

The Statement
of
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Chairman of Maersk Inc.
before the
U. S. Senate Commerce Committee
Sub-Committee on
Surface Transportation and Merchant Marine Infrastructure, Safety
and Security
June 18, 2009

Mr. Chairman and Members of the Committee, I am John Clancey, Chairman of Maersk Inc. First of all, I want to thank you for inviting me here to be a part of this hearing on improving the freight transportation network in America. The fact that you are including maritime in this hearing suggests that the debate has finally caught up with the reality of the globalized freight network that is already at work in the world today. It means that our collective thinking has progressed very far toward the actual development of a comprehensive, multimodal freight mobility *system*. So for including us, we applaud your approach and thank you for the opportunity to offer a few comments as you appropriately work to ensure that America's economy will be enabled by a 21st century freight mobility strategy.

Improving the intermodal freight network in the United States is of paramount interest to our company. With 2284 vessel calls at 18 U.S ports loading and unloading 2,170,966 containers annually, Maersk Line is the largest container shipping company serving the US economy. We are the largest US-Flag fleet operator and we are the largest marine terminal operator in the United States. Additionally, we are one of the largest purchasers of intermodal freight service in the United States. The point is not that we're big... the point is that the thousands of American importers and exporters that we serve have much to lose if this effort to develop a competitive intermodal system is not successful. So I hope to illuminate some of the key issues from our perspective and to offer some component pieces of a *systemic solution* to America's freight-moving requirements.

The import and export freight that transits at our ports every day includes every conceivable consumer good from electronics to fashion. In fact, it is arguably cheap transportation costs - enabled by the ocean container - that has played a key role in the development of the US consumer economy - now 70% of our GDP - over the last 30 years.

But, as we all recognize, the economy of the next 30 years will not look the same. The headwinds we are now encountering suggest a more modest future. Instead of the 9-11% annual growth rates of international containerized cargo of the last 20 years, we may be

looking at growth rates more in the 2 to 3% annual range... when we at last begin to grow again. And of course we're concerned about the economic consequences of rising energy costs, environmental costs, security costs, land use costs, and capital costs.

If used wisely, this breather in infrastructure capacity demand that has accompanied the economic downturn could turn out to be a blessing in disguise. Our best guess is that the recovery will be long and slow. But although cargo growth rates will be modest, the actual freight volumes will still overwhelm our current infrastructure capacity in just a few years. Even with a more modest growth rate of 3% in international freight, our national intermodal system will be dealing with a million more containers annually by 2015. So perhaps a bright side to the economic crisis is that we have a second chance to restore America's competitiveness with an infrastructure system that will no longer impose an "inefficiency tax" on our economy.

It is a fact that China, Japan, Russia, India ... and many other countries are investing billions more than the US to create efficient freight-moving national infrastructure systems including ports, highways, rail, and airports. The infrastructure projects in other countries are astounding (for example, 10 years ago China finished an airport to accommodate 90 million people per year in 2000 feet of ocean!) and they are completing them in roughly the same amount of time it takes to get the initial environmental impact study done for a project in the US.

Just as importantly, many of our competitor countries don't have to demolish infrastructure (like the US does) before they even reach a new starting point. They are developing their projects from greenfield sites without the cumbersome, politically charged process that burdens us in the US.

This all points to a picture of mediocrity that, as the leading economy in the world, is simply unacceptable.

In 2000, our company conceived the largest – and only - private marine container terminal in the United States. Built on 600 acres in Portsmouth, Virginia, the terminal has radical new technology that improves productivity and safety while cutting emissions. It has on-dock rail that, when completed, will connect to the Heartland Corridor, a public-private intermodal project that moves freight to the mid-Ohio valley faster on less fuel and with fewer emissions. We put a half billion dollars into the project; the states of Virginia, West Virginia and Ohio – as well as Norfolk Southern and other commercial users –threw another \$360 million in the hat and the project was completed in 7 years when similar projects take up to 17 years to finish. Importantly, almost half of the materiale and goods supporting the war theaters of Iraq and Afghanistan have gone through this efficient port.

From this project and our hands-on experience moving freight around the country and the world, we have learned a little that perhaps could be helpful to the committee as you consider the improvement of the nation's freight transportation network.

First, we need a freight mobility plan to guide and integrate the infrastructure expenditures our country is about to undertake and we thank the sub-committee for pushing to get a real, multimodal freight plan established. It is very gratifying to see the momentum behind this idea finally taking off. And to ensure that the strategy will be carried through in execution we support the idea of resurrecting an Office of Intermodalism within DOT and believe that is an important key to breaking the silo-thinking and funding of infrastructure projects.

Although an Office of Intermodalism actually existed during the early phase of our Portsmouth project it didn't have any real authority and it eventually melted away and was of no help. With the appropriate authority from Congress, however, the office could have more efficiently helped sell the vision of the project across its 1000 miles, multiple modes and 5 states. It could have helped bring the principals and funding together even sooner. If DOT's Office of Intermodalism truly has authority to assign funding values, break logjams and manage across modes it will be of great benefit to the nation's consumers and competitiveness.

Second, as I indicated at the beginning of these remarks, most conversations and policies about "surface transportation" don't include maritime considerations. This omission reflects a limited understanding of how our economy connects to the rest of the world. It ignores the fact that 90% of everything we eat, wear, live in or drive is manufactured outside the U.S. And it excludes a greener transportation alternative that our waterways, ports and marine transportation can provide.

Maritime - our inland waterways and coastal shipping - offers an immediate, cost-effective solution to freight movement challenges in our country. As you know, our rivers need lock and waterway improvements. Also, there are various concepts on short sea shipping floating around but the fundamental problem with all of them is making it cheap enough to attract commercial customers. With a little creativity and willingness to think about things differently, I believe maritime can contribute much more to the domestic freight movement system in America. And we stand ready to work with domestic companies, Congress and others to see this concept become a reality.

Third, speed is a competitive advantage and our infrastructure construction process simply doesn't have it. In fact, America's project approval and funding process is badly broken. Perhaps, WRDA '86, the act that built the box in which the Army Corps of Engineers operates for maritime projects, should be re-engineered. The Corps wants to build projects. But the process, as prescribed by current law, is ponderous and discouraging. The only way we managed to build the Portsmouth terminal in a third of the normal time was by paying for things ourselves and not waiting on the standard Congressional appropriations timetable. It was more expensive that way, but on the other hand, we're already up and running and earning back our invested capital.

The same inefficiency problem is true of inland projects for railroads, highways and bridges. Congress must find a way to get the national-interest projects identified, approved, funded, permitted and built faster.

Finally, two points about paying for these improvements:

First, there is private money available to help... a lot of it - if the right vision and legislative platform is in place to provide predictability and fairness. Obviously, private participation isn't appropriate for every project or situation. But public private partnerships should not be summarily dismissed when discussing freight mobility. And if private funding is appropriate in certain situations, then a degree of legislative re-engineering needs to be done on that front as well. Private funding goes where it is treated well. That means predictability and a fair rate of return. Our current development process does not rate very highly on those standards but we stand ready to work with staff on specific recommendations.

And finally, we urge the committee, all of Congress and the Obama Administration to move ahead with an increase in the gas tax as recommended by the National Surface Transportation Revenue and Policy Commission last year. This funding mechanism has been in place for years and we know it works. The American Trucking Association, The National Industrial Transportation League, even (according to surveys cited by Governor Rendell representing the Building America's Future Coalition) the public supports raising the gas tax to fund infrastructure improvements. And a higher fuel price would serve a secondary goal of encouraging more fuel efficiency and less driving. This should be an easy one for Congress to get behind and it is difficult to understand the reluctance to step up and get this tax increase done now. We urge your serious consideration of this point.

I hope these comments have been helpful to the committee. Again, I thank you for including maritime in this hearing and for insisting on a multi-modal, system solution to our freight-moving challenges. I look forward to answering any questions the committee may have.

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