



WORLD SHIPPING COUNCIL
PARTNERS IN AMERICA'S TRADE

Testimony of
Christopher Koch

President & CEO of the
World Shipping Council

Regarding

“Financing Maritime and Port Infrastructure”

Before the

Water Resources and Environment Subcommittee

of the

House Transportation and Infrastructure Committee

November 20, 2003

I. Introduction and Background Information

Good afternoon, Mr. Chairman and Members of the Committee. My name is Christopher Koch, and I am the President of the World Shipping Council. The World Shipping Council is a nonprofit trade association of over forty international ocean carriers, established to address public policy issues of interest and importance to the international liner shipping industry. We thank you for the opportunity to testify before the Subcommittee today on the issue of port and maritime transportation infrastructure and its financing.

The Council's members are the ocean liner shipping companies providing efficient, and regularly scheduled ocean transportation for America's international trade. The members of the World Shipping Council are major participants in an industry that has invested over \$150 billion in the vessels, equipment, and marine terminals that are in operation today. The industry is also working closely with the federal government to build an enhanced security infrastructure to help protect American commerce and the nation from terrorist threats. These companies are providing the knowledge and expertise that builds, maintains, and continually expands a global transportation network that provides seamless door-to-door delivery service to and from virtually any point in the world for American exporters and importers. The Council's member lines include the full spectrum of carriers from large global lines to niche carriers, offering container, roll on-roll off, and car carrier service, as well as a broad array of logistics services.

The international liner industry directly employs over half a million Americans, and provides total employment to over a million Americans. The annual U.S. wages paid from this employment are approximately \$39 billion. These wages produce over \$4 billion in tax revenues for state and local governments and \$7 billion for the federal government.

More than a quarter of the value of all economic activity in America (the Gross Domestic Product) now comes from international trade. The combined value of U.S. exports and imports of goods in 2002 was approximately \$1.85 trillion dollars. Of that amount, approximately \$728.4 billion was international waterborne trade arriving at or departing from U.S. ports. And \$490.5 billion, or two-thirds of that, was containerized cargo carried on liner vessels. That averages out to more than \$1.34 billion worth of containerized goods moving through U.S. ports each day.

Through modern port terminal gateways, container cargo arriving from and departing to America's foreign markets passes across the docks of a select group of U.S. seaports with terminals specially equipped to efficiently handle thousands of containers a day – moving them rapidly on and off ships, onto and off of truck chassis and rail cars, and into and out of port areas. In 2002, the top 25 U.S. container ports handled 98 percent of the total volume of our

containerized waterborne cargo, with 84 percent moving through the top 10 ports and more than 61 percent through the top 5 ports. In fact, the port complex of LA/Long Beach in Southern California alone accounted for nearly 37 percent of all containerized U.S. imports and exports in 2002.

The following chart illustrates the port gateways through which these volumes of loaded containers move.

Top 25 U.S. Ports for Containerized Cargo Calendar Year 2002 (Thousands of TEUs)				
Rank	U.S. Ports	Total	Export	Import
1	Los Angeles, CA	4,060	866	3,194
2	Long Beach, CA	3,184	717	2,467
3	New York, NY	2,627	747	1,879
4	Charleston, SC	1,197	521	676
5	Savannah, GA	1,014	453	561
6	Norfolk, VA	982	431	551
7	Oakland, CA	979	496	482
8	Houston, TX	851	430	420
9	Seattle, WA	850	338	512
10	Tacoma, WA	769	278	491
11	Miami, FL	752	349	403
12	Pt. Everglades, FL	370	213	157
13	Baltimore, MD	302	99	203
14	New Orleans, LA	216	127	89
15	Portland, OR	185	138	47
16	San Juan, PR	159	42	117
17	W. Palm Beach, FL	142	109	33
18	Wilmington, DE	133	27	107
19	Gulfport, MS	132	58	74
20	Philadelphia, PA	115	36	78
21	Jacksonville, FL	114	78	36
22	Boston, MA	80	25	56
23	Wilmington, NC	71	26	45

24	Chester, PA	59	24	35
25	Newport News, VA	57	20	37
	Top 25	19,398	6,648	12,750
	Top 25 % of total	98.3%	97.6%	98.7%
	Grand Total (77)	19,729	6,814	12,916
Source: Port Import/Export Reporting Service --- MarAd Update 2/26/03 TEU, or Twenty Foot Equivalent Unit, and is the standard industry measurement for containerized traffic. Empty container moves are not included in the above numbers.				

Although the United States imports more than it exports, foreign markets are critical for America’s producers, processors, and manufacturers, and new user fees would affect our nation’s exports as well as imports. For example, 25 percent of all cash receipts for U.S. agriculture are generated by exports. Nearly half of America’s production of wheat, rice, walnuts, and dried plums, about one-third of its meat, table grape, raisin, and soybean production, and 20 percent of U.S. corn production are sold for export. And manufacturing exports are roughly 35 percent of the value of U.S. manufacturing firms’ annual output. On the import side, Americans purchased more than \$307.8 billion dollars of imported consumer goods in 2002. All these goods flow through this maritime and port infrastructure that has been, and continues to be, built by the nation’s port and maritime industries.

While the cargo volumes and their growth are impressive, so is the level of investment that ports and the industry are making. Notwithstanding the substantial competitive pressures on the industry, there is enormous investment currently being made in the country’s port and maritime infrastructure to address the demands of current and expected trade growth. For example, in the port of Los Angeles in the last several years, five new container terminals larger than 300 acres have been built, including one that is 500 acres. While Los Angeles is the nation’s largest port complex, other ports around the country show similar development and investment.

II. What is the Port and Maritime Infrastructure?

The maritime transportation system that serves U.S. trade is multi-faceted and included the ports, a large number of modern and efficient vessels (for example, over 1,000 liner shipping vessels making 17,000 U.S. port calls per year), a diverse array of equipment that meets the varying and constantly evolving needs of shippers (including container cranes, a world-wide fleet of more than 11 million containers, including refrigerated and specialty containers, and container handling equipment), information technology systems to track and

handle cargo and assets around the world, and the marine terminals within the ports that service the ships.

The federal government provides financial cost-sharing assistance for the dredging of certain ports, but it is the ports and the maritime industry that finance the facilities and operating assets. An overall assessment of the maritime infrastructure demonstrates that, while the demand for investment from ports and industry is substantial, the maritime infrastructure continues to expand and facilitate the nation's commerce, and it is keeping pace with the continued growth of trade. While the demands and expense of building an enhanced security infrastructure are an added burden on the industry, the principal unmet physical infrastructure and freight mobility demands involve the country's rail and highway infrastructure more than the port and maritime infrastructure. How rails and highways handle the growth of American commerce and in particular the effectiveness and development of freight intermodal connections is, we believe, the key challenge – a belief that is supported by the U.S. Chamber of Commerce's recent study of the nation's freight transportation system.¹

Before addressing those issues, it is appropriate to acknowledge that the industry recognizes that marine terminal facilities in the United States do need to become more efficient. As land becomes scarcer, productivity within marine terminals must improve in order to handle the growth in the volume of cargo arriving at U.S. ports. The challenges have not been financing productivity enhancements, but implementing them. The process of introducing new and better technology and more efficient practices to the waterfront is one that should see more progress now that the new collective bargaining agreement between West Coast terminal operators and longshore labor is in place. While this is not an area that can be easily assisted by the federal government, continued Congressional support for the efforts of management and labor to improve terminal efficiency is appreciated.

III. How Is the Port and Maritime Transportation Infrastructure Paid For?

The maritime industry pays for the ships, the equipment, the IT systems, and the operating assets that move America's maritime commerce. Other than the Maritime Administration's programs that support the vessels and crews that operate under the U.S. flag, there are no federal financial support programs for this portion of the maritime infrastructure.

For the dredging of port channels, there are two Army Corps of Engineers programs. One is for capital dredging projects, those that deepen channels,

¹ "Trade and Transportation. A Study of North American Port and Intermodal Systems", The National Chamber Foundation of the U.S. Chamber of Commerce, March 2003. The World Shipping Council was a member of the Advisory Panel that oversaw the study.

involving cost sharing between the port being dredged and the federal government. The other is for harbor maintenance dredging, which is funded out of the Harbor Maintenance Trust Fund. The overall level of financing for these projects has not been the primary concern, but extensive delays in the permitting and funding decisions have been a common source of frustration to ports around the country. Another concern of the industry has been that not all the funds that are collected for harbor maintenance dredging and deposited in the Trust Fund are used for harbor maintenance; some of those funds are diverted to the General Treasury each year for other uses – a practice about which all sectors of the port and maritime industry have expressed concerns.

For the terminal facilities within the ports, there is no federal financing program. Such financing is undertaken by the ports and the industry in a variety of different ways. Some port facilities are private and are privately financed. Petroleum and oil terminals are commonly private facilities, although other sectors have private facilities as well, including container terminals. For example, in Norfolk, Virginia, Maersk is in the process of concluding agreements that will result in its development of a major new private container terminal.

Many port terminal facilities are owned by public port authorities, which generally have tax-exempt bonding authority available to them. In these cases, there is a wide array of arrangements for the financing of port terminals. These agreements can vary by port and by contractor. They can vary depending on whether the port is the operator of the terminal or a landlord that contracts with a private company to operate the terminal. They can involve the private sector investing capital up front in the project. They can involve the port authority using its tax-exempt financing authority, putting up the initial capital, and then recovering these costs from the terminal users through wharfage charges, dockage charges, terminal lease payments, or a combination of all of the above. There is no single approach to how such port infrastructure is financed, but an array of different approaches that are used and adapted for particular projects. This has proven to be and continues to be a successful means for financing port infrastructure.

Where the ports and the industry are facing new kinds of financial demands is in the added costs that arise from new security requirements. For example, the Coast Guard has estimated its new National Maritime Security regulations will cost vessel operators and terminal facilities \$1.5 billion the first year and \$7.33 billion over the next ten years to comply. We note that these estimates are less than the total costs the industry will incur, as the Coast Guard's vessel cost estimates do not include the costs of foreign flag vessels' compliance with the new rules, and foreign flag vessels carry the vast majority of our country's international commerce, and they do not include the costs of facilities outside the United States that will have to comply with the new international rules.

We do not expect the federal government to pay for the added costs that the carriers will incur to comply with these new rules, but we do believe that the Committee should understand that the industry is incurring these costs. We also note for the record that the industry's additional security costs are not confined to the costs of complying with the new Coast Guard rules. The industry is also working to implement the new security requirements of the Bureau of Customs and Border Protection for cargo security, and the Food and Drug Administration's new rules on food imports – all of which produce substantial added costs. Again, our point today is not to complain to this Committee about these security costs, but simply to point out that the industry is operating under escalating regulatory cost burdens.

Finally, we think it important that the Subcommittee, when considering potential future financing requirements and options, should recognize not only the fact that existing financing mechanisms, as noted above, are working adequately to address port infrastructure needs, but that it should also recognize that the industry will need to invest over \$35 billion dollars to handle the projected doubling of liner cargo shipments over the next decade – a figure which does not include what carriers will also invest in new information technology, facilities beyond the port, or security. Despite a historical record of low returns on capital, the liner industry continues to make the investments to handle the country's international trade.

We also think that is important to recognize the Report that the General Accounting Office provided this Committee in 1999, which shows that federal agencies already levy 124 different assessments on the maritime industry, collecting roughly \$22 billion per year -- about \$20 billion of which is not earmarked for specific purposes but is deposited in the General Fund of the U.S. Treasury.²

For these and the reasons discussed later, we do not support additional user fees to finance port and maritime infrastructure.

IV. The Surface Transportation Infrastructure

Does this mean that all the transportation infrastructure needed to handle this nation's freight is adequate to meet present and future needs and has all the financing that is needed? Clearly the answer is no. As mentioned above, the maritime industry understands that it needs to improve efficiency within its existing facilities, and is working with labor to do so. The industry also needs to continue to invest in new port and marine terminal infrastructure to keep pace with the growth of trade volumes, which it plans to do. We submit that the record shows that the ports and industry have done and continue to do a good job

² “*Commercial Maritime Industry: Updated Information on Federal Assessments*”, U.S. General Accounting Office (GAO/RCED-99-260), September 1999.

of building a high quality port and maritime infrastructure, and so long as existing federal dredging programs are maintained, they should continue to do so.

Rail and highway capacity and intermodal connections, however, are constrained in a number of nationally important transportation corridors. Major ports are located in a number of these corridors, and international freight movements, just as domestic freight movements, commuters, and other users of the surface transportation system are affected.

Rail transportation is an increasingly important way to move imports and exports in containers and domestic cargo in truck-trailers. Its potential to address the nation's future freight transportation needs is substantial. Yet rail carries only about thirteen percent of the nation's domestic freight, and the rail systems have substantial capacity and bottleneck shortcomings. Any serious examination of how the nation will efficiently transport the future volumes of American commerce needs to consider what is necessary to finance and construct a substantially expanded intermodal rail capacity. We recognize that this is a topic beyond the scope of this hearing, but it is directly relevant, because to the extent the nation's rail infrastructure is unable to move freight volumes efficiently between our coasts and inland origins and destinations, that freight will have little choice but to use the highways.

Similarly, much of the land-based congestion facing ports is also a subset of a bigger issue that this Committee is trying to address in the SAFETEA bill, namely a new surface transportation program that provides more effective attention to the need to transport the nation's intermodal freight more efficiently, with greater capacity, and with added focus on the surface transportation's intermodal connections between and among all the surface transportation modes.

We support the Committee's efforts to enact the SAFETEA bill. In fact, the Council has joined with a very wide coalition of interests from every aspect of the maritime industry to express common and unified support for this effort.³ Specifically, this broad coalition of industry representatives included in its comments to the Department of Transportation its support for many features of the Administration's SAFETEA proposal, including:

- the creation of the new Freight Gateways program in section 1205 to improve productivity, security and safety of freight transportation gateways while mitigating congestion and community impacts. These

³ The Maritime Transportation System National Advisory Committee has agreed to these and other recommendations, which are being sent to Transportation Secretary Norman Mineta. The World Shipping Council is also a member of the Freight Stakeholders Coalition, a national organization of associations representing freight transportation providers in all surface transportation providers and the users of such transportation, which similarly has expressed support for SAFETEA's increased focus on freight mobility.

freight gateways are at the borders, at inland freight gateways such as Chicago, and at ports;

- the requirement in Section 1205 that states designate a freight transportation coordinator to foster public and private collaboration and coordinate regional solutions to freight transportation and freight gateway problems. Some of the nation's highway problems arise from the fact that the need to move the nation's freight has not been as well considered as moving automobiles. States with major commercial ports and maritime industries should ensure that their freight transportation coordinators' responsibilities include the identification, formulation and development of comprehensive intermodal transportation needs and options in the planning process, the promotion of intermodal transportation, and the coordination with other states for regional planning that includes intermodal solutions and initiatives, including the enhancement and facilitation of intermodal freight mobility in and out of ports;
- the 2 percent set aside and the 90% federal cost share for NHS intermodal connectors contained in section 1205. A set aside would ensure that a minimum level of resources is devoted to these important first/last mile highway segments into port, rail and truck terminals;
- the provisions in section 9004 to amend the Internal Revenue Code to expand the use of tax-exempt private activity bonds to include highway facilities and surface freight transfer facilities. This change could provide a new source of funding for needed transportation facilities, especially since the facility bonds would not count against the States' private activity bond volume caps;
- the expanded eligibility for STP funds to include publicly owned intermodal transfer facilities, access to such facilities and operational improvements for such facilities; and
- the proposed, expanded STP eligibility criteria for projects located within the boundaries of port terminals that would include the transportation infrastructure modifications necessary to facilitate direct intermodal access into and out of such ports.

The national surface transportation infrastructure is an important national asset, and for that reason has been funded by general government revenues. That continues to be a sound policy and should be continued.

Regarding whether user fees should be used as a supplemental revenue source for surface transportation projects, we believe that consideration of user fees should be limited to fees that are directly related to recovering the cost of a

particular transportation project that is in fact used by the party being assessed the charge and is proportional to use. We also believe it very important that the stakeholders be involved in a transparent and comprehensive way in the identification of the needs and requirements that the specific project is intended to address. Thus, for example, the industry does not object to the user fees currently being collected on containers transported on the Alameda Corridor project in Southern California, which are being used to pay for that project.

However, we believe that a number of issues should be clearly addressed in such a discussion of user fees, including the following:

First, “user fees” for new surface transportation infrastructure should not be convertible into “taxes” that are not directly related to the payee’s use of that particular infrastructure. Nor should they be diverted to any use other than the one for which they were collected. In other words – user fee financing might be an option for specific, individual projects intended, and developed with stakeholder participation, to address identified and shared local or regional needs and requirements.

Second, all those who make use of the planned infrastructure or improvement should pay their share. Highways carry export and import cargo, but they also carry domestic freight, and millions of automobiles.

Third, “user fees” should cease when the cost of the infrastructure project for which they are imposed is paid for.

Fourth, careful legal analysis of proposed user fees is necessary. The Constitution limits the kinds of burdens that can be placed on interstate and foreign commerce, especially if the charges are imposed by non-federal entities. Further, our international treaty obligations must be respected, such as the 1972 Customs Convention on Containers which states that the United States and the other signatories shall grant shipping containers temporary admission, subject to re-exportation, free of all “duties, taxes, fees and other charges which are collected on, or in connection with, the importation of goods, but not including any fees and charges limited in amount to the approximate cost of the services rendered.”

Fifth, one should consider whether a user fee would distort trade flows. For example, Northwest and Northeast ports face competition from Canadian ports, and costs imposed on those ports that are not applicable to the use of Canadian ports can divert commerce. This also illustrates the importance that any infrastructure project for which user fees may be a financing option be developed in close consultation and involvement of all stakeholders in order to make sure that the project appropriately addresses specific and identified needs.

V. Summary

Mr. Chairman, we appreciate the opportunity to testify on the issue of financing our port and maritime infrastructure.

First, as discussed above, the port and maritime industry has done a good job of building and financing a modern and expanding maritime infrastructure. Recent and current investments in this infrastructure demonstrate that the financial commitment to meet America's maritime transportation needs continues and is adequate. We do not believe there is a need or justification for additional user fees for this purpose.

Second, there is no doubt that security requirements are increasing the industry's costs. There may be areas or matters where federal financial assistance may be appropriate to help cover these costs at U.S. ports, but we note that the Congress has been working to address those. We believe that these requests should be examined on a case-by-case basis. There is not a sufficiently clear or definitive list of security costs that would warrant a new user fee or tax for this purpose. For example, precisely what costs incurred by whom would justify a government imposed user fee, and who would receive the resulting revenues? We also think it is highly relevant in this regard to note, as the General Accounting Office did to this Committee, that federal agencies already levy 124 different assessments on the maritime industry, collecting roughly \$22 billion per year -- about \$20 billion of which is not earmarked for specific purposes but is deposited in the General Fund of the treasury.⁴

Finally, in order to meet the surface transportation infrastructure needs discussed above, we believe that an examination of what is needed to finance the expansion of the nation's rail capacity would be appropriate. We also support the Committee's SAFETEA initiative and the effort to address multimodal freight transportation and mobility and intermodal connections more effectively in that effort. To the extent that the Committee may consider user fees as a way to supplement the federal highway trust fund revenues for particular surface transportation projects, we have identified a number of issues that we believe should form part of the Committee's considerations.

⁴ Congressman Ose has introduced a bill (H.R. 2193) that would earmark a percentage of these revenues for the Department of Homeland Security's expenses at U.S. ports.