TESTIMONY OF

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ON

"CREATING JOBS AND INCREASING U.S. EXPORTS BY ENHANCING THE MARITIME TRANSPORTATION SYSTEM"

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INTRODUCTION

Good morning, Mr. Chairman and distinguished members of the subcommittee. It is my pleasure to be here today to discuss how federal policies can help Washington State ports create jobs and facilitate increased U.S. exports

For many years, Puget Sound and other West Coast seaports have financially benefited from the size restrictions of the Panama Canal and insufficient port infrastructure in Canada. This competitive advantage resulted in Puget Sound emerging as the third-largest container load center in the country (U.S. Maritime Administration, 2009, p. 22-23).

Recent game-changing investments by Panama and Canada, however, have created a real threat of the Puget Sound losing thousands of jobs and business opportunities to other regions of the U.S. and the world.

After a brief background on Washington State trade and the Port of Everett, I am going to discuss how streamlining the regulatory environment, investing in port infrastructure, modifying the harbor maintenance tax policy and investing in rail infrastructure will improve Washington state's and the nation's ability to compete in the global marketplace.

ABOUT THE PORT OF EVERETT

The U.S. public ports are critical gateways to international trade and drivers of economic activity. The vast majority of U.S. trade comes through our nation's shipping terminals, carrying all the goods you need and want every day. America's seaports are responsible for $3.2 trillion in annual trade revenue, providing nearly 13.3 million people with family-wage jobs (Knatz, 2009).

In Washington State, ports are an essential lifeline for our state's economy, as it is the most trade-oriented state in the nation, with one in four jobs tied to trade.

According to an independent study by Martin Associates[1] the Puget Sound ports provide:

- Jobs: 334,000 per year

[1] The report's author, John C. Martin, has prepared more than 500 economic and planning studies for U.S. ports.

- Construction Jobs: 21,352,000 man-hours of construction jobs through its capital programs per year
- Revenue: $22.2 billion per year
- State and Local Taxes: $1.2 billion per year

Seattle and Tacoma are the consumer goods ports of the region, while the Port of Everett serves a critical function in support of the manufacturing and construction base. The Port of Everett is the third largest deep-water port in Washington State. It is located 25 miles north of Seattle.

While not as large as Seattle and Tacoma, the Port of Everett is just as important for the role it plays in support of the local aerospace industry. Everett is home to The Boeing Company's largest manufacturing facility and Naval Station Everett. The Port handles 100 percent of the oversized oceangoing parts for the 747, 767 and 777 airplane programs for The Boeing Company. Boeing is the largest exporter in the nation by value. And in 2010, the Port of Everett was attributed with more than $9.2 billion in exports according to the U.S. Customs Report.

The Port of Everett's major trading partners are Japan, South Korea, Russia and China. Our primary imports are aerospace parts, pipe, machinery, wind energy parts and cement. Our major exports, which is the bulk of our business, includes wind energy parts, oil and gold mining equipment, aerospace containers, logs, and other miscellaneous breakbulk cargoes.

WHAT IS THE PROBLEM?

The Canadian government's infrastructure investments create a real threat of cargo being siphoned off from the Puget Sound region, and taking the jobs and revenue associated with it. According to a 2009 report from the U.S. Maritime Administration, "In the long-term, they (Panamanian and Canadian trade expansion) will limit American job growth opportunities, negatively impact our economy and reduce our own strategic port capacity." According to the 2009 Marine Cargo Forecast, more than 76 percent of the goods that come through Puget Sound ports head east to areas like Chicago.

To the north, the Canadian government is taking a proactive approach to capture U.S.-bound cargo. The government kicked off its Asia-Pacific Gateway and Corridor Initiative projects in 2006, with a commitment to invest nearly $1 billion in infrastructure projects to make British Columbia a viable alternative to the U.S. West Coast (British Columbia Press Release, 2006). Further the Canadian government has invested significantly in the Canadian National Railroad, which gives Canada a high speed rail corridor directly into the U.S. heartland – bypassing U.S. ports.

We are in intense competition with the Port of Prince Rupert and Port of Vancouver in British Columbia. They are currently winning that competition because of the strong partnership they have formed with the Canadian Government. Canada's Pacific Asia Gateway strategy has involved national, provincial and local investment in freight movement infrastructure. Canadian government officials accompany Canadian port officials to marketing meetings in Asia.

The question we keep asking ourselves, "is the United States prepared to double exports from a seaport and freight rail perspective," and the answer is **no**.

The world governments have taken an active role to ensure their place in the global trading market. In the U.S., however, ports are struggling to find funding mechanisms for our aging port infrastructure. Historically, trade has been viewed as a private industry in the U.S. This perception has limited the state and federal government's active participation in promoting and investing in our trade facilities.

Furthermore, ports are unable to fully benefit from trade taxes. For example, the total harbor maintenance tax (HMT) collections and interest in 2010 came to $1.363 billion. Of that amount, $828 million was disbursed for navigation maintenance. According to a Congressional Research Service study earlier this year, Puget Sound ports, because they are natural deep-draft harbors, receive "just over a penny for every dollar that import shippers who use their port pay in HMT" (Fritelli, 2011).

What is the solution?

We greatly appreciate the Administration's National Export Initiative to create 2 million jobs by doubling U.S. exports over the next five years by 1) expanding federal export promotion efforts; 2) improving access to credit, especially for small- and medium-sized businesses that want to export; and 3) increasing the government's focus on knocking down foreign trade barriers to U.S. exports.

The World Bank estimates that $40 million of additional exports is generated for every $1 spent on export promotion, so this effort could be very successful. Bringing more import-export balance to our international trade isn't just good for our balance of payments and our domestic employment picture; it will also bring more rationality to our logistics system, which is currently plagued by empty railcars on their return trips to ports and empty import containers stacking up on port property. If this initiative is to be successful, we will need major investments in freight transportation infrastructure – for example, intermodal connections at our ports – to handle these increased trade volumes.

Here are four steps the U.S. Government could take to enhance our marine transportation system so it can handle a doubling of U.S. exports, while also increasing our competitiveness with Canadian ports and the expanded Panama Canal:

1. **Regulatory reform;**
2. **Federal port infrastructure investments;**
3. **Modify the fee structure of the Harbor Maintenance Tax; and**
4. **Investment in rail infrastructure.**

REGULATORY REFORM: The U.S. government can help streamline permit requirements to expedite the construction of waterside trade facilities. The Port just completed its Marine Terminals Master Plan, which spelled out expansion plans. In Washington State, and probably throughout the U.S., a new terminal facility can take anywhere between five to 10 years plan, permit and construct. A deepening of a shipping channel typically takes upward of 25 years, depending on federal and state regulatory requirements and related litigation.

These delays result in higher costs to U.S. exporters and lost cargo opportunities to our foreign competitors. Shipping terminals and channels are considered facilities of statewide significance in Washington state, and as such, the permitting of terminals must be streamlined and redundancies removed. Quite simply regulatory agencies must look for ways to successfully build a terminal and deepen a channel instead of just saying no.

Right now, the sad truth is that with the time required to fund, permit and build terminal facilities, our region loses cargo opportunities to competitors from the north and south.

FEDERAL PORT INFRASTRUCTURE INVESTMENTS: In 2009, as part of the American Recovery and Reinvestment Act (ARRA), the Transportation Investment Generating Economic Recovery (TIGER) grant program was developed. For the first-time, that I am aware of, a transportation grant opportunity allowed ports to submit projects that were "within the terminals" for funding consideration.

This program was so popular, the U.S. Department of Transportation received $1.6 billion worth of grant requests from the port industry alone in the first round. This grant program highlighted the need for ongoing investments from the federal government in our marine highways, and the American Association of Port Associations (AAPA), along with other port industry leaders have been working to establish a port infrastructure grant, similar to the TIGER grants, in the Surface Transportation Reauthorization bill. This is critical, because, just to modernize one berth at the Port of Everett's existing terminal facility comes with a price tag of nearly $100 million – and this does not include equipment.

HARBOR MAINTENANCE TAX (HMT): The U.S. Government has imposed the HMT, which unfortunately doesn't help us at all, because Everett, Tacoma and Seattle are natural deep-draft harbors. However, it does hurt our competition with Canadian ports because they don't have such a tax – a fact they advertise to customers. The current HMT distorts the flow of trade and puts U.S. ports at a competitive disadvantage.

We would like to see the federal policy modified to ensure equal treatment of all U.S.-bound cargoes regardless of how they arrive in the U.S. For cargoes arriving at U.S. seaports, the HMT would remain the same. For international cargoes arriving via a land border, a new account would be created for investments in cargo-specific infrastructure improvement projects.

The Port of Everett would also support the effort to make sure that all the funds collected through the HMT are spent on harbor maintenance. If all the $1.3 billion dollars collected from taxing the value of cargo imported into the U.S. in 2010 was reinvested in harbor maintenance, an additional half-a-billion dollars would have been invested in U.S. ports. This would increase efficiency, lower costs to U.S. manufacturers and support U.S. construction jobs.

As noted earlier, the federal government collects far more money in harbor maintenance taxes than it expends on harbor maintenance. As a result, the HMT fund has a balance of more than $5 billion while important dredging needs go unmet. The taxes collected for harbor maintenance should be spent on harbor maintenance.

RAIL INFRASTRUCTURE: Finally, the Port of Everett supports a high speed rail corridor modeled after the Canadian Asia-Pacific Gateway to increase the speed at which US manufacturers and farmers can export their products overseas. In 2009, the Great Northern Corridor, which serves ports in Washington and Oregon moves over 124 million tons of freight. It would take over 4.9 million long-haul trucks on highways to move that much freight.

The Great Northern saved over 570 million gallons of fuel and over 6 million tons of greenhouse gases (BNSF Railways, Corridors of Commerce). Further, the U.S. Department of Transportation forecasts that freight rail demand will rise 88 percent by 2035 from 2005 levels. BNSF Railroad states, "Capacity investment now is essential to meet projected demand and will prevent future strain on the nation's rail corridors and avoid a modal shift to the highways system" (BNSF Railways, Corridors of Commerce). Lastly, according to the U.S. Department of Commerce, for every $1 invested in rail infrastructure $3 is returned to the U.S. economy.

Conclusion

In conclusion, Mr. Chairman, to double our exports, U.S ports need the federal government's help to increase export capacity and to keep ports competitive by:

- Reducing our permitting burden
- Modifying the harbor maintenance tax to increase revenue and establish a level playing field; and
- Investing in port and high speed freight rail infrastructure.

Right now, U.S. ports are not prepared for the shake-up in trade patterns across the Western Hemisphere that is likely to follow the expansion of the Panama Canal and significant Canadian investment.

The earlier our leadership begins addressing these issues, the earlier ports, like us, can show the international community our nation is ready to compete for trade. The days of passive involvement at a federal level are behind us, and now it is incumbent upon our political leadership to make the policy changes necessary to support our marine highways.

Thank you for your continued support and the opportunity to testify before you today. I will be happy to answer any questions you may have.

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