

Testimony of A. Paul Anderson
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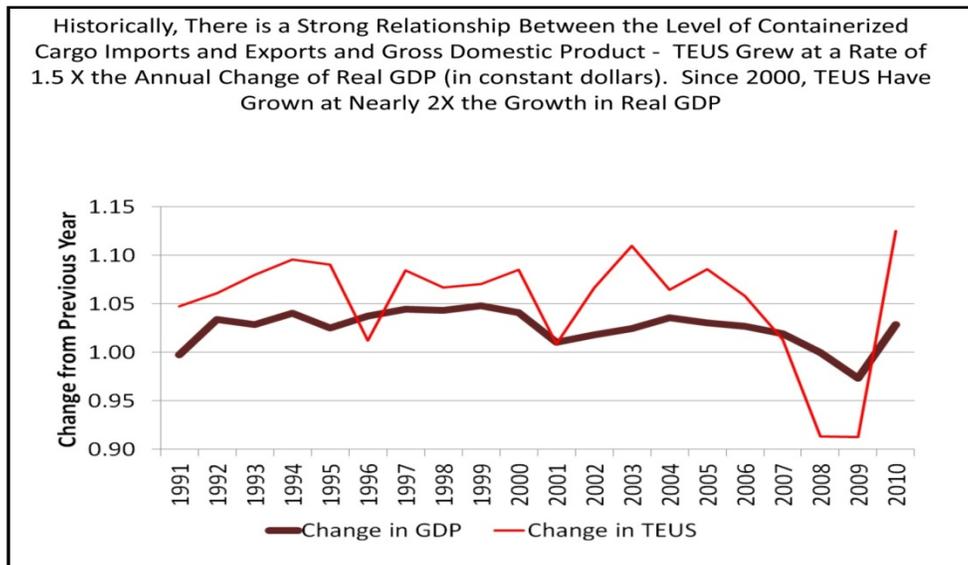


For the Record of the
United States House of Representatives
Transportation and Infrastructure Committee
Subcommittee on Water Resources and the Environment
Hearing: "The Economic Importance of Seaports:
Is the United States Prepared for 21st Century Trade Realities?"
Oct. 26, 2011 – 10:00 a.m.
Rayburn House Office Building

Chairman Gibbs, Ranking Member Bishop and distinguished members of the Subcommittee on Water Resources and the Environment, I am honored to offer comments for the record, as a former Commissioner of the Federal Maritime Commission and current Chief Executive Officer of the Jacksonville Port Authority (JAXPORT), during the Oct. 26 hearing, “The Economic Importance of Seaports: Is the United States Prepared for 21st Century Trade Realities?” Also, I commend Transportation and Infrastructure Committee Chairman Mica and Ranking Member Rahall, for their leadership and their commitment to improving the economic health of America’s seaports. It is only through this kind of focus and dedication that we will revive the gateways upon which our nation has always depended and ensure they continue to serve our nation for generations to come.

The United States’ seaports play a critical role in our nation’s economy. Today, more than 13 million Americans work in positions related to international trade and that trade accounts for more than a quarter of U.S. GDP. Nearly all U.S. cargo, imports and exports, is carried by ship, and volumes are growing. Over the past 10 years, containerized cargos at U.S. ports, measured in twenty-foot equivalent units (TEUs), have grown at a compound annual growth rate (CAGR) of 4.1 percent. Over the past 20 years, TEUs grew at CAGR of 5.1 percent, culminating in a total of more than 41 million TEUs handled by U.S. ports in 2010.^[1]

Historically, there is a strong relationship between the volume of containerized cargo and U.S. GDP: TEUs grew at a rate of one and a half times the growth of real GDP. Since 2000, TEUs have grown (and fallen) at nearly two times the change in real GDP.



*Using this historical analysis, U.S. real GDP is likely to grow between 2 to 4 percent annually over the next five years, and based upon a 1.5x future growth rate, this equates to a 3 percent to 6 percent baseline growth rate in TEUs at U.S. ports, **in essence, a doubling of containers handled at U.S. ports in 20 years.***^[2]

Recent trade agreements are projected to significantly boost U.S. product exports. The South Korean Free Trade Agreement would increase exports by as much as \$10.9 billion in the first year, and the agreement with Colombia would increase exports by as much as \$1.1 billion per year.^[3] This additional business has ample positive economic impact in the U.S. According to maritime economic analyst firm Martin Associates, American jobs created by exports pay 13 percent to 17 percent higher wages than non trade jobs in the economy.

These long awaited trade agreements and analysis of historical trends leave me with no doubt that U.S. container trade will continue to grow through the 21st Century. However, this growth will not be experienced equally across the three major American seaport regions: the Pacific, the Gulf and the East Coast. Mounting economic pressures are leading shippers to demand more efficient transportation networks. Changing global trade patterns, the emergence of new trade routes focused on the U.S. East Coast, the opening of the newly expanded locks of the Panama Canal in 2014 and continuing innovation in logistics practices are facilitating the movement of cargo into and out of our country in dynamic ways.

Changing patterns

Before the advent of the 21st Century, ocean carriers often selected port routings. However, the rise of distribution centers, first on the West Coast, and then shifting over the past 10 years to port communities along the East Coast and Gulf Coast, has transferred the balance of power in port selection to shippers. These large retailers and manufacturers, adversely affected by the West Coast labor strike in 2002 and subsequent port congestion, want to move their cargo from port to distribution as efficiently and as reliably as possible. Thus, instead of routing cargo through West Coast ports and on rail across country to population centers in the Midwest and East, shippers have increasingly used so-called all-water services, with particular emphasis on container services flowing from Asia to East Coast ports. There are two paths available for all-water services: the Panama Canal, and the Suez Canal. Each presents advantages and disadvantages. The Panama Canal's width and depth currently limit the size of vessels, and transit time through the canal to the East Coast is slightly longer than a call to a West Coast



port coupled with a rail move. Nevertheless, the Panama Canal offers less expensive transit to the East Coast. The expansion of the Panama Canal, to be completed in 2014, will offer transit to larger vessels with a lower per unit operating cost, making an all-water route to the East Coast even more attractive to both shippers and carriers. The Suez Canal does not present vessel size limitations, but the region's political instability and piracy incidents are causes for concern. Even so, with the rise of manufacturing centers in India and Vietnam, transit times from Asia through the Suez Canal to the East

Coast are comparable to transit times from Asia to the West Coast with a rail move.^[4]

The Jacksonville Port Authority and the City of Jacksonville, Fla., have benefited from these trends. JAXPORT's 158-acre TraPac Container Terminal, opened in 2009 for Tokyo-based shipping line MOL and its terminal operating subsidiary, TraPac, loads and unloads container ships sailing to and from ports in Asia. Two Panama Canal services plus one Suez Canal service already call the terminal each week. This terminal has doubled JAXPORT's capacity to handle containers. Further capacity additions will result when Hanjin Shipping Company of Seoul, Korea opens the Hanjin Container Terminal at JAXPORT later this decade. This 90-acre facility will serve as a key hub for Hanjin's East Coast port activity and will have the capacity to move an additional 800,000 TEUs annually. These two terminals – the TraPac Container Terminal and the Hanjin Container Terminal – will add 90,000 jobs to the region when operating at full capacity.^[5]

Realizing U.S. ports' potential

Unfortunately, the TraPac Container Terminal does not currently offer the federal channel depth required by the larger ships transiting the all-water routes through the Suez Canal today and through the Panama Canal in just a few short years. Ships that do call are lightly loaded, which results in less cargo moves and less jobs; higher transportation costs along transportation routes through West Coast ports or transshipments from off-shore locations such as The Bahamas; and ultimately higher costs for American consumers. Hanjin Shipping Company is ready to invest \$300 million to develop their container terminal in Jacksonville – as long as their terminal has access to deep water. Without a deep harbor, it's impossible for TraPac to begin to maximize their \$200 million facility investment, and Hanjin continues to wait, wondering if America will commit to investing in its own waterways.^[6]

With increasingly larger ships calling the East Coast, it is now more crucial than ever for the United States to invest in its gateway infrastructure. This call for federal investment should come as no surprise. Improving our nation's waterways for navigation and security harkens back to the birth of our country, when General George Washington assigned such missions to the Continental Army.^[7] In the U.S. Constitution, Congress is charged with the task of regulating commerce in Article I, Section 8. Yet, the full authorized depths and widths of U.S. waterway navigation channels are available only 35 percent of the time.^[8] Harbor projects take an average of 12 years to complete. The Corps' cumbersome review procedures are not consistent with the President's initiative to reduce red tape and streamline preconstruction federal review procedures for major infrastructure "jobs creating" projects. The President's Aug. 31 directive to five federal agencies - Agriculture, Commerce, Housing and Urban Development, Interior and Transportation - called for identification of high priority infrastructure projects for expedited review. This expedited review initiative should be extended to the Army Corps. Additionally, Independent Peer Review – a procedure required by Sec. 2034 of the Water Resources Development Act (WRDA) of 2007 – should not be applied to Corps studies begun prior to the two year period preceding enactment of the law, as expressly stated in Sec. 2034 (h).

Because of procedural delay, most East Coast ports are not authorized to dredge to deep-draft requirements. Harbor project sponsors attempt to wade through the muddied and shifting approval, authorization and appropriation process, and changing requirements are making it increasingly difficult to move forward with these critical projects. In Jacksonville, the U.S. Army Corps of Engineers recently added an additional level of review by requiring “Harbor Sym modeling” for our city’s deep draft navigation project. This new requirement has not been applied to previous deep draft projects, will increase costs to the federal government and the Jacksonville Port Authority, and will extend the timeline for completion of the project by one year. Any business leader assessing the current situation would quickly determine our country’s process for prioritizing, approving and funding critical infrastructure projects is fundamentally broken.

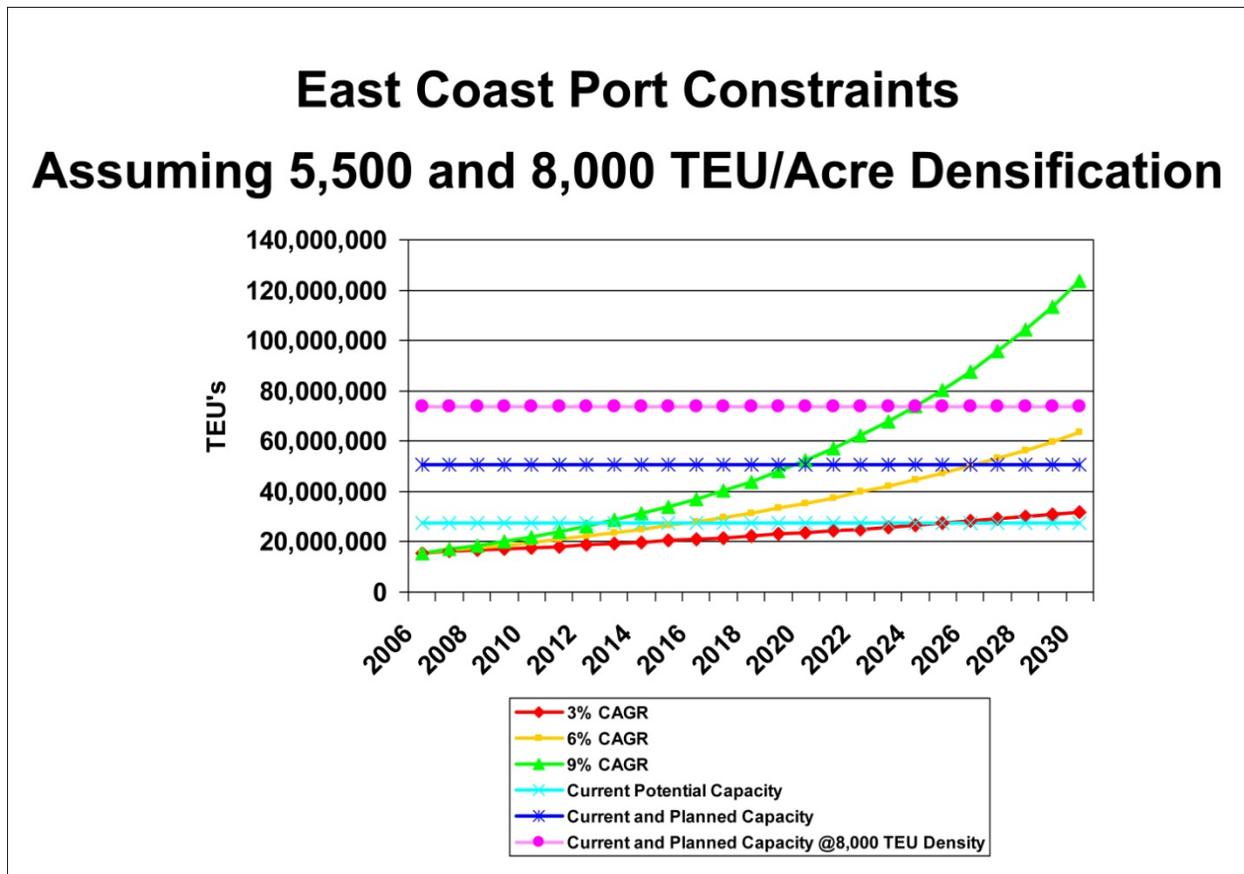
In a coordinated effort to move our process into the 21st Century, many of my fellow port directors and I, in conjunction with the American Association of Port Authorities (AAPA), have entered into a unique partnership with the Army Corps. Our working group identified several ways to streamline harbor project completion, including:

- Generating additional policy options to allow non-federal sponsors to construct the “federal” project;
- Re-evaluating Corps policy concerning the “advanced funds” for authorized projects;
- Allowing sponsors to be reimbursed for federal operations and maintenance of the channel, including dredging and maintenance of disposal areas;
- Reducing time and cost of feasibility reports;
- Maintaining consistent Corps policy to ongoing studies;
- Refraining from requiring last minute studies and/or new requirements;
- Publishing what is required in the beginning of the process;
- Reducing time to obtain Corps regulatory permits;
- Adhering at all levels within the Corps to schedules developed by the District; and
- Generating policy to allow federal assumption of maintenance when non federal interests construct improvements.

In addition to procedural reformation at the Corps of Engineers, Congress must accept its own responsibility to maintain the nation’s ports and harbors. Toward that end, I applaud the efforts of Transportation and Infrastructure Committee Chairman Mica, Representative Boustany and the co-sponsors of H.R. 104 to make full use of the Harbor Maintenance Trust Fund. This is an excellent first step toward ensuring a sustainable future for American waterway navigation. However, due to the moratorium on earmarks, the next WRDA bill will not include project authorizations. There is no authorizing mechanism in place at this time. Yet there are 11 completed Army Corps Chief of Engineers reports, with another three to six anticipated within the next several months, including the report for Jacksonville Harbor Mile Point (by March 2012). Until such time as the earmark moratorium is lifted or there is a new authorizing mechanism established for Corps projects, Congress should provide an interim mechanism to allow the Army Corps to move forward with projects that are time sensitive and critical to navigational safety. To fully realize the potential of U.S. ports to jumpstart the nation’s economy, I urge Congress to include language in the Surface Transformation bill to streamline Corps

processes as outlined above, authorize harbor projects and embrace investments in our country’s navigation channels. Other recommendations include: 1) reduce or eliminate Army Corps requirements regarding initiation of the independent, external peer review; and 2) enactment of Sec. 110 of the House-passed FY 2012 Energy and Water development appropriations bill which facilitates fast tracking of project design by allowing non-federal sponsors to contribute towards the federal share of design costs.

The needs of our nation’s landside port infrastructure will also grow over the next 20 years as containerized cargos are projected to double in volume. Assuming a compound annual growth rate of between 3 percent and 6 percent, currently configured East Coast ports will reach full capacity later this decade.^[9] Including planned improvements in the analysis will accommodate capacity needs for another 10 years, but clearly ports must begin planning now for new facilities, modernization, mechanization and densification to use terminal space most efficiently.



Assuming a compound annual growth rate of between 3 percent and 6 percent, currently configured East Coast ports will reach full capacity later this decade.^[9]

Faced with diminishing budget opportunities and great needs, I believe it is time for a shift in our federal business model with regard to investments in new port terminals and intermodal facilities. I cannot

overstate the importance of integrating ports into the U.S. transportation system. Our nation must develop efficient, modern intermodal connections, so that direct port-rail and port-highway corridors can increase the flow of goods to and from our nation's gateways. Congress can assist with this effort by including maritime title in transportation reauthorization legislation, which will recognize the importance of intermodalism to our nation's transportation network.

If we are to move ahead and seize the opportunities before us, we also must be prepared to further explore and strongly support public-private-partnerships, or P3s, to fund landside port infrastructure. Several vehicles have been explored recently, from pre-payments to a combination of concessions and annual payments, to increased use of municipal bonds on behalf of private equity. The Jacksonville Port Authority successfully employed a P3 transaction recently with Tokyo-based shipping line MOL. JAXPORT contributed \$20 million toward the construction of the TraPac Container Terminal, and MOL contributed \$210 million in exchange for low interest financing via special purpose facility bonds, city excise tax bonds and a loan from the State Infrastructure Bank of Florida. We stand prepared to employ another public-private-partnership with Hanjin Shipping Company of Seoul, Korea, to develop the 90-acre, \$300 million Hanjin Container Terminal, and we will be seeking other creative and forward thinking methods for funding the port of the future.

The great disconnect

Seaports have never been especially high on the federal government's list of visionary investments. For some reason, it has rarely resonated with our leadership that the roots of this nation are firmly grounded in seafaring and our economy is inescapably linked to our waterways and international trade. Perhaps that's because spending money on modernizing docks and equipment, maintaining the nation's waterways and digging deeper to accommodate today's larger ships seems like so much housekeeping. Certainly, on the surface, it doesn't sound as forward thinking as spending \$53 billion on a high-speed rail system. Or perhaps it's because the individual lawmaker's constituent, the average American consumer, gives little thought to how products move to the shelf at their local supercenter or mega grocery or mom and pop; how the item we need is ready for purchase as we dash in to grab that container of coffee or computer part or whatever necessity of modern life is absolutely essential at that very moment. And on top of it all, we select from an assortment of products, price points and bells and whistles; so much variety – delivered daily courtesy of the nation's seaports – that it staggers the mind.

We are so accustomed to our reliable delivery system for goods that we take it for granted. I shudder to think of the outcry should our consumer products get stuck on the docks because we no longer have the infrastructure to move them...or worse, because of catastrophic failure from lack of investment, such as the I-35W Mississippi River bridge collapse in 2007.

Despite the stepchild status typically afforded ports, the fact is, with proper strategic investment now, our national recovery will come by sea. Every dollar invested in port facilities returns seven-fold.^[10] Nearly all U.S. cargo, imports and exports, is carried by ship. Are we really going to beef up domestic

manufacturing and increase export volumes in the next decade? How will we move it to the rest of the world without investing significantly in our nation's gateway infrastructure?

Many of America's most critical port projects – and the new jobs these improvements guarantee – are stuck in neutral because of inefficient and overlapping bureaucracy and lack of commitment from our nation's leaders. Harbor improvements are not “pork barrel” legislative gifts. The nation's deepwater ports system is fundamental to trade, and our individual port gateways are vital to the logistics supply chains of U.S. importers and exporters. To realize the maximum, positive economic impact from these global shifts in trade patterns, the United States must invest in its gateway infrastructure.

Port progress is everyone's business. It's time to correct the disconnect.

Thank you for the opportunity to present these findings and offer my comments.

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Appendix A

"Florida Seaports: A Dynamic Economic System" – presentation by Florida Ports Council

Appendix B

"Excerpts from 2011 JAXPORT Directory: JAXPORT Overview, Facilities, Cargo Handling" – Jacksonville Port Authority (JAXPORT), 2011