

Before the Subcommittee on Coast Guard and Maritime Transportation

TESTIMONY OF MICHAEL G. ROBERTS

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Good morning Chairman Hunter, Ranking Member Garamendi and members of the subcommittee. Thank you for holding this hearing, and for inviting me to testify on behalf of Crowley. Crowley is a privately held, \$2bn company, 125 years old. We have 6,000 employees including about 300 who live in Puerto Rico. Thankfully, all survived the storm, although many had their homes lost or damaged. We are extremely proud of and grateful for the work of our Puerto Rican teams – they reopened the terminal and restarted the supply chain almost immediately after Hurricane Maria, and basically haven't stopped working since.

Crowley is dedicated to Puerto Rico. We have provided ocean shipping and logistics services between the mainland and Puerto Rico for more than 60 years. We are nearing completion of a \$600 million capital investment to renew our vessels and our San Juan terminal. Our vessels are being built in an American shipyard by American workers, including about 160 Puerto Ricans. They will of course be crewed by American mariners, many of the whom live in Puerto Rico, as well as Florida and other states in the Southeast. Our terminal investment, funded entirely by Crowley, is one of the largest infrastructure projects on the island in the past year.

Crowley is also very actively involved with the Federal Emergency Management Agency (FEMA) in responding to Hurricane Maria, and I would like to discuss briefly those efforts. General conditions on the island are improving but still very challenging particularly outside the San Juan metropolitan area. Key concerns are electricity, security, fuel, clean water, and cash. It will take months for most people just to begin to feel normal, and tens of billions of dollars to rebuild infrastructure and everything else that was lost.

Crowley handles a significant part of FEMA's overall effort on the island. As of yesterday, we have delivered more than 2,700 loads (equal to about 7,000 TEUs) to the island since the port opened on September 23. By the end of next week, we will have delivered about 7,500 loads (about 17,000 TEUs). This will include 3,200 FEMA loads. The FEMA cargo is a mix of water, MREs, generators, tarps, and other items, along with rolling stock – more than 125 fuel trucks just yesterday, bucket trucks, RVs, and other heavy equipment.

The story last week was that loads of cargo were getting off the ships and onto our terminals much faster than they were being dispatched off the terminal and sent to where the supplies were needed. While certainly frustrating, this was not surprising. Because damage in the port was minimal, our dockworkers could unload vessels quickly (and they did a great job). Their main challenge has been to find places to put loads coming off the vessels, given the congestion on the docks.

In contrast, the next links in the supply chain were severely damaged. Many roads were impassable; power lines were down; many people had to stabilize their family circumstances before returning to work; trucking needs have been very high, while tractors, drivers, and diesel fuel have been in short supply. Dozens if not hundreds of businesses that had cargo on the dock haven't opened because of hurricane damage.

The net effect of this is that, with the exception of FEMA loads, commercial cargo has been stacking up on the marine terminal. Normally we would have about 900 loads on the terminal. We have more than 4 times that amount today, plus another 1,800 loaded containers that have been dispatched but not returned. Normal gate dispatch is about 400-500 loads / day. We are less than half that pace still today.

The story of terminal congestion is likely to get worse before it gets better. Vessel calls scheduled over the next 10 days will add thousands more loads to the terminal. While the majority of these loads will come from FEMA (and FEMA has been expediting the dispatch of its loads), the inflow of loaded containers off the vessels and onto the terminal will likely continue to outrun the relatively slow pace of dispatch off the terminal and into the island.

This reinforces the fact that waiving the Jones Act in order to increase the number of vessels able to bring cargo *to* the island will not help get cargo more quickly where it is needed *on* the island. Not one bottle of water will reach disaster survivors any faster because of the waiver. Issuing a waiver in these circumstances usually means that foreign vessels, if they're used at all, will simply take work away from American vessels and American crews.

We would also say that if there was a specific waiver that would *genuinely* help improve the response, we would not oppose it. Our top priority is the safety and well-being of the people of Puerto Rico. We are not aware at this time, however, of any ocean transportation need that is not being fully and quickly met by the American vessels deployed to Puerto Rico.

If I may address a few other issues that have been discussed in recent days about the Jones Act and Puerto Rico. First, the Jones Act applies only to domestic transportation, not to transportation between Puerto Rico and foreign ports. Major news outlets including the New York Times have published absurd statements that the Act requires shipments from foreign sources to be taken to Jacksonville first, or subjected to fines if taken directly from the foreign source to Puerto Rico. Basic fact checking – an increasingly lost discipline in journalism – would show that is simply not true. In fact, the majority of vessel calls in Puerto Rico are by foreign flag vessels. Most of Puerto Rico's petroleum comes from outside the country, while American carriers bring in most of the containerized cargo.

A second misconception is that ocean shipping rates are relatively high in Puerto Rico because of the Jones Act. There are two problems with that statement. First, ocean shipping rates for Puerto Rico, on average, are lower than or in line with foreign flag rates in the region. We last studied this question a couple of years ago and found that average shipping rates were about the same for Puerto Rico as for the Dominican Republic, and significantly lower than the USVI and Haiti. Rates are disciplined by head-to-head competition in the market, and by foreign sourcing options. It is also because the ocean transportation and logistics system that Crowley and others have developed for Puerto Rico has been customized for efficiency, with 53-ft equipment, ro-ro vessels and with LNG-powered ships operating in the trade.

Further, the portion of shipping rates that is attributable to the “cost” of the Jones Act (US mariners vs foreign mariners, and US built vessels vs foreign built vessels) is a very small portion of the overall supply chain cost. Many studies have shown that the costs any carrier or vessel would incur to move cargo in this trade would consist overwhelmingly of costs that would apply regardless of the vessel’s registry. Costs that are “flag-blind” include fuel, equipment, port fees, stevedoring, inland trucking, SG&A, and many others. The portion of total costs that are attributable to US vessel manning and building requirements is less than 10%. And those costs don’t go to zero for vessels built outside the US and operated by foreign crews.

Finally, there is a gross misconception that shipping / Jones Act costs make retail prices higher on the island than they otherwise would be. Again, we have studied this from time to time and found that the claim just doesn’t hold up to scrutiny. Retail prices in Puerto Rico may be higher or lower than prices for comparable items in Jacksonville or other major East Coast cities. It doesn’t really matter for purposes of this analysis, because the shipping cost for an item is usually a tiny fraction of the price charged by retailers for that item. For example, a can of juice or a similar item that might retail for \$1.50 or \$2.00 in San Juan actually costs our customers about \$.04 to ship from Jacksonville to San Juan. So if average retail prices in Puerto Rico are higher than on the mainland, it is not the cost of shipping that explains why.

It is unfortunate that these attacks on the Jones Act are surfacing now. Puerto Rico is facing extraordinary challenges in the months and years ahead, first because of its financial challenges, and now because of this terrible hurricane. Puerto Rico needs serious financial support – tens billions of dollars – from the US Government. This is not to help pay off bondholders, but to rebuild homes, infrastructure and everything else that was destroyed. Hopefully, in time, it will be better than it ever was before. Crowley looks forward to working with Puerto Rico to help achieve that goal.

Thank you for your attention, and I would be happy to answer your questions.