

The Subcommittee on Coast Guard and Maritime Transportation

Hearing on

Financial Responsibility For Port Security

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PURPOSE

The purpose of this hearing is to examine who is responsible for implementing security procedures and consider ways to finance the new security equipment that individual ports and marine terminal facilities must install to address the increased

terrorist threat to our Nation. The Subcommittee will receive testimony from the Administration, vessel and marine facility operators, as well as several local port authorities.

BACKGROUND

Port Security Improvements

Currently, each Coast Guard Captain of the Port may require security measures that he deems necessary to ensure the safety and security of the port. For example, the Coast Guard has required several facilities handling dangerous cargo to provide additional security personnel and other security improvements. Facilities not addressing Coast Guard security concerns may have their operations suspended or be subjected to civil penalties.

Since September 11th, U.S. ports have worked closely with the Coast Guard and a number of other Federal agencies to enhance maritime security. The ports have already responded to the new threat by increasing the physical security of their facilities and the number of security personnel. Port managers are also working with their local Captains of the Port to assess vulnerabilities and risks that still exist at their facilities, and many ports have conducted their own detailed facility assessments. The ports want future security guidelines to be flexible and performance based and the security enhancements already made to be recognized. Finally, U.S. port authorities strongly believe that significantly more Federal money will be needed to adequately secure our Nation's ports.

Port Security Grants for Critical National Seaports

In response to the terrorist attacks, Congress passed a \$40 billion emergency supplemental appropriation to combat terrorism. This legislation included \$93 million for port security grants. These funds were appropriated to the new Transportation Security Administration (TSA). The Conference Report accompanying the Department of Defense Appropriations Act for Fiscal Year 2002 states that the grants can be used for security assessments and for the implementation of measures once the assessments have been performed. The

Report also only allows the grants to be used for additional security activities not currently being performed at the ports.

The Department of Transportation recently announced its plan for implementing a new Port Security Grants program. The U.S. Maritime Administration (MARAD) and the U.S. Coast Guard are administering the program on behalf of TSA. The program has begun accepting preliminary applications and will begin awarding grants in June. The awards will be based on the most urgent port security needs from a homeland security perspective.

The competitive grants will be available to critical national seaports to finance the cost of enhancing facility and operational security. Grant applications will be accepted for two categories of proposals. The first category of grants will be for security assessments and mitigation strategies based on the port's or terminal's security assessment. These assessments should identify port and terminal vulnerabilities and find ways to reduce these vulnerabilities.

The second group of grants are to enhance facility and operational security. These grants may be used to finance new facility access controls as well as other equipment which enhances the physical, cargo, and passenger security of a marine facility. Applicants for grants under this category must provide the Department of Transportation with a copy of their port or terminal security assessment along with a grant application. The grant program will also consider proof-of-concept demonstration projects which show the potential for improving port security.

MARAD's regional directors and the Coast Guard's Captains of the Port will assist in reviewing and prioritizing the grant applications. All grant applications will be submitted and evaluated electronically, and grants will be awarded and administered through the web site, www.portsecuritygrants.dotts.net.

WITNESSES

PANEL I

[The Honorable William G. Schubert](#)

Administrator
Maritime Administration

PANEL II

[Joseph Cox](#)

President
Chamber of Shipping

[Richard Steinke](#)

Executive Director
Port of Long Beach
representing the American Association of Port Authorities

[Frederick R. Ferrin](#)

Executive Director
Jacksonville Port Authority

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President
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Maritime Association
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**DEPARTMENT OF TRANSPORTATION
MARITIME ADMINISTRATION**

**STATEMENT OF
WILLIAM G. SCHUBERT
MARITIME ADMINISTRATOR**

**BEFORE THE
COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME
TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES**

**ON
FINANCIAL RESPONSIBILITY FOR PORT SECURITY**

MARCH 14, 2002

Good Afternoon, Mr. Chairman and Members of the Subcommittee. I am Captain William G. Schubert, Maritime Administrator. I am pleased to be here today on behalf of the Department of Transportation to address the implementation of the new grants for improvement of port security infrastructure and to discuss briefly the port vulnerability assessment program.

Even with our best efforts, our current transportation system is groaning under capacity constraints and congestion in many ports is increasing. To further complicate matters, container traffic, even with the current economic slowdown, is predicted to double in the next twenty years. Improving efficiency is one of the key ways to help solve these capacity and congestion problems. Yet efficiency improvements must now be viewed through a security lens. Our transportation system will need to operate both *efficiently* and *securely*. These twin goals of efficiency and security need to be addressed simultaneously.

The Department of Transportation (DOT) has always sought to maintain secure transportation within every mode. We continue to do so with a greater sense of urgency and with more focus through the newly created Transportation Security Administration.

My own agency, the Maritime Administration (MARAD), has always played a significant role in port security. One of our duties is to provide port security guidance to the commercial ports in the United States and to coordinate government and commercial port stakeholders in their security efforts. MARAD Co-Chaired the Presidential Commission on Crime and Security in U.S. Seaports, and, as Chair of the National Port Readiness Network, plays a lead role with the military in assuring port security and protection of critical infrastructure during mobilization. We have developed an Inter-American Port Security Training Program in which nearly 300 port personnel from our Western Hemisphere trading partners have been trained, and the Merchant Marine Academy at Kings Point provides security training to industry. We have also been working with the port community to advance uses of technology that have positive security benefits both within the port and through its landside intermodal connections. I welcome the opportunity to continue our efforts to improve port security.

As you know, the Department of Defense Appropriations Act for FY 2002 (Act) appropriated \$93.3 million to the newly established Transportation Security Administration (TSA) to award competitive grants to critical national seaports to finance the cost of enhancing facility and operational security. On February 28th, Secretary Mineta announced the implementation of a new Port Security Grants Program to finance security enhancements at critical national seaports. This program will accelerate the installation of enhanced security measures for passengers and cargo that pass through our vital ports. A selection board consisting of the Under Secretary of Transportation for Security, myself as the Maritime Administrator, and the Commandant of the Coast Guard, or our representatives, will base awards on consideration of the most urgent needs from a homeland security perspective.

To expedite the grant process, we have developed a web-

based system. This system allows applicants to access all pertinent information via the Internet at www.portsecuritygrants.dotts.a.net. In addition, all applications will be submitted through the grant Website. We are accepting preliminary applications immediately, and hope to begin making awards in June.

The program establishes two categories for grants: (1) Security assessments and mitigation strategies, based on proposed port or terminal security assessments that ascertain vulnerabilities and identify mitigation strategies, and (2) Enhanced Facility and Operational Security, including but not limited to facility access control, physical security, cargo security and passenger security.

As part of the grant evaluation process, TSA, MARAD, and the USCG will be considering a number of factors to ensure that the grant funding addresses critical port security needs. The applicants will provide information as to why they should be

considered a critical national seaport. For applications requesting funds for enhancements, the applicant will provide us with information identifying the nature of the security vulnerabilities, a proposed solution to address them and the consequences if we fail to act. Given the broad range of port security needs, nationally, it will be challenging to select grant awards from the large number of worthy applications that I expect we will receive. For this reason we will focus on critical seaports. Preference will also be given to ports that have already begun port security enhancement through some demonstrated action. We also intend to use a small amount of this money to fund “proof of concept projects”.

In addition to the Port Security Grants Program, the Department, through the United States Coast Guard, will also be conducting port vulnerability assessments. The goal of the Coast Guard’s Port Vulnerability Assessment Program is to determine the vulnerabilities of the Marine Transportation

System with respect to intentional acts, accidents and natural disasters. Assessments will be conducted by teams of individuals with specialized knowledge in areas such as terrorism, structural engineering, communications, security and emergency operations to name a few.

The Coast Guard in partnership with the Defense Threat Reduction Agency, has already conducted vulnerability assessments in Baltimore, Guam, Honolulu, Charleston and Savannah. Future assessment plans consist of using contractor support in order to complete assessments as quickly as possible. The Coast Guard currently estimates that the new assessment teams will be in place and operating in June of this year. By the end of fiscal year 2004, the Department will have assessed 55 ports for vulnerabilities. Initially, medium sized ports will be assessed in order to refine the process before moving on to assessments of the larger ports.

The Coast Guard is currently working with the Departments of Defense and Energy to coordinate any assessments that those Departments may be planning in the maritime domain. The Department expects that coordinated assessments will avoid duplication of effort, reduce assessment time and minimize impingement upon port operations. As assessments are completed, the Coast Guard's Captain of the Port will work with port stakeholders as well as other appropriate Federal, State and local Government agencies to address and correct vulnerabilities identified by the assessment process.

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Conclusion

Mr. Chairman, our ports and the massive amounts of cargo they handle on a daily basis are the lifeblood of our economy and a major component of our national security. We simply cannot afford a major disruption in port operations. For these reasons,

the Department recognizes that port security is a necessity. We recognize the critical role we play in working with the industry to identify port vulnerabilities, address those vulnerabilities and work with the ports as well as Federal and State agencies to maintain security levels throughout the country. Given what is at stake, we see no alternative and we greatly appreciate the Congressional support we have received to fulfill the objective.

I would be happy to answer any questions you or the other members may have.

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Testimony of

Joseph J. Cox

President and CEO

Chamber of Shipping of America

1730 M Street, NW, Suite 407

Washington, DC 20036

before the

**Subcommittee on Coast Guard and Maritime
Transportation**

Committee on Transportation and Infrastructure

U.S. House of Representatives

on
Financial Responsibility for Port Security

March 14, 2002

I am Joseph J. Cox, President and CEO of the Chamber of Shipping of America (CSA). The Chamber represents 21 U.S. based companies that own, operate or charter oceangoing tankers, container ships, and other merchant vessels engaged in both the domestic and international trades. The Chamber also represents other entities that maintain a commercial interest in the operation of such oceangoing vessels. I am very pleased to provide testimony of this very serious topic of financial responsibility for port security.

On Monday, our nation participated in many varied memorials in remembrance of the events of September 11, 2001. When the

horrific event took place, two organizations responded as public organizations: the New York City Fire Department and the New York City Police Department. Our nation will not forget the scenes of the men and women from those departments, not streaming away from the scene, rather streaming towards it. As I viewed the television coverage of the various memorials, I had the same number and degree of emotions as most of us probably did. Respect, pride and anger were among them. These were soon replaced by determination.

On Tuesday, CSA held a ceremony in New York City that was more celebratory than memorial. We believe it fitting that our dead be remembered on the anniversary of the eleventh of September. We also thought it fitting that we remember the actions of the living. When the towers were hit, police and firemen responded. When the collapse occurred another New York organization became involved. Without formal organization and lacking any central command and control, the New York maritime community began streaming to lower Manhattan. Tug boats, dinner cruise boats, public and private ferry boats, pilot boats, tourist boats and others began evacuating people from lower Manhattan. Initial stories told afterward by the captains present a picture of people literally jumping from shore to vessel as the vessels nosed into the shore wall. Many were rescued from the water. The rescue began frantically as can be imagined and developed into an organized evacuation with vessels leaving from designated points along lower Manhattan to destinations in other New York boroughs and New Jersey. In all, this flotilla of harbor craft evacuated over a million people.

Last October, the Board of CSA instructed me to present Ship Safety Achievement Awards to the vessels involved. We asked the Propeller Club the U.S., Port of New York and the Kings Point Club of New York to hold a luncheon last Tuesday at which time the awards were presented. Over one hundred vessels from nineteen companies were recognized. Each vessel received a plaque and each company received a Letter of Commendation listing their vessels. These awards were for “Highest Honors.” To put that in perspective, CSA has an annual award program at which time Ship Safety Achievement and other awards are presented. There are three levels of Ship Safety Achievement Awards, topped by “Highest Honors.” During the past five years, we have awarded over 100 Ship Safety Achievement Awards; only one for “Highest Honors.” At an international meeting on maritime security last week, I described the then pending awards to a group of people representing ship owners and governments. The Chairman from France’s Department of Foreign Affairs, told the group that he appreciated hearing that the captains and crews responded in the tradition of the sea – aid to those in peril. I told the group that is precisely what the certificates state.

Mr. Chairman, CSA appreciates the opportunity given to us through this hearing to place into public record the names of the companies and vessel involved which are appended to the testimony.

When we discuss the issue of financial responsibility for port security, the role of vessels has to be understood in the context

of capital expended by the industry to provide protection for itself. A ship operator understands his ship can be used as a target or transporter of terrorism. The ports at which our ships call should expect an acceptable level of security from the ship just as the ship operator expects a certain degree of security at the ports. All of us in the industry, shore and afloat, should work to coordinate our actions so that levels of security equate to each other and expectations are met.

Shortly after September 11, CSA contacted the International Chamber of Shipping (ICS). ICS is the organization of national ship owner associations having a membership of 45 nations. The U.S. ship owners' association was a founding member in 1921. ICS had existing guidelines on protection of ships from sabotage and piracy. We immediately began developing the guidelines further to cover incidents of terrorism. We sought comment from the U.S. Coast Guard and in early November, ICS circulated the guidelines. While too lengthy to append to this testimony, I have a copy for use by the subcommittee.

CSA is also associated with the Baltic and International Maritime Council (BIMCO), which is an association of individual ship owners founded over 150 years ago primarily for commercial purposes. BIMCO publishes a guide to masters on piracy and sabotage. They have provided a copy to the U.S. Coast Guard and, while it is too bulky to append here, I have a copy which I will leave for your subcommittee's use.

In reviewing these documents, you will note there are a number of actions recommended for the ships and the operators. These

include additional watchstanding duties, additional inspection requirements, new needs for placement of lighting and protective/alarm mechanisms, additional contact between company and ships, additional management code audits and additional voyage preparation. While differing ship types call for differing responses, it is safe to say that all ships have a heightened degree of alertness. The cost of this preparation in company time and direct outlay is impossible to determine accurately. These costs, even if modest compared to what they are expected to be, are being absorbed by the industry itself today without outside assistance. The industry is absorbing additional direct costs for tug escorts in some ports and additional non-operating time to accommodate increased Coast Guard inspections.

In January, the Coast Guard led a delegation to the International Maritime Organization which held a U.S. requested meeting on maritime security. The U.S. is correctly seeking international solutions to this new menace facing us. CSA was pleased to be a member of the delegation. The U.S. suggested several areas for action and many were accepted without change. A working group at the upcoming Maritime Safety Committee meeting to be held May 15-24 will continue the process initiated during that week. It is planned that the results from the May meeting will be forwarded to a conference in December when amendments to the Safety of Life at Sea Convention will be adopted. The areas directly impacting ships and ship owners are: acceleration of the automatic identification system; a security officer on board; a ship security plan; a company security officer; a company security plan; seafarer identification; means of ship alerting;

and, ship security equipment. A brief description of each follows.

Acceleration of the Automatic Identification System (AIS)

This system will allow a suitably equipped shore station to monitor vessel movements including identification of the vessel by name. The acceleration of this requirement is agreed; the only decision being by how much. Ship owners pay for the shipboard equipment and fitting costs. As important as this equipment is, the U.S. suggested that IMO consider even more sophisticated equipment with longer range tracking possibilities than AIS. Two IMO subcommittees are already working on this and the findings will most likely result in carriage requirements for additional equipment, once again funded by the ship owners.

Ship Security Officer

This suggestion was readily accepted and will result in some ships adding security personnel and other ships adding to the duties of an existing officer. In the former case, cruise line ships will probably have to augment current security arrangements including personnel. Training will have to be developed for both the new and existing personnel. On ships where duties are added to an existing officer, training costs will be incurred and will become a consistent responsibility as officers are rotated and hired anew. Some companies are presently discussing development of courses with training facilities or actively developing their own training.

Ship Security Plan and Company Security Plan

These two prospective requirements in SOLAS are covered here together because, in reality, they are linked. The company plan will set out the general duties and responsibility of the company and will address the specific actions and reports expected from all parties held accountable in the plan, including the ship's personnel. The ship plan will contain specific actions, reactions and expectations from the ship personnel and how the plan interacts with the overall company plan. The recent requirement for ISM offers an example of how the companies will address the new planning requirements. Most companies hired consultants to write their plans and even modest sized companies had to add one or two people on shore to handle the additional responsibilities.

Company Security Officers

As noted above, companies add personnel when the responsibilities become so large that it is not reasonable to add the responsibility to existing personnel. It is hard to imagine that the new duties of security will not result in a company adding personnel or contracting for the service. The maritime industry, in general, has not had a great need for security personnel versed in terrorism issues, so a supply of knowledgeable people working within the industry simply does not exist. As in the development of training programs, many companies are reviewing their options in advance of requirements. Some are seeking to hire personnel to handle the

security issue and others are interviewing security firms.

The requirements discussed above are not ephemeral concepts; they are solid suggestions that have been agreed to for further refinement at IMO. Requirements in these areas will be agreed in December. The questions of who and how, leading to how much is yet to be decided. As each of these requirements will come into force by December, 2003, shipping companies will be funding these new responsibilities.

Seafarer Identification

The U.S. also asked the IMO to address the issue of identification of seafarers. The U.S. wants a form of accurate, verifiable identification for all seafarers. The IMO, while sympathetic to the proposal, suggested that the International Labor Organization was the more appropriate organization to handle it. The ILO has taken up the task and is engaged in an accelerated process to develop an international convention. This new instrument will be ready in 2003. The costs associated with complying with this convention will be borne by the industry, either the ship owner or seafarer himself.

Means of Ship Alerting and Ship Security Equipment

These subjects were not as well defined as those noted above which are actively being worked on and will result in amendments to an existing convention or as new conventions. These two items were referred to appropriate IMO subcommittees for study and development of carriage

requirements.

While the work noted above advances, there is another consequence associated with the September 11 incident that has very real direct costs and potential devastating costs. It concerns insurance. Ships are covered by protection and indemnity insurance for virtually all incidents. Prior to September 11, terrorism was not a concern and was covered in the policies by virtue of not being specifically excluded. Soon after September 11, some of the P&I Clubs used a seven-day notification clause to exclude coverage for terrorist incidents. This February, when all P&I Club policies were renewed, all clubs uniformly dropped coverage for a terrorist incident. The ship owner may be covered by war risk insurance should he choose to purchase the cover. The cover is limited to \$200 million over the hull value of the vessel. These additional premiums are today being absorbed by the industry. Because this change is recent, we cannot supply data on the new cost although we will supply it when available. Mr. Chairman and subcommittee members, we can use your help with the potentially devastating cost item we referred to which is occasioned by the lack of insurance coverage for terrorist caused incidents. OPA 90 holds the ship owner strictly liable for an oil spill. If a terrorist incident involving a ship results in the ship spilling an oil cargo or bunkers, P&I insurance does not cover the incident. War risk may cover although the limit is \$200 million and that is pitifully small in comparison to the present day cost of cleaning spills. OPA 90 has three exclusions to strict liability: act of God, act of war and act of a third party which could not be foreseen. We have had preliminary discussions with federal government

representatives although we have no definitive answers to the dilemma. We clearly feel that the kind of terrorist act we envision today is an act of war. If we cannot be excluded there, then it seems that the third exclusion could be applied although a company should not be bankrupted while waiting for determination of fact in a particular case. We must address these questions now because it is too late when oil is on the water. We would appreciate working with you and your staff on this important problem.

Mr. Chairman, we have outlined above many areas where ships are taking steps of their own volition to address maritime security concerns when she is at sea, entering a port and conducting operations within a port. We expect to do our part and marry up to facilities that are, in turn, doing their part. Cost is always an issue and we are paying for our security improvements now and expect to be paying more in the future. As our ships move among various ports in the world, we expect to see varying maritime security scenarios. It is clearly unreasonable to expect ships to fund security in all those ports.

The term maritime security does not mean protecting particular assets such as a ship or a facility rather it refers to a transportation system that benefits a nation's society in general. The vessels will do their part in the U.S.; the ports will do their part and federal and local governments will do their part. We do not see ourselves as the beneficiaries of a secure maritime transportation system, rather we see ourselves as part of that system supplying uninterrupted trade to the U.S. and within the U.S. to the benefit of all Americans. We were both surprised

and disappointed to see the recommendation in the President's budget that we pay a commercial navigation assistance fee. The budget commentary suggests that it is connected to maritime security issues. Mr. Chairman, we are not users of maritime security, we are part of the active chain supplying maritime security. We have argued in the past against a fee for use of buoys, lighthouses and similar aids to navigation and are willing to argue once again. Let us not confuse that issue with paying for our security.

Mr. Chairman, that concludes my testimony. I'd be pleased to answer any questions you or the subcommittee members may have.

Thank you.

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Testimony of Richard Steinke

Executive Director, Port of Long Beach, California

And

Chairman of the Board

American Association of Port Authorities

**Before the Subcommittee on Coast Guard and Maritime
Transportation**

House Transportation and Infrastructure Committee

MARCH 14, 2002

Good afternoon. I am Dick Steinke, Executive Director of the Port of Long Beach and Chairman of the Board of the American Association of Port Authorities (AAPA). Founded in 1912, AAPA is an association of more than 150 public port authorities in the United States, Canada, Latin America and the Caribbean. Today, I am testifying on behalf of AAPA and its United States delegation.

AAPA strongly supports Federal legislation and programs to enhance maritime security and protect America's seaports from

acts of terrorism and other Federal crimes. An important component to any legislation to enhance seaport security is authorization of a grant program to help secure our nation's seaports quickly.

Homeland security is a national priority, and protecting America's ports is critical to our nation's economic growth and vitality. AAPA and its member public ports are working closely with the Coast Guard, Customs Service and other Federal agencies to enhance maritime security and commit to being a strong partner to protect our homeland.

A nation at risk cannot wait — moving quickly to make improvements is a national priority. Protecting America's ports is critical because they are a vital part of our transportation infra-structure. U.S. ports handle 95% of our nation's overseas trade by volume, more than six million cruise passengers annually, and support mobilization and deployment of U.S. Armed Forces.

In my port, Long Beach, for example, key commodities that move through the port and are important to this nation's economy include petroleum products to meet this county's growing energy needs, machinery, and consumer electronics. Besides being one of the world's busiest seaports, the Port of Long Beach, along with several other ports throughout the nation, is also part of the National Port Readiness Network. This designation by the Maritime Administration requires the port to be prepared and ready 24/7 to respond to national emergencies whether they are military or civil in nature.

Protecting our international seaport borders is a shared responsibility among the Federal, state and local governments, seaports and the private industry. Ports are located on international borders, and the Federal government is responsible for approving and inspecting cargo and passengers moving through public ports. The U.S. Coast Guard and Customs Service take the lead in protecting America's ports, inspecting vessels and cargo. They have a dual goal of enhancing security, while keeping cargo moving efficiently through ports to markets. We strongly endorse both these goals.

Increased funding for Federal agencies charged with protecting seaports is necessary. The Coast Guard and Customs need funds for items such as information systems, inspection and other equipment, increased personnel, and vulnerability assessments. Without adequate resources, ports are often asked to help pay for services and equipment that are the Federal government's responsibility. We applaud President Bush's call for increases for Coast Guard and Customs in last year's emergency supplemental bill and the FY'03 budget. We urge Congress to provide these funds.

AAPA, however, is disappointed that the President's budget did not include any additional funds for port security grants. Port security is a shared responsibility. While the Federal government controls entry inspections and safety, ports are looked to for facility enhancements and controls.

Last year, Congress wisely chose to appropriate \$93.3 million for port security grants. This

was a good first step, but significantly more money is needed. Since September 11, ports have instituted heightened security measures and spent significant sums on increased security. More, however, needs to be done.

To get a more thorough understanding of the needs of public port authorities, the American Association of Port Authorities recently surveyed its U.S. members. Fifty-eight members responded, representing about 67% of its membership. Therefore, the numbers I will quote are conservative, because of some of the leading container, petroleum and cruise passenger handlers did not respond in time for this hearing.

According to AAPA's survey, 52 public port agencies say they intend to apply for the Department of Transportation's port security grants. These ports expect to request \$222.8 million to secure ports as a result of this new terrorist threat. This far exceeds the \$93.3 million appropriated by Congress for this program, especially in light of the fact that the grants are open to public and private groups. The grant applications proposed by individual ports will range from \$100,000 to \$50 million, with half of the respondents indicating that they intend to request grants of \$1 million or more.

These figures do not include the funds already expended by public ports. These 58 ports have already spent at least \$49 million for security-related enhancements prompted by the September 11 attacks. Spending by individual ports ranged from a low of several thousand dollars to a high of \$10 million, reflecting the varied nature of port facilities. Ports have spent

the most money on personnel-related costs (a recurring annual cost), including the hiring of new officers and over-time. Some ports are also upgrading their security forces to use more professional services and are enhancing training. Access and detection controls, such as fencing, identification systems, lighting, and gate/entry controls, accounted for most of the remaining expenses incurred since September 11.

With respect to future needs, the responses indicated that the public port industry plans to invest at least \$278.5 million for future security enhancement. Forty-one percent will be invested in personnel, gate/entry controls, and surveillance systems. Many of these surveillance systems will be used by Customs and law enforcement to help identify threats and problems. Other top categories for investments were lighting, X-ray equipment, fencing, and radiation detection equipment.

If Congress or the Coast Guard establish additional mandates for new facility enhancements, costs will even be higher. The current grants, for example, are limited to key facilities; the Commission and the Senate bill go much further. In the Fall of 2000, the Interagency Commission on Crime and Security at U.S. Seaports outlined costs it believes were needed to secure ports. These estimates were made well before September 11. AAPA estimates that based on the recommended enhancements included in the report, the cost for AAPA U.S. members could be \$2.2 billion. The Commission estimated these costs would range from \$12 to \$50 million per port.

As state and local government agencies, public port authorities

warrant Federal help and assistance, to avoid new requirements becoming unfunded Federal mandates. Grants are the best way to do this. We encourage the House Transportation and Infrastructure Committee to authorize soon a continuation of the grant program to help secure America's ports.

Good afternoon, Mr. Chairman and Members of the Coast Guard and Maritime Transportation Subcommittee. It is an honor to speak with you today about the single greatest challenge that faces our nation's ports today. That challenge is insuring that our ports are gateways to trade and commerce and not gateways to terrorism, theft and the trafficking of illegal drugs and aliens. Over the past several decades, billions of dollars of public and private funds have been spent to develop and build our ports into models of intermodal efficiency, providing for the unimpeded flow of cargoes and personnel and the seamless interchange between various modes of transportation. The result has been an unparalleled growth in international commerce. We have truly become part of the global economy.

Our nation's seaports play a critical role in the health and vitality of our economy, but there is risk. Over 30 million containers move through our ports on an annual basis, and many come into the United States from countries in which there is a thriving drug trade, or countries which may have ties, overt or clandestine, to nations which harbor and assist terrorists. The U.S. Customs Service targets and opens approximately 2% of those containers. Regardless of how carefully that small percentage is targeted, millions of containers enter the country without inspection.

In Florida we have 14 deep-water ports, and last spring our State Legislature enacted the SeaPort Security Act

aimed at curtailing the trafficking of illegal drugs through Florida's ports. In order to comply with the requirements of the Act, Florida's ports must carefully regulate access to port facilities by performing a criminal background check of anyone who enters a marine terminal more than five times in a ninety day period. At the Port of Jacksonville, we have already taken the fingerprints of over 5,000 people who require frequent access to the port's marine terminals. This spring we will begin issuing marine terminal access badges. The SeaPort Security Act also requires physical security assets such as high mast lighting, tall fencing and surveillance equipment, and the most significant requirement, for the continuous presence of law enforcement on the marine terminals.

I believe that Florida's Seaport Security Act will become the nation's model. The requirements of the Act will definitely enhance port landside security. At the same time other parts of the port security equation, namely the U.S. Coast Guard and U.S. Customs Service, must increase their level of operations. The ports themselves can do little to enhance waterside security or to insure that cargo entering the port is safe and as it has been represented on its manifest.

The greatest challenge for discretionary cargo ports like Jacksonville is the very high one time and recurring costs for enhanced port security. Most public ports are first and foremost an economic engine for their regions. In order to be competitive against other ports through which their

cargo might just as easily move, a port must provide state-of-the-art facilities at very competitive rates. When depreciation is subtracted, most public ports show a loss at the bottom line. Their success is not found at the bottom of the Profit and Loss; instead, their success is determined by their level of commercial activity and the effect they have upon their region's economic vitality.

The extraordinarily high cost of security, if it had to be borne solely by the ports, will put many of us out of business. If we try to pass those costs on to our customers, the carriers, shippers and terminal operators they will vote with their wake, potentially moving their business to ports outside the U.S. in Canada and Mexico.

In order to be in full compliance with the requirements of the Florida SeaPort Security Act, the Jacksonville Port Authority is faced with approximately \$6.5 Million in one time capital costs. Though certainly substantial, the one time capital cost is addressable; it is the \$4.4 Million per year in recurring or operational costs that is most threatening. This \$4.4 Million is the cost for continuous law enforcement on the marine terminals, which amounts to approximately \$3.5 Million, plus \$900,000 for the security personnel we will require to inspect access badges and staff the terminal gates. This recurring cost of \$4.4 Million increases my operating budget by 25% with no commensurate flow of revenue to offset the cost. Such an operational cost increase would radically affect my debt service coverage ratio, placing me in default on over \$100

Million in revenue bonds. The result could well be that to pay for port security we would fail to cover our debt and subsequently sacrifice the 25,000 local jobs and the \$1.5 Billion in annual salaries that are directly generated by port activity in Jacksonville.

This is why we in the port industry so desperately need financial assistance from the Federal and State Governments. Port security is a real problem. Given the nature of the port business and the fact that cargo entering or leaving a specific port goes to or comes from every corner of our country, port security is a national, not just a regional issue. It is imperative that the Federal Government and the States work in close cooperation to provide ports with desperately needed funding, for both capital and operations expenses incurred in order to insure port security and national safety. The alternative will unfortunately be financial disaster for many ports and do irreparable damage to their regions' economies.

Lastly, and most importantly, the nation's seaports acting under critical and emergency concerns are currently investing in seaport security capital improvements and are entering into contracts with local law enforcement to provide security. Accordingly, we recommend and respectfully request that national legislation such as that being discussed today and the Hollings-Graham (S. 1214) legislation include appropriate language providing for reimbursement of funds expended by seaports to provide critical security infrastructure and to fulfill law enforcement

requirements.

Thank you very much for this opportunity to testify and your concern for the security of one of our nation's vital seaports.

Frederick R. Ferrin
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Testimony of

**Paul F. Richardson, President of
Paul F. Richardson Associates, Inc.**

On Behalf of

**United States Maritime Alliance
The Pacific Maritime Association
National Association of Waterfront Employers**

Before the

**Committee on Transportation & Infrastructure,
Subcommittee on Coast Guard and Maritime
Transportation, United States House of
Representatives**

**On Funding for Seaport (Intermodal Cargo)
Security**

Washington, DC

March 14, 2002

I am Paul F. Richardson, President of Paul F. Richardson Associates, Inc. (PFRA) an international maritime consultancy firm serving various segments of the maritime industry including ocean carriers, terminal operators, ports, shipbuilding companies, railroads, motor carriers and companies involved in the movement of intermodal cargo. I founded the company in 1977.

I am here today to address you on a range of commercial facts specifically related to the Funding for Seaport (Intermodal Cargo) Security. I am testifying on behalf of the following parties:

United States Maritime Alliance – Representing the interests of the various management groups in labor relations issues affecting longshore and related maritime activities on the U.S. East and Gulf Coasts. Membership includes ocean carriers, carrier organizations, direct employers, and port, coast and district employer associations.

The Pacific Maritime Association – The principal business of the PMA is to negotiate and administer maritime labor agreements with the International Longshore and Warehouse Union (ILWU). The membership of the PMA consists of American flag operators, foreign flag operators, and stevedore and terminal companies that operate in California, Oregon, and Washington ports.

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The National Association of Waterfront Employers – The national trade association representing the U.S. marine terminal and stevedoring industry with membership on all four coasts.

Collectively, these entities handle over 97% of container cargo moving in U.S. maritime commerce and a significant portion of break bulk cargo as well.

I have been involved with intermodal cargo issues my entire career, which now spans some five decades. Prior to forming PFRA, I held various leadership roles, including President and Vice-Chairman with Sea-

Land Service, Inc. (Sea-Land). Many in the industry are of the opinion that Sea-Land was the pioneer in the transportation world when it comes to intermodal cargo movement.

In fact, most credit the company and its founder, Mr. Malcom McLean, with conceiving the idea of moving cargo in the same container through various modes of transport; from the shipper's factory to the waterfront with a truck, then lifting that container on board a vessel that was involved in waterborne trade, then that same container being discharged in a port ready for the reverse process to take place, when the container would be trucked for ultimate delivery to a receiver's door.

Thus, the birth of intermodal cargo movement, or intermodalism.

Prior to joining Sea-Land, I was involved with Mr. McLean and McLean Trucking Company, which provided truck service over the entire Eastern Seaboard. I was discharged from service in the U.S.

Marine Corps. in 1948. After graduating from Boston University with a BA in Public Relations, concentrating in Industrial Relations, I joined McLean in 1952.

Over the course of my career, I have been involved with a number of intermodal cargo initiatives that include:

- One of the founders and former Chairman of the **National Maritime Council**. A group which unified all segments of the American Maritime industry including ocean carriers, land-based maritime and sea-going unions, major importers and exporters throughout the U.S.
- An original member of the **International Council of Containership Operators** (the Box Club), a group consisting of the principal ocean carrier companies tasked with improving communications and increasing cooperation of shipping lines to the benefit of world trade.
- Selected by the Secretary of the Treasury in

1978 to be a member of the **Economics Panel of the United Nations Soviet-American Parallel Studies Program** to lead discussions in Moscow regarding trade at the height of the Cold War.

- In 1981 was awarded the **Meritorious Service Citation** by the Secretary of the Navy on behalf of my efforts with maritime issues including education, cooperation and public relations.
- Developed and conducted a number of programs for the **U.S. Maritime Administration** regarding financial management techniques for maritime companies involved in U.S. flag trades.
- A one-time member of the **Technical and Research Advance Planning Committee for the Society of Naval Architects and Marine Engineers (SNAME)** working on raising the awareness for more meaningful legislative efforts in national maritime affairs.
- Served on the Planning Committee as a member of the **Maritime Transportation**

Research Board reviewing all aspects of marine transportation, transportation systems including economic and societal impacts on ships, cargo handling, port and marine facilities, marine safety and training.

- Chosen to lead a number of forums on matters of national maritime significance while serving on the **Business Advisory Committee and Subcommittee of Education for the Transportation Center at Northwestern University.**
- Served on the Board of Trustees for the **Council of Americas.**
- Served a five-year term as a Member of the **American Bureau of Shipping.**
- Former Chairman of the Board of Directors for the **NJ State Chamber of Commerce**, serving as a Director and Member of the Executive Advisory Committee for over 30 years. Currently, an Honorary Life Member of the Board of Directors.
- A recipient of the “Connie Award” from the

Containerization and Intermodal Institute in recognition for leadership in the transportation industry and many contributions to the advancement of international intermodal transportation.

- Currently a Director of the **U.S. Coast Guard Foundation**.

I am pleased to be before this Committee and look forward to addressing you today.

Introduction

The ocean borne^[1] intermodal transportation system is the “highway” which facilitates the nation’s ever increasing flow of imported and exported containerized cargo. This “supply chain” for containerized cargo has developed over many years and has permitted the seamless movement of our ocean borne containerized commerce. In turn, this has allowed the thousands of U.S. importers and exporters to remain competitive in the global marketplace and benefited millions of consumers throughout the U.S.

The long-term health of the U.S. economy depends on the continued efficient functioning and expansion of this system in order to ensure the viability and continued prosperity of the world economy.

Within this system is a network of stakeholders who provide the necessary capital and know-how to build, maintain and continually expand this global freight transportation network. These stakeholders include:

- Marine container terminal operators
- Ocean carriers
- Labor organizations
- Port authorities
- Trucking companies
- Railroads
- Warehousemen & logistics providers, and
- Many others

My comments today are intended to focus on the maritime component of this transportation system - marine container terminal operators and the ocean carriers - and to specifically discuss:

- the contributions of the ocean borne intermodal transportation system to the nation's economy,
- the roles and specific contributions of the maritime component of this system,
- those economic realities within which these specific maritime stakeholders must operate, and most importantly,
- how proposed changes to business models, brought on by enhanced intermodal cargo security, could impact the ocean borne intermodal transportation system and maritime stakeholders' operations.

The Magnitude & Contributions of the Maritime Component of the Intermodal Cargo Transportation System

Ocean borne liner shipping has revolutionized the flow of products around the world and fostered the era of globalization. The heightened dependence of

many countries on the efficient worldwide flow of imported and exported goods signals the critical need to avoid any adverse impacts on the efficient functioning of this global supply chain.

The development in the U.S. of integrated logistics systems and just-in-time inventory flows underlies the critical importance of the ocean borne intermodal transportation system. For the U.S. economy, the benefits are enormous as indicated by the fact that the rate of U.S. productivity increase, a key ingredient to continued economic expansion and a modest rate of inflation, has doubled from just over 1% annually in the 1980's to over 2% annually in the 1990's.^[2] The globalization of the world economy and its impact on the business practices in the U.S. has had a direct impact on this rate of productivity growth.

There is no coincidence to the fact that, over this timeframe, the growth of ocean borne container cargo volumes has been impressive. Between 1980 and 1999, total containers moved through the worldwide port

system increased over 400%. Over the same period, total containers moved through U.S. ports increased over 200% to a level of 17 million containers by 2000.^[3] This equates to over 45,000 containers handled per day to and from a fleet of dedicated container vessels.

By 2010, container volumes moving through U.S. ports are estimated to reach over 27 million containers annually (almost 75,000 containers daily).^[4] The value of containerized cargo that is landed in the U.S., currently estimated to be over \$480 billion annually, is estimated to increase to over \$750 billion annually by 2010.^[5]

Today, the 17 million annual containers moved through U.S. container ports are carried on over 800 ocean-going container vessels engaged in the U.S. container trades. These vessels make over 22,000 annual port calls^[6] – more than 60 per day – and produce over 35 million annual truck moves in and out of container terminals – more than 140,000 daily

truck moves.^[7] By 2010, these truck volumes are estimated to reach 210,000 daily moves.

Collectively, the maritime stakeholders (to include container terminal operators, ocean carriers as well as port authorities) have invested billions of dollars in infrastructure to support the movement of U.S. ocean borne container cargo. Private sector marine container terminal operators and ocean carriers alone have invested well over \$150 billion in ships, marine terminal infrastructure, containers/chassis and handling equipment to build the current global container transportation network.^[8] To meet the future doubling of U.S. container volume, an additional \$35 billion investment in assets and related infrastructure will be required.

Public sector U.S. ports have also invested significantly to provide the necessary marine terminal capacity and associated transportation infrastructure to efficiently accommodate this tremendous growth in ocean borne container commerce. Over the 5 year

period (1996-2000) U.S. ports have invested over \$2.3 billion on container terminals alone. It is estimated that a further \$4.2 billion will be spent on container terminals over the next 5 year period (2001-2005).[\[9\]](#)

The annual contributions of the maritime component of intermodal container transportation to the U.S. economy are also are significant:

- Over 1 million port sector jobs[\[10\]](#)
- Wages of over \$39 billion – wages higher than the average U.S. wage
- Federal, state and local taxes of over \$11 billion

The Marine Container Terminal

The marine container terminal is the critical link in the international intermodal chain. It is responsible for the efficient and cost effective transfer of containerized cargoes between vessels and connecting modes of transportation (truck, rail and barge). It was not long ago that it took several days for a liner vessel to discharge and load its general cargo. This cargo was

placed in warehouses, handled multiple times and moved slowly through the, then less than efficient, inland distribution channels to its ultimate destination.

Today, vessel port turn times are accomplished in hours. Cargo is no longer warehoused. It quickly moves through a network of marine terminals to massive distribution facilities where it is sorted and re-packed, as necessary, and sent on to its final destination by a much more efficient inland transportation and logistics system. This has permitted significantly reduced inventory levels and much improved matching of supply with demand.

There are over 1,900 public and private marine terminals in the U.S. through which cargo and passengers move.^[11] Included are approximately 100 container terminals that employ tens of thousands of people involved in the daily movement of containerized cargo. Many of these facilities are approaching 500 acres in size with the capability of

moving over 1.0 – 1.5 million containers annually - each.

It is generally recognized that U.S. marine container terminal capacity will not be able to keep up with the anticipated U.S. container volume growth, particularly on the West Coast. By 2020, ocean borne container growth will more than double today's volume. Within ten years, many port areas around the country will have run out of available land for expansion – just as the need is projected to be the greatest.

U.S. terminals today and in the future face many significant challenges:

- the ever increasing size of container ships
- shortages of qualified and trained labor, and
- significant road congestion caused by the ever increasing number of trucks.

These factors plus a shortage of suitable development

sites, significant environmental obstacles and limited sources of capital all contribute to a difficult environment for new terminal development. This situation places a very high premium on increasing the productivity and efficiency of existing U.S. marine container terminals, which lags that of many foreign terminals.

It is imperative that the marine container terminal not become the bottleneck to the efficient flow of containerized U.S. commerce.

Industry Economic Realities

Ocean carriers now spend some \$4 billion in operating expenses annually to stevedore their vessels and process the millions of containers through U.S. marine terminals. This represents roughly 35% of an ocean carrier's operating cost.^[12] Over the last 20 years, rates that ocean carriers charge for container transportation have experienced no sustained increase permitting goods to be delivered to consumers and manufacturers with no increase in water

transportation costs. The same benefits have increased the competitiveness of agricultural and goods exporters. In fact, rates in many trades have actually declined resulting in shippers & consignees paying transportation rates today at 1980 levels. The impact of this is remarkable in how little ocean transportation cost comprises of the retail cost of many imported products:

- Five cents per bottle of beer
- Sixteen cents for a \$35 bottle of scotch
- Ten dollars for a \$500 TV set.

This erosion in container rates has severely impacted the financial bottom lines of ocean carriers over the last five years. In 2001, carriers actually lost about \$225 per loaded container in U.S. trades.[\[13\]](#)

This erosion in rates coupled with the tens of billions of dollars the industry must spend for equipment and infrastructure over the next ten years will add significant financial burdens to insure that U.S. trade and economic growth is sustained. The economic

impact of these obligations is even more important when you consider that approximately 50% of the marine container terminals in the U.S. are operated by ocean carriers. The balance is operated by port authorities, independent stevedores and terminal operators who are subject to similar rate pressures because of the very competitive nature of the industry.

Given these economic realities of moving ocean borne container cargo, the maritime industry should not be responsible for assuming the function of Federal law enforcement and its associated expense at U.S. port container facilities. Furthermore, the maritime industry should not have to absorb the likely cost impacts of Federally mandated intermodal cargo security requirements, such as additional capital investment for required physical security infrastructure and increased funding requirements of various Federal agencies involved in seaport operations (Coast Guard, Customs, etc.). Each of these is a likely consequence of forthcoming Federal mandates.

Moreover, as a result of these Federal mandates, marine container terminals will have to deal with integrating into their daily operations potential security requirements, which may negatively affect productivity and ongoing operating costs. Mitigating these likely consequences will be difficult. For example, a 10% decrease in vessel stevedoring and gate productivity would cost the maritime industry over \$100 million annually in higher terminal operating expense. The added cost to carrier vessel deployments and inland transportation supply chain expenses is incalculable.

It is essential that any intermodal cargo security requirements utilize existing databases and resources and also develop, as necessary, appropriate technologies to minimize any negative impacts on the current levels of productivity and operating costs.

The public is the beneficiary of enhanced intermodal cargo security. The maritime industry is not in a

position to absorb additional increased costs not related to the direct movement of cargo, and it is not able to pass on to its customers non-cargo related cost increases. The industry would be significantly harmed if it had to absorb the cost impact of enhanced intermodal cargo security requirements. In addition, security costs cannot be permitted to become a competitive factor.

The Federal Government has previously worked with the airline industry to ensure its continued viability in the face of heightened airport security concerns and mandates. Similarly, sufficient Federal assistance for mandated Federal security requirements is necessary to establish and maintain enhanced intermodal cargo security.

A Dedicated Funding Mechanism Is Needed

Congress should create a dedicated funding mechanism for port and intermodal cargo security requirements based on existing revenue streams such

as a set portion of U.S. Customs' duties. Such a mechanism is broad based and borne by the public – those consumers and producers who benefit from the development and continued long term expansion of the ocean borne intermodal transportation system.

To the extent that expenditures for these security mandates cannot be recovered from these dedicated funds, then terminal operators need to be made whole through dollar for dollar tax credits.

[1] To include U.S. domestic off-shore and international.

[2] *The Federal Reserve's Semiannual Report on Monetary Policy*. Testimony of Chairman Alan Greenspan Before the Committee on Banking and Financial Services, U.S. House of Representatives July 22, 1999.

[3] Figures compiled from PFRA analysis of data from the American Association of Port Authorities, Journal of Commerce PIERS, and *Container Market Outlook*, Drewry Shipping Consultants Ltd. October 1999. It should be emphasized that 17 million containers refers to actual "boxes" as opposed to TEU's or twenty foot equivalent units.

[4] Based on a 5% annual compound growth rate.

[5] Figures derived from *Waterborne Databank*, U.S. Department of Transportation, Maritime Administration March 29, 2001, and PFRA estimates.

[6] *Vessel Calls at U.S. Ports 2000*, U.S. Department of Transportation, Maritime Administration, Office of Statistical and Economic Analysis January 2002.

[7] Based on PFRA knowledge of marine terminal operations and associated ratio of gate moves to vessel moves.

[8] Based on PFRA analysis of aggregate investment.

[9] *United States Port Development Expenditure Report*, U.S. Department of Transportation, Maritime Administration December 2001.

[10] Based on PFRA analysis of various economic impact studies performed by the U.S. Department of Transportation, Maritime Administration. It should be noted that port sector employment includes jobs created directly at the individual ports (longshore, terminal operator, steamship agents, freight forwarders, consolidators, CFS and warehouse operators, truckers and railroads) plus indirect jobs in supplying industries supporting the firms employing the direct jobs and induced jobs created throughout the immediate local and regional economies where the ports are located. These figures exclude manufacturing related importer and exporter jobs plus jobs at companies providing goods and services to the importing and exporting companies throughout the U.S., which have been estimated to equal 3.9 million jobs, \$82 billion in wages and \$29 billion in taxes annually for containerized cargo handled at West Coast ports. (Source: *Assessment of the Impact of West Coast Container Operations and the Potential Impacts of an Interruption of Port Operations*, 2000, Martin Associates.) The inclusion of manufacturing related jobs for the U.S. as a whole would produce an even more significant economic impact.

[11] *Industry Information*, American Association of Port Authorities:
www.aapa-ports.org

[12] Based on PFRA knowledge and analysis of existing marine terminal throughput costs and an ocean carrier's operating cost structure.

[13] Based on PFRA analysis of data from Dynamar BV.