

REPORT FROM COMMISSIONER JOSEPH R. RADISICH
Business Development Trip To Argentina – Chile
February 19-26, 2006

Trip Objectives:

1. Forecast Future Volumes of perishables to the POLA in order to justify development of a new facility (T1240) dedicated to handling perishable and breakbulk cargoes.
2. Deal with Fumigation Issues – Find solutions to solving fumigation problems that are facing the POLA right now and in the future.
3. Identify New Markets for Perishable Exports – See if there are other countries or commodities that could be developed in order to increase business for the proposed facility.
4. Environmental – Start the dialogue with shipping lines that call on the Port of Los Angeles on a seasonal basis.

Achievements:

1. Forecasting Future Volumes and Assessing the Future of Reefer Vessels
 - a. POLA made it very clear to all that the future of perishables in the Port is at a crossroads. We explained that the POLA was considering moving forward with a terminal development and that we needed to verify that volumes will be the same or increase in the coming years. Also, made it clear that this terminal would be dedicated to bulk vessels, not container vessels.
 - b. We confirmed from various sources (growers, shipping lines, exporters and SSA) that fruit exports will grow over the next several years. One avocado exporter predicted 20% growth every 2 years.
 - c. Confirmed that perishables probably will not convert to containers any time soon, especially in the Chile to West Coast route.

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Reasons given were:

1. Transit times are faster by reefer vessels.
2. There is not enough volume from other commodity exports to justify a container service between Chile and the West Coast on a permanent basis.
3. There would be little 2-way volume between Chile and the West Coast in container vessels. Don't want ships returning empty.
4. Committing reefers to Chile on a seasonal basis doesn't work for the shipping lines.
5. Volumes are greater on reefer vessels.

Conclusion:

It seems that volumes will be increasing. SSA (a stevedore currently handling this business in the Port of Los Angeles) was very optimistic in this assessment. It was made clear by almost everyone that the POLA is the preferred port of shipment to the West Coast. Reasons cited were proximity to the largest market and reduced trucking costs. Shipping lines were happy that the possibility of handling perishables and a small number of containers at the same facility are being planned. Currently, ships must off load containers at one facility and then shift to OH55 for the discharge of perishables. Sometimes they must even shift to the original terminal to load back containers. This is considered very inefficient. Cold storage was also mentioned as an added benefit of a new facility.

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2. Fumigation Issues:

a. Currently, there is a ceiling to how much fumigating can be done in the POLA. When the ceiling is met, vessels carrying perishable are diverted to Long Beach. This limits the amount of volume the POLA can handle (this applies to grapes mostly). The Port of Los Angeles has been looking into funding a joint study in order to find innovative ways or new technologies of fumigating that would enable an increase in volume.

b. In meetings with growers, growers stated that grapes will come to the POLA regardless of this issue. Growers stated that fumigating in LA was the best method for preserving the quality of grapes, but that if a ceiling for fumigating is not lifted, that they would fumigate in Chile first. This would result in a 10% loss in the shipment, but they admitted they would do it. According to SSA and POLA officials, this was a first.

Conclusion:

Prior to this trip, it was thought that fumigation issues would seriously limit the possibility of increasing perishable (grapes) shipments to the Port of Los Angeles. It was thought that this problem would be a negative in the overall assessment on whether to move forward with a new terminal build out. With the statements that the Chileans made, this issue loses importance as to future increases of perishable volume. It seems as if the Chileans will do whatever needs to be done to increase volume through the Port of Los Angeles.

3. Identifying New Markets:

a. After 3 days in Argentina, it was clear in talks with exporters and business groups that Argentina is a long way off from shipping to the West Coast.

b. There is a clear absence of leadership and the ability to organize the growers or a chain of logistics.

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c. It was originally thought that fruits could be trucked from the Northwest part of Argentina over the Andes to the ports in Chile. There seems to be a lack of will on the part of the Argentinians as well as other impediments. Among them are the fruit fly and foot and mouth disease in meat. Other impediments cited were trucking costs and taxes on exports. Chilean border restrictions also make it hard for Argentina to ship through their ports.

d. Peru and Ecuador seem to be the countries that have the ability to develop as Chile has. It was stated that shipping lines, especially CSAV, have been working to organize these countries and "show" them how to export their commodities. Mangoes were cited as the fruit with the most potential. Others stated that Chileans are currently buying in Peru in order to recreate what they've done in their own country. Forest products were discussed and are a no go right now because they're shipped in containers.

Conclusion:

Peru and Ecuador are most likely the countries to produce a Chilean model of exporting perishables. Port representative Anthony Wylie will be making contacts to gather further information. The Port of Los Angeles should send someone to Peru and Ecuador for business development. Argentina should be taken off the list for now.

4. Environmental:

a. POLA broached the question of ship air emissions to Maruba, Lauritzen, and CSAV.

b. All these shipping lines were receptive and the Port of Los Angeles explained the new leasing policy and what would be expected at a new terminal.

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Conclusion:

The problem with putting heavy restrictions on these shipping lines is that they charter most of their vessels due to the seasonal nature of their business. The margins for profit seem to be much thinner than on container operations; therefore an increase for environmental mitigation would affect this type of business heavily. The Port explained that the environmental requirements would probably be on the whole West Coast and not just in Los Angeles. The Port of Los Angeles needs to give special consideration to those types of operations and find creative solutions for chartered vessels.

Recommendation

In consideration of making a major investment in a new terminal dedicated to perishables and breakbulk, I think it would be prudent for the Executive Director to commission an independent study to verify what was found by Port of Los Angeles representatives and this Commissioner. It would also be helpful to set up meetings with Peruvian and Ecuadorian interests to see where they're at. This should also be included in the study. I think it is important that this study be performed promptly because time is of the essence, as the decision whether to proceed with this project will have consequences on other projects in the Port.

The opinions expressed in this report should not be taken as the official position of the Port of Los Angeles. I reserve the right to change my opinion on anything in this report.