**STATEMENT OF**
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**BEFORE THE**
**COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**
**SUBCOMMITTEE ON COAST GUARD AND**
**MARITIME TRANSPORTATION**
**UNITED STATES HOUSE OF REPRESENTATIVES**

**March 17, 2010**

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to present my views and answer your questions on behalf of the Federal Maritime Commission (FMC or Commission) regarding the difficulties exporters and importers are experiencing due to the lack of available vessel capacity.

The Commission is keenly aware of complaints by U.S. exporters and, more recently, importers about the difficulty obtaining space to ship their products. Over the past few months, Commission staff, the Commissioners, and I have held a number of meetings with various carriers, shippers, representatives of the Transpacific Stabilization Agreement (TSA, the largest ocean carrier rate discussion agreement), and of the Westbound Transpacific Stabilization Agreement (WTSA). Other organizations have also met with us to describe their difficulties. Those organizations include the National Industrial Transportation League, National Retail Federation, the Agriculture Transportation Coalition, and the Pacific Coast Council of Customs Brokers & Freight Forwarders Associations (PCC).

The reports from shippers have been remarkably similar. Many say they have been forced to amend their service contracts and commit to higher rates in order for carriers to transport their cargo. Many have had shipments delayed or "rolled" to future sailings. Exporters, particularly agricultural exporters, have had difficulty obtaining containers. Carriers, on the other hand, point to losses incurred over the past two years due to economic conditions, claiming they collectively lost $15-$20 billion in 2009.

Over the last few turbulent months, as we have emerged from economic conditions the likes of which have not been seen for over seventy years, the shipping industry has been experiencing its own turmoil. Much of this has been noted in the trade press, and most recently in a Wall Street Journal article published on March 12, 2010, under the headline "Export Revival Threatened by Shipping Bottlenecks."

It appears that the core of the problem is that carriers removed vessels from service after a dramatic drop in demand in the depths of the recession from late 2008 through much of 2009. Recently, demand for container transportation has increased as the American economy has begun to recover. But reports indicate that vessels have not been redeployed as fast as the demand for space has increased.

Ocean carriers advise us that they anticipate moderate capacity increases – bringing in new vessels and expanding service – as it becomes clear that the growing demand will be sustainable and that rates return to levels that allow them to be profitable again. According to Drewry Forecasts, ocean carriers have already announced capacity increases for this April of 2%, or nearly 6,000 twenty-foot equivalent units (TEU) per week, for the Transpacific trade, where we are hearing the most reports of constraints. This includes the launch of a new shipping company in the Transpacific trade, The Containership Company, with weekly service between Los Angeles and China, as well as the re-entry of Pacific International Lines. Nevertheless, the projected April capacity is still more than 6% below where capacity stood in April 2009.

The ocean carriers' cautious reaction might be explained by the tremendous impact the recession had on their finances, as well as by economists' uncertainty over how much of the recent uptick resulted from restocking of low inventories as opposed to a sustained increase in demand. On the other hand, available shipping space is a key ingredient to the financial recovery of American exporters and importers.

The Commission understands the impact of the tremendous economic swings over the past two years – affecting both the ocean carriers and their exporter and importer customers. We know from experience that trades are almost never in perfect balance as to imports and exports. From the outset of containerization fifty years ago, there have been fluctuations between undercapacity and overcapacity.

We also are mindful that the increased demand for cargo space represents a good sign for the economy overall. In this regard, cargo shipments in the January-February time frame were significantly higher in 2010 than in 2009. For example, we saw an increase of 32% in U.S. ocean-borne liner exports from our major Ports of Los Angeles and Long Beach in January and February of 2010 as compared to 2009. Liner imports increased 13% at those ports in the same period.

Nevertheless, we are seriously concerned with the current situation, particularly with reports of U.S. exporters unable to obtain space. As you know, an expressed policy of the Shipping Act is "to promote the growth and development of United States exports through competitive and efficient ocean transportation and by placing a greater reliance on the marketplace." And last week President Obama directed agencies "to use every available federal resource" to increase U.S. exports over the next five years.

The Commission is doing its part to advance Congress's and the President's policies in this critical area. We have been pursuing a number of avenues, consistent with the limits of our authority, in an attempt to help alleviate the reported problems with export and import capacity.

For example, Commission staff has recently met with the Department of Agriculture staff and the WTSA in an effort to develop an information system that would enable agricultural shippers to identify the locations of available empty shipping containers. Insufficient container availability has been a recurring problem affecting our agricultural exporters. Addressing the current problems with container availability and the location of equipment for exporters will require coordination among several modes of transportation and the agencies that regulate them. This issue is one of the focuses of a forthcoming study by the Department of Transportation and Department of Agriculture that Congress called for in the 2008 Farm Bill. The Commission is committed to working with those agencies to address the intermodal transportation issues behind these equipment shortages.

My fellow Commissioners and I have personally met and expressed our concerns with Mr. Young Min Kim, the CEO of Hanjin Shipping and new Chairman of the TSA, as well as executives of other carrier members. As a result, I have communicated to Mr. Kim a number of grievances we have heard from shippers. Today, the TSA is meeting in Taipei and Mr. Kim has assured me that those issues will be discussed.

As a result of a meeting with representatives of the PCC this past Monday, I will also be submitting a list of U.S. exporter concerns to the WTSA, and asking for a response. In addition, I have discussed these concerns with the World Shipping Council, an association of major liner ocean carriers. In each of these discussions, I have consistently stressed to ocean carriers and their shipper customers that they must act as "partners in recovery," as each is dependent on the other for economic recovery. The Commission will continue to serve as an honest broker between these partners.

Moreover, I am pleased to announce that on March 11, 2010, the Commission unanimously voted to initiate a Non-Adjudicatory Fact-Finding Investigation into the space and equipment shortages. The Fact-Finding Investigation will be headed by Commissioner Rebecca F. Dye. She will conduct a full and fair analysis of the circumstances, explore ways in which the Commission can help resolve the current situation, in light of our current limited authority, and report results to the Commission along with any recommendations of a policy or regulatory nature, as well as suggestions for any possible legislation that may be needed. We will be sure to keep this Subcommittee apprised of how the investigation is proceeding, and will be happy to share our report and recommendations when the investigation is complete.

Finally, the Commission has consistently reminded all parties that issues between individual shippers and carriers can be resolved with the assistance of the Commission's Office of Consumer Affairs & Dispute Resolution Services, which specializes in resolving disputes through mediation and other alternative dispute resolution services. We encourage carriers and shippers alike to use those services.

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to address you today. I look forward to the Subcommittee's continued interest in this issue and I would be pleased to answer any questions you might have at this time or at any time in the future.