Memorandum

Date: March 26, 2012

To: Trade Development and Port Operations Committee

From: Donald B. Snyder, Director of Trade Development

Subject: Competitive Factors for U.S. Midwest Markets

Summary
The Port of Long Beach (POLB) faces an increasingly competitive market for inbound discretionary cargo whose final destination is outside greater Southern California’s “local” market. The attached presentation highlights the recent performance of two of POLB’s emerging competitors for this cargo – the Port of Prince Rupert, Canada and the Port of Lázaro Cárdenas, Mexico – and discusses potential impacts of growth at these ports to POLB’s market share.

Port of Prince Rupert
The Port of Prince Rupert moved 410,469 TEUs in 2011. This represents containerized cargo growth of 20% (21% import, 17% export) over 2010. The estimated annual capacity of Prince Rupert’s Fairview Terminal is 500,000 TEUs, meaning it is currently operating at about 80% of capacity. However, Prince Rupert has plans to begin construction on an additional 1.5 million TEU terminal as early 2013. Full build-out of all Prince Rupert terminal plans would create a total estimated capacity there of 5 million TEUs by 2020.

Prince Rupert’s top trade-partner countries include China, Japan and Korea. Currently, more than two-thirds of Prince Rupert’s import cargo is destined for U.S. Midwest markets.

Potential advantages of Prince Rupert over POLB include the fact that it is two days closer (sailing time) to Asian markets than the ports of Southern California, the fact that it has direct rail access to the U.S. Midwest via the Canadian National (CN) railroad, and the fact that no Harbor Maintenance Tax is assessed on U.S. import cargo moved through there.

One of the major weaknesses of Prince Rupert compared to POLB is that it does not serve a local market or have a local workforce or distribution infrastructure, meaning it can only effectively accommodate intact intermodal discretionary cargo bound for Midwest destinations. This limits the variety and even perhaps volume of goods that it can handle.

Port of Lázaro Cárdenas
The Port of Lázaro Cárdenas moved 953,497 TEUs in 2011. As with Prince Rupert, this represents containerized cargo growth of 20% (25% import, 15% export) over 2010. Lázaro Cárdenas currently consists of a single terminal (LCT) operated by Hutchison Port Holdings (HPH). The estimated current capacity of this facility is 2.2 million TEUs. However, it was recently announced that APMT won its bid to develop a second container terminal (TEC II) at Lázaro Cárdenas, with operations there beginning as early as 2015. Phase I of APMT’s terminal would have a capacity of 1.2 million TEUs with future phases increasing APMT’s capacity to 4.2 million TEUs, and total capacity in Lázaro Cárdenas to some 6.5 million TEUs by 2020.
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Lázaro Cárdenas’s top trade-partner countries include China, Japan and Korea. No U.S.-destined cargo currently moves through Lázaro Cárdenas.

Potential advantages of Lázaro Cárdenas over POLB include the fact that it has significant land available for future expansion, its relatively low cost of labor, its on-dock Kansas City Southern de Mexico rail infrastructure which allows direct access to U.S. Midwest destinations via Texas, a geographic location that makes it a strategically suitable port for transshipment of cargo to and from Central and South America, and the fact that no Harbor Maintenance Tax is assessed on U.S. import cargo moved through there.

One of the major weaknesses of Lázaro Cárdenas compared to POLB is that the Kansas City Southern de Mexico intermodal corridor still requires significant upgrades to bring it up to the standard of the BNSF and UP networks that serve POLB.

Conclusion
POLB faces an increasingly competitive market for inbound discretionary cargo whose final destination is outside greater Southern California’s “local” market. Both the Port of Prince Rupert, Canada and the Port of Lázaro Cárdenas, Mexico are positioning themselves to compete for discretionary cargo moving to the U.S. Midwest. While growth at both ports has been relatively strong in the past several years, both ports also face challenges.

Combined with investments by both BNSF and UP in their rail networks, we believe POLB’s current efforts to improve our terminals and supporting infrastructure to the tune of $4.4 billion will allow us to increase capacity and service offerings, and so too remain competitive for intermodal discretionary cargo bound for U.S. Midwest markets.

That said, Executive Management and Trade Development staff are aware of the potential threat to POLB market share posed by both Prince Rupert and Lázaro Cárdenas, and we will continue to proactively monitor emerging trends at these and other ports, adapting how and where necessary, and bringing policy and program recommendations to the Board as appropriate.

Recommended by:                                  Approved by:

Sean C. Strawbridge                             Robert Cantor
Managing Director, Trade Development and Port Operations  J. Christopher Lytle
Executive Director

Attachment(s): Competitive Factors for U.S. Midwest Markets Presentation
Competitive Factors for U.S. Midwest Markets

Don Snyder
Director of Trade Development

Port of LONG BEACH
The Green Port
## Fastest Growing Ports (containerized cargo)

### Port of Prince Rupert

<table>
<thead>
<tr>
<th></th>
<th>2010 (in TEUs)</th>
<th>*yoy% Δ</th>
<th>2011 (in TEUs)</th>
<th>*yoy% Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import</td>
<td>193,511</td>
<td>24%</td>
<td>234,742</td>
<td>21%</td>
</tr>
<tr>
<td>Export</td>
<td>149,855</td>
<td>37%</td>
<td>175,727</td>
<td>17%</td>
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<tr>
<td>Total</td>
<td>343,366</td>
<td>30%</td>
<td>410,469</td>
<td>20%</td>
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### Port of Lázaro Cárdenas

<table>
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<th>2010 (in TEUs)</th>
<th>*yoy% Δ</th>
<th>2011 (in TEUs)</th>
<th>*yoy% Δ</th>
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</thead>
<tbody>
<tr>
<td>Import</td>
<td>390,864</td>
<td>32%</td>
<td>488,013</td>
<td>25%</td>
</tr>
<tr>
<td>Export</td>
<td>405,147</td>
<td>37%</td>
<td>465,484</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>796,011</td>
<td>35%</td>
<td>953,497</td>
<td>20%</td>
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</tbody>
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*NAWC: North America West Coast

* *yoy*: Year over Year

**Port of LONG BEACH**
Fastest Growing Ports

- **Port of Prince Rupert**
  - Fairview Container Terminal – operated by Maher Terminals and owned by Deutsche Bank
    - Current Capacity – 500,000 TEUs (400,000 TEUs throughput in 2011)
    - Phase 2 Development – additional 1.5 million TEUs
    - Currently in environmental review process (projected to be open in 2014)
    - A second container terminal (in its design stage) could boost the Port's annual capacity up to 5 million TEUs by 2020 − operator TBD

**Port of Lázaro Cárdenas**

- Lázaro Cárdenas Terminal (LCT) operated by Hutchison Port Holdings (HPH)
- Current Capacity = 2.2 million TEUs (0.95 million TEUs throughput in 2011)
- APMT won bid for a second container terminal (TEC II)
  - Phase 1 will have capacity of 1.2 million TEUs (in operation in 2015)
  - Future phase could reach 4.2 million TEUs capacity once complete, total Port capacity could reach up to 5.5 million TEUs)

*The Port Authority (API) has suspended the final process
Where is the growth from?

- **Prince Rupert**
  - Top trade-partner nations – *China, Japan and Korea*
  - High demand in emerging Asian markets for B.C. pulp, lumber and other wood product exports in addition to imports

- **Lázaro Cárdenas**
  - Transshipment hub – 70% to 80% of discharged containerized cargo from *Asia*
  - Serving the growing markets of *Central America* and *West Coast South America* – increasing trade between Asia and South American countries

<table>
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<tr>
<th>Import</th>
<th>Export</th>
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<tr>
<td>Origen</td>
<td>Destination</td>
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<tr>
<td>China</td>
<td>Mexico City</td>
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<tr>
<td>Korea</td>
<td>Querétaro</td>
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<tr>
<td>Japan</td>
<td>Nuevo Leon</td>
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<td>Mexico City</td>
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<td>Michoacan</td>
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<td>Panama</td>
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Advantages and Disadvantages – Prince Rupert

**Advantages**
- 1 day closer to Asia than Seattle; 2 days closer than LA/LB
- Deep channel and berths
- On-Dock rail infrastructure and network connecting U.S. heartland destinations
  - PR – Chicago: 2,500 miles/100 hours
  - LA/LB – Chicago: 2,200 miles/87-103 hours
- ~70% of imports destined for U.S.
- No HMT
- Benefited from NAFTA and Canada-China FIPA
- Part of $16.5B Asia-Pacific Gateway Corridor Initiative
- Bulk cargo exports continue to grow (grain +17%, coal +16% in 2011)

**Disadvantages**
- Only one rail carrier serves the port
- Federal Maritime Commission (FMC) is undertaking an analysis of the impact of HMT on diverting U.S.-bound cargo from U.S. ports
- Substantial number of outbound empty containers (25% of total container traffic)
- Inclement weather
Advantages and Disadvantages – Lázaro Cárdenas

Advantages
- Deep water (59 ft) – able to accommodate largest ships
- Land available for large terminal expansion
- Large customs and logistics facilities; FTZ planned
- On-Dock rail infrastructure and network connecting U.S. heartland destinations
  - LC – Houston: 1,300 miles/100 hours
  - LA/LB – Houston: 1,700 miles/82-111 hours
- Low labor cost
- Central location serving N.A. and Central/S.A.
- Nearshoring factor for exports

Disadvantages
- Currently moving no U.S.-destined Asian cargo
- Rail infrastructure needs substantial investment on both sides of the border to handle volume growth—bottlenecks in southern Texas and Houston
- Need better border crossing capacity and security
- Less developed and established in the market than Manzanillo
- Strong competition as regional transshipment hub from Panama
Canadian National Railway (CN)

- Largest and only transcontinental railway in Canada – only rail service at Prince Rupert
- Extensive rail network provides direct service to Chicago (4 days) and Memphis (5 days)
- Main lines maintained to high standards
- Strong financial performance supports huge capital investments – revenue up 12% in 2011
- Capital spending of $1.75B in 2012 for track replacement and improvements, additional long sidings, information technology support, and new locomotives and freight car purchases
- Significant investments in Northern Corridor and Pacific Gateway to provide high capacity and limited congestion from Prince Rupert to U.S. Midwest
Kansas City Southern (de Mexico)

- 2nd largest rail carrier in Mexico (FerroMex is largest) – only rail service at Lázaro Cárdenas
- Network spans from Mexico City to the U.S. border and connects inland rail network in Laredo, Texas (crossing)
- Cargo typically moved straight to U.S. inland ports like Kansas City SmartPort for inspection and distribution – fast customs clearance, no HMT
- Reported container traffic through LC up 31% (through Sep 2011)
- The LC – Kansas City intermodal corridor is a selling point to carriers and cargo owners
- Plan to invest $130 million in 2012 for rail upgrades and construction, as well as new technology upgrades and security measures