

*Testimony*

*Of*

*Dr. Geraldine Knatz*

*Executive Director*

*The Port of Los Angeles*

*On*

*Port Development and the Environment*

*At*

*The Ports of Los Angeles and Long Beach*

*Before The*

*United States House of Representatives*

*Committee on Transportation and Infrastructure*

*Subcommittee*

*On*

*Coast Guard and Maritime Transportation*

*The Honorable Elijah E. Cummings*

*Chairman*

*August 4, 2008*

Chairman Cummings, members of the Subcommittee, thank you for traveling to California to hold this important Congressional hearing today. For the Los Angeles Board of Harbor Commissioners, Mayor Villaraigosa, and the Los Angeles City Council, welcome to the San Pedro Bay Port Complex.

I appreciate your invitation to participate in this field hearing on "Port Development and the Environment at the Ports of Los Angeles and Long Beach" because we have a compelling story to tell about the steps we are taking to protect the health of our citizens by reducing emissions and other pollution, and how we are responding to record growth and incorporating the most up-to-date strategies to sustain our important role in the nation's economic vitality and the movement of goods into the American stream of commerce.

As you know, the Ports of Los Angeles and Long Beach -- which we refer to as the San Pedro Bay Port Complex -- are the two largest container seaports in the United States, and combined make the fifth busiest port complex in the world. Nearly 45% of the nation's imported containerized cargo comes through our Ports. We handle more than \$260 billion a year in trade throughout California and the nation. In the Southern California region, goods movement industries connected to our Ports provide a half a million jobs and produce billions in state and local business and tax revenues. Our publication, *"America's Gateway: A National Goods Movement Corridor Economic Impact Study,"* has been distributed to every member of the Transportation and Infrastructure Committee. This Study demonstrates the significant economic impact that the Ports of Los Angeles and Long Beach have on every state in the Union. On a national basis, our Ports generate more than 3.5 million jobs and impacts at least one

business in every congressional district in the U.S. that either imports or exports goods through our Port Complex.

Given the nation's current economic conditions, our trade volumes are down; however, overall international trade through our Ports has grown by roughly seven percent per year over the past decade. Currently, the two Ports handle 15.8 million TEUs, or twenty-foot-equivalent units of containerized cargo, on an annual basis. The unconstrained market demand forecast projects we will handle close to 60 million TEUs by 2030. However, current capacity estimates for the year 2030 are closer to 40 million TEUs. These figures are important because close to half of the containers that move through our two Ports have origins or destinations east of the Rocky Mountains. This growth trajectory creates tremendous challenges for our Port Complex and its infrastructure.

These projections, and the commensurate impact to the environment from increased activity at the Ports, create a self-evident imperative: we must grow green. Tens of thousands of individuals live in the San Pedro, Wilmington, and Long Beach communities, and their livelihoods are directly connected to Port related operations and this area's goods movement industries. As employers and landlords, we need to ensure that we continue to operate an efficient, safe and healthy environment for those individuals, and we have a moral obligation to be responsible neighbors to communities here in the harbor, but also throughout the Southern California region.

Studies by the South Coast Air Quality Management District (SCAQMD) and California Air Resources Board (CARB) have concluded that the more than two million people who

live near the Ports of Los Angeles and Long Beach face greater health risks than those who live elsewhere in the region. The South Coast Air Basin has the highest concentrations of atmospheric ozone and other pollutants in the entire U.S., and we expect that if the Ports do not take action at their own initiative, these agencies, charged with addressing regional air quality, will require the Ports to act.

If the Ports do nothing, we also significantly diminish our chances of executing successful environmental impact studies as we seek to expand terminal operations, and as we expand the Ports to attract additional business. That loss of business to the growing competition from ports in Canada and Mexico would adversely affect the costs of trade and goods movement throughout the U.S. because we handle such a high percentage of the nation's imports.

### **Clean Air Action Plan**

While we take pride in saying that our joint Clean Air Action Plan is at its heart a local initiative, I think one of the most impressive aspects of the plan is that it illustrates our commitment to work with the U.S. Environmental Protection Agency Region 9, the California Air Resources Board, and the South Coast Air Quality Management District.

The Clean Air Action Plan is an ambitious plan that will cut overall emissions in half even while we continue to grow our operations. Two strategic principles are driving our actions with regard to the Clean Air Action Plan. First, we believe it is essential that key infrastructure projects and public health-related environmental improvements are implemented in an integrated and coordinated fashion. The State's Goods Movement Action Plan calls for "simultaneous and continuous" improvement in goods movement

infrastructure and environmental mitigation. We will make this concept a reality at the San Pedro Bay Ports. In order for the Ports to realize "green growth," we will pursue a sustainable and smart strategy of investment and work with our customers to assure that this happens.

In the Los Angeles area, containers are moved primarily on three freeways and along the Alameda Corridor. To address existing transportation system deficiencies, accommodate future traffic, and reduce emissions, our Ports have expended hundreds of millions of dollars over the last ten years on critical, intermodal transportation system projects -- projects of national significance. However, this is not enough.

Second, we are aggressively pursuing a goods movement investment strategy. Like many major private and public corporations, the Ports have concluded that we must take considered, well-planned action to reduce pollution before we are forced to take more drastic steps. We have coordinated our actions with the State of California and our regional partners, the Southern California Association of Governments, the Los Angeles Metro, and other agencies -- from the Inland Empire to Orange County -- with bold initiatives aimed at improving key infrastructure needs and addressing emissions from goods movement in Southern California. Recently, our Southern California Consensus Working Group leveraged local funding resources to secure the programming by the California Transportation Commission of new State bond revenues from the Trade Corridor Improvement Fund, totaling \$1.6 billion. While significant, this action by the State is only a downpayment on meeting our goods movement needs in Southern California.

We have identified nearly \$3 billion in immediate infrastructure improvements that are needed in or near the Ports. These projects are Congressionally designated "projects of national & regional significance" and "high-priority projects." This \$3 billion in investment is in addition to the hundreds of millions of dollars that will be spent for on-dock railyards within Port terminals that reduce truck trips and are developed with revenue from cargo terminal leases. These projects have been in development for several years, even prior to the adoption of the Clean Air Action Plan.

### Infrastructure Cargo Fee

One component of our overall strategy for addressing the consequences of extraordinary Port growth is the San Pedro Bay Infrastructure Cargo Fee. The Infrastructure Cargo Fee (ICF) complements our Clean Air Action Plan because it addresses our need to improve goods movement and simultaneously reduce emissions. To further improve air quality and resolve existing transportation system deficiencies in and around the Port Complex, our two Ports are implementing several critical and nationally-significant intermodal transportation system projects.

Because these projects cannot, and arguably should not, be paid for entirely with federal and state funds -- despite their national significance -- the two Ports began studying ways to fund enhancements of our goods movement infrastructure. Approximately three years ago, the two Ports started working together on a container fee for local infrastructure. We took this on ourselves for three reasons: 1) we saw the value of having a committed stream of revenue to match bond measures devoted to goods movement; 2) If we did not do it, there were likely to be state fees, possibly on terms that we could not support; and, 3) as a self-help Port Complex, we wanted to

create a model that would complement the policies and programs to be developed in the next federal transportation authorization bill. We hope this bill will provide a new dedicated federal account and program to support goods movement related infrastructure projects and environmental improvements.

What is unique about the development of our container fee is our bottoms-up approach. The fee structure is the result of a thorough technical analysis and extensive three-year dialogue with industry that began with an agreement on what projects should be funded. The selected projects were also endorsed by Mayor Villariagosa's Goods Movement Task Force and state and regional agencies, and they are included in the State of California Business, Transportation, & Housing Agency/CalEPA Goods Movement Action Plan. These projects were also endorsed by industry, including the Waterfront Coalition that represents shippers, the Pacific Merchant Shipping Association; and labor.

Throughout this process, we worked to address industry concerns -- they only wanted to pay their fair share and wanted to see results for their investment. Consequently, we agreed that the fee would only be collected for a specific project after an Environmental Impact Report was certified for that project. These days, getting an EIR certified in Southern California is quite a feat; and I think it would be fair to say that getting to that stage actually means something as the EIRs are a primary vehicle for advancing the implementation of our Clean Air Action Plan measures.

The infrastructure fee rate was established at a level that was based upon a detailed and fair traffic nexus for each specific project. In other words, if 60% of the traffic that

used a bridge was cargo related, then the container fee had to be set high enough to collect 60 percent of the cost of the bridge. At project completion, the fee associated with that project would drop to zero. Because our fee will be made up of a composite of fees for specific projects, all on different construction schedules, the fee will fluctuate over time. We anticipate it starting at approximately \$15 dollars per TEU and going as high as \$18 per TEU based on the known list of projects. Further, with the industry share established, we then created a plan to finance each of the proposed projects which included contributions from the Ports along with a proposal for a fair-share allocation from the State Proposition 1B Trade Corridors Improvement Fund.

As such, in January 2008, our Ports adopted the Infrastructure Cargo Fee. Because of the Ports' work, our allocation of the state bond money nearly matched the Ports' financing plan. By the year 2014, our fee will support \$2.9 billion dollars in funding for port-adjacent bridge, highway, freeway ramps and rail improvements.

The Ports believe that our bottoms-up approach and outreach to industry enabled us to craft the Infrastructure Cargo Fee program that would avoid litigation from industry. To date, there have been no challenges and we do not expect any. Beyond our local project-focused fee, we also recognize the need for industry fees for regional projects. In fact, our Ports considered collecting a fee for regional infrastructure, initially identifying the Alameda Corridor East Project and a major rail intersection known as Colton Crossing. We put off our regional fee in deference to the legislation being pursued by California State Senator Lowenthal, which our Mayor supports. Even though we tried to work the same strategy with industry on the regional fee -- making sure the money was used for projects industry supported -- I cannot say with certainty

that we were able to develop the same support as we did for the fee to support local projects. However, the Port of Los Angeles is committed to taking up the issue of regional fees again, should it become necessary.

Chairman Cummings, we are aware the Subcommittee may examine national infrastructure fees in next year's transportation authorization bill. At one time we supported national fees, but now, from our perspective, "the ship has already left the dock," and any national container fee would be duplicative of what is in place here in California. Anticipating enactment of State Senator Lowenthal's proposed container fee, the Ports will have to reconcile this fee and the rail portion of the Ports' Infrastructure Cargo Fee. We urge the Subcommittee to ensure that port regions around the country that have taken up local initiatives to address their infrastructure and environmental needs are not penalized by the additional imposition of federally-imposed fees. Any new federal legislation that would propose container fees should also provide exemptions for independent and bold actions taken by states or regions, like the efforts we have underway here at the Ports of Los Angeles and Long Beach. In fact, Congressional legislative action should reward states and regions that have taken significant responsibility for improving the efficiencies in the flow of goods through international gateways and along trade corridors and the nation's logistics system.

### **The Clean Truck Program**

The Clean Trucks Program (CTP) is by far the single most challenging component of the Clean Air Action Plan as we seek to eliminate "dirty" diesel trucks from San Pedro Bay cargo terminals within five years, and replace them with a new generation of clean or retrofitted vehicles.

Although a great deal of attention has been directed toward the CTP, it is only one element of the more comprehensive Clean Air Action Plan that the Ports approved almost two years ago. That plan sought to control air pollution from all Port-related sources; trucks were not singled out. The Ports are attempting to encourage cleaner port trucking while at the same time we are taking steps to address pollution from other sources. We should not unfairly burden those other sources while trucks continue to freely pollute.

One key feature of the CTP is truck fleet modernization. To accelerate this fleet modernization program, we are focusing on alternative fuels and cleaner diesel. The numbers may seem daunting – 16,800 individual frequent and semi-frequent-caller trucks account for 80% of all truck visits at the Ports (an average of 7.7 visits per week per truck) – but we are committed to this effort. As has been reported in the media, this plan now faces a legal challenge from the American Trucking Association.

We designed the CTP, after much input and much deliberation, for a simple reason: we believe that the trucking system serving our Ports will not be a cleaner, safer, or more secure system without a major transformation regardless of what we may do in the near term. While the CTP offers incentives that will help us attain an immediate 80-percent reduction in truck pollution, it also encourages participation from outside operators who can provide the most sustainable long-term solution for protecting public health and safety. Equally important, the CTP offers us the opportunity to establish measures that will be necessary to address vulnerabilities in the physical security of the Ports. These vulnerabilities mean that we face the risk that our facilities could be used by terrorists or criminals. The longer these vulnerabilities remain unaddressed, the greater the risk that

we will pay a steep price for inaction. Furthermore, if we fail to cultivate a responsible and financially viable port trucking system, a decade from now we will once again be throwing billions of dollars at this chronic problem.

According to an analysis performed for us by The Boston Consulting Group, the current truck drayage system imposes annual costs of between \$500 million and \$1.7 billion as a result of operational inefficiencies such as under-utilization, traffic congestion and the irregular utilization of drivers, through the impact on our communities from truck traffic and parking, and public health impacts. By assembling a concessionaire network of Licensed Motor Carriers that will have direct control over employee drivers, we can more effectively ensure that concessionaires address security issues, improve truck safety at the Ports and in our communities, and contribute to more effective Port operations overall. For example, concessionaires could improve drayage efficiency by having multiple employees drive a single truck. As a result, fewer trucks can pick up more containers, and the cost of adopting common trucking industry technology, such as on-board GPS tracking, would decrease, thereby allowing concessionaires to operate in the same efficient manner as today's nationwide major fleet operators.

Over the past year, both Port Commissions have approved cargo fee tariffs to accelerate the replacement of the existing truck fleet. We do this by assessing a \$35 gate fee per twenty-foot container unit. The funds generated will help underwrite the replacement of the existing truck fleet. The Port of Los Angeles CTP incorporates certain fee exemptions; for example, all privately-funded 2007-compliant trucks, meeting Federal Emission Standards, will be exempted from the \$35 per TEU fee. The exemptions offered by the Port of Los Angeles' CTP are intended to encourage more

rapid investment in cleaner, 2007 model year-compliant trucks. The Port will buy older trucks as part of a Scrap Truck Buyback Program, to accelerate the removal of pre-1989 trucks from Port service. In addition, a Truck Procurement Assistance Program will help to ensure that concessionaries receive the best possible truck prices through volume pricing agreements.

We have continued to work cooperatively, and effectively, to make the CTP a statewide and national model. Recently, in fact, the California Air Resources Board awarded \$98 million in State bond funds to the two Ports to assist in jump-starting the CTP. The Ports appreciate CARB's partnership, and expect additional funding support in the future. The watchword for all our decisions has been *sustainability* – we are seeking to build a sustainable program that meets not just our near-term goals, but establishes the framework we need to continue our progress in the years to come in the face of business, trade, and environmental challenges that can only be imagined now.

Mr. Chairman, I want to take this opportunity to thank you, Chairman Oberstar, and members of the Transportation and Infrastructure Committee for your collective leadership in securing enactment of "*The Maritime Pollution Prevention Act of 2008*," H.R. 802. We believe this historic legislation provides an important administrative framework for implementing MARPOL Annex VI which supports our emissions reduction efforts at the San Pedro Bay Port Complex.

### Conclusion

Lastly, as *America's Port and International Gateway*, the Ports of Los Angeles and Long Beach play a critical role in the reliable movement of goods which the nation's

businesses and consumers have come to rely on every day. Combined, the San Pedro Bay Ports and our region's trade corridor and logistics system have become the nation's "loading dock" and serve as an important dynamic economic engine for the country, enhancing our nation's global competitiveness.

We look forward to the next federal transportation authorization bill. It will provide a very timely opportunity for Congress to address the need for a true cost-sharing arrangement to meet the critical goods movement-related infrastructure requirements facing trade corridors and international gateways, such as the Ports of Los Angeles and Long Beach. To date, the failure of transportation policy to address goods movement funding has created an *"unfunded federal trade mandate"* for Southern California. Mr. Chairman, we stand ready to work with you and your colleagues on the Committee towards a new expanded transportation policy that includes, among other key provisions, enhanced financial resources and a new dedicated federal account to support critical goods movement-related infrastructure and environmental improvements to address emissions from diesel trucks, container ships and railroad engines.

In closing, we very much appreciate your coming to the Ports today. Thank you for your interest in the ongoing development of the Ports of Los Angeles and Long Beach, and the programs that we are implementing to ensure green growth and long-term sustainability.

###