

Port of Oakland bets on big changes to steer global commerce to Bay

Area

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OAKLAND -- Today, a massive container ship holding millions of dollars' worth of cargo is headed from Asia to California.

But it isn't taking the shortest and most logical trip to the Bay Area. Instead, it will veer south to a berth in Long Beach or Los Angeles.

The Port of Oakland wants to reroute that trip, and is battling powerful rivals in a competition for precious goods. Its leaders have rolled the dice on a bold, \$1.2 billion solution: turn the old Oakland Army Base into an ultra-efficient port that links ships directly to trains, reducing truck traffic, expanding the port's cargo business and securing the Bay Area's role in the 21st-century global shipping economy.

The decrepit and abandoned 322-acre base offers a blank slate on which to build this dream -- new warehouses and miles of new rail service to support them and ships, right near the docks.

"No other port on the West Coast, or around the country, has the ability to offer support services and really good rail to serve both the warehouses and docks. That's very unusual. That is our value proposition," said Jean G. Banker, the port's deputy executive director.

A vision for a prosperous future is the last thing the port has enjoyed in recent weeks. Protests by truckers and longshoremen over one terminal's logjams crippled traffic. It's more dysfunction at a port that has fallen behind.

Demolition and site clearing has begun on what will become the Oakland Global Trade and Industry Center, the city's largest development in decades. It is a two-phase project. So far, only Phase One is financed, with \$500 million in city, port, private, federal and state funds. An additional \$700 million must be raised for Phase Two construction.

But a major question remains. If we build it, will cargo come? There are no guarantees.

This is certain: If ships can't efficiently get goods in and out of the Bay Area, they will go elsewhere. So will trains. And the region will be left behind.

The Bay Area is already losing incoming ship traffic. In the 1960s, the Port of Oakland was a global leader. Now it handles one-sixth as many containers as pass through the Los Angeles-Long Beach ports.

Competition is growing fiercer in Southern California and elsewhere. At northern British Columbia's new Prince Rupert Port, business grew 40 percent last year; Vancouver and Baja ports also are expanding. And the enlarged Panama Canal will give giant freighters a route to East Coast ports.

What's driving this race? Super-size global shipping strategies, using ever-larger vessels, to meet market demand in the relentless search for lower costs and greater efficiencies.

But landlocked Oakland Port, built in 1927, has had little room to grow and innovate. It exports more than it imports, and leaders want to balance trade.

"All over North America, competition is becoming more intense ... and some other countries are much more aggressive at promoting their individual ports than we do in California," said John McLaurin, president of the Pacific Merchant Shipping Association. "Cargo owners' motivations are, in order, predictability and cost. If you can offer that, great. If you can't, it won't be competitive."

Ships that come to Oakland must unload containers onto trucks that carry them to warehouses elsewhere, then reload onto trains. "If it can happen right on port, it saves a whole truck trip. And thus money," said Imee Osantowski, the port's principal engineer.

Trains that carry cargo are also growing. Some are nearly 1 1/2 miles long.

But there's not enough room to park these long trains at the Port of Oakland's rail yard; they must wait outside and be broken into smaller units before entering.

"Or they go away and find someplace else," Osantowski said.

Even the region's World War II-era warehouses -- the hubs where goods from Asian ports are mixed and matched before being sent on their way to, for instance, a Walmart store -- are the wrong size and shape. And there are too few of them.

So such cities as Stockton, Lathrop and Tracy have jumped in to fill that need. To get there, goods must be unpacked from ships, repacked onto trucks, and then driven 70 miles for sorting.

Combined, the region's inefficiencies cost time and money. And they take the Bay Area down a notch in the shipping world's eyes.

When Asian ships head east, their first port of call is Southern California. Oakland is often an afterthought -- a second stop. And when the ships arrive, they're largely in Oakland to pick up our wine, fruits, grains. Not to unload imports.

How will things change?

- A major expansion of railroad tracks and a much larger train storage yard near the docks will better link big, new ships to ever-longer trains and speed them to the nation's interior. The tracks for train-car storage will roughly double in length. The old train yard held 17 rail cars; the new one could support 200 rail cars, plus up to four 100-car trains per day.
- New warehouses next to the tracks will streamline the transfer of goods among ships, trains and trucks. Quicker and more seamless sorting and distribution of goods will save shippers time and inland transportation costs. The old site has seven warehouses; the future site could have 18. Refrigerated warehouses would boost exports of produce, beef and poultry to an ever-growing market in China.

In the supply chain from factories to stores, "the whole game is time. Money is tied up in inventory, so you want to move it as fast as possible," said Massachusetts Institute of Technology engineering professor

Yossi Sheffi, author of "Logistics Clusters: Delivering Value and Driving Growth."

"In industrial clusters -- when you concentrate logistical activities next to each other -- everybody becomes more efficient and more productive. A lot of good things happen," the author said.

Here's the risk: Sometimes Oakland doesn't get enough imports to fill its current facilities. Could the planned complex sit empty in the future?

"Now, we face a chicken-and-egg problem," the port's Banker said. There aren't enough goods coming in to fill existing trains, but shippers complain that rail service is inadequate.

The dream is that the new Trade and Industry Center will solve this challenge. Better rail service will deliver more goods to fill warehouses; full warehouses will boost train traffic. If there is synergy, Banker said, ships will route more cargo to Oakland.

It is a gamble worth taking, said MIT's Sheffi.

"The Port of Oakland has something that is really unique: It has a piece of land that can be developed right next to the port," he said. "The economics are fabulous. I'd invest in it, if I could.

"It can be a big asset -- if Oakland does it right."

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CALIFORNIA PORTS

California ports import more than they export, but Oakland expects its port expansion to boost both its import and export capacity. Chart compares Oakland to two of its major competitors.

Port Exports* Imports* (in millions of TEU)

Los Angeles 1.95 4.06

Long Beach 1.29 3.02

Oakland 0.799 0.740

Source: U.S. Maritime Administration

*TEU is twenty-foot equivalent unit, a maritime industry standard measure for tallying cargo containers of varying lengths.