OVERVIEW OF THE UNITED STATES' FREIGHT TRANSPORTATION SYSTEM

TESTIMONY BY:

JAMES I. NEWSOME, III

SOUTH CAROLINA PORTS AUTHORITY

APRIL 24, 2013

My name is Jim Newsome and I am President and CEO of the South Carolina Ports Authority, based in Charleston, SC. I have held this position since September, 2009, being now only the fifth CEO of that organization, which is a major operating port owned by the state of South Carolina. Prior to taking this position, I had an over 30 year career as a senior executive in the ocean container shipping industry, most recently as the President of the Americas for Hapag-Lloyd Container Linie, a large, German shipping company for which I worked for twelve years. Before that, I was the President of the Americas for Nedlloyd Lijnen, BV, a Dutch container shipping company which is now part of Maersk Line . I was born into a shipping family in Savannah, GA, my father having been a senior executive at the Georgia Ports Authority for over twenty-years. I decided at a young age to pursue a shipping career, choosing a transportation and logistics education at the University of Tennessee, from where I received a MBA in this major in 1977.

I am honored to have the opportunity to testify before this Special Panel with regard to its consideration of the subject of U.S. Freight Transportation. Given my background as a senior executive in the global container shipping and port industry, I will confine my remarks to the connectivity of this important sector to this transportation system.

The container shipping industry has been instrumental in the significant growth of globalization over the last 25 years. There are at least fifty ocean carriers who transport containerized cargo between U.S. ports and ports in foreign countries. Thus, U.S. shippers enjoy a very competitive market for ocean transportation. The service provided for containerized cargo is remarkably reliable, largely weekly in nature in major trades, and has supported the establishment of

complex import and export supply chains routinely utilized by major U.S. corporations in their global transactions. Finished products also move on specialized carriers such as those operating roll-on, roll-off vessels for the movement of set-up vehicles and breakbulk and heavy lift carriers hauling non-containerized goods. There is also a significant cadre of bulk vessels used in the haulage of basic products such as grain, coal, and oil serving the U.S. market.

It also should be noted that ports face significant competition. Charleston, for example, aggressively competes with Savannah, Norfolk, New York and others for cargo. Ocean carriers have a choice of where to call and when. If a port is unable to provide an efficient and cost effective option, its customers will go elsewhere. Indeed, U.S. ports are facing increased competition from ports in Canada and Mexico. The prospect of heightened competition between East and West Coast ports as a result of the Panama Canal expansion is well-chronicled in current industry dialogue.

Globalization and the offshoring of significant amounts of manufacturing have led to the growth in trade being significantly more than economic growth, a factor known as the trade growth multiplier on economic growth. In recent years, largely fueled by import growth, this factor has been as high as three to four times economic growth, leading to a significant trade deficit for our country. In the last five years, however, the prevailing trend has been an exporting and manufacturing renaissance from the U.S. centered on the growth of a significant middle class in emerging economies, mainly China, the desirability of American agriculture products in such markets, and the rebirth of U.S. manufacturing in such vital areas as automotive manufacturing. This manufacturing and exporting trend shows signs of further accelerating due to the ready

availability of domestic energy sources to support such manufacturing. The idea of doubling exports as articulated by the Obama administration seems to have been a worthy and timely goal. A German company which manufactures in South Carolina, BMW, is now the largest single exporters of automobiles from the U.S.

The global shipping industry, especially the container carriers, has responded with significant investment in new vessels. 2013 will see the largest injection of new container capacity into the global container fleet in the history of containerization. The global container vessel fleet now numbers over 5,000 vessels with 16 million TEU of standing capacity. Eighty percent of the container ship capacity on order is bigger than can go through the Panama Canal today and, by the time the Panama Canal is expanded in 2015, fifty percent of the container ship capacity in operation will be Post-Panamax in size. A typical post-Panamax container ship is 8,000 to 9,000 TEU in size, carries 100,000 metric tons of cargo in containers, is over 1,000 feet long, has over 150 feet of air draft, and draws 48 feet of water when fully loaded with heavy export cargo. These large ships bring dramatic improvements in both economic and environmental efficiency. They require reliable ports at origin and destination to realize these benefits, capable of handling such ships productively and with minimal waiting due to depth or height restrictions.

Ports across the country have made and continue to make significant investment in order to satisfy such requirements. For example, in the Port of Charleston, we are investing $1.3 billion in the next ten years in existing and new facilities to handle mainly cargo growth. The largest component of this investment is in a new, 280 acre container terminal at the former Navy Base in Charleston. This terminal alone is an $800 million investment and is today the only permitted,

new container terminal on the East and Gulf Coasts of the United States. We are also building an innovative, rail-served inland port in Greer, SC, designed to improve connectivity between one of the Southeast's major manufacturing and distribution hubs and the Port of Charleston. The State of South Carolina is additionally investing another $700 million in port-related infrastructure, including a dedicated access road to this new container terminal. In view of the uncertainty with regard to the availability of federal harbor deepening appropriations, the State of South Carolina has set aside the entire $300 million cost of our deepening project, ie both the state and the federal share. Our deepening project is designed to provide a 50 foot harbor comparable to others already authorized on the East Coast, allowing the handling of ships at 48 feet of draft without tidal restriction, and at half the cost of other comparable deepening projects. These investments represent an "all-in" bet on the future of the Southeast region, the growth of manufacturing and exports, and the dramatic trend toward deployment of large container ships. They are indicative of the strategic role that ports play in the economic development of the Southeast region and our country.

Understanding that the U.S. port system and container shipping operations are a vital support component of our nation's freight transportation system and despite the investment at the federal state and local level, the federal harbor system has not kept pace with the dramatic increase in size of ships. I would note for the panel that foreign ports are widely recognized to have more capability in this regard than U.S. ports. There are ten ports in China today which handle over 5 million TEU, the largest being Shanghai which handles over 31 million TEU per annum. Going forward, it is vital that a viable strategy and process is established at the federal level to bring

port capability in line with the handling requirements for such large ships. This is a prime responsibility of the federal government as these are federal harbors.

The building of such large container ships has been ongoing for almost 15 years, since the late 1990/s. As I mentioned earlier, ports have invested in terminal facilities to accommodate anticipated and realized trade growth. Yet, the process for studying and funding harbor improvements and other restrictive infrastructure issues such as low bridges has neither been timely, predictable, nor well-funded. These issues should be addressed in a Water Resources Development Act, such as the legislation being contemplated in 2013. However, there have been only two WRDA bills signed into law since the Year 2000, one in 2000 and one in 2007. These two bills increased the federally authorized depth of only three deep draft harbors, only one of which was a major container port. On the appropriations side, only slightly more $2 billion has been made available for harbor deepening since 2000, most of which is for the deepening of the port of New York/New Jersey, a very meritorious project. The legislative process for approval and funding of major port projects has also been made more difficult by the demise of the federal earmark – a traditional source of funding for such projects. Accordingly, the funding, is woefully short of the requirement and commitment needed to modernize the U.S. port network and is an impediment to future freight mobility. Additionally, the civil works process to study and execute such deepening and other major port infrastructure projects has expanded in some cases to almost twenty years, failing to keep pace with the dramatic increase in vessel size and creating another impediment to future freight mobility. As with other major transportation projects, harbor deepening, maintenance and infrastructure improvements should

be treated as high priority projects subject to streamlined approval and with a steady and reliable stream of funding.

The good news is that the shortcomings of the harbor improvement process seem to be well-recognized and some improvements are at hand. The U.S. Army Corps of Engineers has proactively developed new process guidance (the so-called 3-3-3 directive or Smart Planning) to speed up the study of such port infrastructure projects. They have issued a first-step paper relative to formulating a cogent strategy for prioritizing harbor improvements. But, sustainable improvement will only be realized when a "private sector" type capital budgeting approach is taken to such port improvement projects, entailing the following major components:

- The establishment of a significant and predictable capital budget to address U.S. harbor shortcomings over multiple years.

- The development of a clear system of prioritization for projects relative to cost/benefits and the achievement of requisite capability in harbors, which means ability to handle fully loaded ships without tidal restriction.

- A rule-based authorization system for ports which takes the place of individual authorizations when a certain cost/benefit hurdle is met.

- The recognition, potentially painful, that all ports cannot be deepened with the current federal resource constraints and that there will be winners and losers in a prioritization scenario.

- Longer-term, the need to find a user fee system to cover harbor improvements as now exists for harbor maintenance.

- The need to consider related projects in ports which create limitations, such as the Bayonne Bridge in New Jersey and the Gerald Desmond Bridge in Long Beach.

I earnestly commend the attention of this Panel and the full Committee to this important infrastructure priority, without which the benefits of exporting and manufacturing growth cannot possibly be realized. Thank you for this opportunity and I will be happy to answer any questions that you may have.

South Carolina Ports

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

Truth in Testimony Disclosure

Pursuant to clause 2(g)(5) of Rule XI of the Rules of the House of Representatives, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

(1) Name: JAMES I. NEWSOME, III

(2) Other than yourself, name of entity you are representing:

SOUTH CAROLINA PORTS AUTHORITY

(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?

(YES) **If yes, please provide the information requested below and attach your curriculum vitae.**

(~~NO~~)

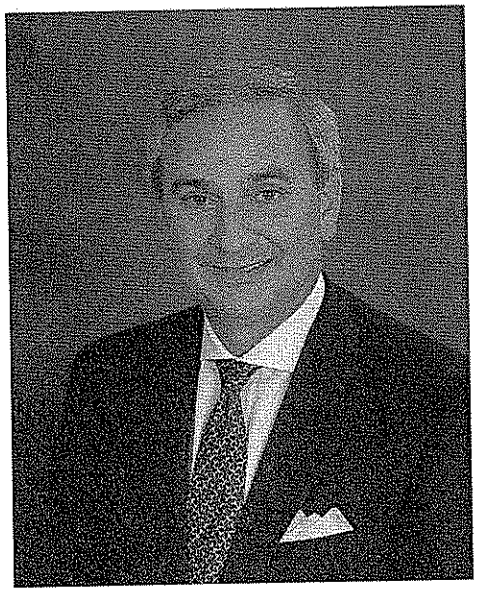
(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:

1) 2013 - $145,000 - Environmental Protection Agency via S.C. Dept. of Health and Environmental Control - Diesel Emissions Reductions Act

2) 2011 - $250,000 - Environmental Protection Agency via S.C. Dept. of Health and Environmental Control - Diesel Emissions Reductions Act

Signature

4/22/13
Date



James I. (Jim) Newsome, III
President & CEO
South Carolina State Ports Authority
Charleston, SC

Jim Newsome became President & CEO of the South Carolina State Ports Authority in Charleston, SC, on September 1, 2009 and is only the fifth leader in the history of the organization.

He was previously President of Hapag-Lloyd (America), Inc., based in Piscataway, NJ, which is part of the world's fifth-largest ocean shipping company. He was the first non-German in this role, in which he was responsible for all activities in North America and Latin America. Before assuming that role, he was Senior Vice President of Area Southeast, based in Atlanta, GA, for twelve years.

Prior to joining Hapag-Lloyd in 1997, Mr. Newsome was with Nedlloyd Lines from 1987 to 1997. He was Executive Vice President of the Americas for Nedlloyd Lines and President of Nedlloyd Lines (USA) Corporation, based in Atlanta. In this capacity, he was the first non-Dutch member of the Executive Committee of Nedlloyd Lines and was responsible for North and Latin America and the Transatlantic trade. He held other senior management positions within that company.

Mr. Newsome began his shipping career with Strachan Shipping Company. He was President of their Hoegh Lines Agencies subsidiary in Jersey City, NJ, and held other positions in Houston, Texas and New York City with Strachan.

Mr. Newsome received a bachelor's BS in Transportation and Logistics in 1976 and an MBA in Transportation and Logistics in 1977 from the University of Tennessee in Knoxville. He received the following honors during his education at the University of Tennessee, and as an alumnus:

- Outstanding Junior and Senior in Transportation and Logistics—1975/1976
- Top Graduate, College of Business Administration—Winter Quarter, 1976
- Outstanding Alumnus, Transportation and Logistics—1992

Mr. Newsome is a native of Savannah, Georgia, is married (wife Kathy) and has two children (Rachel and Matthew) in college. His father, James I. Newsome, Jr, was an executive with the Georgia Ports Authority in Savannah for 25 years during the time when containerization was first introduced in that port, in addition to subsequent roles in maritime labor relations on behalf of the shipping industry and allied service providers.

Mr. Newsome currently serves on the Board of Governors of the College of Charleston School of Business, the South Carolina Chamber of Commerce Board of Directors, the Medical University of South Carolina Children's Hospital Fund Advisory Board, South Carolina State University Transportation Center Board of Directors and the Trident United Way Board of Directors. He is also Chairman of the American Heart Association's 2013 Lowcountry Heart Walk. He was a member of the Champions Committee for the 2012 PGA Tournament held at Kiawah Island, SC. He is also a member of the 1914 Society at the University of Tennessee. Mr. Newsome was also presented with the 2010 Connie Award from the Containerization & Intermodal Institute for his significant influence in containerization in worldwide trade and transportation.

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