Innovative Response to Big Ship Growth: Creating a Seaport Alliance

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Summary:
An answer to Question Number 1: What do you see as the major impact on world trade and shipping as a result of the growing deployment of larger container vessels? Essay answers how our ports are responding to this and what part we are playing to ensure our ports are prepared.

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Located in the Pacific Northwest of the United States of America, the ports of Tacoma and Seattle are the third-largest container gateway in North America. In 2014, we collectively handled 3.4 million TEUs and 1.8 million metric tons. Our marine cargo operations support more than 48,000 jobs and generate $4.3 billion in economic activity.

From our perspective, the impact of larger containers vessels is clear –we must prepare for their arrival by deepening waterways and enlarging berth space. We are called on to purchase larger cranes with wider spans, prepare backlands to accommodate a greater number of containers and ensure that there is adequate road and rail infrastructure to get cargo to market quickly and reliably. This deployment of larger vessels occurs at a time when profits are down and margins are as thin as a razor's edge.

At the same time, ports are facing a number of competing priorities. We are investing millions of dollars in infrastructure to prepare for these mega vessels. To remain profitable, we also must

maintain a balance of diversified cargo. Markets are changing swiftly. It doesn't make business sense for us to put all of our eggs in one basket.

The ports of Seattle and Tacoma are addressing the changes in world trade and the shipping industry with a completely unique and unprecedented response among U.S. ports: we are forming a strategic alliance and cooperating, for the first time in more than 100 years, on every aspect of our operations, from business development to planning and infrastructure investment. Following the lead from the shipping lines, we are deploying our capital – both financial and human – in new ways, working together so that we not only remain competitive, but provide the world market with a much better port "product" in order to serve *their* needs.

How did this come about? In 2014, we were the presidents of the Port of Tacoma and Port of Seattle Commissions. For 40 years, there was fierce competition between our two ports. We competed for business, government funding for infrastructure, and even for "bragging rights" about which port was more successful. Each time a shipping line moved from Tacoma to the Port of Seattle or from Seattle to the Port of Tacoma, there was a loud chorus of port officials or local maritime business owners cheering for the "winning" port or calling for the two ports to merge so losses would not continue. Editorials either voiced outrage or celebrated victory. Stakeholders met us at public meetings and began a conversation by raising their voices. They hollered "you're driving the prices too low" or "you'll put us all out of business" or "the ports must merge so that we can both stay in business."

From several Commissioners' point of view, a merger of our two ports was highly unlikely. In Washington State, ports are governed differently from the rest of the world. Even in the United States itself, most ports are city or state owned, with Boards of Commissioners appointed by mayors or governors. But in Washington, more than 100 years ago, farmers, businesspeople and government officials came together to prevent a stranglehold on trade and industrial maritime land use.

In 1911, the Washington State Legislature passed a law allowing the establishment of independent municipal port districts, each one

managed by a locally elected Board of Commissioners. Today there are over 75 port districts in Washington state. All have been formed to help their citizens create jobs and expand economic development. Seattle and Tacoma are the only Washington ports that handle international container trade.

In the first 75 years, there was plenty of cargo to satisfy both ports, even though the competition between them was strong. The ports of Seattle and Tacoma compared themselves in everything. Which longshore team could load a ship faster? Who unloaded the greatest amount of cargo? The Japanese may have come first to Seattle, but Tacoma exported the greatest number of logs.

Like San Francisco and Oakland in California, Seattle and Tacoma lie about 25 land miles apart from one another. In 1873, the transcontinental railroad came to Commencement Bay in Tacoma first, inspiring citizens to name their beloved town, the "City of Destiny." Then the Alaskan gold rush occurred and Seattle got the commercial jump on Tacoma by providing supplies for miners who travelled from Elliott Bay north to Alaska. In 1962, Seattle attracted the globe to its World's Fair and became known as the "City of the Future" with its iconic Space Needle. Seattle was more like San Francisco. Tacoma may not have had its neighbor's notoriety; after all, the movie was "Sleepless in Seattle" not "Tired in Tacoma." But city leaders in Tacoma kept focusing on manufacturing and industry, military bases and some technology start-ups. Tacoma was more like Oakland.

By the time containerization was widely introduced in the 1960s, Tacoma had an advantage with railroad tracks already built on the docks –and touted itself as the region's first on-dock rail. Seattle, being our state's first established deep-water port, home to the state's fishing fleet and urban population base, had the advantage (at that time) of the most modern container terminal facilities, a diverse cargo base and political leadership, which helped to continue investing in both physical infrastructure and a robust internal staff who reached out across the globe looking for new tenants and business opportunities.

Tacoma advertised the "Tacoma Advantage." Seattle continued to grow as an international city, with Boeing and Starbucks and new high

technology businesses like Microsoft and Amazon making Seattle their corporate headquarters. As Seattle grew, however, pressure mounted regarding land use; why was there a port facility in (essentially) the middle of the robust downtown? Wouldn't this land be put to better use by having residential neighborhoods grow here? As more new residents moved to Seattle to take advantage of jobs in high tech, Seattle began to lose some of its identity as a "port city" and became better known for its high-tech industry. In the meantime, the Port of Tacoma continued to innovate and hustle for business.

In 2006, Tacoma surpassed Seattle for the first time in number of TEUs handled. From one year to the next, the numbers played ping-pong. Seattle built two sports stadiums near the waterfront and developers wanted more. Tacoma's port was the economic engine of its home county. Citizens loved the Port of Tacoma and continued to re-elect its commissioners for four-year term after four-year term. In the early 1990s, Seattle had some financial issues and increased its property tax allotment by a stark 15%. The community was not pleased, and continued to question the viability – and value proposition – of even having a marine port in their city.

And, as everyone noticed, the ships were getting bigger. From the beginning, the Puget Sound ports were blessed with deep-water harbors. But still, we needed greater depth dock side. Both ports were dredging to 51 feet. Maersk sent its record-breaking 6,000-TEU *Regina* to Commencement Bay in 2006. Crowds of citizens gathered along the shore and gasped at her size and capacity.

In Tacoma, the port continued to build single terminals for individual customers. In Seattle, Terminal 18 had multiple customers. Soon shipping lines were buying one another out or creating joint service agreements as Evergreen did with Lloyd Trestino in 2007. These alliances created unexpected consequences for the two ports. In 2009 Tacoma lost Maersk, the world's largest shipping line when it joined its new partner CMA CGM in Seattle. In 2012, the Grand Alliance, made up of Hapag-Lloyd, OOCL and NYK, left Seattle for Tacoma.

Times were tense on the waterfront. Individual commissioners had conversations with counterparts, talking about the problems we

were both facing, about how we had to "do something." Commissioners in one port balked at issues of governance. They wanted to retain their elected positions and the responsibilities and prestige that came with the position. Other Commissioners felt threatened by customers, facing closure of their finest and best terminal.

The Commissions thought they knew the other port; after all we had been competitors all these years. But it was clear we didn't know much. Or we didn't know what we needed to know. And there were legal restrictions on just how much information we could share with each other. The United States Federal Maritime Commission had anti-trust restrictions in place to prevent price fixing. If the ports were to even consider the possibility of "doing something" differently, we would need permission to talk from the FMC.

Without a name for it or even a vision of what "it" might be, Commissioners, attorneys from both ports, the two CEOs and three senior staff sat down together. We sought and received permission from the FMC to share information about our respective operations, facilities and rates. By February 2014, we were actively engaged with a consultant in exploring the strengths and weaknesses of each port and projecting costs of developing two new terminals to be big-ship ready. Over several months, we toured each other's ports and brainstormed the issues and processes that would need to be addressed to recover the West Coast market share that both ports had lost during the past decade.

On October 14, 2014, the two commissions voted unanimously to adopt and submit a Framework Inter-Local agreement to the Federal Maritime Commission for the establishment of a Seaport Alliance. A final, more detailed agreement outlining business objectives, strategic marine terminal investments, financial returns, performance metrics, organizational structure and public engagement will be submitted in April 2015.

The response to the announcement of the Seaport Alliance was deafening. From the Governor and Congressional leaders we received heartfelt congratulations. From the press: "Two historic enemies achieve a remarkable détente," "Ports accept reality of worldwide competition," "In historic decision, Ports of Seattle and Tacoma join

forces." Customers stepped forth, many of them asking "What took you so long?" Lawmakers from federal, state and local levels were inspired by our level of cooperation.

We know that we face many challenges ahead. We are optimistic but we are also realistic. Where we were once rivals, we now intend to be partners. Instead of competing, we are combining our strengths to create the strongest and most productive Maritime Gateway in North America. We know that this is a bold move.

Preparing for the mega ships not only changes infrastructure and trade patterns, in Seattle and Tacoma, it is changing cultures and the way that people are working together.