Commissioner Mario Cordero Summary Testimony

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Committee on Commerce, Science & Transportation

Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety and Security

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Chairman Fischer, Ranking Member Booker, and Members of the Subcommittee, thank you for providing me with this opportunity to appear before you today.

President Obama designated me to serve as Chairman of the Commission on April 1, 2013. I had the honor to serve in that role for nearly four years. I congratulate my colleague, Michael Khouri, on his appointment as Acting Chairman of the FMC earlier this year. During my time as Chairman, the FMC navigated the Hanjin bankruptcy, the implementation of VGM (the container weight rule), aggressively advocated for the maritime industry in high-level trade talks, and engaged in rule-makings that protected the American shipping consumer and streamlined rules to promote competition. Importantly, we also investigated and/or monitored port congestion, demurrage and detention, and carrier alliances and consolidation. I thank you for your support throughout my tenure.

I will touch upon four topics today: the current state of the industry, alliance agreements, the supply chain, and other issues of relevance to the U.S. exporters, importers, and the American shipping consumer.

First, the industry. The international shipping community has experienced some dramatic challenges in the last decade. These challenges are twofold: first, the 2008 economic global recession and its severe impact on the international maritime transportation carriers who continue to struggle with unsustainable transportation rates; and second, what many today regard as a geopolitical recession, as a result of the global dialogue on protectionism and isolationism. Today, international trade is an integral and critical part of the U.S. economy. More than one-third of our Nation's GDP is tied to global commerce and this figure is only predicted to become more significant in the coming years. Ocean transportation of goods and commodities is the backbone of our trading system. Indeed, 90% of world trade is transported by shipping lines. Each of us, as consumers or investors, benefit from the competitive marketplace the Commission works to maintain. In the last decade, we have seen the rise of Very Large Container Ships (VLCS)—vessels of 10,000 TEUs or more— to more than 398 in the current worldwide fleet as of April 2017, which includes 20,000 TEU vessels. Our investments in maritime infrastructure have slowly tried to match that growth. We must invest in ports to remain competitive—plain and simple.

Although we acknowledge the importance of trade to the American economy, and the obvious imbalance on the export-import equation, we still need to realize that our export growth is dependent on a global consumer. For example, recent reports indicate that U.S. exports of beef, pork, oil, gas, and LNG have grown consistently in the last few years. Within the next three years the U.S. may be the third largest exporter of LNG. Overall, containerized exports grew, and the value of exports transported by vessel in 2016 was in excess of $475 billion.

Perhaps the most significant development in the international shipping industry is carrier consolidation. In 2011, the year I commenced my service at the FMC, there were 21 major global water transportation carriers. Today, we essentially have 13 carriers accounting for 70% of containerized global capacity with each belonging to one of three alliances that commenced in April of this year: 2M, OCEAN, or THE ALLIANCE. Frankly, I am not sure we have seen the end of carrier consolidation.

An alliance agreement between carriers, which requires a filing with the FMC, essentially is a vessel sharing agreement. Motivated by economies of scale, the carriers focus on achieving cost savings given the challenge in securing sustainable transportation rates. The vessel sharing alliance concept is not new. However, the current level of debate and scrutiny within the industry commenced when the three largest carriers—Maersk, Mediterranean Shipping Company (MSC), and CMA-CGM—filed the P3 vessel sharing agreement with the Commission in October 2013. That filing began what I term as the second generation of alliance agreements. The P3 agreement was eventually withdrawn by the parties. However, the two largest carriers, Maersk and MSC, subsequently filed and moved forward as the 2M Alliance and thus commenced the rush to achieve economies of scale by the major global water transportation carriers.

A question for the maritime shipping community and the supply chain is what will be the impact of the second generation of alliances? I believe it will be in cost savings and efficiencies. For the carriers, cost saving is a paramount concern, especially given the need for investment in cutting-edge technology. To be clear, I am supportive of the alliance model. However, legitimate concerns by stakeholders do remain. These second-generation alliances have introduced us to the concepts of operations centers, information sharing, and joint contracting. The last two concepts have been raised as serious concerns by stakeholders in the shipping community because of the potential for anticompetitive behavior.

In addition to the formation of new alliances, we have witnessed generational changes in the shipping industry, including carrier acquisitions, consolidations, bankruptcies, and joint ventures. The international shipping industry will continue to evolve, whether as to structure, service delivery, or cost-saving efficiencies.

Finally, I want to discuss industry progress on the incorporation of technology, another way in which our industry partners have tried to save costs.

Both Amazon and Alibaba are starting to establish themselves as movers of cross-border freight. Indeed, earlier this year, Amazon announced its intention of becoming an NVOCC. That is not to say that they will own or operate vessels, but rather that they will aim to increase buying power with ocean common carriers. I note that many ocean carriers are maintaining close links to cloud-based supply chain specialists like INTTRA, GT Nexus and CargoSmart who were all early adapters to e-commerce.

Currently, much of the focus on technology in containerized trade is in tracking logistics, such as real time information on container movements. I believe this year will see an escalation in the number of digital and e-commerce applications designed to provide more visibility and transparency in the movement of containerized freight and implementing cost-effective solutions in the supply chain. Earlier this year, the JOC reported that Maersk and IBM are teaming up to digitalize the global container supply chain—using block chain technology to improve efficiency and cost. This technology will result in enhancing visibility in container transport. In addition, both Maersk and CMA-CGM have moved to partner with ecommerce entity Alibaba to integrate transportation and logistics. Actions such as these can reduce cost and improve the reliability of supply chain systems. In sum, many believe we are on course to the fourth industrial revolution—the acceleration of the implementation of technology and digitalization in a rapidly-changing industry.

The supply chain has been a central focus of the FMC for several years now. More efficient supply chains increase not only the volume of trade by lowering the cost of goods, but it also increases the distances over which those goods can be transported. We noted in our congestion study in 2015 that in many ways, “the elimination of congestion is today’s most critical and relevant trade-related issue.” As Chairman, I launched an initiative to address congestion in three phases. The first phase, beginning in September 2014, was the port forums which were held on the U.S. West Coast, the mid- and north Atlantic coast, the south Atlantic ports, and the Gulf Coast ports. These one-day listening sessions were each led by at least one Commissioner, and served as an opportunity for the FMC to hear firsthand the problems that ports, their customers, and other partners in the U.S. intermodal system were facing that were related to port congestion, including detention and demurrage issues. Our takeaway from those forums was that we need to look beyond the docks, at the entire supply chain, and find common ground amongst the various players in the chain. Our second phase was the detention and demurrage study issued in April 2015, and the congestion study issued in July 2015. Finally, with the issue of port metrics on the minds of legislators, we launched the last phase in February 2016: our Supply Chain Innovation Team initiative, led by Commissioner Dye. During that phase, we brought together industry leaders to work on teams to develop process innovations that will improve the reliability, resilience, and competitiveness of America's global supply chain. The teams announced in December 2016 that critical information delivered to supply chain actors via a national portal will improve port performance and increase American economic competitiveness. This national portal will further the goal of collecting data on port metrics.

Finally, more than a year ago, I testified before your House counterpart on the paramount concern of having a well-funded and resourced FMC. I explained then that the Commission's statutory mandate to regulate the international ocean transportation system for the benefit of domestic exporters and importers is ever more important in the second decade of the 21st century. I stand by that testimony today. Further, I believe that the Commission's authorities need to be improved and updated to match the current state of the industry. Our monitoring responsibilities under the Shipping Act are crucial today, and I appreciate that the Committee has taken an interest in the FMC in that regard. I look forward to seeing what is included in the authorization bill, and would be happy to provide you with further insight.

Thank you, again, for inviting me to testify. It has been a pleasure to work with you on matters of mutual concern over these many years, and I want to thank you again for your support. It has been an honor to serve the people of the United

States, to advance the stature of the Commission, and to protect the American shipping public. I am grateful for my time at the FMC.