S. HRG. 111–345

# FREIGHT TRANSPORTATION IN AMERICA: OPTIONS FOR IMPROVING THE NATION'S NETWORK

## HEARING

BEFORE THE

SUBCOMMITTEE ON SURFACE TRANSPORTATION AND MERCHANT MARINE INFRASTRUCTURE, SAFETY, AND SECURITY

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

JUNE 18, 2009

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ONE HUNDRED ELEVENTH CONGRESS

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# FREIGHT TRANSPORTATION IN AMERICA: OPTIONS FOR IMPROVING THE NATION'S NETWORK

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**THURSDAY, JUNE 18, 2009**

U.S. SENATE,
SUBCOMMITTEE ON SURFACE TRANSPORTATION AND
MERCHANT MARINE INFRASTRUCTURE, SAFETY, AND
SECURITY,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:35 p.m. in room SR–253, Russell Senate Office Building, Hon. Frank Lautenberg, Chairman of the Subcommittee, presiding.

### STATEMENT OF HON. FRANK R. LAUTENBERG, U.S. SENATOR FROM NEW JERSEY

The CHAIRMAN. I call this hearing to order, and it was very nice of the witnesses to all be sitting at attention when I came in the room. It reminded me that I was a couple of minutes late, and I'm glad to see you, thank you for your promptness.

I want to welcome everyone to today's hearing. From the barges and the ships that bring goods to our ports, to the trains and trucks that get those goods to our stores and factories, our country has good freight transportation.

Every day consumer products like televisions and produce, and essential raw materials like lumber and iron are moved across America as freight. My home state of New Jersey moves more than 600 million tons of freight each year. Freight movement contributes to more than 500,000 jobs for New Jerseyans, making up almost 11 percent of our state's workforce, and I mention that just to show the perspective that we develop on freight transportation.

But the strength of our freight transportation system is being threatened by our fragile and overwhelmed infrastructure, putting people's jobs, our economy, and our ability to stay competitive in the world at risk. It has been nearly 2 years since the terrible accident, the bridge collapse in Minneapolis. But still, 25 percent of our Nation's bridges are deficient. In New Jersey, the number is even higher, at 34 percent. And congestion on our roads costs our country precious time and money.

Freight chokepoints can put huge delays and additional costs on the transportation of goods—these are felt across the country. For example, some trains can take as long as 2 days to cross the City of Chicago.

To keep goods moving in the future, we must invest in our freight infrastructure now. Simply building roads will not solve all of our problems, and in some places it's not even possible. We need to focus our resources to move goods more efficiently and reduce congestion and emissions. We can achieve these goals by making better use of rail and barges.

One freight train, for example—and we've seen the ads stating the case—one freight train can take 280 trucks off the highway, off the road, while one barge can take 1,800 trucks off the road. It just shows you the volume of freight that can be handled by those means.

Trains and barges are also more energy efficient than trucks. One gallon of fuel will transport one ton of cargo 70 miles by truck, 457 miles by rail and 575 miles by barge. One gallon of fuel.

Now let's be clear. We're not saying trucks are not important. We are saying that trains and barges need to become as important in the trade mechanism. Unfortunately, Federal investment has focused almost exclusively on highways while neglecting our railroads and our seaports. Chairman Rockefeller and I have introduced a bill that would take a long-term and large-scale approach to transportation planning. But when it comes to freight, our bill would encourage reduced emissions, reduced congestion, and reduced transportation costs.

Two years ago, the New Jersey Department of Transportation published its first comprehensive statewide freight plan. The Federal Government needs to follow suit.

I look forward to hearing from our witnesses on how we can make that happen. And with that, I turn to our Ranking Member, Senator Thune.

**STATEMENT OF HON. JOHN THUNE, U.S. SENATOR FROM SOUTH DAKOTA**

Senator THUNE. Thank you, Mr. Chairman, for holding today's hearing on freight transportation and efforts to improve freight mobility throughout the Nation's transportation system. The topic is far-reaching, encompassing all modes of transportation, all of which are key economic drivers. I hope that this hearing today will be a catalyst for our Committee's thorough examination of Federal transportation policies, and help to inform our Committee's surface transportation legislative agenda.

Coming from a rural State whose economy is dependent on first-class transportation to get its products to the world, I've long taken an interest in transportation issues, particularly rail and trucking.

As a former State Rail Director, I have a real appreciation for what the witnesses here today work to accomplish every day. And in my new role as Ranking Member of this Subcommittee, I already have a newfound appreciation for issues concerning our Nation's ports—not that there are many of those in South Dakota.

But I don't think we should underestimate the importance of efficient freight transportation on the overall economy. The last great national transportation infrastructure project was the construction of the Interstate Highway System which, as we all know, began back in 1956. Some have called it the largest public works project in history. Today it stretches over 44,000 miles.

Trucks on the Interstate carry 50 percent of all freight, when measured by value. Some studies have shown that for every $1 invested in the Interstate, the Nation's economy realized $6 in increased productivity.

The Interstate replaced a lower capacity, a lower speed, and a less-safe system of roads. Today's 65-mile-per-hour system replaced travel times that only operated at 20 to 40 miles-per-hour.

Similar productivity gains in the freight rail sector have occurred since the 1980 Staggers Act, and like highways, the rail network is facing capacity constraints. I worry that if congestion on our highways, rails, and in our ports reaches the levels forecast by the Federal Highway Administration, transportation will actually become a drag on the economy, rather than adding to our productivity.

It is, I think, appropriate for this Committee to explore the proper role of the Federal Government in ensuring our transportation system can safely and efficiently move freight throughout the country. I'm particularly interested in hearing any proposals on ideas from today's witnesses for improving mobility that don't involve large commitments of financial resources. In other words, how can we do things better and smarter?

While too often we find the Senate increasingly partisan, the issue of transportation is one of the bright spots that remains of bipartisan interest and helps to unite us, and I thank the Chairman and other members for their dedication to improving our Nation's transportation system, and look forward to hearing from our panelists today.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Klobuchar asked if she might say a couple of words, and we're pleased to do that at that point in time.

## STATEMENT OF HON. AMY KLOBUCHAR, U.S. SENATOR FROM MINNESOTA

Senator KLOBUCHAR. Well, thank you very much, Mr. Chairman, for holding this important and timely hearing on the challenges facing freight transportation. As you know, I'm not a member of this Subcommittee, but like you, I care very much about the infrastructure of our country. As you mentioned, the bridge in Minneapolis, and particularly, the ability of our country to effectively and efficiently move goods. And I thank you for your leadership in this area.

The reason I'm here is to welcome our special guest, Rick Gabrielson, at the end, here, who's a Minnesotan, and he serves as Director of International Transportation for Target, a great Minnesota company, with approximately 1,700 retail stores in 49 states.

Just this last week, my daughter—who is turning 14 tomorrow—was tutoring a little girl on how to read, and she asked me, what was the first word she ever read? And I had this memory of her in the backseat in a car seat, and pointing out "Dayton's" and "Target."

[Laughter.]

Senator KLOBUCHAR. And it may be more of a statement of our family's shopping, than anything else, but those were the first words that she ever read.

In addition to his position at Target, overseeing the movement of Target's products, Mr. Gabrielson serves as the President of the Coalition for Responsible Transportation, and he is the Vice-Chairman of the Maritime Transportation System Advisory Council. He's here today to talk about Target's experience moving goods and products from our ports, to our railroads, to our highways and into our stores.

He knows a thing or two about our Nation's infrastructure and the challenges we face. And as Senator Thune talked about the ideas that can come out of this panel, I'm very hopeful that Mr. Gabrielson will share some good ideas about how to improve our transportation system.

Welcome, and welcome to all of the witnesses.

Thank you.

The CHAIRMAN. Thank you.

Senator Johanns, do you have a statement? Good for you. That's what I like, efficiency.

Well, let me welcome today's witnesses.

First, Richard Roper, Director of Planning at the Port Authority of New York and New Jersey and, as you know, I was a member of the Port Authority, Commissioner of the Port Authority, which kind of induced me into the idea of public service. And I didn't realize how long and how interesting it was going to be.

We look forward to hearing your perspective.

Mr. Matt Rose has two roles, very important, one as Commissioner of the National Surface Transportation Policy and Review Study Commission, but also the Chairman and President and CEO of BNSF Railway. And we welcome you.

Mr. Butch Brown also has two roles—Executive Director of the Mississippi Department of Transportation, a Member of the Coalition for America's Gateways and Freight Corridors.

Mr. John Clancey, who is the North American Chairman for Maersk Shipping. We've had some contact over the period of time. Maersk is a very efficient carrier, and giant, by the way, and does its job very well, and we're pleased to have you here, Mr. Clancey.

And Mr. Gabrielson, we've already heard how big your company is, and how delicate it must be to do all of the planning to move the goods and the material that you have to. And we're interested in what—what each of you has to say.

Mr. Roper, if you would take 5 minutes to present your testimony, we're interested in hearing what you have to say.

## STATEMENT OF RICHARD W. ROPER DIRECTOR, PLANNING DEPARTMENT PORT AUTHORITY OF NEW YORK AND NEW JERSEY

Mr. ROPER. Thank you.

Good afternoon, Chairman Lautenberg, Committee Members, and Staff.

I am Richard Roper, Planning Director for the Port Authority of New York and New Jersey.

Mr. Chairman, on behalf of our Chairman, Anthony Coscia, and the entire agency, I would like to thank you for your leadership on freight issues, not only in order to ensure efficient goods movement in this country, but to make security of those goods a priority, as well.

However you do it, Congress must assure that the law replacing SAFETEA–LU adds a new focus on freight. A specific freight title offers the surest option.

Freight is at the heart of the Port Authority's mission. In 1921, New York and New Jersey created the Port Authority to improve freight movement at a regional level. We developed the region's largest port facilities, its major airports, vital river crossings and bi-state transit links.

Between 2002 and 2007, the Authority and our marine port tenants provided $2.4 billion to begin channel deepening to 50 feet, to modernize port terminals and to make major rail improvements. Access will be given special emphasis in our Port Department's current $1.9 billion 10 year capital plan; and our Aviation Department's $6.4 billion capital plan targets over $1.2 billion for passenger and freight landside access.

Multi-modalism and regional cooperation are not abstract concepts for us. They are our reason for being and, I might say, at times no small challenge to sustain.

Congress has made great strides toward more integrated surface transportation policy. The Federal Surface Transportation Policy and Planning Act of 2009, introduced by Chairman Rockefeller and yourself, Mr. Chairman, promises that the next bill surely will continue this evolution.

Many ideas are in play to integrate freight into the next stage of Federal transportation policy. Here are a few that would have broad national benefits: mandate development of a National Freight Transportation Plan; expand Federal support for freight investment by all levels of government and business partners, adding resources to baseline levels of support already in place; encourage multi-state and multi-modal corridor planning initiatives like those of the I–95 Corridor Coalition; authorize a comprehensive national freight data collection program, crucial for choosing cost-effective freight investment and measuring performance; and support development and demonstration of new technologies to enhance safety, enforcement of weight limits, and freight-focused ITS applications.

The imperative for moving people and goods are deeply entwined. Chokepoints, for example, where shared tracks require freight trains to wait for commuter trains, low highway overpasses prevent trains from stacking intermodal containers, and trucks are forced to share limited roadways with local auto traffic, all impede shippers' ability to provide reliable service.

SAFETEA–LU addresses the Nation's truck-carrying highways. However, by one estimate only 2 percent of SAFETEA–LU funds are targeted to freight improvements. Federal oversight guides marine, air and rail operations, but with too little heed to their links with the surface network.

Aligning national strategies and local initiatives—like many states and regions, we are making major investments that enhance freight flows in our gateway region. But getting the full benefit for the Nation depends heavily on whether those upgrades are leveraged up and down the line in the Northeast and beyond.

For example, the Port Authority's continuing expansion of on-dock rail service at our container points has taken five million truck trips off the highways. The rail share grows every year. However, the ultimate benefit of the Authority's $600 million investment to provide rail service to markets outside our region, will be deeply dependent on whether inland rail routes and distant intermodal terminals are positioned to accommodate that shift to rail.

New Jersey and New York's transportation departments are straining to fund critical "last-mile" road links between our container terminals and the interstate highway system.

Congressional action prompted New York to prepare a statewide rail plan that reveals the challenges of competing demand for both rail freight and passenger service. But there's no Federal framework—much less enough funding—to fully address both goals.

A thoughtful freight title and national strategy can fill the policy and knowledge gaps for planning transportation investments, improving operations, and funding effective multi-modal solutions.

Thank you, again, Mr. Chairman.

[The prepared statement of Mr. Roper follows:]

PREPARED STATEMENT OF RICHARD W. ROPER, DIRECTOR, PLANNING DEPARTMENT, PORT AUTHORITY OF NEW YORK AND NEW JERSEY

Good afternoon, Chairman Lautenberg, Committee Members, and Staff.

I am Richard Roper, Planning Director for the Port Authority of New York and New Jersey. Mr. Chairman, on behalf of our Chairman Anthony Coscia and the entire agency, I would like to thank you for your leadership on freight issues, not only in order to ensure efficient goods movement in this country, but to make security of those goods a priority as well.

However you do it, Congress must assure that the law replacing SAFETEA–LU adds a new focus on freight. A specific freight title offers the surest option. I'll explain the need for a clear Federal role, and what it means for leveraging state and local investments. Federal leadership can support innovative freight strategies, as I'll illustrate.

**Regional and Multi-Modal Imperatives**

Freight is at the heart of the Port Authority's mission. In 1921, New York and New Jersey created the Port Authority to improve freight movement at a *regional* level. We developed the region's largest port facilities, its major airports, vital river crossings and bi-state transit links.

Between 2002 and 2007 the Authority ($1.4B) and our marine port tenants ($1B) provided $2.4 billion to begin channel deepening to 50 feet, to modernize port terminals and to make major rail improvements. Access will be given major emphasis in our Port Department's current $1.9 billion 10 year capital plan; and our Aviation Department's $6.4 billion capital plan targets over $1.2 billion for passenger and freight landside access.

Multi-modalism and regional cooperation are not abstract concepts for us. They are our reason for being and, I might say, at times no small challenge to sustain.

But the states' wisdom in making this partnership has served the region and nation well, with important lessons for the issue at hand. The Port Authority's mission is to support regional trade and commerce, never confined to a single mode. Its operating boundary, 25 miles around the Statue of Liberty, roughly matches our economic region, not its state borders. And we are self-financed without tax-levy funding. Through the years the agency has conceived, built and operated pioneering transportation facilities without competing for public funds from local and state governments.

**A Federal Freight Role**

Congress has made great strides toward more integrated surface transportation policy. ISTEA, TEA–21, and SAFETEA–LU each moved away from mode-specific funding and planning toward emphasis on results, performance, and sustainability.

The Federal Surface Transportation Policy and Planning Act of 2009, introduced by Chairman Rockefeller and yourself, Mr. Chairman, promises that the next bill surely will continue this evolution.

Many ideas are in play to integrate freight into the next stage of Federal transportation policy. Here are a few that would have broad national benefits:

- Mandate development of a National Freight Transportation Plan;
- Expand Federal support for freight investment by all levels of government and business partners, adding resources to baseline levels of support already in place;
- Encourage multi-state and multi-modal corridor planning initiatives like those of the I–95 Corridor Coalition;
- Authorize a comprehensive national freight data collection program, crucial for choosing cost-effective freight investment and measuring performance; and
- Support development and demonstration of new technologies to enhance safety, enforcement of weight limits, and freight-focused ITS applications.

The imperatives for moving people and goods are deeply entwined. Chokepoints, for example, where shared tracks require freight trains to wait for commuter trains (Lehigh line outside of Newark, New Jersey), low highway overpasses prevent trains from stacking intermodal containers (National Docks line in Jersey City, New Jersey), and trucks are forced to share limited roadways with local auto traffic (Van Wyck Expressway, approaching Kennedy Airport in New York), all impede shippers' ability to provide reliable service. And, in turn, plans that neglect vital freight flows needlessly worsen conflicts on roads and rails.

SAFETEA–LU addresses the Nation's truck-carrying highways. However, by one estimate only 2 percent of SAFETEA–LU funds are targeted to freight improvements. Federal oversight guides marine, air and rail operations, but with too little heed to their links with the surface network.

Defining freight transportation strategies and performance goals at the Federal level promises two major benefits: First, to align policies and investments across government and industry; second, to spur freight innovations best framed at a national level.

**Aligning National Strategies with Local Initiatives**

Like many states and regions, we are making major investments that enhance freight flows in our gateway region. But getting the full benefit for the Nation depends heavily on whether those upgrades are leveraged up and down the line in the Northeast and beyond.

For example, the Port Authority's continuing expansion of on-dock rail service at our containerports has taken five million truck trips off the highways. The rail share grows every year. However, the ultimate benefit of the Authority's $600 million investment to provide rail service to markets outside our region, will be deeply dependent on whether inland rail routes and distant intermodal terminals are positioned to accommodate that shift to rail.

New Jersey and New York's transportation departments are straining to fund critical "last-mile" road links between our container terminals and the interstate highway system. Senator Menendez's Liberty Corridor program suggests that targeting Federal attention and dollars can help D–O–Ts give a higher priority to easing these local bottlenecks. The North Avenue Corridor Improvement Project is a multi-agency effort to improve a critical mixed-use link between the interstate highway system and New Jersey's seaport. Federal participation in the amount of $10 million helped align local and national considerations and close a funding gap, however the Port Authority's $159 million contribution to the project required shifting limited funds away from other local priorities.

Congressional action prompted New York to prepare a statewide rail plan that reveals the challenge of competing demand for both rail freight and passenger service. But there's no Federal framework—much less enough funding—to fully address both goals. The Authority partnered with New York in providing $25 million for projects to help bring an aging system to a state of good repair. However, a history of stovepipe investments in a predominantly commuter system has hindered freight and commuter service by a lack of support infrastructure such as shipper sidings and intermodal yards.

A thoughtful freight title and national strategy can fill the policy and knowledge gaps for planning transportation investments, improving operations, and funding effective multi-modal solutions. More total Federal financing support is needed. New help for freight should be added to baseline aid levels available to the states.

As with overall transportation financing, more flexibility makes everyone's dollars go farther, to cross modal lines, and to meld Federal grants and loans with local public and private resources.

The Port Authority is about to undertake a regional plan that mirrors the intent of a freight title. In cooperation with New York and New Jersey State DOTs, the Regional Goods Movement Plan will provide the region with the vision, strategy, and project concepts required to create an effective regional goods movement network by 2035, emphasizing a multimodal approach for accommodating current and forecasted increases in freight volumes. The plan will assess the current regional freight network system, analyze emerging and long-term freight trends, describe the major obstacles to effectively move freight through the region by 2035, and, finally, provide a comprehensive strategy to meet the region's long-term freight vision and goals. This strategy will be reinforced by a set of investment, pricing, and regulatory actions set in place collectively by regional transportation providers.

Thank you again for this opportunity.

The CHAIRMAN. Thank you very much, Mr. Roper.

Mr. Rose, if you would, you've got 5 minutes to present your testimony.

**STATEMENT OF MATT ROSE, COMMISSIONER, NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION AND CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BNSF RAILWAY**

Mr. ROSE. Thank you, Chairman Lautenberg, Ranking Member Thune, Senator Johanns. Thank you for inviting me to testify before the Subcommittee today on freight policy. I've labeled my presentation, "A Look Into The Supply Chain."

The supply chain is integrated and intermodal and national transportation policy in Washington, D.C. should be, as well. The Committee clearly understands this. I look forward to working with you on achieving your vision for a national transportation policy.

I brought some slides today to hopefully explain the supply chain, and maybe perhaps a little different view than previously demonstrated.

Reviewing the supply chain's importance to the U.S. economy and global competitiveness, I also want to explore what I'm calling "mode optimization" within the supply chain.

This is what Chairman Rockefeller and you, Senator Lautenberg, seek to achieve in the bill, S. 1036, the Federal Surface Transportation Policy and Planning Act of 2009. That bill calls for increasing non-highway market share by 10 percent by the year 2020.

The National Surface Transportation Policy and Review Study Commission I served on called for the exact same thing, and I've thought a lot about what's required to make this happen. I can assure you this is not going to be an easy task, but it can be done.

The most important thought I would like for you to take from this slide, is that when the U.S. supply chain is more efficient than other U.S. inputs, such as labor, technology, and material, we can be more competitive in the global economy. In other words, this just means more jobs and more job growth.

Now, more than ever, the government's role in providing a vision and funding for freight mobility is so important.

Just to also lay it out for you, the supply chain itself, at $1.4 trillion, is nearly three times the size of the Defense Department budget. This slide shows the relative efficiency of the supply chain, over time. We achieved enormous efficiencies with deregulation in the early eighties. Costs were wrung out, I can attest to my own industry, productivity increased about 160 percent over this last 25-year period—rates went down about 50 percent, while freight volumes increased, actually, over 90 percent during this same time.

However, starting in 2003, supply chain costs began to increase. Essentially, the economy had outgrown capacity.

The statistics on this slide speak for themselves, and you're, no doubt, familiar with them. The outlook is, with more population growth, more congestion, and more demand, increasing the need to move more things around. The number one challenge is no Federal vision for freight.

Canada has a vision. It has leveraged more than $3 billion to create successful freight rail corridors for the benefits of its West Coast ports.

China gets this. This year, China Railway Cap X will nearly double from $45 to $50 billion to more than $88 billion in U.S. dollars. A great deal of China's stimulus package will fund freight rail projects aimed at China's logistics industry.

The supply chain challenges around capacity, environmental requirements, and even fuel costs can be managed if there's a coherent, multi-modal, Federal policy framework.

This is simply a view of the supply chain by ton miles, seeing that rail accounts for about 40 percent, trucks account for 28, pipeline 20 and water 12. This slide looks at the ton miles available to both trucks and rail for what we call inter-city freight, in other words, going between cities, or between markets. It doesn't include the kind of traffic that's heavy-haul, rail-only, such as coal and grain, or very short-haul trucking or local distribution.

In other words, there are about 2 trillion ton miles in medium-to long-haul lanes which would be between 500 and 1,000 miles, that could go on a truck or a train. Railroads currently carry about 35 percent of the market in this area, and truck share is about 65 percent of the overall market.

You can see here that trucking dominates the short-haul markets, lanes and distribution services around these markets, as it should. I'd also like to point out that freight rail is an important feeder of these short-distance services.

This slide demonstrates what I call "mode optimization," moving freight from those 2 trillion ton miles in the middle, into the green part of the chart, onto the freight rail. Price-per-ton for market diversions is key. I'll talk about the economics of mode optimization further.

Largest diversions will naturally occur in the 500 to 1,500-mile lanes. Adequate capacity is obviously essential to be able to accommodate that. Adequate capacity improves service, velocity and through-put, expanding the freight rail market coverage which is exactly what customers want when they make supply chain decisions.

You both are very familiar with the environmental and energy benefits of freight rail, so I won't spend any time on that, but rail issues are somewhere between 2.3 and 5 times more fuel efficient to move a ton of freight than trucks.

The key to mode optimization, obviously, is capacity. For the first time ever, the freight rail sector formally analyzed the Nation's rail capacity in key corridors and projected its capacity requirements in the years to come. We can achieve most of the needed investment over the next 28 years, but there is a projected shortfall of about $40 billion, which is what we advocate in our expansion investment tax credit.

The Commission developed a policy roadmap of what's needed. First, a national vision. The benefits of multimodal freight projects can be planned and put into a national context for funding and permitting beyond.

Second, rational economic regulation permits freight railroads to continue to invest sufficiently to meet market share goals.

Third, railroads should be incentivized through investment tax credits to push forward investment spending for capacity.

Fourth, Federal policy should facilitate public/private partnerships to achieve projects that provide public benefits, like the Alameda Corridor, and there are many more. The Recovery Act points the way, especially as general funds increasingly are being used in transportation. Transportation dollars should be performance-based, and multimodal. Metro-mobility means freight mobility too. Intermodal freight facilities and distribution should be an important part of an urban mobility program.

The CHAIRMAN. Mr. Rose, we have the rest of your presentation here, if you could wrap up.

Mr. ROSE. You bet, just a couple of more points. As somebody who has worked as a rail CEO for awhile, and also in the trucking industry, I can tell you that even if the freight railroad network is built out, this is still going to be very difficult to move 10 percent of the tons from the highway over to the railroad.

While rail does enjoy a cost advantage at higher fuel prices, higher fuel prices are good for our business only to a point.

A final word about carbon policy—whether carbon is priced, capped or offset, freight rail may see some mode optimization benefits.

With that, I look forward to your questions.

[The prepared statement of Mr. Rose follows:]

## Matthew K. Rose
*Chairman, President and CEO*

**Testimony before the Senate Commerce, Science and Transportation Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety and Security**

**June 18, 2009**

BNSF RAILWAY

## Overview: The U.S. supply chain is integrated and intermodal

- The importance of the supply chain
  - Competitiveness/U.S. economic growth
  - Energy use and environmental impact
- Outlook
- Optimizing the supply chain

## The U.S. supply chain is a competitive advantage and economic engine

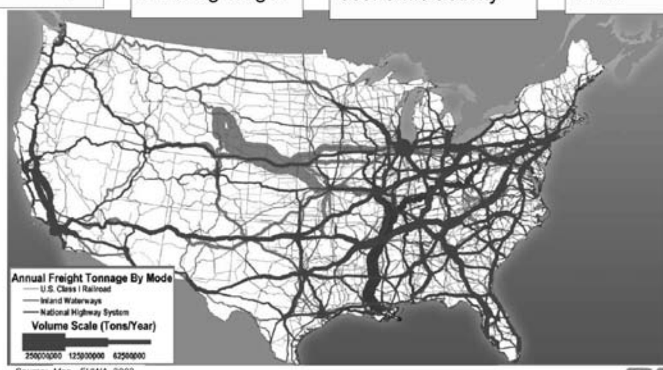
Key to global competitiveness

10% of US GDP (China – 22%)

8 million jobs involved in moving and handling freight

The supply chain represents $1.4 trillion in goods and economic activity

A 1% change in supply chain costs = $14 billion




Source: Map - FHWA, 2002

BNSF RAILWAY

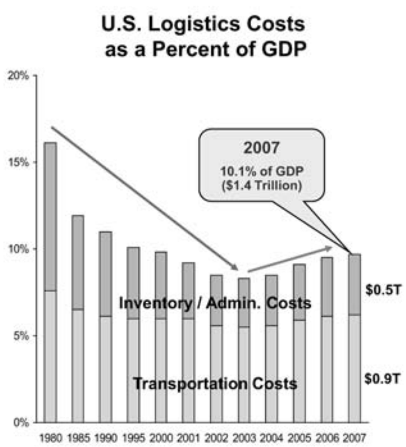
## Supply chain costs are increasing

**What Drove Logistics Costs Down from 1980 to 2004?**

- ✓ Transportation deregulation
- ✓ Excess capacity
- ✓ Low fuel costs

**What's Driving Recent Supply Chain Cost Trends?**

- ✓ Higher fuel costs
- ✓ Congestion
- ✓ Aging infrastructure
- ✓ Public policy
- ✓ Increasing U.S. labor costs




Source: Annual State of Logistics Report, Council of Supply Chain Management Professionals

BNSF RAILWAY

## Outlook: Growth and Challenges

### 2030 Growth Projections

- Population to grow to 364 million
- VMT to grow by 150 percent
- Freight rail to increase by 92 percent

### Challenges

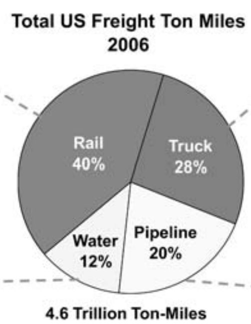
- No national freight policy
- No Capacity growth
- Congestion - all modes
- Increasing fuel costs
- Lengthening supply chains
- Increased environmental requirements

Source: Global Insight, AASHTO, FHWA

BNSF RAILWAY

## A look into the U.S. supply chain: How does the supply chain move?

Freight Railroads
- ✓ 140K Miles



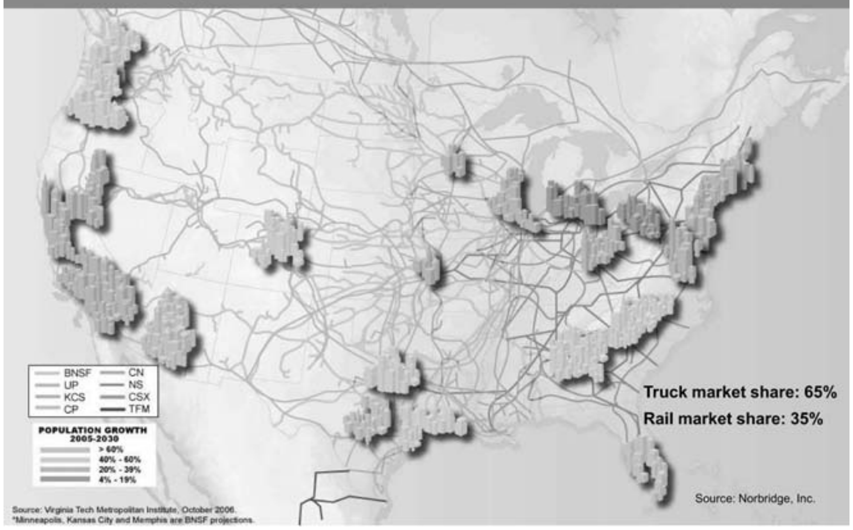

Trucking
- ✓ 160K Miles (NHS)

Inland/Coastal Waterways
- ✓ 25K Miles

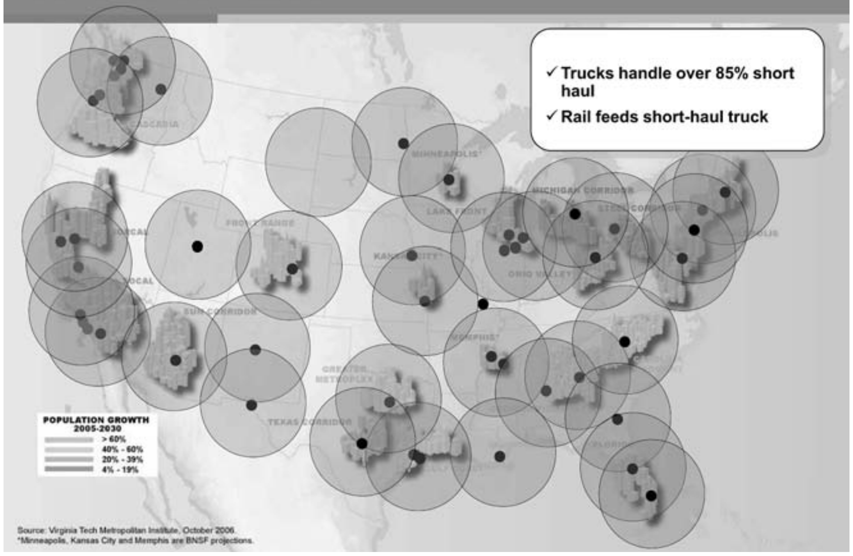
Pipelines
- ✓ 425K Miles

BNSF RAILWAY

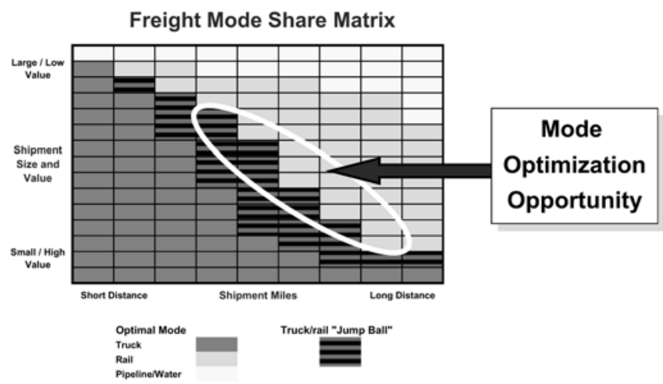
## Connecting markets: Approx. 2 trillion intercity ton miles (500-1000+) can be shipped on truck or train




## Metropolitan distribution and short-haul markets less than 250 miles



## Mode optimization is market- and infrastructure-driven: Reduced fuel use and emissions

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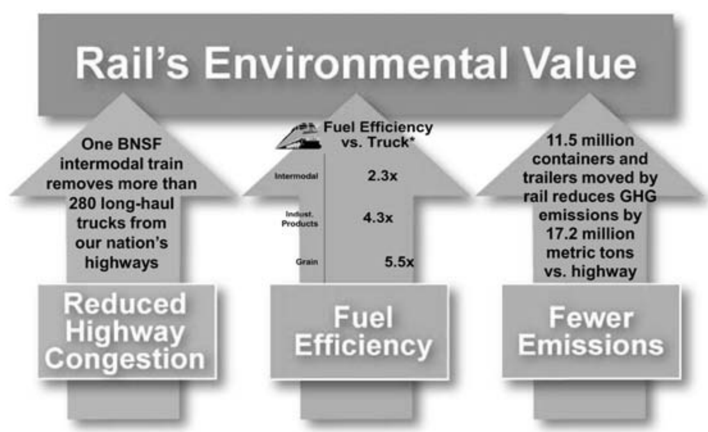
## Freight rail optimization provides environmental benefits




*Based on a 1,500 mile truck haul

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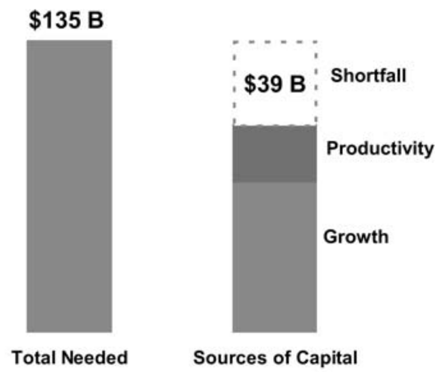
## Capacity Investment: Supporting and growing freight rail market share

- If railroads maintain their current expansion investment levels, then the Class I railroads will invest cumulatively about $70 billion over the next 28 years.
- $39 billion shortfall will occur without a stimulus to bring investments up sooner in their cycle
- If 10% mode optimization, additional investment is required.

**Class 1 capital investments needed to meet 2035 volume demand**




Source: National Rail Freight Infrastructure Capacity and Investment Study September 2007

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## Expanding freight rail market share
## The challenge: Capacity

***National Surface Transportation Policy and Revenue Study Commission Proposed Policy Changes to Improve Freight Mobility***

- A national, multi-modal vision for freight mobility
- Rational regulation
- Investment Tax Credit for freight rail expansion
- Public Private Partnerships with freight rail industry
- Improve metro freight mobility

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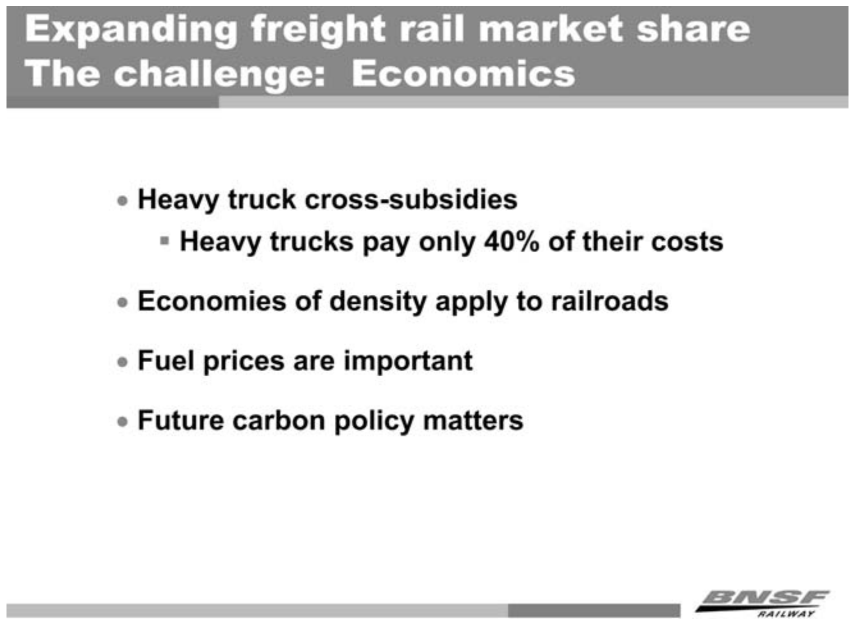


The CHAIRMAN. Thank you very much.

We have a vote on, and I would ask you to just excuse us for about 5 minutes, and we'll go vote and come right back.

[Recess.]

The CHAIRMAN. We're set to go with you.

**STATEMENT OF LARRY "BUTCH" BROWN EXECUTIVE DIRECTOR, MISSISSIPPI DEPARTMENT OF TRANSPORTATION ON BEHALF OF THE COALITION FOR AMERICA'S GATEWAYS AND TRADE CORRIDORS**

Mr. BROWN. Thank you, Mr. Chairman, thank you, Senator. I'll forego thanking all of the other members, and my Senator from Mississippi, inasmuch as they're out voting.

Thank you, again.

My name is Larry L. "Butch" Brown, I'm the Executive Director of the Mississippi Department of Transportation. I'm also the incoming President of AASHTO, the American Association of State Highway Transportation Officials.

Today, I'm testifying on behalf of the Coalition for America's Gateways and Trade Corridors. The Coalition was established in 2001 to promote adequate funding and Federal legislation for trade corridors, gateways, intermodal connectors, and freight facilities. The Coalition has asked me to testify on their behalf today, not only because of my responsibility running a multi-modal transportation program, critical to the movement of our Nation's goods, but also of my hands-on business experience in transportation, warehousing, real estate, wholesaling, and the hotel trade. In the interest of time, I will briefly summarize the written statement that we have presented.

During the 2009 Surface Transportation Authorization, the Coalition is calling upon Congress to create a new discretionary Federal program and Freight Trust Fund and a partnership with the private sector. Based on my experience, both in public, and the private sector, this call is urgently needed.

Freight movements, whether by rail, truck, ship or air, are a crucial link in the $7 trillion commodity flow fueling the United States economy today. The rapid and cost-efficient movement of goods throughout our U.S. supply chain, and particularly through our trade gateways and corridors is vital to securing America's economic future and maintaining our competitiveness in the world markets. Failure to respond to these strains will put a chokehold on our economic growth.

We must focus on the system as a whole, rather than viewing the Nation's transportation infrastructure as several different systems that occasionally interact. We must think in terms of the entire network, interconnected and interdependent. Only then can we begin to discuss real solutions of supply chain infrastructure issues this Nation faces.

Let me say a few words about the program and vision by the Coalition, and then how it could be finessed.

There is a wide and growing belief that a new Federal-aid program, with dedicated funding, to address multimodal goods movement infrastructure needs should be an important element of this authorization process. Under the current Federal aid program, passenger and freight projects compete for an inadequate supply of Federal funds. Both suffer.

Funds should be available to support projects of various size and scope, but with special priority for projects of national significance. Eligible projects should include: Title 23 eligible highway and bridge projects, to the extent they carry freight; intermodal connectors and freight transfer facilities; separations of at-grade road and rail crossings; freight rail improvements and projects, to the extent there is an identifiable public benefit; port infrastructure investment, to—all port infrastructure investment—the extent there is an identifiable public benefit; and, other infrastructure that is predominantly used for the movement of goods.

Projects, regardless of their mode, should be judged on objective evaluation metrics established through criteria similar to the new Projects of National and Regional Significance selection criteria.

The good news is that many freight users have indicated a willingness to support increased fees if they are dedicated to goods movement projects where the results are tangible and cost-effective. The Coalition is calling for a separate account within the Highway Trust Fund, or a separate freight trust fund, whose revenues are predictable, sustained, firewalled from other uses, and committed to new freight infrastructure program that enhances the movement of goods.

Contributions to support the new freight program should come from new sources in a way that fairly share the burden of cost for system development and for maintenance of those programs. We believe that a small, thin fee, broadly assessed across all freight would raise substantial revenue for that infrastructure, with little impact on the consumer.

While there is no unanimity over the right fee, 1 percent fee on all bills of lading would raise $7 to $10 billion needed—just an idea. We believe that that idea will work.

Sustainable goods movement lies at the center of our quality of life, not only for the availability of consumer products, but because of transportation's impact on land use, energy consumption, and environmental quality.

Investments and improvements in freight infrastructure can result in reduced congestion, better air quality, and less time and fuel wasted. The new, anticipated acceleration of trade, combined with domestic growth, has created millions of new job opportunities and a higher standard of living for all Americans. But these benefits will last only if we are able to keep moving goods.

[The prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF LARRY "BUTCH" BROWN, EXECUTIVE DIRECTOR, MISSISSIPPI DEPARTMENT OF TRANSPORTATION ON BEHALF OF THE COALITION FOR AMERICA'S GATEWAYS AND TRADE CORRIDORS

The *Coalition for America's Gateways and Trade Corridors (CAGTC)* was established in 2001 to bring national attention to the need to significantly expand U.S. freight transportation capabilities and to work toward solutions for this growing national challenge. Comprised of more than 50 members, its sole purpose is to raise public recognition and Congressional awareness of this need and to promote sufficient funding in Federal legislation for trade corridors, gateways, intermodal connectors and freight facilities.

During the 2009 Surface Transportation Authorization, the CAGTC is calling upon Congress to create a new discretionary Federal program and Freight Trust Fund (FTF) and partnership with the private sector.

Larry "Butch" Brown, Executive Director of the *Mississippi Department of Transportation (MDOT)* is presenting testimony on behalf of CAGTC and as one of its active members. Mr. Brown is a native of Natchez, Mississippi, a long-time businessman and the former Mayor of Natchez. Mr. Brown has hands-on experience through his business ventures in transportation, warehousing, real estate, wholesaling, and the hotel trade.

Mr. Brown's public experience in transportation comes from both public and private sector roles. Brown is a long-time businessman and the former Mayor of Natchez, Mississippi. He serves as President of the Southeastern Association of State Highway and Transportation Officials (SASHTO) and Vice President of the American Association of State Highway and Transportation Officials (AASHTO). Other appointments include Co-Chairman of the International Trade and Transportation Institute, Chairman of the Mississippi Transportation Institute, the Advisory Board of the Mississippi State University School of Engineering, and Ex-Officio Board Member of Mississippi Mainstreet. He has also served on the Executive Board of Directors of the Mississippi Business Finance Corporation, the White House Conference on Small Business, the U.S. Department of Commerce Industry Sector Advisory Committee on Trade Policy, and as former Chairman of the Mississippi-Louisiana Bridge Authority, responsible for funding construction of the Natchez/Mississippi River Bridge.

**America's Freight Challenge**

The rapid and cost efficient movement of goods throughout the U.S. supply chain, and particularly through our trade gateways and corridors, is vital to securing America's economic future and maintaining our competitiveness in world markets. Trade, as a percentage of the U.S. GDP, has been steadily increasing during the past quarter century, rising from 13 percent in the 1990s. Today, it is 30 percent and it is expected to grow to 35 percent in 2020 and to as much as 60 percent by 2035.

Many factors, including enhanced logistics systems, improvements in manufacturing processes and new technology are placing an ever-greater strain on the capacity of our goods movement transportation network. Failure to respond to these strains will put a damper on our economic growth.

Freight movements, whether by rail, truck, ship or air, are a crucial link in the $7 trillion commodity flow fueling the U.S. economy today. The chokepoints that are developing along the Nation's highways only tell a fraction of the story. That strain on capacity is being felt along all of the Nation's major gateways and trade corridors.

Congestion on these facilities is not only an environmental disaster; it serves as a trade barrier as well. Manufacturers and agricultural producers across the Nation depend on this infrastructure to get their products to international markets. American businesses and families rely on the goods movement system to bring products to their shelves and homes.

Before a long-term solution to America's freight challenge can be developed, we have to think about the problem differently, as a nation.

It is not merely the highways that trucks drive on—though those do play a very important role. It is also the ports and border crossings, the rail lines, the intermodal connectors, and the local roads that handle the final delivery. It is less an issue of modal competition—rail vs. truck vs. barge—and more an issue of modal interdependence. We must focus on the system as a whole, rather than viewing the Nation's transportation infrastructure as several different systems that occasionally interact. We must think in terms of the entire network, interconnected and interdependent. Only then can we begin to discuss real solutions to the supply chain infrastructure issues this Nation faces.

**The Emerging, New Consensus**

Despite these compelling facts, we do not have a national freight plan or a coherent program to document, anticipate and provide for our economy's goods movement needs. Infrastructure that was adequate in the first half of the twentieth century is still being relied on today, with some facilities utilized well beyond design capacity, while others are no longer as useful in today's economic patterns. State departments of transportation, such as the one I head in Mississippi, and regional transportation planning authorities are working hard to meet the maintenance demands of our existing system, while the declining Federal funding source—the motor fuels tax—will fail to cover currently authorized spending this year.

A consensus is beginning to emerge, beginning with the two organizations I believe to be the thought leaders for the formulation of a new freight program—CAGTC and the American Association of State Highway and Transportation Officials (AASHTO).

This emerging consensus has two important elements.

- First, there is a wide and growing belief that a new Federal-aid program, with dedicated funding, to address multimodal goods movement infrastructure needs should be an important element of this authorization process.

- Second, while estimates of the total freight needs vary greatly, there is a minimum funding consensus emerging. We believe a *minimum* of $7 to $10 billion annually , with flexibility and incentives for participation from other sources, is needed to begin addressing our Nation's goods movement needs.

This annual funding figure is a level around which we believe many organizations will coalesce as the realities of freight's importance in this authorization is realized. As the Senate begins consideration of a new freight program, we would respectfully request that $10 billion annual level be incorporated in the Committee's mark-up legislation for a new discretionary freight program.

**Part One: The New Program**

Under the current Federal-aid program, passenger and freight projects compete for an inadequate supply of Federal funds. Both suffer. Establishing a new Federal program can balance and separate these competing needs, especially if that program is based on user fees from outside the traditional sources. In addition to a program size of at least $10 billion annually, other primary tenets that will ensure the success of a new, Federal-aid goods movement program include provisions addressing:

- *Project Eligibility*—Funds should be available to support projects of various size and scope, but with special priority for projects of national significance. Eligible projects should include:
  - Title 23 eligible highway and bridge projects, to the extent they carry freight;
  - Intermodal connectors and freight transfer facilities;
  - Separations of at-grade road and rail crossings;
  - Freight rail projects, to the extent there is an identifiable public benefit;
  - Port infrastructure investment, to the extent there is an identifiable public benefit; and,
  - Other infrastructure that is predominantly used for the movement of goods.

  Funds should be available to support multi-jurisdictional and multi-state projects selected on the basis of their contribution to national freight efficiency. Eligible recipients should include:
  - State and Local governments;
  - Transit agencies;
  - Port authorities;
  - Other political subdivisions of State and Local government (MPOs, COGs, etc.); and,
  - Multi-State/Jurisdictional applicants.

  Projects eligible for funding under multiple Federal programs should be allowed to combine freight fund monies with other sources, including Highway Trust Fund monies.
- *Fund Allocation*—The Office of Intermodalism, or a new office for multimodal freight, should be reestablished within USDOT to administer the new freight mobility program working in concert with the DOT modal administration(s) with the most expertise in the relevant project area. Projects, regardless of mode, should be judged on objective evaluation metrics established through criteria similar to the new Projects of National and Regional Significance selection criteria, and in consultation with Congressional leaders.
- *Long-Term Funding*—Because goods movement projects are generally large, and carried out over multiple years, monies should be made available through Full-Funding Grant Agreements to ensure that, once a project is approved, funds will flow through to project completion and allow the widest array of financing options.
- *Private Funds*—Private participation should be encouraged to provide transportation planners with the largest toolbox of financing options possible to move freight projects forward quickly and efficiently. Among the tools Federal policy should enable are tolling of new facilities, innovative financing, private investment and public-private partnerships. Creative solutions are needed to increase capital sources.

In addition, general fund allocations are an important tool at the state and local levels and Federal FTF funding should be structured to incentivize and reward state and local investment. This is vital to support the development of local projects and connectors, in addition to the necessity of raising funds to match Federal FTF monies.

**Part Two: The Fees and Funding Mechanism**

The other core issue the Senate needs to address in establishing a new freight program is the source of revenue and how those funds are reserved for goods movement.

The good news is that many freight users have indicated a willingness to support increased fees if they are dedicated to goods movement projects where the result is tangible and cost-effective. Any effective solution to the goods movement problem is predicated upon addressing these concerns, but also on the establishment of a dedicated Federal fund, such as a an account within the HTF or a separate Freight Trust Fund (FTF), whose revenues are predictable, sustained, firewalled from other uses, and committed to new freight infrastructure program that enhances the movement of goods.

The FTF should be comprised of largely of new revenue sources. While some of the traditional HTF sources might be allocated if a solution is found to the well-known problem of HTF solvency, additional monies must come from beneficiaries of freight infrastructure improvement—essentially freight system users, which are the beneficial cargo owners—and be based on the following principles:

- The price of goods should support and internalize some portion of the cost of expanding related infrastructure, such that growth in demand for moving goods delivers proportional funding for related infrastructure improvement.
- All potential funding mechanisms and sources should be considered and fees assessed on user benefit.
- Revenue sources should be predictable, dedicated and sustained.
- No one user group should be disproportionately affected, with the recognition that the consumer is the ultimate beneficiary.
- While the current Federal gasoline tax should continue to be dedicated to the traditional core programs, a small percentage of any future increase in the gas tax should be dedicated to the FTF, reflecting the real benefit to the driving public from freight projects that relieve highway congestion.

Contributions to support the new freight program should come from one or more new sources in a way that will fairly share the burden of cost for system development and maintenance among users/beneficiaries commensurate with their use of facilities. All users of the freight transportation system should be required to contribute to and revenue streams should be as diverse as practicable to ensure FTF income is resistant to economic cycles and will grow to keep pace with demand for infrastructure and inflation.

We believe a small, "thin" fee broadly assessed across all freight would raise substantial revenue for infrastructure, with little impact on the consumer, while remaining neutral to the market for goods movement transportation. While there is no unanimity over the "right fee", a 1-percent fee on all bills of lading would raise the $7 to $10 billion needed, according to estimates by the Eno Foundation. In addition, because a bill of lading fee effectively measures "freight consumption" more accurately than many other options discussed, we would respectfully recommend this receive serious consideration.

Finally, private participation in the Nation's freight infrastructure is vital to system expansion. The establishment of an advisory council made up of freight industry members and system users could assist and partner with USDOT in optimizing results from planning, coordination and evaluation processes.

**Conclusion**

Sustainable goods movement lies at the center of our quality of life, not only for the availability of consumer products, but because of transportation's impact on land use, energy consumption and environmental quality. Improvements to freight infrastructure can result in reduced congestion, better air quality, and less time and fuel wasted. The anticipated acceleration of trade, combined with domestic growth, has created millions of new job opportunities and a higher standard of living for Americans. But these benefits will last only if we are able to keep moving the goods.

The CHAIRMAN. Thank you very much.

Mr. BROWN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. And at this moment I call on Mr. Clancey. I mentioned before that he's the President of

Maersk, North America. And it was the Maersk, Alabama that was taken up by pirates, and the crew and the captain reacted with remarkable equanimity, making sure that their moves were the right ones, and we salute them.

And I'd like you to pass our compliments along, Mr. Clancey.

Thank you.

**STATEMENT OF JOHN P. CLANCEY, CHAIRMAN, MAERSK INC.**

Mr. CLANCEY. The fact that you are including maritimes suggests that we are progressing toward a comprehensive, multimodal freight mobility system, so thank you for including us.

Improving the intermodal freight network in the United States is of paramount interest to us. With 2,300 vessel calls at 18 U.S. ports loading and unloading over 2 million containers annually, Maersk Line is the largest carrier serving this economy. And we are one of the largest purchasers of intermodal transportation in the United States. And the point is that thousands of America's importers and exporters that we serve have much to lose if this effort to develop an improved system is not successful.

Over the last 30 years, efficient and economical international transportation costs have been a key driver in developing our consumer economy. And today, now, 70 percent of our GDP is driven by that.

At the same time, the system has allowed our exporters access to foreign markets, utilizing a transportation system that provided them with competitive pricing. But what will the future look like?

American importers and exporters depend on an efficient transportation system, but it is our exporters who have played a key role in the last several years, increasing exports by 22 percent over that period of time. But without an efficient transportation system, our exports become more expensive and non-competitive, leading to a reduction in our balance of payments, with negative influences on the value of the dollar, and inevitable loss of jobs.

Other countries, our competition, are investing billions more than the U.S. to create efficient freight-moving national infrastructure systems, and they are completing them in a fraction of the time. Many of our competitor countries don't have to demolish old infrastructure, and they are developing their projects without the cumbersome, politically charged process that burdens us in the U.S.

From our experience moving freight around the country, we offer a few suggestions, and hope you consider improvement of the Nation's transportation network.

In 2000, as an example, our company conceived the largest—and only—private marine container terminal in the United States, built on 600 acres in Portsmouth, Virginia. The terminal has new technology which has improved productivity, while improving safety and cutting emissions and costs. It has on-dock rail corridor that will connect to the Heartland Corridor.

We invested a half a billion dollars into the project; and the States of Virginia, West Virginia and Ohio—as well as Norfolk Southern—invested an additional $360 million. The project was completed in 7 years where similar projects take up to 17 years. Importantly, half of the cargo supporting the war, though, is cargo that is going to the theaters of Iraq and Afghanistan. So, it can be done, but what must we do to move forward?

First, we need a mobility plan to guide and integrate the infrastructure expenditures our country is about to undertake, and we thank the Subcommittee for pursuing a real, multimodal plan. Although this off—and to ensure that the strategy will be carried out, through an execution, we support the idea of resurrecting the Office of Intermodalism within DOT.

Although this Office actually existed during the early phase of our Portsmouth project, we found that it really did not have any real authority.

Second, as I indicated earlier, most conversation and policy about "surface transportation" don't include maritime considerations. This omission reflects a limited understanding of how our economy connects to the rest of the world, and ignores the fact that 90 percent of the things we eat, wear, or drive manufactured outside the United States travel to our country by ocean and it excludes a greener transportation alternative that our waterways, ports and maritime transportation can provide.

Third, speed is a competitive advantage, yet our infrastructure construction process is ponderous and discouraging, and we suggest that WRDA 86, the Act that governs the Army Corps of Engineers, should be re-engineered.

And finally, two points about paying for these improvements. First, there is private equity available to help, and Portsmouth demonstrated that. A lot of it requires the right vision and most importantly, a legislative platform to be in place to provide predictability and fairness. Private funding goes where it is treated well, and our current development process is not very friendly.

And finally, we urge Congress to move ahead with the increase in the gas tax as recommended by the National Surface Transportation Revenue and Policy Commission last year. This funding mechanism has been in place for years and we know it works. The American Trucking Association, The National Industrial Transportation League, and even a great segment of the public support raising the gas tax to fund infrastructure improvements. And a higher fuel price would serve a secondary goal of encouraging more fuel efficiency and less driving.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Clancey follows:]

PREPARED STATEMENT OF JOHN P. CLANCEY, CHAIRMAN, MAERSK INC.

Mr. Chairman and Members of the Committee, I am John Clancey, Chairman of Maersk Inc. First of all, I want to thank you for inviting me here to be a part of this hearing on improving the freight transportation network in America. The fact that you are including maritime in this hearing suggests that the debate has finally caught up with the reality of the globalized freight network that is already at work in the world today. It means that our collective thinking has progressed very far toward the actual development of a comprehensive, multimodal freight mobility *system.* So for including us, we applaud your approach and thank you for the opportunity to offer a few comments as you appropriately work to ensure that America's economy will be enabled by a 21st century freight mobility strategy.

Improving the intermodal freight network in the United States is of paramount interest to our company. With 2,284 vessel calls at 18 U.S ports loading and unloading 2,170,966 containers annually, Maersk Line is the largest container shipping company serving the U.S. economy. We are the largest U.S.-Flag fleet operator and we are the largest marine terminal operator in the United States. Additionally, we are one of the largest purchasers of intermodal freight service in the United States. The point is not that we're big . . . the point is that the thousands of American importers and exporters that we serve have much to lose if this effort to develop a competitive intermodal system is not successful. So I hope to illuminate some of the key issues from our perspective and to offer some component pieces of a *systemic solution* to America's freight-moving requirements.

The import and export freight that transits at our ports every day includes every conceivable consumer good from electronics to fashion. In fact, it is arguably cheap transportation costs—enabled by the ocean container—that has played a key role in the development of the U.S. consumer economy—now 70 percent of our GDP—over the last 30 years.

But, as we all recognize, the economy of the next 30 years will not look the same. The headwinds we are now encountering suggest a more modest future. Instead of the 9–11 percent annual growth rates of international containerized cargo of the last 20 years, we may be looking at growth rates more in the 2 to 3 percent annual range . . . when we at last begin to grow again. And of course we're concerned about the economic consequences of rising energy costs, environmental costs, security costs, land use costs, and capital costs.

If used wisely, this breather in infrastructure capacity demand that has accompanied the economic downturn could turn out to be a blessing in disguise. Our best guess is that the recovery will be long and slow. But although cargo growth rates will be modest, the actual freight volumes will still overwhelm our current infrastructure capacity in just a few years. Even with a more modest growth rate of 3 percent in international freight, our national intermodal system will be dealing with a million more containers annually by 2015. So perhaps a bright side to the economic crisis is that we have a second chance to restore America's competitiveness with an infrastructure system that will no longer impose an "inefficiency tax" on our economy.

It is a fact that China, Japan, Russia, India . . . and many other countries are investing billions more than the U.S. to create efficient freight-moving national infrastructure systems including ports, highways, rail, and airports. The infrastructure projects in other countries are astounding (for example, 10 years ago China finished an airport to accommodate 90 million people per year in 2,000 feet of ocean!) and they are completing them in roughly the same amount of time it takes to get the initial environmental impact study done for a project in the U.S.

Just as importantly, many of our competitor countries don't have to demolish infrastructure (like the U.S. does) before they even reach a new starting point. They are developing their projects from greenfield sites without the cumbersome, politically charged process that burdens us in the U.S.

This all points to a picture of mediocrity that, as the leading economy in the world, is simply unacceptable.

In 2000, our company conceived the largest—and only—private marine container terminal in the United States. Built on 600 acres in Portsmouth, Virginia, the terminal has radical new technology that improves productivity and safety while cutting emissions. It has on-dock rail that, when completed, will connect to the Heartland Corridor, a public-private intermodal project that moves freight to the mid-Ohio valley faster on less fuel and with fewer emissions. We put a half billion dollars into the project; the states of Virginia, West Virginia and Ohio—as well as Norfolk Southern and other commercial users—threw another $360 million in the hat and the project was completed in 7 years when similar projects take up to 17 years to finish. Importantly, almost half of the materiale and goods supporting the war theaters of Iraq and Afghanistan have gone through this efficient port.

From this project and our hands-on experience moving freight around the country and the world, we have learned a little that perhaps could be helpful to the Committee as you consider the improvement of the Nation's freight transportation network.

First, we need a freight mobility plan to guide and integrate the infrastructure expenditures our country is about to undertake and we thank the Subcommittee for pushing to get a real, multimodal freight plan established. It is very gratifying to see the momentum behind this idea finally taking off. And to ensure that the strategy will be carried through in execution we support the idea of resurrecting an Office of Intermodalism within DOT and believe that is an important key to breaking the silo-thinking and funding of infrastructure projects.

Although an Office of Intermodalism actually existed during the early phase of our Portsmouth project it didn't have any real authority and it eventually melted away and was of no help. With the appropriate authority from Congress, however, the office could have more efficiently helped sell the vision of the project across its 1,000 miles, multiple modes and 5 states. It could have helped bring the principals and funding together even sooner. If DOT's Office of Intermodalism truly has authority to assign funding values, break logjams and manage across modes it will be of great benefit to the Nation's consumers and competitiveness.

Second, as I indicated at the beginning of these remarks, most conversations and policies about "surface transportation" don't include maritime considerations. This omission reflects a limited understanding of how our economy connects to the rest of the world. It ignores the fact that 90 percent of everything we eat, wear, live in or drive is manufactured outside the U.S. And it excludes a greener transportation alternative that our waterways, ports and marine transportation can provide.

Maritime—our inland waterways and coastal shipping—offers an immediate, cost-effective solution to freight movement challenges in our country. As you know, our rivers need lock and waterway improvements. Also, there are various concepts on short sea shipping floating around but the fundamental problem with all of them is making it cheap enough to attract commercial customers. With a little creativity and willingness to think about things differently, I believe maritime can contribute much more to the domestic freight movement system in America. And we stand ready to work with domestic companies, Congress and others to see this concept become a reality.

Third, speed is a competitive advantage and our infrastructure construction process simply doesn't have it. In fact, America's project approval and funding process is badly broken. Perhaps, WRDA '86, the Act that built the box in which the Army Corps of Engineers operates for maritime projects, should be re-engineered. The Corps wants to build projects. But the process, as prescribed by current law, is ponderous and discouraging. The only way we managed to build the Portsmouth terminal in a third of the normal time was by paying for things ourselves and not waiting on the standard Congressional appropriations timetable. It was more expensive that way, but on the other hand, we're already up and running and earning back our invested capital.

The same inefficiency problem is true of inland projects for railroads, highways and bridges. Congress must find a way to get the national-interest projects identified, approved, funded, permitted and built faster.

Finally, two points about paying for these improvements:

> First, there is private money available to help . . . a lot of it—if the right vision and legislative platform is in place to provide predictability and fairness. Obviously, private participation isn't appropriate for every project or situation. But public private partnerships should not be summarily dismissed when discussing freight mobility. And if private funding is appropriate in certain situations, then a degree of legislative re-engineering needs to be done on that front as well. Private funding goes where it is treated well. That means predictability and a fair rate of return. Our current development process does not rate very highly on those standards but we stand ready to work with staff on specific recommendations.
>
> And finally, we urge the Committee, all of Congress and the Obama Administration to move ahead with an increase in the gas tax as recommended by the National Surface Transportation Revenue and Policy Commission last year. This funding mechanism has been in place for years and we know it works. The American Trucking Association, The National Industrial Transportation League, even (according to surveys cited by Governor Rendell representing the Building America's Future Coalition) the public supports raising the gas tax to fund infrastructure improvements. And a higher fuel price would serve a secondary goal of encouraging more fuel efficiency and less driving. This should be an easy one for Congress to get behind and it is difficult to understand the reluctance to step up and get this tax increase done now. We urge your serious consideration of this point.

I hope these comments have been helpful to the Committee. Again, I thank you for including maritime in this hearing and for insisting on a multi-modal, system solution to our freight-moving challenges. I look forward to answering any questions the Committee may have.

The CHAIRMAN. Thank you very much, Mr. Clancey.

And now, Mr. Gabrielson, we look forward to hearing from you.

**STATEMENT OF RICK GABRIELSON, DIRECTOR, INTERNATIONAL TRANSPORTATION, TARGET**

Mr. GABRIELSON. Chairman Lautenberg, and—thank you for inviting Target to testify before you today.

Target is a member of the Retail Industry Leaders Association, and on behalf of the industry, I would like to thank you for giving us this opportunity to have a retailer's voice at the table to discuss the need for a national freight policy.

My name is Rick Gabrielson and I am responsible for overseeing the global flow of Target's direct imports from the manufacturing markets overseas into the U.S. As Director of International Transportation for Target, my testimony will specifically address some of the challenges Target experiences in today's supply chain and our recommended solutions to ensure that our Nation's freight corridors remain fluid.

Target is a $62 billion U.S.-based retailer with approximately 1,700 stores operating in 49 states with more than 350,000 team members. Target is the second-largest importer of containers in the United States, and we have 37 distribution centers throughout the country.

Product that ultimately ends up on the shelves in our stores flows into Target's network from direct imports, and domestic purchases. Every year, our distribution centers will collectively process more than 790 million cartons of product from these two sources.

Target is a customer of the entire system. We use the carriers, the ports, and the surface transportation corridors, both truck and rail. My responsibility is to deliver goods to our guests flawlessly, ensuring we achieve the lowest cost, meeting shipping grid timelines, and maintain adequate capacity to meet our network volume needs. Congestion, delays and capacity shortfalls greatly increase the risk of not having full shelves at our stores.

Shippers need a reliable and consistent supply chain. Inconsistency drives increases in inventory and lead time which drive increased costs. Supply chain cargo flows are driven by a need to minimize variable costs such as fuel, port fees and the threat of proposed container fees. These are all factors we consider when selecting gateways.

As we look at our Nation's transportation policy, it is important to note there has been only a small level of Federal involvement in goods movement despite the economic significance of efficient freight movement to our Nation.

Therefore we advocate that the Office of Intermodalism be re-established within the Office of the Secretary of Transportation. While specific projects are identified and funded, it is also vital that we look at the complete connectivity of the supply chain including the last mile connectors. If the connectors are not addressed, congestion will increase, and cause significant delays in moving cargo out of the port to its final destination point. It will become a weak link in the system, raising shipping costs, and reducing the productivity and competitiveness of U.S. businesses.

Using more rail and short sea shipping rather than trucks is frequently mentioned as an alternative to address capacity and congestion issues. They are also cited as more environmentally sound which is something that is very important to Target. While there are opportunities to use our railroads, inland waterways, and smaller regional ports to move goods, there are barriers that prevent the concept from gaining broader acceptance with some cargo shippers.

To become effective, on-dock or near-dock rail facilities are needed to improve the flow of cargo out of the ports. Also, certain provisions of the Jones Act must be modified to benefit short sea shipping. From a shipper's perspective, the handling costs and transit time differences must outweigh those of other modes. With these obstacles yet to be addressed, the concept warrants additional consideration.

Our Nation needs a long-range comprehensive goods movement strategy that encompasses all modes of transportation. Target strongly believes that legislation should provide dedicated funds for goods movement. These dedicated funds should aim to support capital investment in critical freight transportation infrastructure which in turn will provide higher productivity and enhanced global competitiveness.

As legislation continues to develop, Target, as a large retailer, would like to have a seat at the table as financing options are discussed. Like you, we are aware of the current revenue mechanisms and understands the challenges we face in increasing such fees. Target understands that as a user of the system, we will have to pay increased user fees to maintain and expand current infrastructure. However, we strongly believe that some revenue methods fall disproportionately on the retailer and we hope that an all-inclusive national freight policy would focus on raising revenues on all the users of the system.

Before I conclude, I would like to commend Chairman Rockefeller and Subcommittee Chairman Lautenberg for introducing legislation that seeks to establish a new approach and a new standard for the next surface transportation reauthorization.

I am grateful for your ideas and look forward to working with you as the next reauthorization bill develops.

Thank you for the opportunity to speak to you today and we welcome any questions at this time.

Thank you.

[The prepared statement of Mr. Gabrielson follows:]

PREPARED STATEMENT OF RICK GABRIELSON, DIRECTOR, INTERNATIONAL TRANSPORTATION, TARGET

**Introduction**

Chairman Lautenberg, Ranking Member Thune, and Members of the Subcommittee, thank you for inviting Target to testify before you today. Target is a member of the Retail Industry Leaders Association, and on behalf of the industry, I want to thank you for giving us this opportunity to have a retailer's voice at the table to discuss our Nation's transportation system and the need for a national freight policy. My name is Rick Gabrielson and I am responsible for overseeing the global flow of Target's direct imports from the manufacturing markets overseas into the U.S. As the Director of International Transportation for Target, my testimony will specifically address some of the challenges Target experiences in today's supply chain and our recommended solutions to ensure that our Nation's freight corridors remain fluid.

**Background**

For background, Target is a $62 billion U.S.-based retailer with approximately 1,700 stores operating in 49 states with more than 350,000 team members. Target is the second largest importer of containers in the United States and we operate 37 distribution centers throughout the country.

Each year our distribution centers will collectively process more than 790 million cartons of product from direct imports and domestic purchases.

To demonstrate the complexity of our supply chain, let me illustrate the process that Target goes through to route an imported tee-shirt. Once an order is placed, the tee-shirt begins its journey at an overseas factory, where we have strict compliance regulations; it is then stuffed into a container and moved by truck to a foreign port to be placed on an ocean vessel. The ocean vessel carries it to one of six major port gateways in the United States that Target utilizes. These gateways include: LA/Long Beach, Oakland, and Seattle/Tacoma on the West Coast and Savannah, Norfolk, and NY/NJ on the East Coast. Once it reaches a U.S. port, the tee-shirt is then processed through third-party facilities which combine it with similar clothing items arriving from a number of other countries. This completed order is then carried by domestic trailers that travel to our distribution facilities by a combination of truckload and intermodal services.

At the same time our imported tee-shirt and other imported items are making their way to the distribution center, Target has products like toothpaste or tissue paper that are sourced from our North American vendors. Our domestic products move by either truckload or intermodal services based on the distance from each distribution center. Smaller shipments are combined into truckload shipments when feasible through our third-party domestic consolidation network.

Once the trailers carrying the tee-shirt and our tissue paper have reached our distribution center, both imported and domestic product categories are processed in the warehouse by individual store assignments and shipped by truck to the stores. This ultimately concludes the tee-shirt and tissue papers' delivery as it has finally reached the store shelf. When taking into account the productivity issues, security concerns, and potential weather conditions that may exist during the course of the above actions, it is easy to understand why our supply chain relies on a well connected and fluid transportation network.

As a retailer, we are a customer of the entire system—we utilize the carriers, the ports, and the surface transportation corridors, both truck and rail. My responsibility is to leverage this system to deliver goods to our guests flawlessly, ensuring we achieve the lowest possible cost, meet shipping grid timelines and maintain adequate capacity to meet our network volume needs. Congestion, delays and capacity shortfalls greatly increase the risk of disappointing our guests by not providing full shelves of product to meet their needs.

**Current Conditions**

Shippers are facing a number of challenges today. We are in need of a reliable and consistent supply chain. Inconsistency drives increases in inventory and lead time which drive increased costs. Supply chain cargo flows are driven by a need to minimize variable costs such as fuel, port fees and the threat of proposed container fees. These are all factors we consider when selecting gateways. Like many shippers, Target and our core providers currently experience a number of bottlenecks or inefficiencies as a result of infrastructure not keeping pace with demand.

We are all aware of the impact the global downturn has had on our economy and the world markets. An estimated 12 percent of the world's container fleet is sitting idle. While this may be a grim fact, there is actually a silver lining in this cloud.

The depressed volumes as a result of the global economic downturn have actually secured more time to develop the infrastructure needed to sustain our longer range growth. This is vital to our economic well being. If we do not capitalize on this grace period, we will not be prepared to meet our Nation's infrastructure needs which will significantly impact our economy. We must have a solid plan to move forward and we must know where to prioritize our vital resources.

Currently, approximately 50 percent of cargo that moves into the west coast ports from Asia is discretionary cargo and flows to portions of the Midwest, Mid-Atlantic and the East Coast. One of the significant trends taking place is the diversification by shippers to use alternative gateways into the U.S., such as Savannah and Norfolk to serve mid-Atlantic markets and Houston and Prince Rupert in Canada to serve the Midwest. This industry shift is driven by costs, ease of conducting business, and minimizing risk.

Once the widening of the Panama Canal is completed in 2014, the landscape of how cargo moves from Asia will change even more dramatically. Today's largest post-Panamax vessels will be able to move through the canal to the East Coast thereby increasing capacity. This potential shift illustrates the need to have a strong connection to industry stakeholders and to maintain accurate data to adequately determine what the current infrastructure needs are and what they will be in the future. Without this vital information, changes to infrastructure could take place only to determine that the optimum infrastructure solution was not achieved.

**Re-defining the National Focus**

As we look at our Nation's transportation policy, it is important to note there has been only a small level of Federal involvement in goods movement despite the economic significance of efficient freight movement to our Nation. Therefore, we advocate that the Office of Intermodalism be re-established within the Office of the Secretary of Transportation and that it hires modal freight specialists with the office of policy to support the effort. Policies that promote international trade and increase goods moving through ports and onto railroads, highways and waterways, for example, could be coordinated within this office to make sure sufficient capacity exists. It could help determine those regional and national infrastructure projects that impact goods movement such as the CREATE Project in Chicago, the Gerald Desmond Bridge in Southern California, and the Bayonne Bridge in New York instead of the compartmental approach that currently takes place at the Department. Target recognizes that funds are limited but it is imperative that we develop a centralized office within the Secretary's Office that can help prioritize the most vital projects with insight from the industry stakeholders.

While specific projects are identified and funded, it is also vital that we look at the complete connectivity of the supply chain including the last mile connectors. Completion of projects like the deepening of the channel at the port of Savannah or the replacement of the Gerald Desmond Bridge in California will not maximize productivity and reduce overall congestion if we don't examine the last mile connectors. These are the short, local or state roads that allow for the efficient movement of shipments to major roadways and rail links. The last mile connectors provide for a smooth transition to the final destination point. A great example is the need for the widening of State Highway 21 in Savannah, Georgia, which is a designated route out of the Port. Increased volumes in and out of the region have placed a great deal of congestion on this road. As the Panama Canal is widened, larger vessels will call this port on a more frequent basis. However, if the connectors are not addressed, congestion will increase and cause significant delays in moving cargo out of the port to its final destination. Virtually all major gateways have similar situations and potential roadblocks to growth. As we look at major infrastructure projects, we must also examine their related connectors for improvement. If connectors are a weak link in the system, they will most certainly raise shipping costs, as well as reduce the productivity and competitiveness of U.S. businesses.

Using more rail and short sea shipping rather than trucks is frequently mentioned as an alternative to address capacity and congestion issues. This is also cited as more environmentally sound which is something that is very important to Target as we move forward with the crafting of this legislation. While there are opportunities to use our railroads, inland waterways, and smaller regional ports to move goods, there are barriers that prevent the concept from gaining broader acceptance with some cargo shippers. To become effective, on-dock or near-dock rail facilities are needed to improve the flow of cargo out of the ports. Also, certain provisions of the Jones Act must be modified such as double taxation of the Harbor Maintenance Tax to benefit short sea shipping. From a shipper's perspective, the handling costs and transit time differences must outweigh those of other modes. With these obstacles yet to be addressed, the concept does warrant additional consideration as we look forward to creating a more national approach to goods movement.

**Financing**

Our Nation needs a long-range comprehensive goods movement strategy that encompasses all modes of transportation with respect to goods or freight movement; this inevitably includes ports, port connectors, intermodal rail connectors, highways and waterways. As the next surface transportation authorization bill is written, Target strongly believes that legislation should provide dedicated funds for goods movement. These dedicated funds should aim to support capital investment in critical freight transportation infrastructure which in turn will provide higher productivity and enhanced global competitiveness. Our competitors, such as China, Canada, and emerging markets such as Vietnam have made, and are continuing to make, significant financial investments in their infrastructure in order to move their goods more quickly. The U.S. must make a similar investment in order to remain competitive in a global economy.

The concepts of public private partnerships, Federal tax incentives, and bonds to promote private investment in funding infrastructure projects must also be embraced. Candidly, we have more projects than we have available funding at the Federal, state, and local levels. Not only would these concepts bring additional funding to the table, but a 2008 Department of Transportation report found that states and localities can reduce project costs and accelerate project delivery through well-balanced public private partnership concession agreements. Bringing more funding to the table through private investment options should be considered to develop a competitive national transportation system.

As mentioned earlier, the Panama Canal is scheduled to be completed in 2014. A specific focus needs to take place on how to potentially help fund the east coast ports as they begin their efforts of expansion. Target is supportive of isolating the Harbor Maintenance Tax in a firewalled account to be used for its original intended purpose of harbor maintenance and dredging projects. This is necessary to keep our inland waterways, locks and dams and ports in good working order and capable of handling capacity well into the future.

As legislation continues to develop, Target, as a large retailer, would like to have a seat at the table as financing options are discussed. Like you, Target is aware of the current revenue mechanisms and understands the challenges we face in increasing such fees. Target understands that as a user of the system, we will have to pay increased user fees in order to maintain and expand current infrastructure. However, we strongly believe that some revenue methods fall disproportionately on the retailer and we hope that an all inclusive national freight policy would focus on raising revenues on all the users of the system.

**Conclusion**

Before I conclude, I would like to commend Chairman Rockefeller and Subcommittee Chairman Lautenberg, for introducing legislation that seeks to establish a new approach and a new standard for the next surface transportation reauthorization. Our country is in need of a national focus that looks at the current system in a comprehensive manner and seeks to address policy involvement from the Federal level.

One of the stated objectives of your proposed legislation is to address the reduction of carbon-related emissions. At Target, we are continuing to take more control of our supply chain, especially in the area of sustainability. Target is a founding member of the Coalition for Responsible Transportation (CRT). CRT is an industry lead solution aimed at replacing older fuel inefficient, high emissions trucks with cleaner alternative fuel or clean diesel trucks using a creative financing model that doesn't disenfranchise independent owner operators. To date, this group has replaced in excess of 1,500 older high emissions vehicles with cleaner lower emissions vehicles.

I am particularly grateful for your ideas and look forward to working with you as the next surface transportation reauthorization bill develops. I want to thank you for the opportunity to speak to you today and would welcome any questions.

The CHAIRMAN. Thank you very much. The case is well-made among the five of you that if we want to keep up with the demand and the opportunity, that we better start thinking about investments pretty quickly, if we're to get it done.

Mr. Gabrielson, as I look at the statistics for Target, all I can do is say, "Wow." Three hundred and fifty thousand employees?

Mr. GABRIELSON. Yes.

The CHAIRMAN. Makes me think back about the company I used to run called ADP. I was a founder of that company, and we did payroll. And if my salesman weren't calling on you——

[Laughter.]

The CHAIRMAN. But, there's no intent to intimidate.

Transportation costs have increased, Mr. Gabrielson, for five straight years, even in the current economic downturn. This is due, in part, to increasing congestion and fuel costs.

How do you place a value on the effects of this to your company? It sounds like you've been responding—how so?

Mr. GABRIELSON. Mr. Chairman, we place a lot of emphasis on our supply chain. We look at having a fluid supply chain without delays, if you will. Any delays that we see in our supply chain, adds additional time. Additional time means that we increase our inventory, which means we increase our costs.

So, we spend a great deal of time looking at the connectors, to make sure that they're fluid, and looking at a number of different modes on how we bring our product in.

The CHAIRMAN. When you bring goods in from out of the country, whether or not you go to rail or truck depends on the precise location of the port that you're dealing with?

Mr. GABRIELSON. Mr. Chairman, our network is large, as you pointed out, and fairly diverse. And with as much cargo as we bring into the U.S., we use a multitude of different gateways and different modes.

We use, as I mentioned, in my comments, we use all modes. So, we use six different gateways, or ports, on our imported product coming into the U.S. We will go through and use truckload and intermodal to deliver it to one of our 37 different distribution centers.

The CHAIRMAN. Mr. Rose, your company is one of the very well-run companies that carry a lot of freight, and the Commission has recommended that creation of a national freight transportation program to fund improvements in our Nation's freight transportation system.

Current Federal investments are focused on highways and aviation, you and I have talked about this, while very little Federal investment has been made in rail and port infrastructure.

Now, looking forward, what do you think is the best way for the Federal Government to obtain a balance in its investments, and include all modes of transportation, and ensure the value of its investments in freight projects?

Mr. ROSE. Thank you, Mr. Chairman. I think, starting with making sure that the model for the railroads, rational regulation allows for private investment to continue to come in. Right now the railroads spend about $10 billion a year in capital. The United States spends about $85 to $90 billion a year on the highway system, Federal, State and local—so making sure that enough private investment can continue to come into the railroads is very important.

The second is that, again, if you look at the holistic supply chain of all of the gross ton miles, and your bill clearly articulated your vision to move X percent of tons off the highway, then you have to incentivize, I think, more capacity to handle it.

It's the same question of, why can't we get more people to use public transportation, and generally we don't have good public transportation networks. Now, there are exceptions to that rule, but with freight, what we've got to do is provide customers—such as Target—world-class service and low-cost facilities to be able to use the railroad more.

And you can do that through tax incentives, you can do it through other incentives, you also might do it through carbon management, cap and trade. You also have to make sure that there's no cross-subsidizing for more use of the highways.

Again, right now, if you look at the Highway Trust Fund every time some Commission does a report, we know we're not getting enough money into the Trust Fund. The Trust Fund is technically going bankrupt—as it was intended to do. The Congress is going to be asked to step up another $6 to $8 billion this year, so over a period of time you're going to be looking at 10 to 12 percent of cross-subsidies from the General Fund, thus violating one of the major issues of user-pay in the Highway Trust Fund.

So, there are a series of carrots and sticks you can use that will eventually get more freight rail capacity, and then customers like Target—you're not going to have to require them—will want to move more of their freight to the railroad, because it's going to be good service, and low cost.

The CHAIRMAN. How—if you're looking ahead 25, 30 years as to what—the opportunities, and the obligations might be for moving freight, how does the current economic downturn fit into that computation?

Mr. ROSE. I think it, realistically, it pushes the need for capacity out by several years. You'd have to answer, first, how fast is the recovery going to be over how many years, but clearly on both the highway, the airport system, the waterway system, the freight rail system—this recession is causing capacity.

I think it also, quite frankly, has the emotional trap, if you will, that we're all going to feel comfortable that, "Yes, there is capacity out there." But we know that population growth is going to happen, this economy will get back to some sort of nominal growth—2, 3, 4 percent of GDP—and when that happens, units in gross ton miles are going to load this system up more, and I think it's going to be harder to make the improvements longer term, than it would be at a time like now when traffic is down.

So, it definitely—has a short-term, I think, relaxation of the need, but I don't see anything that tells me long-term——

The CHAIRMAN. You've got to look beyond that——

Mr. ROSE. Right. It's a very short-term phenomenon.

The CHAIRMAN. You share that view in your industry, with the need to improve the port functioning?

Mr. CLANCEY. Yes, I concur 100 percent.

You've got some breathing room now. If imports and exports had continued at the pace that they were just 18 months ago, on the West Coast, we would not have capacity to move any additional cargo. And we would be telling Target, "You need to go to the Gulf, you need to go to the East Coast, you need to go through Canada," because there simply wouldn't be capacity.

And then, on top of that you need a landing zone, if you're going to connect with the BNSF, you need land on the ground, which is near most of the large cities, to move the containers, to put on the rail beds to move in.

So, the opportunity is now, we've been given a 2- or 3-year hiatus, and we should take advantage of it.

Senator THUNE. Thank you, Mr. Chairman.

Mr. Rose, I'm not sure if this is the study that you referenced, but there was a 2008 Department of Transportation forecast that projected that the tonnage carried by U.S. freight railroads would double between 2002 and 2035. And I think, as you mentioned, currently all investment in freight rail infrastructure comes from private sources.

My question is, how will your industry meet the challenge of literally doubling the freight that it carries over that timeframe?

Mr. ROSE. So, I think there are, again, a couple of ways. One is in that same study, the Cambridge Study, we identified about $37 billion worth of investments, which would be about $3 to $4 billion more a year to be able to meet those needs.

And when you think about $3 or $4 billion a year over a $1.4 trillion supply chain, it's not a lot of money. The problem is, for public policy you all have a very publicly-funded highway system, and a very privatized rail network, which you don't always control financially. There's probably a half of 1 percent of public funding that leaks into the railroad a year, and that's about it.

And so, I think you've got to do it through policy. You've got to do it through incentives, and certainly the carbon legislation is an opportunity, there's risk and rewards for that. You do it through, long-term, looking at our National Energy Policy, and just having, perhaps, incentives to use more freight rail.

And then, on the defensive side, Senator, you've got to make sure that the current way that the railroads make enough money to reinvest doesn't get harmed. Also there's going to be a silent issue, here, the real challenge, I think that John mentioned, is going to be the environmental permitting. The "not in my backyard" syndrome that we face, as well as just the hurdles to be able to permit any facility these days for transportation—and you all also see it on the highway system—it could be 12 to 14 years to get a highway permitted—we see the same thing on the rail system.

And so, we're going to have to have a national vision that says, "We need efficient transportation systems," just like the Eisenhower presidency did. This is a national issue that's going to require sacrifices from everybody, including the facilitation of permitting for environmental reasons.

Senator THUNE. And is that environmental permitting issue all dealing with Federal EPA, EIS-type stuff? Are you running into any of those barriers at the State level?

Mr. ROSE. Absolutely, we get it at the State every day. And it's the State, or the Federal, and a lot of times the Corps—I mean, there are multiple bites at the apple.

Senator THUNE. We certainly see that in a lot of different areas when it comes to the Federal process and how lengthy that can be. And it would be nice if there was a way of harmonizing that with what the States require. It's hard to do that, as you know, States are very particular about maintaining that control, too. But it does complicate things, I think, in terms of the delays that you run into at every different level.

And if you kind of roll them all together, you might be able to shorten or compress the time-frame enough to where it's reasonable. But, if you have to wait for a delay at one level, and another delay at another level, it just all seems to contribute to a growing problem that does delay these projects, significantly.

In his testimony, Mr. Brown recommended slightly increased fees that would generate revenue for projects that improve the movement of goods. Is that something that you might support?

Mr. ROSE. Yes, so on the Surface Transportation Policy Commission, we recommended a 5 to 8 cent-a-gallon fuel tax increase over the next several years, and of course that wasn't well-received. We understand, it was during record-high fuel prices.

So, on the highway side, the Commission felt like the user-fee approach is the right approach. And we're seeing in the Highway

Trust Fund having to be bailed out. It just shows you the lack of money that goes into that.

On container fees and freight fees, there's probably only one area that we can point to a successful program, and that's in the Alameda Corridor, where there was a container fee placed, and customers such as Target pay that, and in this case there was very tight governance, and everybody saw that those monies actually went into the facility.

What drives customers crazy, and I think rightly so, is when fees are collected and they go off-property for various programs. And so I think that everybody is highly reluctant to accept any type of container fee or freight bill fee, because they suspect that it will go off and do something else.

I would recommend if, as a country, what we really ought to do to start with, and call it a pilot program, for 5 years, take a quarter of the customs fees—because customs fees are really a great surrogate for freight movement—take a quarter of the customs fee, and create a freight fund, and give it to the local MPOs to manage. Give them guidance on how they should spend that money on freight projects. And then look back on it in 5 years and decide, if it doesn't work out, if the money's going to other than real freight mobility projects, pull it back in.

And, if it does work then, I think, again it's a great collection mechanism, collection's already in place, and customs fees really do escalate with freight movements.

Senator THUNE. I want to ask Mr. Gabrielson the same question, about the proposal Mr. Brown made regarding these fees—bills of lading-type fees—and whether or not that's something you would support.

Mr. GABRIELSON. Senator, it's a very creative funding measure, but there are concerns about how the program would be implemented. Currently, there is no method to uniformly collect waybill information. Some users of the system don't even use waybills.

But the concept does warrant additional consideration, and we would welcome the opportunity to have a seat at the table to discuss it further.

Senator THUNE. Mr. Gabrielson, do you have any estimates on how much current system inefficiencies and congestion cost Target, in a given year?

Mr. GABRIELSON. Senator, I do not have that information at my fingertips—I could get back to you with it.

Senator THUNE. Well, maybe it's not something you keep, but it would be interesting to know how much of your cost structure is driven by just these types of congestion and capacity problems that we were referencing earlier.

Mr. GABRIELSON. It is—the way that I would respond to that is that we, as a shipper, like a lot of shippers, we look for predictability. And when we don't have that predictability, we oftentimes go through and add additional time into our supply chains.

And so, one effective way of measuring that is the additional time that you have in your supply chain of those bottlenecks, is what adds to your inventory, and that, in turn, adds to your costs. And we watch that very carefully. And with that, we look for a diverse network where we're able to minimize, and spread our risk out. We look at our transit times very closely, and that is something that is concerning to us, that as we move forward with a development of a policy, we look for the opportunities to develop, not just the projects, but also those connectors.

Because if we work on a given project, and we don't take care of the connectors that go along with them—whether it's a near-dock rail opportunity, or it's a non-dock rail—we really haven't reduced congestion, we haven't taken trucks off the road we haven't, you know, capitalized on using rail or other activities, so to us that's very important, and we look at it all the time.

Senator THUNE. What's your split right now, in terms of how you move freight, truck versus rail? Do you happen to know that off the top of your head?

Mr. GABRIELSON. I do, Senator. Approximately 60 percent of all of the truckload activity that we move is intermodal.

The CHAIRMAN. Mr. Brown, under the current Harbor Maintenance Tax, maritime freight shipments may be taxed twice—once when the cargo first enters the country, and again if it's transferred to a second U.S. port.

How has the Harbor Maintenance Tax affected your efforts to increase the use of the inland waterways for moving freight? Should we eliminate this competitive disadvantage for marine maritime shippers?

Mr. BROWN. Senator, I think that upon investigation you would find that probably less than 2 percent of all cargo is now moved on inland waterways, which does leave us a lot of room for improvement, as you can imagine.

The other thing is, is that each individual State seems to have its own set of rules and regulations pertaining to taxation, and/or harbor maintenance or harbor management, or whatever.

The Corps of Engineers, for example, do a great job. They've got 1,100 ports that they maintain—ports and harbors that they maintain—on inland waterways and coastal ports. Of that, probably—there are probably less than 60 of those ports that are actually really good, viable, commercial ports of operation.

That's not to say that the other 1,000 are not being utilized, but they're just not being utilized to the extent that they could or should be.

I think some of the problems with coastal shipping, container-on-barge operation, not having scheduled services, rather than having scheduled services, it's a demand service, when and if they get a load, they'll move it, that sort of thing. But, scheduled service, State regulations—there are several other factors other than just the Harbor Maintenance Tax that influence those charges along the inland waterways.

The CHAIRMAN. Mr. Roper, the Port Authority of New York, New Jersey—a unique body, I don't know how many ports around the country have more than one State with decisionmaking. And I think the Port Authority is a terrific agency, it has the profile of the State, directly in their view, but they have to take care of the things that affect the bi-State activity.

We're looking at an expansion of traffic coming in as a result of the widening of the Panama Canal. Does the Port Authority expect to see significant traffic coming in as a result of that? And what, if anything, are they doing to prepare for it?

Mr. ROPER. Mr. Chairman, we do, indeed, anticipate that there will be an expansion in goods movement in the region. As a matter of fact, we have put in place a planning process that focuses on goods movement—comprehensive goods movement—in the region, looking to the year 2035.

We are working collaboratively with both New York and New Jersey in framing this plan to sort of map out what the network—the goods movement network—ought to look like, where the bottlenecks are and how we might address those bottlenecks.

While we're working with New York and New Jersey, we've also enlisted the aid of Pennsylvania and Connecticut in the planning process, they provide ongoing consultation, as we try to structure something that all four States will find responsive to their needs.

But this is good, only as far as it goes, or will go, because the plan really needs to be part of a national strategy that looks at goods movement as a nationwide, a system wide issue.

So, the Port Authority wants to play, and will play, a leadership role in trying to frame, if you will, a regional response to the needs for improved goods movement, but we really will depend upon the Federal Government to help us put it in a national context.

The CHAIRMAN. Having the five of you on this panel is a very positive thing, because there are those who are dependent on intermodal transportation to satisfy their needs, and those who individually carry a significant part of the picture.

And here we have a quasi-government agency that's very involved. I noted in your comments before that between 2002 to 2007, the Port Authority and Marine Port tenants provide $2.4 billion to begin channel deepening to 50 feet to modernize port terminals and make major rail improvements. In order to be competitive, and you're competitive with one another, it's reasonable competition—do other ports around the country have the same availability of resources to make improvements? And if not, what do you think should happen with a Federal subsidy of these projects?

Mr. ROPER. Well, I think other parts of the country may not be as well-positioned as the Port Authority of New York and New Jersey. We think that like the transportation program, generally, that meeting the Nation's needs will require a range of resources, if you will, resource commitments.

And where freight is concerned, those resources would involve Federal aid, it would involve Federal credit assistance, and perhaps incentives, that's right.

But there's also a component that has to be addressed in the form of user fees, and those fees, we believe, are appropriate when they are targeted at those parts of the system that are of benefit to the firms, the individuals, the institutions that benefit from them.

The CHAIRMAN. Just as a point of interest, what are the sources of revenue for the Port Authority of New York and New Jersey?

Mr. ROPER. All of our revenue comes from the——

The CHAIRMAN. Fees that——

Mr. ROPER.—individuals who use our facilities. Fees——

The CHAIRMAN. But, you have the transportation accesses, in between the——

Mr. ROPER. New York and New Jersey.

The CHAIRMAN.—the States, you've got toll bridges——

Mr. ROPER. Correct.

The CHAIRMAN. You've got several toll road operations coming into the area.

Mr. ROPER. And our tenants at the ports, and at the airport.

The CHAIRMAN. I just mention that for the general interest, here.

Mr. ROPER. We receive no tax dollars.

The CHAIRMAN. I'm glad to hear you say that.

[Laughter.]

The CHAIRMAN. In any event, Senator Thune, do you have anything else?

Senator THUNE. I'm glad you asked a question about the Panama Canal, Mr. Chairman, because that's also something that I wanted to get some reaction to.

The CHAIRMAN. You want a canal to South Dakota?

Senator THUNE. Yes, that would be great.

[Laughter.]

Senator THUNE. You don't know how many problems that would solve if we could do that, but—actually, I'm sort of interested in just maybe a generic question for the entire panel.

As you know, around here we're always looking for things to do, but I think the important thing is that we do no harm. But, if you had to suggest one thing that Congress could do as a matter of public policy to help ease the congestion and the capacity challenges that we face in our freight transportation system. Maybe it's hard to narrow that down to one thing, so feel free to elaborate if you'd like to, but just give your thoughts about what we might be able to do, here, as a matter of policy that would help provide some relief, while making sure that we aren't creating inefficiencies or contributing to inefficiencies in the system that are causing or creating big losses in productivity.

Mr. BROWN. Senator, if you don't mind, I'd like to go first on that.

As a Director of Transportation, and involved with the Association of Transportation Officials, we're not limited to one mode. Our mission is to serve all five modes of the transportation industry.

Intermodalism, and multimodalism is the key and the backbone to moving goods and freight, for goods movements and all freight movements, as we all know.

In addition to that, this backbone that we have, called a highway system, is inevitably a part of every one of those goods movements. Highway congestion, largely, is compounded by the word freight.

Today, when we build a highway, unlike in the 1930s and the 1940s when the CCC and the WPA mobilized in a stimulus program to build highways, the capacity of the loads were quite low. Many of those roads, most of those roads—particularly in my part of the country, in Southwest Mississippi, we still have an enormous amount of use of those concrete roads that were put in by that stimulus program.

Now, the reason that they're still there and functional is because they've not been carrying 80,000 and 90,000-pound loads of freight, day in and day out. They carried small, lightweight vehicles for so many years.

Today, in today's environment, if we wanted to build a system of highways for passenger cars and light trucks, we could build those roads today, instead of $10 to $12, $15 million-per-mile, we could duplicate that for a million-and-a-half to $2 million-per-mile.

We would do maintenance on that same roadbed about every 40 years, instead of spending $15 billion to $30 billion-a-mile with interchanges and connections, and grade crossings and separations, and all of the things that we see in a transportation highway network today, because of freight and heavy loads, you will see that we build those roads and we have a maintenance schedule every 8 to 10 years.

The problem that I'm pointing to is that in every case—regardless of the mode—it always ends up, inevitably, on a highway. And those loads are doubling, and—the amount of transportation needed for that freight backbone is doubling, you know, in rapid-pace time. You know, some people say every 20 years, some people are saying 30 years—it doesn't matter, they're doubling. And the weights are getting bigger, the loads are getting longer, and it's costing more and more and more to duplicate what we had early on.

When I say duplicate it, it's not a duplication, it's a very widely expanded role that our transportation network, or people—and vision for people—is now providing. It's a freight system, now, it is not a passenger car system, or a light truck system.

This gentleman's movement into the—from the maritime market, into ports and harbors, along with the transfer of containers, which is now the largest user of rail freight in our country today. I guess, I don't know, is it out—it may have not out-run coal, yet, but—it has out-run coal, he has confirmed that. So, all of this transportation that we talk about in the intermodal and the multimodal connections that are involved, come back to one thing, sir. And that—to address your question, congestion is caused by the rapid rising number and doubling of the need of freight on our highway network.

The CHAIRMAN. If I can jump in here with a question that your statement has provoked, do you think that load weights ought to be carried differently? Would you advocate for an increase?—I caution you in advance that I have taken a stand against the expansion of triple trucks, that were grandfathered in some States, but they sit there, just like that. But the wear and tear function—how much deterioration or wear comes from heavier loads?

Automobile traffic is one thing. But when you put trucks that are longer than, what's it? Fifty-eight feet is the maximum singles, I think—you get quite a difference in the depreciation of the road bed.

Mr. BROWN. Senator, I'm not an engineer, I should tell you that on the front end, and—although in the last 8 years, since I've been at the Department of Transportation in Mississippi, some of my good friends are engineers. Prior to that I wasn't so sure.

But, I will tell you, you don't have to be an engineer to ride down a road bed and to see ruts on a rainy day. How many terms have you heard of hydroplaning in an automobile, or hydroplaned yourself, during a rainstorm on a highway? That rutting is not caused by light passenger vehicles and pickup trucks. It's caused by the enormous weight limits that we're imposing on that road bed.

Where we used to put a 6-inch road base in the State of Mississippi, now we're putting 16 inches. We're trying to preclude the need for this maintenance, over maintenance, or maintenance, because of the freight of the freight of the freight.

We're not trying to eliminate freight, by any stretch of the imagination. Freight is critical and we believe in a freight program—national freight program for our country—and we believe in providing a strong, integrated freight multimodal network.

But we've got to be reasonable in what we impose in the way of weight limits and truck lengths onto that infrastructure.

Mr. CLANCEY. If I could come back to—Senator, to your question about, you know, our suggestions, I would use one word: priority.

We are becoming a trading nation, much more so every day, and the percentage of GNP in international trade is growing. And our competition, the people that make our cars and our clothes and our electronics and every day it seems another product. In countries like Hong Kong, all of these cities—Shanghai, Singapore, Bremen, Antwerp, Liverpool—they understand that international trade is a priority.

So, when they want to expand a rail yard or a port or the interconnection of both, the people in the country understand it's a priority, and they're able to move and get their things done quickly, whereas this country you deal with a city, then a county, then the State, and there are many branches of the Federal Government that goes on and on and on.

And you might say, "Well how would it affect South Dakota?" Well, if we increase the cost of transportation in our intermodal system because of congestion, the price of your grain and the price of your beef is going to go up, and America will become less competitive and less competitive.

So, we just have to understand, if we want to compete, we need to be efficient.

Mr. ROSE. Mr. Chairman, I'd just like to, Senator Thune, you asked Rick a question of how much inefficiency costs? And if you just think about 1 percentage tick-up on the supply chain cost, that's about $14 billion. And we've seen that number move into two to three points. So, $14 billion for every hundred basis points, and yet that's really just the scratching point.

Because what John was saying is, what's really important, here are the tens and tens of millions of jobs that are created, because we do trade globally. Because of the amount of exports we do, and as our supply chain costs go up, that's the real economic damage to this economy. It is going to be in the lack of competitiveness for our society.

And that's why China, you know, our—I said earlier, our supply-chain cost is a percentage of our GDP, roughly 10 percent—China is almost double that. And that's why they are spending hundreds of billions of dollars of infrastructure investments, really just taking a page out of what we did in the 1950s and the 1960s, because they see it as an imperative to be able to put their people to work.

Mr. ROPER. Senator Thune, I would offer a couple of things only. One would be that we add a freight policy and program element to the new transportation bill, one that—that promotes expansion of our goods movement system. And second, to create a Federal framework within which that's done.

Mr. GABRIELSON. Senator, I would respond by saying that we need the—a priority in the last mile connectors. In order for this country to remain competitive, we need to make sure that we have a fluid integrated supply chain, and part of that means that we have to have a fluid connection, from the moment it comes into the country, until it gets to its final destination point, whether that's on rail, or whether that's on the interstate system, we need to make sure that that's in place.

The CHAIRMAN. Define that, I'm not sure I understand exactly what a fluid——

Mr. GABRIELSON. Fluid, yes, integrated fluid supply chain. Mr. Chairman, an example that I would use might be in Southern California, where there's a proposal to put an international gateway, it's called SCIG. It just happens to be with BNSF, but there's an opportunity to move forward with the development of that near-dock rail system, which would really allow truck users to—take more trucks off the road, moves the containers and the—the containers closer to the railhead and allows you to go through and really reduce congestion on the freeways in Southern—in this particular case—Southern California. And most gateways have examples like that.

The CHAIRMAN. Mr. Rose, you would agree?

Mr. ROSE. No, he laid it out very well. The alternative is that we drag these containers 19 miles to a place called Hobart Yard, I appreciate the communities that are impacted by that. We must have a more national transportation vision of imperatives, to be able to say this is really important for the citizens of South Dakota, or this is important for the citizens of Ohio and New Jersey.

That's the thing people don't understand, is that the trade—the efficiency of trade benefits—it not only benefits the coastal cities, but it benefits the middle part of the United States as much.

The CHAIRMAN. Unless you have anything.

I'm now going to turn the gavel over, the silent gavel here, I note, to Senator Udall, and he'll continue the hearing.

## STATEMENT OF HON. TOM UDALL, U.S. SENATOR FROM NEW MEXICO

Senator UDALL [presiding]. Thank you very much, Mr. Chairman, before you slip out the door or as you're slipping out the door, I just want to compliment you on your Surface Transportation Bill. I think you're really looking forward for the country.

I'm sure some of the answers you've heard from this panel and from the testimony I've heard is that we need to be more competitive. So I think what you're really telling people is we have to be more efficient, we have to look at the rails, we have to look at barges, we have to look at truck traffic, and we have to do this in the most efficient way possible. And so I compliment you on your bill and I want to work with you on it.

The CHAIRMAN. Thank you very much. It's not entirely unselfish, because if we don't do that, I may have to stay here two, three more terms.

[Laughter.]

Senator UDALL. We want to celebrate your 100th birthday in the Senate, OK? So that would get three terms, wouldn't it, Mr. Chairman?

OK, so I've got the silent gavel. I don't actually have the gavel, but Senator Thune and I will do all right here, I think.

Let me ask you, and I know that you've already responded in some sense to this, but when you all use the word competitive, the representative target here, talking about competitive. To me, that means being more energy efficient, and taking our system that we have now and trying to move forward and be more efficient with it, whether it's moving things on barges, which is apparently more efficient than rail and truck, or moving things better on rail, which is more efficient than trucks. And, when you're doing the short-term, the trucking has a key role to play, when you get into the inner-city and that kind of thing.

And, what I want to ask you is, with the—the system that we've grown into today, what do you all recommend that we do in order to try to encourage you to be as efficient as possible in your area, and then looking outside your particular area, how do we do it in the overall system, in order to stay competitive as Mr. Gabrielson said? You know, he's looking at trying to stay competitive with many other companies around the world, and how do we do that? I'm happy to hear from any of the panelists here.

Mr. ROSE. I think it's obvious that we've never harmonized our energy policy with our transportation policy. And, really only over the last few years we've begun thinking about that. And then of course, inserting itself, now into the debate is climate policy.

If you think about the challenge of harmonizing all three of those, that's really what's going to have to be done. But the practical reality—you have to identify the most efficient routes and the most efficient modes of transportation. And then you have to remediate those bottlenecks that stand in the way of allowing those efficient routes to occur. If you don't—what happens is, the freight's always going to move. Target's always going to find a way to get the next box into this country. The last box will be incredibly inefficient, it will be inefficient probably from a carbon standpoint and from an energy standpoint, but that's what they must do to sell stuff to their customers.

And the lack of a national vision to harmonize all those things, will just allow bottlenecks and inefficient routes to occur in our society. And we see it, what you have to do is look at the congestive costs on this society. The people who study it now say that we're incurring $60 to $80 billion a year of just congestive costs. And that doesn't even begin to address some sort of carbon cost, as we think about our energy programs going forward.

Senator THUNE. But Mr. Rose, you're going to support us when we put a price on carbon and try to move ourselves into this renewable future that President Obama has been talking about?

Mr. ROSE. I have a—I have a different view on how to manage carbon in this country, respectfully.

Senator THUNE. Please, please go ahead, tell us.

Mr. ROSE. I think when—the cap and trade programs that have been discussed, and when government starts picking winners and losers and allocating credits, I think it's dangerous. And,—and to me, if you really want to address carbon, you do it through a carbon tax. You would see a change in behavior with the carbon tax.

Senator THUNE. But, you would——

Mr. ROSE. That's my only—that's my personal opinion, not representing anybody.

Senator THUNE.—not even representing your company?

Mr. ROSE. No.

Senator THUNE. No, OK.

I don't want to cut you off on that earlier question, but I'd also be interested in hearing from the others on the second question I asked Mr. Rose.

Mr. BROWN. I'd just—just jump in right here, Senator, and just pad—the congestion mitigation, you know, that Mac referred to in the end of his comment, is something that's a broad, broad range. I mean, congestion mitigation, you think of it in terms of idling time, you think of it in terms of the last mile that Mr. Gabrielson talked about at the port intermodal connector highways. You know, anything that's going to move this freight faster through New Orleans, through, you know, going east to west, or off of Long Beach, you know, through the Alameda Corridor, and—and what do you do about the congestion of empty containers.

You know, that's the thing that—that I'm sure the steamship lines can speak on, and would love to talk about more and more. You know, what are we doing about the amount of empties that we are accumulating in this country. You know, our country right now is covered with—with mobile home housing, and now there—auxiliary buildings are becoming merch containers. Everything is, you know, out there with a box that's been sold rather than returned. But all of those cost of—of handling inefficiently can contribute to the problem of then carbon tax, you know, inefficiency, congestion is where—is what we're going to have to deal with in order to keep the freight moving, rather than stopping and starting.

Mr. ROPER. Senator Udall, I've been sitting here trying to think of something to say that was insightful, that transcended what Mr. Rose has already offered. And quite frankly, he's put it in a nutshell. I can't think of a better way of articulating what needs to be done, in order to improve the efficiency and address the issue of competitiveness. And that's addressing the bottlenecks and reducing their impact.

Senator UDALL. Any other panelists there?

Mr. CLANCEY. I concur with what's been said.

Senator UDALL. OK, thank you.

Senator Thune, do you want another round here to jump in. I want to give you an opportunity here.

Senator THUNE. I've probably had my opportunity to ask questions, Mr. Chairman, and now that we have Mr. Rose on record supporting higher taxes——

[Laughter.]

Senator THUNE. We may have done enough damage today, I'm not sure.

Senator UDALL. OK.

But, Mr. Rose, I don't know how much you've studied this whole idea of a carbon tax, but I want to emphasize one thing. We went through this with the power plants and sulfur dioxide. And, you know, there were two big approaches then. One was, just like you say, everybody said the only way you're going to get it to work is with a tax. And what they did is what's similar to this cap and trade. We capped sulfur dioxide and then by capping it, and saying that we were going to move down in those emissions, the industry came in much more cheaply and quicker than we ever thought it could happen. And all the folks at the end of the show, that were arguing a carbon tax, realized that the—they were arguing for such a high tax, that it really wouldn't have done the job.

And so, I think there's a real argument on cap and trade. The allocations, you're right, are tricky, but if you actually do cap emissions and, as a result of capping emissions, put a price, a significant price on carbon emissions, across the board, you know, not treat favorites like you're talking about.

If your carbon dioxide emissions, per ton, wherever they are, they—at, you know, upstream of the system, way up in the system, you put those on. I think we would unleash an incredible amount of creativity and ingenuity in American business, and I think we would end up finding it to be much cheaper, I really do.

I'm hoping we'll persuade Senator Thune to come around to this free market idea. I mean, that's really one of the reasons that I like the idea of a cap and trade, is because you're using the market, and we have the option of persuading some of our Republican friends to maybe say, "Well, this is a better way than a carbon tax," especially with that sulfur dioxide history there.

So, we appreciate you weighing in on a personal basis, and unless Senator Thune has some other questions here, I think I'm going to gavel this to a close. We're all running a little late because we went long on the floor, and I think our meetings are backing up. We really appreciate all of you being here and appreciate your testimony. And any statements that need to go on the record, I'm sure that will happen.

So, I'll just use this as a gavel. Thank you all.

[Whereupon, at 4:16 p.m., the hearing was adjourned.]

# A P P E N D I X

*American Association of Port Authorities* Editorial—February 4, 2009

## AAPA Surface Transportation Authorization Guiding Principles

*Seaports continue to be a critical link for access to the global marketplace. Each year, seaports throughout the Western Hemisphere generate trillions of dollars of economic activity, support the employment of millions of people, and import and export more than 4.5 billion tons of cargo, including food, clothing, medicine, fuel, and building materials, as well as consumer electronics and toys. The volume of cargo shipped by water is expected to dramatically increase by 2020 and the number of passengers traveling through our seaports will continue to grow. To meet these demands, American Association of Port Authorities and its members are committed to keeping seaports navigable, secure and sustainable. AAPA supports the creation of a national freight program that includes*:

- Funding for projects and corridors of national and regional economic significance based on cost/benefit analysis which considers externalities (including environmental impact) and encompasses all modes and existing corridors as well as new ones.
- The American Association of State and Highway Transportation Officials (AASHTO) recommended the State Freight Transportation Program and National Freight Corridors Investment Fund with the stipulation that port authorities are a key part in the planning process in both the Federal and state programs.
- Port Authorities should be eligible to apply directly for project funds through the aforementioned Federal and state freight programs.
- Funding for intermodal freight connectors (highway, maritime, rail) which are vital to port efficiency and cargo mobility.
- Investments in rail and the development of marine highways (more specifics on these below).
- Expertise at the state/metropolitan planning organization (MPO) level on marine highway alternatives/benefits as well as dedicated freight offices with coordinators, programs, and funds that support what is devolved down from the Federal level.

*With regard to program reform, AAPA supports a performance-based approach* which consolidates the existing 108 surface transportation programs into 10 programs (one of which is freight transportation) as recommended by the National Surface Transportation Policy and Revenue Study Commission and AASHTO. *AAPA also supports establishment of a multimodal freight office that reports to the Office of the Secretary* at the United States Department of Transportation.

*AAPA supports improving project delivery* by addressing environment review inefficiencies and National Environmental Policy (NEPA) redundancies that cause project delays and cost overruns, including delegating NEPA responsibilities to appropriate state agencies.

*AAPA supports investments in freight rail* that make the system safer and more efficient, improve environmental sustainability and encourage competitive rail access to ports. The Federal surface transportation program should:

- Provide tax credit incentives for main line and short line railroads to invest in port access.
- Include a grant program with cost-share (Federal/railroad) for projects with both public and private benefits.
- Define freight corridors of national significance that would be eligible for rail investment (Increase expertise in state departments of transportation and MPOs on rail access issues).

*AAPA supports the development of marine highways* that alleviate highway congestion and improve environmental sustainability through:

- Harbor Maintenance Tax exemptions for certain U.S. port-to-port cargo.
- Federal funding support for short sea shipping services.
- Establishing a new program similar to the ferry boat discretionary program and encouraging more utilization of current Federal programs—such as Congestion Mitigation and the Air Quality (CMAQ) Improvement Program to fund projects for short sea shipping services.
- Incentives for shippers (ex: green tax credit).
- Development of expertise at the state/MPO level on marine highway alternatives/benefits.
- Reassessment of Federal shipbuilding programs exploring how they could support marine highway development.

*AAPA believes that a combination of funding mechanisms* will be necessary to address freight mobility needs in the U.S. These funding mechanisms should not disadvantage U.S. ports in their ability to remain competitive. Supported funding mechanisms include:

- A share of revenue from customs duties devoted to funding freight mobility infrastructure improvements.
- An increase in the gas tax and a future indexing mechanism as recommended by the National Surface Transportation Policy and Revenue Study Commission with a percentage of the new proceeds dedicated to funding freight mobility infrastructure improvements.
- An increase in the diesel tax, and a future indexing mechanism with a majority of the new proceeds dedicated to freight mobility infrastructure improvements.
- A portion of any carbon tax or climate change program revenues be made eligible for investments made by freight transportation to reduce its carbon footprint.
- Public-Private Partnerships (PPP) where each sector pays in proportion to the benefits they derive from the capacity generated by the infrastructure.

*AAPA believes that if a freight trust fund is created under this surface transportation authorization,* it should be fully spent on freight transportation and not used for deficit reduction. Appropriate projects that are freight-related should still be eligible to compete for other Federal funding sources.

*Some have proposed adopting a port cargo fee to pay for freight projects. If adopted, it must be levied equitably over all types of cargo including imports and exports, and not solely based on containerized cargo, which AAPA strongly opposes because it is inequitable. Freight projects benefit the movement of all types of cargo. If a broader port cargo fee is adopted by Congress, the structure of the fee should reflect the following recommendations*:

1. for port authority cargo all revenues collected should be returned to the port authority where the fee was collected to be used for projects directly benefiting freight mobility;
2. be levied equitably over all types of cargo, including both imports and exports;
3. assessed at all international ports entry (air, land and sea);
4. provide ports the discretion to "opt-out" from the fee program and
5. the fee should not negatively affect the Nation's bulk or breakbulk export products (*e.g.,* grain, coal, paper products), making these commodities uncompetitive in international markets.

COASTWISE COALITION
*Washington, DC, June 16, 2009*

HON. FRANK LAUTENBERG,
Chairman,
Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety, and Security,
Senate Committee on Commerce, Science, and Transportation,
Washington, DC.

Dear Mr. Chairman:

The Coastwise Coalition is a diverse group of ports, shipping companies, labor unions and others who have been working together to advance increased use of the fuel efficient marine mode in our national transportation system.

As the Subcommittee prepares to meet on June 18 to hear witnesses address "Freight Transportation in America: Options for Improving the Nation's Network," we take this opportunity to highlight one such option that deserves the Committee's attention and support. Our objective is in keeping with some of the goals expressed in S. 1036, which you and Chairman Rockefeller introduced, including to increase the proportion of freight transportation provided by non-highway and multimodal services.

The Coalition affirms its support for legislation such as you have introduced, Mr. Chairman, to exempt non-bulk cargoes moving between our Nation's ports, or between Great Lakes ports, from the Harbor Maintenance Tax. That legislation, S. 551, could serve to foster the marine highway option and thus ease the traffic burden on certain of our highways and reduce freight related fuel consumption and air pollution, while strengthening the U.S.-Flag Merchant Marine—at virtually no cost.

Today, the movement of containers or trailers or other non-bulk cargo by vessel between continental U.S. ports, and in non-export moves between ports on the Great Lakes, is subject to the Harbor Maintenance Tax (HMT). This tax is the responsibility of the shipper of the cargo, not the vessel operator. It creates two discouragements to moving cargo by water between, for example, Boston and Jacksonville, or Oakland and the upstream ports of Stockton and Sacramento, compared to moving that cargo by truck or rail. Shippers must complete and file forms (with U.S. Customs and Border Protection) and pay the tax. If there is any question as to how the HMT is a disincentive one need only observe how the Detroit-Windsor Truck Ferry returns empty from Canada.

At least in part as a result of these disadvantages in cost and customer convenience (compared to land movement of the cargo), few maritime services in these commercial lanes have emerged. Thus there is little of this maritime commerce to subject to the HMT. The few existing operations are generally viewed as serving niche markets. However, compare that to the potential for additional lanes of "highway" along crowded metropolitan corridors and even the entire East Coast. Legislation such as you introduced, Mr. Chairman, with Senator Vitter and other senators would eliminate those barriers and help unlock the potential of this efficient option for moving freight.

The potential benefits of eliminating this barrier to development of the marine highway are considerable. The legislation has considerable potential to:

- Ease landside congestion.
- Ease need for expensive new landside corridor capacity.
- Ease air pollution through increased use of the fuel efficient, low polluting maritime mode.
- Encourage construction of new and more efficient vessels.
- Create U.S. citizen port maritime jobs and strengthen the active base of U.S.-flag vessels and mariners for national security.

Moreover, it is our understanding that the Joint Committee on Taxation and the Congressional Budget Office are familiar with proposals such as S. 551 and have indicated that the score for such relief would be minuscule—approximately $2 million annually. This is not surprising given that the administrative and financial obstacles to short sea shipping posed by the HMT have thwarted its use. Thus, there is little or no cause for budgetary objections to the legislation.

Before closing, I note that while our coalition has focused much of its energy in support of legislation such as S. 551, there are additional means by which the Senate can support the development of domestic marine freight transportation as an important element in the national surface transportation system. We encourage the Committee to look for policy opportunities to create incentives and in other ways advance marine highway development and improve marine transportation in this country.

A final note: Not having an opportunity to collect signatures for this letter I have attached for the Committee's reference a recent letter to another congressional committee on the subject of the HMT. The listed signatories indicate the breadth of support for the change we advocate and contained in S. 551.

Thank you for your consideration of our views.

Sincerely,

PAUL H. BEA, JR.,
*Chairman.*

Attachment

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COASTWISE COALITION
*November 10, 2008*

Hon. CHARLES RANGEL,
Chairman,
Committee on Ways and Means,
U.S. House of Representatives,
Washington, DC.

Dear Mr. Chairman:

As the Congress considers elements for the economic recovery/stimulus legislation, the Coastwise Coalition recommends that any such legislation create an exemption from the Harbor Maintenance Tax for carriage of domestic and Great Lakes non-bulk cargo. Doing so would remove a barrier to use of U.S. flag shipping and thus foster job creation in the maritime sector.

The Coastwise Coalition is a diverse group of public and private sector organizations and individuals including ports, maritime labor unions, shipyards, transportation professionals, vessel operators and other transportation providers, and others in the maritime industry and workforce.

The Coalition's purpose is to promote the use of waterborne transportation as a safe, economical, energy efficient, environmentally beneficial, and sustainable means to meet a growing need for reliable transportation options and capacity. Congestion on our land routes is a fact of life in many major corridors and most metropolitan areas of the country. Greater use of marine transportation on domestic ocean and water routes and on the Great Lakes can relieve part of the increasing demands on the Nation's major highways and rail system by providing additional routings for cargo.

Increasing domestic coastwise and inland shipping services would stimulate job creation in the maritime industry while providing cargo owners, transportation intermediaries, trucks, and rail carriers a safe, reliable, and cost competitive transportation option. In the process, our transportation system can improve in terms of energy efficiency, environmental impact, and reduced stress on corridor communities.

To achieve these short and long-term benefits, Congress should promptly enact legislation that would exempt carriage of non-bulk domestic and Great Lakes cargo from the Harbor Maintenance Tax. This is cargo currently moving largely on congested and aging highways that can have the option of moving on water routes. There are some exemptions to this tax already, notably when the vessel movement in question pays the inland waterways fuel tax, for passenger ferries, and for certain shipping that serves Hawaii, Alaska and U.S. possessions. However, absent applicability of exemptions, or an unusually strong special niche market, the HMT is a serious barrier to moving these non-bulk cargoes on water in domestic or Great Lakes service, as we explain.

The Harbor Maintenance Tax is an *ad valorem* charge—0.125 percent—on international cargo entering this country, on domestic cargo moving between U.S. ports, and cruise passenger tickets. The tax, which is paid by the cargo owner, discourages the use of marine transportation by intermodal cargo in several ways.

First, at a time when all business is extremely cost conscious, the charge itself can be a major barrier. It is a charge not imposed on land transportation moves. Second, there is an administrative barrier. A considerable amount of the freight moving on the congested Interstates and major corridors is in consolidated shipments such as you would find in a UPS trailer. Use of the marine highway alternative would obligate the owners of goods with a value over $1,000 in the truck to file separately the appropriate HMT payment with Customs and Border Protection, the collecting agency. That, of course, assumes that the shipper knows that the truck opted for the water route.

Similarly, if an international containership operator wanted to consider routing import cargo to its destination via a coastal shuttle, new charges and customer paperwork would apply that does not apply if land carriers were used. Further, in this context, where the import cargo is already assessed the HMT for the transportation to the entry port in the U.S., using the marine highway can result in the cargo having to pay the HMT twice. This is the case even though the coastal vessel has a far shallower draft than the importing vessel. In the larger gateways the harbors are being dredged to maintain depth principally for the large transoceanic vessels. There the shallower vessel is not causing the need for the dredging that is paid for by the proceeds of the HMT.

In short, when one is trying to persuade potential customers to try a new solution to their transportation problems, it doesn't help to say that extra charges and paperwork would be a part of the new approach. The HMT is a serious barrier to success for vessel operators trying to establish new services and attract non-traditional customers of marine transportation.

Because of these barriers, however, these marine services have had difficulty being developed at all. As a result, the Treasury collects very little revenue from the HMT in the context of carriage of non-bulk domestic and Great Lakes cargo (including cargo carried on rolling stock such as trucks, trailers and rail cars, as well as cargo in containers or in the form of vehicles). Further, these barriers discourage shipbuilding plans for these services, with the attendant lost opportunity for American shipbuilding jobs. So, enacting the exemption will provide stimulus and longer term economic and societal benefits with little if any cost to the Treasury.

This is well illustrated by the facts regarding the Detroit-Windsor Truck Ferry, which operates between the U.S. and Ontario and primarily serves trucking carrying hazardous cargo. It provides an essential alternative to the heavily traveled Ambassador Bridge and long distance alternatives. The operator of this barge service testified on February 15, 2007, before the Coast Guard and Maritime Transportation Subcommittee that hazmat trucks use the service in the direction of Canada but that trucks bearing cargo and originating in Canada do not use the service expressly because of the Harbor Maintenance Tax. Thus, the most desirable route for hazardous cargo—away from the crowded international bridge and a significantly shorter distance than other route alternatives—is discouraged by current law.

In summary, there is an opportunity for innovative, new maritime service that would:

- create U.S. citizen maritime jobs, strengthening the active base of U.S.-flag vessels and mariners for national defense;
- stimulate shipbuilding, with the associated jobs;
- ease landside congestion;
- ease the need to construct new, expensive landside capacity;
- utilize an energy efficient, less polluting mode; and,
- involve very little cost to the Treasury.

The merits are compelling, short and long term.

Accordingly, we strongly urge the Committee and the Congress to enact now legislation to exempt carriage of domestic and Great Lakes non-bulk cargo from the Harbor Maintenance Tax. We thank the Committee for its consideration of our views and we respectfully request that this letter be included in the record of the Committee's hearing of October 29, 2008.

Sincerely,

PAUL H. BEA, JR., *Chairman*
Coastwise Coalition

JAMES HENRY
Transportation Institute

DAVID SANFORD
American Association of Port Authorities

KAREN MYERS
American Maritime Officers Service

JOSEPH J. COX, *President*
Chamber of Shipping of America

Horizon Lines, LLC

Crowley Maritime Corp.

PETER DRAKOS, *President*
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Captain TIMOTHY A. BROWN
International Organization of Masters, Mates & Pilots

ARTHUR W. MOYE, JR., *Exec. Vice President*
Virginia Maritime Association

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THOMAS BETHEL, *National President,*
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Vice Adm. ALBERT J. HERBERGER, USN *(Ret) Vice Chairman,*
American Ship Management and Former Maritime Administrator

JOHN HORSLEY, *Executive Director*
American Association of State Highway and Transportation Officials

RICHARD HUGHES, *President*
International Longshoremen's Association

C. JAMES PATTI, *President*
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STEPHEN FLOTT, *Chairman*
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TOM ADAMSKI
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JOSEPH A. RICCIO, *Executive Director*
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STAN WHEATLEY, *Director*
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DENNIS ROCHFORD, *President*
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GEORGE E. DUFFY, *President/CEO*
NSA Agencies, Inc

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN D. ROCKEFELLER IV TO MATT ROSE

*Question 1.* Chairman Lautenberg and I recently introduced S. 1036, the Federal Surface Transportation Policy and Planning Act of 2009. S. 1036 embodies many of the recommendations made by the Commission and sets an overall surface transportation policy to guide Federal transportation investments and possible parameters for performance-based objectives. Does the Commission support S. 1036?

Answer. The Commission has not formally met to consider legislative proposals that have been introduced since the Commission issued its report. However, in my informal discussions with various Commission members, it is clear that many of them agree with me that S. 1036 is an important bill because it is the first reauthorization proposal that specifically seeks to integrate environment and energy goals into the Nation's transportation policy, to the extent of the Senate Commerce Committee's jurisdiction.

Consistent with S. 1036, the Commission specifically endorsed the principle of expanding freight rail market share. The Commission requested input and made findings on what investment would be necessary to expand freight rail market share by 20 percent through 2055, in addition to those investments it identified as necessary to maintain current market share during that period of projected growth in freight volumes. The Commission supported the goal of expanding freight rail market share as a means of helping freight mobility be more fuel and emissions efficient and to yield congestion mitigation for highway users.

In addition, the Commission report called for a comprehensive, multi-modal policy and planning process that is backed by performance-based metrics to track progress toward meeting the goals of the national policy. There can and should be debate around how the targets outlined in the bill are set and met, but the aims of the legislation are consistent with many of the findings of the Commission's report.

Above all, the Commission was unanimous in its belief that Federal policy should create a clear and unified mission for Federal surface transportation programs. S. 1036 seeks to do that.

*Question 2.* One of the goals of S. 1036 is "to increase the proportion of national freight transportation provided by non-highway or multimodal services by 10 percent by 2020." What steps could the freight railroads take to help make sure this goal is achieved?

Answer. Freight railroads will invest in the infrastructure that is necessary to deliver the capacity needed to meet the goal of moving freight off of the highway if they are able to earn an appropriate return for our owners. Our record is clear: capital spending tracks returns. Freight rail revenue and profitability is a function of the health of the economy. However, it is also directly related to the economic regulatory system that determines whether the industry can afford to expand. Thus, the most important step to help make sure the bill's goals are met is to ensure that railroads earn fair returns. Since our merger in 1995, BNSF Railway's ROIC has been between 6 and 11 percent. So even in our best year we were in the mid-range of the S&P 500.

As the Commission's report points out, railroad investment and increasing productivity will not be enough to cover the scope of the investment necessary. While railroads will make the vast majority of the investment themselves, it will have to be leveraged by some public investment to achieve the goal of modally optimizing 10 percent of the highway freight. The scale and timing of the needed investment makes 100 percent private funding too risky to accomplish without the partnership of the public.

What kind of capacity is needed? To succeed, railroads will need to deliver truck-like frequency, reliability, transit-times and trouble free execution. Essentially, we need to zero in on key domestic freight lanes between "megapolitan" markets to get the biggest bang for the investment buck. Partnering with the public sector, we will need to establish corridors, much like Canada has done, to target lanes and develop facilities, configured on market fundamentals and incorporating efficient truck-dray service to access market areas. Significant up-front capacity investment is needed for railroads to execute and deliver line-capacity in targeted 500–1,000 mile lanes to facilitate expedited, high speed double stack service on-top of existing bulk, manifest and hosted passenger train network. Part of this investment will include removal of legacy chokepoints such as Tower 55 in Fort Worth, the Burlington Bridge in Iowa, and CREATE in Chicago. It will require crown clearing on various tunnels across the network, siding extensions, double tracking, and high speed cross-overs on targeted lines across the network.

It also will require facility expansion in strategic locations that support density economics required for frequent, reliable service. This includes the development of new or expanded intermodal facilities in major Megapolitan locations, such as the one BNSF is proposing in Kansas City. It also will require additional transload facilities to consolidate carload networks. Transload facilities allow for the transfer of bulk or industrial product shipments between truck and rail. It's important to note that rail facilities have a positive economic generator effect for the communities in which they are cited.

On the trucking side of the equation, construction or improvement of an extensive network of the intermodal connectors that serve these facilities will be required, along with fuel efficient, high service, dray-networks. It's important that metromobility goals not only include passenger options but facilitate freight distribution as well. Without the ability to cite transportation facilities within urban markets and ensure enough road capacity in those areas to distribute freight on trucks, the intermodal model is not as effective. In sum, freight must be planned for, accommodated and not discriminated against in urban areas.

As Congress works to change surface transportation policy and find ways to fund it, it is important to ensure that it does not exacerbate the modal policy preference of current policy toward highways at the expense of the railroads. According to the May 2000 Addendum to the 1997 Federal Highway Cost Allocation Study Final Report, FHWA estimates that combination trucks on average, pay 80 percent of their Federal highway cost responsibility through user fees, and the heaviest combinations, those over 80,000 pounds, pay only half of their cost responsibility. This modal subsidy distorts the freight economics where trucks and trains compete.

Eliminating a subsidy is always difficult. But it's equally important not to make it worse. Dwindling revenues from the gas tax have required the use of General Funds for transportation funding, which means that the subsidy that other transportation users used to provide to the heaviest of trucks is now being provided by the general taxpayer. This cross-subsidy by the taxpayers makes it all the more important that transportation policy not continue to wall off freight rail projects from Federal surface transportation program eligibility.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN D. ROCKEFELLER IV TO LARRY "BUTCH" BROWN

*Question 1.* Mr. Brown, you advocate for the creation of a new Federal program dedicated to funding freight projects, with "special priority [given] for projects of national significance." As you know, Congress established in SAFETEA–LU a program that funds projects of national and regional significance, but without a priority for freight projects. How do you see this program as different from the one established in SAFETEA–LU?

Answer. The Projects of National and Regional Significance (PNRS), created in SAFETEA–LU, is fundamentally different from the Coalition's proposal. PNRS was created specifically to fund individual projects that are considered to be national and/or regional is scope. In practice, PNRS funds were earmarked for specific projects. The Coalition's proposal, in contrast, focuses on the developing nation's multimodal, interconnected freight system and would establish a trust fund and a program to support that system.

Further, PNRS funds are only available to projects that meet Title 23 requirements. However, the freight system is broader than Title 23, and the Coalition's proposal would expand eligibility to encompass all modes of freight movement to create the most efficient, effective network along which to move goods.

PNRS focuses on funding "critical high-cost transportation infrastructure facilities", which tends to mean large scale 'mega projects'. However, the connections between the modes are key and our program provides for smaller scale projects that, while not necessarily 'nationally significant' are still vital to the efficient flow of goods across the country, providing vital linkages and access to larger freight facilities.

Also, the system approach that CAGTC is promoting requires the creation of a freight user fee in order to fund the improvements. As we envision this fee being assessed against all users of the freight system, the broader eligibility discussed above becomes more appropriate.

Finally, while both PNRS and CAGTC's proposal call for the merit-based distribution of funds, PNRS was earmarked entirely. Once DOT finished developing distribution criteria, there were no funds left. The U.S. Congress and Obama Administration have emphasized making the right investments in infrastructure. Those investments should be in areas with the greatest potential for generating growth, jobs, and providing the best public benefit. Making investments for the betterment of the economy will not come solely from our congressional leaders, even though the designation of 'earmarks' to fund research or projects have benefited states in the past. We suggest that earmarking bypasses the role of 'merit review' and 'competition' in ensuring quality and reduces the ability of funding agencies to carry out a coherent investment strategy.

*Question 2.* Do you see an opportunity to shift freight from the surface transportation network to the waterways? How could Congress encourage these opportunities?

Answer. If greater investment is made in the Nation's water infrastructure, there is certainly opportunity to shift some freight off the highways and on to the waterways. However, the goal should not be to advantage one mode over the other, but instead to fund and build an efficient network, interconnected and interdependent. Congress should make dedicated funding available to all modes of freight projects and allow regional geography and community factors determine the best solutions for goods movement in any given area.

*Question 3.* Are the waterways prepared to handle additional freight capacity?

Answer. In today's economy, meeting the transportation requirements of the 21st century require a much larger modal mix with both Federal and state involvement. This means adopting a regional system perspective between the modes, *i.e.,* rail, truck, marine vessel, aviation and pipeline, that works to improve modal performance by utilizing corridor operations. Too often we study specific modes, taking a narrow approach to one industry and service. Transportation plays a central role in linking regions and the world. The Southeast, and the Nation for that matter, depend on a transportation system that functions seamlessly. Transportation connects people to jobs, family, medical care, entertainment, education and the goods needed for everyday life.

A multimodal approach is recommended since there is no single Federal agency to interconnect and consolidate all the issues involving the different modes of transportation. This is why the Mississippi Department of Transportation created the Freight, Rails, Ports & Waterway Division, a unique branch of the department and one of only a handful of state departments of transportation that operate a multimodal program. Its mission is to create a comprehensive and coordinated state multimodal program to facilitate freight movement between local, national, and international markets. The division was formed to address the growing demand for freight transportation, to review and to improve the capacity of the state's rail and water transportation systems. Combined, this division has acted as a mechanism, to better connect, develop, and assure a program that will maximize use of the existing facilities and optimize integration and coordinate modes of transportation. This includes the combined utilization of both government owned and privately owned resources. Other states in the region have other multimodal programs intended to provide necessary funding and support for multimodal projects.

*Question 4.* What are the benefits of increasing the use of waterway transportation to help to move freight?

Answer. By investing in the Nation's waterways, the Congress will be providing another option for shippers to use when moving goods. Use of various inland water routes can provide more economical routes for the movement of goods. It can also provide a more logical path from point A to point B. When shipments can travel by water, and the infrastructure is available to do so, trucks are moved off the highways and onto the country's inland waterways, reducing congestion and emissions. However, the Nation's inland waterways system is only a piece of a larger puzzle. Without investments in roads, railroads, and intermodal connectors, shifting freight to the Nation's waterways will only reroute congestion to newly discovered chokepoints along the supply chain.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN D. ROCKEFELLER IV TO JOHN P. CLANCEY

*Question 1.* As the U.S. increases its waterborne international trade, are you seeing any negative effects of the increased demand on our ports and freight system? If yes, what are you seeing and what can be done to improve the situation?

Answer. But for the recent economic recession, our U.S. west coast ports were on track to be at maximum capacity by 2012. And the pressure on intermodal rail service to the mid-west and east coast had already caused problematic and costly service interruptions and delays in 2006–7. This meant that U.S. importers were already diverting traffic around the traditional but heavily congested west coast ports through Canada, Mexico, and using the all-water service through the Suez Canal to the East Coast.

Global growth should eventually return, albeit at lower rates, than we had grown accustomed to over the previous 2–3 decades. But even moderate economic growth could easily max out the U.S. freight moving capacity by 2015. So to address this critical concern and prevent the drag on our economy that an inefficient freight infrastructure system would cause we need:

- A national freight strategy that designates a limited number of infrastructure corridors/projects as assets of national significance, allowing them to be built quickly and efficiently outside the normal funding and developmental process;
- A thorough integration of maritime and intermodal projects into the overall national transportation strategy. The resurrection of an Office of Intermodalism within DOT that has authority and funding to see that the national freight strategy is implemented would be an excellent first step.
- The encouragement of maritime and waterway solutions (like coastal shipping) that reduce highway use and congestion while reducing the impact of freight movement on the environment.

*Question 2.* How important is investing in our Nation's port infrastructure to your business and what are the costs associated with putting it off?

Answer. Judicious investment in America's ports is a critical component of an efficient freight movement strategy in America. But the investment must be guided by a well-reasoned national strategy instead of the current inefficient competition among ports and their political representatives. Indeed, not every port in America needs a 50' draft to accommodate the larger vessels being built today. But we do need a couple of ports on the west coast and a couple on the east coast that can take vessels requiring 50–55′ of water. Similarly, we need highly efficient, high-capacity connecting intermodal infrastructure to those key ports . . . but not to every port.

The costs of deferring these projects will disadvantage the American economy as it tries to recover from the global economic malaise. Additionally, infrastructure projects are an effective way to stimulate the creation of jobs not only in port cities but across the country.

*Question 3.* What types of port facility modernization efforts do you recommend in order to improve the efficiencies of our freight transportation system?

Answer. As mentioned above, the need for government designated freight-moving corridors should specify requirements for:

- a limited number of strategically positioned deep-water (50′+) ports with efficient intermodal connections to rail and highway corridors;
- on-dock rail facilities;
- lift-off/lift-on and roll-off/roll-on facilities for maximum coastal shipping flexibility.