Testimony of

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Introduction

Chairman Wyden, Ranking Member Crapo, and distinguished members of the subcommittee, thank you very much for the opportunity to testify today about increasing exports and the corresponding challenges created for U.S. seaports.

My name is Steve Larson, and I am a Vice President of Caterpillar Inc. and the Chairman and President of Caterpillar Logistics Services, Inc. (Cat Logistics). In 1987, Cat Logistics, a wholly owned subsidiary of Caterpillar Inc., was formed to offer logistics services to other companies, leveraging Caterpillar's global distribution experience.

Today, Cat Logistics is comprised of over 11,000 logistics professionals who speak 20 languages and manage over 110 facilities and operations, spanning 23 countries and 6 continents. We serve more than 60 clients globally, in an array of different market sectors.

Our mission is to provide integrated logistics solutions that deliver competitive advantage and attractive returns for both Caterpillar and our clients. Our spectrum of services includes supply chain strategy and design, warehouse operations, information technology services, inventory management, transportation management, and inbound manufacturing and reverse logistics.

The speed, or velocity with which we can move goods, is one of the most critical factors in our overall success. Caterpillar and our external clients are focused on eliminating cost related to excess inventory in the supply chain. Accordingly, goods must move at a consistent, high rate of velocity if we are to deliver competitive advantage for our customers. While a number of factors both internally and externally impact this value proposition, the state and condition of the transportation infrastructure supporting our supply chain is exceptionally important.

While our nation's seaports are a critical link in our transportation infrastructure for both imports and exports, I would also like to comment today on the other modes of transportation that comprise our freight movement system. Whether we are importing or exporting, goods must move through a variety of different transportation modes before they ever get to a port. If we are to be successful in growing our economy through increasing exports, this intermodal freight system must be improved dramatically, and work as an effective, modern, and integrated whole.

Exports and Economic Expansion

Caterpillar has been making progress possible on every continent for more than 80 years. As one of America's largest exporters and the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines and turbines, Caterpillar is keenly aware of the importance of exports for both job creation and economic expansion.

We also understand how absolutely critical it is to have an effective and seamless supply chain if we are to increase exports and maintain our global leadership as a U.S. manufacturer.

Today, Caterpillar exports to nearly 200 countries around the world. In 2008 the average in-transit inventory of U.S. machines and engines exported on any given day was about $500 million. Caterpillar spent more than $5 million on logistics each day to export U.S.-built machines and engines, while spending $2.4 billion worldwide on transportation-related expenses.

Additionally, with our global supply chain, imports into the U.S. are extremely important to Caterpillar, increasing 400 percent between 2003 and 2005 alone. In 2008 we imported goods valued at $5.5 billion into the U.S. from 114 countries and over 500 suppliers, with $3.4 billion coming through U.S. and Canadian seaports.

An efficient supply chain takes on added importance as the world rebounds from this global economic recession. This is particularly true for the U.S., with over 90 percent of the world's consumers living outside our borders. Clearly, international trade and exports will play an increasingly crucial role in driving domestic economic growth, creating new jobs, and ensuring continued U.S. leadership in the global economy.

Our trade policies must accurately reflect our goals for exports and economic growth by accounting for the market opportunities that exist around the world. Today, the U.S. has free trade agreements (FTAs) with 17 countries. According to the International Trade Administration, trade with countries that the U.S. has FTAs with has been significantly greater than their relative share of the global economy. Although comprising 7.5 percent of global GDP (not including the U.S.), those FTA countries accounted for over 42 percent of U.S. exports.

The table below shows the growth in U.S. exports to its trade agreement partners from 2007 to 2008.

Growth in Total U.S. Exports to Free Trade Agreement Countries
Source: www.usitc.gov, data compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission.

Country	2007 MMUSD	2008 MMUSD	Percent Change
NAFTA	332,499	353,931	6.45%
Canada	213,118	222,424	4.40%
Mexico	119,381	131,507	10.20%
CAFTA-DR	21,274	23,922	12.45%
Costa Rica	4,224	5,047	19.50%
Dominican Rep	5,793	6,293	8.60%
Guatemala	3,872	4,493	16.00%

Honduras	4,327	4,699	8.60%
Nicaragua	846	1,030	21.70%
El Salvador	2,209	2,357	6.70%
Australia	17,916	20,948	16.90%
Bahrain	565	779	37.80%
Chile	7,610	11,366	49.40%
Israel	9,940	10,238	3.00%
Jordan	831	904	8.70%
Morocco	1,333	1,506	12.90%
Oman	1,034	1,380	33.40%
Peru	3,764	5,686	51.10%
Singapore	23,576	25,655	8.80%
Total	**420,348**	**456,319**	**8.60%**

Not surprisingly, Caterpillar's exports have benefited dramatically from FTAs. Since the FTAs have gone into effect, Caterpillar's exports have quadrupled to the North American Free Trade Agreement (NAFTA) countries, tripled to Chile, and nearly doubled to the CAFTA-DR countries.

FTAs have proven to be one of the most effective ways to open up foreign markets to U.S. exports. One of the most significant steps that Congress can take to spur U.S. exports, reenergize our economy, and bring people back to work would be to pass the Panama, Colombia, and Korea FTAs.

Let's look at Panama. The $5.25 billion expansion of the Panama Canal, one of the largest public works project since the Three Gorges Dam in China, is now moving forward and presents significant opportunities for U.S. companies to provide goods and services for this undertaking. The FTA will grant U.S. firms outstanding access to the Panamanian market and the chance to compete in selling everything from heavy equipment to engineering services.

For Caterpillar, the world's largest producer of earthmoving equipment, the expansion of the Panama Canal is an important opportunity. If we can sell our U.S.-produced products throughout Panama duty-free, it will provide us with a competitive edge over products made in other parts of the world.

But whether the export opportunities are in our hemisphere, or on the other side of the world, the goods we seek to sell must travel through a multi-modal transportation system that includes roads, rail, water and air. The condition and integration of these various modes will have a significant and direct impact on our ability to move these products quickly and efficiently at the lowest possible cost. As the world marketplace expands, and as our nation faces increasing competition from around the world, our ability to move our goods as quickly and efficiently as possible takes on added importance. Nothing short of our global competitiveness is at stake.

Current Condition of the U.S. Transportation System

Growth in international trade and U.S. exports are expected to rise in the coming decades, and this is critical to our long-term economic expansion. However, there is mounting concern that U.S. intermodal freight capacity will be unable to keep pace with this expected growth. While other parts of the world are integrating and modernizing their infrastructure to meet the economic challenges of the 21st century, we are failing to act comprehensively and decisively.

Our transportation system is the backbone of our economy. Economic opportunities are directly tied to the efficiency and reliability of this system. But we are relying on investments made decades ago to sustain our growing and changing economy. Our transportation network is aging and underfunded, and we must renew our financial commitment to this system if we are to create a new integrated freight movement network that will ensure our global competitiveness in the 21st century.

As important as increased investment is, it is not just money that is needed. There is no comprehensive national plan in place to transform our transportation system. We absolutely must create an integrated multi-modal system that can move people, as well as freight, quickly and seamlessly throughout our nation.

The challenges ahead are great, and will require a renewed national commitment.

According to the National Surface Transportation Policy and Revenue Study Commission, on a typical day, about 43 million tons of goods valued at $29 billion move nearly 12 billion ton-miles on the nation's interconnected transportation network. Additionally, the volume of international containers coming into our ports is forecast to increase from 40 million in 2005 to 110 million by 2020, truck volumes are expected to double by 2035, and rail freight is expected to increase by over 60 percent according to the American Association of State Highway and Transportation Officials (AASHTO).

Just as freight volume and goods movement will rise significantly in the coming decades, businesses will desire on-demand supply chains, just-in-time inventories, and reduced logistics costs. All of this will place added pressure on the transportation system as a whole, and freight carriers in particular, to increase velocity and reliability, while simultaneously reducing costs. In other words, our roads, water, rail, and air systems will all be strained simultaneously.

According to the U.S. Department of Transportation's (DOT) 2006 report to Congress on the condition and investment requirements of the nation's highway and bridge network, only 48.5 percent of urban Interstate highways and 73.7 percent of rural Interstate highways are in good or excellent condition. The same report says that 26.5 percent of the bridges of the urban Interstate System and 15.9 percent of the rural Interstate bridges are deficient and are in need of repair or replacement.

Deteriorating roads and bridges are one problem to be sure. Increasing traffic volume over this infrastructure is another. Congestion on these deteriorating roads is crippling our cities, causing significant delays for drivers that translate into lost productivity, added costs, and wasted fuel.

Compounding the congestion and deteriorating infrastructure of our roads, bridges and tunnels are the various and often conflicting state regulations and permitting requirements with which we must comply. Lack of uniformity in the regulation and issuance of permits is impeding flows between the states and to U.S. ports. Some of these conflicting state requirements include hours of operation and axle weights when hauling permit loads. The lengthy and conflicting permitting processes by some states actually force carriers to drive around certain states to make port deliveries.

For example, moving a Caterpillar 797 truck chassis from our Decatur, IL plant to port of exit requires the plant to remove the engine and the transmission from the chassis prior to shipment. The weight of the overall unit cannot be moved through some East Coast states due to different weight restrictions. The unit must then be reassembled, resulting in added cost and delay.

A recent shipment of a 3616 series generator set via truck from our Lafayette, IN facility to the Norfolk, VA seaport required a so-called “Super” permit, and was postponed by more than ten days due to permit delays. The issuance of some of these permits can actually take weeks.

Our nation’s rail network is increasingly seen as an attractive, cost-efficient way to help alleviate growing passenger and freight congestion on our roads. Yet there are questions about the ability of the existing system to handle significantly increased volumes efficiently.

While the rail industry is investing for expected growth, demand for freight transportation is expected to double by 2035. This means that if current market shares are maintained, railroads will be expected to handle an 88 percent increase in tonnage by 2035. An estimated $148 billion in improvements will be needed to accommodate this projected rail freight demand in 2035. (National Rail Freight Infrastructure Capacity & Investment Study, Cambridge Systematics, Inc., September 2007).

The capacity and design of the current railroad infrastructure limits Caterpillar’s transportation options. Many rail lines, bridges, and tunnels cannot accept the physical (high and wide) attributes of our products, and accordingly a greater number of rail switching yards and terminals are required, leading to added delays and increased cost.

The significant decline in rail traffic beginning in late 2008 has caused the cancellation of numerous merchandise trains and a reduction in terminal train crews. As a result, the terminal dwell times for many of Caterpillar’s single car shipments are in excess of 24 hours. The overall transit time for these types of shipments, due to less frequent train

connections and multiple terminal routings, has increased significantly, causing a significant reduction in velocity for export shipments.

Export terminal connectivity and capacity is another issue limiting the growth of export shipments. For example, there are several export terminals within the U.S. rail network connected by a single rail carrier via inefficient or outdated track infrastructure, which makes access into the facility extremely costly and inefficient.

In one circumstance, the initial cost to Caterpillar to move the machines locally into an export terminal -- less than one mile -- was equal to the entire cost of moving the machine from central Illinois to Florida (roughly 1,000 miles).

Many forward-thinking state and local governments have begun to enter into public/private partnerships with the major railroads to improve port access tracks and capacity. To date these efforts have been focused on intermodal container shipments, and unfortunately have probably benefited imports more than exports. This kind of effort needs to be greatly expanded and perhaps refocused to the small and medium sized port facilities that specialize in the smaller export shipments many U.S. firms such as Caterpillar rely on.

Like our road and rail networks, our ports and inland waterways are also posing significant challenges for exporters and logistics professionals. Lack of capacity at U.S. ports and inadequate mode integration are impeding the flow of both imports and exports through the U.S. port system. Capacity constraints at major ports are forcing shippers to disperse their shipments through multiple ports instead of using a single port of entry, or divert shipments altogether through Canadian or Mexican ports. All while the lack of integration and automation slow thru-put considerably, delaying shipments and raising costs.

Furthermore, access to many U.S. ports is constrained by channel depth, which limits the size of vessels that can call at a port. The largest of the mega-containerships and tankers that are increasingly being used can only be accommodated at a limited number of U.S. ports, and most of these ports must routinely dredge and deepen their harbor channels and pier areas to maintain access (*The Transportation Challenge, Moving the U.S. Economy*, Cambridge Systematics, Inc.).

Because of U.S. port capacity constraints, out-dated manual processes and communications, and lack of integration and automation, Caterpillar has come to increasingly utilize Canadian ports for both import and export containers due to improved transit times and costs. Approximately 40 percent of Caterpillar's imports and exports now move through Canadian ports, with 50 percent of our European imports arriving in Halifax.

Our imports arriving in Illinois from Montreal, Canada are 2 to 3 days faster and more cost-effective than those that arrive from Norfolk, VA and service is also 2 days faster

from Prince Rupert Harbor (north of Vancouver) than going through Long Beach/LA. We are currently looking to use this route for additional selected traffic in 2010.

Concerns with our water infrastructure do not stop at our ports, however. Because of their ability to move large amounts of cargo, the nation's inland waterways are also a strategic link in our freight movement system. Unfortunately, according to the U.S. Army Corps of Engineers, forty-seven percent of all locks maintained by the U.S. Army Corps of Engineers were classified as functionally obsolete in 2006. Assuming that no new locks are built within the next 20 years, by 2020, another 93 existing locks will be obsolete—leaving more than 8 out of every 10 locks now in service outdated (U.S. Army Corps of Engineers, The U.S. Waterway System—Transportation Facts, December 2007).

Lastly, a few words about our aviation system, which was once the envy of the world. Today it is operating with substandard technologies and facing significant capacity constraints. The result is severe congestion at our largest airports that is having a ripple effect throughout our aviation system.

In 2007, airlines reported an on-time arrival record of 73.3 percent, the second worst in history; the worst record -- 72.6 percent -- was recorded in 2000, according to the Federal Aviation Administration (U.S. Department of Transportation, Report to Congress National Plan of Integrated Airport Systems (NPIAS) 2009–2013, September 30, 2008). The air traffic control system remains outdated and inefficient, and modernization efforts continue to meet with funding delays, causing lack of certainty.

In sum, our transportation system – roads, rail, water, and air – is aging, inefficient, and in serious need of reinvestment. Importantly, we as a nation must do more than just increase our financial commitment to this system. We must also transform it into an integrated multi-modal system that will position us well for future leadership in the global economy.

Our competitors in the global economy are not waiting.

Meeting the Transportation Challenge Before It's Too Late

With the expected growth in international trade, our global competitors are moving forward to expand and modernize their existing transportation networks with the construction of new integrated multi-modal infrastructure systems to efficiently move freight throughout the world. They recognize the relationship that exists between an efficient, connected transportation system and a strong economy.

For example, between 2001 and 2005 China spent more on roads, railways and other fixed assets than the country spent in the previous 50 years. China is investing tens of billions in new transportation capacity; expanding and modernizing its rails, highways, bridges, and ports, while connecting these assets throughout the continent linking China to international trade routes running through Central Asia and the Middle East, to markets

in Europe. India's current five-year plan calls for over $500 billion in new investments for roads, ports, and airports, while the next five year plan outlines $1.7 trillion in infrastructure investments. These investments include multi-modal high-axle freight corridors that will connect India's ports and other key transportation assets together (*Representative International Transportation Infrastructure Investments*, American Road and Transportation Builders Association).

Similar investments and strategies and are being developed and implemented all over the world, throughout the Middle East, Central Asia and Africa, the European Union and Latin America.

As the U.S. Chamber of Commerce has succinctly stated, if we are to retain our global leadership in the world economy we must act now to upgrade and modernize our transportation policies, programs, and resources. Such actions will support our global competitiveness, international trade policies, interstate commerce, interstate passenger travel, emergency preparedness, and national defense; all of which are compelling national interests.

With respect to freight movement and export competitiveness, a comprehensive integrated national program that will ensure adequate capacity and increased velocity throughout all modes is desperately needed. We must reduce congestion, remove choke points and bottlenecks where they exist, simplify and unify permitting, and ensure that goods can move between modes and to ports seamlessly throughout our nation.

To complement the expanded investment required in our existing highway and transit programs, The American Road and Transportation Builders Association (ARTBA) has offered one articulation of this vision in the "Critical Commerce Corridors" (3C) proposal. The "3C" proposal would consist of a new 25-year federal initiative focused exclusively on developing the surface transportation capacity necessary to facilitate the secure and efficient movement of freight.

This and other similar proposals must be seriously considered as Congress looks to reauthorize SAFETEA-LU and our highway and transit programs.

Conclusion

If we are to be successful in growing our economy through a doubling of our exports, our intermodal transportation system must be improved dramatically, and begin to work as an effective, modern, and integrated whole. We can no longer view any transportation mode in isolation, but rather, must look at our freight movement system comprehensively, and in its entirety.

Thank you Mr. Chairman, Ranking Member Crapo, and members of the subcommittee, for the opportunity to share with you the views of Caterpillar, and Caterpillar Logistics Services, on this crucial topic. Caterpillar stands ready to work with you, the Congress, and the Administration on these important matters.