Executive Summary

The Dire Economic Consequences of Continued Market Share Declines at the Ports of Los Angeles and Long Beach

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Background

Since 2002, the San Pedro Bay Ports – the Ports of Los Angeles and Long Beach – have experienced a dramatic contraction in market share of imported containerized cargo from Asia; the twin ports' market share has plummeted 18 points – from 55% to 37%.

The market share losses can be traced back to the West Coast port shutdown during the 2002 labor negotiations with the ILWU. With terminals idled and ships lining up at sea, port authorities up and down the Atlantic Seaboard and along the Gulf of Mexico saw a competitive opportunity to provide shippers a more reliable and cost-efficient alternative.

As a result, they invested billions of dollars in channel and harbor deepening projects to handle large containerships and strengthened intermodal connections to key U.S. markets and distribution centers. These Atlantic and Gulf Coast ports also established competitive rail connections to serve major midwestern markets such as Chicago, Dallas, Indianapolis, St. Louis, and Kansas City – all key markets for intermodal/discretionary cargo that traditionally moved through the West Coast.

These investments have paid off for competing ports. Importers and exporters have responded to these newfound – and often less expensive and more reliable – options for containerized cargo. At the same time, more direct routings from East and Gulf Coast ports to Asia through the Suez Canal further eroded the traditional strongholds of San Pedro Bay. The opening of the expanded Panama Canal in 2016 eliminated yet another traditional competitive advantage enjoyed by West Coast ports.

Continued labor uncertainty surrounding ILWU contract negotiations has also had a negative impact on the competitive positioning of West Coast ports relative to their East Coast and Gulf Coast counterparts. West Coast ports experienced slowdowns during the 2014-2015 contact negotiations, and the protracted 13-month negotiations before the 2023 contract agreement (which extended nearly a year beyond the contract's expiration) also introduced a perception of unreliability around West Coast port operations. By contrast, East Coast and Gulf Coast ports maintained a reputation for more steady and reliable operations over that period, with longshore workers rarely if ever operating without a contract or contract extension.

As a result of these and other factors, last year the Atlantic Coast ports handled a larger market share of Asian imported containerized cargo than San Pedro Bay Ports – 42% versus 37%. This was a dramatic shift more than two decades in the making.

In order to maintain the San Pedro Bay Ports' market share of Asian containerized imports at the current level, it is critical to avert any further disruptions to service and take a closer look at the potential impacts of environmental regulations on goods movement and terminal operations that could impact major distribution centers in California and potentially extend the loss of discretionary cargo (cargo traveling beyond the immediate Southern California region). Of particular note are the requirements to transition to zero-emission yard equipment and operations by 2030, and a zero-emission drayage fleet by 2035.

While it is unlikely that the San Pedro Bay Ports can regain significant lost market share of the Asian imported containerized cargo that has occurred since 2002, continued losses can be averted by demonstrating the reliable continuity of service at port terminals to beneficial cargo owners.

Continuity of service will require a reduction in labor disruptions, while also ensuring that environmental regulations do not artificially cap cargo volumes and throughput. Drayage companies and terminal operators are evaluating how to meet the upcoming zero-emission mandates.

The political and operational hurdles faced by terminal operators to invest in terminal expansion and electrification to meet the zero emissions mandates are unique to Southern California, and require the cooperation of many other industries, including the two major power utilities that do not currently have adequate electric distribution networks to meet the future demands.

Should continuity of service continue to be interrupted, it is possible that the San Pedro Bay Ports' container terminals could be relegated to serving the regional Southern California market, rather than the national market, significantly reducing their economic impact to the region and state.

Assessing the Impact of a Strictly Regional Port Complex

To understand the economic impact of the discretionary containerized cargo handled at the San Pedro Bay Ports, Martin Associates developed a customized economic model that isolates the impact of San Pedro Bay Port Complex container operations. The model, first developed in 2020, was updated to assess the impacts should the port complex devolve into a regional gateway.

In short, the model answers the question: what economic impacts would result if discretionary cargo volumes – cargo traveling beyond the Southern California area – were to disappear?

For this current study, the San Pedro Bay Port Complex model was refined to focus only on container operations at the Ports of Los Angeles and Long Beach in 2023, and includes updated induced and indirect impact models for the state of California, updated revenue and wage and salary metrics, as well as updated assumptions as to the share of intermodal and discretionary cargo based on interviews with the current container terminal operators.

The report found that in 2023, total containerized cargo handled at the San Pedro Bay Ports supported 165,462 direct, induced, and indirect jobs; $21.8 billion of direct business revenue to the local service providers; and $2.7 billion of state and local taxes. The majority of the direct induced and indirect impacts occur in the San Pedro Bay regional economy.

The report evaluated the impacts of losing discretionary cargo to other ports, resulting in the San Pedro Bay Complex becoming a regional port of entry handling the needs of the Southern California marketplace.

The results are staggering. Should the discretionary cargo handled in 2023 be lost to other port ranges, 63,405 direct, induced and indirect jobs would be lost, primarily from the San Pedro Bay region; $11.3 billion of direct business revenue would be lost; and state and local tax revenues would be reduced by nearly $1.1 billion annually. These impacts would be nothing short of catastrophic on the local and regional economies.

The largest share of the directly-supported jobs at risk are with the trucking industry moving the cargo to and from the marine terminals, followed by jobs with the distribution centers, warehouses and transload facilities in the Southern California area, in which goods are repackaged and readied for further distribution to intermediate stops on the logistics supply chain or to the final consumers.

Martin Associates also evaluated the impacts of continued, incremental market share declines. The model found that market share losses have significant ripple effects: a 1% decline of discretionary cargo at the San Pedro Bay Port Complex equates to a reduction of 6,800+ direct, induced and indirect jobs, $700 million in lost wages, salaries and personal consumption annually, and $15.6 billion in total economic impact to the State. Of these, some 2,769 direct jobs would be at risk of elimination.

Further losses go beyond the Martin Associates economic model and require further study, such as the impacts of continued cargo loss on the financial health of the Alameda Corridor, the diminishing value of terminal leases at the Ports of Los Angeles and Long Beach, and the potential real estate downturn in the industrial warehouse sector.

The San Pedro Bay Port Complex is one of the most important economic engines in all of Southern California. Yet given 20 years of steady market share decline, the increased capacity of other port ranges in the United States, and the unique regulatory and cost challenges facing Southern California, the prospect of this powerful port complex being reduced to a mere regional gateway is surprisingly possible.

At a minimum, maintaining current market share levels is vital to the region’s long-term economic interests. Allowing the downward market share trends to continue would be catastrophic to large segments of the local, regional, and state economies.