

PORTSMOUTH MARITIME SUMMIT

February 20, 2009



Summary

Leaders of local maritime, federal, military and academic organizations met with City officials in the fourth annual maritime summit to discuss the future of the port and related economic opportunities for Portsmouth. Presentations and discussions focused on the organizations' plans and the opportunities and challenges they created for the City. Specifically, the participants discussed the opportunities to attract new business to Portsmouth and the challenges posed by the economic climate in the short run and the large expansion plans in the long run.

Earlier summits concentrated on the planned expansion of the terminals and the need for the City to plan for related issues concerning traffic flows, workforce development, and environmental impacts. Although the participants still saw those issues as future challenges, they were much more focused this year on the current economic challenges posed by slowing international trade and on the need to keep the Port of Virginia and Portsmouth competitive with New York and Savannah. They felt that the Port of Virginia still had impressive advantages that could be sustained with the completion of the Heartland Corridor and other actions, but those could not be taken for granted. Participants noted that other ports, Charleston for example, have faced significant challenges because of local restrictions.

Another major theme was that Portsmouth has been successful in attracting two major national and international headquarters over the past year. APM moved its headquarters for North and South America to Portsmouth at the new terminal site. The Coast Guard has reorganized its Atlantic and Pacific operations under a single Operations Command that will be located in the existing Atlantic Command facility in Portsmouth. Both of these headquarters may develop need for more space and more support over time, particularly capabilities related to the operation of command centers. The fact that these two major organizations selected Portsmouth as a base presents an important marketing opportunity for the City in attracting other headquarters operations.

The flow of vendors and visitors to those headquarters and other major facilities creates an opportunity for the Portsmouth Economic Development Office to market opportunities for relocation and expansion. The same may be true for international students in the area and their families who visit.

The reduced levels of international trade and port activity will influence the schedule for the development of terminals on Craney Island. The planned timeline has now been delayed by a year. Most of the environmental issues concerning the plans have been settled through a compromise limiting expansion to the development along the eastern side of the island. Some participants felt it was now time for the Craney Island Study Commission to shift its mission to exploring how Portsmouth can take advantage of the planned development.

One important theme in the discussion was the potential for attracting to Portsmouth various businesses related to the Port's extended supply chain. Two professors from the Mason School of Business at William and Mary, Hector Guerrero and Jim Bradley, outlined the structure of the Port's supply chain. Participants noted that there will be growing demand for technical support of operations and maintenance on the terminal sites, and that companies like Kalmar Industries, AB, in New Jersey, would be likely candidates for future operations in Portsmouth.

A related theme was the need for more local IT and programming support. APM is introducing a new simulator in its facility. Supporting software exists, but there is little competition to the Navis software and it is very expensive to modify it. Attracting or expanding local companies that could provide alternatives would be welcome. The IT theme also links to the expansion of headquarters operations in the area and potential connections to the Virginia Modeling Analysis and Simulation Center (VMASC). Old Dominion University and William & Mary can be useful connections in identifying IT companies in Hampton Roads.

Portsmouth clearly benefits from the stability provided by local military organizations. One clear message from the Corps of Engineers was the importance of pressing for support of critical dredging operations in the southern branch of the Elizabeth River, the South Atlantic Channel and the 55-foot project. COL Andy Bachus will take command of the District in March, and City officials will reach out to him to maintain close coordination with the Corps. As noted above, Coast Guard presence will be expanded with the creation of the new Operations Command, covering both the Atlantic and Pacific, in Portsmouth. The Norfolk Naval Shipyard continues its central role in maintenance of the entire fleet in the area and coordinating Navy contracting. Operations are expanding to include new tenant organizations. One clear message is that these organizations should not be taken for granted, and that a regional approach is needed to prevent future BRAC adjustments.

Participants noted that the new federal stimulus package may provide important opportunities for the region and the City. In particular potential funding for the VPA terminal expansion on Craney Island could be strengthened by making sure it is mentioned in the 2009 Omnibus Appropriation bill, and participants urged each other to contact Congressmen Nye and Scott in particular, as well as Senator's Webb and Warner, to support that effort.

Discussion Overview

The fourth annual Maritime Summit was held at the Towne Bank Financial Center. Participants (see list at enclosure 1) included leaders of major organizations in Portsmouth, two City Council members, City staff and representatives of regional higher education organizations. Roughly thirty individuals participated during the course of the day.

Steven Lynch, Director of Economic Development, organized and chaired the event. James R. Golden, Ph.D., Brigadier General, U.S. Army (ret), and Vice President for Strategic Planning and Director of Economic Development at the College of William and Mary, facilitated the discussions.

In his introductory comments, Jim Golden reiterated the goals for the summit: to get a sense of the plans of the major organizations in the City, and to identify opportunities and challenges suggested by those plans. He reiterated that the World Class Maritime Center project is an effort to leverage Portsmouth's strengths as a growing port to expand economic development throughout the City. Although many of the organizations represented at the summit had operations throughout the region, he asked that each presenter close by drawing the focus back to Portsmouth. He encouraged presenters to include comments about the following questions: How will your plans affect the economic development of the City? What opportunities will your expansion plans create for other related activities the City might capture? What challenges will your expansion create for the City and what actions should be taken now?

Presenters then gave a short overview of each organization's plans. Participants followed up with questions. The summit closed with a general discussion to draw out specific recommendations and next steps.

The background book for the conference included biographic information about the presenters and copies of their presentations. The presentations are being posted on the City's Economic Development website. Some of the highlights are summarized below.

Virginia Port Authority (J.J. "Jeff" Keever)

- A recent study of economic impacts showed that total revenue/sales attributed to the Port's operations, including direct, indirect and induced expenditures, came to \$41 billion per year supporting 343,000 full time positions.
- VPA has realigned its organization under Jerry Bridges, the Executive Director. Jeff is now Senior Deputy Executive Director, External Affairs.
- Portsmouth should explore opportunities to attract or expand businesses dealing with technical support and mechanical repair for terminal activities, and with logistics software and think-tank operations.
- The Commonwealth Railway Mainline should be completed in 2010. In the future there will be a need for road and rail to Craney Island.
- The Heartland Corridor project will cut 233 miles from the rail route between the Port of Virginia and Chicago.

- Timing of the completion of terminal construction on Craney Island will depend on the economy.
- Barging operations to Richmond began in December 2008 with weekly sailings.

U.S. Army Corp of Engineers (COL Dionysios “Dan” Anninos)

- Visionary objectives for the U.S. Army Corps of Engineers for Hampton Roads are: maintain Norfolk Harbor channel and Craney Island; Craney Island eastern expansion; southern branch 45’ and 40’ project; South Atlantic channel; and construct the 55’ project
- \$15 million per year is allocated by the U.S. Army Corps of Engineers for dredging in Hampton Roads. It would be more efficient if the funds were allotted for system support rather than for a series of individual projects.
- Craney Island is only available for dredging materials from maritime navigational dredging, which includes most shoreline operations but not dredging for a future tunnel.
- The new District Commander, COL Andy Bachus, will arrive in March.

APM Terminals (Edward McCarthy)

- The international economic crisis is having a significant impact on shipping and terminal operations. APM has closed terminals in Baltimore, New Orleans and the Everglades, and is ending operations in Charleston.
- Expect significant consolidations in companies over the next 2-3 years.
- Portsmouth growth is flat and terminal throughput is down 20% from last year.
- APM has restructured so the terminals are a separate division, no longer under shipping. That means they now compete for APM shipping business.
- Despite the near-term challenges the Port of Virginia can still change the East Coast paradigm because of the deep water and market access. There is a real need for short-sea shipping, which will require adjustments to the Jones Act. The Heartland Corridor project is crucial to effective competition with New York and Savannah.
- APM has moved its North and South American headquarters to Portsmouth.
- The terminals efficiency is at 30 containers per hour, which is very good.
- There are good distribution centers in the area but roads are still a challenge.
- Rail cargo started in November 2007...18% of cargo now leaves APM Terminals by rail. Eventually that could go to 40%. Barging accounts for 12% now, but that could go to 25-30 % with changes in short-sea shipping constraints.
- It would be good to promote competition in the development of software to manage terminal operations. They have also had a challenge in finding IT personnel in the area.

U.S. Coast Guard (Rear Admiral Kevin Cook)

- A video described the Coast Guard reorganization that is now underway. There will be a new Operations Command with responsibilities for both the Atlantic and Pacific.
- The new Center will be located in Portsmouth. There will be no immediate change in the size of the organization in Portsmouth, but that could happen over time.

- The new operations center could increase demand for support for command center operations, modeling, and supporting electronics.

Norfolk Naval Shipyard (Jim Strickland)

- Jim reviewed the impressive list of “firsts” associated with the shipyard.
- The shipyard is responsible for maintenance of the entire fleet in our area and for Navy maintenance contracting.
- The shipyard covers 585 acres, employs roughly 7,800 civilians, and does an annual volume of business of \$1.3 billion. They have not done a broader economic impact study, but will look at the study VPA recently completed.
- They are now accepting some tenant commands unrelated to the shipyard.
- They are implementing a 2035 vision that defines the development of districts and processes with the shipyard.
- The skilled trades workforce shortage is still an issue despite the general economic slowdown. Within 5 years 45% of employees will be eligible to retire. The key to backfilling is a successful apprenticeship program
- U.S. cities that have closed naval shipyards have struggled to successfully reuse the real estate. We need a regional approach to avoid any BRAC reductions that could ultimately affect other installations.

Old Dominion University (Dr. Wayne K. Talley)

- The ODU Maritime Institute was developed in 1994.
- The Institute provides a Maritime, Ports and Logistics Management concentration for MBA and MPA students, the only such concentration in the U.S.
- Graduate student enrollment has increase by 60%.
- There is an undergraduate major in Maritime and Supply Chain Management. ODU is the second U.S university with such a major. The major, which includes five core courses,
- The Propeller Club of the United States: Port of Old Dominion University has 55 student members and is one of the most active student propeller clubs in the U.S.

William & Mary (Dr. Hector Guerrero and Dr. James Bradley)

- Hector and Jim summarized a 65-page white paper they had completed for the City and discussed strategies to maximize port utilization while minimizing traffic congestion.
- Their study included interviews with 40-50 organizations in the area involved in supply chain management.
- Hector explained a typical supply chain from the ocean, through the port to landside distribution.
- Jim summarized the results of an analysis of the 20-mile-long Alameda Corridor rail link in California, and drew parallels to the 15.5-mile-long Commonwealth Railway in Portsmouth. The Alameda line connects Long Beach to the Union Pacific long haul site in L.A. He noted several pitfalls, including fee structures, bottleneck delays and network effects. As a result of those, the Alameda Corridor is only

carrying 37% of the Long Beach containers, versus the projected 50%. In addition, it is likely that the high total of all West Coast fee structures drove traffic to the East Coast.

- Jim discussed the importance of intermodal centers and the potential value of the proposed Centerpoint site in Suffolk. It is unlikely that it will be economically feasible to have any rail distribution to a site in that area.
- A major conclusion of the discussion was that the Port of Virginia needs to consider all the dimensions of the supply chain to be competitive as a Port system.

Major Points and Action Items for Consideration

During the wrap-up session, Jim Golden reviewed some of the findings from the last summit. He summarized many of the action items suggested by the presentations and discussion throughout this summit. Some participants added points then or subsequently in writing. A compilation of those proposed actions follows.

Attracting Businesses Related to Port Expansion

- Develop marketing maps showing particular sites that would be appropriate for various port related businesses. Highlight developable space and waterfront opportunities.
- Develop systems for tracking Portsmouth contacts who can provide links to specific target companies. Follow up on Virginia Port Authority offers to provide contacts.
- Market Portsmouth as a City that is home to international headquarters (e.g., APM North and South American Headquarters and the United States Coast Guard Operations Command).
- Identify vendors and other corporate visitors to maritime related sites and develop ways to market Portsmouth to them.
- Leverage international students for maritime related contacts.
- Identify key suppliers and vendors to establish and operation in Portsmouth using lists developed by organizations participating in the summit. In particular, the City of Portsmouth Economic Development Office should meet with Virginia Port Authority and APM to identify software, technical, mechanical, maintenance, and logistics companies to target for relocation to Portsmouth.

Economic Impact and Communication

- Systematically review economic impact statements concerning port activities (Virginia Port Authority, APM, and Virginia Maritime Association) and extract information concerning potential economic impacts in Portsmouth. Broad communicate that information.

- Use the economic impact statements to help identify business sectors that will have the greatest growth opportunities. Use that information in targeting strategies and as marketing material to let potential businesses know about future opportunities.
- Use existing economic impact statements to better communicate the importance of port industries (specifically the Portsmouth Naval Yard).

Dredging

- Monitor the development of new dumping restrictions for Craney Island and consider the implications of higher dumping costs on future economic development along the waterfront.
- Systematically let the public know the importance of major projects.
- Identify ways to capture stimulus funding for dredging projects.
- Engage congressional leadership to ensure the Army Corps of Engineers receives adequate funding to achieve the vision for dredging Hampton Roads maritime channels. Ask for appropriations in the upcoming budget for Craney Island.
- The following have been identified as the necessities for Hampton Roads to be the #1 port: Craney Island eastern expansion; Southern Branch 45' & 40' project; South Atlantic Channel; and construct the 55' project.
- One participant urged caution against too much reclamation that encroaches on waterways.

Intermodal Park

- Review the types of distribution and logistics operations Portsmouth might want to encourage within the City.
- Collaborate in regional discussions to determine what revenue sharing opportunities might exist in the development of regional distribution centers.

Transportation

- Third Crossing. Some participants felt that a third crossing was very important for future economic development, and that the only way to achieve that goal would be through tolls. They felt the City should take a lead position in communicating the need for the crossing and preparing the ground for future tolls.
- Jordan Bridge. A bridge would clearly help traffic flows to the Norfolk Naval Shipyard. The City continues to explore options.
- Regional Planning. Various organizations are developing projections of traffic volumes and requirements. Some of those projections are public and some are proprietary. The projections are sensitive to a variety of inputs, including port capacity and actual operational levels. The City should actively identify and

assess the available projections and methodologies, and explore how best to use those projections in its long term planning.

- The City should investigate the pros and cons of short sea shipping and consider support of revisions to the Jones Act.
- A barge service has commenced to Richmond. The Virginia Port Authority and other organizations are investigating the feasibility of barging containers to other cities. The City should support those investigations.

Positive Climate for Defense Installations

- The City should help to develop community awareness of economic contributions of Portsmouth's military installations and related industry. Continuing visits by City staff and City Council and active publicity about construction projects would be useful.
- The City should support regional efforts to prevent future BRAC reductions by contributing to broader awareness of the economic impacts of military installations.
- The City should better organize to communicate the importance of the military installations in Portsmouth, particularly the stabilizing influence they are having during the current economic downturn.

Maritime Supply Chain Management

- Old Dominion University is now the only university in the country that has Maritime, Ports, and Logistics Management concentration in Master of Business Administration and Master of Public Administration. Highlight information about these programs in marketing materials to attract maritime companies.
- One participant suggested greater use of student co-op programs and more publicity for future job opportunities, including computer-aided disciplines.

Modeling and Simulation

- Target companies involved in modeling and simulation for locations in Portsmouth and invite VMASC to assist in those marketing efforts.
- Highlight information about the area's modeling and simulation capabilities in marketing materials to attract maritime companies.
- Identify linkages to international operations centers.

Environmental Balance

- Build on and publicize environmental work underway, reinforce the contributions of River Stars, consider marketing efforts to underscore Portsmouth's vision to balance environmental and development goals.
- Pursue a formal MOU with neighboring jurisdictions to set common zoning and planning goals and standards.
- Continue efforts to benchmark environmental performance in the Port of Virginia against other ports, and encourage continuing analysis of incentives reduce emissions.

Emerging Topics

- The economic climate is much different. There is greater competition from other ports. The City should focus on steps to keep the Port of Virginia competitive with New York and Savannah. Some cities, Charleston for example, are being hurt by the loss of port activity.
- Maintain the awareness of needs of small businesses and emphasize retention activities.
- Investigate updating the mission of the Craney Island Study Commission, perhaps redirecting the effort toward identifying economic development opportunities created by the terminal expansion.