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Container Fees and Commercial Benefits of Improved Waterborne Goods Movement Infrastructure in California

Conclusion

California is a major participant in the global economy. Its large seaports contribute significantly to this participation. California's importers and exporters rely heavily on access to the ports to get their goods to market, to obtain inputs to production, or to stock shelves for local consumers. The container fee proposed in SB 974 addresses two of the major issues associated with the functioning of these ports: pollution and congestion. Though targeting investments in rail infrastructure, the revenues generated by the container fee have the potential to measurably decrease transit times for goods shipped by California entities. Although California's exporters and importers move goods to and from the ports almost exclusively by truck, improving rail infrastructure will benefit these shippers

- 1) by easing congestion at the ports,
- 2) by reducing congestion on highways near the ports, and
- 3) by eliminating delays caused by grade crossings.

Improvements in rail infrastructure in and around the ports will enhance the feasibility and attractiveness of rail as a means of transportation directly into and out of California's major container ports. Accordingly, goods traveling distances greater than 500 miles to or from the ports will make greater use of rail. The improvement or expansion of on-dock facilities primarily enhances the *feasibility* of rail while the removal of or improvement of at-grade intersections between rail and road will improve the *attractiveness* of rail as an alternative to truck.

With the potential to reduce, by several hundred thousand, the number of truck calls on the ports each year, on-dock rail facilities can serve to reduce congestion on already overburdened highways and city streets up to 50 miles from the ports.¹ Grade separations and the substitution of train for truck will further smooth the trip to and from ports for goods not able to exploit the rail facilities directly; nearly all of California's imports and exports fall in this category. Grade separations alone have the potential to reduce the time of a truck by more than an hour in the coming years.

In this report, we have shown that despite the increase in costs arising from the container fee, the fee will also create substantial benefits. All importers and exporters will see improvements in travel times to and from the ports. Further, a significant proportion of producers of waterborne exports will see reduced shipping times as a result of rail infrastructure that they value more than the \$60 fee per forty-foot container, or \$30 per twenty-foot container. This benefit may not be apparent on each shipment, but on average, the elimination of grade crossings and the reduced congestion on local highways

¹ 50 miles indicates the eastern end of the Alameda Corridor East project.

can provide net benefits by reducing the frequency with which the occasional container experiences long delays.

It was also noted that although the fee does increase the costs of using the ports, this fee is generally very small relative to the value of the goods shipped. For California's exporters, the fee amounts to roughly one-tenth of a penny for each dollar of goods shipped. Some shippers will absorb the fees better than others. Those with goods that have a high value to weight ratio will find that the container fee is insignificant, while shippers of heavy, low-value goods will find the container fee slightly more burdensome. In general, the contribution of this fee to shipping costs is extremely small. For example, the fee represents only a 0.16 percent increase in costs for crop and manufactured food exports, while shipping costs amount to 8 percent of the value of the exports. The San Joaquin Valley is a major exporter of crops and manufactured food items in California, accounting for roughly one-third of all state exports of each category.

In addition to being small, it is worth pointing out that this fee will be distributed across a large number of players. Consider the container of pork sent to Japan. The shipper, in Fresno, may physically pay the fee, but some proportion of this fee, perhaps all of it, will be written into the contract that the California shipper has with the Japanese importer. The Japanese importer will then surely pass some of this fee along to retailers in Tokyo, and elsewhere in Japan, who will then also pass some portion of this fee along to its customers. This, and the fact that the container will move more quickly, from several hours to several days if it happens to miss the boat, will help to offset the fee.

In the discussion of the implications of port container fees for California's shippers, the broader benefits of SB 974 and potential revenues should not be forgotten. These benefits include a reduction in congestion and pollution for the regions surrounding the ports. The congestion and pollution are a significant externality resulting from port activity. The movement of goods to and from the ports imposes a substantial burden on individuals and businesses in these regions who are not participating in the movement of traded goods. As such, this burden represents, in effect, a subsidy to port activity by these people and businesses.

Because shippers of traded goods, both those in California and those elsewhere in the country and world, are not paying the true cost of moving their goods, these costs must be borne by others. Every time a shipment of California-produced goods is late in arriving at a California-based business because of a delay at a train crossing or an accident on I-710, these businesses are in effect paying a price for global goods movement. Every time an employee misses work because of an asthma attack or other pollution-related illness related to port pollution, either their own or their child's, their employer is paying a price in support of global goods movement.

To the possible benefit of many California exporters and importers, and at relatively small cost to most others, the container fee included in SB 974 has the potential to measurably reduce the congestion and pollution resulting from traded goods movement in both the Los Angeles and Oakland areas. This reduction in congestion and pollution is also likely to provide broader and more significant benefits to people and businesses not involved in traded goods movement in both regions.