



January 9, 2012

Ms. Karen V. Gregory
Secretary
Federal Maritime Commission
800 North Capitol Street NW
Washington, DC 20573-0001

Re: Commission inquiry into possible cargo diversion

Dear Secretary Gregory,

Thank you for the opportunity to provide comments for the inquiry into possible diversion of U.S.-bound cargo from Asia to ports in other countries.

Washington is the most trade-dependent state in the nation. The Port of Seattle is a primary economic engine for Washington state, generating nearly 200,000 jobs and \$867 million in state and local tax revenue. Ensuring that U.S. policy establishes a level playing field for foreign cargo is crucial to the state's future competitiveness, because cargo creates jobs, and because farmers and other manufacturers across Washington need the robust infrastructure a strong import trade creates – without it, they cannot get their goods to markets across the globe.

But the potential of cargo diversion is not solely a threat to the Pacific Northwest. As Mexico builds its new terminal at the Port of Lazaro Cardenas and Canada constructs a large-scale container port in Nova Scotia, land-border access for Asian cargo bound for lucrative U.S. markets will increase, and ports in every region of the country will face the threat of losing container cargo and the jobs it creates.

Canada in particular has done an excellent job of creating and implementing a national transportation strategy with policy that supports those goals; the U.S. should follow suit by ensuring that our own policies don't encourage shippers to use other gateways for Asian cargo destined for U.S. cities, and that transportation investments are made with an eye toward long-term port competitiveness.

Costs are a significant factor in all business decisions, and container shipping is no different. Therefore, if the FMC finds that U.S. law provides incentives to move cargo through foreign gateways, we believe the Commission should recommend that U.S. law be modified to ensure all U.S. containers are treated equally. We applaud the FMC's inquiry into this difficult subject.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Yoshitani".

Tay Yoshitani
Chief Executive Officer



Port of Seattle Comments for Federal Maritime Commission Inquiry

US Inland Containerized Cargo Moving through Canadian and Mexican Seaports

Docket No. 11-19
December 22, 2011

I.	Factors that Influence Routing for Discretionary Cargo	2
II.	The Impact of the Harbor Maintenance Tax on Cargo Diversion	7
III.	Creating Competitiveness: The Canadian Example	10
IV.	Economic Impact of Cargo Loss	14
V.	Actions the US Government Should Take to Improve Port Competitiveness	19

Factors that Influence Routing for Discretionary Cargo

Shippers’ cargo routing decisions involve many different factors, making it challenging to compare port competitiveness. Data is not available for many of these factors. Shippers’ perceptions—based on years of experience using various gateways—are as important as published data, so one must often rely on anecdotal information. Complicating the picture is the fact that ocean carriers also influence cargo routing, and the factors they consider can be different from shippers’ calculations.

The table below lists issues that influence cargo routing. In the section that follows we will provide additional perspective on some of these issues. Following that is a comparative analysis of these factors as they impact the competitive advantages of Puget Sound ports and our competitors in Canada.

Factors in carrier and importer port selection

Carriers	Importers
Importer preference/demand	Ocean freight rate/through cost to destination
Terminal throughput cost (incl. port fees)	Transit time to destination
Labor efficiency	Other cost factors like port fees, corridor fees, etc.
Berth availability	Service options & frequency
Pilotage costs	Customs clearance efficiency
Rail costs to inland points	General reliability of the gateway
Rail capacity and service to inland points	Risk aversion (gateway diversification)
Local cargo matchback/export opportunities	Operational flexibility for local cargo pickup
Economies of scale with larger vessels	Driver availability (for local deliveries)
Environmental regulations	Rail transits, frequency of service and reliability
Steaming time to port	

The US federal fee regime for inbound cargo is a competitive disadvantage for US ports.

Differences in US and Canadian federal maritime fee regimes have become an important factor in port competitiveness. Of the costs imposed by the US Government on maritime shipping, the most relevant for this study is the Harbor Maintenance Tax (HMT). Other federal fees, such as the merchandise processing fee, apply to US imports regardless of mode of arrival and whether cargo enters via a US or Canadian port. Therefore they are not major factors in cargo diversion. In contrast to our HMT, federal fees imposed at Canadian ports are tonnage fees charged to the vessel, rather than to the direct importer of record.

In short, US federal fees are a competitive disadvantage for US ports for the following reasons:

- US federal tax rates on inbound marine containers (specifically, the HMT) are higher than Canada’s federal fees.
- A loophole exists in the HMT for US-bound cargo moving through non-US ports.
- The US shippers who directly influence cargo routing are responsible for paying the HMT. In Canada, ocean carriers pay the federal fees.
- The costs and the benefits of the HMT are distributed unequally among US ports.

The HMT is an ad valorem tax of .0125% and averages \$84 per forty-foot equivalent unit (FEU) nationally and \$89 at the Port of Seattle.¹ It is assessed to shippers who are directly responsible for cargo routing decisions. While some costs are buried in the overall through cost charged by carriers, because the HMT is assessed as an individual line item for every import shipment, importers are very conscious of the tax. Importantly, US-bound, non-NAFTA cargo that arrives at Canadian or Mexican ports and then enters the US at land borders does not have to pay the HMT. As will be discussed more below, the HMT and this “land border loophole” is a cost significant enough to incent shippers to divert cargo away from US ports, especially high-value cargo.

The federal fees assessed by the Canadian Government that are known to the Port of Seattle are listed below. Each of these fees is based on a vessel’s gross registered tonnage (GRT) and is paid by the vessel owner or vessel agent, rather than the shipper, as is the case in the US with the HMT. Harbor Dues and Marine Navigation Service Fees apply only to the first few entries at a port per year. This structure does not have a significant impact on cargo routing because shippers do not see the fee as a line item and because ocean carriers do not pass this negligible cost through to the importer. Furthermore, together the fees listed below amount to a lower federal fee burden than what US port users must bear.

- **Harbor Dues:** Harbor Dues are assessed on vessels for entering or using a public port. The fee is paid by the vessel agent, charterer, or vessel master. The federal government originally mandated the Harbor Dues for the operation and on-going maintenance of federally owned marine assets.

Basis	Rate (in CAD) ²
The charge payable in any month for each of the first five entries of a vessel entering a public port, per gross registered ton, is in the case of a vessel	
(a) used in the carriage of goods or passengers from a place in Canada to another place in Canada at the time it comes into a public port, which is (i) registered in Canada, or (ii) under a Coasting Trade License issued pursuant to the Coasting Trade Act.	\$0.0274
(b) other than a vessel referred to in paragraphs (a) (i) or (ii).	\$0.0553

- **Marine Navigation Services Fees:** The Marine Navigation Service Fee is a fee paid to Fisheries and Oceans Canada (Canadian Coast Guard) by owner or agents of non-Canadian ships with a gross tonnage of 1,000 tons or more. The fee is paid on each entry, up to 12 entries per calendar year. As of 2009, for container vessels calling Vancouver and Prince Rupert, the rate was \$640 + \$0.028 GRT. These fees are collected in order to maintain the buoys, beacons, lighthouses and other navigational infrastructure.
- **Marine Safety Fees:** A series of fees assessed by Transport Canada to funding programs that maintain vessel inspections, communications equipment, inspection and regulation of cargo handling equipment, boater safety, etc.

¹ Average value was determined by collecting data on the value of containerized waterborne imports through US ports (queried from World Trade Atlas), the volume of containers moving inbound through US ports (non-domestic moves only), and the HMT ad valorem rate of 0.0125 percent.

² As of 1/1/2004.

Canadian officials and industry representatives say Canadian ports compensate for lower federal funding for dredging by charging more local fees and taxes, but we believe that the importer does not see the impact of these fees. We are not aware of any local fees on containerized cargo that are billed directly to the importer of record. This is one reason local Canadian port fees do not have the same influence on competitiveness as the HMT.

Another reason is local fees allow greater flexibility than federal fees. Because local fees are determined by a particular port itself (or a regional government with authority over the port), the port can tailor fees according to their competitive position: A port has the power to change its fee structure if a local fee is hurting business. They also are able to set fees to suit their own infrastructure needs. Some of Canada’s East Coast ports charge additional local fees for dredging, but their West Coast ports do not. The same logic applies for local fees in the US. However, fees and taxes assessed by the federal government are not so easily customized. In the US the HMT is assessed at all but a few ports even if a port does not require significant dredging. Not only does this impose a disadvantage in terms of cost, but it also leaves a port less flexibility to charge user fees to help finance other necessary infrastructure projects.

Comparison of US and Canadian intermodal systems: cost and transit time

The key elements that determine whether a rail corridor is competitive are 1) the total time required to move a container from a marine terminal to the inland rail yard destination and 2) the cost of doing so.

As the table below demonstrates, the transit times for the intermodal leg of the journey inland from Seattle are roughly comparable to those for Vancouver and Prince Rupert: About four days—five days for Vancouver. It is difficult to compare costs because railroads do not make their rates publicly available. Rail costs consist of a base rate plus a fuel surcharge. The Class 1 railroads serving the US West Coast tell us their base rates are the same as the CP and the CN, but shipping lines tell us that Canadian rail costs are \$200 to \$500 lower than for US railroads. We believe the fuel surcharge constitutes most of the difference in overall cost. The table lists the fuel surcharges for each railroad.

	Transit Time	Fuel Surcharge
BNSF	109 hours ³	34.5% ⁴
UP	89-109 hours ⁵	36%
CN	100 hours ⁶	15.53 ⁷
CP	5 days ⁸	27% ²

Sailing time

Canadian officials claim Prince Rupert enjoys a 2-3 day or 60 hour time advantage over US ports. The table below shows these claims to be inflated when it comes to Puget Sound ports. Prince Rupert’s sailing time advantage over Port of Seattle is 22-32 hours depending on vessel speed.

³ www.bnsf.com/bnsf.was6/siisweb/cntrl/srch

⁴ Applies for 12/14 to 12/20, 2011

⁵ http://c02.my.uprr.com/cdm/intermodal/intermodal_schedule.jas

⁶ <http://www.cn.ca/en/shipping-prince-rupert-transit-time-advantage.htm>

⁷ December 2011

⁸ <http://www.cpr.ca/en/customer-centre/shipping-guides/Documents/cp-domestic-intermodal-schedule.pdf>

SAILING TIMES FROM SHANGHAI TO WEST COAST NORTH AMERICA⁹

Port	Direct Sailing Distance (nm)	Ship Speed (knots)	Voyage Time (d-hr)	Delta Hours	Delta Days
Prince Rupert	4,988	15	13-20	-	
		18	11-13	-	
		22	9-10	-	
Vancouver	5,483	15	15-5	33	1.5 day
		18	12-6	27	1 day
		22	10-9	23	1 day
Seattle	5,471	15	15-4	32	1.5 days
		18	12-15	26	1 day
		22	10-8	22	1 day
Tacoma	5,492	15	15-6	34	1.5 days
		18	12-17	28	1 day
		22	10-9	23	1 day
Oakland	5,783	16-1	15-0	53	2 days
		18	13-9	44	2 days
		22	10-22	36	1.5 days
Long Beach/Los Angeles	6,080	15	16-21	73	3 days
		18	14-1	60	2.5 days
		22	11-12	50	2 days

Comparison of Canadian West Coast and Puget Sound port competitiveness

Despite the fact that the Canadian transportation industry has a track record of actively marketing their HMT cost advantage, their recent statements to the media have downplayed the HMT as a factor in cargo diversion. Instead, they point to their superior infrastructure, service and geographic position. Canadian ports and trade corridors do indeed offer some advantages over US ports, and shippers value the ability to use multiple ports as a way to diversify supply chains. But as the list below demonstrates, in many areas the advantage lies with US ports. Overall cost is important, and on balance there is no other “competitiveness gap” that can explain cargo diversion.

- As mentioned above, many in Canada claim Prince Rupert enjoys a 2-3 day or 60 hour time advantage over US ports. Yet Prince Rupert is only 483 nautical miles closer to Shanghai than Seattle out of a total distance of about 5,471 miles (for Seattle). This translates to a transit time that is as little as 22 hours shorter in favor of Prince Rupert—an advantage, but less than has been claimed.
- Prince Rupert offers just 2 carriers and 4 weekly services vs. Seattle’s 20 carriers and 17 services. Seattle’s service levels are a considerable advantage for shippers, offering them routing and scheduling flexibility and access to more global markets.
- Transit times for the intermodal leg of the journey are comparable: About four days, and for Vancouver trains arrive on the fifth day.

⁹ www.vesseltracker.com. Other sources, such as the US government’s Publication 151, give different sailing distances, but do not have all the combinations listed above. Times can vary depending on vessel speed, weather, vessel routing and other factors.

- Puget Sound ports are served by two Class 1 railroads vs. only one for Prince Rupert. This equates to more service and routing options. Two Canadian Class 1 railroads provide transcontinental intermodal service at Vancouver.
- Prince Rupert claims a crane productivity of 30 moves per hour. This is higher than the Pacific Maritime Association reports for US West Coast ports. We are often told productivity in Seattle is better than in Vancouver.
- A healthy local import market and one of the strongest export markets in North America supports carrier services to Seattle. While Vancouver also has a healthy local market, Prince Rupert is tailored strictly for pass-through intermodal imports.
- Seattle offers warehouse, distribution and transloading centers, third party logistics companies, brokers, and local trucking companies. This is a major advantage. These services and facilities give shippers more options for moving their cargo, both locally and to other inland US destinations. Vancouver offers similar services, but Prince Rupert does not.

A 2009 survey¹⁰ commissioned by Canada's Department of Foreign Affairs and International Trade (DFAIT) to help them more effectively market Canadian gateways offers an example of shippers' high regard for Puget Sound ports. The survey measured how US shippers perceive ten select North American ports. Seattle/Tacoma received the highest overall score. Vancouver and Prince Rupert ranked 5th and 8th, respectively. Academic studies, such as the elasticity study mentioned below, also testify to the competitiveness of Puget Sound ports.

¹⁰ *Survey of US Importers' and Exporters' Perceptions of Canada's Asia Pacific Gateway*. Submitted by IE Market Research for Canada's Dept. of International Affairs and International Trade. March 2009.

The Impact of the Harbor Maintenance Tax on Cargo Diversion

Cost is one of the most important elements in cargo routing decisions. The HMT is only one of several factors contributing to cost differences involved with shipping through various ports, but it is significant enough to influence shippers' decisions. In 2007 the Washington State Legislature commissioned a study¹¹ that analyzed the impacts imposing a new container fee would have on Puget Sound cargo volumes. This peer-reviewed elasticity study concluded that imposing a \$60 per FEU fee on inbound containers would cut import volumes at Puget Sound ports by approximately 30%. A \$150 fee could cut traffic in half. Anecdotal information from Port of Seattle customer relations staff supports this conclusion that small cost differences affect port choice.

The HMT averages \$84 per FEU nationally and \$89 at the Port of Seattle, significantly higher than the amount the elasticity study predicted would result in major cargo diversion. But as an ad valorem rate, the HMT can be higher or lower depending on the value of the cargo, as the table below demonstrates. This is why the Canadian transportation industry often references HMT savings of \$200 or more, well above the level at which drastic shifts are predicted.

When the HMT was established in 1986, Canadian ports primarily served Canadian markets. The opening of Prince Rupert's container terminal in 2007 marked the first time a non-US port adopted a business model based on targeting US-bound cargo. In just a few years Prince Rupert has already realized its goal to capture market share from US West Coast ports. They have ambitious expansion plans, and the Government of Canada plans to replicate Prince Rupert's success in attracting US cargo with a new port at Melford, Nova Scotia. As long as the capacity exists, the HMT will continue to be a factor driving the continued diversion of cargo to non-US ports.

THE HMT VARIES BY CARGO VALUE¹²

	Value of cargo in One Container (FEU)	HMT per FEU
Auto parts	\$250,000	\$312.50
Clothing and apparel	\$25,000 – \$100,000	\$31.25 - \$125.00
Electronics (televisions, computers, etc.)	\$100,000	\$125.00
Refrigerated produce and food	\$16,000 - \$35,000	\$20 - \$43.75
Lumber	\$25,000	\$31.25
Furniture	\$10,000 – \$15,000	\$12.50 - \$18.75

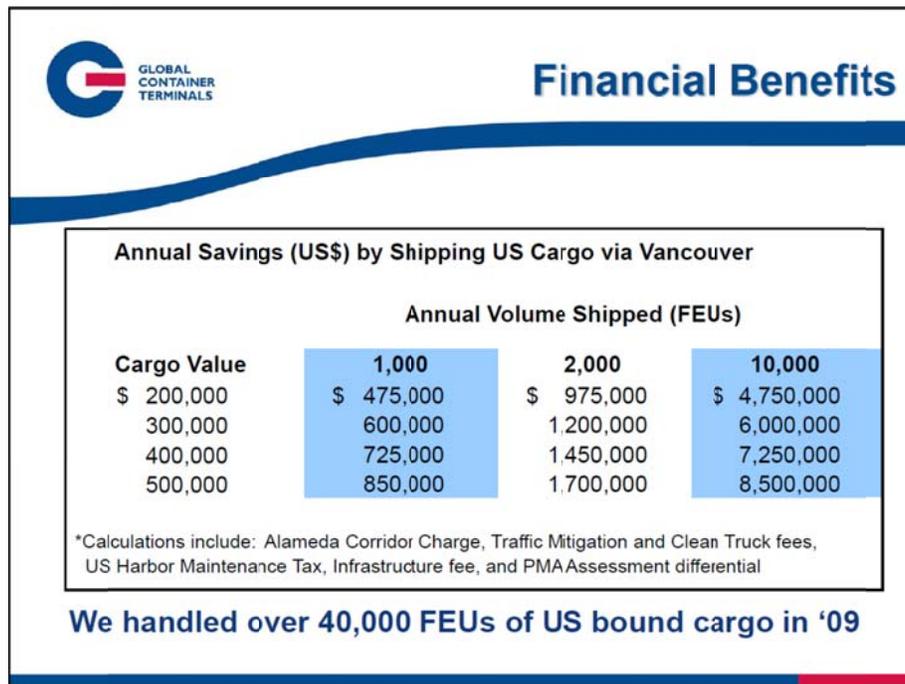
¹¹ Cambridge Systematics, Inc, "Freight Investment Study Final Report," Prepared for Washington State Legislature Joint Transportation Committee, January 2009. Available at www.leg.wa.gov/JTC/Pages/CompletedStudies.aspx.

¹² Based on Port of Seattle discussions with freight forwarders/NVOCCs.

Canadian marketing of the HMT cost advantage

Recent Canadian statements to the media have downplayed the significance of the HMT as a factor in cargo diversion. But this belies the Canadian transportation industry’s track record of actively marketing their HMT cost advantage. As the *Journal of Commerce* wrote in a recent article, “Few if any sales pitches fail to mention that no Harbor Maintenance Tax is due on containers arriving at Canadian ports.”¹³

The slide below from a 2010 presentation¹⁴ by Global Container Terminals (a terminal operator at Port Metro Vancouver) to an audience of US importers illustrates how some in the Canadian transportation industry market the HMT advantage. In the slide, President & CEO Michael Moore lists several fees he claimed applied at a US West Coast port. Of these fees, only the HMT is an ad valorem fee. The others are assessed by volume. The HMT is responsible for most of the fee totals in the slide. As indicated above, a cargo value of \$200,000 is high compared with the traditional imports that transit North American seaports. The \$625 HMT fee that would be assessed on a \$500,000 container is uncommon in the container shipping business, but Moore and others use this idea to make the case to shippers that they can save millions by moving their cargo through Canada.



A *Journal of Commerce* article that reports on interviews with Canadian rail executives provides another example. “Importers using the Canadian gateways save money because they don’t have to pay the harbor maintenance fee charged on imports at U.S. ports. [Stephen Serio, CN Railway’s Director of US Intermodal Operations] said the value-based fee can cost an importer an additional \$200 per container.”¹⁵

¹³ Tirschwell, Peter, “Taxing Whose Containers?” *The Journal of Commerce Magazine*, 30 Sept 2011.

¹⁴ Moore, Michael E. (President & CEO, Global Container Terminals), “Alternative North American Gateways,” Presented to US importer audience at Waterfront Coalition meeting in Long Beach, 15 June 2010, slide 13.

¹⁵ Mongelluzzo, Bill, “Canada’s Railroads Look to Asia,” *The Journal of Commerce Magazine*, 7 March 2011.

The land border loophole reduces HMT revenue.

In addition to its role in cargo diversion, the HMT regime exerts another negative impact on the competitiveness of the US goods movement system. The land border loophole in the HMT reduces resources in the Harbor Maintenance Trust Fund to fund Corps of Engineers operation and maintenance dredging activities. In the slide above, for example, the 40,000 FEUs of US-bound cargo Global Container Terminals reports handling represents nearly \$3.4 million in lost HMT revenues for the US.¹⁶ While its balance is healthy today, this leak in the Harbor Maintenance Trust Fund could become more serious as cargo diversion increases.

Transshipment of Canadian cargo through US ports

Canadian transportation industry representatives point out that Canadian cargo routinely passes through US ports. The Port of Seattle does not dispute this fact. Port diversification is a common business strategy employed by shippers to reduce risk, and US ports offer advantages that make them highly competitive options for handling Canadian cargo. There are also situations in which Canadian ports have the advantage over US ports, so it is inevitable that some US cargo will transit through Canadian ports. Yet as a result of current US law that provides an economic advantage to containers that move through foreign ports and then into the US via a land border, there is added incentive to avoid US ports.

While transshipment works both ways, we hear that US transshipment of Canadian imports is significantly less than the amount of US cargo that passes through Canadian ports. We also understand that US port market share for Canadian import cargo is trending sharply downward, and that Canadian ports' share of US import cargo has been on the rise since the opening of the Prince Rupert container terminal. Prince Rupert is approaching its maximum capacity, but as will be discussed more below, the port has ambitious expansion plans that would result in cargo diversion that is many times current transshipment volumes.

¹⁶ Based on the \$84 per FEU national average.

Creating Competitiveness: The Canadian Example

Support from the Canadian federal government has been a critical factor in the emergence of Canadian ports and trade corridors as serious competition for US-bound discretionary cargo. Prince Rupert's impressive rise was not accomplished by the Prince Rupert Port Authority alone. Canada has designated that port's development as a national priority and has helped make the improvements across the country that contributed to its success. The federal government has been active across a full spectrum of areas to improve port competitiveness, including infrastructure development, intergovernmental coordination, policy optimization, and marketing and government relations. Such support will continue to be an advantage for Canadian ports.

From the Port of Seattle's perspective, an examination of Canada's track record is relevant because although governance issues are not likely to be among a shipper's port selection criteria, Canada has demonstrated that effective government leadership can contribute to improving those factors that do influence cargo routing. In addition, Canada's approach can serve as an example for the US Government. We will provide additional comments on this topic in our response to question eight of the NOI regarding actions the US Government can take to improve the competitiveness of US ports.

Canada's national freight strategy

The Government of Canada has developed a national strategy for freight policy and infrastructure development based on a "gateway and corridor approach." Their strategy involves focusing long-term policy, planning and strategic investment around key gateways and trade corridors in a way that best serves the national interest. Such an approach takes a multimodal perspective: Seaports are viewed not in isolation but as part of a system that includes the inland road and rail infrastructure that supports them.

The National Policy Framework for Strategic Gateways and Trade Corridors¹⁷ is a chief policy document elaborating Canada's strategy. The purpose of the framework is to "guide the development and implementation of strategies that foster further development and exploitation of Canada's transportation systems most important to international trade."¹⁸ This approach is applied mainly through three separate gateway/corridor initiatives: the Asia-Pacific Gateway and Corridor Initiative (APGCI), the Ontario-Quebec Continental Gateway, and the Atlantic Gateway and Trade Corridor initiative. The APGCI is the most mature; the other two are still in early phases. Although under federal leadership, each initiative involves a partnership between public and private entities at the provincial and local levels, including ports and railroads.

Several aspects of their strategy are worth noting:

First, while the US has no national strategy for freight, Canada's plan for goods movement has been a top federal policy priority. It has received focused attention and proactive involvement at high levels within the government. For example, Prime Minister Stephen Harper himself is credited with launching the APGCI and the Government created a separate Ministerial portfolio to manage it. Such steps are

¹⁷ Transport Canada, "National Policy Framework for Strategic Gateways and Trade Corridors," Catalogue Number: T22-136/2009E, 2009.

¹⁸ <http://www.atlanticgateway.gc.ca/brief.html>

necessary to effectively coordinate the many government offices with responsibilities relevant to goods movement.

Second, Canada has committed to a methodology that recognizes the multimodal nature of goods movement. The National Policy Framework states, “A new emphasis on the transportation *system*, rather than any particular mode or element, is necessary to maximize the contribution of Canadian transportation to global supply chains.”¹⁹ This systemic approach is also supported by assigning responsibility for gateway initiatives to a high level within the government. In contrast, in the US, responsibility for freight is siloed by mode; there is no multi-modal freight office that can prioritize freight and manage interdepartmental coordination.

Third, Canada’s strategy involves focusing federal resources on nationally significant infrastructure, in which ‘national significance’ is determined through a data-driven process. “An effective gateway and corridor strategy must be highly targeted where volumes and values are most significant for Canada’s economy overall. Objective analysis of trade data will help map transportation systems that are essential to improving Canada’s competitiveness in global commerce. Transport Canada has undertaken empirical analysis to this end, identifying infrastructure of national significance.”²⁰ In the US, freight infrastructure investment decisions are often the result of a political process rather than a merit-based assessment of national interest. Federal resources are just as likely to contribute to competition between US ports for the same cargo as they are to enhancing US economic competitiveness.

Fourth, along with integrating all transportation modes into their freight planning and governance structure, the Canadian Government’s vision recognizes that competitiveness requires parallel action in the policy arena. According to the National Policy Framework, “...The key will be an integrated approach to *physical and policy infrastructure*. This approach places transportation infrastructure at its core, but goes further to encompass other interconnected issues of public policy, regulation, and operational practice that directly impact how well the infrastructure works and how well Canada takes advantage of it.”²¹

The National Policy Framework and APGCI planning document commit the federal government to proactive involvement in policy issues such as port governance, enhancing efficiency at the US-Canada border, transportation workforce development, and an examination of regulatory issues impacting container availability. In addition, the documents list other areas considered appropriate targets for future federal action, including land use planning and trade and investment promotion.

Fifth, as stated in numerous planning documents, the Canadian vision recognizes the competitive environment of the port business and is designed to improve the position of Canada’s gateways and corridors relative to their competitors in the US. The Canadian federal government is an active participant in this competition by, for example, providing marketing and government relations assistance to its ports, as will be discussed more below. The following examples provide insight into the government’s stance.

- In the National Policy Framework the government references an industry vision for the nation to “put in place the infrastructure and logistics systems that will enable Canada to become the

¹⁹ National Policy Framework, p. 3.

²⁰ National Policy Framework, p. 7.

²¹ National Policy Framework, p. 3.

logistics hub of North America – the preferred point of entry and exit for trade between North America and the growing Asian market.”²²

- One of the three goals of the APGCI is to “increase the Gateway’s share of North America bound container imports from Asia.”²³
- British Columbia has set a target to raise its market share of Asia-NAFTA sea container traffic from 9% to 17% by 2020. This target represents an increase from an annual volume of two million twenty-foot equivalent units (TEUs) to an estimated nine million TEUs.²⁴
- A report commissioned by the government to solicit recommendations for the APGCI states “It is of utmost importance that our port authorities are aware they are not competing with one another, for there is no benefit to Canada of having its West Coast ports in competition. The competition, for the most part, is the ports on the west and east coasts of the US and Mexico.”²⁵
- A report written to provide recommendations to the government advises that one of the five “core elements” of the APGCI strategy must be to foster a pro-competitive policy framework: “Since goods and people can move between the Asia-Pacific and the US via several alternative gateways, policies and regulations will be required across all levels of governments and departments that ensure the efficiency and competitiveness of the APGC.”²⁶ Such statements are common in Canadian transportation industry reports.

Sixth, the Government of Canada provides sustained marketing and government relations assistance to its transportation industry in order to help them compete for discretionary cargo:

- The AGCPI includes up to \$7 million over five years for the Government to promote the gateway.
- The APGCI policy document promises the federal government “will develop specialized outgoing and incoming missions” to showcase the gateway’s advantages for freight and passenger movements between the Asia-Pacific region and North America.”²⁷
- The National Policy Framework references four overseas missions during 2007-2008 to market its gateways, including one led by the Minister of National Defense, and another by the Minister of International Trade and Minister for the Pacific Gateway.²⁸ The Gateway Minister traveled to Asia again in both 2009 and 2010. The government has made similar trips to the US targeting importers.
- Canada’s Department of Foreign Affairs and International Trade (DFAIT) created a special marketing unit to target large US retail customers, including Wal-Mart, Target, Kmart and Home Depot. “The department plans to stage high level visits to the headquarters of these and other companies to encourage them to route their transpacific imports via [Vancouver and Prince Rupert]”.²⁹

²² National Policy Framework, p. 3.

²³ Transport Canada, “Canada’s Asia-Pacific Gateway and Corridor Initiative,” Catalogue Number: 0-662-49349-4, 2006, p. 3.

²⁴ InterVISTAS, “Canada’s Asia-Pacific Gateway and Corridor: A Strategic Context for Competitive Advantage,” Prepared for Transport Canada, March 2007, p. 16.

²⁵ *Asia Pacific Gateway and Corridor Initiative (APGCI), Report and Recommendations*, Jeff Burghardt, Arthur DeFehr, T. Richard Turner (strategic advisors to Minister David Emerson) 2007, p. 11.

²⁶ InterVISTAS, p. 18.

²⁷ Canada’s APGCI (Transport Canada), p. 16.

²⁸ National Policy Framework, p. 6.

²⁹ “Canadian Initiative Targets US Shippers,” *Containerization International*, May 2008.

- DFAIT's 2009 shipper survey,³⁰ mentioned above: In order to more effectively market the APGCI as the trade route of choice between Asia and North America, DFAIT interviewed 339 executives at US companies with responsibility for cargo routing decisions.

As an example of government relations support, the Government of Canada launched a sweeping effort in response to the announcement of this FMC study on cargo diversion. Activities we have learned about include:

- The Seattle Consul General organized meetings to express his concern with the Port of Tacoma, Port of Portland, and the Washington State Governor's Chief of Staff. He visited the Port of Seattle, along with Labor Minister Lisa Raitt. In addition, he spoke with the President of the Association of Washington Business, asking that his message be disseminated to the association's members.
- DFAIT's Assistant Deputy Minister for the Americas requested a speaking role at the Washington Council for International Trade's annual event, which over 275 people attended, and spoke about the FMC study.
- Two transportation associations of which the Port of Seattle is a member have received calls from Embassy and Transport Canada officials.
- The San Francisco Consul General visited the Port of Oakland, and the Consul General in Los Angeles held a conference call with the Port of Los Angeles.

Canada still faces many challenges with its freight system. These challenges are national in scope. Bottlenecks impacting their gateways are spread across the continent, and authority for many potential policy solutions lies at the federal level. The same can be said for the challenges facing the US goods movement system. Yet the proactive involvement of the federal government has left Canada in a better position to deal with these challenges. From facilitating discussions that led to the consolidation of the three Vancouver port authorities, to making key strategic infrastructure investments, to marketing its gateways, to the December 2012 agreement between Prime Minister Harper and President Obama that improved border efficiency for transshipped cargo, the Government of Canada has systematically pursued a strategy to improve the competitiveness of its gateways.

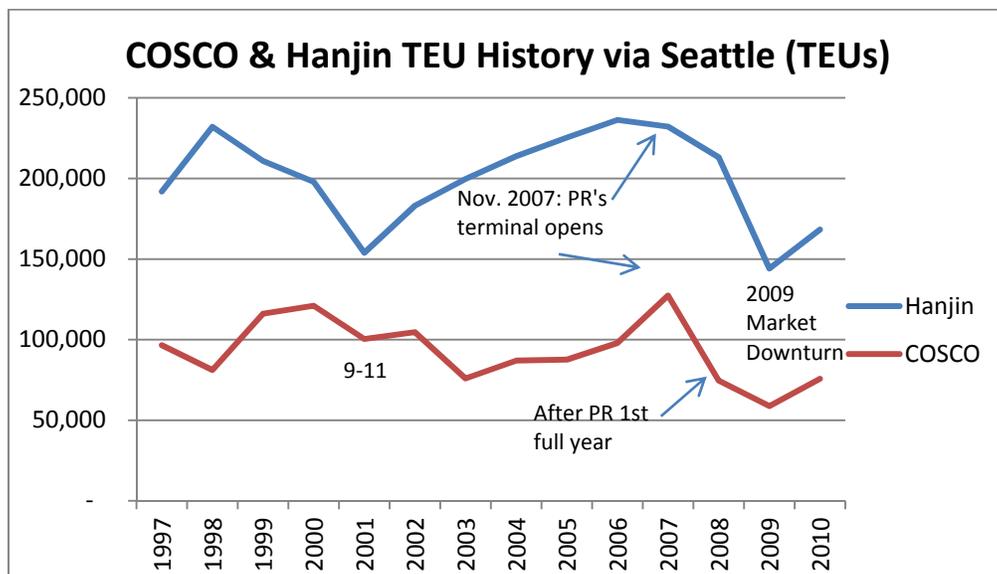
³⁰ *Survey of US Importers' and Exporters' Perceptions of Canada's Asia Pacific Gateway*. Submitted by IE Market Research for [Canada's Dept. of] International Affairs and International Trade. March 2009.

Economic Impact of Cargo Loss

Simply put, cargo equals jobs, and the Port of Seattle has already lost cargo to Canadian West Coast ports. If the Port of Prince Rupert realizes its goals for growth at the expense on Pacific Northwest ports, the economic consequences for our region could be grave. This section includes an analysis of the impact Prince Rupert has had on Port of Seattle volumes since its container terminal opened in 2007. We also explore the potential for continued cargo diversion, and then discuss what cargo diversion and a decline in port competitiveness would mean for the Pacific Northwest economy.

Cargo diversion from the Port of Seattle to Canadian ports

Roughly 2/3 of Prince Rupert’s import volumes are US-bound.³¹ This is cargo that would otherwise be shipped through US West Coast ports. The Port of Seattle in particular has been hurt by this diversion of cargo. The first services to call at Prince Rupert were operated by the CKYH Alliance, which changed an existing PNW rotation to establish Prince Rupert as the first port of call. The CKYH Alliance includes two top Seattle customers, COSCO and Hanjin. The graph below shows the decline in COSCO and Hanjin container volumes at the Port of Seattle that followed the opening of Prince Rupert’s container terminal in November 2007.³²



Stories of Seattle customers moving to Prince Rupert trickled in all through 2008. Among the businesses that shifted cargo to Prince Rupert was a major furniture company that was the Port of Seattle’s third largest importer prior to 2007. Their Seattle cargo volumes dropped drastically following the opening of the Prince Rupert container terminal. The company cited a substantial price differential combined with more flexible rail service as reasons for the move.

In May 2011 Prince Rupert announced it would welcome two additional trans-Pacific services, doubling the number of vessels calling at its container terminal, and positioning Prince Rupert to divert even

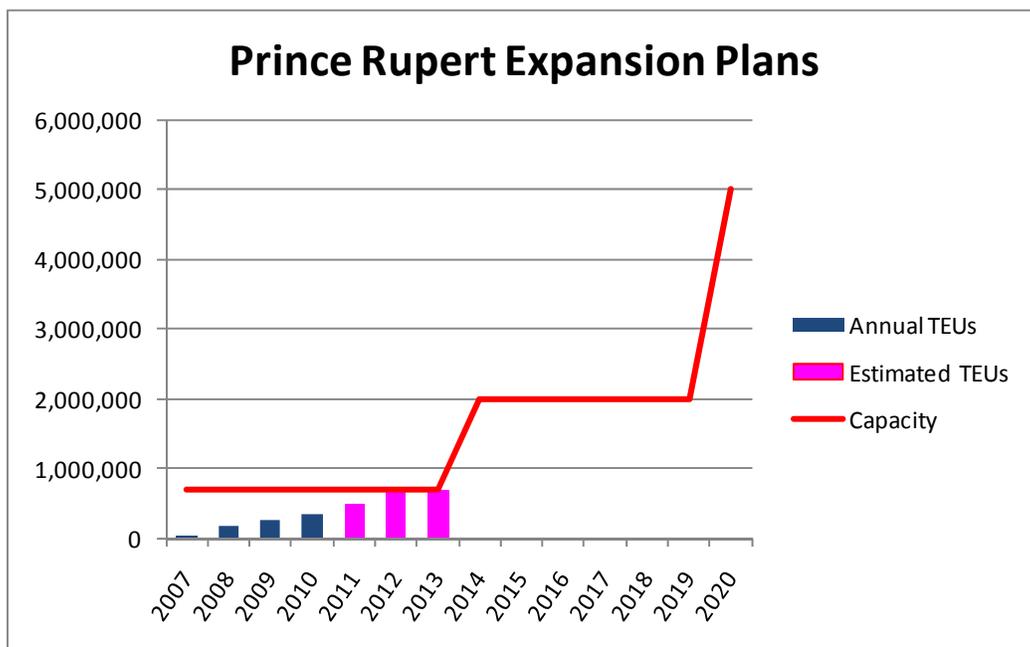
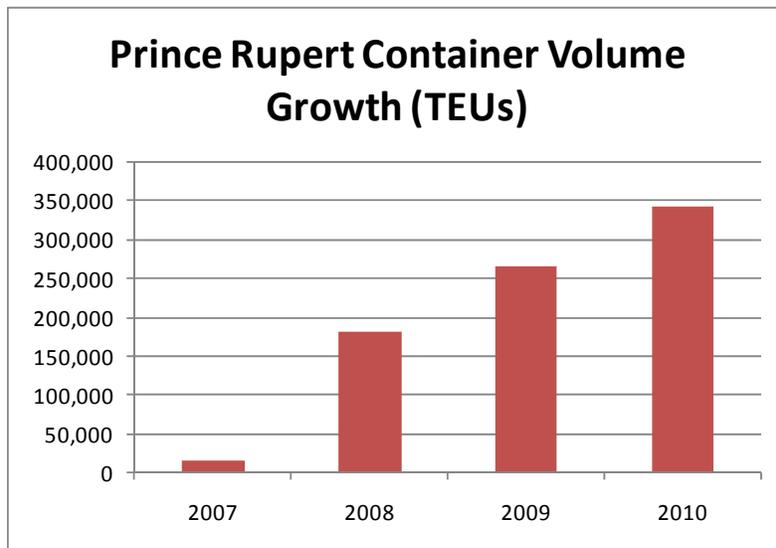
³¹ Mongelluzzo, Bill, “Cosco, Hanjin Add Prince Rupert Services,” *The Journal of Commerce Online*, 21 April 2011.

³² Port of Seattle Internal Statistics

more cargo away from Puget Sound. These services continued to call at Seattle, but with lower volumes, partly as a result of losing the first call to Prince Rupert on the port rotation for one of the services.

The potential for long-term cargo diversion

Although Prince Rupert's volume is still relatively small, at 343,000 TEUs in 2010, the long-term trends are disconcerting. Prince Rupert has aggressive growth plans: A planned expansion of the Prince Rupert Container Terminal—which was scheduled for 2014—would quadruple the terminal's capacity to two million TEUs. A second container terminal, which at one point was described to be in its design stages, would allow them to handle 4-5 million TEUs by 2020—significantly larger than the current combined volumes of the ports of Seattle, Tacoma and Portland. In order to realize this ambitious growth strategy they must rely on the continued diversion of cargo from US ports. These goals cannot be achieved by simply capturing a modest share of projected North American trade growth.



The Port of Seattle is sensitive to cargo diversion, but it is not the only West Coast port to have lost cargo to Prince Rupert and Vancouver. For example, the Port of Long Beach lost its first call advantage to Prince Rupert on the CEN service. A similar scenario is playing out on the East Coast with the ports of Halifax and Montreal, as well as the planned new port at Melford, Nova Scotia, which would—like Prince Rupert—target US-bound cargo. Melford aims to attract Southeast Asian cargo that transits the Suez Canal. This could result in cargo diversion from both US West Coast and East Coast ports.

Mexico's ports also are growing and are well positioned to challenge US ports. In December 2012 the Port of Lazaro Cardenas awarded a contract to develop a new container terminal, which the *Journal of Commerce* describes as "central to the Mexican port's bid to compete for US international shipments."³³

Competitive ports are a fundamental element of the Pacific Northwest economy.

Continued cargo diversion could have devastating consequences the Pacific Northwest economy. The Port of Seattle is a keystone for an entire regional economic cluster related to trade and transportation. The Seattle seaport is one of the region's largest employers, supporting 56,256 direct, indirect and induced jobs.³⁴ Yet this number does not include the many jobs outside the transportation sector that rely on Port of Seattle facilities in industries as diverse as aerospace, agriculture, retail, seafood, industrial machinery, and fashion and apparel.

Washington State's world-class ports have long helped enable it to occupy a position among the nation's top exporting states. For agricultural shippers, competitive ports can make the difference in whether their products are competitive in global markets. Manufacturers also depend on highly efficient, reliable ports to get their goods to market and to take advantage of the just-in-time processes that have become common practice in their industries.

Diversion of import cargo hurts exports and the jobs they support.

An under-appreciated reality in international trade is the extent to which a healthy export market depends on a thriving import market. Ocean carriers make their port call decisions based on the economics of the round trip journey. Because imports contribute the majority of the revenue, it is the import leg that drives vessel deployment, while exports are loaded into whatever empty containers are available on the return trip. Ocean carrier contracts with railroads serving a particular port require the railroads to return certain numbers of eastbound containers back on the westbound trip to the same port at which they were discharged. This means that declines in imports reduce the number of containers available for exporters.

In addition to greater container availability, competitive ports provide other advantages to exporters, including:

- Lower shipping costs
- More frequent calls by ocean carriers serving more export markets
- Greater availability of vessel capacity
- Shorter time to market

³³ "APM Terminals Wins Lazaro Cardenas Bid," *The Journal of Commerce Online*, 29 December 2011.

³⁴ "The 2007 Economic Impact of the Port of Seattle," Martin Associates, Prepared for the Port of Seattle, 10 February 2009.

These advantages will become increasingly available to Canadian businesses as Canada continues to improve the competitiveness of its gateways. Increasing exports is one of the chief goals of Canada's gateway initiatives. While Canadian planning documents focus primarily on developing a competitive system to increase imports from Asia to North America, they also reference the export opportunities these improvements will create. For example, a report produced by strategic advisors to former Minister for the APGCI David Emerson says, "A Pacific Gateway would not only impact Canada's West Coast. Equally important is the positive effect it would have on business and communities right across Canada...A superior international transportation system would not only create an enhanced supply chain for retailers, perhaps more important, it would also increase the supply of empty containers being returned to Asia, which would create a wealth of export opportunities for Canadian industries."³⁵

This expectation is coming to pass. Capturing greater import market share has facilitated Canada's efforts to develop an intermodal hub for exports at Prince George, which in the past has been handicapped by limited vessel and container availability. The extent to which Canada's growth in import volumes is achieved through cargo diversion will determine the extent to which export opportunities undergo a similar shift from Pacific Northwest businesses to competitors in Canada.

Agricultural jobs are dependent on competitive ports.

Port competitiveness is especially crucial for the competitiveness of a region's agricultural industries and the jobs they support. If ocean carriers and forwarders reduce their service to a particular trade corridor, this tends to disproportionately impact agricultural exporters for several reasons:

- Many agricultural products and export commodities typically have a low profit margin and are thus far more sensitive to the fluctuations in shipping and logistics costs that result from changes in shipping capacity.
- Exports are heavier and bulkier than imports, so the general rule is that supporting a certain volume of exports takes almost twice as much import vessel capacity.
- Exporters face additional challenges on equipment availability and service because the majority of exports come from rural, inland destinations, while most imports are destined for distribution hubs near major population centers.

As an example of the connection between imports and exports, at one point in recent years when the ongoing recession had caused a particularly sharp decline in imports, the Agriculture Transportation Coalition estimated American farmers could have been exporting 20% more if only they were able to secure enough containers and space on ships.

The Washington State hay and animal feed industry serves as a case study of how the diversion of import cargo can affect jobs in an export-dependent industry. Hay is the largest export product by volume through the Port of Seattle. Nationwide, only 3-5% of the total US hay crop is exported. Yet Washington State exports nearly 40% of its hay production, and certain Washington State producers export up to 90% of their product. Hundreds of trucks each day visit the Port of Seattle to pick up emptied import containers that will be loaded with hay in Central Washington for the return trip to the port and shipment to markets around the world. Container availability is a key limiting factor for the state's hay exports, and our state's hay producers rely on healthy import volumes.

³⁵ Burghardt, Jeff, Arthur DeFehr, and T. Richard Turner (strategic advisors to Minister David Emerson), "Asia Pacific Gateway and Corridor Initiative (APGCI), Report and Recommendations," 2007, p. 9.

Overall shipping cost is another challenge given the relatively low value of the product—a 40' container of hay is worth only \$3,000 to \$5,000. Shipping costs for Pacific Northwest hay exporters have been on the rise. In contrast, at ports in Southern California higher import volumes and the greater container availability associated with it has helped mitigate cost increases. Further declines in Puget Sound port competitiveness would have serious implications for the future of the animal feed industry in the Pacific Northwest.

Wood is another example of a Washington State industry that benefits from greater container availability. Grain—especially wheat—also is increasingly being shipped in containers. According to the *Journal of Commerce*,³⁶ containerized wheat exports experienced considerable growth over the past year, growing at 73% in the fourth quarter of 2010, and at 243%, 237% and 37%³⁷ in the following quarters. Farmers living in regions with access to equipment and competitive shipping rates will have the upper hand in taking advantage of this emerging economic opportunity.

Agricultural products are the most sensitive to the rise and fall of their ports, but this same logic holds true to varying degrees for other industries as well. Every import container that is diverted away from Puget Sound reduces export capacity and competitive advantage for Pacific Northwest businesses.

³⁶ Leach, Peter T. "Exporting a Path to Growth." *The Journal of Commerce Magazine*. Nov 7, 2011.

³⁷ Bonney, Joseph. "Containerized Exports Rose 6.7 Percent in Third Quarter." *The Journal of Commerce Online*. Nov. 14, 2011.

Actions the US Government Should Take to Improve Port Competitiveness

The Port of Seattle urges the US Government to recognize the threat that cargo diversion poses to US ports and to take action to level the playing field in the competition for inbound intermodal cargo, especially when federal policy is hurting our ports, as is the case with the Harbor Maintenance Tax.

Although we dispute some claims made by Canadian industry and government representatives in response to the announcement of this inquiry, the Port of Seattle does not believe the Government of Canada has engaged in unfair competition. Nor do we seek to limit trade. Trade with Canada is a key building block of the Pacific Northwest economy, and the Port of Seattle has a stake in the US-Canada relationship. Rather, we hope our comments will be construed as a call to action for the US Government to improve the way our nation approaches freight policy and infrastructure development.

Remove or correct laws that encourage cargo diversion

The land border loophole in the HMT is distorting trade. Federal policy should be modified to ensure equal treatment of all US bound containers regardless of mode of arrival in the US.

The HMT is not assessed on importers who route cargo through non-US ports (such as those in Canada and Mexico) and who then move the cargo into the US over a land border. This “land border loophole” has resulted in a cost differential significant enough to incent shippers to divert cargo away from US ports, a fact supported by a study on the elasticity of Puget Sound port volumes. It is critical that the US Government reestablish a level playing field so US ports can compete based on our ability to effectively serve shippers, exporters, consumers and our own communities. US policy should be neutral as it relates to the cost of importing intermodal containers into the US, regardless of mode of arrival.

The Port of Seattle is working on a number of fronts to respond to a new competitive environment. We remain in a state of constant engagement with our railroad, labor and other supply chain partners to improve the service we offer in Seattle. We have invested around \$1 billion in our container terminals since the late 90’s and in the past five years have committed over \$340 million more to road and rail projects to enhance the regional freight system. We need to protect our investment. The land border loophole has created an unequal situation that is undermining all of these efforts.

Assuming the inequities in the current federal fee regime for inbound marine containers are addressed, as a general principle, the Port of Seattle is willing to discuss the idea of new or increased user fees. However, our support depends on the following conditions:

- If the fee is assessed to freight movement, funds should be spent on improvements to the freight system.
- If fees are collected from one gateway or trade corridor, users of that gateway and corridor should benefit from the disbursement of those fees.
- Most importantly, all user fees should be structured in a way that does not put US gateways at a competitive disadvantage to Mexican and Canadian gateways. User fees must be applied universally and equitably to all US-bound cargo.

View goods movement through the lens of national economic competitiveness and assign a higher priority to freight planning and infrastructure development

Transportation infrastructure needs to be viewed through the lens of national economic competitiveness. This is the approach the Canadians have taken, and the US Government must take a similar approach to improving America's freight system.

Our freight infrastructure is a key building block of our economy, much like our education system and our tradition of investing in science, research and development. The National Export Initiative represented an understanding that the US Government cannot afford to stand idle while other nations pursue their own export agendas that take advantage of our open markets and chip away at US export competitiveness. Similarly, we cannot afford to be passive while other nations develop strategies to take cargo from US gateways and trade corridors. Transportation should be incorporated into an integrated economic competitiveness strategy for the US.

Develop a comprehensive national freight strategy for the US

Canada's success with Prince Rupert has validated the gateway-corridor approach. The US should adopt a comprehensive, integrated strategy similar to Canada's National Policy Framework for Strategic Gateways and Trade Corridors. A truly competitive, efficient national goods movement system requires coordination that can only be achieved at the federal level. Freight projects often involve multiple jurisdictions and represent large investments, either as a single mega project or the sum of several smaller system improvements. Bottlenecks in the supply chain can be found all over the country, but prioritizing and fixing them is often beyond the means of the states, counties and cities in which the projects are located. A national strategy with meaningful goals that guide both competitive and formula funding is critical. Elements of a US freight strategy should include:

A. Develop a National Freight Transportation Strategic Plan (NFTSP)

The Secretary of Transportation should be directed to develop a comprehensive national freight strategy that addresses multi-modal freight needs in the United States. In addition to covering domestic freight, the strategy should address the movement of US imports and exports through US ports. The NFTSP should define gateways and corridors of national significance as priority areas for improvements.

B. Establish an Office of Multimodal Freight within USDOT

The US needs senior, focused leadership on freight at the federal level. A multi-modal freight office led by an official at the assistant secretary level or higher should be established within USDOT. This official would develop a national freight strategy and associated policies, advocate for freight across the modal administrations, and award funding for goods movement programs and projects.

C. Create a dedicated funding source for goods movement projects

The US Government should establish a merit-based grant program to fund the NFTSP. Ports seeking funding for freight projects, both inside and outside their terminals, should be eligible for this program. The program should be funded with a combination of USDOT discretionary funds (through mechanisms such as TIGER and the Projects of National and Regional Significance program), formula funds, and/or new freight funds. If any new fees are imposed to fund this program, they should be user fees applied universally and equitably, as discussed above. US-

bound goods transshipped through Canada and Mexico should be subject to the same fees as goods offloaded at US ports.

D. Establish state and local freight planning and advisory committees

Regional, state, and local surface transportation planning efforts funded with federal funds should be consistent with the NFTSP. In addition, each state should develop a freight plan that describes how each state is implementing the NFTSP, and they should be directed to establish a freight advisory committee, with broad public and private membership (including ports), to advise the state on freight issues and aid in the development and implementation of the state's freight plan.