Statement by Phil Lutes, Deputy Managing Director, Seaport Division, Port of Seattle, Washington

Hearing on "Doubling U.S. Exports: Are U.S. Seaports Ready for the Challenge?"

Subcommittee on International Trade, Customs and Global Competitiveness
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<u>ARE SEAPORTS READY FOR THE CHALLENGE?:</u>

Good afternoon Chairman Wyden, distinguished members of the Committee. I'm Phil Lutes, Deputy Managing Director of the Port of Seattle's Seaport Division. Thank you for the privilege of being here with you today.

In reflecting on the topic question for this hearing, "Doubling U.S. Exports: Are U.S. Seaports Ready for the Challenge?" the short answer for seaports is, yes. Is the overall supply chain ready? No.

Limiting factors in the larger supply chain inhibit U.S. exports reaching overseas markets, but right now, the biggest obstacles aren't the seaports themselves. Even with an economic rebound, U.S. ports in general, and West Coast container ports in particular, have ample capacity for both imports and exports. As U.S. Gulf and East coast ports complete terminal expansions and Canada and Mexico complete their expansion plans, port capacity for exports will be more than adequate. The real issues are enhancing efficient infrastructure throughout our trade corridors, dealing with the current equipment shortage, general promotion of our products abroad and antiquated tax policies that discriminate against certain ports and cargoes.

Seaports are fighting to stay afloat financially in this terrible economy and we continually strive to invest in our assets and improve our operating efficiencies, but our greatest challenges lie beyond the seaport gates.

NATIONAL GOODS MOVEMENT STRATEGY IS KEY:

I wholeheartedly agree with the hearing's general premise that our nation's transportation infrastructure is crucial to increasing exports and providing in general for a competitive US economy. For my port, these projects increase the speed of our discretionary cargo to the Midwest and all fall outside the terminal gates. Some are one to twenty miles from our seaport while other key improvements are much further along the Northern Corridor – such as the CREATE project in Chicago.

Given the scarcity of resources, a key point is that freight projects have tangible benefits for our local communities and environment. For the Port of Seattle, many of our freight projects reduce emissions, fuel consumption and congestion, while also promoting transit, bike lanes and pedestrian safety. Once complete, they improve our operating efficiency by moving goods faster while simultaneously making our community more livable.

Goods movement needs greater federal leadership and a truly competitive, efficient national transportation system requires coordination that can only be achieved at the federal level. Bottlenecks in the supply chain can be found all over the country, but the cost of prioritizing and fixing them is often beyond the means of the states, counties and cities in which the projects are located. Furthermore, building a railroad overpass might be more important to an exporter in a faraway state than it is to the local people who must approve taxing themselves to pay for that overpass.

Instead of subjecting this Subcommittee to a recitation of a long list of the nation's freight bottlenecks, I want to strongly affirm that we need a national goods movement strategy and dedicated fund freight – especially through competitive accounts like the TIGER stimulus program or the projects of national significance program. We also need to ensure that formula dollars to the state departments of transportation and metropolitan organizations ensure that goods movement needs are more strategically recognized and then prioritized accordingly.

Freight projects often involve multiple jurisdictions and represent large investments, either as a single mega project or the sum of several smaller system improvements. The result is that freight ends up falling through the cracks in this state and local process. While goods movement and its positive economic impact are often praised, actual funding does not always reflect that agreed priority. A national strategy with meaningful goals that guide both competitive and formula funding is critical. While our local partners do try to meet the needs of goods movement, there is also a fundamental resource shortage. I expect that we all recognize this fundamental shortage will not change soon; this means we're going to have to be more disciplined in our overall competitive infrastructure strategy and make some tougher choices in our priorities.

Lastly, ports and the goods movement community have led the way on matching federal monies with state, local and private funds, and I also believe we can work together to further expand and innovate on public-private initiatives.

WHY INFRASTRUCTURE? WHY NOW?:

But with all the challenges we face as country, why should infrastructure be a top issue?

First, our initial and mid-term economic recovery depends upon it -- as does the ability to export goods. The most recent economic impact study conducted for the American Association of Port Authorities, which was published in 2008, showed that more than 13 million jobs are related to activity at U.S. seaports, and combined, those jobs generate $650 billion in wages. And this doesn't even capture the immediate construction jobs generated by infrastructure improvement projects.

Second, our competition is hungry and well-organized. U.S.-bound cargo is being diverted to foreign ports of entry in Canada and Mexico. Federal government initiatives in Canada and Mexico are targeting U.S. goods movement jobs as an economic development strategy, a plan that will simultaneously improve their ability to competitively export their goods. Canadian ports have been successful in attracting our cargo under a federal strategy called the "Asia-Pacific Gateway and Corridor Initiative." The stated goal for Canada is to become the preferred point of entry for Asian cargo headed to all of North America – and they have plans for the East Coast, too. In the past two years, long-time Seattle carriers have diverted cargo from our harbor and other West Coast ports to Prince Rupert and Vancouver, British Columbia.

Here's the key impact to exports: when our ports lose market share, it erodes the advantages our exporters have traditionally enjoyed, such as lower transportation costs, more frequent calls by ocean carriers, shorter time to market, and greater container availability. Some of our top exporters have made it clear: If we do not maintain our import market share, and the export capacity that comes with it, their ability to do business is threatened.

TAKING ACTION TO MEET THE THREAT:

Despite these threats, we do have some good news and the West Coast Container Ports are taking action to meet these challenges. Today, the West Coast, with six major container ports and the two main Western railroads have in place a trade and transportation network that offers fast, frequent service that is reliable, efficient and environmentally sound.

To better promote this capability and compete internationally, the six major West Coast Container ports – Los Angeles, Long Beach, Oakland, Portland, Seattle and Tacoma – along with the BNSF Railway and the Union Pacific Railroad, have formed an organization known as the U.S. West Coast Collaboration. We're working together to promote the West Coast as the optimal gateway for moving Asian cargo to and from most of the United States.

The Collaboration began last year at the World Shipping Summit in Qingdao, China. Collaboration partners have made joint calls on members of Congress, participated in a National Port Summit with Transportation Secretary LaHood, and conducted a joint promotion at the Retail Industry Leaders Association annual logistics conference and the Trans-Pacific Maritime Conference just this month.

The West Coast's advantages include: dozens of fast, frequent vessel services; six deepwater ports with exceptional transportation connections to key markets across North America; consistent, reliable inland rail service and capacity; a competitive cost structure; and the lowest overall carbon footprint for goods moving between Asia and the U.S.

If we were to emulate the Canadians and execute a national goods movement strategy, we could improve and make the most of our existing trade infrastructure, create jobs, save billions of taxpayer dollars by ensuring that investments are made in the right place at the right time, and we can do it in a way that minimizes global carbon emissions.

<u>PORT OF SEATTLE – THE GREEN GATEWAY:</u>

I'd like to elaborate on that last point. In 2009, the Port of Seattle released a carbon footprint study conducted by Herbert Engineering, a ship design, engineering, and transportation consulting firm. The study analyzed the carbon footprints of trade routes between Singapore, Hong Kong and Shanghai, and the U.S. distribution hubs of Chicago, Columbus and Memphis.

The results showed that routing cargo moving from Asia to the U.S. through West Coast ports and via rail to inland destinations resulted in far lower carbon emissions than routing the cargo through the Panama and Suez Canals and on to East or Gulf coast ports.

And the carbon emissions difference is not small. In many instances routing cargo through West Coast ports and then by rail across the country resulted in 20 to 30 percent lower emissions than sending ships the long way around through the Panama Canal directly to ports on the Gulf and East coasts. As fuel prices increase, the West Coast's advantages are likely to become more evident.

But the West Coast's environmental advantage is not limited to emissions from ships while underway. At the Port of Seattle nearly all of the container handling equipment on our terminals has been retrofitted with emissions control devices or converted to low sulfur or biofuels, significantly reducing emissions of diesel particulate matter, and we're extending this low sulfur fuel program to at-berth vessels. We've also developed a program to clean up the trucks that move containers between our cargo terminals, local rail yards and warehousing and distribution facilities. Up and down the West Coast, ports and their supply chain partners are making headway in reducing the environmental impacts of port operations.

EXPORT CONTAINER SHORTAGE:

Let me turn to a very near term problem that, if resolved, could boost U.S. exports overnight – a shortage of empty containers for exports.

As you know, consumers are simply not spending like they did during the days of easy credit and the run-up in real estate prices. The number of containers loaded with imported goods moving through our ports has decreased dramatically. Ships loaded with import containers destined for the U.S. generate the supply of empty containers and vessel space for U.S. exports. Due to the substantial decline in imports, carriers have anchored ships, consolidated services and dropped port calls to offset losses. Ultimately, this translates to fewer opportunities for our exporters to move their products.

In addition, the weak U.S. dollar has generated a surge in demand for U.S. exports when containers are in short supply. To compound matters, U.S. exports are typically two to three times heavier per container than imports. That means ships carrying exports can't be loaded to full capacity, which diminishes the space available for exports.

But even when robust imports provide a steady supply of containers for export cargo, it can be expensive to reposition those containers where they're needed. That's because imported goods, and the containers they're in, move primarily to large metropolitan areas where there's a high demand for imported apparel, footwear, electronics and machinery. In contrast, many U.S. exports tend to originate in rural areas. Products such as agricultural goods, minerals, timber and other natural resources make up a large percentage of our export commodities.

The container imbalance has become so extreme that there's even a shortage of containers for exports originating near urban area ports. This short supply of containers, combined with constrained vessel capacity leads ocean carriers to make tough decisions when export demand is high. Carriers become very careful about how they manage this limited space. They are also careful about how they manage empty containers. Often, carriers are so eager to get containers back to Asia for the higher revenue imports, they actually load empties back on the ship at the expense of export loads.

The higher price that carriers receive for moving imported goods actually helps offset the cost of moving U.S. exports. If the lower value export goods were assessed the same shipping rate as imports, it would be difficult for U.S. exports to compete in global markets, even with favorable currency exchange rates. For quite some time U.S. exporters have benefitted from favorable "backhaul" rates and frequent oversupply of container equipment and vessel capacity. But we're not operating under those conditions today. Ocean carriers are losing billions of dollars. Until we see a return to a healthy, balanced trade, export capacity will be constrained.

It will be a challenge for the federal government to quickly affect the financial and operational obstacles to ensuring the availability of containers for exports. Nonetheless, it is a serious issue and raising its profile is a good first step. On a related note, the ports of Tacoma and Seattle sent a letter to Secretary of Commerce Gary Locke last month in which we highlighted the importance of container availability to exporters, and requested that the newly created Export Promotion Cabinet look into this issue.

<u>ADDITIONAL TOOLS TO COMPETE & BOOST EXPORTS:</u>

There are some additional actions the government can take to help ensure the competitiveness of U.S. seaports, and by extension, the ability to get our exports to market.

<u>NATIONAL EXPORT INITIATIVE</u>: I am very pleased and appreciative of the launch of the National Export Initiative (NEI) during President Obama's State of the Union Address. We support the NEI's effort to increase exports, such as improving access to export financing, advocating more forcefully overseas on behalf of U.S. companies, lowering trade barriers by passing new trade agreements and enforcing existing international trade laws.

For many years trade competitiveness has not been prioritized in a way that is commensurate with the impact it has on our nation. Since 2005, exports accounted for 40 percent of U.S. real GDP growth, while in the state of Washington one out of three jobs depends on trade. That is why it makes sense to embrace trade as a means to achieve economic recovery and to assign trade to a position where it will receive coordinated, Cabinet-level attention.

HARBOR MAINTENANCE TAX – LAND BORDER LOOPHOLE: One of the key factors drawing cargo away from U.S. ports is the Harbor Maintenance Tax, or HMT. You could say that the HMT is a good idea that has had unintended consequences. The idea was to raise money for critical channel dredging by taxing shippers bringing goods into U.S. ports. After all, the shippers benefit from the infrastructure why shouldn't they help pay for it?

But increasingly, the HMT, which averages about $130 per container at the Port of Seattle, is an incentive for importers to route their U.S.-bound cargo through Canada and Mexico to avoid paying the tax. By coming across the land border, these imports bound for the U.S. exploit a loophole in the law. Addressing this inequity is important to counter some negative effects:

First, it reduces revenue to the HMT trust fund to pay for needed channel dredging at American ports.

Second, it exports American jobs – both those in the goods movement industry and those that depend on a competitive export capability through U.S. seaports. Both sectors produce well-paying jobs that help people raise families, buy homes and contribute to our economy.

Based on existing trade flows and projected expansion plans, we estimate the HMT fund will lose between $575 million to $2.1 billion in revenue over the next ten years through diversion of cargo to Canadian ports alone, and to the associated land border loophole.

With their deepwater harbors, the ports of Seattle and Tacoma receive no return on the approximately $70 million annually our shippers contribute to the HMT. While we would certainly like to find an appropriate manner to secure some return on this tax payment, we hope that, at a minimum, traditional recipients of the HMT monies will join us in fixing the leak to the HMT trust fund.

CONCLUSION:

Ports are a major driver of economic growth and employment in the United States. If our ports and the transportation network that moves goods in and out of the country are robust and flexible, America's economy will be more competitive as we move forward. It is part of our national economic competitive strategy, just like the need to improve all levels of education and increase our country's investment in research and development.

We're well aware of the leadership that the Senate has provided in the area of infrastructure in trade lanes of national significance, and we're grateful for your support. We look forward to working with you to move these strategic priorities forward.

Mr. Chairman, thank you for calling this important hearing and thank you for allowing me to testify today.