

STATEMENT OF RICHARD BERKOWITZ
DIRECTOR, PACIFIC COAST OPERATIONS
OF THE
TRANSPORTATION INSTITUTE
BEFORE THE
U.S. SENATE FOREIGN RELATIONS SUBCOMMITTEE
OF EAST ASIA AND THE PACIFIC
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Good afternoon, Madame Chairman and members of the subcommittee. My name is Richard Berkowitz. I am the Pacific Coast Operations Director of the Transportation Institute. The Transportation Institute is a non-profit, organization, which directs its efforts toward the preservation and promotion of America's merchant marine. We represent over 100 member companies which operate in the nation's foreign and domestic shipping trades. Our members include a number of carriers who serve the Alaska trade and I have been a ardent observer of Alaska trade and economic development over the past decade. We appreciate this opportunity to express our views on U.S. – Pacific Rim future avenues for economic cooperation.

The trade growth we have seen on the West Coast from Asia, and particularly China, in recent years has been explosive and there is every reason to suggest that double digit growth in such trade will be maintained in coming years. To illustrate this point, U.S.- China bilateral trade grew over 23 percent in 2003, reaching 191 billion. Over 80 percent of Fortune 500 companies are invested in China, and a 680-firm survey by the major accounting firm of Deloitte & Touche reveals that 90 percent of them anticipated expanding their China operations. Unsurprisingly, prices for east-bound cargo have been steadily increasing for several years and there has been a shortage of container boxes

available for such trade. In addition, the unanticipated volume of demand for such trade did lead to the virtual meltdown of cargo flowing from the Ports of Los Angeles and Long Beach, California during the peak shipping season of 2004. During the height of this peak marine carriers experienced delays of up to ten days to find adequate berth space and subsequent discharge of their cargo in LA/LB.

Following these congestion and capacity challenges, some Alaskan policy leaders contemplated the potential for Alaskan ports to seek a market niche for unprecedented container volumes anticipated for the West Coast. Past trends, as evidenced in the accompanying trade volume charts, point to a tripling of Asian container trade volumes from 2000 through 2025. West Coast load centers have been responding to this demand by developing terminals, technology, and strategies to increase container velocity and throughput. Successful planning and tactics include PierPass, (a method to provide financial incentives for moving cargo from marine terminals at off-peak traffic hours), improving container handling and identification technology at terminals, expanding infrastructure, and increasing the number of longshore gangs handling cargo. Shippers, transporters, and logistics professionals have jointly responded with great urgency to subdue pressure on ports as experienced during last year's peak season.

Furthermore, the ports of Tacoma and Seattle, both at roughly 1.8 million annual TEU (20-foot equivalent container units) volumes, anticipate at least doubling their capacity in coming years.

The expansion of Pacific trade has led also led to our North American neighbors responding in a significant way. The relative backwater port of Prince Rupert, British Columbia has emerged from being a backwater bulk cargo port to the next anticipated container load center of significance on the West Coast. The Canadian federal government anticipates pouring at least \$131 (C\$) million into infrastructure improvements into Prince Rupert in the coming years. The port touts itself as offering the shortest land-sea transportation route to Asia from North America. Having its rail connections improved does give it a significant competitive advantage and they soon anticipate over 400, 000 yearly TEU volumes with the potential for further expansion. Overall, local, provincial, and federal government resources have collectively committed over \$3.3 billion for British Columbia highway, rail, port and border infrastructure to ensure that goods move efficiently within the province and across Canada.

Further down the coast, Mexico plans an alternative megaport to LA/LB in a remote bay about 150 miles south of San Diego. Punta Colonet is currently a virtual blank slate waiting to be developed at a cost of \$1.2 to \$2 billion. The government anticipates placing a 180-mile rail line to the border. They foresee Punta Colonet being able to process six million TEU by 2025.

Alaska's potential to compete in the Trans-Pacific container trade is not deemed by most industry analysts and logistics practitioners as encouraging. The recent experience by CP Ships/Lykes Lines in trying to establish a container trade along the Great Circle route and stopping in South-Central Alaska was disappointing, at best. This 18+ month effort failed to garner the needed cargo to be sustainable and at its height experienced only a

100 TEU per voyage trade in calling on Anchorage/Seward. This failure was due to a variety of issues, including:

- Weather/ice and need for ice-banded vessels to call on Anchorage during a good portion of the year;
- Insufficient cargo volumes;
- Pacific turn costs were not sustainable given that the voyage up to Alaska added four days to each voyage;
- Customer dissatisfaction with having cargo delayed, despite lower costs for Asian-bound traffic;
- One-way and seasonal hauls;
- Incorrect operating assumptions, and
- Costs of tying up containers on route in a frenzied market were too dear.

If one were to look askance at general cargo container trade from Asia as a strategic opportunity, what could be on the horizon for Alaska as the Asian economy expands?

With respect to maritime trade, the rationalization of many segments of the North Pacific fishing industry will be a beneficial impetus for Alaska to sustain and expand its exports to Asia. By avoiding the peaks and valleys of the past Olympic-style fishing seasons, it will be easier for logistics and marine managers to plan for steady vessel calls and equipment dedicated to the Alaskan fisheries distribution center in Dutch Harbor. Asian consumers can anticipate fresher, less seasonal and more plentiful harvests of Alaskan fish and crustaceans. This will undoubtedly improve the quality and quantity of exports to Asia. An improved and sustainable price for such products can also be anticipated.

Improved demand for some of Alaska's bulk products can be anticipated as Asian economies expand. For example, some of China's key imports include copper, nickel, paper/pulp, wood, fertilizers, ore, fishmeal, and coal. Coal demand in China has doubled since 1985 and required BTU value from coal is expected to double from 2000 to 2025.

In order to improve its potential for capturing such trade, Alaskans should seek ways to improve their ports and harbors to better accommodate bulk vessels. Alaska's ports tend to be plagued by shallow harbors, significant tidal changes, difficult sea/weather conditions, and severe ice restrictions. Dredging, operational, and infrastructure improvements should all be considered to improve the potential for consistent vessel calls to the "Greatland". Internal transportation infrastructure improvements to bring wanted export products to tidewater should be seen as a priority for future economic development scenarios with Asia. Furthermore, economic development planning and funding should consider making backhaul bulk commodities a priority. For instance, in order for Alaska to effectively market its coal to Asia –thus avoiding the expense of dead-heading with an empty haul back to pick-up another load of coal from Alaska. By marshalling resources Alaska could find creative ventures to process or use such bulk products brought in on a two-way bulk haul. To use an example, bauxite could be processed if Alaska manages to use its geothermal potential for energy production in a similar way to what Iceland is achieving. Having such reciprocal marine trade will make the transport costs of certain Alaskan bulk products much more competitive.

Thank you.

