

**“A Global Terminal Operator’s Perspective on Partnering with the U.S.  
Government on efforts to Secure the Global Supply Chain against Terrorists  
Smuggling a WMD”**

Written Testimony before

a hearing of the

Permanent Subcommittee on Investigations  
Committee on Homeland Security and Governmental Affairs  
United States Senate

on

“Neutralizing the Nuclear and Radiological Threat:  
Securing the Global Supply Chain”

by

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Chairman Coleman, Senator Levin, and distinguished members of the Permanent Subcommittee on Investigations. I am honored to appear before you this morning, to offer an industry perspective on the vital issue of confronting the risk of nuclear smuggling and supply chain security. Mr. Chairman, on behalf of Mr. John Meredith, Group Managing Director of Hutchison Port Holdings I want to thank you for the leadership you have been providing on this critical issue. We were pleased to have been afforded the chance to host you at our flagship facility in Hong Kong in December 2005 and earlier to have hosted Ray Shepherd and Brian White of your staff in August 2005. We have a long ways to go until our maritime industry is secure and I am grateful for the opportunities to offer some recommendations to advance this critical agenda.

As an introduction, I am a US born citizen and a graduate of the US Merchant Marine Academy. I have served as a ships officer on merchant and US Naval vessels including ammunition ships in the Viet Nam conflict. During a nearly 40-year career in the maritime industry I have served in the Middle East and held vice president positions in the Asia and Latin America for the former US carrier Sea Land Service. Additionally I was president and CEO of FedEx Logistics and presently serve as Senior Vice President of Hutchison Port Holdings (HPH).

HPH has been in the maritime business for 139 years originating the first registered company in Hong Kong in 1866, the Whampoa Dock Company. One of its original directors went on to form the bank HSBC. HPH is the global leader in container terminal operations handling 51.8 million containers in 2005. In 2005, American businesses imported roughly 11 million loaded containers in to the United States; approximately 40% of those containers had either been loaded at or transshipped through a HPH facility. HPH operations are spread globally over 42 locations and 20 countries.

To date, HPH operates no ports within the United States. Given that fact, you might wonder, why would our company be interested in partnering with the U.S. government on the maritime security agenda? There are two explanations for this. First, we shared the sense of shock and outrage that all Americans felt on September 11<sup>th</sup> and realized that the world had changed on that fateful day. My CEO John Meredith contacted the U.S. Consul General in Hong Kong the day after the attacks and offered any assistance that our global company could provide to manage and respond to this threat. Second, as the world’s largest marine terminal operator, we know that we may be just a single terrorist incident away from having our system fail on a global scale.

To a large extent, the modern global logistics system is a result of a revolution in transportation that has gone unobserved by most Americans. The fact that up to 5000 containers loaded with a maximum of 32 tons of cargo, routinely transit the Atlantic and Pacific Oceans at the average cost of \$2000, arrive on set schedules 365 days a year, has transformed the way the global economy works. To a large extent the ability of U.S. and other companies to construct global supply chains while maintaining small inventories is a result of the intermodal container that this year celebrates its 50<sup>th</sup> anniversary. As the world's largest marine terminal operator, we essentially support the conveyor belt for a growing volume of global trade that has effectively become a moving warehouse for much of America's manufacturing and retailing sectors.

My career in this industry has spanned much of this revolution that Americans take for granted. I have witnessed first hand the fruits of hundreds of billions of dollars of investment to construct an intermodal transportation system that is efficient, reliable, and low cost for its users. As a Chairman of the Corporate Security Committee for HPH, I also know that the system is vulnerable to being exploited or targeted by terrorists. Further, should such an attack lead the United States to close its ports for even a short period of time, the consequences for my industry and those who rely upon it would be devastating.

The potential for the cargo container to be exploited for an act of terror was borne out two years ago in Israel in a sparsely reported event that took place just three days after the train bombings in Madrid. On March 14, 2004, two Palestinian suicide bombers were intercepted before they reached their intended targets of several fuel and chemical storage tanks in the Port of Ashdod. The Palestinian militants killed themselves along with ten Israelis, and wounding 18 others. They reportedly evaded the security at the port facility's gate by being smuggled from Gaza in a container outfitted with a secret compartment and an arms cache. What was chilling about this incident is that it represented the first major incident where terrorists both exploited a container to get to their target and that their target of choice was a port facility.

To understand why our industry is so vulnerable to disruption, you need only to visit our flagship facility, Hongkong International Terminal, as you have recently done Mr. Chairman. Situated in the Kwai Chung container port area of Hong Kong, our 12 berths plus two more operated as a joint venture with COSCO Pacific Limited handles a combined throughput of 7.452 million TEUs. To support that kind of throughput, the facility operates 24 hours a day, 7 days a week, and 365 days a year. Typically 3-4 gantry cranes are assigned to each ship tying up at our 14 berths with an average of 35 container moves per crane per hour. Each day upwards of 10,000 trucks drive through the gates of our terminals. If we had to stop our operations for 30-minutes, we would create traffic gridlock in the Kwai Chung area. If the delay was for 2 hours, the trucks would back up to Hong Kong's border with mainland China. A 96-hour closure for a typhoon would strand tens of thousands of trucks backing them up for upwards of 100 miles into China.

But our Hong Kong terminal as well as our other 41 terminals around the world can be seriously affected by closures elsewhere in the system. Our industry got a flavor of that in October 2002 when a labor dispute on the West Coast of the United States led to a 10-day closure of the port. According to Robert Parry, president of the Federal Reserve Bank of San Francisco, the estimated cost to the U.S. economy was \$1 billion dollars a day during the first five days of the shutdown, rising to \$2 billion dollars a day thereafter. Major retailers like Target became deeply concerned that their merchandise might not reach their store shelves in time for holiday shopping—their most important time of the year. Well over 100 large container ships were stranded at anchor outside of Los Angeles harbor causing backups and delays in the maritime transportation system around the world. Since that event, the volume of Pacific-bound container traffic has only continued to grow. As a result the consequences of a 10-day shutdown of the West Coast would be even more severe today.

In short, our industry knows that it is just a question of time before terrorists with potentially more destructive weapons will breach the security measures that have been put in place to protect the ports, the ships, and the millions of intermodal containers that link our clients to their customers. We expect that a breach involving a “dirty bomb,” will lead the United States and other states to raise the port security alert system to its highest level while investigators work to sort out what happened and establish whether or not a follow-on attack is likely. Such an incident would pose an unprecedented challenge for our operations so we have a vested interest in both trying to prevent such an incident and to work closely with governmental authorities to restore the smooth operation of the system should our prevention efforts fail. This is why we have been deeply committed to support the variety of U.S. and international initiatives that have been undertaken since 9/11 to bolster port and container security. It is also why we have sought opportunities to take a leadership role in advancing innovative solutions to this very complex and high stake challenge.

Earlier this week you received testimony from Commander Stephen Flynn. HPH has known Commander Flynn since 2000. When still serving in the US Coast Guard he spent time studying container operations in our facility in Hong Kong. Commander Flynn at that time was deeply concerned about the rising threat of terrorism and the danger it posed to our industry. Sadly, we like so much of the rest of the industry, did not pay him much heed. After 9/11 we listened to Commander Flynn with new respect, realizing along with the vast majority of Americans that the world changed forever that day and we could no longer treat security as an afterthought. Prior to 9/11 we were Steve’s teacher on the mechanics and economics of our industry. Now we have become his student, particularly in adopted the layered approach to security he has laid in his book, *America the Vulnerable*. Those layers being:

- ISPS Code
- Inspecting high-risk containers at the ports of embarkation
- Location and Tamper Evidence Monitoring
- Imaging
- Radiation Detection

A layered strategy recognizes that there is both no silver-bullet approach to security and that any one security measure travels the path of diminishing returns. That is, it gets exponentially more expensive for smaller and smaller increments of added security. As Commander Flynn has pointed out, statistically, five 60-percent measures when placed in combination will raise the overall probability of success to 99 percent. In many instances, the cost of five 60 percent measures will be less expensive than trying to bolster any one or even two measures.

HPH has put in place the first layer, the ISPS Code. We have engaged with all of our 269 carrier/customers to assure we are in full compliances with these new global standards that went into effect on 1 July 2004. We have also supported the second layer, providing support to CBP's effort to target and inspect containers that they identify as high risk at our port facilities. This has included putting into place "no load" procedures for high risk containers that CBP has so declared under the Container Security Initiative (CSI) program.

However, from the very beginning we knew that these two initiatives alone would not in our opinion solve the **Trojan Horse** problem. This is because we are both intimately familiar with the vast scope and complexity of the global supply chains and the fact that cargo often moves through some dangerous jurisdictions. As a result, we worry that CBP may be overestimating their ability to accurately assess true risk within our industry. Particularly worrisome is the extent to which CBP's relies for their primary screen, the commercially supplied ocean carrier's bill of lading/manifest data that is filed under the 24-hour rule; that is CBP requires this manifest data be furnished to them 24 hours prior to vessel loading which it examines against its risk-based rules and other intelligence it might have. CBP defines this electronic data review as "screening" 100 percent of all containers for risk. Approximate 1 percent of these containers are given a "No Load" order overseas and they then are inspected by the host government at the request of the CSI team. Presently, we understand that 1% reflects only 20 percent of all the US bound containers that CBP is actually concerned about. The remainder is inspected when they are discharged within a US port bringing the total amount of containers examined to 5 percent. The question that this should raise for this committee is wouldn't it be better to examine all the containers deemed to be at risk before they are loading on a U.S. bound ship? Better yet, since we believe that it is not possible to rule out risk for any of the 52 million containers entering HPH network of container terminals, the U.S. government and the international community should be striving to construct a *Trust but Verify* strategy for the global supply chain. This can be accomplished by working with existing programs, but by adding additional layers of security.

At HPH, we have also been hard at work trying to enhance security throughout the supply chain. Early in 2002 we worked to rapidly deploy a baseline functional capability in location and tamper evidence monitoring leveraging off the shelf/proven DOD radio frequency identification (RFID) technology using the global networks of the top three global port operators (HPH, PSA, P&O) as strategic control points in the global supply chain. In a pilot named Smart and Secure Tradelanes (SST) we collectively

moved/tracked over a thousand boxes. Key participants were Target Stores, Michelin, Hewlett Packard, Xerox and BASF along with APL, Mitsui OSK and Maersk Logistics. To enable this capability, HPH equipped its four largest terminals (Hong Kong, Rotterdam, Felixstowe and Yantian) with RFID readers and software. HPH has participated in four Operation Safe Commerce (OSC) projects. We have participated in CBP's Smart Box trials. We have been in the lead in the deployment of radiation detection equipment with UK Customs in Felixstowe, United Kingdom and deployment under the NNSA program in Rotterdam, Netherlands and Freeport, Bahamas.

At HPH we also believe that it is possible to configure our facilities to support a much a high percentage of verifications. This would come from deploying non-intrusive inspection (NII) equipment to examine containers arriving in overseas terminals loading to the US. That examination would include; a scanned picture of the containers' contents, a radioactivity exam, radio frequency identification (RFID) of the seal and a photo of the exterior of the container noting the container number. Such information would be placed into a computer file enabling it to be transmitted and examined remotely by inspectors. This data collection of verification of the contents of the container does not need to be limited to only US bound containers. The cost of deploying, maintaining, and upgrading the NII equipment would be largely borne by the private sector. The terminal operators would establish a fee to recover their costs that would range from \$10-20 per container—the greater the volume of containers, the lower the surcharge. With overseas container terminals verifying the contents, all containers prior to loading this screening data would be collected for cargo moving to other jurisdictions as well, thereby enhancing the means to detect the movement of nuclear-related materials that are bound for other locations such as Iran.

This proposed high volume container screening system has been in operation for well over a year in Hong Kong sponsored by the Hong Kong Container Terminal Operators Association. It is operating within two of the busiest marine terminals in the world. Beginning in 2005, every truck entering the main gates at Hong Kong International Terminal and Modern Terminal has passed through portal screening technologies creating a database of over 1.5 million images. Key to this pilot has been the industrial engineering aspect. We have sought to deploy the system so that the entering containers are brought into the facilities at normal speed versus being required to come to rest for the scan as is the typical practice. The pilot was designed to test and confirmed that it would be possible to consistently collect NII images at speeds of up to 15 kph, 24 hours a day, without disrupting the normal traffic flow into the marine terminals. These images are the same as those that are routinely collected approximately 1 percent of containers that are targeted by DHS for inspection prior to loading. The pilot is being evaluated by DHS/CBP which has under review a sample of 20,000 container scans and radiation signatures from this pilot. We have also offered to work with CBP on identifying how current examination protocols should be adapted to tap the potential of this screening system. The technology is proven and there are several manufacturers that can provide the equipment. Important improvements in the quality of the inspections, the quantity of inspections, their accuracy, and operational speed can be expected in the next 1-3 years. Because terminal operators will be able to recover their costs by setting a fee in their

terminal tariffs, they are able to purchase off-the shelf equipment now and than upgrade once the next generation equipment becomes available.

The present focus on ports and containers is long overdue. However, we believe that the Congress and the American people need to focus on achievable goals and not become overwrought by their worst fears. There are enormous national security and economic security interests at stake should the next catastrophic terrorist attack on U.S. soil involve the global maritime transportation system and America's waterfront. The best way to address that threat is to rapidly move towards a **Trust but Verify** policy, partnering with foreign overseas terminal operators like my company that are prepared to become an industry **Coalition of the Willing** to rapidly deploy the best technology and develop the best operational practices to support this critical mission. At the end of the day, Americans must understand that the maritime transportation system they are so dependent upon is nearly entirely operated by private companies that are not headquartered in the United States. In fact the four major container terminal operators loading 80% of the containers moving around the globe are headquartered in Hong Kong, Denmark, Dubai and Singapore. DP World is one of those four companies. The others are Hutchison Port Holdings (HPH), A.P.Moller Terminals (APMT) and Port of Singapore Authority (PSA).

Mr. Chairman, I was profoundly moved by the discourse between Governor Kean and Senator Lautenberg on Tuesday as they discussed just when an issue is a priority? You could see them reliving in their minds that terrible day in September 2001. HPH had two British associates in the Twin Towers on 9/11. Ironically, John Meredith had personally sent them to New York to explore what opportunities might exist for HPH to invest in the United States. Mr. Meredith was very worried about their welfare and relieved at their survival. He saw the US airports closed as the U.S. government struggled both to understand what happened and how best to react. As the leader of the global port industry he immediately realized what the effects might have been on the global trade system should the attacks of that day involved a ship or a maritime container instead of an aircraft.

Since 9/11, our company have invested over \$200 million dollars to elevate the security of worldwide facilities. At my CEO's direction we have also been actively pursuing a number of self funded pilots that we believe will support the U.S. government's efforts to secure the global supply chain. While HPH does not operate ports inside the United States, John Meredith has come to Washington D.C. every year since 9/11 to offer his support and advice and even to voluntarily commit to make our company's resources to address the issue. What is his motive for doing so even in the face of the occasional spurious attack in recent days by some in the U.S. media: John Meredith is exercising private sector leadership on something that he believes to be one of our times most urgent issues and one that deserves to be **a global priority**.

Mr. Chairman, thank you again for your leadership on this critical issue and the opportunity to address your committee and I look forward to answering any of your questions.