

Sustainable Commerce & Supply Chain Forum: Key Takeaways

Presented by BizFed Institute
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FORUM RECORDING: <https://youtu.be/xmQlzoVS6I4>
JONATHAN PARFREY'S TAKEAWAYS: <youtu.be/ty9dtxtdoLg>

Another month, another BizFed Institute forum! Our programming schedule this year has been both ambitious and well-timed to address our most pressing concerns. I want to thank the speakers, sponsors, staffers, and attendees who made our Sustainable Commerce & Supply Chain Forum one of our most impactful offerings yet. We spent our morning together not only dissecting the complex systemic issues that have snarled our supply chain, but also exploring and refining an array of solutions. Some of these are already on paper and progressing through the legislative process. We were able to make progress in setting coordinated goals because we carefully selected keynote speakers, moderators, and panelists who each own a different link of the chain. Together, they helped us better understand what policymakers – and business leaders – can do to strengthen individual links, the entirety of our supply chain, and the many jobs that depend on the integrity of our goods movement sector.

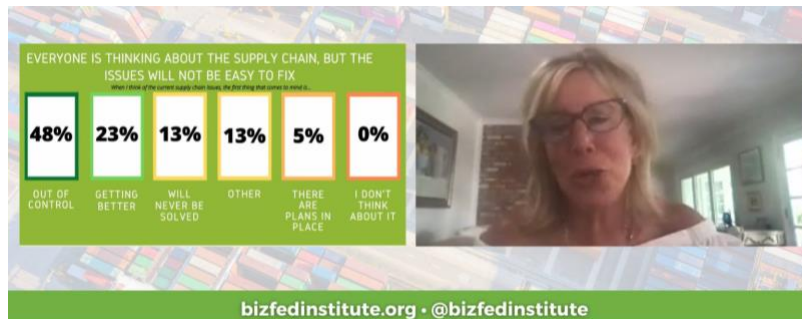


I encourage you to read and circulate our key takeaways below, as well as the recorded program and BizFed Institute Chair Jonathan Parfrey's live recap on YouTube. I'm proud of all the work we produce, but especially forums like this one that yield clearly defined, actionable steps forward.



Kevin Harbour
BizFed Institute President

FLASH POLL RESULTS



BizFed Institute Program Co-Chair **Ruth Drizen-Dohs** delivered poll findings that underscored the all-encompassing impact of supply chain disruptions and the business community's keen awareness of the problem. Our pre-forum "**Flash Polls**" sometimes reveal that our attendees are new to a topic and thirsty for more education (as was the case with our **Green Hydrogen Forum** earlier this year). This time, our Flash Poll data captured our audience's firsthand experience, deep intel, and proposed solutions.

- Nearly half of respondents say supply chain issues are "out of control," while less than a quarter feel the situation is "getting better." Only 5% believe there are plans in place to fix problems.
- Respondents are split on the cause and predictability of the supply chain breakdown. Some believe it is the result of unprecedented circumstances, while a similar share believe recent and ongoing bottlenecks were "completely foreseeable."
- 22% of local businesses are "completely dependent on the supply chain to succeed, while 36% of local businesses are "significantly dependent" and 22% are "moderately dependent." Only 16% of local businesses are "not dependent at all."
- 80% of respondents ranked supply chain disruptions among their top three business concerns.
- 87% of respondents were able to identify specific challenges resulting from supply chain disruptions, including customer satisfaction issues, labor shortages, inability to meet production or delivery deadlines, loss of customers, and loss of suppliers. A whopping one-third of poll respondents said supply chain issues have led to customer satisfaction issues.
- Many businesses are making operational changes, including permanent ones. Some are making drastic changes to their business models so they no longer rely on the supply chain (i.e. transitioning from brick-and-mortar to e-commerce).
- 71% of respondents would support easing restrictive regulations, permanently or temporarily, while 21% would direct assistance to businesses to address supply chain challenges.

KEYNOTE #1



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Asm. Vince Fong, a ports advocate who serves as Vice Chair of the Senate Committees on Budget and Transportation, kicked off the program as the first of two co-keynote speakers heavily invested in improving goods movement policy at the state level. Fong represents the 32nd Assembly District in California's Central Valley, encompassing most communities in Kern County. Fong called for coordinated, continuous investments in California's goods movement sector (like other states have done) rather than one-time allocations for band-aid

projects. This should be possible – and a top priority – with California’s unprecedented \$97.5 billion budget surplus. Without significant, sustained funding to expand the capacity of our supply chain, we have no chance of keeping up with steadily increasing consumption, Fong said. In order to adapt to the “24/7 model” major ports are moving toward, he recommended aligning all processes and systems involved. For example, if a truck driver is picking up at 9 p.m. and driving to an inland port at night, the destination warehouse receiving the delivery must be open when the driver arrives. In order to maintain this around-the-clock workflow, we must fill the thousands of warehouse jobs that are empty right now. This is not the time to burden distribution centers with rules and restrictions that make it more difficult to hire workers.

Fong spotlighted two bills he introduced to improve supply chain integrity:

- **AB 1679** would create a high-level “Supply Chain Senior Advisor to the Governor” role that acts as an air traffic controller for the regional supply chain. The advisor would keep an eye on pending regulations at all levels of government and have the authority to advocate for helpful proposals, push back against bad bills, and urge local officials to pump the brakes on counterproductive ordinances. This bill is stalled in appropriations.
- **AB 2798** would temporarily streamline approval processes for short-term freight permits, immediately alleviating congestion. It would prohibit local agencies from denying permits for short-term freight transportation use solely because the developer has a pending development application for a freight transportation project on that land. This bill passed unanimously out of the Assembly and is currently awaiting committee assignment in the Senate.

BRIGHT IDEAS: Expand inland ports infrastructure, bolster chassis production, modernize CEQA, incentivize manufacturing, pay more attention to exports, and ensure systems along different sections of the supply chain can coordinate and communicate with each other by making critical data available to all stakeholders.

KEYNOTE #2



Asm. Patrick O'Donnell
Co-Keynote Speaker

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Asm. Patrick O’Donnell, another voice for California’s ports, works closely with Fong on goods movement policy. The two assembly members should be a case study in efficient bipartisanship amid fast-moving emergency. O’Donnell and Fong have reached across the aisle for the benefit of our supply chain and all Californians, identifying parallel goals for two vastly different parts of the Golden State along the way. O’Donnell represents the 70th Assembly District, home to the Ports of Los Angeles and Long Beach. He spoke at length about the need for CEQA updates, emphasizing the difficulty of building new goods movement infrastructure under current

regulations. \$2.3 billion is allocated for ports enhancements in the proposed state budget but accessing that money won't be easy. Planning any development "will take 12 years and then you have lawsuits after that," said O'Donnell. He also slammed the California Air Resources Board's upcoming harbor craft rules that affect tugboats serving ports. It could take years to build a fleet of tugboats with engines that meet the new CARB requirements! O'Donnell is pushing the governor to carve out money for one-time allocations that help companies cover the cost of engine rebuilds.

He cited several pending bills that could further snag our supply chain:

- **AB 2840** would essentially ban the construction of new warehouses, leading to more goods being stored on ships. Now is not the time to retool the waterfront as a site for floating warehouses. This bill would also erode local authority over land-use decisions and set dangerous precedent with the potential to hurt all commercial real estate development. It passed out of the Assembly several days after this forum – despite the efforts of BizFed and member organizations opposing the bill – and is currently awaiting a Senate committee assignment. The author of the bill agreed to amend the bill to only apply in California's Central Valley after hearing business voices.
- **AB 1778** would ban the use of state funding and resources to build or expand freeways under the guise of pollution and public health concerns. O'Donnell believes it would snarl rather than streamline the supply chain. This bill passed out of the Assembly and is currently awaiting a Senate committee assignment.

BRIGHT IDEAS: Secure tax credits for domestic manufacturers of intermodal equipment such as chassis, expand on-dock rail, spur private sector investments in inland ports, modernize CEQA, support Fong's proposal to create a high-level ports advisor role.

PANEL #1

The graphic features a background of a port with colorful shipping containers. At the top, it reads "PANEL 1: Goods Movement". Below this is a grid of five video call windows showing participants. The names and affiliations of the participants are listed at the bottom of the grid: Moderator: Rick Cameron, Port of Long Beach; Panelist: Thomas Jelenic, PMSA; Panelist: Matthew Means, Watson Land Company; Panelist: Matt Schrap, Harbor Trucking Association; Panelist: Lupe Valdez, Union Pacific. Below the grid, there is a handwritten-style text "Thank you to our sponsors!" followed by logos for MAJESTIC REALTY CO., Port of LONG BEACH THE PORT OF CHOICE, and WATSON. At the very bottom, a green bar contains the text "bizfedinstitute.org • @bizfedinstitute".

Moderator **Rick Cameron**, Deputy Executive Director of Planning and Development for the **Port of Long Beach**, opened the first panel discussion of the program by emphasizing the region's role as the #1 gateway to the nation." On top of the sheer volume of goods processed here (together, the Ports of Los Angeles and Long Beach handle 40% of the nation's containerized imports, making our sea ports complex the largest in the Western Hemisphere) port officials in California face regulatory, systemic, and environmental challenges unique to this region. When fielding questions like, "Why can't we do what Savannah, GA is doing?" Cameron answers with a single explanation: "Because we're in California."

Panelist **Thomas Jelenić**, Vice President of Pacific Merchant Shipping Association (PMSA), shared a memorable quote that encapsulated the multi-systems malfunction caused by various stressors upon the supply chain: **“I have cargo in China but I can’t get a box. When I get a box, I can’t get a ship. When I get a ship, I can’t get a berth. When I get a berth, I can’t get a truck. When I get a truck, I can’t get a chassis. When I get a chassis, I can’t find space in a warehouse.”** Delays along any part of the chain will affect each subsequent link and likely see a magnification effect. Dwell time has doubled from 3 days before the pandemic to 6 days. We need new strategies modernizing how we move cargo; instead of simply pulling cargo when it arrives, Jelenić suggested also pushing cargo.

Panelist **Matt Schrap**, CEO of Harbor Trucking Association, drilled down further on the “system of systems” Jelenić described in his opening remarks, and detailed how misaligned or antiquated systems have long impeded efficiency. For example, there are 12 different appointment systems in Los Angeles, each with their own quirky operational requirements. The hurdles people must jump through to secure appointments ahead of time at marine terminals waste time and cause needless confusion. These systems should be standardized or, at the very least, better aligned. Turn times are now averaging 90 minutes, with more than 25% exceeding 2 hours, at the Ports of Los Angeles and Long Beach. Time is money – and factors into the sustainability equation. Decreasing idling time will immediately result in lower emissions, Schrap noted. Fees are also money out of consumers’ pockets, as rising per diem costs, inflationary pressures, and other goods movement costs are passed on to everyday Americans. Passing environmental regulations that come with more fees means even heftier price tags for consumers. **“When I talk to my members about sustainability, they’re talking about sustaining their business and keeping the lights on,”** said Schrap.

Panelist **Matthew Means**, Vice President of Asset Management for Watson Land Company, laid it out plainly: **“We’re out of space. We need to build more warehouses.”** Southern California is seeing its lowest warehouse vacancy rate ever. The overall market needs an estimated 800 million square feet of warehouse space to meet demands, but only 300 million square feet are expected to be delivered. Lengthy approval processes and CEQA-related hurdles for new projects in California halt plans for immediate relief. It could take 2 years to secure approval for a new warehouse, Means said, and approximately 3 to 5 years to entitle a vertical warehouse in Los Angeles. He also echoed Schrap’s sentiment about fees stacked upon fees rolling down to crush consumers. More fees are on the horizon. Independent Source Rule costs will average \$1/square foot of warehouse space. **“If we also dismantle Prop 13, imagine the reassessment of 1.6 billion square feet of warehouse space. Everything is going to roll down to the consumer,”** Means said.

Panelist **Lupe Valdez**, Senior Director of Public Affairs for Union Pacific, discussed the rail sector’s embrace of “precision railroading” and Amazon’s customer-first model. Rather than only considering how fast a train is traveling, Union Pacific is now focusing on how soon a box can get to its destination. Consumers today want to know exactly where their package is and when it will arrive. Rail challenges include labor issues, wildfires, and homeless encampments along tracks. Union Pacific is exploring new avenues to maximize efficiency, including an intermodal service through the Inland Empire, electric switcher engines, hybrid cranes and other types of cargo-handling equipment. New investments in on-dock rail at major ports will also expand capacity. In April, the U.S. Maritime Administration granted final federal approval for a \$1.5 billion on-dock rail facility at the Port of Long Beach.

PANEL #2

PANEL 2: Future of Business

MODERATOR: Rachel Michelin, California Retailers
PANELIST: Lance Hastings, CMTA
PANELIST: Bob Smith, Greater Los Angeles New Car Dealers
PANELIST: William Bourdeau, Harris Farms
PANELIST: Selwyn Yosslowitz, Marmalade Cafe
PANELIST: Jim Stavis, Paragon Steel

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Moderator **Rachel Michelin**, President of the California Retailers Association, livened up the conversation about supply chain challenges, consequences, and concerns by encouraging her panelists to also share success stories about strategies or workarounds that *are* working. Michelin hears these stories from every sector of the supply chain daily. As a retail leader, she represents stakeholders involved in every portion of the supply chain, including the critical “last mile” where businesses ensure consumers get their products. Even amid chaos, businesses are finding ways to meet consumer needs. This discussion was an opportunity for diverse industry leaders who own different pieces of the puzzle to come together, trade tips, and piece together a new vision for the future of commerce.

Panelist **Bob Smith**, Executive Director of the Greater Los Angeles New Car Dealer Association, represents auto dealers at the forefront of supply chain impacts. The inability to get products and services, and concerns about economic continuity, kept all his dealer members up at night, Smith said. Most dealers in the retail automotive business already operate at narrow profit margins. Product shortages and shipping delays that came to a head during the pandemic scrambled workflows and delivery timelines. Smith pointed to disruption as a golden opportunity to improve communication, abolish unnecessary restrictions, and strengthen relationships with partners that can help insulate from similar issues in the future. Following a devastating earthquake and tsunami in Japan in 2011, supply chain disruptions prompted Toyota to reassess its systems and keep permanent lines of open communication with partners, Smith said. American dealers, shaken by recent supply chain bottlenecks, are now stocking inventory in new ways and ramping up communication with original equipment manufacturers (OEM). **“It’s been quite a ride but we’re happy we’ve had the opportunity to work on our relationships with our OEM partners,”** said Smith.

Panelist **Selwyn Yosslowitz**, co-founder and partner at Marmalade Café, already faced an uphill battle before the coronavirus pandemic. The restaurant business is notoriously labor intensive, capital intensive, and fraught with risks and uncertainty. Faced with additional stressors caused by supply chain issues, Yosslowitz now navigates moving targets daily. His 7 locations often don’t know what products they’ll receive, making it difficult to maintain consistent menu offerings and hours. They check in every day to ensure they can get what they need, or adjust accordingly, while constantly anticipating last-minute changes. Even when they receive the products they need, substitutions can result in different tastes noticeable to restaurant regulars. Labor shortages in the trucking sector sometimes leave Marmalade Café staffers scrambling, especially on Fridays. A truck can be loaded in the morning and products scheduled for delivery, but if nobody shows up to drive the truck and deliver the goods, Yosslowitz can’t open without product. Their workarounds entail larger Thursday deliveries that can get them through the weekend without relying on Friday deliveries. Solutions start with identifying where the shortfalls are. **“It just forced us to rethink how we’re operating and made us revisit our menus,”** said Yosslowitz.

Panelist **Jim Stavis**, President and CEO at Paragon Steel, isn't insulated from the impacts of supply chain disruptions – even if he can deliver his product to the diverse cross-section of construction and manufacturing businesses he serves. These businesses produce varied goods but have experienced similar sourcing struggles that get passed on to all partners. It's a domino effect that leaves no block standing. For example, a manufacturer might be able to get their steel from Stavis but must halt production because they can't get another commodity such as paint or a motor. They might hold up buying their steel because they're unable to complete the project without the missing parts. Stavis said construction jobs, some quoted months in advance, have been locked up due to product shortages. **“Our sourcing is really our strength. We don't rely exclusively on inventory, meaning we can run out and find what we need, so we've had an increase in business,”** he said.

Panelist **Lance Hastings**, President and CEO at the California Manufacturers and Technology Association, offered a razor-sharp critique of our state's inability to preempt or quickly solve goods movement issues: *Not enough people in Sacramento know enough about the supply chain to take coordinated action.* Hastings applauded Asm. O'Donnell and Asm. Fong for their bipartisan efforts to address the supply chain crisis but said the fragility of our system should be a talking point far beyond Sacramento. The supply chain is a global web with strands that are deeply and inextricably intertwined worldwide. A pivot to relying primarily on domestic supply could take decades, Hastings said. We must work with the global partners we have right now to address today's issues. We must also lean in to educate policymakers on multidimensional challenges (i.e. individual manufacturers can have thousands of suppliers; if a manufacturer is down a single product, they can be rendered idle). **“In terms of a positive outcome, people are getting much more creative and thoughtful about their customer base,”** Hastings said. **“We are literally the tip of the spear for the national economy. We need to make sure we take this messaging from today's discussion to policymakers.”**

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