

February 4, 2016

The Honorable Penny Pritzker  
U.S. Department of Commerce  
Washington, D.C. 20230

Dear Secretary Pritzker,

As Chairman of the Advisory Committee on Supply Chain Competitiveness (ACSCC), and on behalf of the members of the ACSCC, we are pleased to offer you our recommendations for addressing and resolving congestion in United States seaports and their connecting inland infrastructure. We have attached our Committee's report on this urgent national topic.

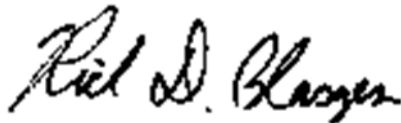
Federal leadership is needed to advance a set of best port congestion reduction practices that the private and public owners and stakeholders of each port can individually adopt as appropriate. Our report contains a number of congestion reduction practices for this purpose. By advancing these practices, the Nation can achieve a comprehensive, holistic reduction in port congestion that improves national competitiveness and economic growth.

We recognize that as our report states, the Federal Government's ability to directly resolve this issue is limited, as virtually all of the operational, infrastructure, and communications elements at each port and inland link are owned by the private sector or by state, local, or municipal government entities. However, where Federal Government involvement can directly resolve port congestion issues, or reduce their impacts, Federal action should be swift and decisive.

Committee members noted, during the discussion of this Report, that these measures can be used by the ACSCC to help the U.S. Department of Transportation to develop the set of port performance metrics required by the Fixing America's Surface Transportation Act. The Committee also encourages the U.S. Congress to consider additional investment in last-mile infrastructure, new technologies and intelligent systems, and on-dock and near-dock facilities towards reducing U.S. port congestion.

Thank you for your continuing support and commitment.

Respectfully submitted,



Mr. Rick D. Blasgen  
President and CEO, Council of Supply Chain Management Professionals  
Chair, Advisory Committee on Supply Chain Competitiveness



Mr. Rick Gabrielson  
Vice President, Transportation, Lowe's Companies, Inc.  
Subcommittee Chair, Freight Policy and Movement

## **ADVISORY COMMITTEE ON SUPPLY CHAIN COMPETITIVENESS**

### **RECOMMENDATIONS TO THE SECRETARY OF COMMERCE REGARDING U.S. SEAPORT AND CONNECTING INFRASTRUCTURE CONGESTION**

**January 21, 2016**

#### **INTRODUCTION**

The efficiency and productivity of United States seaports and their connecting infrastructure is crucial to our nation's ability to successfully compete in the global marketplace and to promote our domestic economy. Approximately seventy-five percent of America's merchandise imports and exports by volume flow through our seaports, linking our producers and retailers with their sources and customers and our supply chains with the global economy.

Our ports' capability to handle this trade flow is vital to our industries' ability to remain competitive in global markets, and to take advantage of the expanded market opportunities made possible through the Administration's new free trade agreements with Asia, Europe, and elsewhere. Any unnecessary delay or cost imposed on our supply chains can lead to lost sales and lost market shares, both globally and domestically, with consequent impacts on America's job base and trade and economic growth.

Congestion at America's seaports and inland infrastructure is an increasingly severe threat to the reliability and efficiency of U.S. industries and supply chains. Over the past decade, it has become evident that the operational systems and infrastructure at our seaports and inland links are not being improved comprehensively and rapidly enough to handle the growth of U.S. trade and quickly-changing maritime industry and shipping trends. Many analysts believe that America's supply chains are losing their competitive advantage in global markets, as congestion and our inability to keep pace with other nations' improvements reduce our supply chains' ability to meet global shipping reliability and cost demands. As a result, congestion at our ports and other points in our intermodal system has become a serious risk factor for both America's supply chains and our Nation's economic and trade growth.<sup>1</sup>

The nationwide effects of port congestion on U.S. supply chains were dramatically illustrated during the 2014-2015 West Coast seaport labor contract negotiations, when a confluence of port congestion factors, exacerbated by the negotiations, caused near-gridlock conditions at ports and infrastructure points throughout the U.S. These conditions led to substantial shipping delays and additional costs nationwide for retailers, manufacturers, and agricultural producers; overseas market share losses in several time-sensitive U.S. export sectors; and a reduction in U.S. gross domestic product growth.

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<sup>1</sup> *U.S. Container Port Congestion & Related International Supply Chain Issues*, July 2015, Federal Maritime Commission, page 2

by the private sector or by state, local, or municipal government entities. However, Federal leadership is needed to advance a comprehensive set of best port congestion reduction practices that the private and public owners and stakeholders of each port can adopt as appropriate, so that the Nation can achieve a comprehensive, holistic reduction in port congestion that improves national competitiveness and economic growth. When Federal Government involvement can directly reduce or resolve port congestion issues, Federal action should be swift and decisive.

The Department of Commerce's Advisory Committee on Supply Chain Competitiveness has developed a set of best practices in reducing port congestion for recommendation to the Secretary, for the Secretary to share at her discretion within and outside the Federal Government. These industry recommendations, which represent the consensus view of the Committee, are based on the members' collective experience and expertise in addressing these issues, and their knowledge of congestion solutions that are being implemented by various seaports and their stakeholders in the U.S. and elsewhere.

This document represents the views of Committee members on practices that could improve processes for moving goods through our ports into our domestic transport system. However, this document should not be construed as a call for Federal mandates, whether by regulation or legislation. These recommendations are offered instead for consideration, as appropriate, by a variety of parties in both the private and public sector, with a focus on offering possible remedies in locations where chronic congestion problems have been shown to exist.

## RECOMMENDATIONS

### Summary

As seen in 2014-2015, congestion at U.S. seaports is caused by a confluence of operational and infrastructure factors. At times of high cargo volume or system stress, these combined factors can substantially delay the end-to-end flow of cargo in and through the U.S. and can impose substantially higher costs on U.S. supply chains and their customers. Unless these factors are addressed, U.S. supply chains may face these conditions on a more frequent basis given the continuing growth of vessel sizes and U.S. and global trade. In developing its recommendations, the Committee members considered the following factors and their impacts:

- Carriers' increasing use of megaships on U.S. port calls.
- Inefficient infrastructure at various seaports (including cargo handling equipment and technology, dredging needs, terminal size and redundancy, and physical layout of the terminals).
- Inadequate intermodal connectors at various gateways.
- Communication gaps and inefficient coordination among shippers, terminals, ocean carriers, and land transport companies in the scheduling and movement of containers in and out of the ports.
- Limited container chassis availability for trucks at various ports, especially on the U.S. West Coast.
- Increased risk of disruption during labor-management contract negotiations.
- Landside infrastructure incapability to handle changing industry and market trends (including megaships, volume surges, trade growth, and shipping flow changes).

The impacts of these factors are:

- ***Carriers' increasing use of megaships on U.S. port calls:*** Massive surges of cargo offloaded at once at a single port terminal, with several carriers' containers often carried on a shared vessel, leading to overloaded terminals, multiple container movements at and among the terminals, and extensive loading and unloading delays.
- ***Inefficient infrastructure at various seaports:*** Slow cargo movement at the terminals, insufficient terminal space, reduced equipment and terminal productivity, and limits on port and terminal handling capability, particularly during vessel and seasonal cargo surges, reducing the velocity of container and cargo movement at the port.
- ***Inadequate intermodal connectors at various gateways:*** Slow movement of cargo into and out of the port due to poor and congested road/rail links between the port and inland transportation system. These increase congestion at the port and may result in delay charges to shippers.
- ***Communication gaps and inefficient coordination among shippers, terminals, ocean carriers, and land transport companies:*** Limits the ability of each stakeholder to manage capacity and equipment demand, and to plan and sequence traffic flow, port and

terminal operations, and container movements, reducing cargo movement flow and operational efficiency.

- **Limited container chassis availability for trucks at various ports:** Equipment shortage blocks containers from leaving the port, overwhelming terminal space and leading to delay charges.
- **Increased risk of disruption during labor-management contract negotiations:** Disrupts normal cargo movement patterns and leads to diversions to other seaports, often increasing congestion at both the original and diversion seaports.
- **Landside infrastructure incapability to handle changing industry and market trends:** Local inland roads and highway infrastructure becomes insufficient to handle peaks and surges in cargo flow volume and long-term trade growth, causing backups and cargo movement delays throughout the system.

Committee members also considered a number of practices that address these impacts. Many of these practices are already being implemented by various ports and their stakeholders. These practices include:

- Improving coordination and communication among shippers, terminals, and carriers, in order to improve terminal / cargo handling efficiency and address megaship impacts on port operations.
- Improving coordination and communication between ports and among ports and shippers to find ways to reduce congestion (for example, through cooperative working agreements).
- Implementing measures to improve container chassis availability (for example, common or “gray” chassis pools).
- Improving operational practices at ports to facilitate cargo flow.
- Expanding the use of technology, information, and data to improve port operations and cargo movement fluidity.
- Improving regulatory coordination and cooperation among state and municipal agencies and ports to facilitate permitting for port congestion relief-related infrastructure projects.
- Better incorporating changing industry and market trends in state and local transportation agencies’ and municipal planning organizations’ planning processes for port links and inland infrastructure projects.
- Developing ways to strategically prioritize and invest in the most important U.S. gateways for domestic and international commerce.
- Merging port terminals in order to expand storage space and improve container handling and cargo flow.
- Incentivizing, and reducing barriers to, public and private investment in port operations and technologies that improve the efficient flow of cargo and promote freight fluidity.
- Improving the funding process to attract more national and international private sector investment in port and connecting infrastructure that reduces congestion.
- Speeding up dredging and securing more private/public partnership funding for it.

- Attracting, retaining, and training more truck drivers.
- Training more people at the ports on how to use technology to reduce congestion.
- Identifying policies that need to be included in national freight policy and North American freight initiatives to reduce port congestion.
- Improving industry-government coordination and cooperation to better prioritize projects that reduce port congestion.

The Committee's recommendations are based on these factors, and on practices that address their impacts. The recommendations are organized in two categories – operational and infrastructure – largely reflecting the private sector and the public sector's respective activities in implementing the best practices recommended in this report.

## **Recommendations: Operational Improvement**

### **Inbound and Outbound Container Flows**

#### *Improving Stakeholder Communication and Data Sharing to Optimize Capacity and Container Flow*

- Ocean carriers, through their associations or a third-party data service, should assemble cargo volumes from beneficial cargo owners and provide this data to gray chassis pool operators on a scheduled basis, to allow the pool operators to plan capacity and usage especially at peak shipping periods.

### **Container Terminal Operations and Dwell Time**

#### *Improving Port and Terminal Operations and Container Management*

- Terminal operators and operating port authorities should consider adopting best operating practices, including free-flow (customer-specific) container stacks, that allow for a faster, more efficient flow of cargo in and out of their facilities.
- Port authorities, working together with ocean carriers, terminal operators, and shippers, should look at ways to reduce the level of time granted to shippers to store containers at the terminal. However, shippers should not be unduly penalized during periods of high port congestion and/or insufficient container chassis supply.

#### *Improving Stakeholder Coordination and Cooperation to Optimize Port and Terminal Efficiency, Alleviate Megavessel Impacts, and Reduce Congestion*

- The Federal Government, including the Federal Maritime Commission, should give port authorities, terminal operators, trucking associations and shippers the authority to create port-level working groups to discuss how to improve operational productivity and efficiencies.

### **Container Chassis Management**

#### *Improving Container Chassis Availability and Container Flow Velocity*

- The Federal Government, including the Federal Maritime Commission, should facilitate the establishment of agreements among interested seaports, terminal operators, equipment providers, and other stakeholders to create and operate common (“gray”) chassis pools, at those seaports where such agreements are not already in place.
- Motor carriers that provide port service should be encouraged to acquire and use their own chassis, with initiatives and assistance from industry partners to help financially constrained truckers to purchase or lease such equipment.

### *Improving Labor-Management Coordination to Improve Container Chassis Availability*

- The Federal Government, including the Secretary of Commerce, should reach out to the port labor-management groups on each coast to resolve any jurisdictional questions regarding gray pool chassis inspection and maintenance.

### **Container Pickup and Delivery Scheduling**

#### *Facilitating Port and Terminal Operations and Efficiency to Reduce Congestion*

- Port complexes and terminal operators should implement integrated scheduling programs and appointment systems at major terminals, in order to improve information and data sharing, forecasting, and cargo flow.
- To speed container movement, port authorities and terminal operators should consider implementing an on-demand trucking system through which truckers would pull containers off a stack on a first-available basis for delivery rather than waiting for a designated container. This recommendation does not preclude the need for shippers to pull individual containers based on priority.

### **Motor Carrier Capacity**

#### *Facilitating Equipment Availability and Cargo Movement*

- Driver compensation needs to be made commensurate with driver effort and turn times need to be improved, to prevent drivers from leaving the industry and to attract more drivers, and better efforts must be made by the trucking industry and supported by others to recruit more qualified drivers and reduce entry-level barriers to the trucking industry.

### **Capacity Planning**

#### *Improving Operating Efficiency and Alleviating Megavessel Impacts*

- One or more third-party data services should be established to serve as central repositories for information on freight flow and market trends. These services would aggregate and anonymize data from shippers and ocean carriers on freight flows and market trends for use by both the private and public sectors in short and long-range planning and transportation supply chain performance measurement (freight fluidity), while respecting private sector confidentiality and competitiveness concerns.



## **Recommendations: Infrastructure Improvement**

### **Federal Government**

#### *Incorporating Industry and Market Trends Into Transportation Agency Planning, to Improve Capacity and Reduce Congestion*

- The Department of Transportation should encourage state governments to ensure that their state and local freight plans can accommodate changes in shipping trends and surges in truck and rail traffic from the increased size of vessels and the increased cargo flow from vessel-sharing agreements.

#### *Improving Infrastructure Policies to Facilitate Congestion Relief and Cargo Velocity*

- Federal Government prioritization of Federally-funded discretionary freight projects should be headed by a central, multimodal office in the U.S. Department of Transportation and based on the greatest payback or benefit to the supply chain.
- The Department of Transportation needs to establish an office of multimodal freight within the Office of the Secretary.
- Federal Government prioritization of Federally-funded discretionary freight projects should be done in partnership with state and local agencies, with freight movement data and other supply chain trend input provided by third-party data services that can provide aggregated information on market trends/volumes to assist in the prioritization process.
- The Department of Transportation should identify and prioritize goods movement projects of the greatest national significance, with Congressional review. These projects should be considered in the award of competitive grants and the development of national, state, and local freight plans.

#### *Facilitating Project and Dredging Permitting to Alleviate Port Congestion*

- In support of Executive Order 13604 of March 22, 2012 (Improving Performance of Federal Permitting and Review of Infrastructure Projects), all reviews by Federal agencies including the Army Corps of Engineers of pending port infrastructure projects should be completed within 12 months of submission. For new port infrastructure projects, all reviews by Federal agencies should take no more than three years to complete, from date of submission to date of completion.

#### *Facilitating Infrastructure Investment to Alleviate Port and Inland Congestion*

- Federal freight-generated revenue programs (e.g. the Harbor Maintenance Tax and Merchandise Processing Fee) should have “lock boxes” around them to prevent diversion of these revenues to non-freight or non-goods-movement uses.

- User fees should be employed to generate additional funds for Federally-funded goods movement infrastructure, with all users of the system contributing.

*Improving Public-Private Investment in Cargo Movement Infrastructure*

- The expanded use of public-private, partnership-friendly municipal bonds should be considered for freight infrastructure projects.
- Infrastructure investment and policy planning must reflect the importance of both exports and imports in order to reduce port congestion.

**State, Local, and Municipal Government**

*Improving Coordination and Cooperation to Improve Infrastructure Efficiency and Cargo Movement*

- Port authorities should work in conjunction with terminal operators and municipal planning organizations, and incorporate the viewpoints of stakeholders, to find ways to improve port-related cargo flow and to more fully utilize existing assets for system and infrastructure efficiency and resilience.

**Port Authorities**

*Improving Port and Terminal Infrastructure to Reduce Congestion and Megavessel Impacts*

- Port authorities and terminal operators should re-evaluate their physical layout, design and governance structures, including but not limited to consolidation, restructuring, and improving infrastructure access, in order to more efficiently handle megavessels, carrier alliance impacts, and current and future market needs.
- Port authorities and terminal operators should work with Federal, state, and local authorities to achieve changes in trust agreements, as needed, to permit consolidation into fewer but larger terminals.
- Efforts to reduce port congestion should help to support and facilitate the flow of containers to alleviate delays of exports from inland locations.

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