit time for ships that divert away from the area. There are also potential environmental costs should a targeted ship be destroyed.

Developing and implementing solutions to the piracy problem requires an institutional structure that supports collaboration and cooperation. The international community has responded

with coordinated efforts, many under the auspices of the United Nations, but establishing industry-government collaboration is more difficult. Industry tends to focus more on response than deterrence. Ocean carriers are willing to pay higher insurance premiums and offer hazard pay to crew members instead of diverting ships. This is evidence that supply-chain managers balance safety and security concerns with other considerations like transit time and cost.

So pay attention to what happens as a result of a lawsuit brought by one of the Alabama's cooks arguing that Maersk did not adequately protect the crew from the threat of piracy. Legal briefs and arguments may be less compelling than an at-sea rescue involving sharpshooters, but they will likely have a greater impact on where and how trade occurs in the future. Just like with the Middle Harbor project, the lesson of the Alabama is this: just when you think you know how the story ends, it's really only just begun.