

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

1 PARTICIPANTS (CONT'D):

2 EDWARD MCCARTHY

3 JOHN FOERTSCH

4 Railroads:

5 TRISH HAVER

6 PHIL NOURY

7 CARL WARREN

8 Chassis:

9 BERNARD VAUGHAN

10 VAL NOEL

11 PHILIP WOJCIK

12 BERNARD VAUGHAN

13 Labor:

14 KENNETH RILEY

15 Shippers & Logistics:

16 DON PISANO

17 ANDREW MORELLI

18 MARLON JONES

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## 1 P R O C E E D I N G S

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

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

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

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

1 of the Southeast area.

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

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

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

20 I believe one of the key reasons is that  
21 all of our predictions are starting to become  
22 reality. For many years in the drayage industry,

1 we have warned the international community that  
2 the key industry trends would ultimately result in  
3 significant decline in driver capacity that would  
4 eventually impede the flow of goods to and from  
5 our ports and terminals.

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

12 During my career, I've witnessed a lot  
13 of changes throughout the industry and have worked  
14 very closely with groups such as ATA and others to  
15 try and find sustainable solutions for the  
16 business going forward. However, over the past  
17 few years, we've seen an escalation of events that  
18 have developed on multiple fronts that have  
19 created the perfect storm in wiping out both  
20 drivers and drayage capacity, from government  
21 regulations and hours of service, CSA score  
22 programs, to growing steamship vessels sharing

1 alliances and larger vessel launches, down to the  
2 conversion of chassis ownership and management  
3 from the steamship lines to the pool operators and  
4 drayage providers.

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

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

21 We must challenge ourselves to work  
22 together as a community within the industry to

1 find a path forward that allows for all  
2 stakeholders to share in the risk and to take  
3 responsibility for the issues our operations  
4 create. The drayage communities and the drivers  
5 within this community cannot continue to bear the  
6 economic burden that is being pushed downstream  
7 from the stronger members within our industry.  
8 With less than 90,000 drivers in the drayage  
9 sector today working for over 5,000 companies, and  
10 no one player really being over \$250 million in  
11 revenue, this industry is fragile and extremely  
12 volatile.

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

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

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

16           We know, on the chassis side of things,  
17 that we pick up equipment that's damaged, and  
18 we're being penalized when we return that  
19 equipment back to repair, that we're not being  
20 paid when there are no chassis available or when  
21 that equipment is damaged out on the street at no  
22 issue of ours, that we didn't create. So those

1 things have to change. These are just a few  
2 examples, of course, but they have to change.

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

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

17 The result is being witnessed as we see  
18 driver capacity continue to decline as drivers  
19 move to new industries, and this overall blue  
20 collar work force continues to erode. We need to  
21 restore this model and make it more attractive to  
22 drivers, one where they can be productive, be

1     respected, be profitable, and live the American  
2     dream.

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

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

18            To better understand what driver  
19    turnover issues are on the marketplace, we  
20    continue to poll our drivers consistently upon  
21    exit interviews, and over the past eight months,  
22    since the bad winter of last year, we've seen our

1 driver turnover increase over 25 percent, and now  
2 it's up over 100 percent for the first time in our  
3 company's history.

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

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

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

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

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

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

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

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

17           Gray chassis pools. I know Dave's going  
18 to talk about chassis, but we can no longer be  
19 burdened with repositioning chassis around  
20 terminals. We can't have chassis in silos. It  
21 creates tremendous complexity for us, especially  
22 where we're working for a large importer that

1     might have seven different steamship lines, using  
2     different types of chassis. We have to get that  
3     streamlined, and it has to be more of a gray  
4     pool-type concept, in our opinion.

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

20            Extended equipment free time. Again, we  
21    can't be burdened with penalties on equipment both  
22    on demurrage on terminal as well as per diem off

1 terminal if we can't get in and out and don't have  
2 the fluidity to get in and out and especially as  
3 larger vessels come into play. Of course, it's  
4 virtually impossible to us to dramatically change  
5 the number of drivers in any one day. It's a  
6 finite number of drivers. They can only move so  
7 many loads, regardless of how many loads of  
8 discharge in a port in any one day. We need  
9 extended free time help.

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

21 When we bring in new drivers, our  
22 turnover is over 200 percent within the first 90

1 days. Now, that's mostly new drivers coming into  
2 the intermodal sector that have never experienced  
3 the process they have to go through when they get  
4 to the terminal, and within 30 days, they decide  
5 they don't want to do it, and a lot of it's  
6 because of the difficulties of getting through the  
7 amount of terminals and the process and how  
8 they're treated on the dock. So anything we can  
9 do to improve that would be greatly appreciated.

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

13 COMMISSIONER KHOURI: Thank you, Ken.

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

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

21 My name is Joshua Owen. I'm the  
22 president of Ability Tri-Modal. We're a third

1 generation privately-held trucking and warehousing  
2 company based in Southern California since 1947.  
3 Beginning November 1st, 2014, we'll be expanding  
4 our company and building a warehouse here in North  
5 Charleston, just about 15 miles up the road here.

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

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

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

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

16          And the most obvious differentiator is  
17          PierPASS. PierPASS was created in 2005 as a  
18          response to then assembly member Alan Lowenthal's  
19          traffic and congestion mitigation bill, 80-26-50,  
20          which was designed to expedite truck throughput in  
21          the port complex. PierPASS was a marine terminal  
22          operator's response to traffic mitigation by

1 opening up nighttime operations at a port  
2 historically operated during the daytime.

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

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

1           This fee is charged directly to the  
2           beneficial cargo owner (BCO), who then dictates to  
3           the trucker that we only pull their containers  
4           after 6:00 PM when the traffic mitigation fee  
5           (TMf) penalty goes away. We are now nine years in  
6           the PierPASS program, which, by the way, hit over  
7           35 percent night gate utilization within weeks in  
8           2005. Today it operates more along the lines of  
9           60 percent night/40 percent day.

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

20           Staffing hours are a gamble as well.  
21           PierPASS night gates are supposed to run from 6:00  
22           PM to 3:00 AM. This is just not the case. We

1     experience times when a terminal will cease  
2     operations at midnight or at 1:30 AM to allow the  
3     terminals to process and clear so labor can go  
4     home at 3:00 AM. We have had drivers hooked up to  
5     loaded containers and sitting in the exit queue be  
6     told to return the container to the terminal  
7     because exit gates were closing.

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

18            Last month we were notified some  
19    terminals were going to operate Saturday gates.  
20    We had our independent contractors come in to  
21    operate on that day. Gates opened at 1:00 PM and  
22    closed at 3:00 PM that afternoon. That equated to

1 one container per driver. That was a driver that  
2 committed to work over his family in the middle of  
3 a Saturday. He came to work at 11:00 AM to begin  
4 pretrip and dispatch procedures, and then he's  
5 told by the marine terminal that they decided to  
6 close due to congestion.

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

17 My warehouses in southern California are  
18 situated seven to ten miles outside of the Port of  
19 Los Angeles (LA) and the Port of Long Beach. My  
20 drivers are averaging anywhere between 1.4 and 2.8  
21 containers per shift. Cherry-picking the most  
22 productive terminals, we can get the driver to

1 pull four to five containers per shift, but we  
2 average the productive terminals -- but we average  
3 the poor-performing terminals and the  
4 better-performing terminals across our driver  
5 pool, to be fair to all of them. You're going to  
6 get a plum, and you're going to get a dog, and  
7 that's just the way it goes.

8 Imagine driver morale in a 1.4- to  
9 2.8-container-per-shift environment. These men  
10 and women aren't working any less. If anything,  
11 they're working as hard as they can within the  
12 ever-shrinking hours they are federally allowed to  
13 operate and getting shortchanged by unproductive  
14 marine terminals.

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

22 One of the most productive gates in port

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

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

11 When the Port of Los Angeles and Port of  
12 Long Beach Clean Truck Program was enacted in  
13 2008, many trucking companies saw their fleets cut  
14 in half. The silver lining to the simultaneous  
15 recession was that the capacity adjusted to the  
16 declining volumes. And I truly believe we have  
17 the right amount of trucks in the ports today, but  
18 that's only if productivity is good, which it is  
19 not.

20 In June of this year, I received an  
21 email from one of my larger BCO customers based in  
22 Atlanta, Georgia. The email notified my company

1       that they would be diverting 100 percent of their  
2       container volume away from the West Coast until  
3       there is a contract signed by the Pacific Maritime  
4       Association (PMA) and the International Longshore  
5       and Warehouse Union (ILWU).

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

14             Rich is a friend of mine, and we've  
15      known each other for years, serving on the CITT  
16      advisory board at Cal State Long Beach. Rich,  
17      being an ILWU employee, and me a trucker, we have  
18      been able to have a working friendship where we  
19      can chide each other from time to time. But this  
20      time his response was disappointing. He  
21      commented: Why would they do that? I can't  
22      believe -- why would they do that? As a harbor

1 commissioner, I would have expected something more  
2 along the lines of: How do we get that freight  
3 back to the West Coast?

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

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

21 As an example, the previous night, I had  
22 140 containers that were customer containers on

1 the last free day, and we figured with the  
2 productivity in the port, we could probably get 81  
3 of those 140. We only got 71. The gentleman from  
4 the Family Dollar said: I'd take that any day.  
5 Try having 300 containers on the port and only  
6 getting 40 last night.

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

11 Thank you, Commissioner.

12 COMMISSIONER KHOURI: Thank you.

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

18 My name is Phil Byrd, and I'm the  
19 president and chief executive officer of Bulldog  
20 Highway Express. Bulldog is a 55-year-old  
21 asset-based trucking firm domiciled here in  
22 Charleston, South Carolina; therefore, a lot of my

1        comments this morning will be specific to  
2        operations of the South Carolina Port Authority.

3                Our company has four operating units:  
4        Flat bed long haul, specialized heavy haul,  
5        contract dedicated, and intermodal. Our  
6        intermodal division primarily serves the ports of  
7        Charleston, South Carolina, and Savannah, Georgia.  
8        In Charleston, we typically make or move 500  
9        container drayage moves per port day, Monday  
10       through Friday. We perform this service for  
11       numerous customers with the use of approximately  
12       80 assigned asset company trucks serving the Port  
13       of Charleston on a daily basis.

14               Each of these trucks utilize  
15       state-of-the-art technology to garner operational  
16       efficiencies, such as computerized dispatch  
17       vehicle tracking, enhanced communications  
18       capability, and two-way radio communications. Our  
19       trucks are staffed by experienced, well-trained,  
20       professional asset drivers that have, on average,  
21       18 years of container drayage experience. I am  
22       also the immediate past chairman of the American

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

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

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

20            The American trucking industry across  
21    all sectors currently moves 68.5 percent of all  
22    the total tonnage manufactured, imported,

1       exported, and distributed in the United States.  
2       This percentage is expected to grow over the next  
3       ten years to 72.5 percent. Having knowledge and  
4       being in possession of such alarming data makes  
5       these discussions extremely timely.

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

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

21              First, truck gate wait times. It is a  
22      common practice for ports to start the measurement

1 of in-and-out time, turn time, when a driver  
2 reaches the interchange booth, meaning time  
3 waiting in line to get to the interchange booth is  
4 not measured. This practice, in my opinion, skews  
5 the actual process time considerably, creates  
6 considerable driver dissatisfaction, and motor  
7 carrier economic loss.

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

13 At Bulldog, our drivers are paid on an  
14 hourly production and safety matrix scale. This  
15 scale ranges from \$20 an hour to \$27 an hour, a  
16 \$7-per-hour differential, based on productivity  
17 and safety measurements from the prior month.  
18 Their pay can actually fluctuate on a monthly  
19 basis, this hourly compensation.

20 Because of port-related inefficiencies,  
21 our drivers, as well as our company, are  
22 monetarily impacted. These inefficiencies are not

1 just at the port, but extend to warehouses, rail  
2 ramps, container repair facilities, and most  
3 noticeably on our state's overly-congested  
4 highways.

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

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

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

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

17                  Chassis ownership and deployment. We  
18                  find the gray chassis pool model to be beneficial  
19                  in improving productivity and efficiency. For a  
20                  motor carrier to find a roadworthy chassis at the  
21                  beginning of a workday and use it for the duration  
22                  of the day, serving numerous steamship lines, is

1 extremely productive. However, this process has  
2 created a cumbersome chassis rental reconciliation  
3 audit for the motor carrier.

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

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

18 Private sector warehouses, distribution  
19 centers, rail ramps, steamship line offices, and  
20 government agencies most normally conform to  
21 schedules that are reflective of the port's truck  
22 gate hours. This disallows trucking firms to

1 double staff or stagger their equipment and  
2 personnel to extend the given workday; therefore,  
3 exacerbating congestion during the eight- to  
4 ten-hour workday.

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

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

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

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

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

1 transit each way.

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

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

19 I'm thankful for the forum and the  
20 opportunity to participate. Hopefully, through  
21 the process of the efforts of the many dedicated  
22 entities making up America's logistic supply

1 chain, we will improve productivity and greater  
2 operating efficiencies that will benefit America.

3 Thank you all for your time.

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

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

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

1 productive for our ports.

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

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

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

1 efficient operations.

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

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

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

21           Here in the South Atlantic Chassis Pool  
22 (SACP), there are only six of the 20 steamship

1 lines serving this region that allow a motor  
2 carrier choice. Because these generally tend to  
3 be the smaller lines, it only represents about 8  
4 percent of the chassis moves that are taking place  
5 in this region. The other 92 percent of the  
6 chassis moves are dictated by the steamship lines,  
7 and that's a problem.

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

18 In return for those generous  
19 concessions, the marine carriers signed agreements  
20 guaranteeing the leasing company 100 percent  
21 exclusive use of their chassis. Because of this  
22 anticompetitive market, these sale terms drove up

1 the daily use rate charged to the motor carrier  
2 and ultimately paid for by our customer.

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

20 Because of the current market  
21 restrictions, NACPC is unable to enter every  
22 market. In this market, in the SACP, we have a

1 presence of about 1,200 chassis out of a greater  
2 than 50,000 chassis pool, a paltry 2 percent of  
3 the market, although our cost is significantly  
4 below the other chassis providers.

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

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

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

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

19           Fourth, NACPC's mission is we strongly  
20    believe that chassis should be interchanged  
21    according to the Uniform Intermodal Interchange  
22    Agreement interchange rules (UIIA). The UIIA is a

1 multi-modal negotiated interchange agreement and  
2 serves as the standard interchange agreement for  
3 most intermodal interchanges except chassis.  
4 Chassis leasing companies continue to force motor  
5 carriers to sign their proprietary interchange  
6 agreements.

7           So NACPC's vision of how to accomplish  
8 its mission is within a chassis model that ensures  
9 several things, first, a gray pool of chassis  
10 within each port because of the improved  
11 efficiency. Contributory gray pools, like those  
12 managed by the Consolidated Chassis Management,  
13 LLC (CCM), here in the SACP, allow users to draw  
14 chassis from the pool, regardless of ownership.  
15 The contributory pool model eliminates duplicate  
16 costs and mixes the use of limited space and  
17 maximizes the use of limited space at the port by  
18 eliminating the need for a contributor to have its  
19 own chassis footprint. It also ensures an  
20 adequate supply of chassis for all users and  
21 increases productivity for motor carriers by  
22 enabling a motor carrier to use any chassis for

1 any box. Pool managers oversee the chassis  
2 logistics, billing, inventory supply, maintenance  
3 repair, and the repositioning of the chassis, but  
4 usage agreements are determined between the  
5 chassis contributor and its users.

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

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

22 Pool managers would be able to settle

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

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

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

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

1 have cropped up.

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

9 Thank you.

10 COMMISSIONER KHOURI: Thank you.

11 Curtis, are you going to wrap up?

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

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

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

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

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

9 There certainly has been a very good  
10 focusing of the issues from all of the various  
11 sectors that are involved in this big issue. I  
12 think if you look at what we're saying, and I  
13 think we'll hear later on from the other sectors,  
14 we pretty much know where the problems are, how  
15 they are manifested within the movement of the  
16 containers and the movement of freight in and out  
17 of the port system, but what I found somewhat  
18 different than I have over the years that I've  
19 been doing this, there is now a realization that  
20 as it relates to the movement of the container and  
21 all of the various stakeholders, the trucker right  
22 now is probably the one that's bearing the most

1     burden as we look at some of these congestion  
2     issues, and by and large, again, I think there's a  
3     realization that that issue has to be addressed  
4     sooner as opposed to later.

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

19            What is now becoming apparent, as we've  
20    seen congestion in areas particularly on the East  
21    Coast and also West Coast, is that the ability of  
22    a port or a terminal to all of a sudden try to

1     respond to a container issue or a congestion  
2     issue, we've seen, particularly in the last six  
3     months in both New York, New Jersey, and Norfolk,  
4     they will announce they're going to stay open on a  
5     Thursday or run Saturday gates. Well, the problem  
6     is when they do that, there are no trucks  
7     available, and it would be nice if we could show  
8     up.

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

18                    I also think, as we look at the  
19    congestion issue for those ports that are  
20    experiencing it right now, and they are very  
21    visible, they have to deal with certain things in  
22    a very short-time basis, and there are clearly

1 things that can be done, but some of them perhaps  
2 will alleviate the short-term issues, but the  
3 long-term, there has to be some really major  
4 rethinking of how the processes have worked.

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

16           We, again, as an industry, while each  
17 sector works in its own silo and may be developing  
18 their data sources and such, there is still a huge  
19 reluctance to share that information, so in the  
20 context of what a terminal has for its metrics or  
21 what's going on at the terminal operation on a  
22 given day, well, they want to know that. It would

1 be very useful for the motor carriers who dispatch  
2 truckers to be able to get that information in  
3 real time and be able to more efficiently use that  
4 challenged resource of the driver to be able to  
5 move in and out of the process a little better.

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

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

1           On hours of service, as I said, while  
2     we, as an industry, are trying to address and have  
3     some of the provisions changed, in the short term,  
4     one of the things that we are looking at is  
5     potentially filing waivers to the process where  
6     the port trucker, in specific ports, could get  
7     some relief in a 90-day mode to be able to drive  
8     more hours, particularly be able to adjust the  
9     34-hour restart. That process, I think, is being  
10    aided by what we are doing here today and the rest  
11    of the week and have done in the past.

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

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

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

21           So if a driver is lucky enough to find a  
22      chassis on a particular day, he is faced with the

1 option of trying to go out, after waiting some  
2 unknown period of time in a line, with or without  
3 a particularly safe chassis. That's not a fair  
4 position to put them in. That is a position where  
5 the law states that the chassis is supposed to be  
6 roadable when it gets there, but they are not.

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

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

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

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

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

20 COMMISSIONER KHOURI: Thank you all so  
21 much. I appreciate it. You're obviously a key  
22 part of all of the issues. We're a few minutes

1 behind. If we could kind of shift real quick.

2 And we have three carriers, vessel carriers, who  
3 agreed to come up today, and thanks again.

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

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

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

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

20 I'm happy to say that port congestion  
21 isn't really an issue for us, because we haven't  
22 been operating a whole lot. That could change

1     soon. A couple of marine reserve force ships were  
2     actually activated this past week for operation of  
3     unified assistance, so we're standing by.

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

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

14            Crowley Maritime, if I can just tell you  
15     about us a little bit, a very diverse company,  
16     started back in the late 1800s. Tom Crowley had a  
17     smaller fleet back then, started with an 18-foot  
18     row boat in the San Francisco Bay ferrying  
19     supplies out to vessels at anchor. Now it's a \$2  
20     billion diverse company with over 260 vessels,  
21     owned and managed terminals, and rather diverse  
22     line providing shipping and logistics, project

1 logistics, global freight, Alaska fuel sales and  
2 distribution, petroleum and chemical  
3 transportation, power ship assist, tanker escort,  
4 project management solutions, ocean towing and  
5 barge transportation, vessel design and  
6 construction management, ship management, and  
7 marine salvage wreck removal, and emergency  
8 response. So the service line is extensive and  
9 spans various sectors.

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

17 With that, the petroleum and chemical  
18 transportation business is really in a Renaissance  
19 right now, clean products side of it. The shale  
20 oil and fracking that's occurring in the Midwest  
21 and around the US is really creating a situation  
22 where petroleum transportation in the Gulf and

1 around various oceans around the US is really  
2 growing. So we presently -- or recently --  
3 completed a 17-vessel construction program, 17  
4 articulated tug barges (ATB) that are all under  
5 time charter and operating. We have five  
6 additional US-flagged tankers under construction  
7 in Philadelphia right now.

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

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

22 Safety's very important. It costs

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

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

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

20 Maritime academies have diversified  
21 their curricula over the years. I happen to be a  
22 graduate of one out in Massachusetts. When I went

1 through school there, you were either a marine  
2 transportation major or a marine engineer. I'm an  
3 engineer. Now there's seven different majors up  
4 there focusing on facilities, emergency  
5 management, engineering design. So the license  
6 track cadets that are coming out of the academies,  
7 they know it's plentiful.

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

15 So one of the missions there is military  
16 maritime. Recently in Jacksonville, there was a  
17 military maritime seminar where the local naval  
18 stations and local military organizations, a  
19 conference was held, and that's a transition where  
20 those skills, people who are in the Navy and have  
21 been to sea, those skills are easily transferred  
22 through the Coast Guard licensing process and the

1       credentialing to man the fleet. And I would think  
2       that the US Army has lots of transportation  
3       battalions, so perhaps that's a place where future  
4       drivers can come.

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

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

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

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

1 thing.

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

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

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

19 COMMISSIONER KHOURI: Thank you.

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

22 I appreciate the opportunity to address

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

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

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

20 As everyone knows, the smallest bit of  
21 congestion at the ports have a trickle-down effect  
22 through the entire supply chain. Even brief

1 periods of congestion can lead to days or weeks of  
2 recovery. With the sustained congestion that we  
3 have seen this year, the supply chain is seriously  
4 at risk of grinding to a halt, which will impact  
5 our economy. I think that the stakeholders here  
6 today know that I'm not exaggerating when I say  
7 that the challenges we're here to discuss today  
8 have reached a crisis level in other port regions  
9 other than South Atlantic.

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

18 We need to stop working against each  
19 other and for our own interests to come together  
20 with solutions. I recognize that each stakeholder  
21 here today has competing priorities, but at the  
22 same time, we all share the same key goal: To

1 keep the cargo moving while making a profit.

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

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

19 Terminal operators. Terminal operators  
20 need to invest in container handling equipment to  
21 ensure they can grow their operations to eliminate  
22 congestion. In 2004, when I built the APM

1 facility in Virginia, we knew that the EEE class  
2 of the Maersk Line was coming back in 2004. Ten  
3 years later, the majority of the ports on the East  
4 and West Coast cannot handle these vessels.

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

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

19 Motor carriers also need to invest in  
20 equipment and taking responsibility for chassis in  
21 line with the model followed elsewhere in the  
22 world. The owner/operator has been squeezed

1 through years on rates to a point where the  
2 driver's living wage is unsustainable. A lot of  
3 that is indicative of the carriers and our  
4 contracts, and this will be the demise of the  
5 industry unless we take action now.

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

17 Railroads. Railroads and TTX companies  
18 need to invest in equipment and infrastructure and  
19 also look at operational practices that add to  
20 congestion and equipment shortages. For example,  
21 the wheel chassis operations required by railroads  
22 to minimize operational costs has a negative

1 impact on already overutilized chassis capacity.  
2 Also, there's insufficient railcar supply in the  
3 network, causing railcar shortages and delays  
4 throughout the network. While railroads want to  
5 protect their individual interests overusage of  
6 railcars by one company to protect the interest  
7 against competition is a negative impact to the  
8 supply chain.

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

20 The United States Maritime Alliance  
21 (USMX), International Longshoremen's Association  
22 (ILA), PMA, and the ILWU. Cyclical availability

1 in the work force and stronger internal leadership  
2 in each organization is required to meet the  
3 demands of the industry. I applaud what has been  
4 done in the USMX and the ILA to increase the work  
5 force in New York and New Jersey this past summer,  
6 including the ILA's efforts this year to limit  
7 vacation time in the Northeast to meet the demands  
8 of peak freight. Labor availability has notably  
9 improved in New York/New Jersey over 2013, but  
10 these initiatives need to be formalized in  
11 agreements with the PMA and USMX to ensure the  
12 industry's provided with consistent, skilled, and  
13 efficient labor force for long term. Certainly,  
14 the labor supply plays an important role in our  
15 confidence of shippers and carriers alike.

16 Last, but not least, the ocean carrier.  
17 Ocean carriers need to invest in large ships to  
18 take advantage of economies of scale. Economies  
19 of scale need to provide superior service and  
20 competitive prices. At the same time, carriers  
21 are barely afloat, losing money in the industry  
22 year after year. There is a relationship between

1 eroding rates and the ability to sustain needed  
2 service levels. To mitigate the bleeding, the  
3 carriers have adopted a variety of cost-saving  
4 measures, such as slow steaming. However, this  
5 means that vessels, when they are delayed in a  
6 port due to congestion, it is cost prohibitive to  
7 spend the money on bunker fuel to make up the time  
8 for the carrier.

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

16 Ocean carriers, through cooperation  
17 under the OCEMA FMC agreement have improved  
18 efficiencies at ports and inland rail terminals  
19 through the creation of regional gray cooperative  
20 chassis pools, which have freed up space on  
21 terminals, increased trucking and rail turn times,  
22 and increased competition and customer options by

1 allowing multiple chassis providers participation.  
2 At the same time, carriers must continue to  
3 educate stakeholders on the new chassis provisions  
4 and management options available in this new  
5 paradigm, so that equipment can be managed more  
6 efficiently by other stakeholders who are in a  
7 better position to maximize efficiencies.

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

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

1 persist and only get worse.

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

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

11 COMMISSIONER KHOURI: Thank you.

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

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

20 And as we know, the industry has really  
21 evolved in the last decade or so from a horizontal  
22 model, where everything was spread all over the

1 terminal, to a vertical model where everything now  
2 is up in the air, and we pretty much -- the  
3 density has improved by at least 400 percent, I  
4 think. At that same time, the gates probably  
5 didn't keep up with that. We've heard that the  
6 motor carriers had to move.

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

20           In some cases, one of the problems, they  
21 said cargo's not released. That could be the  
22 liner's fault, it could be a terminal system, or

1 maybe the carrier didn't check. Is it  
2 insufficient staffing? Once you get in the gate,  
3 you've got to go to another gate sometimes or  
4 you've got to go to an RDG. Then you've got to  
5 wait in line again. So you're waiting in line to  
6 wait in another line is the problem. So is it  
7 insufficient staffing inside the terminal or just  
8 a shortage of yard equipment?

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

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

1       that velocity.

2                   A designated yard location near the port  
3       facility -- there's an option -- for good-order  
4       chassis, and based on minor damage only.

5       Prioritize what is minor damage and what's heavy  
6       damage. Any with heavy damage should be removed  
7       completely from the terminal so the drivers don't  
8       hook up to these things and find out now they got  
9       a big problem, probably, pulling this thing out,  
10      going through roadability. You're going to be  
11      stuck there.

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

18                   Cargo plan. In some cases we mount  
19      cargo directly from the vessel onto chassis, maybe  
20      it's got to be expedited or it's a hazardous  
21      materials (HazMat) load or something like that.  
22      But cargo planned to mount direct from the vessel

1 to a chassis should be preinspected and held in a  
2 designated area so he doesn't have a problem when  
3 he goes to pull that box out of there.

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

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

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

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

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

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

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

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

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

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

20           We've seen this growth primarily in the  
21 intermodal segments. We've seen a lot of highway  
22 conversions due to congestion. We see a

1 continuation of our Crescent Corridor initiatives  
2 and significant growth in international shippers.  
3 We've seen some -- we've experienced some nice  
4 growth in the merchandise area as well, but it's  
5 primarily related to energy, so fracking, crude  
6 oil, steel, and construction energy markets have  
7 really been the growth engine there, and a lot of  
8 that goes into the Northeast.

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

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

21 In 2014, we adopted a \$2.2 billion  
22 capital investment program, 66 percent of which

1 will go back into investment to core network  
2 projects. These projects are primarily focused in  
3 the Illinois, Indiana, Ohio, and New Jersey areas,  
4 which also coincides with our major freight routes  
5 and our highest-density lanes and our large-volume  
6 lanes, so we are very aware of where the pinch  
7 points are and where we need to focus our efforts.  
8 It's important to note this is a 12-percent  
9 increase over 2013.

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

20 It really goes back to velocity.  
21 Velocity is the key for rail support. If your  
22 network is fluid, and you are able to turn the

1 equipment, then you're going to see service  
2 improvements.

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

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

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

1 transition with the rail.

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

5 MR. NOURY: The little guy next?

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

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

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

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

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

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

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

1 client.

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

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

21 And then as also Brian mentioned, we get  
22 an influx of 100 million tourists a year. That's

1 a tremendous amount of consumption, both in  
2 Central Florida and South Florida, primarily.  
3 Those folks are buying a lot of goods to take home  
4 with them, and a lot of that stuff comes from the  
5 Far East and the Far East trades, and so it's very  
6 important that we have the proper infrastructure  
7 in place to be able to serve that growth and  
8 maintain it.

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

21 Again, I mentioned we're running mixed  
22 cargos down there. We run aggregate, we run

1 ethanol tanks and automobiles, so we run 9-,  
2 10,000-foot trains. Our track is a continuous  
3 weld, and it's also all concrete ties, which  
4 allows us to run these heavier trains at safe  
5 speeds to meet schedules day in and day out.

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

15 As far as being prepared for the future,  
16 we have been working very, very closely with the  
17 ports developing infrastructure. And again, as  
18 was mentioned earlier, we've been favored in  
19 Florida. Regardless of the transgenesis in the  
20 federal government, the state government has been  
21 very good to us, and we also have been working  
22 very closely with the ports in infrastructure

1 development. We are now on dock at the Port of  
2 Miami, and at the end of last year, we opened up  
3 our first spur on the Port of Miami, and now, at  
4 the end of September, we have 9,000 feet of  
5 operating track on the Port of Miami. This has  
6 incredibly improved the efficiency of the vessel  
7 services there and the ability to eliminate that  
8 crosstown trade to get to the rail. We load the  
9 trains right there. It's simply a move from the  
10 marine terminal onto the track, onto the train.  
11 It doesn't get grounded, and so it moves out very  
12 quickly, very efficiently.

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

22           We have the same situation in Port

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

17           The northern gates, the domestic gates,  
18 there are four gates, two in/two outbound. These  
19 are fully automated with optical readers, and the  
20 trucks are able to get in and out in 15 minutes  
21 and the reason why that is, they go through the  
22 optical readers, everything is scanned, they know

1     who the truck is, the billing's already in the  
2     system, they go to the kiosk, pull the ticket, it  
3     tells them where to drop what they're pulling in  
4     and where to pick up the next.

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

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

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

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

17           Another thing that we're doing is we've  
18  just purchased 44 new General Electric (GE) Tier 3  
19  locomotives that are going to meet the  
20  Environmental Protection Agency (EPA) standards  
21  going forward. The nice thing -- they will be  
22  delivered in the first quarter of next year. The

1 nice thing about these is they are also  
2 convertible to liquid natural gas (LNG). We are  
3 working with GE, and they have conversion kits  
4 that are going to allow us to run 80-percent LNG  
5 and 20-percent diesel. We also have the  
6 capability of switching back to full diesel,  
7 because these are 30-year assets, and we never  
8 know, in ten, 15 years, what that market's going  
9 to look like, so we have to have flexibility.  
10 Now, we think that's going to make us even more  
11 friendly environmentally, with fewer emissions,  
12 and can certainly create a lot of efficiency and  
13 reduced costs.

14           So we think we have a lot of good things  
15 going on, and we see a bright future. We think  
16 we're prepared for what's happening now, and we  
17 are looking for and excited about opening the new  
18 Panama Canal, because we think -- we're expecting  
19 to see large vessels come in. It's one thing to  
20 have -- get the dredging done, and congratulations  
21 to the Port of Miami. They will be the first port  
22 south of Norfolk in 2016 that can handle those

1 larger vessels, and we fully expect that the  
2 8,000-plus twenty foot equivalent (TEU) vessels  
3 will start cascading from the Suez service and  
4 start coming through the outer water up through  
5 the Panama Canal, and we think that will be --  
6 that impetus to do that will be even greater with  
7 all the issues going on in Southern California  
8 right now.

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

14 COMMISSIONER KHOURI: Thank you.

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

22 My comments actually are going to sound

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

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

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

21 And where the rubber hits the roads on  
22 those things is really in three areas: One is in

1 terms of hiring more crews, the other getting more  
2 locomotives, and the other getting additional line  
3 capacity in place.

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

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

16 In terms of the other capacity, the  
17 crews and locomotives, which, in turn, impact  
18 velocity, when Ed McCarthy was talking about his  
19 concerns with TTX Company railcars, all of these  
20 things play together. If that rail network slows  
21 down, you need more locomotives and more crews and  
22 more cars, and you get to a point where nobody's

1 really happy, including us, because we're not able  
2 to do the things for our customers that we need  
3 to.

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

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

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

20 I think the focus of a lot of that  
21 pressure, though, is going to be in the Midwest  
22 and Chicago and the Northeast, so with our focus

1 on congestion issues in the Southeast, we're  
2 actually in a fairly enviable position here,  
3 especially as it relates to Jacksonville and  
4 Charleston and Savannah.

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

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

1 at these locations.

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

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

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

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

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

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

15 And over the course of the past year,  
16 we've seen a pretty dramatic transformation in  
17 Charleston. We went from having an operation that  
18 was doing about 65,000 containers a year to one  
19 that was handling near 100,000, so an explosive  
20 growth in terms of container traffic, and it  
21 strained our resources pretty badly. We had to  
22 replace three of our lift machines, we had to

1 purchase two new ones, and we had to redesign our  
2 operation to be better able to accommodate that  
3 volume.

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

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

18 So I guess what I would take away from  
19 what we're seeing so far is, one, we're fortunate  
20 that we're in the Southeast, because even though  
21 there are some spillover effects from the general  
22 congestion on the network, we're in a pretty

1 stable place in terms of capacity, but to protect  
2 that, I don't think I can underscore enough how  
3 important collaboration is.

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

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

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

22 Thank you. One more panel, the chassis

1 providers, and then we'll break for lunch.

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

7 Bernie, do you want to get it started?

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

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

21 But in any event, I'm the chief legal  
22 officer and executive vice president of

1 administration of Flexi-Van Leasing. I've had  
2 that position since 1986, so I've had the  
3 opportunity to participate in and witness some of  
4 the dramatic changes that have occurred in the  
5 chassis leasing business. It's become much more  
6 challenging, I can assure you, from our  
7 perspective.

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

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

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

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

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

22 You have your own projected growth, you

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

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

15 In terms of understanding the  
16 transition, maybe I'll step back for a second and  
17 just give a one-minute history of where we got to  
18 where we are. When I joined the company, 85  
19 percent of our revenue, up until five years ago,  
20 came from 22 shipping lines, so we basically had  
21 22 customers basically driving our business model.  
22 Now we have over 5,000 customers, principally

1 motor carriers, added to the mix.

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

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

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

22 Dave Manning mentioned a complicating

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

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

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

21 I should add a caveat to that. Because  
22 of some sort of problems with service and because

1     there were some other good driving factors, we've  
2     actually seen a growth in a relatively new  
3     business, and those businesses are -- while this  
4     industry historically, the truckers were  
5     essentially mom-and-pop entrepreneurial  
6     operations, there are a fair number of larger  
7     players, and they have seen it to their interest  
8     either to purchase chassis or to lease chassis, so  
9     we see that market of leasing chassis to motor  
10    carriers as a growing market.

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

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

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

18          I mean, I'm sure most of us travel a  
19          lot. Can you imagine picking up your Hertz rental  
20          car and getting to the gate and they say:  
21          Everything's good to go, except you need a  
22          headlight and two tires, why don't you go stand

1 over there? I mean, it just really is a crazy  
2 system.

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

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

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

20 I don't know if Joshua's still here. We  
21 were having huge problems. We move thousands of  
22 bare move chassis every week in the West Coast,

1 and we'll ask to have a gate open on Saturday, and  
2 we'll line up 250 moves, and then they'll say:  
3 Sorry. We don't have the manpower. Go away. I  
4 mean, that just happened last week. That's a  
5 huge, huge inconvenience to the trucker and really  
6 wrecks our logistics.

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

13 And the third thing which most of you  
14 probably are aware of, Flexi-Van, in the capacity  
15 as the manager of the LABP pool, and I should say  
16 Flexi-Van, that pool, we manage it, but TRAC and  
17 Flexi and China Shipping are the contributors. So  
18 as a pool manager, we got together with DCLI, who  
19 also manages pools in the West Coast, and went to  
20 the Department of Justice and recently reviewed --  
21 obtained a favorable business review letter. It's  
22 what people commonly call the pool of pools

1     concept, such that a trucker can now pick up  
2     either a DCLI-managed chassis or an LABP-managed  
3     chassis, and all the start/stop locations become  
4     common.

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

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

20            So since we do not have any trust  
21    amenity, like my good friend Phil, I thought it  
22    was good to go to the DOJ, where I used to work,

1 and we had no objections, but it took nine months  
2 to get the letter. Go figure. I don't feel as  
3 bad after hearing about how long it takes to get  
4 an Army Corps of Engineers permit.

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

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

1 that the billing is correct.

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

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

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

1 other companies.

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

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

21           An LED light costs \$450, and I'm paying  
22 \$136 an hour to put a light in at a marine

1 terminal in LA. It's not the cost of the radial  
2 of the LED. It's the question of how do you  
3 integrate that, maybe have a dual pricing  
4 structure, but there are clear issues of doing  
5 that in a pool.

6 Thanks.

7 COMMISSIONER KHOURI: Thank you.

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

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

1     profitable.

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

18                   Even though I started this when I was on  
19    the truck side of the business, a lot of people  
20    say to me: Well, now that you're on the equipment  
21    side of business, I'm sure you're going to change  
22    hats, and my answer to them has been absolutely

1 not. I still believe in my heart, the only way  
2 this industry is ever going to get better is that  
3 we all have to work together. Everybody has to be  
4 successful, not just one piece or the other piece.  
5 Everybody's got to be successful for this industry  
6 to ultimately achieve what it needs to do.

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

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

22           Our customer bases include ocean

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

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

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

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

19 First is big ships. While big ships  
20 provide economy of scale and a lower supply cost  
21 for the ocean carriers, they do create issues on  
22 the inland side, and on the ports, with increasing

1 spikes in volume, which contribute to equipment  
2 supply, drayage availability, and other operating  
3 dynamics.

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

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

19 I've already talked a little bit about  
20 what's going on in Southern California. What  
21 originally started as the G6 Alliance at five  
22 marine terminals is now operating out of nine

1 marine terminals, so it creates real challenges  
2 for us about moving assets around the port complex  
3 in LA/Long Beach when we originally planned on  
4 five, and it's now nine.

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

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

1 used on a port terminal.

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

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

17 For instance, in the Port of New York  
18 and New Jersey complex, we have a large capacity  
19 of chassis mechanics at one facility that do a  
20 tremendous job for us with great productivity.  
21 Unfortunately, we have chassis that are trapped at  
22 other marine locations in the complex that don't

1     have resources. It creates a real problem for us,  
2     and then as a result, what we wind up usually  
3     doing is flat-bedding chassis from one location to  
4     the other. It adds cost, but more importantly, it  
5     takes dray capacity away from doing pickup and  
6     delivery. To move and bear chassis around creates  
7     huge inefficiencies for our industry.

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

20             I'll give you an example. On a Monday  
21    in New York/New Jersey, our normal historical  
22    consumption is 524 chassis. We work every weekend

1 in an effort to be able to prep that. This past  
2 weekend, we prepped 844 chassis for Monday morning  
3 open-up. By Tuesday morning, I was sold out. Go  
4 figure. We thought we were going to consume 524.  
5 We consumed almost 900 chassis this past Monday,  
6 and as a result, Tuesday we had some shortages  
7 that we had to react to.

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

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

19 I won't talk about the rest of the  
20 comments that I had because Bernie touched on most  
21 of those, but I'll wrap up real quick by saying  
22 that from a TRAC perspective, we continue to make

1 a significant investment in this industry.

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

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

18 And then finally, the one thing that we  
19 have done a fair amount of this year is we have  
20 bought some fleets, and some of those fleets were  
21 in surplus markets, and we've taken those fleets,  
22 at great expense, and we've redeployed those to

1 markets where we need them. We've moved almost  
2 2,000 chassis so far off the Pacific Northwest  
3 into the New York/New Jersey marketplace. We just  
4 acquired a recent fleet in the Pacific Northwest,  
5 and we're going to move some of those to Chicago.  
6 And we have a fair amount of chassis in Northern  
7 California that we're trying to repair to move to  
8 Southern California as well. So we're trying to  
9 do everything that we can from a capital  
10 investment standpoint to be able to address the  
11 needs of the marketplace.

12 I'll turn it over to Phil.

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

16 The subject of the forum, supply chain  
17 efficiency and challenges, clearly describes what  
18 we face with chassis. There's been a lot of  
19 publicity about chassis effects on supply chain in  
20 the Northeast and more prominently in LA/Long  
21 Beach, chassis shortages, chassis dislocations,  
22 lack of repaired chassis. The news has not been

1 good. I hope that this forum allows the  
2 opportunity to actually look at what seems to be  
3 working in the Southeast and as a prospective  
4 possibly for some best practices.

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

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

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

18 It's been said that ocean carriers  
19 exiting from chassis provision is an underlying  
20 cause that contributes to current ocean terminal  
21 inefficiencies. Chassis ownership has  
22 transitioned in the Southeast, yet we don't hear

1 the same comments in the Southeast as we do in  
2 other regions. Clearly, it's not a change in  
3 chassis ownership that adds to inefficiencies.  
4 The reality is that it has more to do with  
5 operating models, and those are continuing to  
6 evolve.

7 The seasonal surge of cargo is also  
8 mentioned as a common cause of service issues. In  
9 looking at 2013 versus 2014, our Southeast pool  
10 has experienced a 19-percent increase in  
11 movements, while our fleet was actually reduced by  
12 4.8 percent in the last year without having any  
13 major service issues. Is it really a surge in  
14 freight causing problems? That's a question.

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

21 CCM measures service levels at all our  
22 locations. Year-to-date, we have successfully

1 provided chassis when and where they are needed at  
2 a measure of 99.92 percent of the time. We have  
3 had minimal shortages. We communicate with BCOs,  
4 motor carriers, ocean carriers, leasing companies,  
5 ocean terminals, and railroads on a daily basis.  
6 These open channels of communication help us  
7 address the issues before they can occur.

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

18           Number two, port authorities had the  
19 foresight to regionalize a chassis pool many years  
20 ago. They filed an agreement with the FMC back in  
21 2006 that they could discuss, along with CCM and  
22 OCEMA, in establishing a regional pool. They took

1 the leap to commonly support one gray chassis pool  
2 in the region.

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

11 Number 4, prior to the South Atlantic  
12 Chassis Pool, GPA was operating with over 10,000  
13 chassis on terminal. At GPA today, we can handle  
14 9,500 gate moves a day with our current  
15 on-terminal stock averaging 2,500 chassis.

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

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

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

18                  CCM pool members offer independent  
19                  retail model products to motor carriers, ocean  
20                  carriers, or others. Rather than depend solely on  
21                  market forces, the CCM pool rules instill good  
22                  behavior, in other words, adequate supply of

1 chassis through incentives and penalties. That is  
2 in contrast to other provision models, where  
3 individual chassis providers may provide service  
4 levels based on their own business priorities.

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

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

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

22 The chassis marketing differentiation is

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

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

18 The terminal configurations of rail  
19 facilities and ocean terminals are designed for  
20 handling loaded containers. Most often, there's  
21 been little consideration on yard layout for  
22 chassis operations and improving motor carrier

1 efficiency. Improving the physical layout on the  
2 terminal can improve the velocity of repairs and  
3 improve driver turn time. The cooperation enjoyed  
4 with the terminals in the Southeast could be seen  
5 as unique compared to other regions, and this  
6 cooperation needs to continue.

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

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

1 growing pains.

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

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

1 to all the stakeholders.

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

15 There is a reluctance of chassis owners  
16 to upgrade chassis to radial tires, LED lights,  
17 mainly radial tires. It sounds very minor, and we  
18 talked about it, about how important it is with  
19 the motor carriers. I'll just summarize this,  
20 because we've gone over this before. It comes  
21 down to when there is a feasible business model  
22 where I see the chassis providers in the retail

1 market, because we're just doing the back room  
2 operations -- Bernie and Val run the retail models  
3 up front -- it has to be feasible and a good  
4 investment.

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

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

21 CCM is fully committed to systemic  
22 maintenance inspection programs and has processes

1 in place to meet all the federal regulations. In  
2 CCM's opinion, the FMCSA enforcement practices  
3 reaching into on-terminal operations may add a new  
4 challenge to the terminals and chassis providers,  
5 and although it's well intended, it could  
6 negatively affect the productivity of the  
7 terminals by requiring structural and procedural  
8 changes to the terminal operations, thus  
9 potentially adding to the congestion.

10 Thanks.

11 COMMISSIONER KHOURI: Okay. Thanks so  
12 much.

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

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

17 At the end of the day, we take our cost  
18 structure, we take a model, and it's reflected in  
19 the pricing. And I can't -- Phil touched on it.  
20 This lack of gate control is really adding all  
21 kinds of unreasonable and unnecessary costs.  
22 We're in a container center market now, and

1       there's really not much focus on the chassis.

2       There needs to be more focus on the chassis.

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

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

21                And this lack of gate control creates  
22       additional credit risk for us and a liability

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

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

17 So you have this crazy situation where  
18 mobile trucks fan out on the terminal looking for  
19 work to do, and, of course, when the driver -- and  
20 you have to be practical. The mechanic has to get  
21 his hours, so he stops, and he's going to get his  
22 hours, you know. It's absolute lunacy that these

1       guys have to just go out into the wasteland to  
2       find chassis to fix. That really needs to change  
3       because it's just a crazy system.

4                 Thank you.

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

7                 We're going to break for lunch. We're  
8       going to start at 1:45. We have Mr. Riley, with  
9       the ILA, will do a presentation, then we'll hear  
10      from the shippers and some logistics providers at  
11      2:00, and then what I hope will be a robust  
12      discussion, we have plenty of time for open public  
13      comment, discussion, open mic. I hope those who  
14      have done presentations this morning, their  
15      schedule allows them to come back this afternoon  
16      and perhaps be ready to respond to questions from  
17      the floor.

18                So thanks again. See you at 1:45.

19                         (Recess)

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

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

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

8 Well, I want to talk about the  
9 challenges facing labor, because there are some.  
10 And I'll primarily be speaking about, I guess we  
11 call it the longshore side of the industry, not  
12 the maintenance, not clerical. Clerical is a part  
13 of it. And I will primarily be speaking about  
14 Charleston, because that's where I reside. That's  
15 the workforce that I manage, even though I'm  
16 familiar with others in this region, because we  
17 operate under a district contract, the South  
18 Atlantic District contract, that covers North  
19 Carolina, South Carolina, Georgia, Jacksonville,  
20 and Tampa. The ports south of that, from Cape  
21 Canaveral down to Miami, operate under another  
22 regional contract, South Florida Ports. And so

1     our contracts, while they're similar, they're  
2     distinctly different.

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

17            We are no more than an organized temp  
18    service. You may order as many men and women you  
19    need for an operation today, one employment, or up  
20    to 200 men and women today. Tomorrow, they may  
21    only need two, or they may call tomorrow and say  
22    they don't need anyone. So how do you maintain a

1 workforce ready for peak times in that kind of  
2 environment?

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

1 20 to 30 workers a week. And that was becoming  
2 consistent. And no one wants to lose those jobs.  
3 And certainly the carriers want their ships in and  
4 out on time. They don't want their vessels  
5 working short of labor. So we were met with the  
6 challenge of having to bring new workers into the  
7 industry.

8 Well, the only thing, if it's only 20 to  
9 personnel short, you can't put out an open  
10 application for just 20 to 30 workers. So my  
11 members and I, we got together in a meeting and  
12 tried to figure out how many people we were going  
13 to bring in. Some wanted to bring in about 200.  
14 Well, how do you have open enrollment and narrow  
15 it down to 20 workers? Almost impossible. In our  
16 industry, most of us have second and third  
17 generations that are longshore workers. Our  
18 family members brought us down. So every one of  
19 those members sitting in that room had at least  
20 two siblings or sons or daughters that were  
21 welcome to come into the industry if the  
22 opportunity was there. So if you multiply that by

1 about 700 members, you're talking about 1400  
2 applications that you have to process. We opened  
3 it from Monday to Friday. 1950 people came down.  
4 We processed 1950 applications. We probably  
5 netted about 1300 new workers.

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

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

21 So like I said, there are only three  
22 positions where once you have met your HAZMAT and

1 all your training and your testing, that you can  
2 possibly hold without certification. And you'll  
3 have to sit there and wait for the job to even  
4 have to go vacant until you actually receive that  
5 certification.

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

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

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

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

21           So those are some of the challenges that  
22      we face in order to keep track with the volumes to

1 be able to service our customers in the most  
2 efficient manner possible. So while we actually  
3 do quite well, it is a significant challenge.

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

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

10 MR. WHALEN: Actually, it was a very  
11 excellent presentation, and I guess maybe I just  
12 missed it in the past. I never heard the  
13 description about the temporary hiring nature of  
14 it, which really does put certain things in  
15 perspective. But given the need and desire to  
16 sort of have a more balanced flow, projective flow  
17 of work, do you ever engage the terminals in  
18 issues like the bunching of ships where you get  
19 feast or famine? I'm with a trucking industry,  
20 and we have a big problem with that, because all  
21 of a sudden, everything arrives. They try to  
22 clear the port, they can't do it in a set period

1 of time, so fees start generating, and everybody  
2 gets backed up. So with the union's persuasive  
3 nature in negotiations, do you ever get involved  
4 with the terminals on this?

5 MR. RILEY: Not on that issue.

6 SPEAKER: Can you start?

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

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

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

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

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

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

22                   I'm on the board of directors of the

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

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

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

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

18          A significant problem with our industry  
19          and the structure of it is the fact that there is  
20          no real commercial relationship between the  
21          shipper or his drayman and the terminal operator  
22          upon whom we both depend for efficient

1 performance, although neither of us has any means  
2 to impact its level of service.

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

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

22 The current capacity crunch has

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

16 So to be clear, one of the comments that  
17 I thought was ridiculous is that port congestion  
18 is due to shippers demanding lower freight rates  
19 so the carriers are struggling to survive and meet  
20 the service demands. The carriers made their own  
21 decisions to invest in ultra-large container  
22 vessels increasing their capacity well prior to

1 the demand ever materializing. They've done this  
2 years ago. The decisions were made maybe eight,  
3 nine, ten years ago. So that's not on the  
4 shippers. That's on them.

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

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

19 Another misdirection of blame for port  
20 congestion is a lack of truck drivers. The lack  
21 of truck drivers is an effect of the situation.  
22 It's not a cause. Any day you can see lines of

1 draymen waiting outside the terminals trying to  
2 get in to pick up or deliver their loads. The  
3 draymen in fact may be fleeing the industry, but  
4 that is due to their inability to get in and out  
5 of the terminal in a timely manner so that they  
6 can make a living. And who can blame them.  
7 Improving the terminal and gate operations now  
8 will go a long way in preserving the truckers we  
9 still have and hopefully reverse the trend which  
10 is now heading into a crisis.

11           And, finally, one of the most ridiculous  
12 suggestions I've heard over the past several  
13 weeks, and it has been in print, is that current  
14 free time is too generous, and that causes the  
15 backup at the terminals. And I really have to  
16 say, I don't know any shipper that really looks to  
17 store their cargoes at the marine terminals. They  
18 really just can't get to them. What we have now  
19 is that the shippers are being penalized for  
20 demurrage charges for the terminal's own lack of  
21 efficiency. If anything, the lack of terminal and  
22 equipment free time may in fact contribute to the

1 congestion, as there is little allowance for  
2 schedule accommodations.

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

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

14 We need labor to be part of the solution  
15 and to work with management to get us through the  
16 more difficult periods particularly of abnormally  
17 high volumes. We need U.S. Customs in all  
18 examination sites to be completely electronically  
19 integrated and eliminate any need for a hard copy  
20 premise to transfer or other documentation. We  
21 are well beyond the need for paper documentation  
22 between either the carriers, the terminal

1 operators, and U.S. Customs or other government  
2 entities. It just bogs down the process and holds  
3 back containers from moving out to the set exam  
4 sites or other dock examination sites. And it's  
5 -- you know it's silly at this point.

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

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

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

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

4                   COMMISSIONER KHOURI: Thank you.

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

19                  One thing, a couple of notes I had in  
20                  there, key, better communication. You mentioned  
21                  it in your comments there with electronics. I  
22                  think if everybody is communicating a little bit

1 better, you know, with when the vessels are  
2 showing up, when they're leaving, late gates, no  
3 late gates, when they're closing, things like  
4 that, that would really help turn times.

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

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

20 Some of the items I have down as what  
21 I'd like to see, I heard -- I think one of the  
22 trucking companies made mention today flexibility

1 on the late gates and extended gates doesn't  
2 really help get those turns up.

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

19 That's one of the biggest complaints I  
20 get from our drayage company, is that consistency  
21 is an issue. I think we are lucky in the  
22 Southeast right now. We don't have big delays as

1 we're hearing up in the Northwest and the West  
2 Coast. But I do hear from our drayage company  
3 that there is inconsistencies. Some days it will  
4 be an hour, some days it will be two, some days it  
5 will be 30 minutes. It all depends. How do we  
6 get that to be more consistent? Maybe better  
7 communication will help with that.

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

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

21 With all that said, one of my main  
22 concerns -- one of my main points I wanted to make

1       today was all of this is happening right now. The  
2       East Coast is in pretty good position. We know  
3       what is going on on the other coasts. Is the  
4       ports and supporting cast of members that help the  
5       ports, are they getting prepared enough for this  
6       influx of business, and are we taking the right  
7       steps to be ready for the large vessels, the extra  
8       growth?

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

22                So I think with that, that pretty much

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

7 COMMISSIONER KHOURI: Thank you for  
8 coming.

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

17 However, the other 40,000 of those TEUs,  
18 we have lots of congestion issues in the Northeast  
19 and on the West Coast that's contributing to  
20 problems with our dray carriers. We've seen in  
21 excess of two-, three-, four-hour turn times at  
22 some ports. Of course that costs us money,

1 eventually in rates. And it also costs us money  
2 when we're sitting down and our dray carriers are  
3 having turnover, and they can't keep qualified  
4 drivers. That eventually leads to us having to  
5 give them some type of incentive so that we can  
6 run our business.

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

22 Other thing we're doing, we have to

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

14           The equipment issues I think you touched  
15    on is a big deal for us. I've actually been  
16    involved, when we go in to pick up -- and we know,  
17    for example, paper is extremely heavy. We  
18    understand what the International Organization for  
19    Standardization (ISO) specifications are on  
20    containers. We try our best to get those  
21    containers inspected at the ports. Unfortunately,  
22    when you're spending two, three hours in line

1     trying to get a container, your driver is  
2     frustrated. You see a box, realistically, that  
3     driver is not going to take that box over to the  
4     maintenance line. That driver is going to grab  
5     that box and hope like heck, by the time he gets  
6     back to the mill, that something is going to be  
7     done.

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

21            The other big impact that we've seen or  
22    the other thing that we're doing is we try to

1 split our break bulk volume out. That helps with  
2 congestion. We're about 20 percent right now in  
3 the break bulk side, and we can hopefully continue  
4 around that mark. Our intermodal shipments, which  
5 we consider helping our carriers move boxes back  
6 to the West, at least empties, have been impacted  
7 tremendously on the West Coast. And we're  
8 currently working through that, and we may have to  
9 change that supply chain.

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

22 COMMISSIONER KHOURI: Okay. Do you all

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

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

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

19 MR. JONES: I think that's really the  
20 biggest concern. And I think the other thing is  
21 the boxes is a real big concern. I fully  
22 understand that because this box cannot -- you

1 can't load paper in it, but you can load lumber in  
2 it or you can load something else. I fully get  
3 that. And maybe we should have separate areas.  
4 And it does cost. It's a labor cost. But when  
5 you put all the cost in it, it's probably going to  
6 save a tremendous amount of money and time when we  
7 all partner together. So that would be my five  
8 things.

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

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

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

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

20 MR. MORELLI: That's a fair way to put  
21 it, yes, wolf calling and then actually further  
22 out into delivery sections in other parts of the

1 world. That's a big factor for us, but trying to  
2 focus more on the Southeast. Thank you.

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

15 The other thing is, I would say from the  
16 Northeast -- I come from Jersey, so I'm very  
17 familiar with the New Jersey port operations, and  
18 we also do a lot of cargo on the West Coast. And  
19 I see there is a big difference, which I find  
20 remarkable, on the operations of the ports that  
21 are administered by a government or state entity,  
22 such as here in Charleston and other areas,

1 Savannah, of course, versus the landlord ports.  
2 It's striking to me because it's one of those  
3 instances where you -- you always hear that  
4 private industry does things so much better than  
5 the government. But why when it comes to port  
6 operations it seems to me as an individual quite  
7 the opposite. It seems like the Port Authorities  
8 that are run by either state entities or  
9 quasi-government agencies are actually much more  
10 efficient, probably because they have the ability  
11 to control it, and they're not competing amongst  
12 themselves. They may be competing among the ports  
13 in trying to get the best operations or best  
14 reputation as the port servicing the industry.  
15 But I think that's quite remarkable.

16 But I think that some of the other ports  
17 should have radio-frequency identification (RFID)  
18 technology on the trucks so that you can manage --  
19 you know, in our industry, we say you can't manage  
20 it, if you can't track it; right? If you can't  
21 measure it, you can't manage it, and so you've got  
22 to track it. They're able to track the time in

1 and outside their own terminal operations. But  
2 what about the two and a half hours that the guy  
3 is sitting outside on the street trying to get  
4 into the terminal in Port Elizabeth or Newark or  
5 out in Los Angeles.

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

19 So those are my two things. And I would  
20 just reiterate that I think that the gray pool  
21 model seems to be the best model that exists  
22 around the country. And that, I think, should be

1 the basis for the models or, you know, through all  
2 the ports that don't have it now, they should  
3 adopt those.

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

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

13 I think, rather than me try to at this  
14 point summarize what I've heard so far and try  
15 direct Q and A, I will just comment, there has  
16 been a few words that have just run through all  
17 this morning and this afternoon, and that's  
18 collaboration. And the very last comment,  
19 serendipity, that Mr. Pisano was talking about,  
20 there is technology out there to help us. I was  
21 talking to Brian Taylor and, I think, to Jim  
22 earlier that we have so many disparate parts that

1 have to work together. Whether they communicate  
2 with one another or not, I think, it's fair to say  
3 there are parts that aren't talking with one  
4 another. Maybe it's surprising that it works as  
5 well as it does.

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

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

21 (NCBFAA) Transportation Committee  
22 chairman. Thank you for holding

1                   this forum.

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

18                  COMMISSIONER KHOURI: Anyone want to try  
19                  and answer that?

20                  MR. NEWSOME: I'm Jim Newsome with the  
21                  South Carolina Ports. I think a lot of what you  
22                  heard today is that we are more reactive than we

1     need to be. We do need to be more proactive  
2     across a lot of fronts. And I mentioned that in  
3     my opening comments. And it's not quite where you  
4     were going, Jan, but, I mean, we -- if you think  
5     we run a terminal -- Wando Terminal has 6000 truck  
6     moves a day. I don't know today what's happening  
7     tomorrow. We go home today, we do not know what  
8     is happening tomorrow. We're a major asset. If  
9     you just step back and think about that, that's  
10    impossible. I mean, that is really impossible.

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

18           Hurricanes frighten me -- I don't even  
19    want to talk about it. Hurricanes frighten me in  
20    the port industry. You can just imagine.

21    Everyone from Hugo that was here -- I wasn't here,  
22    but that's a special case.

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

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

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

1           You know, "There is a hurricane coming."  
2       So I realize that you have to take the  
3       precautions. But a lot of times it's like, we get  
4       like, oh, there is going to be this tremendous  
5       port congestion charge that's going to be  
6       implemented. I know they have to file them like  
7       30 days in advance. So there are complications  
8       there. But there is a great variance of when it's  
9       charged, and who is charging it, and who is not  
10      charging it. And the exporters and importers just  
11      have to be -- sometimes feel taken advantage of,  
12      so just from that perspective.

13           MR. TAYLOR: Brian Taylor, Jacksonville  
14      Port Authority. I would just like to say that  
15      hurricane preparedness and disaster recovery is  
16      all about collaboration, just like we talked about  
17      the different parts of the supply chain working  
18      together. So it's the city, it's the Coast Guard,  
19      it's the port authorities, it's the shipping lines  
20      regularly collaborating on disaster recovery plans  
21      and hurricane plans. I know that's what we do.  
22      I'm sure that's what Jim does and the other ports

1 do. And if you do those on a regular basis and  
2 you actually do the exercises and the modeling,  
3 when the actual disaster happens, you're pretty  
4 well prepared. I think a number of the ports, and  
5 I would say certainly Jaxport and City of  
6 Jacksonville, based on the work we do in this  
7 area, I feel that we would be very welcome here in  
8 the event of a hurricane.

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

20 But what was learned from that study is  
21 that we did a really good job -- I'm not with the  
22 Coast Guard any more, but the Coast Guard did a

1 really good job at getting working, partnering,  
2 and getting the port back open. It's the next  
3 stage, which is what you guys are pretty much  
4 focused on here, which is what do you do to get  
5 everything shifting again through the supply  
6 chain. There is not really that aspect in  
7 government that is looking at that, that  
8 coordination piece on getting the goods moving  
9 back and forth through the system again. So  
10 that's a really worthwhile -- but you're right,  
11 sir, on what you're saying with respect to the  
12 port. But as far as from a policy perspective,  
13 looking at that, it's nonexistent; whereas the  
14 Coast Guard had the authority to be able to do  
15 that from its level. There is a report, though,  
16 that you can look at. It has a great follow-up on  
17 that. Tom Wakeman is the author of that.

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

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

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

18 But while I'm here, I agreed to talk and  
19 we had talked before, I think one of the things we  
20 look to you for at the Federal Maritime Commission  
21 is to provide some sort of leadership around the  
22 wrap-aroundness. I think one of the recurring

1 themes I've heard here today is we need to look at  
2 things from the system-wide approach. I hear the  
3 little pieces, but they all fit together. We have  
4 to look at it like we're all one big system and  
5 how do the pieces fit.

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

18 One of the things that John Walsh and I  
19 talked about after we were up there this morning  
20 was -- and if you look at the cost of dredging,  
21 for example, very subtly, every port here, we've  
22 looked to deepen, but the courts come back and

1     said, well, we're not going to authorize you for  
2     50 feet, but we'll authorize you for 47 or 48, and  
3     you can buy down the extra two feet. Well, that's  
4     a subtle shift of the traditional percentages of  
5     responsibility that's always been in the model.  
6     And that's just the subtle shift of cost. So I'll  
7     leave it at that.

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

1 with the Chairman, that is not what we are about.  
2 It's not what these forums are about.

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

16 But in terms of collaboration, in terms  
17 of how many different agencies that we've heard  
18 talked about today and a couple that haven't come  
19 up yet, FMCSA, Surface Transportation Board, Coast  
20 Guard, Customs, United States Department of  
21 Agriculture (USDA), some of which was folded into  
22 Customs with Homeland Security, but there are

1 still other USDA functions in terms of some  
2 inspection on the reefer cargo coming in is still  
3 independent, what kind of coordination would you  
4 all like to see of all of these agencies, and do  
5 you think a group like CMTS to facilitate that  
6 interagency cooperation -- I mean, think about a  
7 room like this and think about the agenda we had  
8 today, if you had every single government agency  
9 sitting down in one room and trying to talk  
10 through the issues and focusing on, you know, what  
11 you all are -- there is somebody out there called  
12 the American citizen that's our customer, how can  
13 we do our jobs better? Any comments or reactions  
14 to that?

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

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

18 So I think that when the federal  
19 government starts in with EPA regulations,  
20 trucking regulations, maritime regulations, all of  
21 those things, I think one of the things that came  
22 out of this forum very, very clear is that

1 everybody has their own challenges with it. And  
2 until the federal government puts that all  
3 together and looks at it as an issue-related  
4 thing, we're all going to still have some  
5 problems.

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

11 MR. CERNAK: That just brought one thing  
12 to mind that is attached right onto that. What  
13 I've seen through the regulatory process and what  
14 I'm dealing with, very clearly some of the federal  
15 agencies don't get involved until the very end.  
16 So perhaps having a dialogue in the room, so  
17 everybody understands how it all fits together up  
18 front will maybe lead to a pathway to where  
19 everybody knows what's going on at the beginning  
20 rather than at the end, because you get to the end  
21 and then go, you've got to do this, and then it  
22 gets kicked back to the beginning, and then it

1 gets to the end again. And that's how we've  
2 gotten into the big circular argument on trying to  
3 advance projects moving forward.

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

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

16 Recently, as the Chairman of the  
17 American Trucking Association, I was called to  
18 Washington to meet with President Obama with  
19 respect to the Phase II technology coming out on  
20 meeting duty and Class 8 heavy duty commercial  
21 motor vehicles. Prior to going into the audience  
22 with the President, I was standing in a prep room

1 with Administrator McCarthy of the EPA and  
2 Secretary of Transportation, Anthony Foxx. While  
3 we were standing there for about 40 minutes, the  
4 conversation came up from Ms. McCarthy, she said,  
5 "Mr. Byrd, how can our two agencies work together  
6 better to help your industry?"

7 And I said, well, I thank you first of  
8 all for the question, because it's very important.  
9 On one hand, you have the FMCSA making regulations  
10 that restrict the free full movement of America's  
11 cargo, while at the same time, an unintended  
12 consequence of the new hours of service regulation  
13 is emissions control, because as Curtis mentioned  
14 in his remarks on the hours of service  
15 regulations, the 34-hour restart -- and I don't  
16 know if this audience is aware of this or not --  
17 but the 34-hour restart requires that a motor  
18 carrier company now, today, only after 168 hours  
19 of elapsed work time from his first restart to his  
20 second restart can he even take a 34-hour restart.  
21 And then that regulation says that they have to be  
22 down from 1 a.m. to 5 a.m. two consequence nights,

1     which means our industry, the trucking industry,  
2     operates much like seaport industries,  
3     manufacturing, and distribution. Monday through  
4     Friday, we serve our customers. This new  
5     regulation says that it's not until 5:01 a.m. on a  
6     Monday morning can a commercial motor vehicle  
7     highway driver move out on the roads. We're in  
8     the most congested periods of time, the most  
9     unsafe periods of time on the highway system  
10    delivering America's goods, and we're exacerbating  
11    the environment because we're sitting in  
12    congestion. We do need the agencies of government  
13    talking to each other on the front end of these  
14    other issues.

15           The other point, while I've got the  
16    microphone, I'd like to make and just reiterate  
17    the fact that the common thing I've heard this  
18    morning throughout this whole session is the  
19    trucking industry and how important it is to the  
20    entire process. I know that most ports, the  
21    majority of the freight moves by truck.  
22    Demographically over the next ten years, we're

1 going to lose 37 percent of America's truck  
2 drivers, 37 percent, with almost zero inbound  
3 coming in. Those 37 percent are going to move out  
4 because of age and because of retirement. Another  
5 36 percent will leave because of nonvoluntary  
6 retirements. We have a critical, critical  
7 situation on our hands, not to mention the fact  
8 that we've already shrunk as an industry from a  
9 capacity standpoint by approximately 5 percent.

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

1 a big, big, big concern. Thank you.

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

20 MR. BYRD:: : Just one final comment  
21 with respect to capacity. What we see today and  
22 what this industry, the seaport industry and

1 intermodal industry, needs to realize is that the  
2 manufacturing industry and the domestic industry  
3 of our nation is tying up capacity with long  
4 three- to five-year commitment contracts on a  
5 contract basis, and that is the move that's at  
6 hand today with every motor carrier existing. So  
7 that capacity is being shrunk from another angle  
8 as well.

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

17 MR. BYRD:: In interstate commerce, you  
18 can be 21 years of age. But here's the problem,  
19 Jim. Just two weeks ago, I was invited to be  
20 keynote speaker at the annual collection of  
21 insurance industries insuring motor carriers in  
22 the America, and my discussion and the purpose of

1 being there was that very issue. Most midsize and  
2 small-size carriers today cannot employ a driver  
3 because of the pre-requirement insurance  
4 restrictions that say they have to have a minimum  
5 of two to five years' experience, a minimum age of  
6 23 to 25. Large carriers who have large high  
7 self-deductible insurance levels are able to  
8 leapfrog that requirement because they're writing  
9 on their own funds.

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

1 shame.

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

16 SPEAKER: They all left.

17 MR. NEWSOME: Well, I'm a reforming  
18 ocean carrier, emphasis on I-N-G, because you're  
19 never totally reformed. I mean, it's hard to get  
20 it out of your system. But I would say probably  
21 never. I think that's just too close to the heart  
22 of the product that carriers offer, which is their

1 container. And they see that as an imbalance cost  
2 or a significant percentage of their cost  
3 structure. And how they would apportion that in a  
4 gray box world, I just -- we talked about it many  
5 times. There are examples where carriers did  
6 bilateral box exchange within alliances. It never  
7 really got off the ground, because the sales force  
8 said, well, wait a minute, you gave them my box,  
9 and I could have sold that box. Right, Jim? I  
10 mean, that box is in Atlanta, and who paid to put  
11 it there? We can't even organize basic things  
12 sometimes. I mean, to do that, I think, would be  
13 -- I'm just straightforward about it.

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

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

20 SPEAKER: I'm also a reformed steamship  
21 guy. I know that the leasing companies years ago  
22 tried to do that with the gray boxes, and Rayonier

1 was one of them. It goes beyond our country. It  
2 goes overseas as well. And the ocean carriers  
3 feel that's part of their sales tool. That's part  
4 of the ships. I realize we put everything  
5 together now, which is different than certainly  
6 when I started in this business 40 years ago. But  
7 I think it's because it's proprietary. I think  
8 it's an emotional issue that's just not to become  
9 overcome -- it's not going to be overcome.

10 COMMISSIONER KHOURI: Any other  
11 perspectives out there?

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

16 MR. NEWSOME: Never totally reformed.

17 MR. PISANO: Actually, I'd like to  
18 address this to you, Commissioner Khouri. And I  
19 think that everybody here sees the Federal  
20 Maritime Commission as an independent neutral body  
21 with regulatory authority over both the carriers  
22 and the terminal operators. But, also, as a

1 representative of the government, you're perceived  
2 as a neutral body looking over the interests of  
3 the American shippers and the American public.  
4 And I think these forums are great. I know there  
5 is one more coming up in New Orleans next week. I  
6 hate to put you on the spot here, but I'm really  
7 interested in the end game.

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

21 COMMISSIONER KHOURI: Thank you for the  
22 question, and that's part of my job description,

1 to be on the spot. So I don't shrink from it. I  
2 have two more issues here that I'd like to throw  
3 out. But your exact point is my third issue. So  
4 if I can just defer until the third issue, and  
5 I'll answer your point directly.

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

19 Most recent in the press was Seattle and  
20 Tacoma realized they needed -- they were close  
21 enough, they needed to talk with one another. Los  
22 Angeles, Long Beach have various agreements where

1 they can chat. This is an area that -- I  
2 introduced Florence Carr, the FMC's Director of  
3 the Bureau of Trade Analysis, earlier. This is  
4 her area that she's responsible for. Have the  
5 port operators considered filing larger -- when I  
6 say larger, geographic in scope, larger agreements  
7 with the commission to enable them to talk about  
8 some of the issues that we -- we've had here today  
9 and bring in some of the various outside -- or  
10 other groups -- I don't want to say outside;  
11 they're here in the room -- to help facilitate the  
12 collaboration that we've been talking about? Any  
13 of the port directors want to address that?  
14 Interest?

15 MR. TAYLOR: Brian Taylor, Jacksonville  
16 Port Authority. I can really only speak on behalf  
17 of several of the ports that are here from  
18 Florida. Although we have not gotten to the stage  
19 of engaging in direct -- call them regional  
20 discussions about collaboration, cooperation in  
21 Florida, we do have Florida Ports Council. And  
22 since we have a state that has 15 seaports, we've

1 used that as a vehicle to allow us to get together  
2 and discuss and collaborate on common issues that  
3 affect all of the ports. And I think that model  
4 has worked in my brief time there pretty well. We  
5 still obviously compete, as all ports compete.  
6 But the ability to actually sit in a room and talk  
7 about common issues that we can address  
8 collaboratively through the Florida Ports Council  
9 I think has been very beneficial to the overall  
10 model that has worked very well in the state of  
11 Florida. So while we have not engaged directly  
12 with the Federal Maritime Commission, I think  
13 we've got a model that has demonstrated an ability  
14 to work very well.

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

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

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

7           So the logical question that you ask is  
8 does then it make sense for ports who face big  
9 investments to collaborate more closely  
10 commercially. You know, I've been pretty public  
11 about it. We think it's something that we'll have  
12 to consider over time, you know, depending on how  
13 the industry goes, because we're investing a lot  
14 of public sector dollars. If you look just  
15 between Georgia and South Carolina, the two states  
16 alone, if we build the Jasper terminal, which  
17 we're intent on doing, we're going to invest over  
18 \$10 billion in port facilities and channel  
19 deepening in 25 years.

20           And we don't have a common viewpoint on  
21 that, or we may have done something by now. But  
22 you ask yourself, are you better to do that in the

1 way we do it today, or better to find a way to  
2 work more closely together? So it's an open  
3 question, something that I think has to be  
4 considered if we're going to invest the sums of  
5 money that are at stake.

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

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

20 And I looked at him, I said, "I  
21 apologize. What I'm getting ready to say may be a  
22 little harsh. I come from private business. Name

1 me a single industry anywhere in the United States  
2 or the world where they had one of their most  
3 important performance metrics and they have not  
4 figured out to improve on them over ten years."

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

13 So I want to use that as kind of a  
14 lead-in, which my penultimate question is, what I  
15 heard -- stress, what I heard -- less problems  
16 here in the Southeast. People who have  
17 experience, you know, North, South, East, West,  
18 what I heard was less problems with the -- in  
19 these local ports. And why is that? Is it  
20 discretionary cargo, meaning that more is just  
21 going inland and not trying to be delivered  
22 drayage locally? The comment about managing the

1 real estate and managing the volumes, why -- are  
2 there lessons learned? And maybe giving the  
3 opportunity once again for some of the ports to  
4 toot their own horn, if you would, but why are  
5 they doing so much better?

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

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

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

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

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

18           But I just think that maybe we've  
19  learned from others' mistakes. Maybe we've been  
20  more careful with some of the investments in the  
21  more recent vintage. I know that's one of the  
22  steps that I go through in my port. We ask the

1 questions internally, and we go through and we  
2 evaluate what investments we're going to make, and  
3 how does that help us going forward. We do a  
4 20-year plan, and it's updated every two years.  
5 So I like to think that's part of what's going on  
6 in my world. I can't take all of the credit,  
7 other than I'm sitting in that seat right now.

8 MR. PISANO: I'll take a stab at it.  
9 Don Pisano again, American Coffee. I think that  
10 the Northeast terminal operators, they're all  
11 independent. And same goes for Southern  
12 California, they're all independent. They're both  
13 -- well, Southern California, Los Angeles and Long  
14 Beach, they're both landlord ports, as is Newark,  
15 New Jersey. And I have to say that I think the  
16 independent terminal operators have a relationship  
17 with the ocean carriers, and they have not given  
18 too much concern about the cargo owner or the  
19 truckers. And all of their investment and  
20 intentions has been on the water side, not on the  
21 land side of the operations. And I may be wrong,  
22 and I know I'm going to get a lot of arguments

1     against that.  But that, I have to tell you,  
2     clearly is the perception of the shippers that are  
3     operating in and out of the ports of the Northeast  
4     and Southern California.

5                   COMMISSIONER KHOURI:  Very good.

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

17                   I think the challenge you have in some  
18    of these places in the Northeast and on the West  
19    Coast, these are developed cities that it's very  
20    difficult to add that infrastructure very late  
21    into the process.  And so I think having a state  
22    that invests proactively in that connective

1 infrastructure to ensure that you're not just  
2 investing in the port, in the infrastructure of  
3 the port, but you're also investing in the road  
4 infrastructure to allow the freight to move from  
5 the port to where it needs to go. That's what I  
6 see is the difference right now in the South  
7 Atlantic, specifically in Jacksonville. I believe  
8 the same thing is happening in South Carolina, in  
9 Georgia. I know it's more difficult down in  
10 Florida, because you also have a fairly well built  
11 out city. But, still, rail infrastructure is  
12 being put in, and I think it's that foresight that  
13 is allowing the South Atlantic to avoid some of  
14 the issues that we're seeing elsewhere.

15 MR. CERNAK: I want to add one thing to  
16 that. Being in Fort Lauderdale -- I playfully  
17 call it the sixth borough, being an ex-New Yorker  
18 -- it's very congested around the port. But my  
19 reaction to that comment was exactly the opposite.  
20 The State has given funds, and they have invested  
21 heavily in the road side and rail infrastructure.  
22 And I feel, looking at the port, that my water

1 side infrastructure is lagging, and I have to  
2 react to that. So I think it's a matter of  
3 philosophy. The State has come in and made a lot  
4 of investments. So that's a big part of the  
5 picture.

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

17 MR. CERNAK: I just recently  
18 renegotiated a new agreement with one of the  
19 shipping lines. If you look at that agreement --  
20 and they're all public -- it's designed to  
21 encourage investment in the terminals. So we  
22 negotiated through that. So I think that's the

1 way -- something else to look at going into the  
2 future.

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

13 Yes, sir, please.

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

22 Vessels are getting larger. For

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

18 COMMISSIONER KHOURI: And the point you  
19 raise -- and this goes back to that group I  
20 mentioned earlier, the Committee For the Marine  
21 Transportation System -- I was called on to talk  
22 about some of the ship issues, and I was trying to

1 explain how the ships were cascading from one  
2 trade to another and how the 18,000 TEU ships are  
3 in Asia to Europe and what their slot cost was,  
4 you know, per slot, and how the ships you just  
5 described are now cascaded into the U.S. trade.  
6 And I was right in the middle of a sentence, and a  
7 fellow from the Department of Commerce interrupted  
8 me to say, "So what you're saying, Mike, is we're  
9 at a comparative competitive disadvantage to our  
10 trading partners."

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

16 SPEAKER: Just one additional comment.  
17 Our book, our new bill book, we're building eleven  
18 18,000s and eleven 14,000s. So carriers aren't  
19 building 8000s anymore. And you're absolutely  
20 correct. When those vessels come off the  
21 production line the end of this quarter and all  
22 next year, we will see 8000 and 9000 vessels

1 cascade to the trans-Pacific or to other services.  
2 Personally, I don't think the North/South services  
3 can handle those kind of capacities now. So that  
4 would be the East/West services to the U.S.

5 COMMISSIONER KHOURI: Yes, ma'am.

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

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

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

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

21 We're bringing in the big ships for the  
22 exports, but we don't have various modes to move

1       them on. We're already congested. We're going to  
2       continue to be congested. And our population has  
3       grown from the past 25 years by 25 percent. We're  
4       going to continue to have more and more of a need  
5       to ship and move our goods. So I throw that out  
6       to think even broader. It's going to get bigger.  
7       It's not going to get less. Thank you.

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

16             As a result of that testimony, the  
17      Panamanian government extended an invitation for  
18      me to come over and visit the canal, and some of  
19      my colleagues joined me at that. We met with the  
20      Panama Canal Authority. Their number one concern  
21      is, when the tsunami of freight hits the East  
22      Coast, it's not whether our harbor is going to be

1 deep enough, not whether our terminals are going  
2 to be able to handle the capacity or not, but  
3 where does the cargo go when it hits the highway  
4 system?

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

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

1 attention to it.

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

15 Let me just briefly say, they do have  
16 some different issues in Europe than we have here.  
17 Is there a potential for short sea shipping? Yes.  
18 It's going to take a lot of different things  
19 coming together. But I can assure you, it is not  
20 off the board. I can assure you that it's  
21 something that the Maritime Administration, part  
22 of the U.S. Department of Transportation (DOT),

1 continues to look at and work with, and I think  
2 where it makes sense, provide seed funding and  
3 other encouragement.

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

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

17 I suspect it's a capital investment  
18 inventory control co-chair type of dilemma. But  
19 if anybody can solve that -- and I don't mean to  
20 boast -- Crowley Maritime has logistics and a  
21 liner service. They're separate, but they're  
22 together. So I'm certainly going to challenge

1 those folks to give me the right answer on that.

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

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

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

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

18                   When I put my route guys together, we  
19 actually have a performance factor. So I might be  
20 paying you \$1000 to get it to Shanghai. But if  
21 you're a high-paying carrier, you'll rate at 95  
22 percent or something like that. So I'm paying

1 more for your value than just the cost; however,  
2 cost is still a big piece of that. Right? We're  
3 all in business to make some money.

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

7 MR. TRONTI: Would you pay 5 cents more  
8 on a dollar if you knew U.S. citizens and ships  
9 were carrying your cargo? Is there any relative  
10 cost factor there? I guess the reason I bring it  
11 up is the U.S. flag deep sea right now is below  
12 100 ships. I'm not talking about Jones Act,  
13 domestic vessels that are carrying clean products  
14 or other cargo around the U.S. Gulf and East and  
15 West Coast. As far as minor, foreign, we're below  
16 100 ships. The mariners, after World War II,  
17 there were 2000. They were much smaller in that  
18 situation, Liberty ships and Victory ships from  
19 World War II. They are a lot different than the  
20 8000, 10,000, 12,000 TEU ships we're talking about  
21 building. But things have changed, and the  
22 mariners are not there.

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

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

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

2 MR. PISANO: I just want to follow up on

3 what Andrew was stating. There's a lot of

4 calculations that go into choosing a carrier

5 between particular port payers and where you're

6 shipping your cargo and what carrier you're using.

7 You're certainly looking at your overall cost.

8 You're looking at your experience, you're looking

9 at the transit time, you're looking at their claim

10 settling. You're also looking at their website.

11 You know, can you get the information, you know,

12 easy and quickly. Can you -- if you have multiple

13 trans-shipments, can you see when your cargo is

14 going to be loaded in Tanjung Pelepas for

15 trans-shipment before it gets trans-shipped again

16 and heads to the United States. A lot of lines

17 don't have the websites, you know, refined to the

18 level where you can actually track the containers

19 from the origination forward. They can tell you

20 where it's been, but not necessarily always going

21 to tell you where the trans-shipment is going to

22 take place, when is it going to take place, what

1 the on-carrying vessel is going to be.

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

11 I'd also like to just go back to one of  
12 the points about the short sea shipping and  
13 perhaps barge services. I think what we've seen  
14 is over the years a number of barge services come  
15 and go, because it's really difficult for them to  
16 actually turn a profit in running a barge service.  
17 And I think it's something that, you know, it's a  
18 service that, for it to actually have a long-term  
19 presence in the U.S. industry in our trade here,  
20 it's got to be something that's probably got to be  
21 subsidized for a period of time until it actually  
22 gets up and running and actually gets to the point

1 of getting sufficient volume. Like any industry,  
2 you've got to get to that critical mass level  
3 where you can actually turn a profit and have a  
4 long-term sustainability.

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

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

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

21 The Federal Maritime Commission is an  
22 independent agency, and I talked about this very

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

21 President Gerald Ford famously said, if  
22 the government was in the business of brewing

1 beer, we'd probably be \$50 a six-pack. Applying a  
2 Producer Price Index (PPI) to that 1978 or '76  
3 comment, that would probably be \$200 a six-pack at  
4 this point. That's not what we're looking at, nor  
5 are we looking at doing a fact-finding that is on  
6 the table.

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

18 A famous mariner and pilot was quoted as  
19 saying, "For every complex problem, someone will  
20 come up with one singular and simple answer, which  
21 is almost always wrong." And I think Mark Twain  
22 had, among all of his wisdom and witticisms, I

1 mean, this is a complex issue. There are a lot of  
2 inputs. There are a lot of pieces that have to  
3 come together and work better. And I think we had  
4 some really good dialogue today. And there will  
5 probably be a report of some type that we will  
6 come out with and then see what the next steps  
7 are. But I'm confident when I'm saying there is  
8 not a regulatory rule making getting ready to come  
9 out of this.

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

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(Whereupon, the PROCEEDINGS were  
adjourned.)

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