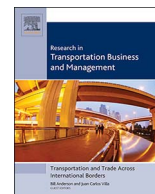




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Port mergers: Why not Los Angeles and Long Beach?

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ABSTRACT

There have been significant attempts to merge the San Pedro Bay Ports of Los Angeles and Long Beach since their creation as separate municipal authorities in 1911. These efforts continue to the present day with the most recent proposal made in 2014. Yet all efforts to merge the two largest container ports in North America have failed. A review of attempts to promote or force the merger of the two ports was undertaken to identify the motivating factors behind the merger proposals, how the merger concepts were initiated and why they failed. The advocates for merging the ports were typically business groups, port users or elected officials. Those who proposed merging the ports were typically business groups, port users or elected officials but not port administrators. Merger proposals were often motivated by the desire to eliminate what merger proponents viewed as destructive competition, duplication of facilities, or because one port coveted the resources of the other.

Yet, all merger proposals have failed to gain widespread support for two primary reasons. First, all proposals came from outside the port administration, often generated without any port knowledge or participation and limited stakeholder involvement. Second, none of the merger proposals were accompanied by an objective analysis identifying the benefits to accrue to both port cities from a merger. Although attempts to merge the two ports failed, cooperative efforts between the ports increased in the 1980's, spurred by problems confronting both port administrations, that is, the impacts of containerization on the surrounding communities. The ports used a variety of governance tools to affect cooperative arrangements including creation of quasi-independent single purpose authorities. Initial efforts focused on improving hinterland infrastructure. The increased use of "discussion agreements" approved by the Federal Maritime Administration allowed the ports to expand cooperative efforts to environmental and logistics matters. The willingness and initiatives of the ports to cooperate, when necessary, has negated serious consideration of merger proposals. Instead, the two ports have increasingly expanded cooperative efforts to address common issues while retaining their independent jurisdictions.

1. Introduction

The Ports of Los Angeles and Long Beach, both municipal operations run by their respective cities, are located directly adjacent to each other within San Pedro Bay, California. Early development of harbor facilities began on the Los Angeles side of the bay in the mid-19th century and accelerated after 1871 once the federal government began to invest in infrastructure. Long Beach did not begin to develop its port until after 1900 and federal investment did not begin there until 1919. Both Ports became municipal operations of their respective cities by acts of the California State Legislature in 1911 after an aborted attempt to combine the ports under state control.

Since their founding over a century ago, the Ports of Los Angeles and Long Beach have been subject to numerous merger proposals. The proliferation of merger proposal is understandable. To a casual observer, it is hard to determine where one port boundary ends and the

other begins. Regional planning agencies view the port as a single unit that shares the same water, air and transportation system. Environmental regulators view the ports as one ecosystem. The U.S. Army Corps of Engineers (Corps of Engineers), the U.S. federal agency with the responsibility to provide navigational improvements in the nation's harbors, studies the ports together as San Pedro Bay.

Collectively the ports are a regional, state and national asset. Shippers who move their cargo through San Pedro Bay may know the terminal they do business with but are often oblivious to whether the terminal is in Los Angeles or Long Beach. Recent changes in the global container industry also are contributing to a homogenization of the port operations. Traditionally, cargo handled by one ocean carrier, such as Maersk Line, would have moved through a specific terminal in one of the ports. Ships arriving at the ports today often hold cargo from multiple ocean carriers due to the carrier alliance agreements. Thus, the allegiance of a shipping line to one particular port has become less

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important. As terminals become commoditized, the differentiation between the two ports becomes less apparent. Consolidation among the shipping lines serving the two ports, which between them have 13 container terminals, has shifted competitive pressures to the terminals. Nevertheless, entities outside the port administration often do not differentiate between competition between the individual terminals and the ports as a whole. Thus, the existence of a competitive environment results in ongoing proposals to merge the two port administrations.

Notteboom, Ducruet, and Langen (2009) in *Ports in Proximity* have compiled extensive case studies that examine cooperation and competition among ports in close proximity around the world. The case studies from North America include the U.S. East Coast and Canada. Less in-depth examination has been done of cooperative efforts on the West Coast. Often missing from these studies is an examination of how the competitive forces are considered in the political arena which many public ports operate and a discussion of the specific actions taken by port directors in facilitating a merger. The analysis of the merger of Copenhagen, Denmark and Malmo, Sweden, by de Langen and Nijdam (2009) is unique in including discussion of the interaction between the two port directors leading to the merger. Similarly, Morrison and Chamberlain (2015) and Knatz (2017) examine the challenges faced internally within the Tacoma and Seattle port administrations during the creation of the Northwest Seaport Alliance.

This paper provides empirical data about the cooperative efforts undertaken by two U. S. West Coast ports through close examination of a century of merger attempts and thirty-five years of competition and cooperation.

1.1. Research methods and empirical data

Early historical records, including searchable copies of the minutes of the Los Angeles Board of Harbor Commissioners from 1907 through 1980, were used to identify cooperative efforts between the two ports. From 2006 to the present, the agenda's and meeting minutes of both Boards of Harbor Commissioners are available on each port's website. Copies of agreements approved by the Federal Maritime Commission can be found on its website. The author personally participated in cooperative efforts during the period 1981 through 2013. An analysis of cooperative efforts from 1980 to the present was undertaken to identify the areas where the two ports cooperated, the implementing mechanism and the method of governance (Table 1). Not included in this comprehensive list are the jointly-undertaken studies, such as traffic studies and environmental baselines. Joint studies were motivated by the desire for consistency in baseline data for economic forecasting and environmental projections for these adjacent ports as well as a desire to reduce overall study costs. In these cases, one port acted as the lead port, contracting with a third party and both port boards executed a cost-sharing agreement to pay their respective shares.

2. Merger proposals for the ports of Los Angeles and Long Beach

Efforts to merge the Ports of Los Angeles and Long Beach began in the 1920's. A listing of the specific proposals to merge the two ports is shown in Table 2 along with the individual or organization that proposed the merger, and where available, the proposed governance structure. Such proposals have ranged from pronouncements by elected or government officials, to legislative hearings and the introduction of enabling legislation in the California State legislature. The first attempt to unify the ports came as a condition of federal investment in San Pedro Bay by the Corps of Engineers in the 1920's. After World War I, the Los Angeles Chamber of Commerce formed the Greater Harbor Committee of 200, an organization of business leaders from both Los Angeles and Long Beach with the goal of seeking additional federal investment in San Pedro Bay. This is the first time that both cities cooperated to advance harbor development. The federal government had already built a breakwater protecting the Port of Los Angeles. Regional

business leaders sought an extension of that breakwater to provide additional protected berthing areas for vessels in both Los Angeles as well as Long Beach. The Corps of Engineers agreed such an investment was necessary in 1924 but only on the condition that the two ports unify, a condition that the business community accepted but that the cities did not endorse. The Army Corps was cognizant of efforts in London, New York and a number of smaller maritime American ports that were beginning to look at the creation of consolidated port authorities (Stone, 2017). The merger condition, although championed by the federal government, was later found to have been proposed by the Committee of 200, who sought to mask their initiation of this idea from the general public.¹ The California State legislature passed the Port Enabling Act in 1925 which would allow the two cities to merge their ports and a public referendum supporting a merger was approved by the voters of both cities in 1926. However, limited support from the leadership of both cities stalled the effort. When the Port of Los Angeles proposed a lower cost project alternative for the breakwater extension, the Corps of Engineers dropped the condition for unification.

After the 1920's, most of the proposals for mergers came from City of Los Angeles officials who, intent on balancing the city's budget, no longer wanted to finance debt for port facility expansion. In Long Beach, revenue from oil production, discovered within that city's port in the late 1920's, was used to construct harbor improvements. From 1933 to 1970, Long Beach's port infrastructure was built without acquiring debt. Los Angeles officials saw a merger with Long Beach as a way to access oil revenues to support improvements in their port as well (Erie, 2004).

Beginning in the late 1940's there was a protracted debate over unification of Los Angeles and Long Beach ports that lasted several decades and was primarily championed by a California legislator, Assemblyman Vincent Thomas. During his 38 years in the state legislature, Thomas authored numerous legislative proposals to bring about a merger, usually without prior notification to either port. Those bills were consistently unsuccessful. At one point Thomas's proposed legislation became a study into the complex legal steps necessary to implement a port merger. But by now, Long Beach had become a leading world port and had no interest in being subsumed by Los Angeles. Yet, despite Long Beach's indifference and often strong opposition, the idea of a consolidated port administration for San Pedro Bay did not die.

Los Angeles Mayors Yorty (1961–1973) and Bradley (1973–1993) also supported merger of the two ports. Throughout this period, City of Los Angeles administrators were still frustrated by the need to continue subsidies to the port, including pension payments for its employees. In October 1969, the Los Angeles Board of Harbor commissioners voted to support a merger of the ports. The Los Angeles city attorney suggested possible ways to merge the ports including: 1) deeding the Port of Long Beach to Los Angeles; 2) operating the Ports through a Joint Powers Authority; or, 3) deeding both ports to another public entity such as Los Angeles County or a new agency.

Suggestions to merge the two ports continued although with less frequency after the Port of Los Angeles, no longer requiring City subsidies, assumed all costs associated with its own operations, including pension expenses. The financial relationship was reversed as the Port of Los Angeles began to reimburse the city for administrative services provided to the port as well as fire protection. In 2011, the Los Angeles Civil Grand Jury recommended that Los Angeles Board of Harbor commissioners reach out to the Long Beach Mayor and urge a study of merging the two administrations. The Port of Los Angeles declined the suggestion.

The most recent proposal to examine merging the two ports came from an independent body called the Los Angeles 2020 Commission (Los Angeles 2020 Commission, 2014). The Commission, created by the

¹ University of California at Riverside, Water Resources Collections & Archive, David E. Hughes Records, Box 1, File 24.

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