

In Search of Greater Policy Vision for Port Planning and Security

Jon D. Haveman

Comments at an event entitled, "Trade in a Turbulent World: the Outlook for California,"
Hosted by the Bay Area World Trade Center and the Public Policy Institute of California,
San Francisco, California
February 6, 2004

**Public
Policy
Institute of
California**

The Public Policy Institute of California (PPIC) is a private operating foundation established in 1994 with an endowment from William R. Hewlett. The Institute is dedicated to improving public policy in California through independent, objective, nonpartisan research.

PPIC's research agenda focuses on three program areas: population, economy, and governance and public finance. Studies within these programs are examining the underlying forces shaping California's future, cutting across a wide range of public policy concerns, including education, health care, immigration, income distribution, welfare, urban growth, and state and local finance.

PPIC was created because three concerned citizens – William R. Hewlett, Roger W. Heyns, and Arjay Miller – recognized the need for linking objective research to the realities of California public policy. Their goal was to help the state's leaders better understand the intricacies and implications of contemporary issues and make informed public policy decisions when confronted with challenges in the future.

David W. Lyon is founding President and Chief Executive Officer of PPIC. Raymond L. Watson is Chairman of the Board of Directors.

Copyright © 2004 by Public Policy Institute of California
All rights reserved
San Francisco, CA

Short sections of text, not to exceed three paragraphs, may be quoted without written permission provided that full attribution is given to the source and the above copyright notice is included.

PPIC does not take or support positions on any ballot measure or on any local, state, or federal legislation, nor does it endorse, support, or oppose any political parties or candidates for public office.

Research publications reflect the views of the authors and do not necessarily reflect the views of the staff, officers, or Board of Directors of the Public Policy Institute of California.

In Search of Greater Policy Vision for Port Planning and Security

I have heard it said that sea ports are gems in California's treasure chest. They are a significant source of both revenue and employment. Given their importance, it is crucial to have policies that protect them. They are currently in need of protection on a pair of fronts. First, many of California's ports have experienced a dramatic increase in the volume of trade that is handled each year. The increased volume has resulted in significant issues outside of the port. In particular, traffic congestion is a growing concern outside the gates of California's largest ports, those in the Los Angeles and San Francisco Bay areas. Second, there is a growing consensus on the likelihood of a terrorist attack on U.S. seaports. Being among the largest in the country, California's ports are likely targets. Protecting California's ports means sensibly addressing these problems through thoughtful policy prescriptions.

In the short term, we will learn more about how policymakers intend to address these problems. With respect to international freight infrastructure, the Transportation Equity Act-Legacy of Users (TEA-LU) is currently being negotiated in Congress. This legislation will set national priorities for transportation infrastructure development and will likely have a more significant goods movement component than did previous legislation. On the port security front, by the middle of 2003, the Department of Homeland Security had allocated approximately \$600 million for the protection of America's ports. Much more in the way of security spending for ports is expected in the coming years. How funds are allocated in each of these federal initiatives will provide a good indication of the types of policies that can be expected over the longer term.

My expectations for these initiatives is that there will be more of the same policy approach in the longer term as has occurred in the recent past. That said, what is needed from policymakers is a greater sense of vision with regard to both port related infrastructure and port security. With respect to infrastructure, planning has historically been passive, allowing growing demand to dictate the nature and size of solutions. With respect to security, resources have been largely devoted to prevention. In both cases, there are alternative policy strategies that incorporate a greater vision of the problems.

Port Infrastructure Planning

The issue of goods movement in California has grown tremendously in recent years. This issue is particularly important for the ports, through which trade is expected to double or even triple in the next 20 years. Historically, planning for growth in port-related ground transportation needs has followed a policy of accommodation. That is, the money went where demand was greatest. In years past, with relatively small volumes of trade moving on the state's highways and rail systems, this policy was efficient and effective. In recent years, however, traded goods are increasingly straining transportation systems in Los Angeles and Oakland. Further accommodation of these flows is becoming increasingly difficult and costly. This suggests that another approach to dealing with goods once they leave the port is called for. I would like to suggest that an approach that attempts to manage the flow, rather than accommodate it, is the answer.

Goods movements, whether international or intranational, tend to flow through the path of least resistance. Crucial elements in determining the path of least resistance include distance, cost, and time. Holding cost and time constant, carriers will select routes that minimize distance. At the same time, if you increase cost along a particular route, carriers may decide to reroute shipments through alternative, perhaps longer, routes.

By appropriately pricing different routes, policymakers can redirect traffic in directions that are perhaps more appropriate. By adding charges to particular routes, they can motivate carriers to make routing decisions that take into account the cost of shipping that they do not currently bear. In particular, trucks do not contribute amounts to gas tax revenues that are commensurate with the wear and tear they impose on highways and local roads, nor are they charged for the burden that they impose on local communities through increased congestion and pollution. Appropriate management of goods movement would account for each of these uncompensated costs associated with the activity.

In sum, infrastructure policy towards goods movement needs to be active rather than passive. Examples of active versus passive thinking in this policy arena come from Oakland and Los Angeles, respectively. The Port of Oakland has been actively thinking of solutions to the local congestion problem. One solution that has been proposed is the development of an inland port. An inland port would be built outside of the congested San Francisco Bay area, connected to the Port of Oakland by rail. Containers flowing through the port would then arrive and depart by rail instead of truck, largely eliminating the uncompensated burdens of wear and tear, congestion, and pollution mentioned above.

At the same time, the Southern California Association of Governments has devised a plan for building double-decker highways through much of the Los Angeles area, one layer of which would be devoted to truck traffic. With a price tag of approximately \$20 billion, one has to wonder if this money would not be put to better use by diverting this trade away from the massive metropolitan area of Los Angeles. Given that somewhere in the neighborhood of 50 percent of all trade through the San Pedro Bay is destined for the Eastern half of the United States, perhaps the Panama Canal should be upgraded to accommodate increased flows. Perhaps nearby ports, such as Port Hueneme, should receive some resources to alleviate the flow through Los Angeles. These may in the end not be the answers, but they should perhaps be given greater consideration.

In the end, there is a need for policymakers to look at the broader picture and the longer term of goods movement. What are needed are sustainable solutions. Highway projects, whether lengthening or widening, are increasingly difficult in dense urban areas. Perhaps greater consideration should be given to slowing the growth of trade flows through these regions by diverting them elsewhere.

Port Security

There are big questions regarding port security that are not being asked. Perhaps the most important is: What is the most effective way to reduce the likelihood of an attack on a U.S. port? Here, there is a pair of alternatives: eliminating vulnerabilities, as current policies do, or implementing a good recovery plan, which current policies fail to do. Although these are

alternatives, they are not exclusive. The most effective protection will likely involve a combination of the two. This is so, because in reality, it is unlikely that all vulnerable points will be covered. Given that there is always some risk remaining, the most cost-effective means for reducing risk further may be through reducing the attractiveness of the target.

By way of example, suppose that the ports on the San Pedro Bay were put out of commission by an explosion for six months. In the absence of a well thought-out recovery plan, much of the trade destined for U.S. shores would sit idly by as flows were haphazardly redirected. With a plan in place for this eventuality, ships far out to sea could easily redirect as soon as the event occurred, reducing the adjustment cost associated with the port closure. As the cost of a port closure is reduced, the appeal of an attack on the port is similarly reduced. Pursuing both sides of the coin would seem the prudent approach to reducing the likelihood and resulting impact of an attack on a U.S. port.

In order to most efficiently allocate the limited resources devoted to port security, spending should be focused on effectively reducing the likelihood of an event. This means paying attention to both increasing the difficulty of assaulting a port and mitigating the costs of an event after the fact. Coming to this conclusion requires greater vision than is currently evidenced in current port security planning.

Summary

Planning for increased volume at California's ports and increasing their security are extremely important endeavors. There are two types of management style that can be brought to bear on these problems: crisis management and big picture management. Unfortunately, the former has too large a share in current policymaking, with the share of the latter being too small. I have been asked what sort of policies we can expect in the future with regard to these issues. Given the current environment, although these issues are too important to continue to be treated with band-aids, the policies of the recent past are likely to continue.

PUBLIC POLICY INSTITUTE OF CALIFORNIA

Board of Directors

Raymond L. Watson, *Chairman*

Vice Chairman of the Board
The Irvine Company

Edward K. Hamilton

Chairman
Hamilton, Rabinovitz & Alschuler, Inc.

Gary K. Hart

Founder
Institute for Education Reform
California State University, Sacramento

Walter B. Hewlett

Director
Center for Computer Assisted Research
in the Humanities

David W. Lyon

President and CEO
Public Policy Institute of California

Vilma S. Martinez

Partner
Munger, Tolles & Olson LLP

Cheryl White Mason

Chief, Civil Liability Management
Los Angeles City Attorney's Office

Arjay Miller

Dean Emeritus
Graduate School of Business
Stanford University

Ki Suh Park

Design and Managing Partner
Gruen Associates

Constance L. Rice

Co-Director
The Advancement Project

Thomas C. Sutton

Chairman & CEO
Pacific Life Insurance Company

Cynthia A. Telles

Department of Psychiatry
UCLA School of Medicine

Carol Whiteside

President
Great Valley Center

Advisory Council

Mary C. Daly

Research Advisor
Federal Reserve Bank of San Francisco

Clifford W. Graves

General Manager
Department of Community Development
City of Los Angeles

Elizabeth G. Hill

Legislative Analyst
State of California

Hilary W. Hoynes

Associate Professor
Department of Economics
University of California, Davis

Andrés E. Jiménez

Director
California Policy Research Center
University of California
Office of the President

Norman R. King

Executive Director
San Bernardino Associated Governments

Daniel A. Mazmanian

C. Erwin and Ione Piper Dean and Professor
School of Policy, Planning, and Development
University of Southern California

Dean Misczynski

Director
California Research Bureau

Rudolf Nothenberg

Chief Administrative Officer (Retired)
City and County of San Francisco

Manuel Pastor

Professor, Latin American & Latino Studies
University of California, Santa Cruz

Peter Schrag

Contributing Editor
The Sacramento Bee

James P. Smith

Senior Economist
RAND Corporation



PUBLIC POLICY INSTITUTE OF CALIFORNIA
500 Washington Street, Suite 800 • San Francisco, California 94111
Phone: (415) 291-4400 • Fax: (415) 291-4401
www.ppic.org • info@ppic.org