



WRITTEN TESTIMONY

OF

EUGENE D. SEROKA

EXECUTIVE DIRECTOR

PORT OF LOS ANGELES

on

“Agricultural Exports and California Ports Issues”

BEFORE THE

JOINT

ASSEMBLY AGRICULTURE COMMITTEE

AND

SELECT COMMITTEE ON PORTS AND GOODS MOVEMENT

February 2, 2022

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Introduction

Good morning, Chairman Rivas, Chairman O'Donnell, and Assemblymembers. Thank you for the invitation to participate in this important hearing.

I am Eugene D. Seroka, Executive Director at the Port of Los Angeles, and immediate past Chair of the California Association of Port Authorities. In addition to spending the last seven years at the Port of Los Angeles, I have more than 33 years of experience in the maritime shipping industry, both in the United States and abroad, and have been privileged to engage with every link of our global supply chain.

I greatly appreciate the purpose of today's hearing because a well-functioning supply chain is key to the success of California's economy. This is clearer today than it has ever been. The past few years of supply chain challenges – from the initial onset of the tariffs and retaliatory tariffs between the U.S. and China to today's unprecedented surge in cargo volumes – have pushed the maritime supply chain and the customers it serves to the forefront of public policy discussions at every level of government.

Today, I hope to share some observations from our unique vantage point and suggest some courses of action that can position California to reassert its leadership and convert its supply chains into a competitive advantage, all while supporting California's vital agriculture industry.

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Significance of the Port of Los Angeles

The Port of Los Angeles is the busiest container port in the nation. In 2021, it handled 10.7 million twenty-foot equivalent units (TEUs, the standard measure of container cargo), which is a record amount for a Western Hemisphere port. The operational scale of the Port of Los Angeles is immense: 27 terminals, 270 berths, roughly 200,000 unique shippers, 1,863 annual ship calls, 100 daily trains, and 60,000 daily truck moves. We also operate cruise, liquid bulk, and automobile business lines, however container cargo is the largest share of our business.

Together with our neighboring port in Long Beach, we comprise the San Pedro Bay Port Complex, our nation's largest trade gateway with the Pacific Rim. This complex handles nearly 40 percent of all containerized imports and 30 percent of all containerized exports for the United States. Cargo through this complex flows to and from 160 countries across the globe and reaches every Congressional district across the nation. In fact, only one-third of the cargo handled at the Port is consumed within the Los Angeles region, while fully two-thirds of our cargo is destined for the national market. As a result, changes in consumer behavior, trading patterns, and manufacturing supply chains show up in our volumes.

When our supply chains work well, they operate largely unnoticed, delivering essential goods, creating jobs, and driving economic growth and prosperity across the nation. However, unprecedented supply chain challenges have drawn public attention to the San Pedro Bay

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Complex and its impact on American consumers and businesses. That is why, since mid-October, both ports have convened joint action meetings, in coordination with White House Port Envoy John Porcari, to identify operational issues and develop near-term solutions.

To reiterate the significance of the ports in the current national supply chain dialogue, we have hosted visits and briefings for Governor Newsom, U.S. Secretary of Labor Marty Walsh, U.S. Transportation Secretary Pete Buttigieg, former State Transportation Secretary David Kim, and GO-Biz Director Dee Dee Myers to discuss long-term investment in our Ports.

Background on an Unprecedented Consumption Surge

In early 2020, in order to contain the spread of the novel coronavirus, the Chinese central government shut down manufacturing. As the virus spread to the United States, emergency stay-at-home orders effectively shut down large parts of the economy. The resultant effect was a huge drop in cargo volumes – an 18.5 percent decrease year-over-year (May 2019 to May 2020). At that time, our terminals saw very little activity and we observed a large number of cancelled sailings.

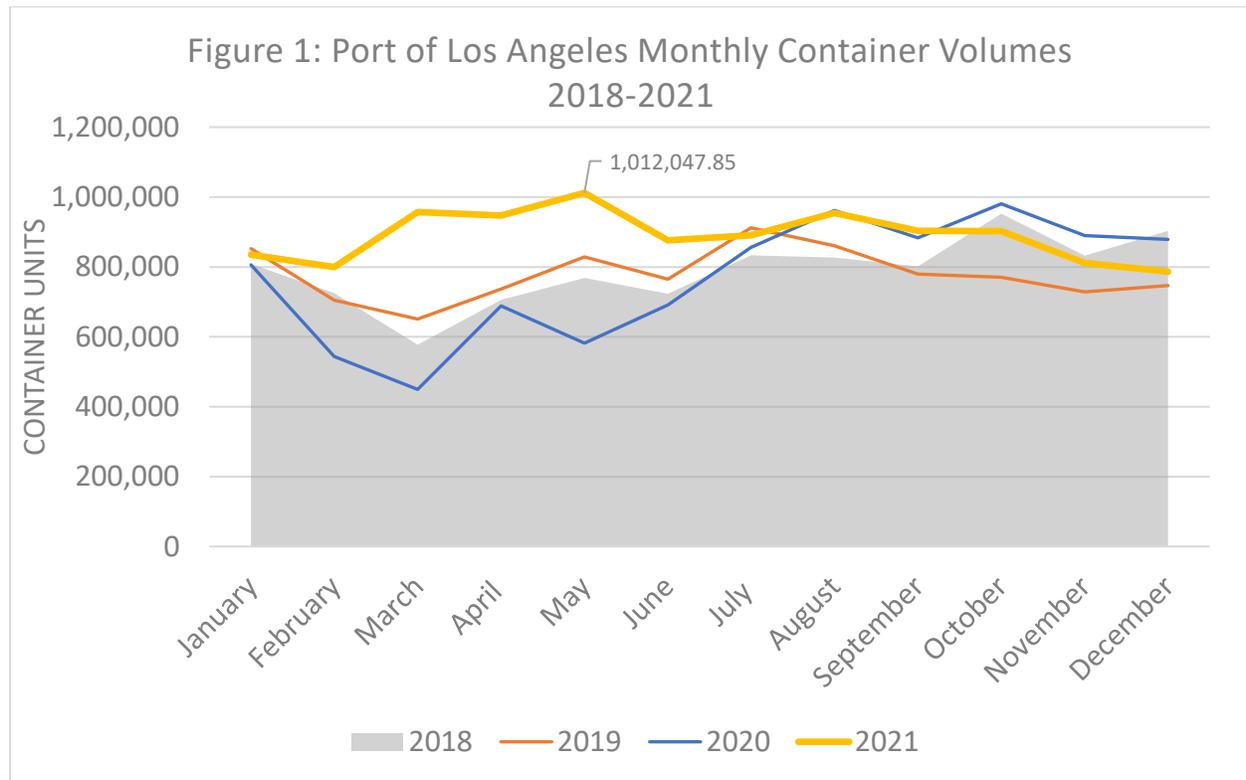
By summer 2020, as goods consumption began to resume, businesses first worked down inventories, which were still well-stocked with goods forwarded in advance of tariff milestones set between August and December 2019. At this time, personal consumption expenditure shifted away from services and into goods consumption. This was further fueled by federal stimulus payments. Online purchases doubled over 11 months as quarantined shoppers

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acquired everything from exercise equipment to athleisure wear to new furniture. By August 2020, cargo volumes began to surge as businesses began to replenish inventories (see Figure 1).



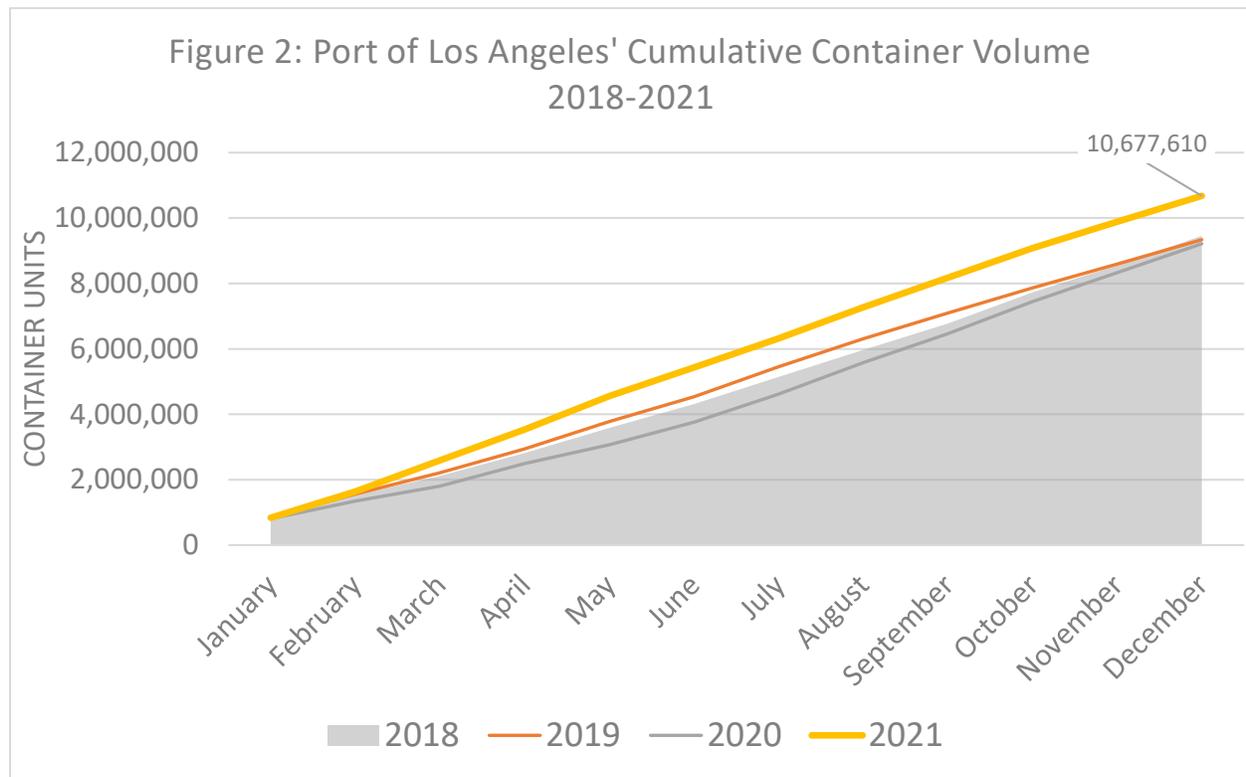
Dating back to July 2020, the Port has experienced an average monthly container volume of 900,000 TEUs. In May 2021, the Port recorded its first “million container month” – the first time a Western Hemisphere port ever moved over **1 million TEUs** in a single month. This pandemic-induced surge is the main reason we have pierced the 10 million TEU mark for a single year with nearly 10.7 million TEUs in 2021 (see Figure 2). Additionally, for the 2021 calendar year, the SP Bay Ports have processed a record 20 million TEUs. This is 14.3% more cargo than the previous record from 2018 when the ports moved a combined 17.5 million TEUs.

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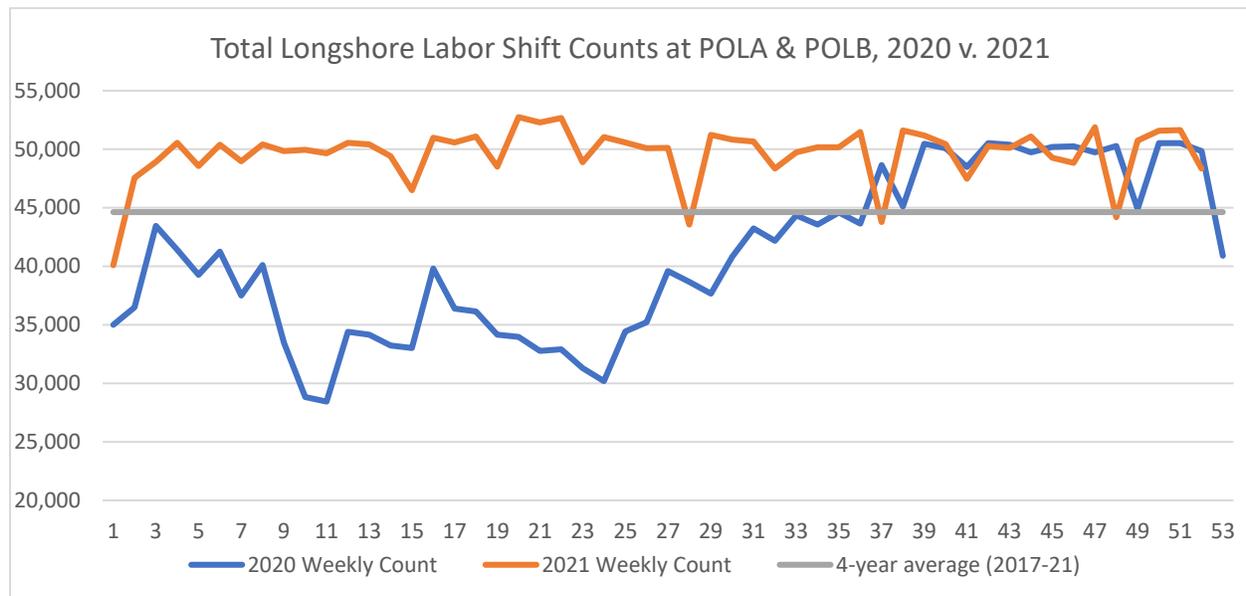
Handling this amount of cargo is, by any measure, an amazing accomplishment for our terminal operators as well as our longshore women and men. Productivity at the Port has never been higher. Work shifts for the International Longshore and Warehouse Union (ILWU) remained elevated throughout 2021 (see graph below). Before the pandemic, we averaged 10 ships a day at berth; during the surge, we have averaged 16 to 17 ships a day.

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Supply Chain Impacts

The surge in volume placed strain on the whole system – both across the nation and across the globe. In Los Angeles, the surge caused warehouses and distribution centers to fill up – in short, there was no place to take the cargo. This led to equipment being used to store cargo, which meant the necessary equipment – especially chassis – was not cycling back to the port to pick up more containers. As a result, marine terminals filled up and impacted the ability to unload ships. Whereas, before the pandemic, arriving ships would immediately go to its berth assignment, congested terminals meant arriving ships were being sent to anchor.

Here is an overview by supply chain segment:

- **Warehouses:** Despite nearly 2 billion square feet of warehouses in our region, these facilities filled up and resorted to using containers as temporary storage. The amount of

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time it takes for a container and chassis to cycle back to the Port – what we call “street dwell” – went from an average of 3 days to 8.8 days.

- **Marine Terminals:** Shippers need to continue to pick up their boxes here at the Port, as the terminals continue to fill up with containers. The duration of time a container remains in a terminal before it is moved is currently 5 days, a decrease from an 11-day peak previously recorded, though still higher than the 4 days experienced before the pandemic. Through the convening of the White House Joint Ports Action Meetings, we identified a growing inventory of aging containers (defined as loaded containers sitting in terminal for 9 days or more). This troubling trend prompted the Port to adopt a Container Excess Dwell Fee; and the mere threat of imposing this fee caused a strong response from the industry. As a result, the number of 9+ day containers on terminal has dropped by 71% since the fee was adopted.
- **Gate Productivity:** When terminal tarmacs are stacked with containers, it takes longer for trucks to pick up the boxes, so “truck turn times” increase. Additionally, truckers have reported various challenges, including returning empty containers & obtaining bare chassis, and limits on hours of service. Due to these challenges, utilization rates of existing gate appointments remains below 50%. In order to keep the flow of lower priority cargo moving we implemented a “container dwell fee” to move the aging cargo on the docks and help the flow of cargo.
- **Ships Schedules and Ships at Anchor:** Typically, ships arrive and are assigned a berth for unloading and loading of cargo; however, in a congestion scenario, ships are directed to

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anchor off the coast of California. In the Fall of 2021, we averaged more than 100 ships that were loitering, drifting, or heading towards the San Pedro Bay. Of those, the Port of Los Angeles has consistently expected between 40-50 vessels, with an average anchorage time of 20 days. On November 16, the industry moved to a modified queuing system for safety and environmental purposes. This has significantly reduced the number of ship anchor within 40 nautical miles and, importantly, allowed ships to “slow steam” to the San Pedro Bay, rather than create excess emissions by speeding across the Pacific only to wait at anchor.

- **Rail:** Early in the pandemic, the amount of time that containers sit waiting to be loaded on to a train – what we call “rail dwell time” – increased from 2 to 8.6 days. At peak, rail dwell was at 11.6 days in March. Currently, thanks to the work of the Class I railroads, our on-dock rail time to load is now 2 days.

In this kind of environment, shippers experience tremendous hardship, which has exacerbated an already challenging situation. Our agricultural export community, for example, has already been negatively impacted by the onset of tariffs and retaliatory tariffs since in 2018.

Additionally, the Phase I trade deal resulted in non-compensatory pricing for American growers.

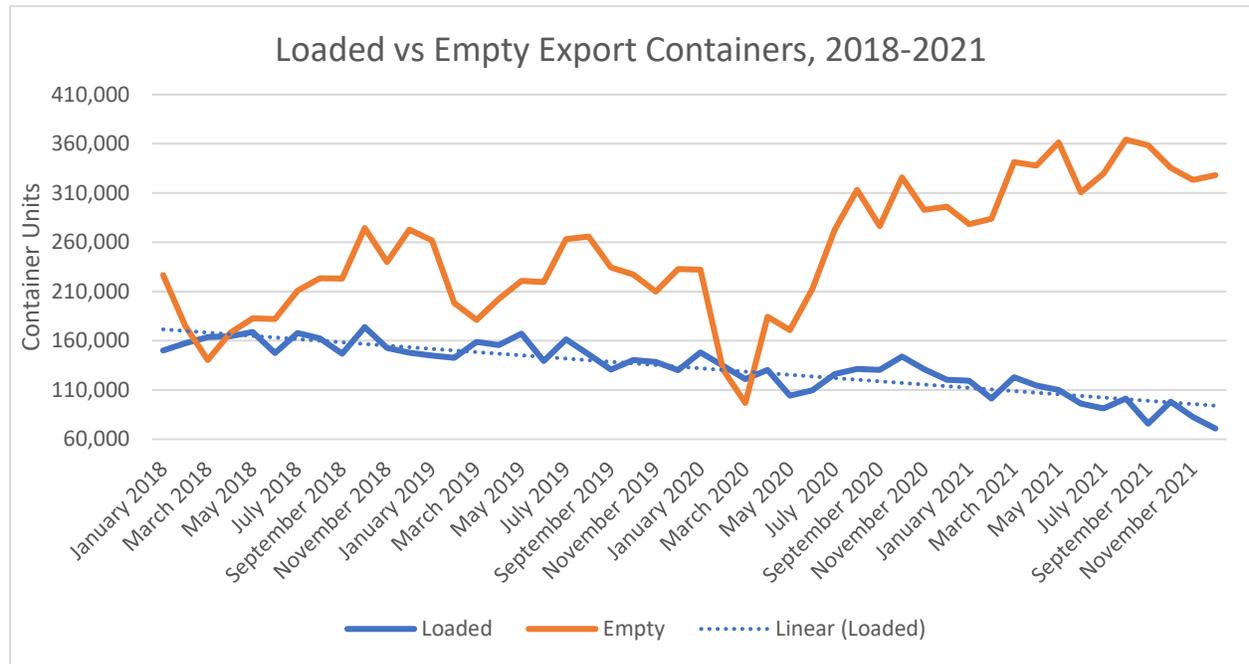
The Port’s current concern is this: even as our economy shows signs of recovery and record amounts of cargo are being moved, exporters may miss critical opportunities in foreign markets due to supply chain challenges.

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Our Response to Support California Exports

We are focused on four areas in support of California’s export community:

- **Freight System Resilience:** Port congestion is a symptom of broader supply chain disruption. Our supply chain system needs additional investment to give it the capability to “flex” when cargo surges occur. This includes development of empty container depots, import container staging yards, and even locations where aging containers can be placed to make way for more time-sensitive cargo.
- **Information Sharing to Support Our Export Community:** Since 2017, the Port has been developing a port community system, the Port Optimizer, which is a platform that makes information available for free to port users and stakeholders. We are planning to develop a module to digitalize the export process by capturing real-time data – including truck

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appointment availability, empty return, early return date (ERD), and container availability data – and creating a dynamic platform to house the information (as we currently do for import information). In this way, we can enhance system visibility, reliability, and efficiency for exporters and their service providers. Importantly, this information further empowers them with the tools necessary to mitigate the risk of additional charges.

- **Connecting California:** We must enhance connectivity of California’s manufacturing and agricultural centers to its major trade gateways through infrastructure investment. Furthermore, we must leverage data and explore incentives to make it easier for our exporters to marshal the equipment necessary – especially empty containers – to reach foreign markets. At present, the Port of Los Angeles is working with stakeholders in California’s Central Valley to improve connectivity to our trade gateway and enhance the competitiveness of the California agricultural community. Such a model can be replicated at the national level.
- **Targeted, Sector-Based Efforts:** Last week, the International Dairy Foods Association, together with the Port of Los Angeles and shipping line CMA CGM, announced the formation of a Dairy Exports Working Group aimed at identifying and addressing supply chain issues hampering U.S. dairy product exports. The group will focus on seaports on the West Coast of the United States, where a majority of dairy products begin their export journey, as well as opportunities to streamline the movement of products from the interior of the United States to the West Coast. This is critical to California as dairy is highest value agriculture commodities produced in California and one of the state’s largest agricultural

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exports. We will monitor the progress of this working group and replicate best practices with other exporters moving their goods through the Port of Los Angeles gateway.

Moving Forward

Over the past several years, port and freight policy has been the exclusive province of transportation planners and air quality regulators. This must change. The maritime supply chain is a public and private sector endeavor, with mostly private sector operations conducted on mostly public sector infrastructure. To the public policy goals of congestion relief and emissions reduction, we must add improved service to end users, such as our agriculture and manufacturing sector.

At the national level, this is the direction that public policy conversations are beginning to move. Today's hearing is direct evidence that this approach is gaining traction at the state level. And, recent joint efforts between the Biden and Newsom administrations also indicate that alignment between the federal and state efforts is underway. However, with funding being made available to address long-term supply chain issues, we must continue to ensure that investments are made in service to the sustained competitiveness of our key economic sectors.

The Bipartisan Infrastructure Law makes available \$17 billion for ports and inland waterways. And last month, Governor Newsom proposed \$2.3 billion to ports in the state budget. We

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strongly support the funding being recommended by the Newsom Administration and hope the state can use this funding to earn a fair share of federal funding being made available.

Most importantly, this level of funding commitment represents a monumental opportunity for California to reassert its role as a leader in the global economy. Speaking on behalf of one port, we stand ready to work with you and take this opportunity to ensure the competitiveness of California's export community.

Thank you for your consideration.