

**Hearing Before the United States Senate Committee on Finance
Subcommittee on International Trade, Customs, and Global Competitiveness**

Trade and Commerce at U.S. Ports of Entry

July 18, 2018

Testimony of Kurt Nagle
President and Chief Executive Officer
American Association of Port Authorities (AAPA)

215 Dirksen Senate Office Building
2:30 PM

Thank you for inviting the American Association of Port Authorities to testify at this hearing on Trade and Commerce at U.S. Ports of Entry. As requested, my focus today will be on infrastructure needs of seaports and ports' ability to support U.S. trade. At a time when the United States government is focused on creating American jobs, propelling the economy and modernizing infrastructure, the role played by the nation's freight transportation system is more critical than ever. The importance of our nation's infrastructure is evident in the President's call for \$1.5 trillion to rebuild our nation's infrastructure and Congress' budget agreement last year to devote an additional \$10 billion on infrastructure in both FY 2018 and FY 2019. That is a good beginning and seaport infrastructure should be a high priority for these additional funds.

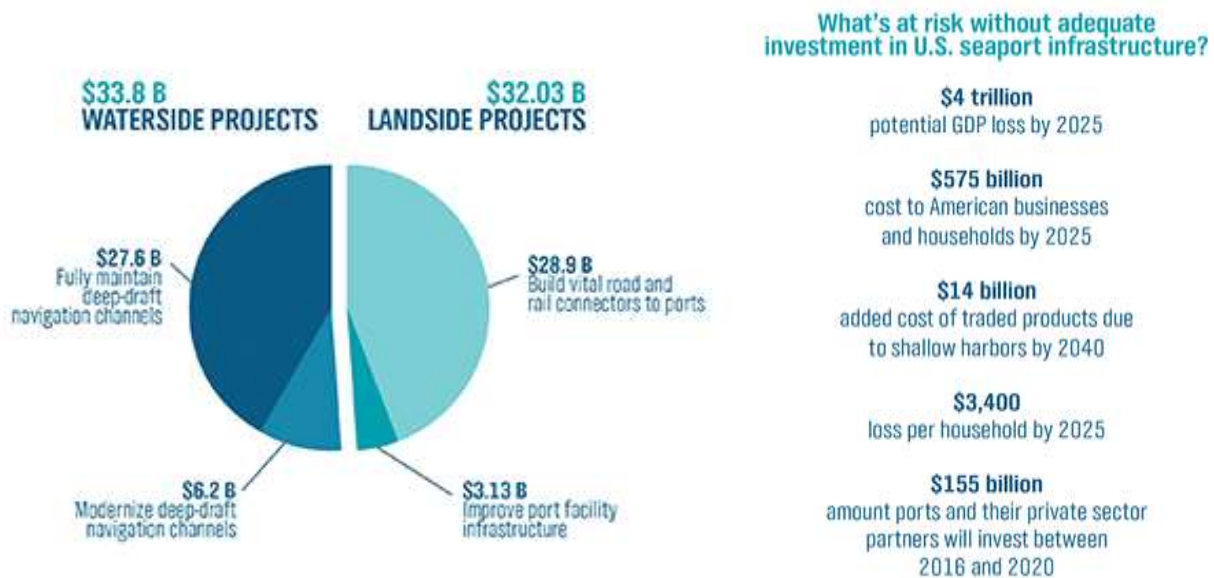
AAPA is the unified and collective voice of the seaport industry in America and our U.S. member ports serve as a critical link in our nation's international trade.

Seaports are critical for the prosperity of American communities, regional economies and our overall standard of living. Throughout our nation's history, seaports have served as vital economic engines that connect American farmers, manufacturers and consumers to the world marketplace. They deliver critical goods and services to consumers, ship U.S. exports, create jobs, support our military, and promote local and national economic growth. Cargo activity at America's seaports accounts for over 23 million jobs, over a quarter of the U.S. economy, \$1.1 trillion in total annual personal income and local consumption, and over \$320 billion in federal, state and local tax revenues. Now more than ever, seaports deliver prosperity for all Americans.

With ninety-five percent of the world's population and 80 percent of global consumption located outside of the U.S., sustained investment in modern, well-maintained seaports and connecting infrastructure is vital to America's prosperity and global trade competitiveness. Building America's 21st century seaport infrastructure requires considerable federal investments. Both landside and waterside investments are critical to our nation's competitiveness including our ability to export U.S. goods. Securing

America’s ports and borders and investing in the environment are also important to the health and safety of port communities and efficiency of U.S. seaports.

To be competitive in the 21st century global economy, our nation needs a national multimodal freight network that incorporates and leverages every mode of freight transportation, whether on the waterside or the landside of seaport facilities. AAPA has projected that the ten-year needs of the seaport industry, including the Great Lakes, is \$66 billion over the next 10 years. That includes \$33.8 billion for waterside projects and \$32.03 billion in landside projects. The graphic below outlines the need and what is at risk without adequate investment in U.S seaport infrastructure.



The key federal programs that support seaport infrastructure are the U.S. Army Corps of Engineers (Corps) Navigation Program, and the Department of Transportation’s (DOT) discretionary grant programs, especially the TIGER/BUILD program and the freight programs established under the FAST Act. In regard to the Corps, it is charged with modernizing and maintaining the nation’s federal navigation system, including those connecting to U.S. ports. Seaports and their private-sector partners plan to spend \$155 billion on infrastructure investments between 2016 and 2020, but seaports depend on the Corps to complete their projects on a timely basis. That has not always been the case.

As you can see from the chart above, to fully maintain the deep-draft navigation channels, AAPA calls for \$27.6 billion over the next decade. This includes full use of the \$9 billion in unused Harbor Maintenance Tax (HMT) revenues that are credited to the Harbor Maintenance Trust Fund as well as full use of future annual HMT collections. While Congress did provide some additional funds for the Corps in FY 2018, far more is needed. Additionally, the United States must establish a sustainable system for funding channel maintenance over the long term.

The best way to provide needed maintenance funds for ports is to provide guaranteed use of HMT revenues. There also is a need to fix other problems with the HMT. Earlier this year, AAPA adopted a long-term funding solution for port maintenance that represents the culmination of years of industry discussion to fix this broken system.

The port industry's plan devotes 100 percent of the tax paid by shippers to America's ports, while providing no additional tax burden on the industry or taxpayers. It assures a fair, equitable and reliable way to ensure the health of this critical part of America's transportation infrastructure. We urge Congress to enact this agreement, either as part of the Water Resources Development Act (WRDA) or any infrastructure bill that Congress considers. Adoption of this plan would bring much needed assurance that deep-draft navigation maintenance needs would have a fair, balanced and sustainable system to address maintenance needs both now and in the future. As one of the Committees who created the Harbor Maintenance Tax in 1986, we hope you have an interest in fixing the current system's shortcomings. I have attached a more detailed description of this plan to my testimony and hope this Committee and its members will be supportive of guaranteeing full use of the HMT and adopt the AAPA solution.

Landside infrastructure is also important to ports. Investments in these connections can drive improvements in productivity, safety, and reduce the impact of freight transportation on local communities. The movement of goods through a port depends on the seamless integration of multiple modes of transportation. Ports must have efficient connections to national rail and highway networks. AAPA has identified \$32.03 billion in landside needs over the next decade. Additionally, in May 2018, AAPA released a new report, *State of Freight III*, on the multimodal needs of U.S. seaports, which concluded that there is \$20 billion in projected needs solely for multimodal port and rail access needs over the next decade. Sixty-seven percent of AAPA member U.S. ports said that funding and financing options are the biggest obstacles in getting essential rail projects started to access their facilities.

AAPA was happy to see that Congress tripled the BUILD/TIGER program in FY 2018 bringing it to \$1.5 billion and we urge a similar level of funding this year, although both the House and Senate current bills are lower, despite additional funding being made available for infrastructure this year. TIGER/BUILD is a vital program for port infrastructure both inside the gate and to support the connecting road and rail infrastructure. Since its inception in 2009, maritime projects have received more than \$578 million in federal TIGER funding, while leveraging more than \$782 million in additional non-federal funding, with \$61.8 million in port-related grants in 2017. More is needed. AAPA has sought a portion of the program be set aside for ports. We commend the House Appropriations Committee for adopting AAPA's recommendation that part of this program be devoted solely to ports. Its FY 2019 bill mandated that one-third of the grants be allocated to ports. We hope the Senate will follow suit and adopt the House provision in the final bill.

The FAST Act freight programs are fairly new but have the potential to help support port infrastructure improvements as well, and several ports have received funding. The INFRA grants, established under the FAST Act, are important but have a cap for multimodal projects broader than traditional highway projects, which results in limitations for port projects. AAPA strongly supports raising the multimodal caps on FAST Act programs, so that multimodal port projects have resources to build connecting projects. DOT financing programs are also a tool for ports to finance infrastructure. Both the Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation and Improvement Financing (RRIF) Program are working on being more port friendly, and we encourage further improvements to make these more useful programs to ports.

While modern and well maintained maritime infrastructure is critical to our ability to trade internationally, AAPA is concerned about the impact of U.S. tariffs and retaliatory response from our trading partners and the uncertainty they bring. To date, the announced Sections 232 and 301 tariffs and the responses from trading partners impact almost nine percent of total U.S. trade value and about 14 percent of containerized trade.

As noted in a recent AAPA letter to the United States Trade Representative, ports are concerned about potential trade sanctions that could result in significant losses of good paying U.S. trade-related jobs, including those in the seaport industry. Seaports are at the frontlines of the current uncertainties surrounding U.S. trade policy. It is important to recognize that international trade, both exports and imports, is good for American workers and our national economy. Recently, AAPA joined the U.S. Global Value Chain Coalition (USGVC). According to the USGVC, one in five American jobs are linked to exports and imports of goods and services, and millions of those jobs are tied to the global value chain. AAPA believes U.S. trade policy must take a comprehensive view of the millions of U.S. jobs related to trade and ensure that seaport and other trade-related employment are not negatively impacted by trade actions. In addition, the \$155 million in planned investment by ports and their private-sector partners is at risk, as an uncertain trade environment creates concerns about making these sizable port-related investments.

Customs and Border Protection (CBP) programs are also important to international trade handled through seaports and have an impact on port efficiency to move cargo and infrastructure needs of ports. Safe and secure seaports are fundamental to protecting our borders and moving goods. Each year, roughly 1.2 billion metric tons of foreign trade cargo, including more than 32 million 20-foot equivalent maritime containers, arrive at U.S. seaports. Additionally, over 11.5 international passengers begin their cruises via U.S. seaports. CBP is on the front line when cargo and passengers enter our country. CBP officers meet the ships at all ports of entry to check the manifests, screen incoming cargo, operate non-intrusive inspection equipment including radiation portal monitors, provide specialists to examine imported fruits, vegetables and flowers for potentially harmful diseases, and other missions at our busy gateways. CBP is also responsible for screening all foreign visitors and returning American citizens and passenger ships that enter U.S. seaports.

Two key programs for seaports are CBP inspections programs and design standards for federal inspection stations at seaports. In 2002, Congress gave CBP authority to establish the Reimbursable Services Program to address the staffing shortages and record increases in passenger and cargo volumes. It allowed organizations, such as seaports, to enter into agreements to allow CBP to provide additional inspection services upon the request of stakeholders provided they pay for the additional CBP personnel costs. While a number of seaports have entered into these agreements to address immediate, short-term CBP resource shortages, AAPA believes that hiring additional officers is critically needed. While CBP has made some improvements in hiring, there still is a significant shortage of officers, including a shortage of about 500 officers in the maritime environment.

Additionally, the reimbursable service agreement is quite costly and sets up an uneven playing field for ports. The ability of ports to charge shippers security fees to help recover costs is limited. The industry already pays user fees to support CBP inspection

activity in the form of the Merchandise Processing Fee. Furthermore, charging an additional cost exacerbates the competitive disadvantage some AAPA members face compared to ports in Canada and Mexico. The result is funding that could be going to infrastructure enhancements at a port is being diverted to pay for additional CBP services. Ports often are asked how the federal government can improve port performance. Fulfilling what has traditionally been a federal obligation to ensure sufficient CBP inspection activity is a key place to start. It would help ports as we seek to expand or offer additional services to address peak cargo flows such as extended terminal hours or weekend gates. While the Reimbursable Services Program is a good tool in the short term, it is not a long-term cost our ports can afford. The need for a permanent solution remains.

CBP inspection stations at cruise ports are also a concern. For years, AAPA has voiced concern that CBP design standards require overbuilding that diverts funds from other infrastructure programs. We urge CBP to provide more oversight into the types and timing of requests for changes to a port terminal upgrade, and try to be more cost minded.

We have a chance as a nation to make significant investments in infrastructure by both fixing systemic problems like the harbor maintenance tax and understaffing at CBP, as well as devoting more funding to federal programs that support our seaport industry.

Finally, let me end with a big thank you from the port industry on the tax bill and the final language that allowed private activity bonds to remain tax free. These are important tools in funding port infrastructure projects. Similarly, we urge the committee to identify a fix to allow advance refunding of municipal bonds to become tax free again, as some ports use municipal bonds.

Sincerely,



Kurt Nagle
President & CEO

Attachment

[One-Pager Describing the AAPA Unified Position on the HMT](#)