



U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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October 21, 2011

MEMORANDUM

TO: Members of the Subcommittee on Water Resources and Environment

FR: Bob Gibbs
Subcommittee Chairman

RE: Hearing on "The Economic Importance of Seaports: Is the United States Prepared for 21st Century Trade Realities?"

PURPOSE OF HEARING

The Water Resources and Environment Subcommittee is scheduled to meet on Wednesday, October 26, 2011, at 10:00 a.m. in 2167 RHOB, to receive testimony from the U.S. Army Corps of Engineers, and representatives from the ports, the maritime industry, and port customers, to hear testimony on "The Economic Importance of Seaports: Is the United States Prepared for 21st Century Trade Realities?"

BACKGROUND

In today's global economy, maritime trade is a valuable component of our nation's daily life, economy, and future. From ancient Phoenicians to expansive colonial European empires, maritime trade has shaped economies, governments, and societies throughout history. America, rich with natural resources and raw materials, has been a major global trade presence from its founding. Engineering advances ranging from the steam engine to the intermodal container have made maritime trade into what it is today – the cheapest, greenest, and most common form of global trade.

The benefits of waterborne trade are derived from its resource efficiency. Each mode of freight transportation has its own costs and benefits, but waterborne shipping stands out as the most resource efficient when compared to truck, train, or air

transportation. According to the US Army Corps of Engineers' (Corps) Institute for Water Resources, per-unit cost of transport is half or even two-thirds less than other cargo transport options. Although roads and rail can reach where ships and barges cannot both forms of transportation use much more fuel and move fewer tons than waterborne trade. In fact, according to the World Shipping Council, if all the containers from an 11,000 Twenty Foot Equivalent (TEU) ship were loaded onto a train, it would need to be 44 miles long. Additionally, the efficiency of waterborne transportation mitigates landside congestion and pollution.

Maritime shipping remains the preferred method of moving goods in the international market throughout the world. Airplanes, the only other option for intercontinental trade, move goods quickly but are hampered by relatively small capacities and high operating costs. Because of this, air cargo is almost exclusively used for the transportation of small, time-sensitive goods. The Corps of Engineers estimates that more than 95% of overseas trade produced or consumed by the nation moves through American ports.

The Federal government's interest in maritime trade stems from the Commerce Clause (Article 1, Section 8, Clause 3) of the U.S. Constitution, which charges the Federal government "to regulate commerce with foreign nations, and among the several states, and with the Indian tribes." The Army Corps of Engineers Civil Works Program carries out federally mandated actions supporting the nation's maritime infrastructure. One of the greatest responsibilities to support commerce is the maintenance and development of the nation's water resources.

Economic Benefit of Maritime Trade

Impacting ports, coastal regions, and consumers in both national and global economies, the economic importance of maritime trade to the United States cannot be underestimated. Nearly a third of the nation's Gross Domestic Product (GDP) is derived from international trade, the bulk of which is waterborne. According to an August 2011 letter to the Deficit Reduction Committee from the American Association of Port Authorities (AAPA), seaports themselves provide for \$200 billion in federal, state, and local tax revenue each year. Thirty million jobs are directly related to international trade, with the U.S. maritime industry alone providing 13 million jobs throughout the country. According to the United States Department of Agriculture (USDA), U.S. agricultural exports, which in FY 2009 reached \$96.6 billion, generate an additional \$135 billion in supporting business activity in the transportation, distribution, food processing and manufacturing sectors. The Economic Research Service of the USDA notes that for every dollar of goods exported, this creates another \$1.36 in supporting activities. Overall, the AAPA research finds that maritime trade creates \$2 trillion of commerce annually in the United States. In addition, the federal government collects billions of dollars annually in tariffs and duties from port activities.

Marine ports are economic engines to their regions. For example, the Port of New Orleans supports economies not only around the Gulf of Mexico but throughout the entire

Mississippi River Valley. The inland waterway system, as well as intermodal connectors from across the country, bring agricultural products, mined resources, and other valuable raw materials to the Port of New Orleans and the global market. According to Port Director Gary LaGrange in testimony before the Subcommittee, The Port itself employs thousands of employees, and the activity of that port alone supports 380,000 jobs across the region. On the East coast, the expanding Port of Savannah is responsible for 7% of the state of Georgia's total employment.

Economically, transportation costs are not absorbed by shippers or retailers but are instead passed on to the consumer. Impediments to shipping increase costs and consumer prices. Maritime shipping allows for a wide spectrum of goods from across the world to reach the American consumer. According to a study conducted by the International Chamber of Shipping (ICS) and the International Shipping Federation (ISF), the shipping price of consumer goods shipped over water is generally between just 1% and 2% of the shelf price. Logistical factors that raise transportation costs include ships being forced to carry lighter and less valuable loads in order to accommodate un- and under-dredged channels; being marooned by tidal changes because of shallow channels, inefficient cargo handling at the port; and slow, congested landside transportation. At just six feet, the proposed depth in the deepening the Port of Savannah channels from 42 feet to 48 feet would result in 15% to 20% cheaper shipping costs on goods that pass through it. Naturally, one of the many benefits to investments in maritime infrastructure is reduced consumer good prices and therefore an overall positive economic impact.

Environmental Benefits

Maritime trade is also environmentally friendly. Cargo ships at sea do the work of trains and trucks, but use less fossil fuel and have lower emissions. According to a 2007 study of total emissions conducted by a working group of the International Maritime Organization, international maritime shipping accounts for only 2.7% of annual global greenhouse gas emissions. In fact, a bottle of wine shipped from France to New York has a smaller carbon foot print of one shipped over land from California. The Corps of Engineers, charged with maintaining and developing the nation's navigation channels, balances this responsibility with environmental restoration projects. An example of this is the use of dredged material to create protected coastal sanctuaries for fish and wildlife.

Past Shipping Trends

Trends in shipping reflect overall international trade and economic trends. The recession decreased consumer spending and the demand for imported goods, which in turn reduced international trade. The economic downturn of the past few years impacted maritime trade as it did all modes of freight transportation. Despite these factors, the comparatively low cost of this type of waterborne shipping makes it an attractive option as the economy began its slow recovery and personal consumption expenditures increased. According to the AAPA, in the first half of 2011, the U.S. imported 25% more

industrial supplies and non-crude oil materials compared to the first quarter of 2010. Even as the industry has been tested in the recent past, new challenges lay ahead.

Future Industry Challenges

The future expansion of the Panama Canal presents unique opportunities and challenges for the maritime trade industry. For almost the past hundred years, the depth and width of the Canal has capped the size of ships that may traverse it and ultimately reach Gulf and Atlantic ports from the Pacific. These ships are referred to as Panamax ships and have a capacity of around 4,500 TEU. Ships larger than the Canal capacity are referred to as Post Panamax and can carry up to 12,500 TEU. Today, Post Panamax ships with cargo destined for the United States from Asia utilize West Coast ports where they unload goods to be transported eastward by overland methods. The large scale ships provide significant cost to operators, greater profit margins and are becoming more prevalent. A report published by the Panama Canal Authority notes that half of the liner construction orders to major ship builders to be completed between 2006 and 2011 year were for Post Panamax ships.

When the Canal expansion is complete in 2014, Post Panamax ships from the Pacific will be able to engage in maritime trade with U.S. Gulf and Atlantic ports via the Canal. Trade routes will change as the final lock gates open. Transportation researchers such as those at Georgia's Center of Innovation for Logistics believe that there could likely be a 25% to 30% shift in freight shipping routes from the West Coast to East Coast destinations utilizing all water routes. However, not all East Coast ports are ready for the coming traffic. On the Eastern Seaboard, only the Port of Virginia in Norfolk, VA is currently able to accommodate a Post Panamax vessel. Other ports are cued up for deepening projects or studies, but the Corps' resources are limited and this increases the timelines for navigation projects.

At two-and-a-half times the size of their Panamax counterparts, the arrival of Post Panamax ships also presents landside challenges to seaports. To handle the increased cargo, terminals will need to be expanded or built; workers with varieties of skills and trainings will need to be hired; streamlined Customs and Border Patrol policies may need to be implemented to handle the increased load; and intermodal connections must be improved to efficiently bring goods to market. Many ports sit in urban areas where expansion is limited and expensive. Additionally, port and local traffic compete for space on highways, slowing down the commute for everyone. Inadequate infrastructure at ports can greatly diminish the cost effectiveness of maritime shipping. In order to stay competitive and take advantage of the economic boom posed by larger shipments, supply chain infrastructure investments must be made.

Previous shipping routes have made the Pacific coast ports the busiest in the nation, but this is likely to be challenged in the coming years as more efficient options become available. Vessels that were too large to reach destinations beyond the Canal have made Pacific gateways the nation's busiest ports based on containerized trade handled per year. Five of the country's top ten ports (Los Angeles, Long Beach,

Oakland, Seattle and Tacoma), including two of the top twenty container ports in the world, are located on the West coast. The expected shift in routes may reduce traffic to these ports, although it will be somewhat mitigated by an overall increase in global trade. Also ports in California, Oregon and Washington are facing competition with the state-of-the-art and aggressively expanding Port of Prince Rupert in British Columbia. Advanced throughput capabilities at that port mean that goods can impressively reach Chicago in less than 100 hours. Both marine and landside infrastructure development at American ports is required to stay globally competitive.

As Canada has no Harbor Maintenance Tax, shippers could realize an average \$137 savings per container by moving cargo through Canada. The U.S. Federal Maritime Commission plans to study diversion of cargo typically destined for the United States through the Port of Prince Rupert. The agency is responding to a request from members of Congress from the West Coast to study the impact of Prince Rupert, Canada taking cargo bound for America from Los Angeles, Long Beach, Oakland, Seattle and other ports. This complex issue involving the Harbor Maintenance Tax, weaker container inspections, and the subsidy of cargo rail moves through Canada to the U.S. border near Chicago will likely have significant impacts on the nation's ports as well.

Nation's Exports

In his State of the Union Address in January 2010, President Obama announced the creation of the National Export Initiative (NEI), codifying this with an executive order signed in March 2010. The order is designed "to enhance and coordinate Federal efforts to facilitate the creation of jobs in the United States through the promotion of exports, and to ensure the effective use of Federal resources in support of these goals." The goal is to double exports in the next five years. It creates an Export Initiatives Cabinet made up of administration officials that work in coordination with the Trade Promotion Coordinating Committee (TPCC), an entity created in 1993. Trade agreements, small business promotion, financing policies, and transportation logistics are all areas the cabinet will address to reduce barriers to exportation.

According to the U.S. Committee on Marine Transportation Systems, many Federal agencies, commissions, and offices within the executive branch have a role in marine commerce. Some of the entities related to waterborne transportation include, but are not limited to: the Department of Transportation, Maritime Administration, Army Corps of Engineers, St. Lawrence Seaway Development Cooperation, U.S. Coast Guard, Federal Maritime Commission, National Oceanic and Atmospheric Administration, National Transportation Safety Board, Department of Commerce, Department of Justice, Department of Agriculture, Department of Interior, Bureau of Ocean Energy Management and Regulation Enforcement, Military Sealift Command, U.S. Customs and Border Patrol and Environmental Protection Agency. Each must coordinate with each other and partner with the private sector in order to achieve the President's goal.

In 2010 U.S. exports supported 9.2 million in American jobs and some estimates show that one in three manufacturing jobs depend on exports. According to the Office of

the United States Trade Representative, agricultural exports supported more than 950,000 jobs on and off farms in 2010.

The demand for American exports is real. According to the Chamber of Commerce's research 95% of the world's consumers and 73% of purchasing power lie beyond our borders. New trade partners in developing nations such as India, Brazil and Indonesia purchased 53% of U.S. exports in 2010. Diverse international trade ensures that even as various regions go through economic difficulties, American exporters will always have customers. For instance, the International Trade Administration notes that in 2009, a bleak economic year for many industries including those supporting international trade, exports to the small country of Vietnam grew by 11%. Our trade with Vietnam and other small developing nations has continued to develop even as the entire international industry has begun to recover from the recession. Today the United States exports a variety of goods including manufactured parts, agricultural products and high-tech components. Raw materials are a major export item, and commodities such as liquefied natural gas could grow as a segment of the export economy as exploration and excavation develop.

According to the international firm McKinsey, the Chinese middle class will grow from 80 million in 2007 to 700 million by 2020. These new customers will be purchasing goods from all over the world. Goldman Sachs predicts that the middle class in Brazil, Russia, India, and China will grow from 250 million in 2005 to 3.5 billion by 2050. The nations that are most efficient at delivering their products to these exploding markets will win this business and bring jobs back home.

Infrastructure Investment

Investing in ports not only creates jobs during the construction period, but supports wider and long lasting opportunities. Knowing the value of maritime trade, localities and port authorities have invested in the infrastructure of their ports. The AAPA finds that American ports are investing \$2 billion annually in marine terminal capital improvements. The Port of New Orleans has spent \$400 million in recent years on landside improvements that make it more efficient and attractive to shippers. Acknowledging that 12% of the country's international containers pass under the Bayonne Bridge, The Port Authority of New York and New Jersey have pledged \$1 billion toward the bridge retrofit that will allow for Post Panamax ships to sail under it and into the Atlantic Coast's busiest port. The cost benefit analysis of the project estimates that this single project will provide a \$3.3 billion dollar annual national benefit. Local investments optimize existing infrastructure and increases port efficiency; however, many projects are required to utilize Federal funds and processes.

The operation and maintenance of shipping channels is paid for by the Harbor Maintenance Trust Fund (HMTF), which is funded from a .125% ad valorem tax levied on cargo imports at American ports. The HMTF is a user fee that grows based on the value of cargo coming to ports. These monies pay for the necessary dredging that keeps navigation channels open for business. In fiscal year 2010, the HMTF grew by \$1.3

billion; however, only \$828,550,000 was spent in total operations of the fund as the balance was diverted to deficit spending. Because the HMTF is not 'off-book' on paper there is a balance, however the reality is that all of the balance has been used to offset other government spending. Because of this inequitable allocation, many of the country's most valuable navigation channels are under maintained, reducing the cost effectiveness and efficiency of maritime trade.

While some FY 2012 presidential budget requests reflect goals of the NEI, in the areas of navigation there appears to be a disconnect between the production of exports and the transportation of exports overseas. The International Trade Administration request was \$526 million towards the administration costs of implementation. Thirty million dollars of Small Business Administration grants are to be disbursed to states to support export activities. Transportation is addressed in the President's budget request with a sweeping surface transportation authorization request and \$70.5 billion to fund the Federal Highway Administration. However, maritime trade, the most prevalent form of exportation, does not receive as much funding necessary to support a significant development much less doubling exports.

The President's Army Corps of Engineers Civil Works program appropriation request in the Administration's FY 2012 budget submittal is \$4.631 billion, which is approximately 6.1% below the annualized Continuing Resolution for FY 2011 of \$4.929 billion. These funds are distributed to the many missions of the Corps civil works program including investigations, construction, operations and maintenance, levee safety, flood control and environmental restoration. The Corps budget has a profound effect on waterborne commerce as it shoulders the bulk of coastal infrastructure development and operation and maintenance activities. Unlike surface transportation funding, there is no Federal credit assistance programs for the construction, operation and maintenance of ports' navigation channels. Even local ports with willing investors are often required to wait on Federal appropriations to pursue needed projects. Two accounts within the budget of the Corps have significant impact on maritime trade:

Construction – The President's budget requests \$1.48 billion for the Construction account. This is \$210 million less than the FY 2011 annualized Continuing Resolution of \$1.69 billion. These funds are used for the construction of river and harbor, flood damage reduction, shore protection, environmental restoration, and related projects specifically authorized or made available for selection by law. Almost half of this budget request is for flood damage reduction projects. However, more alarming is that approximately \$470 million are for ecosystem restoration projects that provide little or no economic benefits, while navigation projects would only receive \$280 million.

Operation and Maintenance – The President's budget also requests \$2.314 billion for expenses necessary for the preservation, operation, maintenance, and care of existing river and harbor, flood control and related projects. This is \$47 million less than the FY 2011 annualized Continuing Resolution of \$2.361 billion.

The budget would use only \$691 million from the Harbor Maintenance Trust Fund resulting in an increase in the estimated balance from \$6.12 billion to \$6.93 billion at the end of FY 2012. In addition, while proposing paltry amounts be appropriated from the Harbor Maintenance Trust Fund, the President's budget proposes to expand the authorized purposes of the fund for activities not typically associated with the Corps of Engineers maintenance of navigation channels.

Among the persistent barriers to trade, only one-third of the nation's federal navigation projects are currently at their authorized depths and widths, and 8 out of the nation's 10 largest ports are not at their authorized depths and widths. Exporters are required to wait for high tide to get out of port or are forced to ship in lighter loads. This reality is especially burdensome for the many raw material exporters whose products are heavy and whose ships require deeper drafts.

Overall, the President's proposal does not address some of the nation's most profound infrastructure needs. It does not direct Congress to pursue multiyear reauthorizations that provide stability and predictable funding to projects. Developing world-class infrastructure cannot be hurried to completion in two years to comply with a truncated funding schedule. Even beyond funding, a transportation infrastructure bill could include no cost policy changes that would support maritime trade. The proposed legislation does not streamline the permitting processes, an action that would expedite valuable projects. Permit backlog delays the timeline for construction and increases costs associated with navigation projects that could promote maritime trade. Also, legislation that would support maritime trade would allow non-federal project sponsors to supply more capital to navigation projects without having to wait on the appropriations process. Re-authorizations, permanent policy changes, and regulatory reduction would unlock private capital and hasten project completion, benefitting maritime trade and the economy as a whole.

Witnesses

The Honorable Jo Ellen Darcy, Assistant Secretary of the Army-Civil Works, United States
Department of the Army

Jerry Bridges, Chairman of the Board, American Association of Port Authorities

Christopher Koch, President, World Shipping Council

Paul Anderson, Chief Executive Officer, Jacksonville Port Authority

Omar Benjamin, Executive Director, Port of Oakland

William Friedman, President and Chief Executive Officer,
Cleveland-Cuyahoga County Port Authority

Mr. Peter Peyton
President, ILWU Marine Clerks Association