FEDERAL MARITIME COMMISSION

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INTERNATIONAL SUPPLY CHAIN EFFICIENCY:

CHALLENGES FACING SOUTH ATLANTIC PORTS

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THURSDAY, OCTOBER 30, 2014

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The meeting of the Federal Maritime Commission convened in North Charleston, South Carolina, pursuant to notice at 9:50 a.m., Michael A. Khouri, Commissioner, presiding.

PARTICIPANTS:

Welcome:

MICHAEL A. KHOURI, Commissioner
Federal Maritime Commission

Motor Carrier/Trucking:

KEN KELLAWAY

JOSHUA OWEN

PHIL BYRD

DAVE MANNING

CURTIS WHALEN

Ocean Carriers:

JOHN TRONTI

PARTICIPANTS (CONT'D):

EDWARD MCCARTHY

JOHN FOERTSCH

Railroads:

TRISH HAVER

PHIL NOURY

CARL WARREN

Chassis:

BERNARD VAUGHAN

VAL NOEL

PHILIP WOJCIK

BERNARD VAUGHAN

Labor:

KENNETH RILEY

Shippers & Logistics:

DON PISANO

ANDREW MORELLI

MARLON JONES

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P R O C E E D I N G S

COMMISSIONER KHOURI: We have a pretty tight agenda, and if we can work in a break schedule or two, especially for old fellows like me, it's helpful. I think Curtis and the group were deciding on what order they were going to speak, and a couple like the podium, which I do too, so I'm just going to let each one get up, and they can introduce themselves and speak in whatever order they are comfortable.

So motor carriers, we heard from the port community, you're critical on the entire supply chain, and look forward to hearing your comments.

MR. KELLAWAY: Well, thank you, Commissioner, and thank you to everybody that's here today from the international community.

My name is Ken Kellaway. I know a lot of you here today, and I'm going to try and make sure my comments are nice for the Southeast ports, because I really do enjoy Hall's, it's a great restaurant, and I don't want you to throw me out of the Southeast area.

So a lot of my comments are focused on some other ports around the country, where a lot of you know the challenges are today, but we have somewhat of a formal written agenda here to go through, so I'll work through it and open up for comments if we need to.

First of all, I appreciate everybody's time here today. I've been in the industry for about 30 years now. Our company, RoadOne Intermodal Logistics, runs about a thousand trucks around the country. We're in 40 locations, servicing both ports and rail ramps around the country.

And clearly, I think it's an important date today. We're here because we're starting to see a turning point in the industry, that the weakest link in the international supply chain, the drayage industry, needs to finally be heard.

I believe one of the key reasons is that all of our predictions are starting to become reality. For many years in the drayage industry, we have warned the international community that the key industry trends would ultimately result in significant decline in driver capacity that would eventually impede the flow of goods to and from our ports and terminals.

When we look at our import supply chain today, we see and we realize that our estimated $7 trillion sector is directly impacted by the highly-fragmented financially fragile $10 billion intermodal drayage industry, and as a result, I think we're justified in being here today.

During my career, I've witnessed a lot of changes throughout the industry and have worked very closely with groups such as ATA and others to try and find sustainable solutions for the business going forward. However, over the past few years, we've seen an escalation of events that have developed on multiple fronts that have created the perfect storm in wiping out both drivers and drayage capacity, from government regulations and hours of service, CSA score programs, to growing steamship vessels sharing alliances and larger vessel launches, down to the conversion of chassis ownership and management from the steamship lines to the pool operators and drayage providers.

We have argued extensively about these changes and the challenges and have lived with the problems they have created within our industry and have witnessed firsthand the meltdowns these changes have had in key ports like New York/New Jersey last year and most recently now in Los Angeles.

We have seen the effects that many of the similar issues had in Vancouver earlier in the year and the aggressive action that finally resulted in per port drayage drivers and the economic impact a port drivers strike can have. This key event demonstrates that the weakest link in the supply chain, if taken advantage of and if not treated properly, can suddenly become the most important link in the supply chain.

We must challenge ourselves to work together as a community within the industry to find a path forward that allows for all stakeholders to share in the risk and to take responsibility for the issues our operations create. The drayage communities and the drivers within this community cannot continue to bear the economic burden that is being pushed downstream from the stronger members within our industry. With less than 90,000 drivers in the drayage sector today working for over 5,000 companies, and no one player really being over $250 million in revenue, this industry is fragile and extremely volatile.

The drayage community is going to continue to be negatively impacted by radically increased per diem costs, demurrage costs, chassis Maintenance and Repair costs, pier delay costs, equipment repositioning costs, along with normal increased operating costs, and this industry will be unsustainable to remain in for many years due to the lack of return on vested capital and the lack of interest from strong, smart investors to continue to invest in the business going forward.

Our fellow community members must step up and take responsibility for their own actions, as the drayage community has done. The same quid pro quo has not really been applied in this industry.

I know that as a drayage provider and transportation company, if I'm late trying to pick up equipment at a terminal, I'm going to get assessed demurrage; however, if there's late turn times and slow turn times at the gates, and I don't mean when we get to the front of the gate, I mean when we get in line, that we're not being compensated and the drivers are not being effectively compensated for that time in queue, and that needs to change.

We know, on the chassis side of things, that we pick up equipment that's damaged, and we're being penalized when we return that equipment back to repair, that we're not being paid when there are no chassis available or when that equipment is damaged out on the street at no issue of ours, that we didn't create. So those things have to change. These are just a few examples, of course, but they have to change.

And at the end of the day, the business is really all about driver economics. The simple fact is we've built a significant part of the supply chain around an independent driver model, and we need to support these entrepreneurs in their effort to make a fair wage.

With the continued reductions in productivity at the port -- in certain ports, not the Southeast in some instances, I'll highlight that -- increased pressure to perform and the quality of their equipment demanding them to be more sustainable in their equipment, along with stagnant rate levels, it is becoming virtually impossible for drivers to succeed.

The result is being witnessed as we see driver capacity continue to decline as drivers move to new industries, and this overall blue collar work force continues to erode. We need to restore this model and make it more attractive to drivers, one where they can be productive, be respected, be profitable, and live the American dream.

We at RoadOne have worked hard to help our drivers accomplish their business goals by helping to obtain new equipment through equipment lease programs we put in place for them, provide them with good quality freight that pays fair rates for the requested service, and save -- and focus on conserving terminals and regions that have the necessary infrastructure and systems to properly allow for good, efficient turn times.

Like all our partners in the community, we want to succeed, and we want to see our drivers succeed. It is critical that we all work together to understand the underlying impact systemic changes have on all stakeholders within this import community.

To better understand what driver turnover issues are on the marketplace, we continue to poll our drivers consistently upon exit interviews, and over the past eight months, since the bad winter of last year, we've seen our driver turnover increase over 25 percent, and now it's up over 100 percent for the first time in our company's history.

And the top two reasons we see that turnover escalating, according to our driver poll, is our rates and respect, and the respect is the respect that they get at the ports.

And I am happy to report we polled all of our drivers, and we polled all of them on the Southeast terminals before I came today, and the scores in the Southeast terminals were the highest in how they were treated than anywhere in the United States, so I was very pleased to report that, that the drivers feel they're being treated better at the gates here in the Southeast than any other ports in the United States, so that was very nice to see.

But we have to continue to work on the rate side of things, and we have to continue to work on the respect side of things, mostly in my own backyard up in the Northeast. We have some significant challenges up there.

But on the rate side of things, we have to continue to work on that. We've all witnessed Consumer Price Index (CPI) changes over the last five years of over 12 percent. We've seen dramatic increases in operating costs in the drayage community as we're working with neutral chassis pools, doing more and more equipment repositioning on terminals, things such as that, but yet rates have barely moved 3 percent over the past year or two, so we need support in that.

We also need to increase community awareness of the importance in drivers. I was very pleased to hear all the port operators talk about drivers in the community today, because they are a key catalyst to success today, and we need to do that both internally within our organizations and externally.

And we have our own challenges internally at RoadOne of making sure our people embrace our drivers better and understand that they're the catalysts to success even internally, so we need to push for that.

So in our opinion, there really are five key things that need to take place both in the short term and the long term in order to create stability and sustainability in the industry.

We need to improve gate hours. In our polls, all the positive things took place in the South. One thing they did request was extended gate hours, especially due oftentimes to the congestion that takes place during the normal workday, not necessarily on the terminal, but dealing with traffic congestions out on the street. It's a challenge. And we've seen -- the one successful thing we've seen on the West Coast has been the night gates. Of course, we've supported that, to let the drivers work in noncongested times.

Gray chassis pools. I know Dave's going to talk about chassis, but we can no longer be burdened with repositioning chassis around terminals. We can't have chassis in silos. It creates tremendous complexity for us, especially where we're working for a large importer that might have seven different steamship lines, using different types of chassis. We have to get that streamlined, and it has to be more of a gray pool-type concept, in our opinion.

We need rate relief, not only because the cost of service has come up, but the requirements of service have gone up dramatically in the drayage industry, the off-dock chassis pools now, with multiple chassis pools taking place, with the Maintenance and Repaircosts now being moved from the steamship lines more to our side. We're paying a significant amount of Maintenance and Repaircosts when the chassis are on the street. These things need to be compensated for in rates, and we dramatically need rate relief on that, and we need to make sure we get these drivers a fair rate of pay in order to attract them back into the industry as we did before.

Extended equipment free time. Again, we can't be burdened with penalties on equipment both on demurrage on terminal as well as per diem off terminal if we can't get in and out and don't have the fluidity to get in and out and especially as larger vessels come into play. Of course, it's virtually impossible to us to dramatically change the number of drivers in any one day. It's a finite number of drivers. They can only move so many loads, regardless of how many loads of discharge in a port in any one day. We need extended free time help.

And most importantly, again, we need the drivers to be treated like customers at the terminal. Jim Newsome highlighted it. It was great to hear him highlight that. That's the first time I've ever heard it said in this industry, and we appreciate that, Jim. These drivers want more respect. Candidly, they deserve more respect in some areas. And again, we have to do it internally at RoadOne at our own companies, but we need you folks to help us on the terminal side and to get them through the process easier.

When we bring in new drivers, our turnover is over 200 percent within the first 90 days. Now, that's mostly new drivers coming into the intermodal sector that have never experienced the process they have to go through when they get to the terminal, and within 30 days, they decide they don't want to do it, and a lot of it's because of the difficulties of getting through the amount of terminals and the process and how they're treated on the dock. So anything we can do to improve that would be greatly appreciated.

So that's it. I thank you all for your time. These are my comments, and appreciate the opportunity to speak today. Thank you.

COMMISSIONER KHOURI: Thank you, Ken.

MR. OWEN: Thank you, Commissioner, for the opportunity to make comments today.

Originally, I was going to just -- I had a couple points, a couple anecdotes I was going to freely speak to, but I realized on my flight in that I didn't want to miss anything, so I actually wrote my comments down.

My name is Joshua Owen. I'm the president of Ability Tri-Modal. We're a third generation privately-held trucking and warehousing company based in Southern California since 1947. Beginning November 1st, 2014, we'll be expanding our company and building a warehouse here in North Charleston, just about 15 miles up the road here.

I serve on several of the industry and academic boards as related to logistics. These include the American Trucking Association's Intermodal Motor Carriers Conference, Cal State Long Beach's Operations and Supply Chain Management Undergraduate and Master's Advisory Board, The Center for International Trade and Transportation, along with Port of Long Beach Harbor Commissioner Rich Dines, and I teach a class in trucking and intermodal at Cal State Long Beach in the global logistics specialist credential program.

My comments today will primarily come from the operational environment of the San Pedro Bay port complex, which includes the landward ports, Los Angeles and Long Beach, and the 13 tenant marine terminals.

There's a saying in our industry that the cancer tends to start in California and spreads to the east. My hope is that my comments today will prevent this from happening and also to begin chemotherapy on the existing sickness.

I believe in logistics, there are three central factors: Accessibility, predictability, and uniformity. In Southern California, we have a couple characteristics that differentiate us from other port operations. One is that we have a landlord/tenant relationship that makes it difficult and limits the ability of the Port of Long Beach and the Port of Los Angeles to control productivity and operations at the 13 marine terminals.

And the most obvious differentiator is PierPASS. PierPASS was created in 2005 as a response to then assembly member Alan Lowenthal's traffic and congestion mitigation bill, 80-26-50, which was designed to expedite truck throughput in the port complex. PierPASS was a marine terminal operator's response to traffic mitigation by opening up nighttime operations at a port historically operated during the daytime.

The initial response from the trucking community was negative, due to the fact that previous attempts to open nighttime gates was a disaster, due to poor staffing. Not having any other recourse, the trucking community was thrust into PierPASS.

I believe the original daytime penalty, or traffic mitigation fee which it's called, was around $80 per 40-foot container FEU. The original draft of the PierPASS, with the waterfront coalition's input, called for a sunset of the fee after three years or when nighttime gates reached 30 to 35 percent utilization. Supposedly, that sunset clause was lost in the final Marine Terminal Operator (MTO) adoption of PierPASS under West Coast Marine Terminal Operator Agreement (WCMTOA). Not only has this sunset clause been scoffed at by PierPASS, the fee today is about $133 per Forty-Foot equivalent unit (FEU).

This fee is charged directly to the beneficial cargo owner (BCO), who then dictates to the trucker that we only pull their containers after 6:00 PM when the traffic mitigation fee (TMF) penalty goes away. We are now nine years in the PierPASS program, which, by the way, hit over 35 percent night gate utilization within weeks in 2005. Today it operates more along the lines of 60 percent night/40 percent day.

The real problem with how the nighttime gates are run is that they are unpredictable and not uniform. Different terminals choose to staff night gates during certain times of the week. Some may close night gates on a Thursday or Friday and then not open back up until Monday. That's up to five days of inaccessibility for BCO containers that have limited dock time and at some point will begin to accrue demurrage, regardless of accessibility to the containers.

Staffing hours are a gamble as well. PierPASS night gates are supposed to run from 6:00 PM to 3:00 AM. This is just not the case. We experience times when a terminal will cease operations at midnight or at 1:30 AM to allow the terminals to process and clear so labor can go home at 3:00 AM. We have had drivers hooked up to loaded containers and sitting in the exit queue be told to return the container to the terminal because exit gates were closing.

Of all 13 terminals at San Pedro, rarely are any of them open and operating at the same time. That means I have yards filling up with empty containers and drivers bobtailing to terminals because the terminal isn't open to return empties while I'm trying to coordinate pickups from another terminal, or, like we've been experiencing lately, terminals send out announcements telling truckers to not return the empties at all.

Last month we were notified some terminals were going to operate Saturday gates. We had our independent contractors come in to operate on that day. Gates opened at 1:00 PM and closed at 3:00 PM that afternoon. That equated to one container per driver. That was a driver that committed to work over his family in the middle of a Saturday. He came to work at 11:00 AM to begin pretrip and dispatch procedures, and then he's told by the marine terminal that they decided to close due to congestion.

The port drayage business is predominantly independent contractor based. These drivers are paid on the number of loaded containers they bring in and the empty containers they return to the marine terminal. We calculated that on average, a driver needs four loaded containers, or loads, per shift. The first covers the tractor expenses -- insurance, maintenance, et cetera -- the third container sees profit, the fourth container sees pure profit.

My warehouses in southern California are situated seven to ten miles outside of the Port of Los Angeles (LA) and the Port of Long Beach. My drivers are averaging anywhere between 1.4 and 2.8 containers per shift. Cherry-picking the most productive terminals, we can get the driver to pull four to five containers per shift, but we average the productive terminals -- but we average the poor-performing terminals and the better-performing terminals across our driver pool, to be fair to all of them. You're going to get a plum, and you're going to get a dog, and that's just the way it goes.

Imagine driver morale in a 1.4- to 2.8-container-per-shift environment. These men and women aren't working any less. If anything, they're working as hard as they can within the ever-shrinking hours they are federally allowed to operate and getting shortchanged by unproductive marine terminals.

We have had about seven drivers walk away from their leases on their equipment. I don't lease the trucks to them; they have a lease agreement with a third party that secured grants on their own to provide owner/operators with affordable leases. But when you're basically working to pay your lease, what's the point?

One of the most productive gates in port history, in my opinion, was the hoop gate. This was a gate open from 3:00 AM to about 7:00 AM. We turned and burned those hoop gates, and our drivers were the happiest and most productive I've ever seen them.

There is a belief that if PierPASS went away, truckers would shift back to day only. No way. As long as you have an open, accessible, productive gate, I don't care what time it is, truckers will be all over it.

When the Port of Los Angeles and Port of Long Beach Clean Truck Program was enacted in 2008, many trucking companies saw their fleets cut in half. The silver lining to the simultaneous recession was that the capacity adjusted to the declining volumes. And I truly believe we have the right amount of trucks in the ports today, but that's only if productivity is good, which it is not.

In June of this year, I received an email from one of my larger BCO customers based in Atlanta, Georgia. The email notified my company that they would be diverting 100 percent of their container volume away from the West Coast until there is a contract signed by the Pacific Maritime Association (PMA) and the International Longshore and Warehouse Union (ILWU).

A week following this email, I happened to be having lunch with some friends that work at the Port of Long Beach. While we were there, Port of Long Beach Harbor Commissioner Rich Dines walked in, and we chitchatted for a bit. Then I asked Rich: So when are your brothers going to sign that contract so that my customer can bring their freight back to its ports?

Rich is a friend of mine, and we've known each other for years, serving on the CITT advisory board at Cal State Long Beach. Rich, being an ILWU employee, and me a trucker, we have been able to have a working friendship where we can chide each other from time to time. But this time his response was disappointing. He commented: Why would they do that? I can't believe -- why would they do that? As a harbor commissioner, I would have expected something more along the lines of: How do we get that freight back to the West Coast?

In summary, it's actually unfortunate the ILWU isn't on strike right now. For the past several months, it is very apparent that labor is slowing down and staffing more casual labor, but even though nearly every truck has Global Positioning System (GPS) tracking and turn time management programs in place, I'm still just turning two containers per shift, and my terminal is seven to ten miles away, but until someone is standing with a picket sign blocking gates and driveways, slowdowns are opinions and hearsay.

Just really quickly, I was at lunch, and I received a phone call from a gentleman from Family Dollar. His first response was: I think I know the answer to this question, but I'm going to ask it anyway. Do you have any dray capacity? And I said: Unfortunately, I don't.

As an example, the previous night, I had 140 containers that were customer containers on the last free day, and we figured with the productivity in the port, we could probably get 81 of those 140. We only got 71. The gentleman from the Family Dollar said: I'd take that any day. Try having 300 containers on the port and only getting 40 last night.

So just in summary, I would stress that the three points in port operations, as far as a trucker is concerned, that need to be addressed: Accessibility, predictability, and uniformity.

Thank you, Commissioner.

COMMISSIONER KHOURI: Thank you.

MR. BYRD:: : Good morning, Commissioner Khouri. I sincerely appreciate this opportunity to discuss the very critical issue of congestion in America's vital South Atlantic seaports.

My name is Phil Byrd, and I'm the president and chief executive officer of Bulldog Highway Express. Bulldog is a 55-year-old asset-based trucking firm domiciled here in Charleston, South Carolina; therefore, a lot of my comments this morning will be specific to operations of the South Carolina Port Authority.

Our company has four operating units: Flat bed long haul, specialized heavy haul, contract dedicated, and intermodal. Our intermodal division primarily serves the ports of Charleston, South Carolina, and Savannah, Georgia. In Charleston, we typically make or move 500 container drayage moves per port day, Monday through Friday. We perform this service for numerous customers with the use of approximately 80 assigned asset company trucks serving the Port of Charleston on a daily basis.

Each of these trucks utilize state-of-the-art technology to garner operational efficiencies, such as computerized dispatch vehicle tracking, enhanced communications capability, and two-way radio communications. Our trucks are staffed by experienced, well-trained, professional asset drivers that have, on average, 18 years of container drayage experience. I am also the immediate past chairman of the American

Trucking Association, ATA, and the current chairman of ATA's executive committee. ATA is the trucking industry's leading voice of representation for safety, advocacy, essentiality, sustainability, and research.

Having been intimately involved in leading ATA over the last five years, I am keenly aware of our industry's most alarming issue currently and well into our future: The looming driver shortage.

ATA has studied this issue extensively and predicts that by the year 2022, there will be a shortage of 239,000 commercial motor vehicle drivers. Further studies have indicated that over the next ten years, this industry will need to hire 96,000 new drivers per year, just shy of 1 million drivers over this time period, just to provide our economy with the same capacity it does today.

The American trucking industry across all sectors currently moves 68.5 percent of all the total tonnage manufactured, imported, exported, and distributed in the United States. This percentage is expected to grow over the next ten years to 72.5 percent. Having knowledge and being in possession of such alarming data makes these discussions extremely timely.

Productivity is, in large part, driven by efficiencies up and down the logistics supply chain; therefore, it is critical that all types of congestion and causes of lost productivity be thoroughly studied and remedied.

My comments to this body are not to be taken as negative criticism on the part of South Carolina State Port Authority or any other port, as I have worked closely for decades with all aspects of the South Carolina State Port Authority and know that they are eager to increase volumes across their docks and through their gates, which means continually improving truck productivity, so the following comments and observations hopefully will be helpful in this process.

First, truck gate wait times. It is a common practice for ports to start the measurement of in-and-out time, turn time, when a driver reaches the interchange booth, meaning time waiting in line to get to the interchange booth is not measured. This practice, in my opinion, skews the actual process time considerably, creates considerable driver dissatisfaction, and motor carrier economic loss.

At Bulldog, we measure our operational costs on a per-hour basis based against our known operating costs. It is common to see extreme variations in this measurement from week to week of up to 20-percent deviation.

At Bulldog, our drivers are paid on an hourly production and safety matrix scale. This scale ranges from $20 an hour to $27 an hour, a $7-per-hour differential, based on productivity and safety measurements from the prior month. Their pay can actually fluctuate on a monthly basis, this hourly compensation.

Because of port-related inefficiencies, our drivers, as well as our company, are monetarily impacted. These inefficiencies are not just at the port, but extend to warehouses, rail ramps, container repair facilities, and most noticeably on our state's overly-congested highways.

Another huge factor in port terminal turn time is the road readiness of steamship line and chassis providers' equipment, as well as its availability of this equipment. Motor carriers routinely find themselves draying equipment to on-dock repair shops to have another party's equipment made safe and Department of Transportation (DOT) road ready. We find that this is a major loss of productivity and another economic burden to the motor carrier. Of course, the motor carrier is not compensated for draying bad-order equipment to on-dock repair. Neither is the motor carrier compensated for delay time at the port.

Here in Charleston, we have limited access to our gates during the lunch hour, and this creates a backup of trucks and a loss of approximately one-half hour of truck production.

Additionally, another problem unique that we see that could be easily remedied is that drivers will line up in specific lanes to work through the gate process, and, while in line and without notice or warning, have that line shut down, causing the driver to fall out of that line and be required to take the last position in another line. Once again, this causes driver frustration. A simple remedy to this might be to post a sign stating when you're going to close a certain lane down.

We also observe that Monday truck productivity is reduced because of the weekend vessel discharges. Container ships work throughout the weekend, but typically, there is little to no truck outbound activity.

Chassis ownership and deployment. We find the gray chassis pool model to be beneficial in improving productivity and efficiency. For a motor carrier to find a roadworthy chassis at the beginning of a workday and use it for the duration of the day, serving numerous steamship lines, is extremely productive. However, this process has created a cumbersome chassis rental reconciliation audit for the motor carrier.

At Bulldog, the chassis reconciliation process volume has required us to hire numerous additional personnel to do nothing but audit chassis builds. We, at our company, are aggressively adding to our already large Bulldog-owned chassis asset pool.

Congestion factors outside the port gates. It is important to understand that the water side of the port operation runs 24 hours a day, 7 days a week, while the truck gates only work eight to ten hours a day, typically, Monday through Friday. This imbalance of operating time is, in large part, a major reason for production losses and operational inefficiencies.

Private sector warehouses, distribution centers, rail ramps, steamship line offices, and government agencies most normally conform to schedules that are reflective of the port's truck gate hours. This disallows trucking firms to double staff or stagger their equipment and personnel to extend the given workday; therefore, exacerbating congestion during the eight- to ten-hour workday.

The South Carolina State Port Authority, in particular, has worked extremely hard to grow our port volumes, with considerable success, to the delight of all of our port vendors.

It has been quite obvious to us at Bulldog that the two rail ramps serving Charleston have not adequately beefed up their operations to effectively handle this increased volume. We experience longer delays at the rail ramps than we do at any of the Charleston port terminal facilities. There is simply not enough container handling equipment in place to move the trucks in and out with any degree of efficiency. This is, and I emphasize, this is a major cause of lost productivity in the entire port process.

Additionally, we see our highway infrastructure as another major impediment to port productivity. I applaud the management of the

South Carolina State Port Authority and our state legislative body for their work in getting funding to deepen the Charleston Harbor and to modernize all phases of the port operations inside the gates; however, South Carolina roads need to be addressed and need to be addressed adequately.

Interstate 26, the major artery into and out of the South Carolina State Port Authority, is incapable of effectively handling the traffic volumes of today. This interstate needs to be expanded from start to finish. Interstate 26 intersects, as you know, with Interstate 526 in North Charleston and runs to Mount Pleasant, South Carolina, where the South Carolina State Port Authority's largest terminal facility is located, the Wando Welch Terminal. Interstate 526 is a much newer highway than is I-26, but is, nonetheless, overcongested and adds to the loss of port productivity. At the intersection where these two interstates connect is a major bottleneck. At certain times of the day, this congestion can turn a 12-mile trip into an hour transit each way.

It is obvious to the American Trucking Association and to the trucking industry at large that we are past due, as a nation, in increasing the Federal Motor Fuel Tax and indexing it to inflation to offset fuel efficiency gains and the use of alternatively-fueled vehicles to fund our federal highway system. It is my opinion that this commission would do well to encourage Congress to address America's highway needs by stabilizing the highway trust fund by increasing the Federal Motor Fuel Tax.

This funding mechanism allows 98 percent of the collected funds to flow directly to our nation's highways, while all the other funding mechanisms require a major portion of the collection revenue to go to administering the collection process, and not to our roads.

I'm thankful for the forum and the opportunity to participate. Hopefully, through the process of the efforts of the many dedicated entities making up America's logistic supply chain, we will improve productivity and greater operating efficiencies that will benefit America.

Thank you all for your time.

MR. MANNING: Good morning, and thank you, Commissioner Khouri, for the opportunity to speak today.

My name is Dave Manning, and I wear multiple hats today. My paying job is president of TCW and Tennessee Express, an intermodal company that was established in 1948. We're also a third generation motor carrier operating primarily in the Southeast.

I'm also privileged to serve as a vice chairman of the American Trucking Association and as the chairman of the North American Chassis Pool Cooperative. It's a cooperative of motor carriers that has formed a chassis pool to offer an alternative for chassis provisioning as this model is continuing to develop. And so what I would like to address today are our views, the motor carrier views, on what that chassis model would look like that would be most efficient and productive for our ports.

So from a motor carrier perspective, the chassis model adopted at each port must allow for a maximum opportunity for marketplace competition both at the pool management level and at the end user level. We strongly believe that a free market will provide the proper environment for the best chassis model to evolve and at the lowest cost.

Sadly, today, that's not the case in any of the existing models. A single chassis pool forced upon the chassis contributors by a port, even like we have here in the South Atlantic Chassis Pool, or SACP, while it gets kudos for the gray and improving efficiency, it falls far short of some of the benefits that come from free market competition.

A single port-directed pool like this actually takes on a form of socialism. It stifles innovation and free market competition, which are needed to drive investment in new and modernized chassis, to improve cost containment, and for more efficient operations.

Moreover, the failure of the marine carriers to completely exit the chassis market and the restrictions they exercise today that prevent the trucker from being able to choose their chassis provider, even when they pay the bill, leaves the day of the rental charges subject to little or no competitive rate pressures.

So the North American Chassis pool Cooperative, LLC (NACPC) was actually formed because of this noncompetitive market that was created by the marine carriers, and I want to talk a little bit more about sort of how this current unacceptable market primarily operates.

When the marine carriers sell their chassis to the leasing companies, the marine carriers still dictate to the motor carriers, when moving their boxes, that leasing company has to be used for the chassis, even if the motor carrier's paying the bill.

Here in the South Atlantic Chassis Pool (SACP), there are only six of the 20 steamship lines serving this region that allow a motor carrier choice. Because these generally tend to be the smaller lines, it only represents about 8 percent of the chassis moves that are taking place in this region. The other 92 percent of the chassis moves are dictated by the steamship lines, and that's a problem.

Another reality of this controlled market, in many cases, the sale of the chassis was for a price far above the fair market value. The sale included millions of dollars of termination costs, typically, 5- to $700 per chassis, for those leased chassis that had to be terminated. It included a favorable rate, at many times below cost for marine carriers when they pay for chassis use, and in some instances, the sale included free on-terminal use for the marine carrier.

In return for those generous concessions, the marine carriers signed agreements guaranteeing the leasing company 100 percent exclusive use of their chassis. Because of this anticompetitive market, these sale terms drove up the daily use rate charged to the motor carrier and ultimately paid for by our customer.

The lack of free market competition facilitated the adoption of these terms because the motor carrier had no chance to negotiate price or interchange terms with their providers. So in an effort to challenge that closed market environment and to create an alternative, 12 motor carriers formed the North American Chassis Pool Cooperative (NACPC) and applied for and received pooling authority from the Surface Transportation Board (STB). NACPC has a four-part mission. First, we think that chassis ought to continue to be a utility and provided to the market with a transparent, at-cost use fee, but to enable NACPC to enter the market and to grow, there must be open, free market competition, and those who pay for the chassis have to have a chance to select their chassis provider 100 percent of the time.

Because of the current market restrictions, NACPC is unable to enter every market. In this market, in the SACP, we have a presence of about 1,200 chassis out of a greater than 50,000 chassis pool, a paltry 2 percent of the market, although our cost is significantly below the other chassis providers.

We believe daily chassis rate competition could be encouraged by ensuring the motor carriers have the ability to select their chassis provider each time they're paying the bill for the chassis use.

The second part of NACPC's mission is to ensure that there's an adequate supply of chassis to meet future needs in the US. Again, only with open market competition will chassis providers be encouraged to provide the investment necessary to accomplish this. No new chassis have been added to the market over the last seven or eight years, and new chassis are going to be required to meet future volume needs and to replace the deteriorating chassis that are in our fleet. Only with open market competition will this happen, and also only with open market competition enable NACPC to obtain and grow a national footprint.

The third part of our mission is that we want to ensure that chassis are modernized, to include radial tires, light emitting diode (LED) lights, anti-lock breaking systems (ABS), and auto inflation. This will serve to address the current problems with over-the-road violations which still threaten motor carriers' Compliance, Safety, Accountability (CSA) safety scores.

Brakes, lights, and tires make up the overwhelming majority of roadside violations. Chassis with LED lights, disk brakes, and radial tires will eliminate most roadside repairs and CSA violations. If motor carriers can choose their chassis provider, motor carriers will choose a provider whose chassis have these components on them and are priced at a reasonable rate. The quality of the chassis is a major factor in retaining drivers to our industry.

Fourth, NACPC's mission is we strongly believe that chassis should be interchanged according to the Uniform Intermodal Interchange Agreement interchange rules (UIIA). The UIIA is a multi-modal negotiated interchange agreement and serves as the standard interchange agreement for most intermodal interchanges except chassis. Chassis leasing companies continue to force motor carriers to sign their proprietary interchange agreements.

So NACPC's vision of how to accomplish its mission is within a chassis model that ensures several things, first, a gray pool of chassis within each port because of the improved efficiency. Contributory gray pools, like those managed by the Consolidated Chassis Management, LLC (CCM), here in the SACP, allow users to draw chassis from the pool, regardless of ownership. The contributory pool model eliminates duplicate costs and mixes the use of limited space and maximizes the use of limited space at the port by eliminating the need for a contributor to have its own chassis footprint. It also ensures an adequate supply of chassis for all users and increases productivity for motor carriers by enabling a motor carrier to use any chassis for any box. Pool managers oversee the chassis logistics, billing, inventory supply, maintenance repair, and the repositioning of the chassis, but usage agreements are determined between the chassis contributor and its users.

Gray pools, such as the ones you see are managed here in the SACP, foster an environment for improved competition for chassis users by including more than one chassis provider in a particular pool, and that works as long as the marine carrier allows the motor carrier to exercise choice.

But there's a new concept. It's called pool of pools, which is facilitated by the recent Department of Justice (DOJ) decision, and that is an improvement, a further improvement, on the gray chassis model. Pool of pools also allows all the chassis in a port area to be gray, but with multiple pool managers, thus creating competition in pool management, which fosters innovation and further cost containment.

Pool managers would be able to settle

costs for over- or underuse amongst themselves. The pool of pools concept is an improvement in the gray chassis model because it introduces competition into the chassis pool management while protecting the gray chassis model.

Also important to us is that the motor carriers are able to designate their chassis provider at one place and at one time. It's way too complicated today, and that needs to be simplified.

The pool has to take driver productivity issues into consideration -- we've heard a lot about the drivers today -- but being able to pick up any chassis at any place and terminate at any place and use it for any piece of equipment.

It also ought to improve the over-the-road process that we have today, including the cost for tire repairs into that lease rate so that the provider has an opportunity to control the quality of the repair that's made on the roadside and basically put out of business this cottage industry of used tire vendors that have cropped up.

So we see four absolutes that need to be in any chassis model: First, that it's gray; second, that it's 100-percent motor carrier choice; third, that there's free market competition at both the pool management and the chassis use level; and finally, that the UIIA is used to govern interchange rules.

Thank you.

COMMISSIONER KHOURI: Thank you. Curtis, are you going to wrap up?

MR. WHALEN: Yes. I'm going to also stay here in my seat.

Just in terms of full disclosure, I am Curtis Whalen. I'm executive director of ATA's Intermodal Motor Carrier Conference (IMCC). It's basically the ATA members that are dealing in the intermodal sector or vendors that support that as such.

Also, in terms of full disclosure, these four gentlemen here are all on my board of directors, so they are my bosses, so hopefully, as

I think you've seen, we've got a fairly unified view of what's going on here.

I think one of the things that I found very useful so far in this very short period of time with the Federal Maritime Commission's (FMC) efforts on setting up these forums is it's only been -- what, we're working on six weeks now, and they will have had four after that six weeks.

There certainly has been a very good focusing of the issues from all of the various sectors that are involved in this big issue. I think if you look at what we're saying, and I think we'll hear later on from the other sectors, we pretty much know where the problems are, how they are manifested within the movement of the containers and the movement of freight in and out of the port system, but what I found somewhat different than I have over the years that I've been doing this, there is now a realization that as it relates to the movement of the container and all of the various stakeholders, the trucker right now is probably the one that's bearing the most burden as we look at some of these congestion issues, and by and large, again, I think there's a realization that that issue has to be addressed sooner as opposed to later.

One of the things that, again, all of these gentlemen have touched on, we operate within an environment where a lot of our work rules are very much dictated under federal law, and what has become apparent in that, and, again, part of ATA, we are challenging those laws, but in the short term, they obviously are the law. We have to comply with the various requirements in terms of total hours of service, how we structure our weeks. There's something called the 34-hour restart, where a driver has to declare and set up a system where their eight hours of back-to-back rest are programmed into their schedule and adhered to.

What is now becoming apparent, as we've seen congestion in areas particularly on the East Coast and also West Coast, is that the ability of a port or a terminal to all of a sudden try to respond to a container issue or a congestion issue, we've seen, particularly in the last six months in both New York, New Jersey, and Norfolk, they will announce they're going to stay open on a Thursday or run Saturday gates. Well, the problem is when they do that, there are no trucks available, and it would be nice if we could show up.

Certainly, the drivers and their companies would like to continue to try to generate revenues in these trying times, but you cannot do that. So the ability for us to react, as we have often reacted to some of these dictates from our brethren within the container moves, we just don't have that ability anymore. That has to be programmed in much more than it has historically been done.

I also think, as we look at the congestion issue for those ports that are experiencing it right now, and they are very visible, they have to deal with certain things in a very short-time basis, and there are clearly things that can be done, but some of them perhaps will alleviate the short-term issues, but the long-term, there has to be some really major rethinking of how the processes have worked.

And I think in the first panel, there was reference to 1960 operational things that are still being followed here, and generally, when you talk to people in a noncongestion time, you ask: Well, why are you doing it that way? Well, the answer is usually: Well, we've always done it that way. It's one thing to say that. We have a lot of new things that are coming on board in terms of the actual business, but we also have issues with chassis and how they're programmed in, but it does get down to a data-driven system.

We, again, as an industry, while each sector works in its own silo and may be developing their data sources and such, there is still a huge reluctance to share that information, so in the context of what a terminal has for its metrics or what's going on at the terminal operation on a given day, well, they want to know that. It would be very useful for the motor carriers who dispatch truckers to be able to get that information in real time and be able to more efficiently use that challenged resource of the driver to be able to move in and out of the process a little better.

I understand there are competitive issues there, but I do think, particularly in the port area down here where you all are not in that crush right yet, and I hope you don't get there, but it would probably behoove you, and I know a lot of you are, to be starting to work on developing sort of operational metrics for your various facilities that will be tested and proven and accepted in the broader range for when you do get into some of these problems, if you do, in the future.

Right now, trying to do it in -- sort of in the scramble mode, where nobody trusts anybody else's numbers and are reluctant to make them visible, I think, is causing some problems to try to solve at least the short-term issues in the other ports around the country.

On hours of service, as I said, while we, as an industry, are trying to address and have some of the provisions changed, in the short term, one of the things that we are looking at is potentially filing waivers to the process where the port trucker, in specific ports, could get some relief in a 90-day mode to be able to drive more hours, particularly be able to adjust the 34-hour restart. That process, I think, is being aided by what we are doing here today and the rest of the week and have done in the past.

I am reasonably confident, as one who would participate in that, that I could get comments, letters of support from the other stakeholders within the industry, because, again, I think there is a wide recognition now that the driver, particularly in the short term, but also in the long term, has to be able to be able to function correctly, so the entire maritime transportation system, as it relates to the container moves, can still function and get out of the current problem that we're in.

I might also, at that stage, ask for some comment from the FMC as it relates to their views which they will be putting together in terms of the crisis mode that we are in. While I appreciate there are a variety of jurisdictions that deal with trucking, and FMC is not directly one of them, the other agencies, particularly Federal Motor Carrier Safety Administration (FMCSA), fully understands and I think is feeling somewhat uncomfortable by its role in the chassis safety issue. They have not enforced the law that's been on the books since '05 and enforced since '08.

One of the issues is we deal with where are those chassis? Are there enough? I continually have to stress the issue that it's not just the number. Those chassis are required under law to be roadable and safe, and in many areas, even where you can find a chassis, it is not in that condition.

So if a driver is lucky enough to find a chassis on a particular day, he is faced with the option of trying to go out, after waiting some unknown period of time in a line, with or without a particularly safe chassis. That's not a fair position to put them in. That is a position where the law states that the chassis is supposed to be roadable when it gets there, but they are not.

So again, I think the emphasis now through these FMC activities has very much heightened the awareness and made it a far more discussed issue as you go around the country every week as we do all meetings with various port entities that discuss it.

So I think they are feeling the heat, the FMCSA, and I think that approach, as we potentially file for waivers, would be very useful in that whole context of when it should be part of the solution and not the problem.

I think the other area to look at, as we look at the driver issue particularly, again, that is a fungible commodity. If I'm a truck driver, whether I'm an employee or an owner/operator, I have a good driving record, I have a valid

Commercial Driver's License (CDL), this industry, and that's the entire trucking industry, is historically driver challenged. We don't have enough. And the drivers now who have historically wanted to be the port driver, the daily driver, shorter distances, get home at night and the weekends to be with the family, they are basically now in a problem where I can take that CDL, with or without the truck, and find a gainful employment elsewhere. And it is unknown at this time whether they will come back to the port business if we get into a situation where there is not congestion as the normal process.

So it's very complicated, there are a lot of moving pieces, and a lot of them are new. And I again very much want to thank the FMC for jumping into this issue and providing a very good, much-needed focus and rallying point around the country to look at this issue.

COMMISSIONER KHOURI: Thank you all so much. I appreciate it. You're obviously a key part of all of the issues. We're a few minutes behind. If we could kind of shift real quick. And we have three carriers, vessel carriers, who agreed to come up today, and thanks again.

We have to get done with the other three panels. I've spent a lot of time reading the curriculum vitaes and introductions. If we could just keep moving through the agenda. We have two more to go between the period of lunch.

Another perspective is that of the ocean carriers themselves, so let's take off.

MR. TRONTI: Thank you, Commissioner Khouri. Good morning.

My name is John Tronti, with Crowley Maritime Corporation, out of Jacksonville, Florida. I have the fortunate pleasure to spend a great deal of my time here in Charleston, as my daily function is as the managing director of Marine Transport Lines (MTL) here in North Charleston. I can't miss them.

I'm happy to say that port congestion isn't really an issue for us, because we haven't been operating a whole lot. That could change soon. A couple of marine reserve force ships were actually activated this past week for operation of unified assistance, so we're standing by.

But under my Crowley Maritime hat, we do have owned and managed vessels that call here in Charleston, and in speaking with the reps that manage those vessels rightfully, they report is all is well here in the Port of Charleston, and congestion in lay time is not an issue.

My experience here in Charleston, very aligned and energized maritime community who seem to be well in control of their economic destiny, so that's good.

Crowley Maritime, if I can just tell you about us a little bit, a very diverse company, started back in the late 1800s. Tom Crowley had a smaller fleet back then, started with an 18-foot row boat in the San Francisco Bay ferrying supplies out to vessels at anchor. Now it's a $2 billion diverse company with over 260 vessels, owned and managed terminals, and rather diverse line providing shipping and logistics, project logistics, global freight, Alaska fuel sales and distribution, petroleum and chemical transportation, power ship assist, tanker escort, project management solutions, ocean towing and barge transportation, vessel design and construction management, ship management, and marine salvage wreck removal, and emergency response. So the service line is extensive and spans various sectors.

Today I want to focus -- today's focus is on line of service in the petroleum fleet, which I'll talk a little bit about, which we routinely call here on the Southeast ports and trade in the Jones Act. And Crowley Maritime is a Jones Act US flag-centered carrier, and it's important to our business.

With that, the petroleum and chemical transportation business is really in a Renaissance right now, clean products side of it. The shale oil and fracking that's occurring in the Midwest and around the US is really creating a situation where petroleum transportation in the Gulf and around various oceans around the US is really growing. So we presently -- or recently -- completed a 17-vessel construction program, 17 articulated tug barges (ATB) that are all under time charter and operating. We have five additional US-flagged tankers under construction in Philadelphia right now.

So I guess the theme here is that the Jones Act is alive and well. Ships are being built in US yards. That's good for the US shipyard base, because the military construction is dwindling, so it keeps their work force alive and well for the time. There are a total of 26 tank ships currently under construction in US shipyards at the moment.

Crowley purpose and values, it probably only has three values: Safety, integrity and high performance. And I'm happy to say that personally and professionally, I identify in a line with those values, and I don't think I'd want it any other way.

Safety's very important. It costs

money, but sending people home to their families after they've been in the terminal, been at work, or been aboard a vessel, I think that's the least we owe them in commitment.

Integrity speaks for itself, and it's a behavior that will stand on its own merit. And, of course, without high performance and a high-performing team, there is no profit in the business, and there's no growth.

The growth that we're seeing in the US-flagged Jones Act sector at the moment, it takes people to operate the ships, so that they can come to the terminals and cargo can move, whether that be in petroleum or in dry bulk or certainly container, and growing fleet means we need mariners. Similar to what I've heard this morning about the drivers and driver shortages, those shortages exist in the US-flagged mariner fleet.

Maritime academies have diversified their curricula over the years. I happen to be a graduate of one out in Massachusetts. When I went through school there, you were either a marine transportation major or a marine engineer. I'm an engineer. Now there's seven different majors up there focusing on facilities, emergency management, engineering design. So the license track cadets that are coming out of the academies, they know it's plentiful.

And shipping is cyclical, so it comes and goes. Right now, we're having trouble manning a fleet like we should, so incentives are needed, not only on the terminal side, with drayage and drivers, but we need them on our side as well to man the ships and man them effectively, efficiently, and safely.

So one of the missions there is military maritime. Recently in Jacksonville, there was a military maritime seminar where the local naval stations and local military organizations, a conference was held, and that's a transition where those skills, people who are in the Navy and have been to sea, those skills are easily transferred through the Coast Guard licensing process and the credentialing to man the fleet. And I would think that the US Army has lots of transportation battalions, so perhaps that's a place where future drivers can come.

But it's a cultural thing, as a lot of you know. Technology, the younger generation is into technology. My kids certainly run an iPad and the iPhone and everything a lot better than I do, so technology's out there in our industry. Hopefully, they'll come.

Just to wrap up, and the reason we're here, challenges in and around the Southeast US ports, for Crowley Maritime, again, none here in Charleston, as I already mentioned.

On the broad scale, public terminal congestion can be relaxed with new railheads, and turntables have reduced drayage time, and that's happening here and in Jacksonville, as I know it.

Making public agency technology-based grants to ports and terminals for increased efficiency and throughput can certainly help all lines and shippers. Again, it's a technology thing.

Pool chassis providers, which I know was recently discussed, in certain locations make sense, only in limited applications. Cost per day may be double what Crowley is currently paying in some applications, and I guess it doesn't work for everybody is the message. Maintenance costs may very well rise, and the lack of pure chassis ownership is diminished.

Truck power affected by regulatory tightening, fuel classifications on drivers, actual time in the port and at the customer's facility affect work ratios. And similar to the commercial mariner problem, recruiting new drivers is difficult. Incentives are not there, and they need to be.

Thank you for the opportunity to comment. I look forward to the rest of the day.

COMMISSIONER KHOURI: Thank you.

MR. MCCARTHY: Thank you, Commissioner Khouri. I have some prepared statements here.

I appreciate the opportunity to address

the FMC on the supply chain efficiencies and challenging the issues of the industry and stakeholders that are wrestling with the logistic supply chain today.

I'm Ed McCarthy, senior vice president of CMA CGM and vice chairman of the Ocean Carrier Equipment Management Association (OCEMA), which represents -- which is an organization that has 19 major carriers within it. Since CMA CGM has not commented in these forums before, my comments do encompass a little bit more than the Southeast Region, so I appreciate your bearing with me a little bit.

After spending nearly two decades on both the East and West Coast in port operations with APM Terminals, I have now spent the last three years on the carrier side of the business, giving me an even greater insight into the challenges that occur outside the gates.

As everyone knows, the smallest bit of congestion at the ports have a trickle-down effect through the entire supply chain. Even brief periods of congestion can lead to days or weeks of recovery. With the sustained congestion that we have seen this year, the supply chain is seriously at risk of grinding to a halt, which will impact our economy. I think that the stakeholders here today know that I'm not exaggerating when I say that the challenges we're here to discuss today have reached a crisis level in other port regions other than South Atlantic.

I followed previous port congestion forums with great interest, and I've appreciated Commissioner Khouri and the other commissioners providing these opportunities for discussion. Unfortunately, it seems to me that at the previous meetings, many stakeholders have been too anxious about their own point of view and not collaborative with other stakeholders.

We need to stop working against each other and for our own interests to come together with solutions. I recognize that each stakeholder here today has competing priorities, but at the same time, we all share the same key goal: To keep the cargo moving while making a profit.

I hope we can agree that we each need to make a profit in order to build infrastructure and reinvest in our own individual organizations for sustainability. Keeping that in mind, I'd like to highlight a few areas where I think investment is the key to resolving the current issues.

Port authorities. Port authorities we have heard from here today need to invest into capital infrastructure to ensure competitive capabilities and to develop jobs in each of their space. The large capital investments necessary to develop facilities have been slow to develop and are currently behind the industry demands. We hear a lot about East Coast port authorities and the introduction of big ships. That can't happen without the critical infrastructure developments that we need today.

Terminal operators. Terminal operators need to invest in container handling equipment to ensure they can grow their operations to eliminate congestion. In 2004, when I built the APM facility in Virginia, we knew that the EEE class of the Maersk Line was coming back in 2004. Ten years later, the majority of the ports on the East and West Coast cannot handle these vessels.

They also need to work with the chassis providers to develop programs for ensuring resources are available for timely repair in terminals that currently have more equipment out of service than in service. Terminals must develop innovative ways to promote gate flexibility and cannot simply rely on solutions such as PierPASS, which have only pushed gate congestion to peak periods in the evening.

Motor carriers. Motor carriers need to invest in their drivers to ensure there's a future for the drayage and in the trucking. We've heard a tremendous amount from the motor carriers today, and I echo their concerns.

Motor carriers also need to invest in equipment and taking responsibility for chassis in line with the model followed elsewhere in the world. The owner/operator has been squeezed through years on rates to a point where the driver's living wage is unsustainable. A lot of that is indicative of the carriers and our contracts, and this will be the demise of the industry unless we take action now.

Shippers. Shippers, NVOs, and BCOs need to invest in service levels they demand. Shippers are demanding the best service while driving rates down. Cargo is compressed into seasonal windows, straining peak capacity. Warehousing hours and drop-and-pick operations do not meet the demand for the cargo surges, so shippers are holding equipment and asking for more free time. Carriers usually grant the additional free time to secure the business, but this contributes to further equipment shortages around the country.

Railroads. Railroads and TTX companies need to invest in equipment and infrastructure and also look at operational practices that add to congestion and equipment shortages. For example, the wheel chassis operations required by railroads to minimize operational costs has a negative impact on already overutilized chassis capacity. Also, there's insufficient railcar supply in the network, causing railcar shortages and delays throughout the network. While railroads want to protect their individual interests overusage of railcars by one company to protect the interest against competition is a negative impact to the supply chain.

Chassis management and leasing companies. They also need to invest into an aging fleet in new equipment and resources needed for timely repair of this equipment, as well as to reposition equipment from the surplus locations. Depots are holding chassis that could be deployed to mitigate chassis shortages in other areas. Better positioning of equipment to meet demand, as occurs in regional gray pools, such as CCM and the SACP pool here in Charleston and Savannah, also work well and are important growth opportunities.

The United States Maritime Alliance (USMX), International Longshoremen's Association (ILA), PMA, and the ILWU. Cyclical availability in the work force and stronger internal leadership in each organization is required to meet the demands of the industry. I applaud what has been done in the USMX and the ILA to increase the work force in New York and New Jersey this past summer, including the ILA's efforts this year to limit vacation time in the Northeast to meet the demands of peak freight. Labor availability has notably improved in New York/New Jersey over 2013, but these initiatives need to be formalized in agreements with the PMA and USMX to ensure the industry's provided with consistent, skilled, and efficient labor force for long term. Certainly, the labor supply plays an important role in our confidence of shippers and carriers alike.

Last, but not least, the ocean carrier. Ocean carriers need to invest in large ships to take advantage of economies of scale. Economies of scale need to provide superior service and competitive prices. At the same time, carriers are barely afloat, losing money in the industry year after year. There is a relationship between eroding rates and the ability to sustain needed service levels. To mitigate the bleeding, the carriers have adopted a variety of cost-saving measures, such as slow steaming. However, this means that vessels, when they are delayed in a port due to congestion, it is cost prohibitive to spend the money on bunker fuel to make up the time for the carrier.

Carriers must also invest in equipment by ensuring a strong supply of containers, including specialized containers. We need to invest our time and effort into finding solutions for container imbalance so that containers are not only available, but available where they're needed.

Ocean carriers, through cooperation under the OCEMA FMC agreement have improved efficiencies at ports and inland rail terminals through the creation of regional gray cooperative chassis pools, which have freed up space on terminals, increased trucking and rail turn times, and increased competition and customer options by allowing multiple chassis providers participation. At the same time, carriers must continue to educate stakeholders on the new chassis provisions and management options available in this new paradigm, so that equipment can be managed more efficiently by other stakeholders who are in a better position to maximize efficiencies.

None of these issues are new to the industry, and the stakeholders here today, they are working on all of these to some degree, but they are exacerbated by the slow investment that we've seen to date. Volumes are growing quicker than the investment can be deployed.

I do not pretend to think that these comments are all-inclusive for each of the stakeholders, but I do hope I've identified a few of the competing challenges and areas where we can reach common ground and stop working in different directions. Until we, as an industry, identify a common path and accept that we all need to take responsibility for our financial piece of the solution, the cyclical nature of congestion will persist and only get worse.

I recommend to the FMC an industry-wide CEO-level task force encompassing all stakeholders be formed to address the issue and work towards the common industry solution. We all know the challenges, and we have the power to influence the solution, but no one of us can solve it separately.

I thank you again for your time and opportunity to discuss solutions of change.

COMMISSIONER KHOURI: Thank you.

MR. FOERTSCH: I'm John Foertsch with Orient Overseas Container Line (OOCL), and I'd like to speak about terminal velocity here and how to improve that.

We speak to motor carriers pretty regularly here. We get their input. We talk to the drivers. We have them talk to the drivers and give us the feedback. And just a couple comments.

And as we know, the industry has really evolved in the last decade or so from a horizontal model, where everything was spread all over the terminal, to a vertical model where everything now is up in the air, and we pretty much -- the density has improved by at least 400 percent, I think. At that same time, the gates probably didn't keep up with that. We've heard that the motor carriers had to move.

So with that, we need to identify the chokepoints, improve all that. The areas of concern which we spoke to the motor carriers about, number one was not enough good-order chassis when they come into the terminals. It's not a designated yard where you can go in -- they compare it to like a rental car place. You go in, your car's ready, hook up, and you go. That's a problem. They're floating around the terminals looking for these chassis. They can't find one or they get one with the least amount of damage they can, so they've got to spend the least amount of roadability they've got on those lines.

In some cases, one of the problems, they said cargo's not released. That could be the liner's fault, it could be a terminal system, or maybe the carrier didn't check. Is it insufficient staffing? Once you get in the gate, you've got to go to another gate sometimes or you've got to go to an RDG. Then you've got to wait in line again. So you're waiting in line to wait in another line is the problem. So is it insufficient staffing inside the terminal or just a shortage of yard equipment?

Another big one that hit them was the delays at the Maintenance and Repair roadability lanes. Who wants to get behind a guy with -- when you need a couple inches, and you got a guy changing tires in front of you. It's like being at the toll booth, and a guy's counting out pennies while you're trying to get through the tunnel.

So there's a couple suggestions they made for this, and one was create express lanes for empties. That way you don't have all the administration, is the booking good, is the thing overweight, things like that. So if you can flow them empties in and out, you're going to improve that velocity.

A designated yard location near the port facility -- there's an option -- for good-order chassis, and based on minor damage only. Prioritize what is minor damage and what's heavy damage. Any with heavy damage should be removed completely from the terminal so the drivers don't hook up to these things and find out now they got a big problem, probably, pulling this thing out, going through roadability. You're going to be stuck there.

Express lanes for roadability for just lights and lenses, maybe mudflaps, and minor problems. And like I said, drivers with minor issues shouldn't be delayed behind a driver with a major problem. That's what's bottlenecking everything up.

Cargo plan. In some cases we mount cargo directly from the vessel onto chassis, maybe it's got to be expedited or it's a hazardous materials (HazMat) load or something like that. But cargo planned to mount direct from the vessel to a chassis should be preinspected and held in a designated area so he doesn't have a problem when he goes to pull that box out of there.

Chassis that need major repair should be removed from the terminal for termination or sale, and that should be managed by the chassis pool or the chassis owners.

And our motor carriers reported even though we do flex hours, they said during the meal break, they see a substantial drop in the productivity there. They'd like to see that fully staffed and manned, if that can be managed, to keep the numbers flowing.

And then some terminals reported having problems because maybe multiple lanes feed down into just a few, and once again, there's another bottleneck.

So like these guys were saying, there's nobody coming out of school these days saying: When I graduate, I want to be a truck driver. So it's got to be attractive. It's got to be a win-win for everybody I think.

That's my observations on the motor carriers as well.

COMMISSIONER KHOURI: Thank you so much. We appreciate that. I think we have another mode of transportation ready to go. And again, I hope everyone has flexibility to stay for the afternoon open microphone give and take, which I hope is some robust conversation.

This is our railroad panel, and again, thanks for all of them coming in. And in full disclosure, I worked with Curtis Whalen for a number of years, and I worked with a company that was owned by CSX Corporation for several years. There's certainly no favoritism here in any description, so kick it off, and I'll start with the mean, bad Norfolk Southern. Just joking.

MS. HAVER: Thank you for having us today. My name is Trish Haver, and I am the market manager for ports and international with Norfolk Southern (NS). My primary responsibility is the Southeast port, so this is where my area of expertise lies.

Just to give you some background on Norfolk Southern and how we fit into this, we operate 22,000 route lines in 22 states and the District of Columbia, which allows us to support international trade routes. It gives us the ability to serve every major eastern seaport, ten river ports, and nine lake ports. We operate the most extensive intermodal network in the east and also have major coal, automotive, and industrial product franchises.

We invest in projects designed to expand the rail network and to increase freight capacity for our customers, and this is in support of our vision to be the safest, most customer-focused and successful transportation company in the world. We're committed to delivering product efficiently and reliably, which is one of the reasons why we've been able to experience a 5 percent volume growth year over year and year-to-date for 2014.

We've seen this growth primarily in the intermodal segments. We've seen a lot of highway conversions due to congestion. We see a continuation of our Crescent Corridor initiatives and significant growth in international shippers. We've seen some -- we've experienced some nice growth in the merchandise area as well, but it's primarily related to energy, so fracking, crude oil, steel, and construction energy markets have really been the growth engine there, and a lot of that goes into the Northeast.

We have strong growth in the automotive network, which is primarily in the Southeast, and are expecting strong corn and soybean growth this year from the robust crops. Coal continues to see a downturn, primarily due to utility -- decreases in utility mode, but that's going to be because of depressed natural gas prices.

In order to support this growth, in turn, we are very aware and sensitive to the congestion issues and how important the rail network fluidity is and velocity is to the overall supply chain.

In 2014, we adopted a $2.2 billion capital investment program, 66 percent of which will go back into investment to core network projects. These projects are primarily focused in the Illinois, Indiana, Ohio, and New Jersey areas, which also coincides with our major freight routes and our highest-density lanes and our large-volume lanes, so we are very aware of where the pinch points are and where we need to focus our efforts. It's important to note this is a 12-percent increase over 2013.

Also, in support and improving velocity in the network, which will ultimately support the ports and the international shipping, we're looking at improvements in train and engine (T & E) services as well. Through this, we're hiring new folks, we are taking advantage of retirement delays and transfers, and we're also offering vacation buy-back programs, which allows us to increase the number of crews that we have operating in the network.

It really goes back to velocity. Velocity is the key for rail support. If your network is fluid, and you are able to turn the equipment, then you're going to see service improvements.

We also have taken -- we'll begin delivery of 50 locomotives, new electric and diesel locomotives, beginning in November and December, and also begin to take delivery of 100 SMD-90 Mack locomotives to support this.

We're very sensitive to what's going on in the country right now, but I'd like to say it's pretty good to be in the Southeast as it stands today. We do not see nearly the issues in the Southeast as in the Northeast. Our biggest percentage of on-time starts as far as crew availability, locomotive usage, all of our numbers in the Southeast are significantly better than they are in the Northeast.

I think it's a function of a couple of things. We don't have the weather-related issues, we're not catching up from the problems that we had, and really, we coordinate very closely with our short-line partners and our port partners in the Southeast to make a fluid, successful transition with the rail.

Again, we are committed to keeping everything as fluid for you as possible, and you're our partners, and that's where we stand.

MR. NOURY: The little guy next?

COMMISSIONER KHOURI: You're an important part of the panel.

MR. NOURY: Commissioner, thank you for inviting Florida East Coast Railway (FEC) to be part of this panel, and also, I'm very pleased to be up here with our two distinguished railroad partners, the CSX and the NS, and we have a tremendous relationship with those folks, and I'll talk about that a little bit more.

I want to talk a little bit first about an overview of the FEC railroad. We're a little bit different beast than the Class I railroads and operate somewhat differently, and then I'll go on and talk about some of the challenges that we face and are looking at and how we're overcoming them.

And since I'm a salesman and I'm the vice president of national sales for the FEC

Railway, I have a little bit more positive perspective. I'd like to put on rose-colored glasses, and besides, I live in the Sunshine State, where the sun always shines.

So anyhow, the FEC, we run 351 miles of mainline track between Jacksonville and Miami. We are the only railroad along Florida's east coast. We are the sole and exclusive provider of intermodal rail services connecting the South Florida markets and the South Florida Gateway force with the southeastern United States, and vice versa, and we have inline relationships with these two folks right here.

And again, reliability and service are a keynote for us, as well as safety. We run one of the safest railroads in the country. Our reliability is well-known. One of our major customers is United Parcel Service (UPS), and they run on many of our trains that move daily, and we've had 2,000 days of service without a service failure with UPS. In this industry, that's fairly exceptional, particularly with such a demanding client.

We run 12 trains a day, six trains scheduled southbound, six trains northbound. These are mixed trains. We mix cargo with intermodal. 78 percent of our business is intermodal. Of that, about 40 percent is international intermodal, and that is growing, particularly with what we're seeing in the South Florida ports, in particular, with their increase in vessel colonies and freight coming through all those ports and also with the growth in the demographics in Florida.

As Brian mentioned earlier, Florida is a very popular state. It's number four in terms of TEP in the United States, and it's also now the third largest state. And the two biggest population centers are in Central Florida, with about 9 million people, and South Florida and the Greater Miami area with close to a little over 7 million people, so a tremendous demand state.

And then as also Brian mentioned, we get an influx of 100 million tourists a year. That's a tremendous amount of consumption, both in Central Florida and South Florida, primarily. Those folks are buying a lot of goods to take home with them, and a lot of that stuff comes from the Far East and the Far East trades, and so it's very important that we have the proper infrastructure in place to be able to serve that growth and maintain it.

Lots of conversations tell you about issues in trucking and chassis. We believe that we are in a better position in South Florida. We have our own trucking company, Florida East Coast Highway Services. We run about 250 trucks, owner/operators, and we also have our own chassis fleet. We have about 260 international chassis and another 350 domestic chassis of various sizes, depending on the requirements. We also -- our sister company is Track Leasing, so during peak season times, we were able to expand that capability significantly as the needs arise.

Again, I mentioned we're running mixed cargos down there. We run aggregate, we run ethanol tanks and automobiles, so we run 9-, 10,000-foot trains. Our track is a continuous weld, and it's also all concrete ties, which allows us to run these heavier trains at safe speeds to meet schedules day in and day out.

And again, we have excellent connectivity with the Southeast, with our inline connections. We are now servicing the markets in the Southeast -- Nashville two days, Atlanta two days, Charlotte two days -- a time-critical business and particularly apparel coming out of Charlotte, going down into South Florida, for both Crowley and Seaboard, who are heavy in the garment business, the 807 business.

As far as being prepared for the future, we have been working very, very closely with the ports developing infrastructure. And again, as was mentioned earlier, we've been favored in Florida. Regardless of the transgenesis in the federal government, the state government has been very good to us, and we also have been working very closely with the ports in infrastructure development. We are now on dock at the Port of Miami, and at the end of last year, we opened up our first spur on the Port of Miami, and now, at the end of September, we have 9,000 feet of operating track on the Port of Miami. This has incredibly improved the efficiency of the vessel services there and the ability to eliminate that crosstown trade to get to the rail. We load the trains right there. It's simply a move from the marine terminal onto the track, onto the train. It doesn't get grounded, and so it moves out very quickly, very efficiently.

Seaboard Marine is using that right now for all of their business, and they're heavy in the garment business, as I mentioned, and move several high-volume trains northbound to southbound in a week to service that business, and they are now appreciating a great savings in reduced trucking costs, reduced use of trucking, and certainly have gained efficiencies on the port.

We have the same situation in Port

Everglades. I don't know if Steve is still here or not. Steve, we've been watching, and we know it's been a long, long road for you guys, and the goal line keeps getting stretched out, but we think you're in the red zone, and we think you're going to be very close in the very near future to get that infrastructure completed. We appreciate the fact that you worked so hard initially with the railroad. We now have and opened this spring a 42-and-a-half-acre, state-of-the-art domestic and intermodal container transport facility adjacent to Port Everglades. It has both a domestic gate, and it has an international gate that opens up directly onto the port, providing similar efficiencies, and proceeding down the Port of Miami.

The northern gates, the domestic gates, there are four gates, two in/two outbound. These are fully automated with optical readers, and the trucks are able to get in and out in 15 minutes and the reason why that is, they go through the optical readers, everything is scanned, they know who the truck is, the billing's already in the system, they go to the kiosk, pull the ticket, it tells them where to drop what they're pulling in and where to pick up the next.

All our terminals are fully mounted on wheels, so there is no lifting or sitting or waiting, no defective chassis, bring it over here, and some are loaded on, so it's very quick. We do the same thing in the international gate. We run seven gates. And the reason we have an extra gate, because we have one gate that can go in either direction, depending on how the traffic flow is at the particular time of day, whether it's inbound or outbound traffic, so great flexibility there.

And again, that opens immediately onto the port. Crowley's terminal is right there, another big player, another major customer of ours. They have also been able to reduce their reliance on truck capacity, and they have also improved their efficiencies and reduced costs because of this capability.

The other thing it's allowed us to do is open new markets. By having on-dock rail at the Port of Miami and having a rail gate at Port Everglades that opens onto the pier, we are now able to service that huge market in Central Florida. We have a ramp at Cocoa. By having these facilities, we eliminate the front-end crosstown dray. That doesn't exist anymore. It goes right on the train, goes up to Cocoa. Cocoa is 35 miles from Orlando.

And that is growing very rapidly for us and, again, opens up new markets. It does a couple of wonderful things. It takes truck traffic off the roads in a highly-congested corridor in South Florida, and so that's another piece of this is reducing congestion.

Another thing that we're doing is we've just purchased 44 new General Electric (GE) Tier 3 locomotives that are going to meet the Environmental Protection Agency (EPA) standards going forward. The nice thing -- they will be delivered in the first quarter of next year. The nice thing about these is they are also convertible to liquid natural gas (LNG). We are working with GE, and they have conversion kits that are going to allow us to run 80-percent LNG and 20-percent diesel. We also have the capability of switching back to full diesel, because these are 30-year assets, and we never know, in ten, 15 years, what that market's going to look like, so we have to have flexibility. Now, we think that's going to make us even more friendly environmentally, with fewer emissions, and can certainly create a lot of efficiency and reduced costs.

So we think we have a lot of good things going on, and we see a bright future. We think we're prepared for what's happening now, and we are looking for and excited about opening the new Panama Canal, because we think -- we're expecting to see large vessels come in. It's one thing to have -- get the dredging done, and congratulations to the Port of Miami. They will be the first port south of Norfolk in 2016 that can handle those larger vessels, and we fully expect that the 8,000-plus twenty foot equivalent (TEU) vessels will start cascading from the Suez service and start coming through the outer water up through the Panama Canal, and we think that will be -- that impetus to do that will be even greater with all the issues going on in Southern California right now.

I just spent some time in Asia talking to the Asian steamship lines. They are very, very concerned and are looking for alternatives, and certainly, they're looking at the Southeast ports as an alternative.

COMMISSIONER KHOURI: Thank you.

MR. WARREN: Well, good morning. My name is Carl Warren. I'm director of ports and industrial development for CSX Transportation, based in Jacksonville, Florida. I focus on the East Coast ports, as well as industrial development in Virginia and North Carolina, South Carolina, and Georgia.

My comments actually are going to sound

a little bit like Norfolk Southern's in that we have very similar footprints, and I think from the perspective of the network issues that the eastern railroads have encountered, they look very similar.

In our case, clearly, the energy Renaissance, both in terms of crude oil and things that we move related to fracking, pipe, frack sand, all that kind of stuff, has had a major impact on our northern network. We have subdivisions outside of Chicago which, over the past six months, have seen increases of 35 percent in volume, which, for a rail operation, is a tremendous stair step to have to overcome.

Typically, on our system overall, we usually plan for the general activity level to increase by about two-and-a-half percent, and so what we have found in the last few months is that we've had to respond very quickly to system levels which are now up 9 percent overall.

And where the rubber hits the roads on those things is really in three areas: One is in terms of hiring more crews, the other getting more locomotives, and the other getting additional line capacity in place.

So if you were to look at a map of our line capacity projects, not surprisingly, you'd see a lot of them in the northern corridor between Chicago and New York. You would also see a couple of projects coming into the Southeast, especially for our line that comes out of Chicago.

The trick, of course, is that when you're building sidings and double track, the lead time for those things can sometimes be 12, 18 months, sometimes longer, to get that work done, so capacity is usually the last thing that you can bring up to speed quickly.

In terms of the other capacity, the crews and locomotives, which, in turn, impact velocity, when Ed McCarthy was talking about his concerns with TTX Company railcars, all of these things play together. If that rail network slows down, you need more locomotives and more crews and more cars, and you get to a point where nobody's really happy, including us, because we're not able to do the things for our customers that we need to.

So when you look at crews in particular, you're in a little bit better position there, because you can, within six months to a year, get a lot of the people that you need back in place. We're hiring aggressively to achieve that goal.

Locomotives are tough. We've got 300 on order. We've got about half that order coming on at the beginning of next year, which will certainly help, but as you could hear from listening to the other railroads, locomotives are in short supply.

Realistically, we think that our system will be under stress until the end of the second quarter of 2015. We'd like to think that it's going to happen sooner, but realistically, I think that's where we are.

I think the focus of a lot of that pressure, though, is going to be in the Midwest and Chicago and the Northeast, so with our focus on congestion issues in the Southeast, we're actually in a fairly enviable position here, especially as it relates to Jacksonville and Charleston and Savannah.

If you were to look at our on-time train originations, you'd see that most of our terminals in the Southeast are north of 85 percent originating their trains. There's a couple of trouble spots. You know, when Brian Taylor mentioned that he was concerned about his auto trains in Jacksonville, that was in part because we have -- the network that serves him goes through Waycross, where we've had some issues from time to time driven by resource availability, but we also see that situation improving as we go into the peak and into next year.

I would say that, generally speaking, in the Southeast, we're fluid at all the ports. We have had issues that we're managing, and I want to take a little bit of time to talk about that, because I think that really gets to the heart of how we can be successful in addressing congestion at these locations.

So, for example, in Jacksonville, we move a pretty substantial quantity of intermodal traffic through the port, a lot of it focused on Puerto Rico and the Caribbean. And right now, in terms of service issues, they're not very substantial on the intermodal side, but what we're doing there is we're looking ahead.

JAXPORT has invested in an Intermodal Container Transfer Facility (ICTF) very close to its terminals at Blount Island and at Dames Point, and even though the terminal is under construction, we're already in dialogue with the port and the operator to figure out what that operating plan is going to look like and figure out how we can best leverage that asset to the advantage of our mutual customers.

In Savannah, we have a hard-working team from our short-line partners at Genesee Wyoming, as well as from the Georgia Ports Authority, keeping a close eye on the interface between the Chatham ICTF, which the Georgia Ports Authority

(GPA) built a few years ago, which we're able to use, and our Savannah yard, where we partner intermodal trains from.

There's a group which meets several times a month. They review where the strengths and weaknesses are in the operation, and we're constantly working to improve that product to deliver the reliability our customers require.

Then finally in Charleston, it's interesting. When I heard some of the comments from Bulldog, and I've heard a few from our customers and the port as well, clearly, the issue there is the interface at our gate at the Charleston terminal.

And over the course of the past year, we've seen a pretty dramatic transformation in Charleston. We went from having an operation that was doing about 65,000 containers a year to one that was handling near 100,000, so an explosive growth in terms of container traffic, and it strained our resources pretty badly. We had to replace three of our lift machines, we had to purchase two new ones, and we had to redesign our operation to be better able to accommodate that volume.

As we go into 2015, we'll be making additional changes to the operation there at the physical plant to minimize -- and this is one of the things that's been kind of a cause of delays. We have a stacked operation there. What we're trying to do is minimize the instances where it's necessary for our operators to dig deep into a stack that's got three or four containers in it to bring that back out for the truckers.

So we think by making some simple adjustments and continuing to focus on process improvement at that terminal, that we'll be able to keep it in line with what the local community expects.

So I guess what I would take away from what we're seeing so far is, one, we're fortunate that we're in the Southeast, because even though there are some spillover effects from the general congestion on the network, we're in a pretty stable place in terms of capacity, but to protect that, I don't think I can underscore enough how important collaboration is.

We've seen this with what we're doing at an operating level in Charleston and Savannah, but I also think that looking forward, as we have been in Jacksonville and have started to also do in Charleston and Savannah, in terms of planning new infrastructure and thinking about what the future looks like and mapping that together is going to be critical for making sure that we're more successful as the population grows, the ships get busier, and we all have more to do.

So that's all I have to say for now, and thank you very much for your time and attention.

COMMISSIONER KHOURI: Thank you very much. That brings another whole perspective, I guess, especially for what's referred to as discretionary cargo that's going inland, you all are the folks that make that happen, a great note of perspective.

Thank you. One more panel, the chassis

providers, and then we'll break for lunch.

I'm from Kentucky and a horse racing fan, so we're coming around the far turn and down the home stretch here for this morning. I have the group of chassis providers and their perspectives, and we'll kick off with --

Bernie, do you want to get it started?

MR. VAUGHAN: Sure. Good morning. Thank you, Commissioner Khouri, for the opportunity to address this group.

I had the pleasure of also participating in the panels in LA/Long Beach with Chairman Cordero and in Baltimore, with Commissioner Doyle, and I also took -- we run the Los Angeles Basin Chassis Pool (LABP), it's about 38,000 chassis, and everyone's aware of all the problems they're having now, so I had the privilege of taking Chairman Cordero and some other FMC members on a tour of the facility. I think they all ran out screaming. It was quite a dramatic event.

But in any event, I'm the chief legal officer and executive vice president of administration of Flexi-Van Leasing. I've had that position since 1986, so I've had the opportunity to participate in and witness some of the dramatic changes that have occurred in the chassis leasing business. It's become much more challenging, I can assure you, from our perspective.

Flexi's one of three major leasing companies, our colleagues from TRAC Intermodal and Direct ChassisLink (DCLI), and also we actively work with the CCM, the OCEMA chassis management company.

Flexi's perspective is a little bit different in the sense that we wear many different hats in that we're a chassis provider, we're a chassis leasing company, we contribute to the CCM pools, and what is unique to us, at least historically, is we also run service centers in nine of the major ports, and we deal with four different unions and have nonunion shops as well. So we're cognizant of the issues that we face, so we deal with our union members in the ILA on the

East Coast and the ILWU and the union mechanics on the West Coast. We also have depot relationships with probably 35 independent depots. Some of those relationships go back decades.

By way of example, in the Southeast, we've done business -- I saw Vince Marino's here from Container Maintenance. We've done business with that company, hopefully mutually successfully, for the last 20-odd years.

In any event, the issues that are facing us -- and the business is really in transition, but the issues that are facing us are somewhat common. The good news is in the Southeast, where we principally participate through the CCM pool, those states are not facing the problems to the magnitude that we certainly are currently facing in Southern California, and to a lesser extent that we face in New York, but I think there's some lessons to be learned, and clearly, some of those problems may result in diversional cargo to the Southeast.

You have your own projected growth, you

have the issues related to the Panama Canal, and certainly, the issues on the West Coast may cause the ocean carriers to rethink some of their deployments.

I live in New Jersey. I've spent four days there in the past two months. Half of my time has been spent in LA/Long Beach sort of getting yelled at about the LABP pool, and I see those issues, frankly, continuing in the short term. I'll talk a little bit later of what we've done and what TRAC and DCLI have done to try our share to ameliorate the problem, but the truth of the matter is there were a whole series of factors contributing to the situation that now exists.

In terms of understanding the transition, maybe I'll step back for a second and just give a one-minute history of where we got to where we are. When I joined the company, 85 percent of our revenue, up until five years ago, came from 22 shipping lines, so we basically had 22 customers basically driving our business model. Now we have over 5,000 customers, principally motor carriers, added to the mix.

Those of you who run businesses, Flexi-Van and our competitor companies have had to change dramatically to meet that business need, and the cost structure really just went through the roof in terms of the cost of doing business.

Flexi-Van is owned by David Murdock, TRAC by Fortress Investment Company, and DCLI by Littlejohn, and these investors expect a fair return on their investment. I can assure you, while we're private companies, we are all in a very challenging environment because many of the costs that we have are absolutely beyond our control.

Now, when you look in the business change, what happened was, as everyone knows, the ocean carriers decided to exit the business of owning chassis and then subsequently to exit the business of providing chassis, and I think it's safe to say that that transition occurred much quicker than we in the industry thought.

Dave Manning mentioned a complicating

factor was a lot of these acquisitions were the result -- or had an ancillary condition of continued chassis usage, and those agreements, the individual contracts will be expiring, so the market will change. Certainly, from our perspective, we want an open competitive market. We're happy to compete. We just want a level playing field.

But in any event, let me talk about some of the issues that face us as leasing companies and some of the things that we've done to address those issues.

As everyone knows, we've switched over to, essentially, this trucker model, and to the maximum extent possible, the ocean carriers want to shift to varying degrees and varying locations, and it's going to take a while to sort out, but from what we call the sort of store door merchant versus carrier haulage, so more and more motor carriers are becoming our customers.

I should add a caveat to that. Because of some sort of problems with service and because there were some other good driving factors, we've actually seen a growth in a relatively new business, and those businesses are -- while this industry historically, the truckers were essentially mom-and-pop entrepreneurial operations, there are a fair number of larger players, and they have seen it to their interest either to purchase chassis or to lease chassis, so we see that market of leasing chassis to motor carriers as a growing market.

The other is leasing chassis to the beneficial cargo interests. A good example in the Southeast is we have a relationship with Lowe's and Georgia-Pacific, and those are dedicated fleets. The benefit to the customer is readily-available chassis. It's a closed system, so you can put -- and our competitors offer the same thing. If you want radial tires, if you want LED lights, if you want airing-up systems, that's all available, because it is a closed fleet. You have a lot more control over the quality of your asset.

In terms of the issues facing the pools, the largest cost, by far, to a pool is maintenance and repair expense. And just by way of example, in Los Angeles, we have about 37,000 chassis in this one pool, and our expense is north of $40 million and trending upwards.

The complaint or concern that I have, and those people report to me, eventually, is there's a huge disconnect between paying the bill and having control over the asset. We have huge challenges getting our inspectors on terminal having access to the equipment. We have issues with respect -- and Curtis Whalen and I have talked about this. You want to provide a trucker with a safe, roadable chassis when he shows up, not that most of the work gets done in mandatory roadability.

I mean, I'm sure most of us travel a lot. Can you imagine picking up your Hertz rental car and getting to the gate and they say: Everything's good to go, except you need a headlight and two tires, why don't you go stand over there? I mean, it just really is a crazy system.

And I've been at other terminals where I asked to see the available pile, and I'll see dozens of lights missing and obvious flat tires and cut to cord, and they say: Oh, well, we deal with those issues at roadability. It's sort of crazy talk.

We're trying to work that through, but in reality, other than writing a check, since so much of the work is done on the marine terminal, we effectively have very little control over that. We're trying to change that, I mean, it's really a partnership, but it's really one of our driving challenges.

The second biggest cost in running a pool is repositioning cost, and that means moving bare chassis from Point A to Point B, a nonrevenue move, but with an attending cost of drayage.

I don't know if Joshua's still here. We were having huge problems. We move thousands of bare move chassis every week in the West Coast, and we'll ask to have a gate open on Saturday, and we'll line up 250 moves, and then they'll say: Sorry. We don't have the manpower. Go away. I mean, that just happened last week. That's a huge, huge inconvenience to the trucker and really wrecks our logistics.

One thing that we've done to try to ameliorate that is we've gotten agreements from certain terminals to have a separate lane just to funnel these chassis in and out. Another thing is, with limited success, to have extended hours just to do the repositioning.

And the third thing which most of you probably are aware of, Flexi-Van, in the capacity as the manager of the LABP pool, and I should say Flexi-Van, that pool, we manage it, but TRAC and Flexi and China Shipping are the contributors. So as a pool manager, we got together with DCLI, who also manages pools in the West Coast, and went to the Department of Justice and recently reviewed -- obtained a favorable business review letter. It's what people commonly call the pool of pools concept, such that a trucker can now pick up either a DCLI-managed chassis or an LABP-managed chassis, and all the start/stop locations become common.

So the trucker can keep the chassis, instead of having to get rid of a chassis when he's going to pick up a DCLI-managed pool box, and furthermore, at the end of his series of trips, he doesn't have to dead-head a chassis back because it has to go back to an LABP location, and he's at a DCLI-managed location.

We think that will be a material incremental improvement in terms of helping the trucker out, and furthermore, you run into these -- in terms of a cost of repositioning, you sort of have this anomalous situation where LABP was going into Terminal A to pull 300 chassis out, and DCLI, for its customers, were putting 200 chassis back into the same pool.

So since we do not have any trust amenity, like my good friend Phil, I thought it was good to go to the DOJ, where I used to work, and we had no objections, but it took nine months to get the letter. Go figure. I don't feel as bad after hearing about how long it takes to get an Army Corps of Engineers permit.

But in any event, that process will go into place early next year. We've retained a third-party vendor to sort of be the scorekeeper and to be the arbiter if there's an issue where one leasing company says it's my motor carrier customer, and we all have the same customer base, in general, with the major players. So in any event, hopefully, that will help out.

And you hear about this problem of chassis supply. Let me just sort of clue you in, a couple of things that were also creating problems. The first was we were getting -- there's a problem with getting accurate data from the terminals. In some areas, only 40 percent of our data comes electronic data interchange (EDI). That creates lots of problems. We never had a data cleansing department -- it's now our largest department -- to deal with bad data and make sure that the billing is correct.

The issue with these grand alliances, it wreaks havoc when you have a large ship say: I'm coming to Terminal A Week 1, and Week 2 I'm in Terminal B, and Week 3 I'm back in Terminal A. This sort of moving equipment around like drunken sailors, that really is a huge challenge.

In terms of the future, in the leasing companies, both TRAC and Flexi and DCLI, we have been moving thousands of chassis from -- by way of example, we're moving 1,000 from Houston now to the West Coast. That is a huge expense that, frankly, isn't justified in terms of as soon as there's a downturn, the terminals are going to say get these chassis off the terminal, and that's going to be another problem we'll have to face.

We're all private companies. I can only speak for Flexi. We are building now in China and at Hyundai in Mexico and in New Jersey, we have five-year plans. Without getting into details, we're going to spend hundreds of millions of dollars. We compete for capital with Murdock's other companies.

And just one final point: There is a challenge in the pool environment, and Dave Manning also spoke about this, that you want LED lights, you want airing systems, you want radial tires. It's not new. We've been offering that to our customer base since the '80s. We own Dole Food Company. They've been running radials and LEDs forever. The problem or the challenge is how you introduce those enhancements into a pool environment.

Now, on these -- like Lowe's, we have all the bells and whistles, but that's really a challenge for us to do, and the Driver Vehicle Inspection Reports (DVIR) program has been a total failure. You have chassis coming in. We've done pilot projects where we'll do 250 chassis. The LED lights for a pool are all gone in two months. I mean, that's really the challenge, but we're happy to make the commitment.

An LED light costs $450, and I'm paying $136 an hour to put a light in at a marine of the LED. It's the question of how do you integrate that, maybe have a dual pricing structure, but there are clear issues of doing that in a pool.

Thanks.

COMMISSIONER KHOURI: Thank you.

MR. NOEL: Good morning. My name is Val Noel. For those of you that don't know me, I joined TRAC Intermodal about one year ago. Prior to that, I spent 20 years at CSX, responsible for terminal operations, rail operations, equipment, and then my last position at the organization was the president of the intermodal group.

I left CSX, joined Pacer International for nine years, and at Pacer International, I was responsible for the intermodal piece as well as the trucking operation. In those nine years, I gained a greater appreciation for what the intermodal industry was all about from an owner/operator's perspective and understood what it meant to be able to make an owner/operator profitable.

We ran a little bit over 1,100 power units at Pacer when I was there, with almost 500 of those based in Southern California under three different flags, and it was a real eye-opener for me. It really prompted me to become more active in the Intermodal Association of North America, and I've been active with the operations committee on a task force called Road Ready. And Road Ready's all about making sure that when an owner/operator or company driver arrives at a facility, whether it's a marine facility or an intermodal facility, sea line or depot, that that chassis and that box is ready to go. We have to stop using company drivers or independent owner/operators as free valet services or free quality control for our industry.

Even though I started this when I was on the truck side of the business, a lot of people say to me: Well, now that you're on the equipment side of business, I'm sure you're going to change hats, and my answer to them has been absolutely not. I still believe in my heart, the only way this industry is ever going to get better is that we all have to work together. Everybody has to be successful, not just one piece or the other piece. Everybody's got to be successful for this industry to ultimately achieve what it needs to do.

What I'd like to try to do quickly is give you a little bit of overview of TRAC Intermodal and then talk specifically about some of the issues or challenges that we have as an industry.

TRAC Intermodal is North America's largest intermodal equipment provider and chassis pool operator. We operate a little over 272,000 chassis, both internationally and domestically. TRAC offers intermodal chassis to motor carrier communities. We've got a product that we call TRAC Connect. We have a little bit over 3,500 draymen and/or trucking companies under contract and renting about a little bit over 38,000 chassis a day.

Our customer bases include ocean

carriers, trucking companies, both large and small, railroads, NBOCCs and BCOs, and our mission as an organization is to try to provide the right chassis at the right place at the right price.

TRAC's one of the largest contributors to the CCM pool here in the Southeast, the South Atlantic Chassis Pool, or SACP, and we have a little bit over 15,000 chassis in this pool.

TRAC also has chassis in the Southeast, our product called TMEP, or TRAC Marine Eastern Pool, and those chassis are primarily domiciled at rail ramps both in Charleston and the Savannah area.

We're here today to talk a little bit about what's going on in our industry, specifically port congestion. From our viewpoint, there's five contributing factors that I'll highlight quickly.

First is big ships. While big ships provide economy of scale and a lower supply cost for the ocean carriers, they do create issues on the inland side, and on the ports, with increasing spikes in volume, which contribute to equipment supply, drayage availability, and other operating dynamics.

Vessel bunching puts an enormous pressure on the system. The supply chain as a whole is suffering from pressure of bunching on intermodal services on the road, rail, and barge dealing with increased box volumes. What appears to be overcapacity may, in reality, be overcapacity that creates a situation that we have to work together on with the shipping lines and port operators.

Number three, alliances between ocean carriers. The bigger ships encourage broader alliances to fill vessels in order to achieve economy of scale. The alliance creates disbursed operations. By that I mean vessels landing and container movement across multiple port terminals.

I've already talked a little bit about what's going on in Southern California. What originally started as the G6 Alliance at five marine terminals is now operating out of nine marine terminals, so it creates real challenges for us about moving assets around the port complex in LA/Long Beach when we originally planned on five, and it's now nine.

Fourth item that we think is important is inconsistent operating conditions at many ports and/or port terminals. There are no standard port terminal operating hours. Port terminal gates are opened and closed at different hours at many ports. Different port terminals use different handling practices, wheel versus live operations. Not many operations use an equipment system to manage when and where containers are available for drayage. For the most part, drayage is still a random process.

And then finally, chassis availability. There are a few primary factors that drive chassis availability: One, actual fleet size; two, out-of-service levels; three, chassis supply being in the wrong location versus chassis demand; four, the number of days a chassis is used on the street; and five, the number of days a chassis is used on a port terminal.

The actual fleet size can be adjusted to accommodate many of the operating characteristics I described, but a variable that is absolutely critical for chassis availability is the out-of-service level. When this goes up, the immediate consequence is fewer chassis available to the trade.

A few of the key drivers of out-of-service levels are consistent availability of chassis mechanics to repair equipment. Chassis mechanics at times are diverted to perform other work at the port deemed to be a higher priority than repairing a chassis. The mechanics aren't always at the locations where the out-of-service chassis are.

For instance, in the Port of New York and New Jersey complex, we have a large capacity of chassis mechanics at one facility that do a tremendous job for us with great productivity. Unfortunately, we have chassis that are trapped at other marine locations in the complex that don't have resources. It creates a real problem for us, and then as a result, what we wind up usually doing is flat-bedding chassis from one location to the other. It adds cost, but more importantly, it takes dray capacity away from doing pickup and delivery. To move and bear chassis around creates huge inefficiencies for our industry.

So what are some of the solutions that we could look at as organization? Number one, on the big ships, find ways to mitigate displacing volume for the big ships. Better inbound volume forecasting is needed so that we can plan supply more effectively. Not knowing what's coming focuses us to be reactive, instead of proactive, and by that I mean this: I find it amazing that we wake up each morning in this industry on the chassis side, and we don't know what consumption's going to be, so as a result, we look at historicals.

I'll give you an example. On a Monday in New York/New Jersey, our normal historical consumption is 524 chassis. We work every weekend in an effort to be able to prep that. This past weekend, we prepped 844 chassis for Monday morning open-up. By Tuesday morning, I was sold out. Go figure. We thought we were going to consume 524. We consumed almost 900 chassis this past Monday, and as a result, Tuesday we had some shortages that we had to react to.

We, as an industry, have to figure out how everybody in the supply chain knows when they're looking to come to pick up the cargo. The way it works today, this random process of just showing up is a recipe for disaster, in my opinion.

Second, on the alliance side, again, better forecasting and communication about volumes and where ships would be landing would help the pool manage to adjust the locations of the chassis supply.

I won't talk about the rest of the comments that I had because Bernie touched on most of those, but I'll wrap up real quick by saying that from a TRAC perspective, we continue to make a significant investment in this industry.

We have a refurb program that's going on currently. We're looking to try to refurb 6,000 chassis this year. We're taking an older 44-foot marine chassis that was sitting on the sidelines in what we would call out-of-service status, and we're upgrading that chassis so that it has proper integrity and putting LED lights on it, radial tires, new brakes, basically new plumbing through the entire chassis. So that's a project that we started in 2014, and we will continue going forward into '15 and beyond.

This year we built 4,800 new chassis, all on the domestic side. We continue to look at doing that over the next three years. That's going to be a major investment from our company standpoint.

And then finally, the one thing that we have done a fair amount of this year is we have bought some fleets, and some of those fleets were in surplus markets, and we've taken those fleets, at great expense, and we've redeployed those to markets where we need them. We've moved almost 2,000 chassis so far off the Pacific Northwest into the New York/New Jersey marketplace. We just acquired a recent fleet in the Pacific Northwest, and we're going to move some of those to Chicago. And we have a fair amount of chassis in Northern California that we're trying to repair to move to Southern California as well. So we're trying to do everything that we can from a capital investment standpoint to be able to address the needs of the marketplace.

I'll turn it over to Phil.

MR. WOJCIK: Thank you, Commissioner Khouri, for offering me this opportunity to speak at the forum.

The subject of the forum, supply chain efficiency and challenges, clearly describes what we face with chassis. There's been a lot of publicity about chassis effects on supply chain in the Northeast and more prominently in LA/Long Beach, chassis shortages, chassis dislocations, lack of repaired chassis. The news has not been good. I hope that this forum allows the opportunity to actually look at what seems to be working in the Southeast and as a prospective possibly for some best practices.

Consolidated Chassis Management (CCM), of which -- by the way, I work for Consolidated Chassis Management. My name is Phil Wojcik.

Consolidated Chassis Management manages over 140,000 chassis in the US. Our volumes are pretty impressive. It represents about 13 million gate moves of chassis annually. We do not cover the Northeast, and we do not cover the West Coast.

We have over 50,000 chassis in our regional South Atlantic pool. CCM manages the stocks and the maintenance and repair of the chassis that service Savannah, Charleston, Jacksonville, Wilmington, and the inland regions.

It's been said that ocean carriers exiting from chassis provision is an underlying cause that contributes to current ocean terminal inefficiencies. Chassis ownership has transitioned in the Southeast, yet we don't hear the same comments in the Southeast as we do in other regions. Clearly, it's not a change in chassis ownership that adds to inefficiencies. The reality is that it has more to do with operating models, and those are continuing to evolve.

The seasonal surge of cargo is also mentioned as a common cause of service issues. In looking at 2013 versus 2014, our Southeast pool has experienced a 19-percent increase in movements, while our fleet was actually reduced by 4.8 percent in the last year without having any major service issues. Is it really a surge in freight causing problems? That's a question.

Back to the subject matter, efficiencies. Service levels, the gate-to-gate turn time for load to load in Savannah and Charleston, our two largest locations, are consistently under an hour. Wait times outside the gates are minimal.

CCM measures service levels at all our locations. Year-to-date, we have successfully provided chassis when and where they are needed at a measure of 99.92 percent of the time. We have had minimal shortages. We communicate with BCOs, motor carriers, ocean carriers, leasing companies, ocean terminals, and railroads on a daily basis. These open channels of communication help us address the issues before they can occur.

Here are some attributes that we see that make the Southeast more efficient than other areas of the country. Number one, port authorities are service and customer focused. Service standards are a priority, held at the highest level. GPA and South Carolina State Port Authority are operating ports, rather than a landlord port. For CCM, this eliminates other layers of stakeholder interests that complicates the efficiency of the operation.

Number two, port authorities had the foresight to regionalize a chassis pool many years ago. They filed an agreement with the FMC back in 2006 that they could discuss, along with CCM and OCEMA, in establishing a regional pool. They took the leap to commonly support one gray chassis pool in the region.

Number 3, a single regional port, for example, GPA is a great example, is more efficient than multiple terminals. Chassis dislocations are minimal. But with over 50 locations where we balance equipment within the South Atlantic scope, multiple terminals are manageable when chassis pool management and communication is developed and processes developed over time.

Number 4, prior to the South Atlantic Chassis Pool, GPA was operating with over 10,000 chassis on terminal. At GPA today, we can handle 9,500 gate moves a day with our current on-terminal stock averaging 2,500 chassis.

Five, at the South Carolina State Port Authority, chassis are assigned by unit number, first in/first out. That is the fleet manager's ideal procedure. Mobile trucks are set up in the available chassis rows for any minor repairs the drivers may request, so that they don't have to go through the roadability lanes.

We have approximately a 20-minute turn time on a one-way move at Wando terminal, our biggest terminal in the Charleston area. This is a prime example of how the terminal and the chassis provider addresses the motor carrier community needs.

No. 6, ports continuing to develop inland hubs, where short-distance rail alleviates the need for long-haul drayage and reduces port gate congestion. The chassis operations model instituted in the Southeast was a CCM pool management concept. In this pool, the core operational features are, first and foremost, gray chassis fleet operations, and secondly, at no profit or a cost pass-through. CCM becomes a single point of contact for all chassis service and operations.

CCM pool members offer independent retail model products to motor carriers, ocean carriers, or others. Rather than depend solely on market forces, the CCM pool rules instill good behavior, in other words, adequate supply of chassis through incentives and penalties. That is in contrast to other provision models, where individual chassis providers may provide service levels based on their own business priorities.

The CCM model also preserves competition through its unique offering of customer choice where shippers, motor carriers, and others may use a gray pool chassis and select which chassis provider in the pool it wishes to do business with.

A single gray pool has tremendous advantages. Critics contend there is no product differentiation between chassis providers in a gray fleet pool, and therefore, the CCM model sometimes lacks full support.

Lacking product differentiation because of back room operations is a mental block that has been overcome in other business models. The ocean carriers, car rental companies, airlines, and others have all developed beyond running their own unique asset operation.

The chassis marketing differentiation is not on the equipment itself or back room functions of a gray operation, but on the company itself, its customer service, billing accuracy, price, et cetera. The chassis providers are close to differentiating themselves, but are not there yet.

Now that we've established that the Southeast has performed better than others, let's look at how we can stay ahead of the pack. The challenges: Although it's not a headline today, the labor force used to repair chassis in the South Atlantic is stretched thin. It takes time to hire and properly train the mechanics. It is a challenge to increase the labor force that handles spikes in volumes. Gradual growth is manageable, but communication needs to improve between all stakeholders when substantial increases in volumes are forecasted.

The terminal configurations of rail facilities and ocean terminals are designed for handling loaded containers. Most often, there's been little consideration on yard layout for chassis operations and improving motor carrier efficiency. Improving the physical layout on the terminal can improve the velocity of repairs and improve driver turn time. The cooperation enjoyed with the terminals in the Southeast could be seen as unique compared to other regions, and this cooperation needs to continue.

In almost all terminals throughout the US, the terminal out gate controls are container based. The lack of validations on the chassis leads to unauthorized usage, stolen chassis, and billing discrepancies. This lack of necessary controls directly affects chassis operations, stymies the profitability of the chassis retail business model.

In the current environment, the chassis providers and chassis pools are still considered chassis provider agents for the ocean carriers. As such, until the chassis pools have direct relationships with the terminals and/or the terminals adapt more precisely to chassis management, the chassis provision models throughout the entire US will still have gaps and growing pains.

The lack of a proper inbound inspection and the lack of motor carriers reporting FMCSA regulation-required driver inspection reports at the inbound gate leads to some chassis being deposited to terminals in an unidentified condition. About 70 percent of the chassis returned bare to the terminals are in damaged condition, without being reported as being damaged to us. To plug this gap, we've hired additional labor to check and tag the chassis in the drop blocks.

The velocity of the operation that we have at the terminal results in occasional release of a damaged chassis to the next motor carrier who comes in, and with motor carrier driver shortages caused much by the idle time and the hours of service restrictions, the drivers end up having to go to roadability, and it slows it down. It affects everyone in the supply chain. If drivers would communicate damages to us, we could all improve their productivity, which is so essential to all the stakeholders.

States within the United States -- Alabama, Virginia, West Virginia, South Carolina -- have allowed heavier container loads through permits to reach 90- to 100,000 gross vehicle weight. They never considered the capacity of the chassis. There's an effective accelerated wear and tear and potential damage to the chassis components. Specifically, the typical tires on a chassis are not made to repeatedly handle this weight. In the future, before changes to existing regulations are enacted, more investigation should be made by the regulators, who are the stakeholders.

There is a reluctance of chassis owners to upgrade chassis to radial tires, LED lights, mainly radial tires. It sounds very minor, and we talked about it, about how important it is with the motor carriers. I'll just summarize this, because we've gone over this before. It comes down to when there is a feasible business model where I see the chassis providers in the retail market, because we're just doing the back room operations -- Bernie and Val run the retail models up front -- it has to be feasible and a good investment.

And the transition that we're going through in the industry, there is -- in many locations, it doesn't pay to -- it isn't a sound business investment to do a lot of upgrades in a pool type of environment. So although physically, it would take a long time, the whole transition needs to be more successful all around before we're going to see a major change in the investments.

And finally, Federal Motor Carrier Safety Administration is the agency in charge of regulating chassis safety. Their recommended practice is to provide ready rows of chassis on terminal to lessen the dependency on roadability repairs. In many terminal operations, it's not physically possible to have ready rows.

CCM is fully committed to systemic maintenance inspection programs and has processes in place to meet all the federal regulations. In CCM's opinion, the FMCSA enforcement practices reaching into on-terminal operations may add a new challenge to the terminals and chassis providers, and although it's well intended, it could negatively affect the productivity of the terminals by requiring structural and procedural changes to the terminal operations, thus potentially adding to the congestion.

Thanks.

COMMISSIONER KHOURI: Okay. Thanks so much.

Bernie, you had a couple points you wanted to close with.

MR. VAUGHAN: Yeah, just sort of a follow-up.

At the end of the day, we take our cost structure, we take a model, and it's reflected in the pricing. And I can't -- Phil touched on it. This lack of gate control is really adding all kinds of unreasonable and unnecessary costs. We're in a container center market now, and there's really not much focus on the chassis. There needs to be more focus on the chassis.

The industry, the leasing industry, has developed sort of a red light/green light in terms of stopping a trucker, an unauthorized trucker. It hasn't been implemented for a whole variety of reasons, but as a consequence of that, you have all these unauthorized truckers getting access to chassis.

In the worst case, in Southern California two years ago, there was an organized crime ring that stole roughly $2 million worth of chassis, 99 percent out of rail yards, because of the lack of control, and established chop shops. Law enforcement didn't have sufficient resources. We hired our own private investigators, and then, after a month of work, caught these guys, and they're now in jail, but all those costs eventually will filter through to the pricing model.

And this lack of gate control creates additional credit risk for us and a liability risk. In terms of credit risk, Flexi-Van had to up its bad debt reserve by 600 percent in the past two years. And secondly, because of the liability risk for these few bad apples, we had to buy a supplemental $50 million insurance policy. All those added costs eventually will percolate into the rate. So gate control is something which doesn't get headlined, but I think is a huge sort of hidden driver of our cost.

And then the final thing, and you touched on it, it's a crazy system. You set up the deal where chassis comes off hire, and there's supposed to be a DVIR. Someone's supposed to have identified this chassis as being damaged. We got five DVIRs in a year, the first year in operation, and maybe it's double that now.

So you have this crazy situation where mobile trucks fan out on the terminal looking for work to do, and, of course, when the driver -- and you have to be practical. The mechanic has to get his hours, so he stops, and he's going to get his hours, you know. It's absolute lunacy that these guys have to just go out into the wasteland to find chassis to fix. That really needs to change because it's just a crazy system.

Thank you.

COMMISSIONER KHOURI: Thank everybody this morning. I appreciate it.

We're going to break for lunch. We're going to start at 1:45. We have Mr. Riley, with the ILA, will do a presentation, then we'll hear from the shippers and some logistics providers at 2:00, and then what I hope will be a robust discussion, we have plenty of time for open public comment, discussion, open mic. I hope those who have done presentations this morning, their schedule allows them to come back this afternoon and perhaps be ready to respond to questions from the floor.

So thanks again. See you at 1:45.

(Recess)

COMMISSIONER KHOURI: For a bunch of logistics guys, we're going to start on time -- and ladies, excuse me. Thank you all again.

Thank you for coming back to the afternoon session. And our first panel is a representative from labor, Mr. Ken Riley with the International Longshoremen's Association (ILA). So take it away.

MR. RILEY: Thank you. I thought I was participating on a panel, but I guess I'm it.

Well, I want to talk about the challenges facing labor, because there are some. And I'll primarily be speaking about, I guess we call it the longshore side of the industry, not the maintenance, not clerical. Clerical is a part of it. And I will primarily be speaking about Charleston, because that's where I reside. That's the workforce that I manage, even though I'm familiar with others in this region, because we operate under a district contract, the South Atlantic District contract, that covers North Carolina, South Carolina, Georgia, Jacksonville, and Tampa. The ports south of that, from Cape Canaveral down to Miami, operate under another regional contract, South Florida Ports. And so our contracts, while they're similar, they're distinctly different.

So the reason why labor is experiencing challenges during these times is because of what we are required to do. We are required to provide a well-trained, well-skilled workforce on a temporary basis, under short notice, during down times, and during peak times. And coupled with that is that, now, almost every single position that we cover, there is mandatory certification and training. In a typical 22-men container operation, there is only three positions that you can possibly hold in that operation that does not require some type of training, special training, or certification. There is a tremendous challenge of maintaining an optimum level of manning.

We are no more than an organized temp service. You may order as many men and women you need for an operation today, one employment, or up to 200 men and women today. Tomorrow, they may only need two, or they may call tomorrow and say they don't need anyone. So how do you maintain a workforce ready for peak times in that kind of environment?

There are workers with little to no seniority that may have been out here only a couple of years, versus some that have been out here for 20, 30, 40 years. Certainly if there is a downturn in business, those workers with seniority will probably still have enough work in the port to maintain a decent living, and they will remain in the workforce. Others with less seniority will have to move on to other things and find jobs in order to support their families. Therefore, we lose a tremendous amount of those workers. So as the economy rebounds and the borrowings rebound, as they are right now, when you need these workers, they are not readily available. They have gone on to other employment. And whereas they may be able now to come back and pick up a day or two, it's not enough to sustain their families. Just recently here in the Port of Charleston, about a year and a half ago, we were experiencing labor shortages to the tune of maybe

20 to 30 workers a week. And that was becoming consistent. And no one wants to lose those jobs. And certainly the carriers want their ships in and out on time. They don't want their vessels working short of labor. So we were met with the challenge of having to bring new workers into the industry.

Well, the only thing, if it's only 20 to personnel short, you can't put out an open application for just 20 to 30 workers. So my members and I, we got together in a meeting and tried to figure out how many people we were going to bring in. Some wanted to bring in about 200. Well, how do you have open enrollment and narrow it down to 20 workers? Almost impossible. In our industry, most of us have second and third generations that are longshore workers. Our family members brought us down. So every one of those members sitting in that room had at least two siblings or sons or daughters that were welcome to come into the industry if the opportunity was there. So if you multiply that by about 700 members, you're talking about 1400 applications that you have to process. We opened it from Monday to Friday. 1950 people came down. We processed 1950 applications. We probably netted about 1300 new workers.

Now, that puts a very significant strain on the resources that our employers have for training. So now you have to, first, before they can even enter the port's facilities, they have to be HAZMAT'd. They have to have their Transportation Worker Identification Card (TWIC). They have to, in Charleston, have a physical, hearing, drug test, you name it, you name it, you name it.

And then once -- before you can operate a truck, to be certified, before you can go onboard the vessels to go up and unlock the locks, you've got to be certified. To move the bins that hold the locking mechanism on the dock, you have to be certified.

So like I said, there are only three positions where once you have met your HAZMAT and all your training and your testing, that you can possibly hold without certification. And you'll have to sit there and wait for the job to even have to go vacant until you actually receive that certification.

So there are significant challenges and pressure being put, not only on labor, but on our employers who have to provide those training, because, you know, training is expensive. There is a cost associated with that. And when you provide the training to so many people, only to lose 50 to 60 percent of those people to other industries, moving on, that's pretty significant. And that's the kind of challenges that we are facing.

So the only way we can possibly maintain a suitable workforce is that the work must get to a level where it's consistent. Consistent work means consistent labor pool. Without that, as the work fluctuates, so does the workforce. But certainly if there is a surge in work all of a sudden, we're going to be caught short.

That was not the case prior to 9/11, because prior to 9/11, you didn't have to have all these credentials. I can simply call a neighbor and say, what is your son doing today? Can you send him down? What's your daughter doing today? Send them down. We need them. On a peak day, find who may be off from work that day. That's not the case anymore. If they don't have those credentials, then it's impossible for them to enter the terminal or to get on any piece of equipment or fill any job category.

So someone with a Commercial Driver License (CDL) may not be driving a truck anymore. Can they come onto the dock and drive a truck? No. You have to meet the certification approved under the Collective Bargaining Agreement between the management and labor. Whether the person is transporting from another port, can you bring your credentials with you? No, you have to still meet the criteria established in that particular port.

So those are some of the challenges that we face in order to keep track with the volumes to be able to service our customers in the most efficient manner possible. So while we actually do quite well, it is a significant challenge.

So that's pretty much what I have to say in short order. But I'm certain I'll be around, too, if there are questions.

COMMISSIONER KHOURI: Okay. We've got a couple of minutes. Does anyone want to do a question?

MR. WHALEN: Actually, it was a very excellent presentation, and I guess maybe I just missed it in the past. I never heard the description about the temporary hiring nature of it, which really does put certain things in perspective. But given the need and desire to sort of have a more balanced flow, projective flow of work, do you ever engage the terminals in issues like the bunching of ships where you get feast or famine? I'm with a trucking industry, and we have a big problem with that, because all of a sudden, everything arrives. They try to clear the port, they can't do it in a set period of time, so fees start generating, and everybody gets backed up. So with the union's persuasive nature in negotiations, do you ever get involved with the terminals on this?

MR. RILEY: Not on that issue.

SPEAKER: Can you start?

MR. RILEY: Certainly. We do have collaborations. We consider ourselves a part of the overall maritime community. We realize that port issues impact us. So if there is some input we can have, a suggestion based on our experience, we certainly offer that, yes.

COMMISSIONER KHOURI: And for the court reporter, that question was Curtis Whalen. And for people who do come in with questions later, if you just identify yourself for the reporter. But, thank you, Curtis, for the question. All right. Thank you so much. I appreciate it. Like Curtis, I learned something here too.

All right. 2:00, and we're one minute ahead of schedule. Shippers and logistic providers.

These are our shippers and logistics providers panel. Again, as you start, just introduce yourself for the benefit of the reporter and the crowd. So, please, you're first up. Let her rip.

MR. PISANO: Thank you. Hi, good afternoon. I prefer to stand to give my presentation, if you don't mind. Otherwise, if it doesn't go well, somebody might give me the excuse that I was sitting on my brains.

So let me just introduce myself. Good afternoon. My name is Don Pisano. I am president of American Coffee Corporation of Jersey City, New Jersey. We are importers of green coffee beans, which are the raw coffee beans that are imported and distributed to the manufacturers here in the United States for roasting, grinding, packaging, and distribution. We actually only just recently starting bringing significant volumes of coffee into the Port of Charleston. So things are going fairly well so far.

I'm on the board of directors of the

National Industrial Transportation League (NITL), and I chair its Ocean Transportation Committee. I'm also on the board of the Green Coffee Association and chair its Traffic and Warehouse Committee. So on behalf of both organizations, I'd like to express our appreciation to the Federal Maritime Commission for organizing and sponsoring these forums which allows all stakeholders the opportunity to provide constructive dialogue. We do think these forums have raised the level of attention to the problems and are an important part of the process to eventually achieve a long-term solution.

You know, I often think of -- I am a big fan of Ronald Regan, and he often used to say: One of the most dreaded words to hear from anybody was "I'm from the government, and I'm here to help." I think there is a tremendous exception here for the Federal Maritime Commission. The Federal Maritime Commission is here, and they are here to help, and we welcome them. So thank you very much for hosting these forums.

Everyone here knows firsthand of the significant congestion that our ports are experiencing around the country. So I'll forego stating a litany of issues, and, instead, try to simply provide the shippers' perspective.

Although the congestion and delays affect everyone, it is actually the shipper who pays the freight bills which covers the cost of the ships, the equipment, the terminal operations, the drayage, and many cases, unfortunately, demurrage and detention charges. As an importer, I always consider our drayman as a direct extension of ourselves, the shipper. Whether handling import or export cargo, the drayman is really the shipper's representative at the ocean terminals. So what affects the drayman affects the shipper.

A significant problem with our industry and the structure of it is the fact that there is no real commercial relationship between the shipper or his drayman and the terminal operator upon whom we both depend for efficient performance, although neither of us has any means to impact its level of service.

The ocean carriers have been aggressive in the pursuing of profitability by driving down our unit cost and have more than tripled the size and capacity of their vessels over the years. There have been tremendous efforts to accommodate these ultra-large vessels by port authorities, terminal operators, the Army Corps of Engineers, and even of course the lowly taxpayer, who has very little to say in how his money gets spent. But, clearly, too little planning and investing has been made to ensure the efficient throughput of the cargo out of the terminals and into the commerce for which it is intended.

Terminal operators are provided inadequate resources to their gate operations. Local states and federal governments have failed to direct funds in developing direct links from our ports to the interstate highway system and on to an on-dock rail where it is obtainable.

The current capacity crunch has

stimulated a lot of attention, and everyone has their opinions about the causes and even some of the solutions. But some of them are truly absurd and should be given little credence. To be clear, port congestion -- and I will say that some of the comments that I heard here today seem to be a lot more directly associated with the problems and not really casting blame on anybody. And it seems like we're -- the panel today is seriously interested in collaborating and reaching solutions. But over the past couple of months, what we've seen in both the press and at other types of forums have been people making comments which I think that are absurd, and they should be responded to.

So to be clear, one of the comments that I thought was ridiculous is that port congestion is due to shippers demanding lower freight rates so the carriers are struggling to survive and meet the service demands. The carriers made their own decisions to invest in ultra-large container vessels increasing their capacity well prior to the demand ever materializing. They've done this years ago. The decisions were made maybe eight, nine, ten years ago. So that's not on the shippers. That's on them.

The freight levels are mostly impacted by supply and demand, just like most any other business. Surely carriers know this well, since they have demonstrated their ability over the years to manipulate capacity when rates fall below acceptable levels. It's the war of supply and demand. It's basic -- it's business dynamics.

Bringing in extra high volumes on a single ship well beyond the terminal's current capacity to handle smoothly is something they themselves need to better coordinate with the terminal operators together. So it's not the shipper's fault for the poor economics or planning.

Another misdirection of blame for port congestion is a lack of truck drivers. The lack of truck drivers is an effect of the situation. It's not a cause. Any day you can see lines of draymen waiting outside the terminals trying to get in to pick up or deliver their loads. The draymen in fact may be fleeing the industry, but that is due to their inability to get in and out of the terminal in a timely manner so that they can make a living. And who can blame them. Improving the terminal and gate operations now will go a long way in preserving the truckers we still have and hopefully reverse the trend which is now heading into a crisis.

And, finally, one of the most ridiculous suggestions I've heard over the past several weeks, and it has been in print, is that current free time is too generous, and that causes the backup at the terminals. And I really have to say, I don't know any shipper that really looks to store their cargoes at the marine terminals. They really just can't get to them. What we have now is that the shippers are being penalized for demurrage charges for the terminal's own lack of efficiency. If anything, the lack of terminal and equipment free time may in fact contribute to the congestion, as there is little allowance for schedule accommodations.

So making false arguments, whether in conferences or to the media, I don't find it to be constructive, and it only serves as an impediment to really finding a solution, and it only serves as fodder for the media.

So from a shipper's perspective, what we need is for the carriers and the terminal operators to understand, that cargo is king. They are in business to serve the beneficial cargo owner who ultimately pays the bills. They are not in business to simply serve each other.

We need labor to be part of the solution and to work with management to get us through the more difficult periods particularly of abnormally high volumes. We need U.S. Customs in all examination sites to be completely electronically integrated and eliminate any need for a hard copy premise to transfer or other documentation. We are well beyond the need for paper documentation between either the carriers, the terminal operators, and U.S. Customs or other government entities. It just bogs down the process and holds back containers from moving out to the set exam sites or other dock examination sites. And it's -- you know it's silly at this point.

We need gray chassis pools where they currently don't exist. I think that where you've seen gray chassis pools, most of the participants believe that it has improved situations tremendously and really should be the model for the nation.

We also need to factor in systems that are designed to allow for street turns so that truckers can use the same import equipment, perhaps just been recently unloaded, for an outbound export load, as long as the equipment is compatible.

In longer term, we need to influence investment towards our gateways to improve the traffic patterns in and out of the port areas to provide easy access to rails, state, and the interstate highways.

Again, I thank the Federal Maritime Commission, Commissioner Khouri, and all of you in attendance for your time. Thank you.

COMMISSIONER KHOURI: Thank you.

MR. MORELLI: I'm going to stay seated. Thank you, Commissioner Khouri, for having us. This has been a great day for me. My name is Andy Morelli. I am with Rayonier Advanced Materials. We are a high-end specialty chemical pulp producer. I'll try to keep my comments brief. I didn't prepare anything formal. I have some notes I had written down before I came the other day. A lot of what I was going to say we've kind of heard today. I also think if you had 20 different shippers up here, you may hear 20 different formulations to some of the same things that Don just mentioned. So I agree with a lot of what he said, put it that way.

One thing, a couple of notes I had in there, key, better communication. You mentioned it in your comments there with electronics. I think if everybody is communicating a little bit better, you know, with when the vessels are showing up, when they're leaving, late gates, no late gates, when they're closing, things like that, that would really help turn times.

We heard a lot about the trucking companies today. They're all struggling. We all know that. Why are they struggling? There are a myriad of reasons. Most drayage are short hauls; right? So these guys are making their money on turns. If they can't get one, two -- you know, two, three, and four turns, depending on location, they don't make any money.

Shippers like us, we are being tasked to do more with less, as everybody else is doing. Right? You're doing more with less, and you're trying to do the more with more efficiency. So I think working together like we're trying to do today to raise some of these concerns, how do we become more efficient.

Some of the items I have down as what I'd like to see, I heard -- I think one of the trucking companies made mention today flexibility on the late gates and extended gates doesn't really help get those turns up.

Equipment, our business is pretty particular with the equipment. We need relatively clean equipment, not pristine clean, but clean. So maybe some separate spots in the terminals that have general use equipment anyone can take, and maybe a separate section where it's a little bit better, because that's a problem when a driver comes in. They have to inspect their container. If it's poor, has a bad smell, too much oil, grease on the floor, they reject it. They have to get back in line a lot of times, which can take hours, to get another container. That's a problem. Why not have a separate section where they can come in and they know that the box is probably going to pass their first point inspection.

That's one of the biggest complaints I get from our drayage company, is that consistency is an issue. I think we are lucky in the Southeast right now. We don't have big delays as we're hearing up in the Northwest and the West Coast. But I do hear from our drayage company that there is inconsistencies. Some days it will be an hour, some days it will be two, some days it will be 30 minutes. It all depends. How do we get that to be more consistent? Maybe better communication will help with that.

Other big concerns, I've heard it mentioned again today, the large vessels, are they just going to come into the East Coast dumping large, large, volumes of containers that's going to congest and convolute the pool as it is now?

The vessel sharing, while it sounds like a good thing, it can also be a really bad thing. Is that going to commoditize the export market? You can only have so many players that are going to be controlling our freight going across the world. Maybe some of the smaller carriers will get booted out, and you won't have as much competition. That's a little bit of a fear.

With all that said, one of my main concerns -- one of my main points I wanted to make today was all of this is happening right now. The East Coast is in pretty good position. We know what is going on on the other coasts. Is the ports and supporting cast of members that help the ports, are they getting prepared enough for this influx of business, and are we taking the right steps to be ready for the large vessels, the extra growth?

You know, the State of Georgia is really pushing growth for their ports, big time, bring a lot of businesses in. Are they going to be ready when the channels get deepened and the new vessels come in? As a shipper, that's a fear to me, that we're going to be in that situation that the West Coast is in, four- or five- or six-hour wait times. Our business can't survive with that. A lot of facilities run 24/7. We made product we have to put somewhere. So if you can't get it to the port, you've got to put in a warehouse or we're going to put it in your warehouse, and that's just extra cost.

So I think with that, that pretty much

ends most of the thoughts I had. I'm really concerned about the future. I'd really like to focus today on how we're going to make sure the Southeast ports are ready for this massive expansion that we're expecting. And thank you again, Commissioner Khouri, for having me.

COMMISSIONER KHOURI: Thank you for coming.

MR. JONES: Good afternoon. I'm Marvin Jones, International Paper. We are a fairly large exporter. We ship about 180,000 TEU on an annual basis. Fortunately for us, about 140,000 of those TEUs come out of the Southeast. And to be quite honest with you, we do not have any major issues in the Southeast due to congestion. We have good partnerships.

However, the other 40,000 of those TEUs, we have lots of congestion issues in the Northeast and on the West Coast that's contributing to problems with our dray carriers. We've seen in excess of two-, three-, four-hour turn times at some ports. Of course that costs us money, eventually in rates. And it also costs us money when we're sitting down and our dray carriers are having turnover, and they can't keep qualified drivers. That eventually leads to us having to give them some type of incentive so that we can run our business.

For those who do not know the paper business, it's a continuous process. So all of our facilities have trailer pools, and it's not for storage. We don't store. It's really for surge capacity in order for us, as we're making our product to come off the line, in order to put that product in it. So some would say that's a contributing factor, but our term rates are about six days, which is pretty darn good for a process like that. So it's really something that, if -- as we get bigger ships in and especially in the Southeast where we have the majority of our product, if we would experience anything the way we're seeing on the West Coast and on the Northeast, it can be detrimental to our business.

Other thing we're doing, we have to

adjust our machines around, which impacts our customers. We're also sometimes -- well, fortunately, we have not had to shut down, but we got close to shutting down our machines before. And to shut down a paper machine, you're talking hundreds and thousands of dollars immediately when you have to shut these things down. We definitely roll a lot of shipments which impact our customers, and it eventually catches up with us, because then our customers will get a lot of paper at one time; hence, that's an inventory concern, and trying to smooth out that supply chain has been very difficult for us.

The equipment issues I think you touched on is a big deal for us. I've actually been involved, when we go in to pick up -- and we know, for example, paper is extremely heavy. We understand what the International Organization for Standardization (ISO) specifications are on containers. We try our best to get those containers inspected at the ports. Unfortunately, when you're spending two, three hours in line trying to get a container, your driver is frustrated. You see a box, realistically, that driver is not going to take that box over to the maintenance line. That driver is going to grab that box and hope like heck, by the time he gets back to the mill, that something is going to be done.

So I actually tried to debate on what's the best way to handle this, and actually in discussions with one of our large carriers about, hey, what can we do at the ports? I said, this is costing me anywhere between 500 and a million dollars a year in repair costs and dray costs. So I'm sure there is something we can work out to where it helps both of us, and we'd be willing to share those costs. So we're in the middle of talking about those things. I think that helps, you know, with port congestion as well with those drivers getting the right boxes, and we're moving through very well.

The other big impact that we've seen or the other thing that we're doing is we try to split our break bulk volume out. That helps with congestion. We're about 20 percent right now in the break bulk side, and we can hopefully continue around that mark. Our intermodal shipments, which we consider helping our carriers move boxes back to the West, at least empties, have been impacted tremendously on the West Coast. And we're currently working through that, and we may have to change that supply chain.

That's really all I had. Again, you know, appreciate the partnership, and we're willing to sit down and talk to anyone if there is anything that we need to do differently. We don't think that we're -- you know, we know everything and we're always willing to open up our books for those that we can and talk about what we need to do together. We're not out to try to nickel and dime suppliers, both dray and our ocean carriers, our partners. We're looking for the long haul, and I think our reputation states that. That's it.

COMMISSIONER KHOURI: Okay. Do you all

want to -- we're definitely ahead of schedule on this panel. What do you see as your top one or two, if you had a blank sheet of paper, suggestion for improvement?

MR. JONES: Wow, put me on the spot. I would think that maybe some of the ports, I think they really need to go back and re-evaluate and look at their traffic flows and look at their systems and look at the way they're scheduling vessels in, look at their volumes, and fully understand what they can handle. And the difference between what they can handle and what they think they can handle is a big difference. And I think maybe they shouldn't bite off so much until they have the fundamentals down. I think that's the biggest --

COMMISSIONER KHOURI: My wife has been telling me that for 30 years.

MR. JONES: I think that's really the biggest concern. And I think the other thing is the boxes is a real big concern. I fully understand that because this box cannot -- you can't load paper in it, but you can load lumber in it or you can load something else. I fully get that. And maybe we should have separate areas. And it does cost. It's a labor cost. But when you put all the cost in it, it's probably going to save a tremendous amount of money and time when we all partner together. So that would be my five things.

MR. MORELLI: I'm trying to think of a couple of different ones as Marlon was speaking. I was going to raise the box issue, probably number one for our particular business. We're not a paper company, but we're a similar process. Continuous flow and container integrity is important. We spend a lot of time on loading patterns, how to load it correctly so you don't have these issues. And we spend a lot of money as well returning the containers to the port because they made it all the way to our facility, got to the loading point, and the warehouse loader has last right of refusal on that box. If it's not safe, they're going to back out and not load it.

So we've had brief discussions in the past with the Port Authority about that. So I would be more than willing to participated with you, if you're having any conversations with the ports about that. We're not as large a shipper as you are, but we're pretty big.

I guess number two, if I could list two, maybe the consistency factor. How do we get that, because it's very inconsistent today, even week to week with the same vessels, supposedly calling the same days. We have a part in that as well. We're the ones bringing the boxes to the ports. How do we work together to make it consistent? We can plan shipments for our customers based on any lee time we want. But when it's not consistent, it makes it very difficult to service them.

COMMISSIONER KHOURI: When I hear you say consistency, am I hearing schedule integrity from the vessel operators?

MR. MORELLI: That's a fair way to put it, yes, wolf calling and then actually further out into delivery sections in other parts of the world. That's a big factor for us, but trying to focus more on the Southeast. Thank you.

MR. PISANO: I agree that some of the comments that were stated earlier, as far as the inspections of the equipment, whether it's outbound empty boxes or the chassis, and we spoke about that earlier, discussion about the inspection of the chassis. I think that really is important to get the -- make sure that before the equipment is tendered to a driver, that the driver is getting the right equipment, that there is no reason why a driver should be repositioning stuff inside the terminal. That's not his job, and he shouldn't have to do that.

The other thing is, I would say from the Northeast -- I come from Jersey, so I'm very familiar with the New Jersey port operations, and we also do a lot of cargo on the West Coast. And I see there is a big difference, which I find remarkable, on the operations of the ports that are administered by a government or state entity, such as here in Charleston and other areas, Savannah, of course, versus the landlord ports. It's striking to me because it's one of those instances where you -- you always hear that private industry does things so much better than the government. But why when it comes to port operations it seems to me as an individual quite the opposite. It seems like the Port Authorities that are run by either state entities or quasi-government agencies are actually much more efficient, probably because they have the ability to control it, and they're not competing amongst themselves. They may be competing among the ports in trying to get the best operations or best reputation as the port servicing the industry. But I think that's quite remarkable.

But I think that some of the other ports should have radio-frequency identification (RFID) technology on the trucks so that you can manage -- you know, in our industry, we say you can't manage it, if you can't track it; right? If you can't measure it, you can't manage it, and so you've got to track it. They're able to track the time in and outside their own terminal operations. But what about the two and a half hours that the guy is sitting outside on the street trying to get into the terminal in Port Elizabeth or Newark or out in Los Angeles.

So I think that the technology exists, and I think that it should be deployed nationwide. And even in a more efficient port, shall I say such as in Charleston or in Georgia, why not monitor it and see if you are falling down, see where you are this year as far as the lines outside the gate versus next year or the year since. So I think the technology exists. And it's a reasonable cost, and I think everybody would benefit from that, you know, the shippers, the truckers, the Port Authorities, and the state entities that may govern those government authorities.

So those are my two things. And I would just reiterate that I think that the gray pool model seems to be the best model that exists around the country. And that, I think, should be the basis for the models or, you know, through all the ports that don't have it now, they should adopt those.

COMMISSIONER KHOURI: Very good. Thank you so much. Hopefully all of you will be available to answer questions in case some come your way too.

We are a few minutes ahead of schedule, and we've only been at this 45 minutes. I don't know that we need to take a break. We're ready for open public comment and discussion, and kind of -- let me stand up.

I think, rather than me try to at this point summarize what I've heard so far and try direct Q and A, I will just comment, there has been a few words that have just run through all this morning and this afternoon, and that's collaboration. And the very last comment, serendipity, that Mr. Pisano was talking about, there is technology out there to help us. I was talking to Brian Taylor and, I think, to Jim earlier that we have so many disparate parts that have to work together. Whether they communicate with one another or not, I think, it's fair to say there are parts that aren't talking with one another. Maybe it's surprising that it works as well as it does.

Let me just stop with that and see what questions and comments come up from the audience. Everyone who has spoken agreed to answer questions, if you want to direct it to a certain person. If you want to just make a general comment, it's all good. And for the court reporter, again, if you would just identify yourself when you start. And I open it up, see how long this wants to go, ten minutes or two hours.

MS. FIELDS: Hi, Commissioner Khouri. My name is Jan Fields. I work with John S. James Company in Savannah. I'm also the National Customs Brokers & Forwarders Association of America, Inc.

(NCBFAA) Transportation Committee chairman. Thank you for holding this forum.

One of the questions I'd like to discuss is when there is an impending hurricane in the Southeast or there is a storm or a labor contract or something, we just seem to all be, oh, my gosh, what are we going to do, what are we going to do. The carriers, I know you have your intentions coming in. Are you going to come into the port if the port is going to be so congested? Is there some kind of relief for the shippers who can get their cargo in and out or not face huge demurrage and huge issues? I realize it's a challenge for everyone, but it seems like sometimes we're reactive to it instead of being proactive and planning and saying, if this happens, this is what we're going to do. I don't know who that is connected to. Just a question for discussion.

COMMISSIONER KHOURI: Anyone want to try and answer that?

MR. NEWSOME: I'm Jim Newsome with the South Carolina Ports. I think a lot of what you heard today is that we are more reactive than we need to be. We do need to be more proactive across a lot of fronts. And I mentioned that in my opening comments. And it's not quite where you were going, Jan, but, I mean, we -- if you think we run a terminal -- Wando Terminal has 6000 truck moves a day. I don't know today what's happening tomorrow. We go home today, we do not know what is happening tomorrow. We're a major asset. If you just step back and think about that, that's impossible. I mean, that is really impossible.

So we've got to -- I think what we might take away from this is we do have to plan -- the reason we run the port is to be proactive. And it gets people irritated sometimes. But that's the reality of life. We're an expensive asset. We have to manage it appropriately. So we do have to be more proactive, not in isolation.

Hurricanes frighten me -- I don't even want to talk about it. Hurricanes frighten me in the port industry. You can just imagine. Everyone from Hugo that was here -- I wasn't here, but that's a special case.

As far as demurrage goes, our view on demurrage is the lines control that. It's about their container. Our relationship is with them in terms of storage. So the lines have to decide and tell us what they need. And of course we're reasonable. If we have an extenuating circumstance, I would not cite many examples where I don't think we've been reasonable. And I think people ask us.

You know, you come in to me, like this morning, and say, wow, I think we've done a great job here. And then you leave and say, wow, we've got to do more, we've got a lot more to do. And that's kind of my view, takeaway as we go away from here.

MS. FIELDS: And I guess, understanding from a carrier's point of view, it is hard to say, okay, there is a hurricane there. I remember one time I had a call, and there was a hurricane coming into Wilmington, and the lady was frantic. "But you don't understand. I have a sale tomorrow."

You know, "There is a hurricane coming." So I realize that you have to take the precautions. But a lot of times it's like, we get like, oh, there is going to be this tremendous port congestion charge that's going to be implemented. I know they have to file them like 30 days in advance. So there are complications there. But there is a great variance of when it's charged, and who is charging it, and who is not charging it. And the exporters and importers just have to be -- sometimes feel taken advantage of, so just from that perspective.

MR. TAYLOR: Brian Taylor, Jacksonville Port Authority. I would just like to say that hurricane preparedness and disaster recovery is all about collaboration, just like we talked about the different parts of the supply chain working together. So it's the city, it's the Coast Guard, it's the port authorities, it's the shipping lines regularly collaborating on disaster recovery plans and hurricane plans. I know that's what we do. I'm sure that's what Jim does and the other ports do. And if you do those on a regular basis and you actually do the exercises and the modeling, when the actual disaster happens, you're pretty well prepared. I think a number of the ports, and I would say certainly Jaxport and City of Jacksonville, based on the work we do in this area, I feel that we would be very welcome here in the event of a hurricane.

SPEAKER: That's true. But if I may, there is a really good study that came out in Sandy. I'm retired from the Coast Guard. So what I wanted to say is, that's true, but there is a very good study that came from Hurricane Sandy under the auspices of Florida, New Jersey, New York, the ports. And basically your question, which is -- the Coast Guard has studied this, and the Coast Guard has a complete setup of how to reconstitute the port. And you're right, it's all about collaboration.

But what was learned from that study is that we did a really good job -- I'm not with the Coast Guard any more, but the Coast Guard did a really good job at getting working, partnering, and getting the port back open. It's the next stage, which is what you guys are pretty much focused on here, which is what do you do to get everything shifting again through the supply chain. There is not really that aspect in government that is looking at that, that coordination piece on getting the goods moving back and forth through the system again. So that's a really worthwhile -- but you're right, sir, on what you're saying with respect to the port. But as far as from a policy perspective, looking at that, it's nonexistent; whereas the Coast Guard had the authority to be able to do that from its level. There is a report, though, that you can look at. It has a great follow-up on that. Tom Wakeman is the author of that.

MR. CERNAK: Steve Cernak, Port Everglades. I also have a dubious distinction of bringing a port back to recovery from Hurricane Ike. I was in Galveston. So demurrage, last thing on my mind. Last thing on the port's mind.

It was a nonissue. We were busy trying to get jump started again. So I don't think demurrage charges are a big issue.

I had a great -- you know, from a practical standpoint, we had great hurricane recovery plan. It really wasn't worth anything the day after the storm though. I'm standing there looking at it, and I'm trying to figure out what am I going to do next. So we can plan all we want to, but I think if you've seen one hurricane, you've seen one hurricane. So you don't know what is going to happen, what the issues are you're going to deal with. So I don't know if you can plan for that. So I just wanted to weigh in, having lived that and having to work out of a trailer for six months. I understand, you know, what's going on.

But while I'm here, I agreed to talk and we had talked before, I think one of the things we look to you for at the Federal Maritime Commission is to provide some sort of leadership around the wrap-aroundness. I think one of the recurring themes I've heard here today is we need to look at things from the system-wide approach. I hear the little pieces, but they all fit together. We have to look at it like we're all one big system and how do the pieces fit.

I've heard technology come through here. Well, there are a lot of issues with implementation of technologies. I think everybody needs to be at the table for that discussion. And then certainly the ports, we need some sort of funding model or some sort of way to get creative so that we can do the improvements that everybody seems to think that we need to do at the ports. And a lot of that is going to fall to the Port Authorities. But that's expensive, and how that model takes place, we all sit there and have a discussion.

One of the things that John Walsh and I talked about after we were up there this morning was -- and if you look at the cost of dredging, for example, very subtly, every port here, we've looked to deepen, but the courts come back and said, well, we're not going to authorize you for 50 feet, but we'll authorize you for 47 or 48, and you can buy down the extra two feet. Well, that's a subtle shift of the traditional percentages of responsibility that's always been in the model. And that's just the subtle shift of cost. So I'll leave it at that.

COMMISSIONER KHOURI: Thank you, thank you. Just as a quick aside, when I was working for a carrier a number of years ago, this was inland, we had four hurricanes come into the Gulf and shut down New Orleans in one fall, one after another. We had a very well developed hurricane recovery system. And you just -- you work through it. We saw four hurricanes in four months. It is a process. I'm not going to comment on demurrage. It's a commercial issue. I think the last thing that anybody in this room or any of your colleagues want is the Federal Maritime Commission or other government agencies to come in and tell you commercially how to run your business. And I can assure you, and I've had this conversation with the Chairman, that is not what we are about. It's not what these forums are about.

But you bring up another issue that -- let me see if I can tee this up in this way. I serve on a subcabinet group called the Committee for the Marine Transportation System (CMTS). Virtually every cabinet department has a representative at the CMTS. General Peabody from Corps of Engineers is currently the chairman. It rotates around between different agencies. John is a very good guy, and I assure you, he shares your frustrations. If you just give him a few more billion dollars, he would be there doing what he would like to do. The budget is what it is. The economy is what it is.

But in terms of collaboration, in terms of how many different agencies that we've heard talked about today and a couple that haven't come up yet, FMCSA, Surface Transportation Board, Coast Guard, Customs, United States Department of Agriculture (USDA), some of which was folded into Customs with Homeland Security, but there are still other USDA functions in terms of some inspection on the reefer cargo coming in is still independent, what kind of coordination would you all like to see of all of these agencies, and do you think a group like CMTS to facilitate that interagency cooperation -- I mean, think about a room like this and think about the agenda we had today, if you had every single government agency sitting down in one room and trying to talk through the issues and focusing on, you know, what you all are -- there is somebody out there called the American citizen that's our customer, how can we do our jobs better? Any comments or reactions to that?

MS. ZARESK: Hi, my name is Pam Zaresk, and I'm currently the president of the Maritime Association here in Charleston. I'm so glad to hear you say that, because I was just getting ready to get up and say the very same thing. One of the things I heard sort of mentioned but not really delved into is some of the environmental issues that all of our folks are having to do.

That's the U.S. Environmental Protection Agency (EPA). The trucking industry and the overregulation or the tremendous regulation they're under, now we're talking transportation. I mean, the breadth of federal agencies that touch all of these things. And you look at some of the initiatives that are going on like, for instance, with Customs and Border Protection doing a single window and the initiatives in the federal government that say, hey, we'll have a single window for all of your information that's coming in, and that includes the U.S. Food and Drug Administration (FDA), and that includes Customs, and that includes all those 47 federal agencies that have some role in the import and export of cargo. That's only one little piece of the whole thing though.

So I think that when the federal government starts in with EPA regulations, trucking regulations, maritime regulations, all of those things, I think one of the things that came out of this forum very, very clear is that everybody has their own challenges with it. And until the federal government puts that all together and looks at it as an issue-related thing, we're all going to still have some problems.

COMMISSIONER KHOURI: Thank you. And The U.S. Maritime Administrator, Chip Jaenichen, by the way, your boss, is on that CMTS with me, and he does a fantastic job. He really does. Thank you.

MR. CERNAK: That just brought one thing to mind that is attached right onto that. What I've seen through the regulatory process and what I'm dealing with, very clearly some of the federal agencies don't get involved until the very end. So perhaps having a dialogue in the room, so everybody understands how it all fits together up front will maybe lead to a pathway to where everybody knows what's going on at the beginning rather than at the end, because you get to the end and then go, you've got to do this, and then it gets kicked back to the beginning, and then it gets to the end again. And that's how we've gotten into the big circular argument on trying to advance projects moving forward.

COMMISSIONER KHOURI: And to pick up on what Jim mentioned, the agencies -- not to over-generalize, but agencies in general, by their very nature, tend to be reactive just by how it works; and, secondly, they don't seem -- normally don't react quickly. So it's just part of that DNA, and it's something that needs to be improved, without question.

MR. BYRD:: : Commissioner, Phil Byrd. I just -- Pam's brought up a particular matter so clear in my mind, I thought I would share it with this audience and with you, sir.

Recently, as the Chairman of the American Trucking Association, I was called to Washington to meet with President Obama with respect to the Phase II technology coming out on meeting duty and Class 8 heavy duty commercial motor vehicles. Prior to going into the audience with the President, I was standing in a prep room with Administrator McCarthy of the EPA and Secretary of Transportation, Anthony Foxx. While we were standing there for about 40 minutes, the conversation came up from Ms. McCarthy, she said, "Mr. Byrd, how can our two agencies work together better to help your industry?"

And I said, well, I thank you first of all for the question, because it's very important. On one hand, you have the FMCSA making regulations that restrict the free full movement of America's cargo, while at the same time, an unintended consequence of the new hours of service regulation is emissions control, because as Curtis mentioned in his remarks on the hours of service regulations, the 34-hour restart -- and I don't know if this audience is aware of this or not -- but the 34-hour restart requires that a motor carrier company now, today, only after 168 hours of elapsed work time from his first restart to his second restart can he even take a 34-hour restart. And then that regulation says that they have to be down from 1 a.m. to 5 a.m. two consequence nights, which means our industry, the trucking industry, operates much like seaport industries, manufacturing, and distribution. Monday through Friday, we serve our customers. This new regulation says that it's not until 5:01 a.m. on a Monday morning can a commercial motor vehicle highway driver move out on the roads. We're in the most congested periods of time, the most unsafe periods of time on the highway system delivering America's goods, and we're exacerbating the environment because we're sitting in congestion. We do need the agencies of government talking to each other on the front end of these other issues.

The other point, while I've got the microphone, I'd like to make and just reiterate the fact that the common thing I've heard this morning throughout this whole session is the trucking industry and how important it is to the entire process. I know that most ports, the majority of the freight moves by truck. Demographically over the next ten years, we're going to lose 37 percent of America's truck drivers, 37 percent, with almost zero inbound coming in. Those 37 percent are going to move out because of age and because of retirement. Another 36 percent will leave because of nonvoluntary retirements. We have a critical, critical situation on our hands, not to mention the fact that we've already shrunk as an industry from a capacity standpoint by approximately 5 percent.

So with what we're looking at in the future, I would just challenge this audience and the industries involved here to ramp up the respect that they have for the American truck driver and their facilities. That's the first thing we can do, and Jim alluded to it this morning in his remarks. But we have to make this industry a desirable industry so that we can attract people. The first step is respect. The second step is they have to be adequately compensated, incentivized, motivated, and delegated. And if we don't do that, just think about it. How do we move America's freight? It's a big, big, big concern. Thank you.

COMMISSIONER KHOURI: Thank you. If I can also comment about the people issue, if everyone was really paying attention, clearly the truck area is number one. And Curtis has talked with me about this. It's self-evident. But we also heard from the maritime side that getting good crewmen onto vessels and the training process they have to go through, the rail panel was talking about their crew issues, et cetera. This seems to be an issue that runs all the way through the transportation system in every mode that, with peaks and valleys, they said, okay, well, now we need more crewmen to run the trains. We need a lot more rail folks. We need a lot more maritime folks, and they think they're just going to come off the streets. And they have to have training, they have to have qualifications, et cetera, and they need steady employment.

MR. BYRD:: : Just one final comment with respect to capacity. What we see today and what this industry, the seaport industry and intermodal industry, needs to realize is that the manufacturing industry and the domestic industry of our nation is tying up capacity with long three- to five-year commitment contracts on a contract basis, and that is the move that's at hand today with every motor carrier existing. So that capacity is being shrunk from another angle as well.

MR. NEWSOME: Jim Newsome with the port in South Carolina. It's been mentioned to me several times, and as late as yesterday, I mean, the highest unemployment group of people we have in this country are like 21- to 25-year-olds, the Millennials. I think I'm right that you have to be 25 to drive a truck. So would that not -- is that wrong?

MR. BYRD:: In interstate commerce, you can be 21 years of age. But here's the problem, Jim. Just two weeks ago, I was invited to be keynote speaker at the annual collection of insurance industries insuring motor carriers in the America, and my discussion and the purpose of being there was that very issue. Most midsize and small-size carriers today cannot employ a driver because of the pre-requirement insurance restrictions that say they have to have a minimum of two to five years' experience, a minimum age of 23 to 25. Large carriers who have large high self-deductible insurance levels are able to leapfrog that requirement because they're writing on their own funds.

So what we have been trying to challenge the insurance industry to do and what we've been successful in our private company in doing is designing a model that is so robust from a curriculum standpoint from increasing deductible costs on people that go through these problems, but we have to -- you're exactly right. This industry has to produce drivers. It has to make drivers. And we are missing out on veterans, people that can fly and protect our country and fly our jets and do all kind of neat things in other industries, we can't bring them back home and put them in the trucking industry, and it's a shame.

MR. OTTERBEIN: Thank you, Commissioner. My name is Fred Otterbein. I'm with First Coast Logistics. And the gist of my statement is we're talking about productivity being the ports, the infrastructure of the highways. I would like to address it to the carriers. As far as my history is, we have gray chassis now. We basically have gray ships because it's very hard to find a ship without everybody's boxes on it. Why don't we have gray boxes? When is the carriers going to address gray boxes? Why are we taking empties in to come out with empties? Why are we going up and down the highways with these empty boxes? Could a carrier rep tell me that?

SPEAKER: They all left.

MR. NEWSOME: Well, I'm a reforming ocean carrier, emphasis on I-N-G, because you're never totally reformed. I mean, it's hard to get it out of your system. But I would say probably never. I think that's just too close to the heart of the product that carriers offer, which is their container. And they see that as an imbalance cost or a significant percentage of their cost structure. And how they would apportion that in a gray box world, I just -- we talked about it many times. There are examples where carriers did bilateral box exchange within alliances. It never really got off the ground, because the sales force said, well, wait a minute, you gave them my box, and I could have sold that box. Right, Jim? I mean, that box is in Atlanta, and who paid to put it there? We can't even organize basic things sometimes. I mean, to do that, I think, would be -- I'm just straightforward about it.

MR. OTTERBEIN: Why can't we do it with the trucking industry, with the steamship industry, if the railroads can do it with the railcars?

SPEAKER: That's a good question. Jim, do you want --

SPEAKER: I'm also a reformed steamship guy. I know that the leasing companies years ago tried to do that with the gray boxes, and Rayonier was one of them. It goes beyond our country. It goes overseas as well. And the ocean carriers feel that's part of their sales tool. That's part of the ships. I realize we put everything together now, which is different than certainly when I started in this business 40 years ago. But I think it's because it's proprietary. I think it's an emotional issue that's just not to become overcome -- it's not going to be overcome.

COMMISSIONER KHOURI: Any other perspectives out there?

MR. PISANO: I'd like to say I find it gratifying that there is so many reformed steamship representatives here. That means that there is hope for many more, hopefully.

MR. NEWSOME: Never totally reformed.

MR. PISANO: Actually, I'd like to address this to you, Commissioner Khouri. And I think that everybody here sees the Federal Maritime Commission as an independent neutral body with regulatory authority over both the carriers and the terminal operators. But, also, as a representative of the government, you're perceived as a neutral body looking over the interests of the American shippers and the American public. And I think these forums are great. I know there is one more coming up in New Orleans next week. I hate to put you on the spot here, but I'm really interested in the end game.

I mean, I think it's great that the FMC is engaged in this process. And we would like to see, you know, the continuation of the FMC involved in this. And as you said earlier, you can't dictate how people run their businesses, and we respect that. But I think that there is an ongoing role for the FMC in getting all the parties together and, you know, facilitating the discussion on a national basis and help to move our nation's transportation infrastructure forward. So what I don't know, I'd be interested to know in this future point what FMC's eventual role will be in this process.

COMMISSIONER KHOURI: Thank you for the question, and that's part of my job description, to be on the spot. So I don't shrink from it. I have two more issues here that I'd like to throw out. But your exact point is my third issue. So if I can just defer until the third issue, and I'll answer your point directly.

The next point I wanted to -- I don't know how many of our port directors we still have here. I hope most of them. The Federal Maritime Commission, as you just pointed out, has agreement authority with marine terminal operators. There is a whole lot more in the press about agreement authority with vessel operators with all the alliances. It's been -- I don't know what happened to the trade press circulation, if they didn't have some of that to write about, they'd lose half of their pages. But marine terminal operators can also get together, file an agreement with the commission to discuss various things.

Most recent in the press was Seattle and Tacoma realized they needed -- they were close enough, they needed to talk with one another. Los Angeles, Long Beach have various agreements where they can chat. This is an area that -- I introduced Florence Carr, the FMC's Director of the Bureau of Trade Analysis, earlier. This is her area that she's responsible for. Have the port operators considered filing larger -- when I say larger, geographic in scope, larger agreements with the commission to enable them to talk about some of the issues that we -- we've had here today and bring in some of the various outside -- or other groups -- I don't want to say outside; they're here in the room -- to help facilitate the collaboration that we've been talking about? Any of the port directors want to address that? Interest?

MR. TAYLOR: Brian Taylor, Jacksonville Port Authority. I can really only speak on behalf of several of the ports that are here from Florida. Although we have not gotten to the stage of engaging in direct -- call them regional discussions about collaboration, cooperation in Florida, we do have Florida Ports Council. And since we have a state that has 15 seaports, we've used that as a vehicle to allow us to get together and discuss and collaborate on common issues that affect all of the ports. And I think that model has worked in my brief time there pretty well. We still obviously compete, as all ports compete. But the ability to actually sit in a room and talk about common issues that we can address collaboratively through the Florida Ports Council I think has been very beneficial to the overall model that has worked very well in the state of Florida. So while we have not engaged directly with the Federal Maritime Commission, I think we've got a model that has demonstrated an ability to work very well.

COMMISSIONER KHOURI: Okay. Jim, if you want to --

MR. NEWSOME: We have used it on specific issues, such as chassis pooling. We worked together with Georgia to come up, I think, with a very useful solution, the gray common chassis pool that served not only ports individually, but the entire region of the

Southeast. But more -- I think your point is more toward addressing the fact that we're in a world of mega alliances today. We can say what we want about them, but they're all cost focus. They're all 100 percent about reducing cost. That's what the industry has become.

So the logical question that you ask is does then it make sense for ports who face big investments to collaborate more closely commercially. You know, I've been pretty public about it. We think it's something that we'll have to consider over time, you know, depending on how the industry goes, because we're investing a lot of public sector dollars. If you look just between Georgia and South Carolina, the two states alone, if we build the Jasper terminal, which we're intent on doing, we're going to invest over $10 billion in port facilities and channel deepening in 25 years.

And we don't have a common viewpoint on that, or we may have done something by now. But you ask yourself, are you better to do that in the way we do it today, or better to find a way to work more closely together? So it's an open question, something that I think has to be considered if we're going to invest the sums of money that are at stake.

COMMISSIONER KHOURI: Well, and in terms of sustainability, in terms of port efficiency -- I'm going to try to clean this up a little bit, just to, as they say, protect the innocent. But a group of port representatives were in my office not too long ago -- my counsel is already starting to go, oh, my God, where is he going? But they did a presentation, one of which had efficiencies in turn times in their port and different metrics. And I asked the question, I said, "If you looked at this metric over the last ten years, what would it tell you?"

And they kind of looked at each other and said, "Well, it's been about the same."

And I looked at him, I said, "I apologize. What I'm getting ready to say may be a little harsh. I come from private business. Name me a single industry anywhere in the United States or the world where they had one of their most important performance metrics and they have not figured out to improve on them over ten years."

And they just had a look on their face, like I understand I wouldn't have a job. I mean, there is not an industry in the United States that has not managed to figure out how to become more efficient, more productive, do it at a lower cost. If you have a major production metric and you haven't improved on it in ten years, you really have to scratch your head.

So I want to use that as kind of a lead-in, which my penultimate question is, what I heard -- stress, what I heard -- less problems here in the Southeast. People who have experience, you know, North, South, East, West, what I heard was less problems with the -- in these local ports. And why is that? Is it discretionary cargo, meaning that more is just going inland and not trying to be delivered drayage locally? The comment about managing the real estate and managing the volumes, why -- are there lessons learned? And maybe giving the opportunity once again for some of the ports to toot their own horn, if you would, but why are they doing so much better?

MR. CERNAK: That's the $50,000 question here. Steve Cernak, Florida Ports Authority. There have been a lot of investments going on. Places you have the problems are areas that are already high-volume ports, that are just how this congestion issue that keeps manifesting itself. I think it's a couple of factors.

COMMISSIONER KHOURI: Do you mean by that -- excuse me -- is it diseconomy of scale when you get too big? Is that your point?

MR. CERNAK: Not necessarily. I think the industry is evolving. It's changing. We can see it. I can see how it's starting to change. You see these alliances at the shipping lines. They're the first ones out of the gate. They're looking for their economies of scale, and they're developing that.

I think, you know, if we don't be proactive about how we evolve ourselves in the Southeast going forward, I think we could fall victim to the same things we see elsewhere. I think that's one point I want to make. I think we can take a step back and look at what's going on there and perhaps collaboratively, going back to your last comment, work together smarter to try to keep those things from happening. That probably would be a good start for the ports to have that dialogue to go on.

I have no idea what an agreement would look like if we were to talk about things. I think that's something that everybody has their own comfort level. We'd have to walk into that eyes wide open and slowly to see how that would evolve.

But I just think that maybe we've learned from others' mistakes. Maybe we've been more careful with some of the investments in the more recent vintage. I know that's one of the steps that I go through in my port. We ask the questions internally, and we go through and we evaluate what investments we're going to make, and how does that help us going forward. We do a 20-year plan, and it's updated every two years. So I like to think that's part of what's going on in my world. I can't take all of the credit, other than I'm sitting in that seat right now.

MR. PISANO: I'll take a stab at it. Don Pisano again, American Coffee. I think that the Northeast terminal operators, they're all independent. And same goes for Southern California, they're all independent. They're both -- well, Southern California, Los Angeles and Long Beach, they're both landlord ports, as is Newark, New Jersey. And I have to say that I think the independent terminal operators have a relationship with the ocean carriers, and they have not given too much concern about the cargo owner or the truckers. And all of their investment and intentions has been on the water side, not on the land side of the operations. And I may be wrong, and I know I'm going to get a lot of arguments against that. But that, I have to tell you, clearly is the perception of the shippers that are operating in and out of the ports of the Northeast and Southern California.

COMMISSIONER KHOURI: Very good.

MR. TAYLOR: So if I may, I'll respond to that. Jacksonville, Jacksonville Port Authority is also a landlord port. So we don't operate the terminals, but we do have several major terminal operators that are running those facilities for us. But the State has actually had a lot of influence and foresight in investing in exactly what Don was just describing, which is this connective infrastructure that allows freight to get in and out of the ports, connect to the highways and connect to the rail yards.

I think the challenge you have in some of these places in the Northeast and on the West Coast, these are developed cities that it's very difficult to add that infrastructure very late into the process. And so I think having a state that invests proactively in that connective infrastructure to ensure that you're not just investing in the port, in the infrastructure of the port, but you're also investing in the road infrastructure to allow the freight to move from the port to where it needs to go. That's what I see is the difference right now in the South Atlantic, specifically in Jacksonville. I believe the same thing is happening in South Carolina, in Georgia. I know it's more difficult down in Florida, because you also have a fairly well built out city. But, still, rail infrastructure is being put in, and I think it's that foresight that is allowing the South Atlantic to avoid some of the issues that we're seeing elsewhere.

MR. CERNAK: I want to add one thing to that. Being in Fort Lauderdale -- I playfully call it the sixth borough, being an ex-New Yorker -- it's very congested around the port. But my reaction to that comment was exactly the opposite. The State has given funds, and they have invested heavily in the road side and rail infrastructure. And I feel, looking at the port, that my water side infrastructure is lagging, and I have to react to that. So I think it's a matter of philosophy. The State has come in and made a lot of investments. So that's a big part of the picture.

MR. PISANO: Well, I'd say that the Port of New York, the Port Authority of New York and New Jersey, has made investments. They are making investments. But I was speaking more directly to the terminal operators who are responsible for their gate operations and trying to smooth control of the outbound. It doesn't require the state government or the Port Authority to make investments in the road if you've got a mile long line trying to get into the gate. That's on the terminal operator. That's not the Port Authority.

MR. CERNAK: I just recently renegotiated a new agreement with one of the shipping lines. If you look at that agreement -- and they're all public -- it's designed to encourage investment in the terminals. So we negotiated through that. So I think that's the way -- something else to look at going into the future.

COMMISSIONER KHOURI: And you raise the other point -- and I say this not totally humorously -- but sometimes it is worthwhile to restate the obvious. Ports are sitting on what is otherwise known as beachfront property, and there's other people that would very much like to live there as well. And I forget who it was that talked about real estate management. I know it's a big issue in the San Pedro Bay area. There are alternate uses for that property.

Yes, sir, please.

MR. RICHARDSON: Albert Richardson, United Arab Shipping. I'll take a stab at this whole capacity issue. There is no question as alliances move forward, we're looking for economies of scale. I think the South Atlantic has done a really good job at keeping congestion away, et cetera, et cetera. However, that potentially can change very rapidly.

Vessels are getting larger. For

example, we currently operate two services to the South Atlantic. Those vessels are Mideast, Mediterranean. Indian subcontinent service will go from 4000 TEUs to 7000 TEUs very shortly. Additionally, our trans-Pacific service will divert from a Panama service to a Suez, and the vessel size will go from 4000 to 8000. So just by -- I think on the West Coast, we've seen the 8000 TEU vessels for years now, for a couple of years. And I think we're going to get to that phenomenon on the East Coast very, very soon. Four or five years ago, as most of us on the carrier side know, Suez services were not viable. And, now, because of economies of scale, you'll see larger vessels to the South Atlantic, which potentially can create some problems long term for you if we don't plan accordingly.

COMMISSIONER KHOURI: And the point you raise -- and this goes back to that group I mentioned earlier, the Committee For the Marine Transportation System -- I was called on to talk about some of the ship issues, and I was trying to explain how the ships were cascading from one trade to another and how the 18,000 TEU ships are in Asia to Europe and what their slot cost was, you know, per slot, and how the ships you just described are now cascaded into the U.S. trade. And I was right in the middle of a sentence, and a fellow from the Department of Commerce interrupted me to say, "So what you're saying, Mike, is we're at a comparative competitive disadvantage to our trading partners."

I said, "Yes, sir. You've got it." Understand on a global scale that our trading partners are paying a lower cost per slot because we cannot handle the other ships. And when I say can't --

SPEAKER: Just one additional comment. Our book, our new bill book, we're building eleven 18,000s and eleven 14,000s. So carriers aren't building 8000s anymore. And you're absolutely correct. When those vessels come off the production line the end of this quarter and all next year, we will see 8000 and 9000 vessels cascade to the trans-Pacific or to other services. Personally, I don't think the North/South services can handle those kind of capacities now. So that would be the East/West services to the U.S.

COMMISSIONER KHOURI: Yes, ma'am.

MS. ARGENTINE: Hi. Latisha Argentine. Looking at this issue from a broad perspective, I've been studying this for a while. Attorney, maritime, and consultant. Bringing it forward, we're looking at it from an interim right now, but there has been a lot of facts brought out, brought out from American trucking. You know, there is just so much of a desire and need for a capacity in movement. We've got so many more TEUs coming in. And within a decade, two decades, three decades, you know, we're going to increase, and we're not going -- as far as the freight, and we're not going to have anyplace to move it, whether it's on our ports or in our infrastructure of our surface, and even in our rails.

And so the reason why I started bringing that portion up is that one area that's been --

that I'm looking at is -- that we have not been looking at in federal government is a real hard look at domestic movement of freight on vessels themselves. And if you look -- and it not even seems to have been that much of a topic in federal government to be looking at it. And as you look back at CMTS to have that dialogue, there has been the marine highway transportation system that they've been talking about, and it really hasn't been -- and everybody is going to have to partner. Trucking is going to need it and rail as well. So I bring that up as far as part of the comments.

If you look over at the European Union (EU), 35 percent of the freights moving on ships domestically, and we are only using about 4 percent. And yet we're not looking at another alternative, or at least we're not talking about it. And there are a number of reasons. But we've got to think broader, and we're not going to be competitive.

We're bringing in the big ships for the exports, but we don't have various modes to move them on. We're already congested. We're going to continue to be congested. And our population has grown from the past 25 years by 25 percent. We're going to continue to have more and more of a need to ship and move our goods. So I throw that out to think even broader. It's going to get bigger. It's not going to get less. Thank you.

MR. BYRD:: Commissioner, I'm Phil Byrd, again, from the American Trucking Association, to respond to highway capacity. Recently, I was -- earlier this year, I testified before Congress on the impacts of the expansion of the Panama Canal with respect to the East Coast infrastructure. It was quite an education for me to get up to speed to be able to do that.

As a result of that testimony, the Panamanian government extended an invitation for me to come over and visit the canal, and some of my colleagues joined me at that. We met with the Panama Canal Authority. Their number one concern is, when the tsunami of freight hits the East Coast, it's not whether our harbor is going to be deep enough, not whether our terminals are going to be able to handle the capacity or not, but where does the cargo go when it hits the highway system?

At the American Trucking Association, we also have an arm which is known as the American Transportation Research Institute, ATRI, which is domiciled and headquartered in Atlanta. I've had the privilege of chairing that policy committee for a number of years. And I will tell you that we recently did a very high-level study on what the economic impact of highway congestion is costing our industry today. That release is public. You can get a copy of that through our website. $7 billion dollars under today's standards.

So when this freight continues to come to us and our highways get even more congested, it's going to drive greater capacity out of this segment. So highway finding, stabilizing the Highway Trust Fund is a major factor in how we move America's commerce, and we have to pay attention to it.

COMMISSIONER KHOURI: Thank you. I'll address just briefly, what you're talking about is essentially -- thank you for your comment, the lady before -- the short sea shipping that the U.S. Maritime Administration has that as one of their tasks, I was at a conference two weeks ago and spoke right after Administrator Chip Jaenichen talked. He raised short sea shipping. The person who spoke after me was from Europe and talked about their short sea shipping issues, and they have a different system. We'd be here until this time tomorrow trying to talk about short sea shipping.

Let me just briefly say, they do have some different issues in Europe than we have here. Is there a potential for short sea shipping? Yes. It's going to take a lot of different things coming together. But I can assure you, it is not off the board. I can assure you that it's something that the Maritime Administration, part of the U.S. Department of Transportation (DOT), continues to look at and work with, and I think where it makes sense, provide seed funding and other encouragement.

Let me leave it with that. And unless someone else -- I'm ready for Don's third question, or my third point, Don's question that he left me with. Does anyone have anything else they'd like to add? Certainly.

SPEAKER: John Tronti, Crowley Maritime. A question came up early, and I heard a comment about all the ocean carriers had left. Not exactly true. I'm still here. But just the same, I'm not on the cargo side, so the question that was posed about the inter-use of containers and boxes is not really in my swim lane, but I'd like to give that answer for this gentleman.

I suspect it's a capital investment inventory control co-chair type of dilemma. But if anybody can solve that -- and I don't mean to boast -- Crowley Maritime has logistics and a liner service. They're separate, but they're together. So I'm certainly going to challenge those folks to give me the right answer on that.

With that said, I'd like to ask the shippers here what they consider when they're utilizing an ocean carrier besides cost, because everybody knows that's the bottom line. But do you consider safety records? You obviously must consider speed to destination, service to destination. But does it matter to you that your commodity cargo merchandise would be carried on a U.S.-flagged, U.S.-owned, U.S.-crewed vessel? Because the more of that we have, the greater our national security is. So I'd just like to hear from the shippers what they think about when their cargo is crossing the ocean and what ship it's on. Thanks.

MR. MORELLI: Andy Morelli. That's a pretty detailed question. We do look at more than just cost. Value is very important to us. I have a very detailed score card that we rate our carriers on. I actually recently just finished our annual contract negotiations that are going into place Saturday.

And I'll step back. To answer your other question on U.S.-crewed lines, we don't look at that much detail with the crews and things like that, if I understood your question. It's neither here nor there. It's an interesting point though, something to think about in the future. Safety is very important, obviously, for our company.

But to get to that, yes, it's more than just cost. Cost is extremely important, but we look at customer service, booking turnaround, documentation turnaround, you name it. It's a six-lettered score card with weighted averages on each piece. Schedule integrity right now is 25 percent of that 100 percent score. And when we make our awards, I sit down with a team, and we list them in order. Who is our top rank, middle rank, third rank.

When I put my route guys together, we actually have a performance factor. So I might be paying you $1000 to get it to Shanghai. But if you're a high-paying carrier, you'll rate at 95 percent or something like that. So I'm paying more for your value than just the cost; however, cost is still a big piece of that. Right? We're all in business to make some money.

So I don't know if that answers your question a little bit more, but value is important for us.

MR. TRONTI: Would you pay 5 cents more on a dollar if you knew U.S. citizens and ships were carrying your cargo? Is there any relative cost factor there? I guess the reason I bring it up is the U.S. flag deep sea right now is below 100 ships. I'm not talking about Jones Act, domestic vessels that are carrying clean products or other cargo around the U.S. Gulf and East and West Coast. As far as minor, foreign, we're below 100 ships. The mariners, after World War II, there were 2000. They were much smaller in that situation, Liberty ships and Victory ships from World War II. They are a lot different than the 8000, 10,000, 12,000 TEU ships we're talking about building. But things have changed, and the mariners are not there.

In a time of national emergency, to man the governmental fleets that we have, like the ones I manage here in North Charleston, we need a surge from a manning standpoint so that those vessels can carry military cargo to the theater, to wherever the threat is. And those mariners are not there because we don't have the deep sea fleet. Most U.S.-flagged mariners are working six to seven months a year, and they're on the beach. But when the bell goes, the fire alarm rings, and we've got to fight a war somewhere, those mariners are coming off vacation and manning the reserve force and other governmental vessels.

So there is a tie-in there, and Chip Jaenichen is one of the people, the U.S. Maritime administrator who is working the matter at the highest levels. We need to do something about the deep sea U.S. Flag that we don't have anymore. And it comes back to shippers, commodity, and cargo, because our cargo, it doesn't -- you know, you don't need a ship, whether it's a U.S. flag or a flag of convenience, you know, with the Marshall

Islands flag on it. So that's really my question.

MR. PISANO: I just want to follow up on what Andrew was stating. There's a lot of calculations that go into choosing a carrier between particular port payers and where you're shipping your cargo and what carrier you're using. You're certainly looking at your overall cost. You're looking at your experience, you're looking at the transit time, you're looking at their claim settling. You're also looking at their website. You know, can you get the information, you know, easy and quickly. Can you -- if you have multiple trans-shipments, can you see when your cargo is going to be loaded in Tanjung Pelepas for trans-shipment before it gets trans-shipped again and heads to the United States. A lot of lines don't have the websites, you know, refined to the level where you can actually track the containers from the origination forward. They can tell you where it's been, but not necessarily always going to tell you where the trans-shipment is going to take place, when is it going to take place, what the on-carrying vessel is going to be.

But to answer your question, is there a value to the American flag vessels, and it used to be more. I'm in the coffee business, and there are not a lot of American flag vessels carrying coffee these days. But there used to be years ago. And there certainly was a value put on that, and there certainly was a favor or favoritism toward American flag vessels back when we had the options to use American flag vessels.

I'd also like to just go back to one of the points about the short sea shipping and perhaps barge services. I think what we've seen is over the years a number of barge services come and go, because it's really difficult for them to actually turn a profit in running a barge service. And I think it's something that, you know, it's a service that, for it to actually have a long-term presence in the U.S. industry in our trade here, it's got to be something that's probably got to be subsidized for a period of time until it actually gets up and running and actually gets to the point of getting sufficient volume. Like any industry, you've got to get to that critical mass level where you can actually turn a profit and have a long-term sustainability.

I remember even a few years ago, we had a barge service running up and down from New York up to Albany. And, you know, I think they gave it like three years to make a profit. They didn't do it in three years, and they killed it. But it would have taken a lot of freight off of the roadways, particularly in congested areas such as the New York metropolitan area.

So we're certainly in favor of it, but it's something that has got to actually be -- probably be subsidized for a period of time until it can actually sustain its own.

COMMISSIONER KHOURI: Okay. Anything else? I'll answer your last point then, Don, is what was the outcome that I'm looking for and that the commission is looking for.

The Federal Maritime Commission is an independent agency, and I talked about this very issue with Chairman Cordero before I took on the assignment to do one of these forums. As you mentioned, Commissioner Dye is doing the fourth one next week down in New Orleans for the Gulf Coast ports. We will then, all five of us, all five commissioners, have participated in a forum at that point. We'll be putting our heads together as to what kind of report or next actions may be coming out of that. I don't want to say, well, this is what is not going to happen, but because of some prior press issues, initially and then again before I came down here, I confirmed that with Chairman Cordero, we are not looking at doing -- opening up a rule making of any description. This is not an area we're looking at regulating. Again, what I said earlier in the day, the last thing you, the business public, want, is the government to come in and tell you how in any way, shape, form, or fashion, how to run your business.

President Gerald Ford famously said, if the government was in the business of brewing beer, we'd probably be $50 a six-pack. Applying a Producer Price Index (PPI) to that 1978 or '76 comment, that would probably be $200 a six-pack at this point. That's not what we're looking at, nor are we looking at doing a fact-finding that is on the table.

So Chairman Cordero and I talked about that. This was initially how do we provide a forum for everyone to come together. It was an issue that has been -- ever since these were announced, it's been more and more around the globe. If we have problems, just look at Rotterdam, and not to pick on them, but other ports. It is not an issue that's going to go away easily. There is not a magic wand. There is not pixie dust. And there is not going to be a cost-free solution.

A famous mariner and pilot was quoted as saying, "For every complex problem, someone will come up with one singular and simple answer, which is almost always wrong." And I think Mark Twain had, among all of his wisdom and witticisms, I mean, this is a complex issue. There are a lot of inputs. There are a lot of pieces that have to come together and work better. And I think we had some really good dialogue today. And there will probably be a report of some type that we will come out with and then see what the next steps are. But I'm confident when I'm saying there is not a regulatory rule making getting ready to come out of this.

I think the first thing to come out of it is, from the bottom of my heart, thank you so much. You all are a bunch of busy people with important jobs, and thank you so much that you took the time to spend with us all day long. And I really appreciate it. The Federal Maritime Commission appreciates it. So I want to, again, thank John Moran, all the staff. They've been great. And I want to thank Jim Newsome and his staff. They were just fantastic in supporting this endeavor today. Thanks. With that, unless someone else has any other closing comments, let's go home. Thank you.

(Whereupon, the PROCEEDINGS were adjourned.)

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CERTIFICATE OF NOTARY PUBLIC

COMMONWEALTH OF VIRGINIA

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

(Signature and Seal on File)

Notary Public, in and for the Commonwealth of Virginia

My Commission Expires: November 30, 2016

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