KEEP OREGON TRADE MOVING

Helping Businesses Export Goods to Buyers and Import Products from Suppliers

International Trade and Logistics Initiative Steering Committee Report

BACKGROUND

International trade is a large and vital part of the Oregon economy, linked to the health of agricultural, forestry, manufacturing, and distribution industries. Oregon is the 14th most trade-dependent state based on export share of the state's 2014 Gross Domestic Product[1]. Over $20.1 billion of goods were exported from Oregon in 2015[2], and much of that export value was containerized. Oregon imported an estimated $14.8 billion in foreign goods in 2015, most of that total also containerized[3]. In 2013, over 500,000 Oregon jobs were connected to trade and an estimated 5,920 Oregon companies exported products[4]. Oregon's economy depends on the ability of Oregon's businesses to move freight to markets and compete globally, bringing new dollars to the state of Oregon.

With the departure of Hanjin and Hapag-Lloyd container service at the Port of Portland's Terminal 6 in early 2015, thousands of Oregon businesses directly and indirectly experienced increasing challenges moving goods to and from global markets. While those using Terminal 6 have been impacted the most by service loss, shippers throughout the state that have benefited from lower costs resulting from the presence of this service will likely be impacted by that loss as well. Efforts to move Oregon and Pacific Northwest cargo through the Columbia/Snake River System and out from West Coast ports are hampered by escalating transportation costs for Oregon container shippers. Shippers are facing shortages of trucking services and equipment, loss of upriver barge container service, and growing congestion on highways and at other Ports. Dynamic changes in the international maritime industry are also impacting container services and transportation economics at all West Coast Ports.

CALL TO ACTION

In April 2015, Governor Brown launched the International Trade and Logistics Initiative—led by Business Oregon, Oregon Department of Agriculture (ODA), Oregon Department of Transportation (ODOT), and the Port of Portland—to identify interim shipping options to help Oregon small- and medium-sized businesses stay competitive in the global marketplace and support longer term recruitment of new container service to Terminal 6. Small- and medium-sized shippers have fewer resources to find predictable and cost effective access to markets and are highly vulnerable to cost and logistics impacts of vessel service changes. Oregon shippers have scrambled to find alternative means to move their goods by truck or rail north to the ports of Seattle and Tacoma or south to the Port of Oakland, California. Over 88 percent of these shippers are small businesses[5].

[1] Oregon Department of Administrative Services, Office of Economic Analysis and the International Trade Administration, U.S. Department of Commerce, 2014
[2] U.S. Census Bureau, Foreign Trade Division, 2015
[3] U.S. Census Bureau, Foreign Trade Division, 2015
[4] Office of Trade and Economic Analysis, International Trade Administration, U.S. Department of Commerce, 2013
[5] Office of Trade and Economic Analysis, International Trade Administration, U.S. Department of Commerce, 2013

In the short-term, most Oregon shippers have reportedly managed to maintain product markets and customer relationships by absorbing higher shipping costs and shipping delays, but many expressed concern about being able to sustain their position. Exporters of price-sensitive commodities such as scrap metal, hay, and wood pulp are particularly at risk.

Finding reliable freight logistics solutions is a time-sensitive issue for all shippers, but an acute one for agricultural exporters due to narrow cost margins, perishability of products and global competition. If agricultural producers do not make shipment and market windows, they risk losing markets and market share to competitors from other states or countries. Cost-competitive market access can make the difference between winning and losing contracts in the global marketplace due to narrow profit margins. Some two-thirds of Oregon's farm, ranch, and fishery production is sold outside the state and approximately half of that goes to international markets[6].

Increased transportation costs and uncertainty threaten markets for Oregon agriculture, forest products, manufacturing, and distribution industries, placing much of Oregon's trade at risk with:

- INCREASED TRANSIT TIMES AND REDUCED RELIABILITY
- INCREASED BUSINESS RISKS FOR TRANSPORTATION AND LOGISTICS PROVIDERS
- LOSS OF MARKETS AND MARKET SHARE
- POTENTIAL BUSINESS CLOSURE AND RELOCATION TO STATE WITH DIRECT SERVICE

Ocean freight rates are generally negotiated on a yearly basis and these negotiations will begin in early 2016. All Oregon shippers, even those not moving products through Terminal 6, have benefitted from the competition between Portland and Puget Sound container services and the resulting rate equalization practices. Puget Sound carriers currently absorb a portion of the added transportation costs of moving Portland containerized cargo north to compete with Portland vessel calls. Without Terminal 6 service, there is little incentive for carriers to continue this "rate equalization" practice. Absent that competition, these benefits are also at risk.

Smaller shippers have had more difficulty coping with the loss of carrier service in Portland. They may import or export only a few containers annually, connecting to a very limited range of foreign ports and customers. Small shippers have less negotiating leverage, and when vessel, truck, or rail capacity is short they are more likely to suffer delays and business disruptions.

Current overcapacity in container shipping has led to depressed rates, and those savings have offset the higher inland transportation costs Oregon shippers are experiencing by using Puget Sound and Oakland ports instead of Portland Terminal 6. Oregon shippers cannot count on depressed carrier rates continuing indefinitely, but higher inland transportation costs will persist until Portland service is restored.

The Terminal 6 container crisis and the subsequent efforts by shippers to adapt further exposed deficiencies in the state's international freight transportation system, underscoring the need for coordinated focus by public agencies and the state of Oregon as a whole to improve Oregon's trade and logistics capabilities over the long term.

INITIATIVE APPROACH AND METHODOLOGY

The Trade and Logistics Initiative is a cross-agency collaboration by Business Oregon, ODA, ODOT, and the Port of Portland (Steering Committee) informed by the consultant work of two nationally recognized trade and transportation experts, Peter Friedmann from Lindsay Hart LLP and Daniel Smith from The Tioga Group. The Steering Committee established a multi-pronged approach to the initiative to better understand shipper challenges and recommend potential actions to improve containerized freight transport. This approach included the analysis of cargo flows and transportation cost impacts, engagement of the statewide shipper community, analysis and business case development of freight logistics concept, and recommendations on other actions that support Oregon international trade.

ECONOMIC ANALYSIS AND SHIPPER INTERVIEWS

The Tioga Group analyzed Oregon cargo movements, landside transportation costs, and the other impacts of service withdrawal on Oregon importers and exporters, with special attention to small- and medium-sized firms. Port Import-Export Reporting System (PIERS) customs data from the Journal of Commerce is a comprehensive source of containerized cargo in the Northwest. While PIERS data provides good macro information on origin and destination of containerized cargo, there are several data issues related to this source which has always made precise data calculation difficult. These include headquarter biases which show cargo in metropolitan locations where transportation is arranged rather than actual shipping and receiving points. Shipments arranged by third parties tend to show the third party name and address rather than the actual shippers' and receivers' name and address. There are also missing data and entry errors. To address this, The Tioga Group started with 2014 PIERS data, followed by an intensive analysis and allocation process to develop adjusted estimates of identifiable cargo moving through Terminal 6, and identifiable cargo moving to and from the Portland Terminal 6 cargo market. As part of this research, the Tioga Group completed 33 interviews with Oregon importers, exporters, truckers and other stakeholders. Additional information on the research can be found in Appendix 1 available at www.oregontradesolutions.com/report.

There were a few major findings and themes identified through this research:

- Portland's Terminal 6 serves broad geographic and commodity markets in Oregon, Idaho, and Washington. The Columbia/Snake River System expands the Portland cargo market to include southern Washington and Idaho. Cargo from this larger catchment area is critical to recruiting and sustaining cargo service at Terminal 6. In 2014, Terminal 6 captured about 43 percent of the containerized cargo in its multi-state cargo market and 53 percent of the Oregon market (exports and imports), with the remaining cargo moving through Puget Sound ports by rail or truck[7].

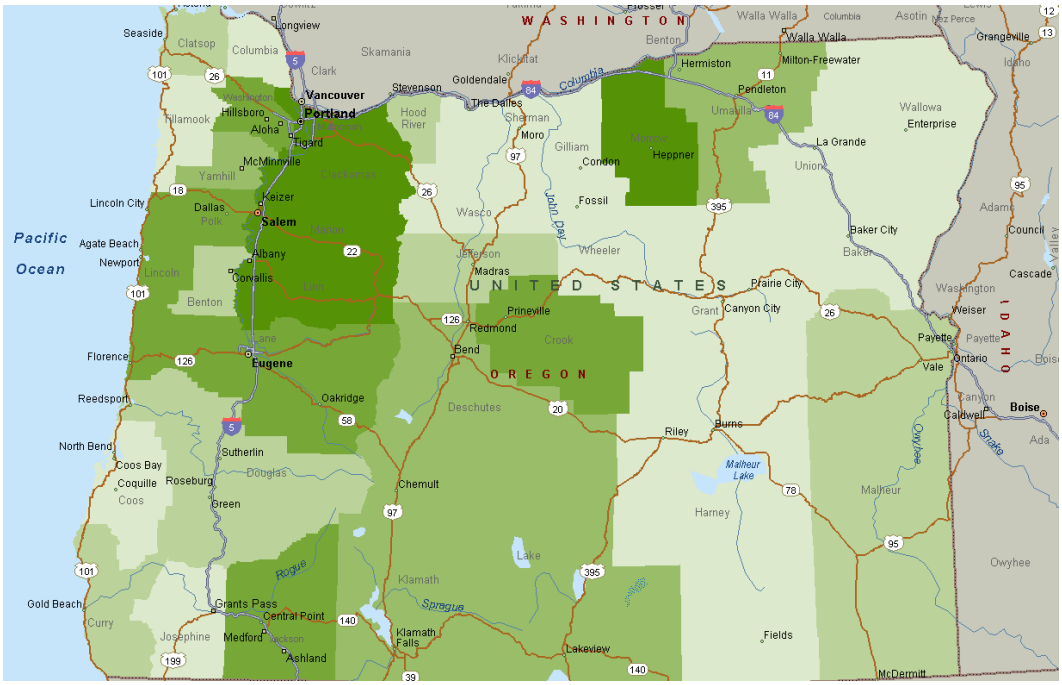
Cargo Market for Port of Portland Terminal 6

[7] 7 Oregon Trade and Logistics Research, adjusted 2014 PIERS containerized cargo allocation, The Tioga Group, February 2016

- The market share of the Port of Portland, home to the state's only international container terminal, has been strongest in the Portland metro area, in the Willamette Valley, and along the Columbia River. Over 1,000 Oregon shippers shipped through Terminal 6 in 2014. Every county has a stake in the movement of international trade.

- Ten counties account for 97 percent of Oregon's identifiable containerized trade imports through all West Coast ports, concentrated in the populous, urbanized areas of Multnomah and Clackamas counties. A different but overlapping set of 10 counties account for 95 percent of Oregon's identifiable containerized trade exports. Exports are more heavily concentrated in the agricultural and forest products areas of Linn, Morrow, and Marion counties. Exporters and importers in eastern and southern Oregon are widely scattered, but include many smaller and medium-sized shippers that are the focus of this initiative.

Oregon 2014 Estimated Container Volumes by County[8]



Estimated 2014 Containers*

- 10,000 to 30,000
- 1,000 to 9,999
- 500 to 999
- 100 to 499
- 0 to 99

*Although there are a handful of counties that do not have any identifiable container volumes, based on data limitations, there likely are products that originate from or are destined for these counties.

- Oregon's 2014 containerized exports through Terminal 6 were dominated by agricultural and forest products. Containerized imports were dominated by consumer and industrial goods, tires, and other products feeding regional and national distribution centers.

[8] Oregon Trade and Logistics Research, identifiable container counts from adjusted PIERS data, The Tioga Group, February 2016

- The loss of Hanjin and Hapag-Lloyd service means that roughly 97 percent of the 2014 Terminal 6 volume must now be moved to and from the Puget Sound ports of Tacoma and Seattle. About three percent of this containerized trade still moves on Westwood Shipping Lines through Terminal 6.
- The companies interviewed pushed for restoration of service at Terminal 6. To date, most of those companies have not made changes that would preclude a return to Portland once weekly container service is restored. However, with carrier and shipper contract renegotiations in 2016, shippers will need to make long-term decisions.
- Most Oregon exporters and importers are using rail and truck to reach Seattle and Tacoma rather than changing their shipping patterns. A few have reduced shipments or diverted export products into domestic markets.
- Most shippers have reported increased transportation costs in the short term, typically from $400 to $450 per container. Some shippers, particularly those that have lost barge service from the Columbia River, have reported additional costs as high as $800 per container.
- The cost impacts have been cushioned in the near-term by low ocean carrier "spot" rates, and low fuel prices.
- The annual increased trucking costs to Oregon shippers from the loss of Terminal 6 service is estimated to reach $15.1 million in 2015 dollars[9]. This estimate reflects the additional underlying cost of truck drayage due to longer distances travelled and the loss of barge service. This additional underlying cost is incurred regardless of offsetting shipping rate policies.
- This estimate does not reflect the potential loss of rate equalization benefits and the resulting added business cost impacts to all Oregon shippers moving cargo through the ports of Seattle and Tacoma. Loss of rate equalization could substantially increase freight logistics costs for all Oregon shippers.
- Smaller shippers import or export fewer containers annually, connecting to a limited range of foreign ports and customers, and have less negotiating leverage as a result. When vessel, truck, or rail capacity is limited, they are more likely to suffer delays. Larger shippers may have already been using Seattle and Tacoma for some shipments, and are better able to negotiate favorable rates due to higher volumes and freight logistics expertise.

[9] Oregon Trade and Logistics Research, The Tioga Group, February 2016.

SHIPPER AND STAKEHOLDER ENGAGEMENT

The Steering Committee traveled statewide to engage shippers and transportation providers across Oregon in identifying freight logistic challenges and potential near-term solutions as well as long-term improvements needed to the trade transportation system. Over 300 people participated in community shipper forums held in Portland, Redmond, Hermiston, Ontario, Albany, Medford, Grand Ronde, and Wilsonville. Oregon exporters and importers were the primary participants in the meetings facilitated by consultant Peter Friedmann. Others attending included: brokers, freight forwarders, railroad companies, barge and trucking companies, agency representatives, and elected officials. Steering Committee members also met one-on-one with shippers and multiple other stakeholders, including the Oregon Trucking Associations (OTA), Oregon Rail Users League (ORULE), Oregon Freight Advisory Committee (OFAC), Oregon Public Ports Association (OPPA), and state agency boards and commissions. The Steering Committee also organized Oregon shippers to testify before the House Interim Committee on Transportation and Economic Development and Senate Interim Committee on Business and Transportation. An informal Working Group of shippers, transportation providers, and freight forwarders provided input and industry expertise on interim solutions to address shipper challenges.

Collectively, the stakeholder engagement and analytical research generated a number of proposals to help Oregon shippers in the near-term, and catalyze long-term improvements to the state's transportation system. The transportation and business challenges that provide the foundation for these proposals and Steering Committee recommendations are summarized below as findings. Workshop summaries can be found in Appendix 2 available at www.oregontradesolutions.com/report.

Findings from Shipper and Stakeholder Engagement:

- Each region's transportation challenges and needs are different, and solutions must be tailored to those needs.
- Increased transportation costs and transit time impact Oregon shippers' competitiveness and put customer relationships and product markets at risk.
- Terminal 6 ocean container service into the Columbia River is critical for managing costs and maintaining competitiveness of Oregon businesses.
- Loss of Terminal 6 container barge service reduces cost-competitive access to markets for agricultural producers along the Columbia River.
- Roadway and port congestion is increasing with significant impacts on the port trucking industry. These impacts are compounded by truck driver, trailer and heavy-weight chassis shortages, as well as federal hours-of-service restrictions on truckers.
- There are imbalances of container availability that limit shipper access to markets.
- Increased access to rail via intermodal facilities is desired.
- Export disruption also impacts domestic businesses, highlighting the importance of a system-wide focus on the transportation network.

The loss of Terminal 6 container service exposed both the opportunity, and the need, to improve Oregon's capabilities to transport containerized cargo. Oregon shippers, while emphasizing the critical importance of restoring Terminal 6 container service, also testified to the ongoing need for system-wide improvements to freight transportation infrastructure and logistics.

The competitive position of businesses and industries that make up the local, regional and statewide economies depends upon not only the region's strategic location as a gateway to global markets, but an efficient, multi-modal transportation system. Oregon shippers' ability to remain competitive relies on their capacity to move goods, people and services efficiently via rail, truck and marine transportation through the Pacific Northwest.

Oregon's geographic location and past transportation system investments have helped secure access to global markets. A well-functioning transportation system allows businesses in the state to competitively serve a larger market area. The failure to invest in a highly efficient transportation system will impact freight mobility, job creation, and economic growth.

CONCEPTS AND BUSINESS CASES

Based on the stakeholder outreach and research, ideas to improve Oregon trade and logistics capabilities were identified for potential action or implementation. The Tioga Group assessed the feasibility of these concepts using the following criteria:

- Technical, economic, and operational feasibility,
- Identifiable benefits to Oregon shippers,
- Consistency with the long-term interests of Oregon shippers and the state as a whole,
- Consistency with resumption of weekly vessel service at Portland, and
- A well-defined and viable public agency role.

The analysis determined that only three of the concepts reviewed did not have a direct public agency role, would not address near-term problems, and/or did not appear to be feasible based on current industry conditions. These included:

- **Container Availability Information System** – A consolidated information source for container availability would be desirable, but does not appear feasible in the near-term due to ocean carrier policies, lack of cooperation, and anti-trust concerns.
- **Additional Rail Capacity** – Although some suggested that increased railroad capacity would be desirable, The Tioga Group did not find that railroad capacity shortfalls were causing current problems. It is rare for public agencies to have a role in railroad capacity decisions.
- **Other Oregon Deep-Draft Ports** – Other Oregon deep-draft ports do not have container terminals and do not handle containers on a regular basis. Near-term development of container terminals at other Oregon deep-draft ports is unlikely due to the high infrastructure cost and multi-year lead time. While Oregon deep-draft ports serve an important niche role in international trade, new container terminals would not address the near-term problems facing Oregon's container shippers.

The remaining concepts were viewed as providing both near-term assistance with current problems and long-term leadership to build a strong foundation for Oregon trade growth. Many fit within either a monitoring or policy framework and have been incorporated into the Steering Committee recommendations.

The Tioga Group identified six promising proposals for further analysis as business cases, including an overview of the concept, benefits to the freight system, a review of best practices, costs, a potential public agency role, timeframe, and next steps.

These business cases included:

1. Port trucker information system,
2. Truck driver training,
3. Satellite container yards,
4. Columbia River barge/rail service,
5. New rail intermodal yard, and
6. Portland cold storage and transload opportunities.

Additional information on all proposals is included in Appendix 3 available at: www.oregontradesolutions.com/report.

RECOMMENDATIONS

To help mitigate the significant transportation cost impacts already sustained by Oregon shippers and improve capacity to move products to and from global markets, the Governor's Trade and Logistics Steering Committee has identified several potential investment opportunities and actions. The recommendations below are intended to improve existing freight transportation system capacity and infrastructure or add capacity to enhance Oregon shippers' competitiveness in the global marketplace, including some actions that have already been initiated.

The Steering Committee recommendations are informed by extensive stakeholder engagement augmented by technical expertise. These recommendations are grouped into four sets of actions:

1. RESOLUTION OF TERMINAL 6 ISSUES & RESTORATION OF WEEKLY CONTAINER SERVICE
2. OPERATIONAL ENHANCEMENTS AND ACTIONS TO IMPROVE EXISTING LOGISTICS SYSTEMS
3. STRATEGIC INVESTMENTS IN FREIGHT LOGISTICS TO SUSTAIN SERVICES
4. POLICY ACTIONS TO ENHANCE OREGON TRADE & IMPROVE THE TRANSPORT OF GOODS

1 RESOLUTION OF TERMINAL 6 LABOR-MANAGEMENT ISSUES & RESTORATION OF WEEKLY CONTAINER SERVICE

A. **Return of productive operations and weekly container and barge service to Terminal 6** is a priority for Oregon and Pacific Northwest shippers. Service restoration is essential to making significant Oregon freight movement improvements and addressing shipper transportation costs and reliability issues. It will also help remove the estimated 1,400 additional heavy trucks each week moving on Interstate 5 and Interstate 205 as a result of rerouting of cargo to Puget Sound ports[10]. The State should press for resolution of the labor-management issues at Terminal 6, collaborating with the International Longshore and Warehouse Union Local 8 (marine terminal workforce), International Brotherhood of Electrical Workers Local 48 (refrigerated container maintenance and repair workforce), ICTSI (Terminal 6 tenant/operator), the Pacific Maritime Association (employer of the ILWU), and the Port of Portland (Terminal 6 landlord). In addition, the State should support ICTSI and the Port of Portland's efforts to recruit carrier vessel service.

2 OPERATIONAL ENHANCEMENTS AND ACTIONS TO IMPROVE EXISTING LOGISTICS SYSTEM

Infrastructure

A. **Existing Intermodal Container Facilities.** There are five intermodal container facilities (Northwest Container Service-Portland, Northwest Container Service-Boardman, Portland Terminal 6, the Union Pacific Brooklyn Yard, and the Burlington Northern Santa Fe Portland Yard) that provide access to global and domestic markets for Oregon shippers and receivers. Some of these container facilities have requested *Connect*Oregon VI funding to enhance operations at their facilities. The Legislature approved $45 million in funding for *Connect*Oregon VI in 2015. *Connect*Oregon is administered by Oregon Department of Transportation and has an established process to review and approve projects. Existing technical review and regional committees for this program will recommend projects for funding to the Oregon Transportation Commission in August 2016. As part of that process, they will determine the value of projects to the freight system and their benefit to Oregon shippers.

[10] Port of Portland, 2015

B. **Container Satellite Yard to Support Westwood Terminal 6 Service.** The Port of Portland and ICTSI worked with Westwood Shipping Lines to restart their monthly service to Japan and Korea. Vital to this restart was securing a Rivergate area drop yard to store full containers near Terminal 6 for once a month loadings on Westwood. This action was deemed as having merit for pursuing early in the Trade and Logistics Initiative. The Port of Portland partnered with Portland Container Repair to create this drop yard to stage export containers off dock until just prior to a Westwood vessel call date. Those containers can then be trucked to Terminal 6 for the ICTSI's weekly gate opening.

C. **Port Trucker Information System (Business Case).** With rerouting of containers through Puget Sound ports and congestion at those ports and on Interstate 5, truckers moving Oregon products north have reported significant challenges staying within truck driver hours-of-service limits. This has exacerbated an already critical shortage of truck drivers nationally and in Oregon. Multiple stakeholders have recommended the creation of an information system to aggregate and make available in one location current information on:

- Traffic conditions on Interstate 5 and on terminal access roads.
- Terminal gate hours and procedures, and container drop off and pick up schedules.
- Vessel schedules and status, earliest receiving dates, and cutoffs.
- Turn times at Tacoma, Seattle, Portland, and Northwest Container Service terminals.

This project would assist trucking firms in planning load drop-off and pick-up at designated terminals and improve efficiency. Better information would help increase freight predictability, save trucker time and costs, and free up truckers for alternate runs for Oregon shippers. Comparable information systems are available through the ports of Tacoma and Oakland. State assistance to define the benefit of such a system, develop the requirements of the system, and determine funding needs is recommended. This project could link to existing databases and information systems, including the ODOT's TripCheck software that is currently available to the public, and accessed by the trucking community. Collaboration of ODOT, OTA, Washington Department of Transportation (WashDOT), the ports of Portland, Seattle and Tacoma, and Northwest Container Services would be key to the success of this project. Phasing of this project may make sense given the multiple system connections needed.

D. **Truck Driver Training (Business Case).** Nationally and in Oregon, there is a persistent shortage of truck drivers needed to move international container cargo which is expected to worsen due to retirement and turnover. Recruiting and training new truck drivers would help take immediate steps toward addressing this long-term freight logistics challenge. Becoming a truck driver requires training and commercial licensing. Training can be obtained through a commercial truck driving school, a community college offering a truck driving program, or a trucking company that offers an in-house training program. Truck driver training would add capacity to the truck driver pool to serve Oregon importers and exporters, add jobs (particularly in rural Oregon), and create a new generation of well-trained truck drivers. It would also provide a career pathway for Oregon's workforce in the growing transportation logistics industry.

   Since 2012, Oregon has had a Truck Driver Tuition Loan Program, administered through a partnership of the OTA and Worksystems, Inc. The program was funded by the Oregon Legislature with a U.S. Department of Labor grant to develop the Professional Truck Driver Certification curriculum. A central feature of the training program was an agreement by insurers to accept and cover drivers who have completed the curriculum in lieu of having two years of truck driving experience. This tuition loan program provides loans of up to $3,000 for students attending truck driver training schools. The program is currently out of funds and requires recapitalization to make new loans. Recapitalization of the program would allow training of new truck drivers. Longer term, the state could consider expansion of the truck driver curriculum at other Oregon community colleges. Umpqua and Rogue Community College are the only two community colleges offering the Professional Truck Driver Certification curriculum currently.

E. **Mid-Willamette Valley Container Reuse Pilot.** In the Mid-Willamette Valley, there may be an opportunity to establish a container reuse pilot program (sometimes referred to as "match-back") where empty import containers from regional import distribution facilities (e.g., Lowe's) could be reused for export loads from some Mid-Willamette Valley shippers. Such a reuse program would reduce the number of empty container truck movements and improve the efficiency and utilization of the local supply of containers for participating export shippers. By reducing truck trips, a reuse program could reduce congestion on Interstate 5 and feeder routes. The state supports current Port of Portland and private sector efforts to identify and carry out container reuse opportunities for exporters in the Valley. To be successful, a match-back program would need to address ocean carrier permissions, inspections, documentation, and Equipment Interchange Reports.

Regulatory

Stakeholder engagement identified a number of regulatory issues that could improve trucking operations. These proposals would benefit from further analysis and action, including:

F. **Truck Driver Age Limits.** The national truck driver shortage is hitting Oregon shippers very hard. Trucking availability is limited and creating additional burden and expense for the trucking community, shippers and the public. The trucking/driver shortage is exacerbated by the requirement that a truck driver must be at least 21 years old, and insurance companies typically require two years of driving experience, essentially eliminating all 18-22 year olds from the industry. The issue of trucker age limits was raised by multiple stakeholders. In the 2015 federal Fixing America's Surface Transportation Act (FAST Act), Congress allowed drivers qualified through military service to drive a truck at age 18, but that step offers very limited relief. This is a federal issue which ODOT should continue track at the national level.

G. **Weight Limit Exemptions in Rural Oregon.** The potential for weight limit exemptions within Oregon's highway freight system to support movement of agricultural products in rural Oregon is

dependent upon federal action due to federal funding requirements. Increases of legal weight limits may relieve truck shortages and more efficiently move freight to rail in critical agricultural areas. ODOT should work with shippers to determine where current system limitations (e.g., bridge/pavement restrictions or design constraints) exist and consult with federal authorities to determine options for allowing heavier vehicles within the existing permitting structure.

H. **Truck Driver Hours-of-Service.** Shippers raised numerous concerns related to trucker hours-of-service and additional costs associated with hours-of-service. This is a federal issue that is continuously evolving. ODOT should continue to monitor federal regulations and work with industry leaders as necessary. Ongoing efforts by shipper logistics managers in reviewing distribution networks would reduce truck miles traveled and mitigate hours-of-service issues. Utilization of Oregon intermodal facilities would also assist with trucker hours-of-service issues by allowing operators to move shorter distances to these facilities.

I. **Trucker Commercial Drivers' License Requirements.** Oregon currently accepts military experience for meeting licensing truck driver licensing requirements. Oregon should continue to work to enhance stakeholder awareness through outreach conducted by its Departments of Transportation, Department of Veterans Affairs, and Employment Department.

3 STRATEGIC INVESTMENTS IN FREIGHT LOGISTICS TO SUSTAIN SERVICES

A. **New Intermodal Rail Yard Feasibility Study in the Mid-Willamette Valley (Business Case).** There has been interest among shippers, legislators, and other stakeholders in exploring the establishment of a new rail intermodal yard in the Willamette Valley to reduce transportation costs and truck congestion. Possible locations mentioned for such a facility include Albany, Springfield, Eugene, and Lebanon. Northwest Container Service was actively considering a Willamette Valley service as far back as 2005. Initial analysis of this concept was undertaken as part of the Trade and Logistics Initiative. The analysis provided case studies that offered valuable insight into historical issues associated with the creation of new intermodal yards. Additional analysis and discussion with key stakeholders is recommended. State funding could be used to conduct a feasibility study for a new intermodal terminal in the Mid-Willamette Valley. This analysis should include a robust business case and operations plan which identifies potential operators, the possible roles of Class I railroads, short lines, potential cargo volumes, import container opportunities, and financial support for the service from carriers and/or others.

B. **New Metro Area Satellite Container Yards (Business Case).** Establishment of truck container drop yards in the Portland metro area for temporary storage of full and empty containers en route to the ports of Seattle and Tacoma could help improve the flow and predictability of freight transit, address truck driver hours-of-service issues, and improve the supply of empty containers for Oregon exporters. Drop yards located in the Portland area would allow Mid-Willamette Valley and Central Oregon shippers to drop loads for pick-up by a second truck driver for transit to the Puget Sound container terminals. Major concerns for Oregon truckers and shippers include congestion on Interstate 5 and wait times at the Port of Seattle, and the impact of both on federal hours-of-service limitations. Portland area drop yards could allow daily turns for Willamette Valley shippers. Drop yards would also enable containers to be moved at night when Interstate 5 is less congested. Currently, there is one Portland container drop yard operated by Portland Container Repair in Rivergate, providing a yard for loaded export containers for monthly Terminal 6 Westwood carrier calls. State assistance could help a private operator establish a second drop yard for Oregon exporters in the Portland area with close proximity to Interstate 5. Funding could assist with acquisition of property and infrastructure (e.g., gravel, fencing, administration building).

C. **Return of Columbia River Container Barge Service to Terminal 6 (Business Case).** With the suspension of Hapag-Lloyd and Hanjin service at Terminal 6, container barge service on the Columbia River ceased because they could no longer connect to ocean-going vessels. The loss of barge service resulted in the closure of the Port of Lewiston container yard, impacting shippers in southern Washington, and Lewiston, Idaho that helped provide the cargo volumes to sustain Terminal 6 container service. These shippers have difficulty absorbing transportation cost increases, or securing containers and heavy-weight chassis to truck their products to market. The Port of Portland, Northwest Container Service, the ports of Morrow and Lewiston, Tidewater Barge Lines, carriers, and upriver shippers have been working to aggregate volumes that will allow empty container repositioning at Boardman by rail and a barge/rail shuttle from Lewiston/Boardman to Portland and Puget Sound ports. The barge/rail service was restarted in November 2015 with assistance from key stakeholders. This service is important in getting cargo back onto the barge feeder service along the Columbia River in an area hit hard by truck equipment availability and alternative transportation cost increases. The primary beneficiaries of this service are Idaho, southern Washington, and Eastern Oregon shippers of high volume commodities that rely on low cost barge/rail transport.

D. **Boardman Rail Service Support.** Repositioning of empty ocean containers to the Boardman multi-modal logistics center at the Port of Morrow is needed to move containers loaded with upriver and Eastern Oregon goods by rail back to Portland and Puget Sound ports. To incent carriers to reposition empty containers in Boardman, state funding could be used to pay for partial empty container repositioning for Oregon exports only. This would help to take full advantage of the $10 million investment from *Connect*Oregon funds and other sources in the Boardman transportation hub. Keeping containers on a barge/rail combination would preserve the opportunity for this cargo to flow through Terminal 6 in the long term, take trucks off the road, and help re-establish regular carrier service.

E. **Portland Cold Storage and Transload Opportunities (Business Case).** Portland's Terminal 6 container shipping market is a relatively small market compared to other West Coast ports. This is especially true for import cargo, which is the primary driver for container shipping lines when making Port call decisions. Portland has the smallest population of the West Coast port cities and offers relatively few "anchor" businesses with large import container volumes. In tandem with the resumption of Terminal 6 carrier service, the Port of Portland should continue its work to grow the Terminal 6 market by identifying the potential for pharmaceutical and cold storage imports and exports of food products and frozen poultry, beef and pork products from the Midwest. A broader cargo market would help anchor and improve cold storage and transload services in the Portland area, including rail service. Port business development staff has been engaged in promoting development of such services over the years. The Port of Portland should enlist the support of other public agencies, as needed, to support these efforts. Expansion and recruitment of cold storage and transload services would require regular TransPacific service through Terminal 6, but would be important to building the Portland container service market in the long term.

4 POLICY ACTIONS TO ENHANCE OREGON TRADE & IMPROVE THE TRANSPORT OF GOODS

A. **Governor's Transportation Vision Panel Recommendations.** The Governor's Transportation Vision Panel was created to provide a comprehensive look at Oregon's transportation system and define a long-term vision and short-term action items for moving people and goods and how to pay for that system. Preliminary recommendations dovetail well with those of the Trade and Logistics Initiative Steering Committee and should be folded into the state's transportation funding package. This includes:

- Bottleneck Elimination: Prioritize and invest in increasing capacity and throughput of existing roadway bottlenecks on corridors of statewide freight significance;
- Freight Network Alternatives: Invest in enhancing the capacity and efficiency of rural highway corridors and rail infrastructure to create freight network alternatives that reduce congestion on constrained urban highways;
- Intermodal Freight Facilities: Identify and invest in intermodal facilities and freight connectors that reduce freight demand on highways; and
- Permanent *Connect*Oregon Fund: Consider creation of a permanent *Connect*Oregon fund that helps coordinate and support strategic investment in commercial, non-highway freight mobility projects.

B. **Freight Bottlenecks.** Highway freight bottlenecks in Oregon limit shipping reliability and negatively impact shippers' ability to get products to market while meeting driver hours-of-service requirements. Bottlenecks cost shippers money through loss of time from delays or travel along alternate indirect routes. Highway bottlenecks also impact local communities by creating increased traffic congestion on local roadways connecting to state and federal highways. Both the Oregon Freight Plan and the federal FAST Act stress the importance of identifying highway freight bottlenecks. ODOT should continue its efforts to identify and prioritize highway freight bottlenecks along key freight routes throughout the state. Current efforts to do so will be completed in fall 2016. Oregon decision makers should consider addressing critical highway freight bottlenecks as part of future transportation funding packages and options. In addition to highway freight bottlenecks, Oregon should investigate and invest in non-highway transportation infrastructure and programs in order to improve its multimodal freight transportation system.

C. **Heavy-Weight Truck Routes.** ODOT and appropriate local jurisdictions should consider developing a process to designate high-use freight roadways as critical last mile intermodal connectors. This process could consider current and future access routes to facilities that improve the movement of containers. Current facilities such as Terminal 6, Portland Northwest Container Services in Portland and Boardman, the Union Pacific's Portland intermodal terminal, and the Burlington Northern Santa Fe's Portland intermodal terminal should be prioritized. Future routes that lead to potential container drop sites or other container movement and storage facilities should be identified and investigated for possible inclusion. Designation as significant container movement routes will help to ensure that appropriate minimum design standards are maintained to provide adequate container traffic access to international trade gateway facilities. This concept assumes that most will be last-mile connectors on local road networks and not state highways. Standards for state routes are currently identified as Reduction Review Routes under Oregon Revised Statutes. Identification and assessment of last-mile connectors is an action item recognized in the Oregon Freight Plan.

D. **Investment in Oregon's Multi-Modal Freight Transportation System.** International trade is critical to Oregon's economic vitality, yet Oregon's transportation system is not keeping pace with other West Coast states. Congestion in major markets is creating multiple hours of delay and impacting the state's economy. Investing in the state's transportation system has the potential to generate $1.1 billion in

economic benefits[11]. Oregon's transportation system lacks sufficient infrastructure to meet Oregon business market access needs. As shippers try to reach other international gateways, the constrained system increases cost and transit time. Due to constrained transportation funds, Oregon has few projects in the pipeline, limiting the state's ability to compete for funding in FAST Act. Oregon's neighboring states (California, Idaho, and Washington) are making significant investments in their transportation systems and ports. Washington State recently passed the equivalent of a 16-cent gas tax which will raise more than $18 billion to invest in the state's transportation system. California Governor Jerry Brown recently proposed a state budget that includes $36 billion over the next decade in multimodal transportation funding. Idaho passed legislation in 2015 increasing gas taxes by seven cents-per-gallon that is projected to generate $95 million per year to invest in the state's roads and bridges. For Oregon to maintain its economic competitiveness in the West, it needs to invest in the state's multi-modal transportation system. This includes but is not limited to state highways, freight corridors, rail, and port infrastructure. Discussions related to a 2017 Transportation Funding Package should place priority focus on freight movement as a means of promoting economic development with particular emphasis on eliminating freight bottlenecks on the multi-modal system. Coordination of multi-modal freight system investments would improve the movement of international freight throughout the Pacific Northwest. Oregon relies on trade volumes from Idaho and southern Washington to create and maintain its gateway status. Improvements in Oregon's transportation system to capitalize on investments made in neighboring states would improve the efficiency of trade movement.

E. **Monitoring of International Trade and Transportation System Performance.** While the work of the Trade and Logistics Initiative is nearing completion, there is a need for continued focus on the movement of Oregon marine cargo by rail or ship through the ports of Portland, Tacoma and Seattle, as well as ensuring implementation of recommendations included in the Governor's Trade and Logistics report. OFAC is a logical entity to assume this role as it also includes members of the Steering Committee. This monitoring work should include annual progress reporting on the implementation of the recommendations and monitoring of system performance. The potential system performance issues include: customs processing of Oregon shipments at Puget Sound ports; use of third-party logistics providers, cooperatives, and shipper associations for small shippers; existing rail intermodal linkages in Portland and to Puget Sound; chassis supply; and Terminal 6 service

F. **Sustaining Stakeholder Engagement.** Stakeholder engagement is an indispensable part of ensuring an ongoing focus on the competitiveness and functionality of Oregon's trade and transportation system. In conjunction with OFAC's monitoring of implementation of recommendations from the Trade and Logistics Report, the state should convene an annual stakeholder forum to stay engaged with current trade and shipper issues. As part of the Port of Portland and state's efforts to recruit new Terminal 6 container service, it should engage a small group of larger shippers providing the base volumes needed to anchor this service.

G. **Transportation/Shipper Support from Regional Solutions Teams.** Different geographic regions in Oregon have distinct freight logistics shipper needs. The Governor's office should call on the Regional Solutions Teams to identify local and regional shipper solutions that support international trade and economic development opportunities. The Regional Solutions Program approaches community and economic development by working at the local level to identify priorities, solve problems, and seize opportunities to get specific projects completed. Leveraging funding opportunities to address the highest regional priorities is necessary for long-term economic growth. The Mid-Willamette Valley Regional Solutions Team has already convened public and private parties interested in freight transportation investments.

[11] Economic Impacts of Cost of Congestion on the Portland-metro and Oregon Economy, 2014

H. **International Trade Initiatives.** The state of Oregon supports international trade through a collaborative multi-agency effort. Business Oregon, ODA, the Port of Portland, and Travel Oregon engage in Governor's and other outbound trade missions, inbound foreign buyer missions, and industry missions supporting international trade. The Oregon Legislature invests in international export promotion grant programs to assist small and medium-size companies with export sales efforts, leveraging significant federal funds. Export competitiveness is tied to their ability to deliver their products on time and at a competitive price. Export growth can also lead to increased foreign direct investment opportunities bringing new jobs and wages to the state. A continuation of these state investments is recommended given the importance of international trade to Oregon's economy.

I. **Ongoing International Trade Education and Research.** Trade education should be coordinated among agencies involved in trade and transportation, as well as international trade organizations. Research should include but not be limited to additional data collection to enhance the understanding of the container cargo market, and shipping community needs.

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Port of Portland

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Others

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- Gary Neal, Port of Morrow

Companies Interviewed

AASOM
AOSOM
Authentic Models
Benson Industries
BOSSCO Trading LLC and Boshart Trucking
Bridgewell Resources
Calbee North America LLC
Columbia Grain International
Dinsdale Farm & Equipment Co.
Gilmour Pacific Trading
Glacier Tanks
Golden Valley Farms
Kanto Corporation
Mitchell Brothers
NNR Global Logistics
NORPAC Foods
Northwest Container Services
Northwest Hardwoods Inc.
Oregon Hay Products (2)
Oregon Tile and Marble
Planar Systems
Proactive Sports
Richards Housewares
S.L. Follen Co.
Schnitzer Steel Industries
Shelter Forest International
Sunrise Trading
The Furniture Connexion
Vanport International
Warn Industries
Williams Controls
Wish Pets