Testimony of The Honorable John McCarthy
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U.S. Senate Committee on Commerce, Science and Transportation
Subcommittee on Transportation and Safety
"Building Infrastructure in America:
Overview of the Build America Bureau and the U.S. Department of Transportation Rural Initiatives"
January 28, 2020

INTRODUCTION

Good morning, Chairman Wicker, Ranking Member Cantwell, Chairwoman Fischer, Ranking Member Duckworth and members of the subcommittee. I am John McCarthy, Port of Tacoma Commission President and Co-Chair of The Northwest Seaport Alliance (NWSA). It is an honor to be with you today to discuss the importance of ports to the nation, including rural America, and the critical role federal partnerships play plays in our ability to effectively serve the nation's economy. Thank you for the invitation to testify and for the work you are doing to address the challenges facing ports and our freight system.

Founded in 1918, the Port of Tacoma is an independent special purpose government with directly elected commissioners representing the people of Pierce County, Washington. The NWSA is a unique partnership formed in 2015 between the ports of Tacoma and Seattle (a similar special purpose government representing the people of King County, Washington) to jointly manage our marine cargo facilities, including the fourth largest container port complex in North America as well as substantial breakbulk, auto, military, and project cargo operations.

The primary mission of a port authority is to create and support economic activity by building transportation infrastructure and managing operations at our facilities. In our region, NWSA cargo activity employs over 58,000 people. But our job and our focus are much bigger than the Puget Sound region. The State of Washington is the most trade dependent state in the nation, with 40 percent of all jobs tied to trade, including hundreds of thousands in both rural and urban areas who work for importers and exporters that use our facilities.

These job impacts carry far beyond the Puget Sound region because ports are not simply local assets in urban centers. Our port system is a fundamental foundation of the U.S. economy, supporting every corner of the country. At the NWSA we cannot view the world through an urban or rural perspective because our economic success is deeply embedded in both.

The investments ports are making create nationwide benefits, but what we're able to do locally is insufficient if our goal is to build a system that enables the U.S. economy to remain among the most competitive in the world. And that *should* be our goal. It is critical to view our ports and our freight system through the lens of national economic competitiveness and as strategic assets. The modernization of this critical transportation infrastructure should be a top federal government priority and focus of federal investment by all grant programs at the Department of Transportation (DOT), including those managed by the Build America Bureau. And as a representative of ports today, I want to highlight the important work the Bureau is doing with ports to drive federal investment through programs like TIFIA and INFRA. On behalf of all ports we look forward to continuing to work with the Build America Bureau and DOT to facilitate federal investment and support of our nation's ports and trade corridors.

SEAPORTS ARE VITAL TO THE U.S. ECONOMY

Every American depends on the success of our ports because seaports are vital economic engines. Nearly all the country's overseas cargo volume moves through seaports: 99 percent by weight and 64 percent by value. International trade through seaports accounts for over a quarter of the U.S. economy and supports over 31 million American jobs. In 2018, seaports generated nearly $5.4 trillion in total economic activity and more than $378 billion in federal, state and local tax revenues.

Seaports are critical to the success of U.S. businesses. For agricultural shippers, ports often make the difference in whether their products are competitive in global markets. Manufacturers depend on highly efficient, reliable ports to get their goods to market and to take advantage of the just-in-time processes that are common practice in their industries. Strong ports provide critical advantages to exporters, including lower shipping costs, more frequent calls by ocean carriers serving more export markets, shorter time to market and greater vessel capacity and container availability. If we hope to increase U.S. exports and economic competitiveness more broadly, enhancing our port system is essential.

Seaports serve the entire nation, not just the coastal and Great Lakes states in which most seaports are located. Our port is a great example of this. Nearly 60 percent of our containerized import volumes are bound for the Midwest and other destinations outside the Pacific Northwest. Our export cargo originates from all 50 states. While our port is located in an urban area, we represent critical infrastructure for the nation's agricultural industry and the rural communities that depend on it. In fact, according to the U.S. Department of Agriculture, the NWSA is the second largest port in the country as measured by agricultural trade tonnage.

In specialized agriculture markets the importance is even more pronounced. For example, the NWSA is the nation's leading export gateway for refrigerated agriculture products, representing nearly 20 percent of national volumes. In the Northwest, among the top eleven export markets for both apples and pears, nine of them depend on our seaports. For Washington's potato industry 70 percent of the 10 billion pounds of potatoes produced were exported, the vast majority of which passed through NWSA seaport facilities.

The Washington state forage product industry is one of the best examples of how competitive ports can affect jobs in an export-dependent industry. Forage products like hay are the largest export by volume through the NWSA. However, our state's hay exports have been constrained by limited vessel capacity and container availability, which have been exacerbated by our loss of market share to expanding Canadian ports, as well as by congested freight infrastructure. Given the relatively low margins, small increases in cost have serious implications for the future of the animal feed industry in the Pacific Northwest.

As it relates to Nebraska, 8 percent of the state's containerized waterborne exports pass through the NWSA, as do 26 percent of its containerized waterborne imports and 10 percent of total imports.

And in Illinois, the NWSA handles at least 10 percent of each of the state's top ten containerized waterborne imports. We also are an important gateway for critical export products, including 12 percent of Illinois' containerized soybean exports, 23 percent of containerized cereal exports, 15 percent of oilseed exports, 10 percent of meat exports, and 15 percent of dairy exports.

Beyond these examples, the NWSA handles about 90 percent of containerized cargo from Montana, half of containerized exports from Oregon and Idaho, and at least 20 percent from Minnesota, the Dakotas, and Iowa. Most U.S. soybeans are grown in the Midwest and 23 percent of all U.S. soybean exports including those from Nebraska and Illinois are shipped through bulk and container terminals in the Pacific Northwest.

All of these rural, trade-dependent commodities need well maintained, efficient and reliable infrastructure to move goods to market both in the U.S. and abroad. Currently, it costs two to three times MORE to ship a container of apples from Washington state to the East Coast than it does to ship it to China. And of that cost of shipping to Asia, as much as 40 percent is the cost of moving it from the packing facility to the port itself. These products cannot move without sufficient port and freight infrastructure. This is why rural America understands and supports ensuring ports and freight corridors into and through urban areas are well maintained and efficient.

OUR PORT SYSTEM'S INFRASTRUCTURE CHALLENGES

Unfortunately, our ports and our freight system do not always get the attention they deserve. I greatly appreciate the subcommittee's efforts to increase understanding among policymakers and the public because I do not think our nation has found the right approach to supporting its ports.

America's port infrastructure is OK. Just OK. The American Society of Civil Engineers gives us a C+ in their Infrastructure Report Card. Building a more modern port system requires that we address a long list of shortcomings. Because the scope of this challenge is so great, additional federal investment and focus will be needed if we are to be truly successful in this endeavor.

We need to not only maintain what we have in a state of good repair, but also expand our ability to handle more cargo. This requires ongoing and often significant investment, as many seaport terminals are in need of major rehabilitation. In addition, ports need to increase our capacity and efficiency to manage increased volumes. By 2045, DOT estimates that container traffic at ports will be driven by a doubling in the volume of imports and exports transported by our freight system.

Remaining competitive requires more than simply maintaining the status quo. Rapid developments in our industry are driving ports to make transformational changes. One of the most significant dynamics is the dramatically increasing size of container ships. The average ship calling at NWSA terminals about ten years ago could hold 5,000 to 6,000 twenty-foot containers. Today we receive calls on a weekly basis from container vessels that can hold more than 13,000 containers, and 18,000-container ships are on the way soon. These vessels are longer than five Boeing 747s and larger than an aircraft carrier. Accommodating these larger ships require major investment at ports, including deeper berths and navigation channels; larger cranes and stronger docks to support them; electrical grid upgrades; additional, high-efficiency cargo-handling equipment; and improvements to container yards and intermodal facilities.

Alongside these projects, ports often must make investments to mitigate the impacts of rising cargo volumes on neighboring communities, which bear a disproportionate burden in supporting U.S. trade flows. In addition, government regulations, community expectations and customer demands increasingly require that we build infrastructure in a more resilient and environmentally friendly fashion. While necessary, this increases costs considerably.

Modernizing port terminal infrastructure at a pace sufficient to remain competitive globally is already challenging enough for ports. Yet improving our port system also requires that we look outside seaport gates to the road and rail infrastructure that connects ports to the rest of the national freight system. Upgrading this infrastructure is even more costly than for marine terminals. An additional challenge is that the roads, rails, bridges, tunnels, and waterways that connect ports with the markets they serve are typically outside port boundaries and thus are the responsibility of municipalities, counties, states or the federal government. 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 jurisdictions in which the projects are located. Furthermore, building a railroad overpass, for example, might be more important to an exporter in a faraway state than it is to the local community that must approve taxing themselves to pay for that overpass. This is why the work of the DOT and Build America Bureau is important to ports. We need federal investment to bridge the gap through grant programs like INFRA or loan programs like TIFIA to help communities bring to fruition these critical infrastructure projects that provide nationwide benefits.

To that end, U.S. ports have identified $66 billion in needed investments in terminal, road, rail and waterway infrastructure over the next ten years.

SIGNIFICANT NEAR-TERM INVESTMENT IN FREIGHT IS KEY TO U.S. COMPETITIVENESS – A PACIFIC NORTHWEST EXAMPLE

I would like to offer an example from the Pacific Northwest that demonstrates the high stakes of the decisions our nation faces about how to prioritize ports and freight infrastructure and what role the federal government should play. To me it a case study for why maintaining the status quo is not sustainable.

The port business is competitive, especially over discretionary cargo bound for inland regions that can be shipped through any number of ports. NWSA's main competitors are the nearby Canadian ports of Vancouver and Prince Rupert, which in recent years have been aggressively targeting U.S.-bound cargo. A key reason why we have struggled to overcome the competitive threat from our neighbors to the north is because the government of Canada has designated the development of their West Coast ports to capture U.S. bound cargo as a national priority and is providing substantial financial and policy support to ensure they succeed.

Canadian federal government funds have helped Vancouver and Prince Rupert build highly competitive marine terminals and are continuing to support their expansion. In the past two years the government of Canada awarded $US 384 million to the ports of Vancouver and Prince Rupert alone for projects that support goods movement through those ports. Canadian federal contributions in their trade gateways have been mirrored by federal investments along the entire trade corridor that connects the ports to population centers in the Canadian and U.S. heartland. Transport Canada has launched initiatives and adopted wide-ranging policies to improve performance of their ports and the goods movement system. Because of the high priority Canada has placed on optimizing their goods movement system, they now offer an efficient and lower-cost alternative to shipping through ports in the U.S. Pacific Northwest. As a result, the NWSA lost 15 percent of our market share to the British Columbia ports in the decade following the opening of Prince Rupert's container terminal in 2007. In addition to continuing to expand on the West Coast, Canada has plans to repeat this success on the East Coast.

The diversion of cargo from our ports to ports in Canada has resulted in the loss of U.S. transportation sector jobs. It also has reduced ocean carrier calls and, critically, the supply of returning containers that exporters depend on, which increases shipping costs and erodes or eliminates the competitiveness of their products in international markets—as demonstrated by hay growers in Washington state. If the Canadian ports continue to realize their goals for growth at the expense of U.S. ports, the economic consequences for our region and the agriculture exports from rural America I highlighted previously could be grave.

The NWSA is committed to maintaining a growing and competitive U.S. trade gateway in the Pacific Northwest. The cornerstone of our strategy to respond to the challenge from Canada is ensuring we have the high-capacity, high-efficiency infrastructure we need to remain a preferred port of call. The NWSA is making substantial investments to modernize our marine terminals and deepen our waterways. And we are contributing to projects in other jurisdictions that improve freight mobility through our port, including evaluating intermodal yards to strengthen our connectivity to rural communities.

Yet limited funding is a barrier to developing infrastructure at a pace sufficient to keep up with Canada. We already are leveraging hundreds of millions of dollars in direct private sector contributions in support of our infrastructure efforts. Unfortunately, even though our port is a critical economic asset for our nation, we have had little success in obtaining federal funding support for these initiatives.

This resource challenge coupled with other cost drivers outside the control of our ports increases the Canadian advantage. For example, the major West Coast ports in the U.S. and Canada are blessed with naturally deep harbors that do not require regular dredging. Yet U.S. importers utilizing the ports of Tacoma, Seattle, Los Angeles and Long Beach still are charged an ad valorem tax of .125 percent, known as the Harbor Maintenance Tax (HMT), to maintain U.S. navigation channels. The collections at just these four naturally deep harbors account for approximately one-third of total HMT collections, but our ports receive almost nothing in return. Conversely, Canadian West Coast ports do not charge an equivalent tax, which creates a cost differential on average of $125 per container that is driving U.S.-bound cargo to Canadian ports. Similarly, rail rates to move containerized cargo from West Coast ports to the Midwest are significantly higher than those charged by the two Class 1 Canadian railroads.

HOW CAN THE FEDERAL GOVERNMENT HELP?

We need to rethink our nation's approach to port and freight infrastructure policy and funding. The success of Canadian initiatives to enhance its West Coast ports and the infrastructure that supports international trade demonstrates the positive returns a better partnership between ports and the federal government can bring, including job growth and increased export competitiveness. A more proactive stance by the U.S. federal government is justified given the importance of ports to the entire U.S. economy. And not only is greater federal government involvement justified, it is absolutely necessary to overcome the policy and funding challenges ports are facing.

I recommend this subcommittee explore the following actions.

1. **Increase funding for the Port Infrastructure Development Program / Port and Intermodal Improvement Program**

   The NWSA and other U.S. ports were encouraged by the creation of the Port Infrastructure Development Program, which is now known as the Port and Intermodal Improvement Program, and I would like to thank Chairman Wicker and Ranking Member Cantwell for your efforts to authorize it. Congress appropriated $225 million for this program for Fiscal Year 2020. While this will provide U.S. ports a tangible boost, it should be viewed as a beginning. As I highlighted above, nearly this level of funding was provided annually to just two Canadian ports by the Canadian federal government. We urge Congress to prioritize this key program and to increase its authorized funding level in the upcoming reauthorization.

2. Increase funding for the FAST Act's INFRA and freight formula programs

U.S. ports view the INFRA and freight formula funding programs created in the FAST Act as another step in the right direction. Yet funding levels for these programs are not sufficient to meet the needs of our gateways and trade corridors. The INFRA program is oversubscribed. In the combined FY19 funding round, DOT received $11 in unique requests for every $1 available. State planning efforts required by the FAST Act have demonstrated that the freight formula program also is underfunded. With the FAST Act expiring this year, Congress has an opportunity to increase funding levels for these programs.

3. Remove multimodal funding caps on the INFRA and freight formula programs

Freight does not move by highways alone, as the Committee well knows. Our freight system is multimodal, and our freight programs should reflect that reality if they are to be effective. The FAST Act funding programs currently have limitations on the amount of funding that can go to non-road projects. Funding for these multimodal projects is capped at $500 million over five years in the INFRA program and 10 percent of freight formula funding. I recommend these caps be removed. This will allow our nation to more quickly modernize our seaports, as well as the first and last mile projects that connect us to the rest of the freight system to move goods, which have often fallen through the cracks in traditional federal infrastructure funding programs.

In closing, I appreciate the opportunity to share my thoughts with you about the importance of DOT programs and the interdependence of urban and rural areas as it relates to freight mobility and goods movement. It is essential that we embrace a wholistic view of the supply chain to ensure that federal freight investment is not viewed simply through a rural vs. urban lens. Without enhanced federal support for freight we will continue to earn no better than a C+. And this mediocrity will not allow us to overcome the challenges limiting our export competitiveness, to support a modern global economy, or to compete with our neighbors to the north or south that seek to supplant U.S. ports as gateways to America's heartland and beyond, which will result in grave consequences for rural agriculture communities throughout our country.

I appreciate the Committee's continued leadership and the ongoing commitment of Senator Cantwell specifically to help bring freight to the forefront and drive economic growth.

Thank you for the invitation to testify today.