

**The Statement  
Of  
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Maersk Inc.  
before the  
California Senate Transportation and  
Housing  
Sub-Committee on  
Goods Movement  
Global Recession  
The Economic Impact on Goods Movement  
past, present, and future  
March 16, 2010**

Mr. Chairman and Members of the Committee,  
I am Doug Morgante, Director of State  
Government Relations for Maersk Inc. First of  
all, I want to thank you for inviting Maersk to  
be a part of this hearing on the economic  
impact the global recession has had on goods  
movement as it relates to California. The fact

that you are including a marine transportation provider in this hearing suggests that the debate has finally caught up with the reality of the challenges we face together. It means that our collective thinking has progressed very far toward the actual development of comprehensive and mutually agreeable solutions. So for including us, thank you for the opportunity to offer a few comments as you appropriately work to ensure that California's economy will have a competitive strategy.

Senator Lowenthal, we would like to thank you for your leadership. Your objective

consideration of issues has been and will continue to be greatly appreciated.

This testimony is provided in response to a request for an evaluation of the current business environment for the A.P. Moller-Maersk Group. It was prepared with the assistance of Maersk Line and APM Terminals, USA Operations, Sales, and Government Relations teams. We have also included a few specific suggestions on areas that you might look at in order to improve the competitiveness of California as a premier U.S. gateway for international freight.

In 2009, the ocean transportation industry lost over \$20 Billion dollars. Maersk Line has the largest share of market in our industry at about 12-13% worldwide so you can do the math and quickly figure that our share of that \$20 Billion loss has been very hard to swallow.

This economic environment has caused us to scrutinize every facet of our business. Due to many contributing factors but finally slammed by this recession, we had to make some tough decisions about our businesses in California. APM Terminals closed its marine terminal operations in Oakland, and our trucking company, Bridge Terminal Transport,

in Southern California was also closed. The marine terminal was closed because the minimum volume requirements and facility improvements being requested were not sustainable in today's environment. The sum total of rules, regulations, and economics caused us to close down our trucking operations in the southern part of the state.

The recession has of course been devastating to our core businesses, ocean transportation and marine terminal operations. In Los Angeles, Long Beach, where APM Terminals operates Pier 400, the largest container terminal in California, volumes have dropped

by 20% since 2008. As a result, Longshore work opportunity has also significantly declined. APM Terminals and other terminal operators have curtailed expansion plans which would have added thousands of jobs for Californians. On-dock rail volume has dropped considerably, and our belief is that Southern California is losing valuable discretionary cargo to Canada and the U.S. East Coast and Gulf.

On the ocean liner side of our business (Maersk Line), we have seen significant reductions in volume nationwide. On imports, our volumes dropped from 1M feu (40' equivalent unit) in 2008 to 855,000 in 2009.

Exports were a bit more stable, dropping from 735,000 in 2008 to 690,000 in 2009. So, in total volume we have seen a drop of 12%, the market dropped roughly 15%.

Meanwhile, fuel costs have doubled since the Spring of 2009 (From \$250 per mt to close to \$500 per mt. As of March 1 Los Angeles was approximately \$460 per mt).

Maersk Line has had to make significant capacity withdrawals by eliminating three major strings of vessels in 2009 that once called California. This equates to 18 vessels no longer calling California because without the volume they are way too expensive to operate.

Overall, we are probably at 35-40% less capacity in the Transpacific trade than before. Of course, all of this is driven by fundamental supply and demand economics, and the imbalance of headhaul and backhaul trades.

The customers that drive our business – consumer importers - have obviously been living through their own nightmares. And they are looking for every nickel and dime they can find within their supply chains. So what this means for Californians and for all of us in global transportation is that the “new normal” of the future will be very different than it has been in the past. And the case can be made



that for California, the change could have more dramatic implications than anywhere else in the US.

As a result, streamlining operations is paramount to survival. Ocean carriers are looking for any way possible to reduce costs. The current transportation business environment in California is causing international intermodal cargo shippers to divert more and more of their discretionary cargo (cargo not originating or destined to/from California) away from California ports to the East Coast. This trend is reaching a tipping point at which the flow of cargo away

from the ports could be irreversible and permanent. Urgent and bold action at the state level is required to counter this rapidly developing trend or California ports risk becoming local-cargo only ports with limited positive economic impact on local economies. The state government needs to reach out to our customers – the shippers – and to companies like Maersk Line and APM Terminals to engage them in finding solutions to improve the business environment.

We suggest consideration of the following initiatives/advice that in our opinion could have a positive impact on goods movement in the

Golden State:

**An Effort to Change Public Perceptions:**

A state funded advertising campaign to promote the port, its tenants, and its customers. Sell California's ports as the true "Golden" asset that they are. Quite simply, re-script the story of the port. The theme is simple: port = jobs, jobs = taxes and stakeholders are environmentally friendly.

Transportation remains the largest employer in California.

**Port/Marine Terminal:**

Eliminate all incentives to divert cargo.

- The Port of Los Angeles should withdraw their “employee mandate” truck driver provision.
- Should stakeholders determine that the existing PierPass model is not fiscally sustainable; the state should support industry if it elects to discontinue the program.
- Efforts should be made to bring port costs more in line with East Coast levels. Specifically, anything that makes up the overall terminal handling expense should be considered.
- Reduce or eliminate fees in general. Industry does not encounter truck fees, or programs like PierPass anywhere but Southern California. In fact, the Port of Seattle promotes that they are “Fee Free Now” with “no clean truck fees, no infrastructure fees, no rail corridor fees, and no box fees”.

## **Intermodal Rail Service:**

While progress is being made, the cost

structure of shipping intermodal cargo by rail from California ports to locations in the mid-West and mid-South is unsustainable at today's door-to-door contract rates. We must continue to work with the railroads to develop a better total value model in order to keep discretionary cargo flowing from California ports.

**Environment:**

While container shipping remains one of the most energy efficient means of transportation, Maersk Line remains committed to the protection of the environment and the ongoing emission reduction from our operations.

This commitment has been demonstrated in California since 2006 where we have made over 1400 vessel calls using Low Sulfur Fuel. Over 150 of our vessels are now enrolled in this program – effectively reducing local emissions significantly. Specifically, we have reduced our vessel SOx emissions by 95%, particulate matter by 86%, and NOx by at least 12%. Please keep in mind that this program has come at an incremental cost to Maersk Line of over \$ 20 million. At the same time, we continue to research new and innovative emissions reduction technology.

Container shipping remains a Global industry and therefore requires international regulation. The International Maritime Organization (IMO) established itself as a credible regulatory authority for international environmental standards in 2008 with its low-sulfur fuel regime adopted by 167 member countries. The maritime industry is working aggressively within the context of the IMO to address GHG emissions from ocean-going vessels.

We appreciate the fact that California has long been a leader in setting environmental standards and making environmental improvements, but do need help now to deal

with the growing fragmentation of new rules and programs for mobile sources like vessels. Within in the State we have the Air Resources Board, the State Lands Commission, South Coast Air Quality Management District (and the Bay Area equivalent), plus the port authorities and U.S. Coast Guard. We also have to deal with other states, U.S. federal requirements, other countries and the international standards. Who do we listen to? Clear consistent international standards based on environmental factors are the ideal way to focus resources on reductions.

As California continues to consider its



environmental regulation, we encourage involvement of industry – not least to determine appropriate reduction targets but also the best available technology for which these should be achieved. Innovation and investment in new technologies remains our preferred option and we remain committed to the contribution of sustainable solutions.

### **Infrastructure:**

Maersk Line and APM Terminals deem the Gerald Desmond Bridge and 710 freeway as the top 2 infrastructure projects with relation to enhanced goods movement.

The Gerald Desmond Bridge requires additional lanes.

The 710 Freeway requires additional lanes, and it should also include a truck lane.

### **Closing statement**

In closing, Maersk Line and APM Terminals are heavily invested in the California maritime industry. While some initiatives are being taken to help reduce cost and enhance efficiencies, much more needs to occur. We want and need to work with the state and local authorities to reverse the current trend of cargo moving away from the state ports and improve the business climate so that we can all

be successful together. The way forward is a focused partnership to forge solutions through people, process, and technology in a cooperative effort with one another. If this is mutually agreeable, it will be mutually beneficial and progress will be made our most important product, not our biggest problem.

The entire Maersk organization stands ready to assist the state legislature and state agencies by providing leadership and advice as we navigate through the recession together.

I hope these comments have been helpful to the committee. Again, I thank you for including Maersk in this hearing. We look forward to

continuing to discuss maritime transportation  
issues with you.