S. HRG. 111–1042

DOUBLING U.S. EXPORTS: ARE U.S. SEA PORTS READY FOR THE CHALLENGE?

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE, CUSTOMS, AND GLOBAL COMPETITIVENESS

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

APRIL 29, 2010

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

67–310—PDF WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
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CONTENTS

OPENING STATEMENT

WITNESSES

ALPHABETICAL LISTING AND APPENDIX MATERIAL

DOUBLING U.S. EXPORTS: ARE U.S. SEA PORTS READY FOR THE CHALLENGE?

THURSDAY, APRIL 29, 2010

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
CUSTOMS, AND GLOBAL COMPETITIVENESS,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 1:11 p.m., in room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the subcommittee) presiding.

Present: Senator Cantwell.

Also present: Democratic Staff: Jayme White, Staff Director, Subcommittee on International Trade; Rory Murphy, International Trade Analyst; and Hun Quach, International Trade Analyst. Republican Staff: Staci Lancaster, Staff Director, Subcommittee on International Trade, Customs, and Global Competitiveness.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE, CUSTOMS, AND GLOBAL COMPETITIVENESS, COMMITTEE ON FINANCE

Senator WYDEN. Earlier this year, President Obama established the National Export Initiative and the goal of doubling exports over the next 5 years. I strongly support this goal, and so do members of this subcommittee, because our country does not export as much as it should or as it can. A national strategy to increase exports is a strategy that creates good-paying, family-wage jobs. That is what our country needs; that is what my home State of Oregon needs.

I do think that it is far-fetched to believe that it is possible to double exports if our shipping lanes and freight lanes are as bottled up as they are currently. Our country needs to come up with a winning freight transportation strategy that jump-starts job creation and enables our producers to ramp up their exports.

Exporters in the Pacific Northwest now find it increasingly difficult to get shipping companies to carry their goods to the markets that want them. Exporters in the heartland increasingly cannot use U.S. freight lines and sea ports to remain globally competitive. You cannot expect to create jobs if you cannot move freight efficiently in America.

In one example, a lumber exporter in my home State was ready to contract with a mill in Philomath, OR in order to supply Japanese consumers with high-grade lumber, but, because of insufficient open ocean shipping capacity from Pacific Northwest ports, the contract went to a Canadian firm. So, instead of 90 new jobs in Oregon, there are now 90 new jobs in Canada. That is unacceptable to me. It is going to be unacceptable to every member of the U.S. Senate. The point of this hearing is to develop a strategy to turn this around.

In another example, Oregon onion producers are being hurt by ocean carriers that are reneging on their contracts by making fewer containers available to exporters. These unilateral actions result in poorer-quality onions because the cargo sits on the dock waiting for additional containers, and the cargo is delayed in reaching those crucial Asian markets.

Oregon rice exporters are having similar problems shipping rice to Korea. I know that the shipping industry is a private market, but this market is clearly failing Pacific Northwest exporters, and this subcommittee is going to find out why and see what Congress can do to address the problem.

The President put forward a 21st-century goal for exports, but producers cannot rely on an infrastructure from the last century to meet this challenge. According to a recent World Bank survey, the United States ranks as only the world's 7th most efficient economy in terms of its infrastructure and 15th in the world in terms of logistics. The United States now lags behind Germany, Japan, Singapore, and a number of our principal economic rivals. I do not accept America being in 2nd place, let alone 15th.

So one question before the subcommittee today is: what can be done to ensure that America's sea ports and the infrastructure that surrounds them enable U.S. producers to compete in our markets and overseas markets? Sea ports, in my view, are the hub of the global supply chain. American sea ports serve as our exporters' access to the global marketplace, and so they are the gateways to new jobs and to our country's economic future.

West Coast and Northwest ports especially are an essential component of our country's ability to expand exports and strengthen our trading relationship across the Pacific. It is a fact that the economies of East and Southeast Asia are growing by leaps and bounds, and we must get our cargo quickly to these regions.

Freight moves through the country in a variety of ways, over highways, railways, lakes, rivers, and through the air. These modes of transportation are interconnected and must seamlessly hand off freight from one mode to another, especially in the densely populated urban areas where congestion is already a problem. America's freight transportation network should not be designed just to serve exports.

Imports are also a vital component of the U.S. economy, because U.S. goods destined for export rely on imported components. Imports are important elements in U.S. manufacturing. So, for our producers to be globally competitive, they have to be able to reduce transit time, excess inventory, and they cannot address either of these imperatives if moving freight through our sea ports and intermodal transportation systems remains inefficient.

This is the global supply chain that needs to be understood as transportation projects are designed and financed. As one witness will say today, the supply chain infrastructure of the United States is directly competing with the infrastructure of Germany, Canada, and China, and we are falling behind. American producers and workers deserve freight infrastructure that improves their competitiveness rather than stifles it.

The Committee on Finance spends a significant amount of energy working with the President to significantly negotiate reductions in foreign trade barriers, but these actions will not count for much if American producers cannot move their freight as efficiently as the Germans, the Canadians, or the Chinese.

According to U.S. producers, moving goods through Canadian rail systems and sea ports is 2–3 days faster and more cost-effective than moving goods into and through the United States. This is a major, major barrier to the competitiveness of our producers and their ability to create jobs.

Research shows that for each additional day it takes to move freight from the factory or farm through the port reduces exports by 1 percent, or by 7 percent if you are talking about a perishable good like fresh beef. So our aged infrastructure is costing U.S. exporters, and it is costing our country in a whole host of ways.

One additional concern I have is, when businesses are looking for places to locate, they look at the state of the infrastructure that their business is going to rely on. The competitiveness of U.S. sea ports and the infrastructure that supports the supply chain is then a major factor in ongoing investment decisions. Why would you build a plant in the United States and employ American workers if there is an antiquated infrastructure, which I guess puts on our producers what I would call a slow tax?

Today's hearing can be seen as just one issue that this panel intends to examine in our Nation's infrastructure and what it means to the competitiveness of U.S. producers. This is going to be important as members of the subcommittee seek to assist exporters in their home States as we try to meet the President's challenge to ramp up exports.

Senator Crapo, at the last minute—he just called me as I was walking in—has been called away to deal with a number of pressing matters on the financial reform bill, so I think at this point we will open our hearing with Nicole Lamb-Hale, who is the Assistant Secretary for Manufacturing and Services of the Department of Commerce. If you will come forward. And Polly Trottenberg, who is the Assistant Secretary for Transportation Policy at the Department of the Transportation. We appreciate your joining us.

Why don't we begin with you, Ms. Lamb-Hale? We will make your prepared remarks a part of the record in their entirety, and if you can summarize some of your principal concerns, that will be helpful. Welcome to both of you, and thank you for cooperating with the subcommittee.

Ms. Lamb-Hale?

STATEMENT OF NICOLE LAMB-HALE, ASSISTANT SECRETARY FOR MANUFACTURING AND SERVICES, DEPARTMENT OF COMMERCE, WASHINGTON, DC

Ms. LAMB-HALE. Thank you, Chairman Wyden.

Chairman Wyden, distinguished members of the subcommittee, thank you for giving me the opportunity to speak to you today about national competitiveness and how it is affected by the state of our Nation's transport infrastructure.

As Assistant Secretary for Manufacturing and Services at the International Trade Administration, I welcome the subcommittee's interest in this issue. Manufacturing and Services provides specialized industry expertise and economic analysis to foster America's economic competitiveness and job growth. The Obama administration is deeply committed to expanding globally competitive manufacturing, exports, and job growth in the United States as part of America's economic recovery.

As a former Governor of Washington State, Secretary Gary Locke knows the importance of a strong supply chain infrastructure. The exports and imports that flow through Washington's supply chain support more than 10 percent of the State's private sector jobs. According to a U.S. Department of Transportation study, the transportation-related sector accounted for some 13 million jobs in 2008, or nearly 10 percent of the U.S. workforce. A U.S. Chamber of Commerce study points out that some 99 million other U.S. jobs are economically dependent upon the transportation sector.

America's manufacturing and services industries depend on our supply chain infrastructure to be competitive at home and abroad. One cannot thrive without the other. This infrastructure includes the ports and the interconnected roads, rail, and air connections that make American exports and job growth possible.

The Department of Commerce views supply chain infrastructure from a competitiveness perspective; thus, we need to explore some key questions regarding U.S. supply chain infrastructure. What enhancements to U.S. infrastructure could help manufacturers stay globally competitive; what are we doing to move freight, people, and ideas as efficiently as possible; and what is our foreign competition doing by comparison?

To answer these questions, Commerce has already begun the important process of examining our policies and programs, and also of seeking industry input to ensure that our companies can compete at every step in the supply chain process.

As sourcing and product delivery operations span larger and longer distances, firms are transforming the way they look at and manage supply chains. No longer are individual companies competing with each other; entire supply chains are. Effective supply chains and just-in-time delivery systems drive modern global business. Supply chain infrastructure is the glue that binds successful trade routes. It affects the cost of every product in the United States.

Inefficient connections and capacity limitations raise the cost of American products and make it harder to compete globally. Supply chain infrastructure is an important factor in a company's decision on where to invest and employ people. These decisions require substantial lead times, and the quality of the infrastructure determines the attractiveness of a particular location.

Our national supply chain infrastructure is a global competitiveness issue. A recent World Bank study rates the United States 15th in logistics performance behind competitors like Germany, Singapore, Japan, and the United Kingdom. Senior executives from industry tell Commerce repeatedly that what is missing is a comprehensive and coordinated national policy approach to moving product in the United States.

According to industry, the basic elements of a national policy approach must include viewing the supply chain infrastructure as a whole; emphasizing the needs of the system users, the manufacturers and shippers whose products flow through the system; ensuring that supply chain infrastructure enhances America's economic competitiveness and export growth; acknowledging that security of this critical infrastructure system is vital; and recognizing that a competitive modern supply chain infrastructure is indispensable to the sustained recovery of American manufacturing and exports. In other words, a port cannot be viewed in isolation. It is only as competitive as the road, rail, and air networks to which it is connected.

Industry today sees infrastructure as an interconnected network of physical transport facilities combined with modern information technology systems. The efficiency of this infrastructure, and the industries that depend on it, is affected by environmental and sustainability considerations, new financing options, education, and regulatory and trade security measures. This speaks to the growing sophistication and complexity of modern supply chains and their critical reliance on the quality of America's supply chain infrastructure to support modern, high-tech manufacturing.

In May 2009, the Departments of Commerce and Transportation held a national conference where industry validated every one of these ideas. Commerce is working with our colleagues at Transportation to further discussions toward the development of a new competitiveness-driven national freight policy, coupled with an investment strategy that recognizes the interconnections between various transportation modes and facilities.

This includes developing a series of regional events to seek industry perspectives on how to develop an inclusive national freight policy, and I am happy to report today that Secretaries Locke and LaHood have executed an MOU which memorializes our agreement to collaborate on these issues.

In light of current economic challenges, it is imperative that we immediately address key game-changing issues that could hinder our long-term recovery and our ability to compete in the global economy. Industry is increasingly aware that our global trading competitors, including Canada, Europe, and China, ensure their firms enjoy an integrated freight movement system.

The global competitive challenge facing U.S. manufacturers and shippers is, thus, our incomplete supply chain infrastructure. These issues are integral to the National Export Initiative and to America's economic recovery. Moving forward, we must have an efficient and well-developed logistics and transportation system to facilitate our export growth and the continued growth of our economy.

I thank you for the opportunity to testify today and look forward to any questions you may have.

Senator WYDEN. Thank you. We will be working very closely with you. I enjoyed the breakfast that we had recently with the Secretary as well.

Ms. LAMB-HALE. Thank you. Great.

[The prepared statement of Ms. Lamb-Hale appears in the appendix.]

Senator WYDEN. Ms. Trottenberg, welcome.

STATEMENT OF POLLY TROTTENBERG, ASSISTANT SECRETARY FOR TRANSPORTATION POLICY, DEPARTMENT OF TRANSPORTATION, WASHINGTON, DC

Ms. TROTTENBERG. Thank you, Chairman Wyden. Thank you for inviting me to appear today to discuss the role of U.S. sea ports and promoting U.S. commerce, U.S. competitiveness in world markets, and in meeting future projected growth in exports.

I, too, welcome the subcommittee's interest in this topic, which raises many key transportation policy, financing, and governance issues. I am glad to be here with my colleague from the Department of Commerce and look forward to working together on our new MOU, particularly tightening the nexus between trade and transportation policy.

As you have noted, Mr. Chairman, President Obama recently announced the goal of doubling exports within 5 years in the U.S., and he has created an export promotion cabinet. This growth of exports will require new investments and more efficient operations at U.S. ports and, just as importantly, the road, rail, water, and air networks that serve them.

The 2014 completion of the new locks on the Panama Canal will draw increased freight traffic to the East and Gulf Coast. This will alter freight flows throughout the U.S. and require some thoughtful planning.

Secretary LaHood was recently in Panama and subsequently announced that U.S. DOT will undertake a major new study on the potential impacts from the Panama Canal expansion, as well as changes at the Suez Canal and the opening of possible new Arctic routes. This study will enable us to consider how the U.S. ports and freight infrastructure system can be better prepared to meet these new trade challenges.

To get there, we will also need to develop a new national focus on intermodal freight policy and investment, and we must ensure these policies fit within the administration's visions for transportation. Secretary LaHood has clearly identified five key goals in setting national transportation policy: safety, state of good repair, economic competitiveness, livability, and environmental sustainability. We believe that freight transportation policy that grows out of these key goals will allow our domestic industries to compete globally, create jobs, reduce energy use, and protect the livability of our communities.

Unfortunately, our national transportation policy has often failed to target funding towards investments that would be most effective in achieving these goals. We have been hampered by our Nation's stove-piped approach to transportation funding and by the complex governance issues surrounding supply chains.

However, our administration, with the help of Congress, has taken action to address some of our national freight needs. With the passage of the Recovery Act, Congress made $1.5 billion available for the Multi-Modal Competitive Discretionary TIGER Grant Program. Out of the $1.5 billion in TIGER (Transportation Investment Generating Economic Recovery) grants that DOT awarded, fully half the money, $765 million, went to projects that benefit freight movement. Including six port projects from Maine to Alaska, freight rail was the single-largest category of funding, including such important projects as the Crescent Corridor, CREATE (the Chicago Regional Environmental and Transportation Efficiency), National Gateway, and Colton Crossing.

These TIGER awards represent a significant shift from the current allocation of Federal transportation dollars to freight infrastructure, which has historically not focused on rail or ports. In addition, we have just released draft guidance for the $600-million National Infrastructure Investments Program, funded in the fiscal year 2010 Appropriations Act. We expect this program to be very similar to TIGER and will continue the Department's focus on freight movement.

The administration has also proposed a National Infrastructure Innovation and Finance fund in our fiscal year 2011 budget. The fund will be particularly targeted to multi-modal projects that involve multiple jurisdictions and achieve a high level of economic benefits. Clearly, major freight projects will compete well. The fund will also build upon the various infrastructure and bonding proposals that many members, including you, Mr. Chairman, have championed.

Secretary LaHood recently announced that DOT will be formulating its reauthorization principles in the coming months. In preparation, we have been engaging with a diverse range of stakeholders through the Department's Surface Transportation Outreach Tour, which has so far held sessions in New Orleans, Minneapolis, and Los Angeles, and will be in Houston next week and Washington this summer.

In addition, earlier this year the Secretary held a 2-day port summit in San Diego, where freight stakeholders expressed support for a more fully integrated freight transportation system in order to improve efficiency, economic growth, and environmental sustainability.

One recurring theme of all these discussions has been that a national focus on freight is necessary at DOT, along with a strong desire for flexible funding to allow us to take action. We look forward to working with Congress and our stakeholders on freight policy in the coming months as the authorization debate develops.

I thank the subcommittee for inviting me to testify today and would be happy to respond to any questions.

[The prepared statement of Ms. Trottenberg appears in the appendix.]

Senator WYDEN. Well, thank you both.

Let me see if I can kind of capture the sentiment behind this hearing and what I see going forward. I walked you all through a number of specific instances—lumber, onions, rice—where people in Oregon are losing out on good-paying economic opportunities, jobs, opportunities to get ahead, and there is enormous frustration about this. My State has more than 10 percent unemployment. We absolutely have to turn this around.

So you heard me walk through these several examples, Ms. Trottenberg. What would you say if you were standing in front of the lumber, and onion, and rice exporters? What would you say when they were really angry and really frustrated, and what would you tell them the Obama administration is doing to turn this around and when it would actually get better?

Ms. TROTTENBERG. Yes. That is a very good question, Mr. Chairman. Believe me, we hear from the shippers as well and know the great frustration out there, which has in part been driven by the larger economic downturn, which has created all kinds of hardship all over the country.

Particularly, I know the frustration coastal shippers have had that, because we are importing fewer containers that are coming east from the Pacific, there are fewer containers available for us to export our goods going westward. The DOT has been involved in discussions with shippers and carriers on this.

You know the lead entity is the Federal Maritime Commission, which is actually charged with looking at shipper complaints, with dealing with antitrust issues, and I know they have opened, in March, an investigation. They are looking pretty intently into what the shippers are doing and trying to see if the situation can be alleviated.

Senator WYDEN. So when do you think I can tell these people who are very angry about what is happening now that there are going to be some changes? I would ask you that, and start there. When do you think we are going to see some relief?

Ms. TROTTENBERG. I think there is a little bit of good news. I mean, the economy has picked up a little bit, and at least we are getting reports that there are starting to be more shipping containers available for U.S. exporters. As I mentioned in my testimony, slightly longer-term, Department of Transportation, we are now trying to, to the extent that Congress has given us discretionary funding, invest in more freight projects. We are doing a couple on the West Coast, some in the middle of the country. Again, I think that the Federal Maritime Commission should have, hopefully, some results pretty soon in terms of working with the carriers to get them to produce more containers for your shippers.

Senator WYDEN. I am a markets-oriented Democrat. That is my guiding principle for health care, the tax reform bill with Senator Gregg. But I want to know whether you think this is going to resolve itself through normal market forces or whether other steps need to be taken to address a totally unacceptable situation. Is the market just going to take care of this and all the people who are so angry now are going to see this remedied?

Ms. TROTTENBERG. I mean, I think the market will take care of some of it. Again, one thing I cannot do is, I cannot tell you for the FMC what their investigation will turn up. Believe me, we have talked to shippers and know their concerns, that the carriers out there, that there is some kind of, perhaps, unfair behavior going on. We do have a regulatory body that is investigating that.

From DOT's point of view, we are tracking all the data on what is happening and doing our own part to talk to the shippers, who have come in basically to tell us their concerns. We have also talked to a lot of the carriers and tried to parse out the economic situation that they find themselves in. The carriers have recently told us that they are trying to move more U.S. exports. They are hearing the frustration from your constituents and from members of Congress, and from members of our administration. So I do think we are starting to see a bit of progress.

Senator WYDEN. Do you have any evidence now that the shipping companies are colluding to control shipping prices?

Ms. TROTTENBERG. I cannot say that I do, again, because the FMC does the actual investigation as to whether some kind of illegal collusion is going on.

Senator WYDEN. Should the shipping companies—this is a policy question—in your view, continue to enjoy an exemption from U.S. antitrust laws?

Ms. TROTTENBERG. I think at the moment that is a question that is being discussed in the administration which I cannot give you an answer to, but certainly——

Senator WYDEN. What is your view?

Ms. TROTTENBERG. Well, I think obviously the recent situation we have here where there has been such a problem for U.S. exporters has raised the question about whether the antitrust immunity that the shippers enjoy, what effect has that had and do we need to take a closer look? I cannot tell you at the moment that I could say yes or no as to whether they should continue to have it, but I certainly think it is something now that many folks are taking a look at.

Senator WYDEN. And since I have you here, though, before the subcommittee, do you think it ought to be reexamined?

Ms. TROTTENBERG. It is being reexamined.

Senator WYDEN. And you think that is the correct approach?

Ms. TROTTENBERG. Yes. I think it is certainly fair to take a look at it. Obviously it came out of, I guess, the Staggers Act when the industry was deregulated. That part of it was not deregulated, and circumstances are always changing.

Senator WYDEN. Let me ask you a couple of other questions, and then we will move on to you, Ms. Lamb-Hale, and get you into this.

I think a lot of my constituents also want to know about another matter that you are involved in, Ms. Trottenberg, and that is whether there are any developments on the Mexican truck issue. There is great concern about the prospect of various retaliatory measures. Can you give us an update on anything with respect to the Mexican truck issue?

Ms. TROTTENBERG. Yes. I know that is an issue of burning interest all over the country, and certainly for many members of Congress. From U.S. DOT's point of view, I mean, our sort of—and again, we work with several parts of the administration with that, our Federal Trade Representative and the State Department, sort of a multi-agency effort.

Our number-one responsibility is safety, and Secretary LaHood has pledged to work with our Mexican counterparts—he was recently in Mexico—to see if we can come to some kind of arrangement, particularly one that would ensure safe shipping, satisfy the Mexicans' concerns, satisfy our treaty obligations. He has pledged, working with his Mexican counterparts and other parts of the administration, to hopefully have something to bring back to Congress sometime soon.

Senator WYDEN. What does "soon" mean?

Ms. TROTTENBERG. Well, that, I am not sure how soon is soon.

Senator WYDEN. Two weeks? A month? Any idea?

Ms. TROTTENBERG. Probably not 2 weeks. I think, again, DOT's focus is particularly on the safety elements of it, but we also have to work with some of our other Federal agencies and some of our key congressional leaders who care deeply about this issue on both sides. So I cannot give you a deadline, but believe me, it is something that is getting——

Senator WYDEN. Urgent.

Ms. TROTTENBERG. It is getting attention at the highest levels of the administration.

Senator WYDEN. Urgent, urgent.

Let me ask you about one other issue, a good news issue. I think you are aware that I am the principal author of the Build America bonds program. We had tremendous support, particularly from Chairman Baucus. It could not have happened without Chairman Baucus. We thought this might result the first year in perhaps $4 billion worth of them being issued. We are now over $90 billion worth of bonds. So, they have succeeded our hopes by 20 times, plus.

I am wondering if you all are looking at the question of whether Build America bonds could contribute to infrastructure designed to improve freight mobility. It is very clear that we are going to be continuing to look for new revenue to fund infrastructure, and I think it would be helpful to have on the record your thoughts about the possible application of Build America bonds to infrastructure that advances freight mobility.

Ms. TROTTENBERG. Absolutely. Yes. They have been a fantastic success. Everywhere we go, we hear great raves about them.

We are doing an analysis right now looking at the different types of projects that so far the Build America bonds have been used for. I think there has not been a lot of use thus far on freight-specific projects. I think it is skewed more heavily towards roadways, and we are still looking into exactly what all of these projects are.

But certainly, as I mention in my testimony, the administration will soon be putting forward a legislative proposal for its new infrastructure fund, and I think it will dovetail in a lot of ways with some of what was accomplished in Build America bonds, and certainly freight infrastructure is going to be one of the key priorities.

Senator WYDEN. So you think, as the administration lays out plans to advance its freight mobility agenda and improve the infrastructure, that the areas that it will focus on for funding would include Build America bonds?

Ms. TROTTENBERG. Build America bonds, or some similar bonding-type proposal, as well as loan guarantees and grants where necessary. I think we are particularly interested in the whole array of potential tools to get infrastructure projects going.

Senator WYDEN. All right.

Let us move on to you, Ms. Lamb-Hale. What is striking about your testimony—you make a number of good points—is the idea that entire supply chains are competing against each other. This is not just individual companies competing against each other, but supply chains are competing against each other. And certainly you make note of the fact that a lot of our competitors have a much more integrated freight movement system than we do. Without addressing the supply chain issue, what is going to happen to the President's objective of doubling exports?

Ms. LAMB-HALE. Well, I think that that objective will be compromised. I think that it is important to recognize that Canada, the EU, and other countries have all developed a coordinated, holistic approach to multi-modal freight movement, and these strategies are essential to the competitiveness of our manufacturers.

I think one example that is worth noting is that Canadian port officials have told us that often the port officials participate in trade missions. It is a full package when they go overseas to promote Canadian exports. All pieces of the puzzle are represented, and I think that it is important for us to remain competitive, our industries to remain competitive. It is important for us to have a coordinated, holistic approach, which is why we are so happy to be partnering with Transportation to do just that.

Senator WYDEN. Now, you mentioned trade missions. What specifically are these other countries doing that presently we are not doing?

Ms. LAMB-HALE. Well, I think the key is that they are bringing along their port officials. When I talk about supply chains competing, it is not just the individual companies, but it is the whole infrastructure. There is coordination, for instance, in Canada, from a national standpoint, provincial, and local. I mean, ports cannot be viewed in a vacuum. You have to look at the rails, you have to look at air travel, the roads; all of it comes together.

For the countries that present a coordinated approach, they really have the edge, and we can have that too if we work together to come up with a national freight policy. It is something that industry has been asking us. I think that the first step, I am happy to report, is that we have an understanding and cooperation between the Departments of Commerce and Transportation to work toward that goal.

Senator WYDEN. So that is your cross-agency program that you all have been talking about? When do you expect to have that ready to go?

Ms. LAMB-HALE. Well, we are starting it right away. In fact, this summer we are initiating regional tours where we are speaking to industry about the things that we should be doing to help them to remain competitive from a transportation standpoint. The MOU is the first step, but we certainly have regional tours planned, and we are looking to get industry input. I think that that is going to be critical as we design policy in this area to understand what the global competitiveness issues are that are faced by industry.

Senator WYDEN. What do you want to change about your relationship with DOT from what it is today?

Ms. LAMB-HALE. Well, I think we just want to combine our expertise. I mean, I think it is important—and I know the President is supportive of this, and certainly Secretaries Locke and LaHood—that we not operate in silos. Transportation brings its expertise with carriers, we bring our expertise with international trade and competitiveness issues. I think the combination will result in good news for our manufacturers as production continues to improve and increase, and exports increase.

Senator WYDEN. Is there anything you would like to add with respect to the agenda for financing infrastructure? You heard me ask Ms. Trottenberg and smile excessively when she talked about Build America bonds, but are there other areas that you think ought to be looked at for generating the revenue to improve freight transportation?

Ms. LAMB-HALE. Well, Federal funding certainly is not the only answer. We have to look at all kinds of strategies. I would note—and Ms. Trottenberg can speak to this more specifically—under the Recovery Act, the TIGER grants, we saw that industry was really willing to contribute to the funding with respect to that program. So I think that we should really look at public-private partnerships. We cannot rely on Federal funding alone.

Senator WYDEN. You would like to expand the TIGER programs?

Ms. LAMB-HALE. Well, I really cannot speak to that. I think that as part of our regional tour, as we speak to industry, I think we should explore what their views of that are. I cannot speak to what Transportation may or may not be able to do in that regard. But I think that we really need to work together across Federal agencies and really listen to what industry has to say with respect to the competitiveness issues we have discussed.

Senator WYDEN. Well, you both have been very, very helpful. I would only say, in wrapping this part of the program up, that I want to communicate the strongest possible sense of urgency about this because, at a time when my part of the country is just getting flattened economically, we cannot come back without these kinds of changes.

I mean, the reason I walked you through some of these specific cases is this is what my constituents are asking about. This is what the *Wall Street Journal* reported on. These were sort of Oregon cases, large in the *Wall Street Journal*, and it is not going to be enough for us to say, well, we are working on these, and we are having interagency discussions, and the like. We are going to have to have answers for people. We are going to have to have answers quickly.

So we will be back at you very soon, and we will excuse you both at this time. Thank you for the cooperation with the subcommittee.

Ms. LAMB-HALE. Thank you, Chairman Wyden.

Ms. TROTTENBERG. Thank you, Mr. Chairman.

Senator WYDEN. Let us move on now to Mr. Leal Sundet, Coast Committeeman, International Longshore and Warehouse Union, Portland, OR; Mr. Steve Larson, chairman and president of Cat Logistics and vice president of Caterpillar, Morton, IL; and Mr. Errol Rice, executive vice president of the Montana Stockgrowers Association, Helena, MT.

Welcome to all three of you. I am particularly pleased to see Mr. Sundet here, my constituent from beautiful Portland, OR.

We are going to make your prepared remarks a part of the hearing record in their entirety, and, if you could take 5 minutes or so and summarize your major concerns, we will have some questions. Feel free—also, you heard the administration witnesses. Feel free to incorporate into your remarks anything you would like to do to respond to what they have said as well, because I think often that is a very helpful way to generate discussion, to have people like yourselves respond to what the administration said.

So Mr. Sundet, welcome.

STATEMENT OF LEAL SUNDET, COAST COMMITTEEMAN, INTERNATIONAL LONGSHORE AND WAREHOUSE UNION, PORTLAND, OR

Mr. SUNDET. I get to go first, Senator? I have not seen you in a long time.

Senator WYDEN. It is only right that Oregon comes first.

Mr. SUNDET. I want to say good morning, because for me it is good morning.

Senator WYDEN. There you are.

Mr. SUNDET. I get used to this 3-hour time span because I have until noon and nobody back there bothers me, and all of a sudden now I am getting all the e-mail messages.

Senator WYDEN. I hear you.

Mr. SUNDET. Because they just wake up about 9 o'clock.

Senator WYDEN. Oregonians are in demand.

Mr. SUNDET. Yes, they are.

Did you want me to read this into the record or does it matter to you?

Senator WYDEN. Why don't you, if you would not mind? Oregon longshoremen are always pretty good in terms of keeping it simple and blunt. Why don't you just summarize your big concerns? We will put your full remarks into the record. You heard the administration folks, and you guys are literally out there every day trying to move these goods and put people to work, and I would be appreciative of your just laying out your thoughts.

Mr. SUNDET. I think the business that we are in is a very complicated business, as you well know. It is largely market-driven. I guess this is a hearing on efficiencies, if you will, particularly with respect to the ports. I represent, as an elected official, longshoremen from Canada, Washington, Oregon, and California, as well as longshoremen in Hawaii.

With respect to the three western States, there are five major container ports, which are, as you all know, Seattle; Tacoma; Portland being the smallest of the major container ports; Los Angeles and Long Beach combined, which is probably the largest container port complex in the world; and the Bay Area, which is Oakland.

The efficiencies on the docks themselves are very efficient. Longshoremen and the terminal operators we work with, carriers, we can get the can on and off the ship as efficiently as anybody in the world. That is not a problem. The carriers, port authorities, have invested a considerable amount of money in cranes and so forth, wheeled vehicles to move containers directly from the ship to places on the dock for storage. It works. It works very well.

The problem is moving the can or receiving the can to and from the terminal itself. That is the bottleneck. If I compare, as an example, what is going on in Canada—I just came back from a trip in Canada. I was at their Delta facility. As you probably also have heard, they have a facility at Prince Rupert, which is designed to have direct movement of container from ship to rail directly into, I think it is Chicago or Detroit, in the United States.

Some of the differences with that model are, they have brought rail right directly to the dock and made it a very integral component of moving that can to and from that facility. We have that in the United States as well. We have a nice facility in Portland, as an example. We have facilities in all the major ports like that, but not enough of it. Though we may put the rail right onto the docks, there are all kinds of bottlenecks throughout the rail infrastructure system that need to be fixed, and I do not think that the United States is putting the kind of money in to get that done.

I think you mentioned it. When you have inefficiencies in the transportation system, it, in effect, is a tax. You are taxing the producers. It is a tax so you can spend your money——

Senator WYDEN. Slow tax, is what we call it.

Mr. SUNDET. Say it again.

Senator WYDEN. Slow tax.

Mr. SUNDET. Slow tax. That is where we need to be putting our money, is in the east-west infrastructure.

Now, one of the things we are doing—and we are doing it largely for political purposes because it plays well to our constituents or to politicians' constituents—as an example, through TIGER funding, we spent $30 million in the Stockton-Sacramento corridor for so-called short sea shipping or marine highway. That is money not well-spent. It would be better spent in the east-west infrastructure side of it. There are other projects it could have been spent on. The concept of a marine highway is not a reality in the marketplace. It will not work. There are too many inefficiencies associated with it.

The reality is, you are not going to displace trucks. The trucking industry has been deregulated to a point where it is highly efficient. It is highly efficient to the shipper. I use "shipper" as being the Costcos or the onion grower, and I use the word "carriers" to be the vessels. That is the difference in terms that we use in our industry. So shippers is your Costco and carriers is your people who own the ships and move the ships.

That truck is still the most efficient way to move cargo, particularly in the short run. The railroads even understand that, and they have moved in to interstate commerce or interstate movement of goods. The short movement, even the movement of cargo within States, is owned by the trucks, and it is going to continue to be that way. No matter how much subsidy you are going to try to put in on an idea that our constituents like to hear about, which is short sea shipping, at the end of the day it cannot operate because it cannot compete with the truck.

So along that line, we have to figure out ways to make the movement of trucking more efficient, while at the same time dealing with our communities that they have to run through, and so forth. We have to start looking at the movement of cargo, especially as we get in closer to ports, where neighborhoods are encroaching on ports.

We have to say that, when we plan our roads and we do our planning at the local levels, we have to look at the movement of cargo, particularly by truck, as being at the same level as bicycle paths, pedestrians, and so forth. It makes no sense to cut off the left turn of a truck going into a port complex because I want to put a green median in there, knowing that the truck then might have to go 3, 4, 5 more miles to get to the same spot and burn up all the diesel, or whatever it is burning. That is not helping the person who is living in the community. That person is not thinking about it when he looks at the median, but in reality he is breathing that extra pollution, if you will, or diesel. So these are all the things we are talking about.

I do want to make one point, because you might not ask me. There was a point you asked the previous panel, whether the supply and demand will take care of the shortage of containers for exports. I think it will. I think it will.

The reason you have a shortage of containers right now, empty containers, is because when we had the downturn, if you will—and it was the worst downturn that we have seen in our industry in 75 years, and was almost exclusively a container downturn in the major container ports. We never saw anything like it. Very devastating to our members.

The empty containers had to be stored. There is no demand for them. There are no imports coming in, no exports going anywhere. It was a worldwide dilemma. So the containers had to be stored someplace. Well, they are not going to store them in the United States. Land is too valuable. They store them in China and other places.

So those empty containers are repositioned overseas, and it is going to take a while to get them moved back here. The only way they are going to come back here, they are not going to come back to pick up an export load. They are going to come back with something in them. So as the demand for imports increases, those empties will be here, and they will be available for export, with one caveat.

I am going to draw an example. In 2005, the demand for imports was huge in this country. It was so huge, that high-value imports, you could get about $4,000 a can, a carrier could, for his container. On the other side of the coin, a low-value import load, largely an agricultural container, would only pay about $400.

So that carrier, because he is looking at dwell time on the container, he is looking at the fact it has to be loaded, unloaded, moved, sits around, it is going to take him a while before he gets the container back so he can get another $4,000 for it. So that carrier was more interested in sending the container back empty so he could turn it into a $4,000 bill than to let it go to a $400 bill, and our exporters were having trouble getting people to even pick up their cargo as a consequence.

Senator WYDEN. If I let you continue to make all of these logical points, I will be showing blatant favoritism to Oregon, which I normally show.

Mr. SUNDET. I am done. You do not have to ask me any more questions.

Senator WYDEN. You said it extremely well, and thank you very much also for making the long trek and for all the good work that the longshore folks do in Oregon and around the country. We are really glad you did it. Extra points for not reading testimony. It has been very helpful.

[The prepared statement of Mr. Sundet appears in the appendix.]

Senator WYDEN. Let us go now to Mr. Larson, chairman and president of Cat Logistics, vice president of Caterpillar, Inc.

Mr. Larson, welcome.

STATEMENT OF STEVE LARSON, CHAIRMAN AND PRESIDENT, CAT LOGISTICS, AND VICE PRESIDENT, CATERPILLAR, INC., MORTON, IL

Mr. LARSON. Thank you very much. Chairman Wyden, thank you very much for the opportunity to testify today about increasing exports and the challenges presented for U.S. sea ports.

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 going to increase exports and maintain our global leadership as a U.S. manufacturer.

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. During that year, we spent more than $5 million a day on logistics to support exports of U.S.-built machines and engines and spent $2.4 billion worldwide on transportation-related expense.

Cat Logistics has a key role in supporting Caterpillar exports by providing integrated logistics solutions and managing the company's transportation spending. The competitive advantage we seek to deliver for Caterpillar is dependent on goods moving at a consistent high rate of velocity. While a number of factors, both internally and externally, impact velocity, the state and condition of the transportation infrastructure supporting our supply chain is exceptionally important.

While our Nation's sea ports are a critical link in our transportation infrastructure for both imports and exports, I would like to stress today the significance of all modes of transportation and the importance of their integration and connectivity.

Whether we are importing or exporting, goods are often moved through different transportation modes before they ever get to a port. If we are going to be successful in growing our economy through increased exports, our entire freight movement system must be improved dramatically and work as an effective, modern, and integrated whole.

Mr. Chairman, with over 90 percent of the world's consumers living outside our borders, 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.

Free trade agreements 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, Columbia, and Korea free trade agreements. But whether the export opportunities are in our own hemisphere or on the other side of the world, the goods we sell must travel through a multi-modal transportation system that includes roads, rail, water, and air.

The condition and integration of these various modes has a significant direct impact on our ability to move products quickly and efficiently and at the lowest possible cost. Our transportation system is the backbone of our economy. Economic opportunities are directly tied to the efficiency and reliability of this system. Unfortunately, our transportation network is aging and under-funded.

Our Nation's highways, bridges, and tunnels are deteriorating rapidly, while congestion is increasing. Compounding the congestion and deteriorating infrastructure are the various and often conflicting State regulations and permitting requirements with which we must comply when moving freight.

Our Nation's rail network is increasingly seen as a cost-efficient way to help alleviate growing freight congestion on our roads, yet there are serious questions about the ability of the existing system to handle increased volumes, and the capacity and design of the current railroad infrastructure limits Caterpillar's transportation options.

Like our road and rail networks, our ports 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 or divert shipments altogether through Canadian or Mexican ports. 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 at Halifax.

Mr. Chairman, if we are going to be successful in growing our economy through a doubling of our exports, our entire 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. Nothing short of our global competitiveness is at stake, and it is clearly a time for action.

Thank you, Mr. Chairman, for the opportunity to share with you the views of Caterpillar on this crucial topic. Caterpillar stands ready to work with you, the Congress, and the administration on these important issues.

Thank you.

Senator WYDEN. Thank you very much, Mr. Larson. We have worked with you often in the past on these kinds of issues and appreciate your constructive suggestions. I will have some questions in just a moment.

[The prepared statement of Mr. Larson appears in the appendix.]

Senator WYDEN. Mr. Rice, let us go with you. You have also made a long trek as a westerner, and we appreciate it.

STATEMENT OF ERROL RICE, EXECUTIVE VICE PRESIDENT, MONTANA STOCKGROWERS ASSOCIATION, HELENA, MT

Mr. RICE. Thank you, Mr. Chairman.

Mr. Chairman, thank you for the opportunity to speak to you on behalf of the members of the Montana Stockgrowers Association regarding our point of view on sea port infrastructure and beef exports. My name is Errol Rice. I currently serve as the executive vice president for the Montana Stockgrowers Association, one of the oldest cattle ranching organizations in the United States, established in 1884.

Our mission is to protect and enhance Montana ranch families' ability to grow and deliver safe, healthy, environmentally wholesome beef to the world. Our ranch families' livelihoods depend on sea ports, which are our most dynamic and vibrant waterway centers of trade and commerce.

There was a time when the largest part of ranching's economic activity was domestic, but our future depends on our ability to be globally competitive. Ranchers must have access to the additional demand for beef from consumers who live outside of the U.S.; 95 percent of the world's population lives outside the borders of the United States.

The unfolding global landscape, in its breadth and complexity, is creating unprecedented challenges for U.S. beef exports. High-value perishable products like beef need rapid connection from land to water and an efficient delivery to world consumers. U.S. ports' infrastructure and their frameworks must ensure efficient and sophisticated transportation of our product to the global marketplace.

As economies around the world begin to recover, we see global demand expanding for U.S. beef products. Ranchers cannot meet world consumer demand through inefficient, congested, and outdated sea port systems. Today, Montana beef that is finished and processed in the Midwest is chilled or frozen in regional processing facilities, moved overland to south and west coast ports, and shipped by sea to over 70 countries around the world. We must continue to make technological advances in port-to-market distribution systems for U.S. agricultural exports like beef.

Freshness is a key ingredient to advancing distant foreign markets for beef. However, while this committee's task may be to ensure that our sea port infrastructure meets the challenges of doubling U.S. exports, it must simultaneously and successfully resist protectionist impulses at home and deter impulses abroad.

Japan, for instance, was once our closest beef trading partner; however, they have largely closed their markets to U.S. beef after the discovery of one Canadian-born cow infected with BSE in the State of Washington in 2003. Japan's unscientific trade restriction is not consistent with fair trade practices. This continues to hurt family ranchers by limiting us to about 25 percent of our potential market there, or $1 billion in lost beef exports each year.

Thankfully, Chairman Baucus has tirelessly pursued resolving the unjustified prohibition of our wholesome beef products by the Japanese government. Most recently, Chairman Baucus strongly urged the Japanese government to remove their unfounded barriers to our beef in a letter sent to the Japanese ambassador on March 16, 2010.

But it should not stop there. Together we must finish our work on other markets, including Taiwan, Korea, China, and even Mexico. China is the only major market still closed to U.S. beef and represents one of the largest potential growth markets for ranchers.

Passing pending free trade agreements is crucial. Passage of the U.S.-Korea FTA would mean $15 million in tariff benefits for beef in the first year of the agreement alone, with about $325 million in tariff reductions once fully implemented. We expect that Korea will provide full market access for U.S. beef consistent with World Organization for Animal Health guidelines.

For each day the Congress does not approve the Columbia FTA, American exporters overall pay millions of dollars in unnecessary tariffs. Other countries such as Australia are already negotiating FTAs on their own with South Korea. If Australia successfully ratifies a similar bilateral trade agreement with Korea a year before we do, it could give them a 2.67-percent tariff advantage over U.S. beef for the next 15 years.

Montana is hosting the 2011 Asia-Pacific Economic Cooperation Trade Ministers meeting. This is a tremendous opportunity for Chairman Baucus and our ranchers to showcase our cutting-edge approaches to global beef innovation that we use to deliver safe, healthy, and environmentally wholesome beef to many of the 21 Asia-Pacific member economies.

This meeting can serve as a proactive model for which greater information sharing and interconnectedness can be achieved to build more effective trade partners who are committed to a rules-based trading system. Reaffirming our commitment to all of our international agreements, both ratified and pending, will lead the development in investment of sea port infrastructure on both ends. Critical challenges such as port capacity, storage space, container availability, ready access to rail and highway systems, Customs Services, inspections, and distribution systems can be better met following these commitments.

Mr. Chairman, I appreciate the opportunity that we have been granted to present our testimony today, and we look forward to working with you throughout the course of the upcoming years in advancing all areas of U.S. exports.

Senator WYDEN. Mr. Rice, thank you very much for that very helpful testimony. It is my plan to work very closely with Chairman Baucus on all these issues. As you know, he has been a leader on trade questions for a long, long time, and I am pleased and honored to be a subcommittee chair on these matters.

[The prepared statement of Mr. Rice appears in the appendix.]

Senator WYDEN. Let me start with you, Mr. Larson, if I might, and put it almost in the context of the global competitiveness question. That is part of our subcommittee's obligations. I have come to think that there are a lot of reasons why an American company chooses to locate somewhere. Health care costs are even a factor. I mean, there have been companies that have lost out on opportunities because our health care costs are a lot higher than our competitors'.

I think you are probably aware, Senator Gregg and I have introduced comprehensive tax reform to lower the corporate tax rate to

24 percent for companies that manufacture in the United States by rolling back some of the breaks that are offered for shipping jobs overseas. So there is labor interest in it, business interest in it, and something that we surely ought to debate as part of tax reform.

So there are a variety of reasons that companies locate somewhere. You have talked about this, and I think it is important to put it on the record. How important is it to you, in terms of locating somewhere, that transportation and sea port infrastructure issues are competitive, and both efficient and priced in a fashion that is going to let you tap these jobs in the country, and in the export market in particular?

Mr. LARSON. Well, Mr. Chairman, it is a very important issue. As you know, there are a lot of factors that are considered when you are looking to locate a manufacturing facility or warehousing facility, whatever it might be. One, obviously, is a good source of labor in the local market. The business climate, as you mentioned, is very important. Is there a supply chain in the area that you can tap into? These are all important issues, but the availability of the transportation infrastructure to move goods in and out of that particular location is extraordinarily important.

At Cat Logistics, we get an opportunity to take a look at all facility site selection that is done by the company when we are determining where we might locate a manufacturing facility, or a facility of any kind. Of course, one thing we look at and assess is the availability of transportation infrastructure, the reliability and the stability of it, and the cost. The absence of a good transportation infrastructure can in fact be a knock-out blow for a particular site. So, it is extraordinarily important. It is one of the factors that gets a lot of attention when we look at that type of thing.

Senator WYDEN. Now, you outlined a number of serious concerns about antiquated transportation infrastructure. I think it would be helpful to know, what kind of action is Cat taking to deal with these kinds of problems? I gather that there are even facilities that just cannot move at all what you need moved in a timely way.

Mr. LARSON. Right.

Senator WYDEN. So give us your action plan for how you deal with the antiquated bottlenecks that we have today.

Mr. LARSON. Right. Well, the first thing we are doing at Caterpillar is, obviously, dealing with all the things that we can control within our four walls. That is, to increase through-put through our manufacturing operations. We are very focused, through our Caterpillar production system, on lean manufacturing. So we try to move things through our facilities as quickly as we possibly can.

We have done a lot to drive process discipline on our shipping floors, making sure we have all the appropriate documentation lined up when a particular machine is ready to go through the door. We are collaborating to a lot higher degree with our suppliers and carriers, measuring their performance in terms of how they are moving our goods from the factory door to the port of exit.

We have done a lot on the technology side, information technology. We are investing in transportation management systems, track and trace capability, all those kinds of things that enable us to actively manage our goods as they are moving through the system.

Senator WYDEN. I think I am going to move on. I just want to leave you with one thought, Mr. Larson. I think you are the face of one of the most important economic challenges of our time, and that is, we must get this country back into the business of American manufacturing. We do a lot of things well in this country. We cannot get done what we need to get done without a renewed capacity to manufacture.

You and I, just in the last 6 or 7 minutes, have touched on a number of the elements. I mentioned taxes and health care before I got to antiquated infrastructure, and you threw in labor, which is absolutely pivotal as well. I want to use this subcommittee to outline, particularly, a competitiveness strategy that is going to get us back into the business of manufacturing.

I think there are extraordinary opportunities. I think there are going to be great opportunities for green manufacturing. It is very clear that companies in our part of the world are very interested in it. So, we are going to count on your counsel often in the days ahead. Thank you for your cooperation, coming back twice. My thanks to all of you. I think that that is almost the Senate version of cruel and unusual punishment, to have to come twice, and we are very appreciative of your cooperation.

Mr. LARSON. Thank you. Pleased to be here.

Senator WYDEN. Mr. Sundet, a question for you on the Panama Canal. The Panama Canal has the potential to shift trade flows from west coast ports to ports in the Gulf and ports on the east coast. What is your sense of what a shift like that means for ILWU workers, and what kinds of steps do you think ought to be taken for those of us on the west coast to keep as much Pacific trade flowing through the west coast?

Mr. SUNDET. Quite frankly, I think that the shift is overrated. I do not think that there is much that is going to happen as some of the people on the east coast would like it to happen, particularly the ones who own those ports. The most efficient movement of cargo across these United States to and from the Asian markets is the land bridge, and I think that is going to continue, especially given, like Los Angeles, where upwards of 60 to 70 percent of the cargo that flows into Los Angeles from Asia is consumed in the Los Angeles basin.

The best thing that we can do—and also the ports in the Gulf and along the Florida panhandle are not equipped to handle the large ships. It is going to take a lot of investment to get them to do that. The carriers and the port authorities and the public bodies here on the west coast have long ago set themselves up to handle those kind of vessels. The trade is there.

So the best thing that can happen and the best thing this country can do is to increase the east-west infrastructure, put money into the east-west infrastructure to make it efficient, look at designated cargo corridors and so forth so we can continue to use the land bridge. Bring cargo to the west coast, drop your cargo, consume on the west coast, and move the discretionary cargo over the land bridges.

Senator WYDEN. It is a good argument. I am looking at an *Oregonian* article—talking about how the west coast ports are banding together to deal with global competition, largely out of their concern about the Panama Canal and allowing the big Asian ships to essentially go around west coast ports to the East Coast. So, those are good arguments.

We are going to continue this discussion with you because we have to find a way to not pit regions against each other, because that could reduce overall trade in our country. But for those of us in the Pacific northwest where we have more than 10-percent unemployment, we have to make sure that our interests are advanced in any kind of national solution. So, I thank you for your comments.

Only one question for you, Mr. Rice. We have heard about shipping delays dealing with the time tables, particularly for folks in perishable goods. I mean, folks who have perishable goods, they need cold containers, they need a host of products and services to help them move Montana beef and other products that are perishable. What are the factors that you consider in choosing between which ports to export from?

Mr. RICE. Mr. Chairman, I think it is important to note that, in our business, the ranchers in Montana are the first point of the supply chain. So, I think a number of the factors that the last party of the supply chain, the processors, use are many of the factors that were discussed by many of the testimonies presented here today. Distance to ports is obviously an important point of consideration. Our processing facility in Pasco, WA probably has a comparative advantage over our processing facility in Greeley, CO in terms of making that determination.

I think also one of the things that we see specifically, when we talk about trucking and highway infrastructure, is consistency in gross vehicle weights that has created some challenges for us to take a very direct route to a feeding facility or a processing facility. The State of Montana, for example, has a different state law on what the gross vehicle weight can be, as, say, compared to South Dakota, and also some differentiation on the lengths of what these caravan trucks can be.

So that inconsistency has created some challenges in routing our product to different areas of the country throughout the Midwest, and even that same issue creates challenges in determining which port, depending on where your location is, to get to. So, those are just a few.

Senator WYDEN. Mr. Rice, thank you. I did not have any other questions. I want it understood, for folks moving perishable products, particularly beef and a lot of products we have in the Pacific northwest, we think you are an important part of a new strategy to deal with antiquated infrastructure, so we will be calling on you often.

Mr. RICE. Thank you, Mr. Chairman.

Senator WYDEN. We will excuse all three of you and look forward to working with you in the days ahead.

Our next panel will be Mr. Bill Wyatt, executive director of the Port of Portland; Mr. Phil Lutes of the Sea Port Division of the Port of Seattle; Mr. Larry Paulson, Port of Vancouver; and Mr. Jeff Bishop, Oregon International Ports of Coos Bay, Coos Bay, OR.

I think, using the powers of the subcommittee, we ought to start with Jeff Bishop, because he made the longest trip. All right. We very much appreciate it, and thank all of you who have been very supportive of our work. It is good to see some familiar faces and the northwest ports' agenda ready to make its case.

Mr. Bishop, welcome. We will make your prepared remarks part of the entirety of the committee's hearing, and I think, particularly since you have had a couple of panels already go, I would be especially interested in any comments you would have in response to what you have heard thus far. In other words, you have the advantage of kind of incorporating into what you tell the subcommittee your assessment of what you already heard. So, Mr. Bishop, you start.

STATEMENT OF JEFF BISHOP, EXECUTIVE DIRECTOR, OREGON INTERNATIONAL PORTS OF COOS BAY, COOS BAY, OR

Mr. BISHOP. Thank you, Mr. Chairman. On behalf of the commissioners for the Port of Coos Bay, I want to thank you very much for this opportunity to testify, and more importantly to talk about our port.

I am going to dispense with looking at my statement since it is already in the record and, if I can, kind of speak from my heart based on some of the things that I have heard today. I have a tendency to be a very passionate person about the organization I work for, and, in sitting and listening to the previous speakers, it occurred to me that during my port career I have had the opportunity to work at ports that dealt with almost every one of those subject materials. I started off at the Port of Pasco, so I am very familiar with the beef situation, and progressed to the Port of Tacoma, where I had some involvement in the container industry.

Now that I am at the Port of Coos Bay, I have had the opportunity to see what it is like to operate in a very rural area. As was previously mentioned, we are the furthest port westward in the United States served by rail. It is a very proud community, and at one time it described itself as the world's largest forest products export port. That kind of peaked in 1983. Today, we do about 87 percent of the business that we once did. Over that 30-year period, it is pretty obvious, to walk around and look at the marine facilities and see where the functional obsolescence has taken hold, the docks are literally rotting as they sit there.

There is a lot of capacity still left in the community, and there is a lot of stranded infrastructure. Our channel is still strong. We are still only 45 minutes from the ocean to berth. We have a remarkable rail line—currently closed but we are working on that—that had some very significant stranded investment in that.

Today, from a percentage standpoint, over 70 percent of the children in the Coos Bay school system are qualified for assisted lunch program. The poverty that is in our community is quite amazing. The port traditionally has been the economic engine that sustained the economy there.

Since coming on board, I was charged with trying to come up with a strategy for revitalizing that and finding some way to bring the community back to its original—I do not want to say grandeur, because I do not think we ever quite qualified for grandeur—but certainly the comfort and the family living wage jobs that were traditionally part of our community.

We have not lacked for opportunity since I have been in Coos Bay. I mean, at one point in time we had a very large shipping conglomerate looking at us and identified us as the most likely candidate in the United States to compete with Prince Rupert in Canada. I think one of the things that I have been surprised at—when I first came to Coos Bay, I thought we would have this inherent competition with the Port of Portland, but that has not been the case. We find ourselves more worried about what is going on in Canadian ports than we do any other of the ports here at this table today. They are our main competitors.

We have gotten to the point where we have gotten so tied down in the permitting morass that it is very difficult for us to compete. We find ourselves with potential customers. We have one customer that we have been working with now for 6 years and has spent $40 million on a permit, only to find out that it is very likely they are not even going to be able to complete that process due to a procedural issue. We get somewhat stigmatized by this process.

This past summer, we had a client that we were talking to, and we got down to negotiations on land, and we offered to give the property to them. Their analysis indicated that it would take them too long to get permits to develop their facility.

So while we look at financing opportunities and ways to look at investing in infrastructure, I think there has to be some kind of a balance there in the sense that, if we are going to look for creative ways to finance these things, we are going to have to be able to do it quickly.

I spent a few weeks in China this past summer, and I learned a phrase that has kind of stuck and developed resonance in my mind. It is called Shinzen speed. We were touring the Chinese community of Shinzen, and the person who was showing us around coined this phrase. I thought it was kind of remarkable, but it was basically three floors a day on a skyscraper, and that was Shinzen speed. So I think there are a lot of things affecting our competitiveness, and I think there are many opportunities to bring other entities to the table to discuss the possibility of streamlining some of these bottlenecks.

That would conclude my remarks.

Senator WYDEN. Thank you. Thank you very much, Mr. Bishop.

[The prepared statement of Mr. Bishop appears in the appendix.]

Senator WYDEN. I am very pleased to be joined by my long-term friend and colleague, Senator Cantwell. We have just started this panel, Senator. What is your pleasure? Would you like to make a statement now, or wait till questions? What is your pleasure?

Senator CANTWELL. Mr. Chairman, thank you for holding this important hearing. I am anxious to hear from the witnesses, and several of them are from the northwest. It is an important policy, but I will save my comments to the question period.

Senator WYDEN. Very good. Thank you for being with us.

Let us go to Senator Wyatt. Senator Wyatt?

Mr. WYATT. That is quite a promotion, Mr. Chairman.

Senator WYDEN. Take it. Mr. Bill Wyatt, executive director of the Port of Portland.

STATEMENT OF BILL WYATT, EXECUTIVE DIRECTOR, PORT OF PORTLAND, PORTLAND, OR

Mr. WYATT. Well, Chairman Wyden, Senator Cantwell, thank you so much for having this hearing. I think you bring great highlight to what is obviously an important initiative of the administration, very important to us.

The Port of Portland is celebrating its 119th year, and we were created way-back-when as essentially an export-oriented port. Exports have had everything to do with the development of our community of Portland, and the infrastructure that we now enjoy—two transcontinental railroads, two interstate freeways, an international navigation channel, and international airport—are largely the result of these export-oriented investments that occurred so many years ago.

So I want to emphasize a few points that have been made and then comment on a couple of the earlier testifiers. You asked us if we had issues with or wanted to comment on any of the commentary made by other witnesses, and I would just say this on behalf of the port community: I do think there is some disappointment about the manner in which the TIGER grants were issued. The administration tends to talk about TIGER grants in terms of the freight system overall, and we are all for additional freight investment.

But the port investments themselves were pretty modest. I say this because the American Association of Port Authorities, represented in the audience here today, has had quite a bit of conversation about this. There is a concern that ports were really not terribly well-represented in the award of those grants, and those port grants that were made were maybe not central to the track that your hearing represents today in terms of major gateway investments.

The other comment I would like to make is this: in terms of infrastructure, it is an incredibly important aspect of increasing exports more so than imports, because the truth is, as a country, we tend to export things that are larger in volume, greater in weight, and lesser in value. So transportation represents an increased share of the cost of those products as they are being exported.

Wheat, for example, it is said, often sees transportation representing about 40 percent of the cost of the delivered good. Gee, what would happen if it was 35 percent or 33 percent? Then wheat would become dramatically more competitive on global markets. So logistics is more important for U.S. exports than it is for U.S. imports, so whatever attention the committee can give to that, I think exporters will benefit significantly.

Finally, just a couple of thoughts about land. Land that is adjacent to this existing infrastructure is incredibly difficult to come by, and if it is adjacent to this kind of infrastructure it is subject to extraordinary regulation, and much of that from various Federal agencies, State and local as well.

Integration in approaching the regulation and management of this incredibly important economic resource, this land available for development near and around port facilities, is extremely important, and oftentimes we find ourselves confronting three or four different layers of regulation by three or four different layers of government, which really makes it very, very challenging.

Finally, I would just mention the Korea free trade agreement. I will just relate to you a story about this agreement. I was in Seoul a few years ago when the negotiations for the Korea free trade agreement were being concluded. I was on my way to visit our customer, Hanjin Shipping, very close to the Korean parliament building. We were essentially unable to get into the building because there were so many protestors, farmers and others, in Korea who had shown up to protest this agreement, because their view was they were giving everything up to the Americans in the course of this agreement.

I have, myself, constantly emphasized with our Korean partners how valuable this would be in improving trade and improving American access to Korea, in particular. So, I would just urge the committee to give this agreement attention as well.

Thank you. I look forward to your questions.

Senator WYDEN. Thank you. Thank you very much, Mr. Wyatt, and to all of you who have made this trek twice. I am very appreciative. And to Mr. Wyatt, for your good work. I think I heard your voice. I have taken two red-eye flights from the Port of Portland in the last couple of weeks, and I have heard your voice giving me instructions in the airport in the middle of the night. So I know of your good work, and we are very proud that the Portland airport is one of the finest in the world, and we are very appreciative.

[The prepared statement of Mr. Wyatt appears in the appendix.]

Senator WYDEN. All right. Let us go to Mr. Phil Lutes, deputy managing director of Seaport Division, Port of Seattle.

Mr. Lutes, welcome.

STATEMENT OF PHIL LUTES, DEPUTY MANAGING DIRECTOR, SEAPORT DIVISION, PORT OF SEATTLE, SEATTLE, WA

Mr. LUTES. Thank you. Good afternoon, Chairman Wyden and distinguished members of the committee. I am Phil Lutes, deputy managing director of the Sea Port of Port of Seattle. Thank you for the privilege of being here with you today.

In reflecting on the topic question for this hearing, "Doubling U.S. Exports: Are U.S. Sea Ports Ready for the Challenge?", the short answer for the sea ports is yes. Is the overall supply chain ready? No.

Limiting factors in the larger supply chain inhibit U.S. exports, but right now the biggest obstacles are not the sea ports themselves. Even with a strong rebound in our economy, U.S. ports have ample capacity. Our greatest challenges lie beyond the sea port gates. The real issues are enhancing efficient infrastructure throughout the trade corridors, dealing with current export container shortage, general promotion of products abroad, and antiquated tax policies that discriminate against certain ports and cargoes.

I want to strongly affirm this hearing's premise that increasing exports and ensuring a competitive economy are directly tied to improved infrastructure. We need a national goods movement strategy and a dedicated freight fund, especially through competitive accounts like the TIGER stimulus program. A national strategy with meaningful goals to guide funding is critical. Without one, freight will continue to fall between the cracks in the State and local process.

But with all the challenges we face as a country, why should infrastructure be a top issue? First, our initial midterm economic recovery depends upon it, as does our ability to export goods. Second, our competition is hungry, well-organized, and taking American cargo. It erodes the advantages that our exporters have traditionally enjoyed, such as lower transportation costs, shorter time to market, and greater container availability. The good news is that west coast ports are taking action to meet these challenges. Today, the west coast has a fast, reliable, and environmentally sound transportation network.

To better compete internationally, the six major container ports, along with the Burlington Northern Sante Fe and the Union Pacific Railroads, have formed an organization known as the U.S.-West Coast Collaboration. If we emulate the Canadians and execute a national goods movement strategy, we can improve our trade infrastructure, create jobs, save billions of dollars by ensuring investments are made at the right place at the right time, and reduce carbon emissions. In fact, the Port of Seattle released a study showing that routing inbound cargo from Asia through U.S.-West Coast ports results in lower carbon emissions than any other route, sometimes 20 to 30 percent less.

Let me turn to a near-term problem that, if resolved, could boost U.S. exports overnight: a shortage of empty containers for exports. Due to the decline in imports, carriers have anchored ships and dropped ports of call to offset losses. Ultimately, this translates into fewer opportunities for our exporters to move their products. It will be a challenge for the Federal Government to influence export container availability, nonetheless it is a very serious issue, and raising its profile is a good first step.

Lastly, a growing factor that draws cargo away from U.S. ports is the Harbor Maintenance Tax, or the HMT. Increasingly, the HMT is an incentive for importers to route their U.S.-bound cargo through foreign gateways to avoid paying the tax. By coming across a land border, these imports exploit a loophole in the law.

Addressing this inequity is important to counter some negative effects. First, it reduces revenue to the HMT trust fund, which pays for the needed channel dredging at American ports. Second, it exports American jobs, both in the goods movement industry and those that depend on a competitive export capability through U.S. sea ports. We estimate that the HMT fund will lose $600 million in revenue over the next 10 years through diversion of cargo to Canadian ports in the land border loophole.

In conclusion, U.S. ports and a transportation network that supports trade need to be part of an overall national economic competitive strategy, just like the need to improve all levels of education and invest in research and development.

We look forward to working with you to move these strategic priorities forward. We are well aware of the leadership in the Senate that has provided for areas of infrastructure in the trade laws of national significance, and we are very grateful for your support.

Mr. Chairman and members of the committee, thank you for calling this important hearing today, and thanks for allowing me to be here today to testify.

Senator WYDEN. Thank you very much. We will have some questions in a moment.

[The prepared statement of Mr. Lutes appears in the appendix.]

Senator WYDEN. Mr. Larry Paulson? Making our way southward.

STATEMENT OF LARRY PAULSON, EXECUTIVE DIRECTOR, PORT OF VANCOUVER, VANCOUVER, WA

Mr. PAULSON. Thank you, Chairman Wyden and Senator Cantwell, for the opportunity—the second opportunity, I might add—to speak to you today.

The Port of Vancouver is the third-largest port, we believe, in the State of Washington. But unlike the other two ports ahead of us, we are a niche port. We do not handle containers. We are primarily a bulk, break bulk, auto, and project cargo port, and it gives us some unique flavor.

For instance, of the 4.8 million metric tons we handled last year, 4.1 million metric tons, or 85 percent, was export cargo of all kinds. In addition, we are the import facility for Subaru, and we were number-one in wind cargo tonnage last year, at about 2,700 pieces of wind cargo. We, like the Port of Portland, are located about 105 miles up the river from the mouth of the Columbia River.

We are dependent, of course, upon that deep-water channel, which thank goodness is being done. It will be done this year. But river, road, and rail, and as Mr. Wyatt would say, runways, are the arteries that allow us to operate and continue to develop the companies we have, and the companies we hope to have.

The Port of Vancouver is fortunate in that we have quite a bit of land available. We have 750 acres of developable land, including 200-plus brownfield acres that would include a significant potential marine and industrial expansion in our future. In addition, we are about 70 percent rail-dependent, so the issue of rail is of particular importance to us.

There are four particular points I would like to make with you this morning—or afternoon. I think it is morning, too—that may be of interest. First, I think we do need to implement a national strategic freight policy and plan. We are seeing that in other countries. You mentioned it earlier in your remarks, Senator Wyden. Other countries, Canada and other countries in Europe and Asia, are doing just that.

Second, the priority of funding for freight transportation, freight rail, and port freight and intermodal projects is essential. I would have to concur with Mr. Wyatt and his comments that the recent funding availability, whether it be stimulus or ARRA money, or high-speed rail for that matter, did not seem to favor ports. It seemed to me that the ports were falling through the cracks.

I know that the Port of Vancouver, and I believe the Port of Portland—and we have a good working relationship, so I have some sense of that—had projects shovel-ready, ready to go, ready to produce jobs. And while we did receive some ARRA funds through some of the processes, and primarily appropriations, it seemed to be short in what could have been provided.

Third, promote Federal policies and streamline coordinated permitting processes that recognize the role of ports. That has been talked about quite a bit today, and I will not belabor it, but there are issues out there that continue to concern us in terms of the permitting process. Heaven knows, the channel-deepening project, in and of itself, 21 years to accomplish, may be Exhibit A of that.

And lastly, to strengthen foreign trade agreements with our global partners and advance an environmental opportunity supportive of global trade. I concur with what has been said regarding free trade agreements. Korea, Columbia, Panama, Costa Rica, Oman, and Peru come to mind. We think these are important things to promote the give and take, the import and the export, that we are working at. We think if we work together with the local, regional, and national partners we can make our ports more efficient and more effective in the long run.

Thank you again for the opportunity to provide comment, and I welcome your questions.

Senator WYDEN. Mr. Paulson, thank you. Thank you to all of you, again, for coming back a second time, being willing to make that flight.

[The prepared statement of Mr. Paulson appears in the appendix.]

Senator WYDEN. We are going to start the questions with my colleague.

Senator CANTWELL. Is Mr. Bishop next?

Senator WYDEN. No. Mr. Bishop got to talk first. We decided he had come the furthest. He came the furthest, Mr. Wyatt got promoted to a Senator. I mean, it has been a rollicking afternoon here for the northwest. [Laughter.]

So let us begin with Senator Cantwell.

Senator CANTWELL. Well, thank you, Mr. Chairman. Thank you again for holding this hearing. It is important. I look at this witness panel here, and obviously see the northwest represented, but I almost think of it from an economic development strategy and how much product is moved for our country as it relates to exports. I just think of the economic strategy of "Ports R Us." I mean, that is exactly what the northwest is, and that is exactly why we have been so successful in contributing to our Nation's export business.

But I wanted to start with you, Mr. Paulson, if I could. I obviously recently visited the Port of Vancouver to look at some of the specific issues of job creation opportunities there, and I am struck also by what Mr. Lutes was saying, or similar to what I saw on the ground, that time to market and cost of getting product to market when you have delays are big economic issues.

So I wanted to start with what you have been able to tap as far as funding in your comments about making multi-modal and funding for freight and rail transportation more of a priority. What have you been able to access so far as far as ARRA funding or other economic opportunities for that enhanced infrastructure?

Mr. PAULSON. We are currently—and I will step back from that just a little bit to say we are currently doing a significant rail improvement, which I know you are familiar with, to the tune of about $140 million-plus over a number of years. So far we have been able to, through ARRA funds through our local regional transportation council or MPO, receive $2.5 million. In addition, we have received some appropriations which you have been most gracious in supporting, as has Senator Murray and others, in the range of about $4 or $5 million. So it has been participation, I think there is an awareness of what we are trying to do, but it seems that in the area of TIGER grants and others, ports have fallen short.

Senator CANTWELL. And what do you think we need to do at a Federal level to increase that ability to be more competitive? I mean, if the President's strategy is for us to increase this, how can we integrate more on our transportation strategy to improve the bottlenecks in the supply chain and everything that we are facing?

Mr. PAULSON. I applaud Secretary LaHood, who seems to have stepped forward in efforts to reach out to ports. Secretary Locke knows our situation quite well. I think there are some efforts being made at the Federal level to do that. I think if those kinds of funds were more specifically aimed at port and freight transportation rather than perhaps more generally, as I have seen them come to some States where the States then allocate funds, I think that might be more effective. In other words, provide some more guidelines and rules specifically aimed at ports and freight mobility, including them in the availability for those funds.

Senator CANTWELL. Thank you.

Mr. Lutes, you obviously have a different mix of customers than the Port of Vancouver, but yet you mentioned a lack of containers and vessel capacity and other constraints. What can be done to alleviate those problems?

Mr. LUTES. Senator Cantwell, those are definitely major issues right now. Part of those are a result of the economic situation we find ourselves in. The container business itself—as you know, carriers are losing billions of dollars, and the capacity has been taken out of the system as a result of that. That, as a result, takes containers away that would be coming in that would be available for exports.

Also, as normal, the exports usually originate in places where it is hard to get containers anyway, so they have to be repositioned at a cost, and exports are usually the lower-value cargos to begin with. So there are some inherent problems that have been compounded by the economic situation that we have, and I think some of those will again start to work out as the economy starts to improve, as consumers start to have confidence and start spending more.

In the meantime, I do not have any magic answers for the committee here about what exactly could be done, but I know that the Port of Seattle and Port of Tacoma, last month, wrote a letter to Commerce Secretary Locke and raised this issue up and asked for the new committee that has been formed for exports, cabinet committee, to look into this issue because it is a very difficult one. It is not an easy one, because traditionally imports have supported the ability for exports to be more viable.

Senator CANTWELL. And we obviously face competition to the north, correct?

Mr. LUTES. Very definitely. That is another issue I touched on in my testimony about HMT. That is a piece of it, but it is not the total. As you well know, the Canadian government has put together, with all the stakeholders across Canada, this Asian-Pacific Gateway Corridor Initiative, which is basically all the stakeholders banding together to work on providing infrastructure improvements, providing cost benefits across the system to be able to, bottom line, target U.S. cargo in the Midwest and beyond to compete with the U.S. They are doing a very effective job at it. They also are strongly marketing that across the board from all the stakeholders' standpoints.

So I think, as we have talked a little bit—various people here today talked about trying to have some kind of a national program. This is what Canada has done totally, and we are starting to see the effects of that certainly in the northwest, and in Seattle in particular. We have lost cargo to Prince Rupert, which is the major terminal on the west side, that has started a big part of this initiative. There is going to be a Prince Rupert on the east side of the country in the near future as plans go. So, they are attacking us from both sides of the country.

Senator CANTWELL. You mean, they have a plan to more integrate the movement of goods and services through their ports to expedite delivery?

Mr. LUTES. Through their ports and all the way through the system to the final customer, yes.

Senator CANTWELL. And so Mr. Paulson may look at that HMT a little differently than you do. But how do you make it more flexible but help us maintain our competitiveness?

Mr. LUTES. Well, I think the way we look at HMT right now is, again, it is one element, because it is part of the total delivery cost system. I mean, when a shipper is looking at moving their cargo, they want a safe, reliable, and cost-effective way of doing it. Especially now when the economics are so severe out there, people are looking at every piece of their cost to deliver their cargo. Having this disadvantage because of this loophole in the HMT, it is another way of promoting that you can get a lower cost—at least there is a major piece of it that could be a lower cost—if you route your cargo through Canada.

Senator CANTWELL. And, Mr. Paulson, back to this issue of trying to prioritize a strategy and then putting resources behind it. I should say, when I say "Ports R Us" is the economic strategy for the northwest, a lot of the product is Midwest product, is that not correct? Are you not moving soybeans or other product from the Midwest?

Mr. PAULSON. Yes. We move a lot of grain in particular from as far away as Oregon, Washington, Idaho, Montana, the Dakotas, Nebraska, Kansas. We have moved it from Minnesota. We move copper concentrate from Nevada, Montana, and Utah. Bentonite clay comes out of Wyoming. We move barley from Washington, Idaho, California, and Montana. Those are some of the things that we move, particularly on the agricultural side, from quite a distance.

Senator CANTWELL. And so how would you best characterize the return on economic investment? I kind of look at it and say, we know we want to increase exports. I almost feel like we are treading water where we are now with the economic resources for infrastructure. Is that an accurate assessment, in the sense of, if we made more investment, we would be able to not only gain from an economic development perspective, but maintain our competitiveness with what both Canada and Asia are doing to improve their infrastructure?

Mr. PAULSON. Well, let me give you a couple of examples, if I may. With the rail improvements that we are putting in now, we believe that we can go from 1.5 units or shuttle trains per day at our grain facility to 2.5 to 3, nearly double. At the same time, you are aware of the former Alcoa site that we are developing that we call Terminal 5, about 200-plus acres. We are putting in a rail loop track there.

We believe that we can put in an export facility that will, in the next few years—and we are in discussions with a few people now—at least double, if not quadruple, the exports that the Port of Vancouver can put through on an annual basis. So those are the areas that we think, and particularly the rail side for us, are critical. I would also add that we could not do those improvements without the additional 3 feet in the Columbia River channel.

Senator CANTWELL. Thank you.

Thank you, Mr. Chairman. Again, I appreciate you holding this important hearing about infrastructure. I take the President's goal, because we are such leaders in exports, as wanting to lead the way on that strategy, but certainly I think the infrastructure investment side of it from transportation and multi-modal has to be a part of that.

Senator WYDEN. Thank you all. Let me have a couple of questions, if I might, and start with the competitiveness side of it. We have been talking all afternoon about all of the elements that go into a competitiveness strategy. I have brought up how health costs are a factor in companies locating somewhere. Senator Gregg and I have introduced a bill to lower the corporate tax rate. Labor costs were brought up.

You all have touched on another competitiveness issue—Mr. Bishop started the panel, and I know Mr. Wyatt has strong views on this—and that is how incredibly long it takes to get these projects off the ground and to get them in place. I want to start with you, Mr. Bishop, but you can warm up on this, Mr. Wyatt. I have heard you talk in the past about how China gets projects off the ground in a third of the time that are actually bigger than what we have done, for example, in the Columbia deepening project.

So, why don't we start with you on this question of why it takes so long, Mr. Bishop, and particularly go to this question of the permits. Are these problems you have with State permits or Federal permits, or the lack of coordination? I am going to ask you to give your assessment of it, Mr. Wyatt, because that way we can have a smaller port and a bigger port both helping to highlight the situation.

Mr. Bishop?

Mr. BISHOP. Thank you, Mr. Chairman. I think, from our perspective, the issue that we seem to deal with the most boils down to a chicken versus the egg-type debate as to whether you wait until you have a customer available or whether or not you are going to spend time being proactive and working on some of these issues in advance.

Having come from Washington State, the State Environmental Policy Act there provides for a thing called "planned action," whereby an entity can take time and effort into pre-permitting a development and then move forward. Once those permits are obtained, then you can go out and literally market the facility as shovel-ready.

Some of the problem that we have in our small market is that, when we do get a customer that is ready to talk to us about developing a facility, the time lines for getting from that point to the finish line outlast the business cycle, and often we will find that the commodity or the opportunity was tied to some characteristic in the economy at that given moment that led to its need for expansion.

We have tried to do some proactive work with some of the regulatory agencies about doing some pre-permitting up front, but most of the regulations say, when they come back to us on that, that they have to be for a specific customer.

Senator WYDEN. Are you saying that Oregon does not have a pre-permitting feature at the State level that Washington State does have?

Mr. BISHOP. At the State level, that is correct. Now, the Federal level, there is not an opportunity in either State.

Senator WYDEN. Is there any effort for any of you to coordinate between the State and the Federal permits? Because what is striking on transportation projects, and this continues to be a problem, is that we have tried to connect the two. In other words, you go all the way down the line with the development side, and then all of a sudden at the end somebody files a National Environmental Policy Act action, and all of a sudden you have to figure out how to incorporate all those concerns and the effort to coordinate that. Is there any effort to coordinate port permits to try to save some time and hassle?

Mr. BISHOP. Well, Mr. Wyatt probably has had a lot more experience with this than we have had in Coos Bay, but I do know that there have been a number of efforts made to streamline and dialogues that are supposedly taking place at the Federal level, particularly with ocean——

Senator WYDEN. They do not strike you as spectacular successes as of today?

Mr. BISHOP. No, sir. Unfortunately I cannot say they are.

Senator WYDEN. All right.

Mr. Wyatt, do you want to add anything on this, both in terms of how long it takes to get a project off the ground and your thoughts about why competitors like China seem to be doing it so much faster than we are?

Mr. WYATT. Yes, Mr. Chairman. I think the Columbia River channel deepening project is a pretty good example. The project really began back in 1989, when Mr. Paulson and my predecessors and the other ports petitioned the U.S. Army Corps of Engineers to begin evaluating the potential for this deepening of 3 feet for 107 miles. I can talk later if you wish about the value, the economic value, that that represents to shippers, but it is significant.

So, 1989, 21 years. I think it is useful to try to wind the clock back and think about what was happening in this part of the world, the trade world, in 1989. Shinzen was a fishing village. China had not entered the WTO. The Shipping Act of 1994 had not been enacted. So the world that the channel was being deepened for has been turned on its head over the course of its 21-year development, and this year—and I am immensely grateful for this—we will complete this project. It will deliver great value.

But I use as a reference point all of these things that have occurred because any one of them might have suggested approaching this project in a different way, going deeper, for example, which would have been terrifically helpful for us, certainly, as we look at the future. So there is an enormous cost to time, a transaction cost. Now, I contrast that with the new deep water port in Yangshan, which is near Shanghai. It is at the mouth of the Yangtze River.

So the Chinese were concerned because the Shanghai International Terminal's port at the mouth of the Yangtze was silting significantly. It is a very fast-moving river, lots of silt, and they just cannot really maintain it at a depth greater than about 28 feet, which is not adequate really for global standards.

So, 30 kilometers out into the Yellow Sea they took a pair of islands, took the top off, filled in the blanks, and built a bridge 30 kilometers out into the Yellow Sea. From start, gleam in the Chairman's eye to opening of operations, 7 years. Now, they obviously have shortcuts available to them that we do not, and probably should not have in terms of review and concern for impact on the environment. By the same token, so much of this review—there just has to be a way to consolidate and integrate the environmental processes which caused this delay.

Another example. Our Terminal 5 on the Willamette River exports potash, and will do maybe 4 million tons of potash. It is a poster child for the kind of development that you are talking about here. In order to take advantage of the additional 3 feet in the channel, we have to deepen the berth to 43 feet.

So we just let a contract for $3.5 million, $400,000 for dredging, $3.1 million for staff time to do the permitting, and we still do not have the permit in hand. We are hoping that we will be able to acquire that by the time the very narrow window is available for dredging. My guess is that all of my colleagues have stories like this. So, you are spending 5 or 6 times the amount of money for permitting as the actual work.

Senator WYDEN. Well, let me know what I can do to make sure you get that permit you need in your hands promptly.

Mr. WYATT. Will do. All right. Thank you.

Senator WYDEN. That will be important northwest business for today.

Let me ask all of you, because you are the northwest ports and there has been considerable discussion about the effect of the expanded Panama Canal and these efforts that you are making as ports together to try to strengthen our hand vis-à-vis these regional, and really international, challenges. Why don't we let you start with this, Mr. Lutes, Mr. Paulson, and then we will wend our way around to the Oregon witnesses.

Mr. LUTES. I guess my comment would be that, first of all, I think the major change is that it is going to change the economy of scale, and the ability for larger ships to go through will definitely change the economics of being able to move boxes that way versus coming through the west coast. It will be a bigger competitive challenge for us. I think we welcome the challenge of that. We do not shy away from that. I think we have realized that as a group of ports, and we are working together to meet that challenge.

Senator WYDEN. What projects have you agreed on so far to try to address this?

Mr. LUTES. I think that we have had an early start here with the west coast collaboration I mentioned earlier. That just kicked off a few months ago in China at the World Summit over there. But right now it has been working together to meet with groups here within Congress, also to get out and meet customers and talk about the advantages that exist in the west coast ports, which are related to our deep-water ports, as mentioned earlier, I think, in some testimony.

We have the berths, deep berths, available. We have the infrastructure already. We have the equipment to handle the big ships that are out there and being built and delivered today. What we need and what we hope, as this Panama Canal lock opening proceeds in 2014, is support from the national side to have an opportunity to keep our corridor infrastructure updated and efficient to move cargo to its final destination, to the customers, so that we are competing on an equal basis with the other corridors of significance bringing cargo into the U.S.

We need multiple corridors, gateways to bring cargo into the U.S. That is good for the country; it is good for the shippers to have options. But what we want—we will compete against our competitors—but we want to have an equal playing field relative to opportunities from a national standpoint to make sure that we have infrastructure issues addressed. Those can be through private/public partnerships, and a lot of that has been happening on the east coast, I think, in preparation of the Panama Canal opening. As I mentioned earlier about the HMT, again, just having a level playing field so that we can compete.

Senator WYDEN. Any others on the Panama Canal? Mr. Wyatt?

Mr. WYATT. So, Mr. Chairman, I would just say this: the west coast collaboration is the collaboration of the container ports, but also the ILWU and the two west coast railroads, both Union Pacific and the Burlington Northern. Our very first act, actually, was a trip to China together to go to the World Shipping Summit and meet with many of the large carriers who serve the west coast.

I think there are two distinct features of the collaboration. Part of it is commercial and part of it is policy. The commercial aspect of this is being addressed very uniquely by the ports, by the railroads, and by the ILWU, which is on the subject that Mr. Lutes mentioned earlier, and that is that the west coast offers the greenest route between the United States and Asia and back again.

Now, again, using the earlier metaphor, in 1989 this was not a topic on anyone's mind when we were thinking about deepening the Columbia River navigation channel. But today, companies like Wal-Mart, like Nike, for example, are intensely focused on reducing their carbon footprint, and even putting product labels on there identifying their carbon footprint. I hear about this now from customers of ours and from shippers who use port facilities.

So as a group, we are attempting to identify the green advantages, the carbon advantages in using the west coast, and we believe this is going to represent a significant advantage, because the reality is, to get a container from Shanghai to Chicago, the west coast offers a dramatic improvement on carbon than going through the canal, even on one of these enormous vessels dropping it off on the very few ports on the east coast that can handle these large vessels, and then trucking it, probably, or potentially railing it to Chicago. So that is one really big step.

Then supporting the rail infrastructure, which is the basis, really, for the advantages offered on the west coast. We are working collectively on trying to identify the really key significant large-scale opportunities that exist to improve the velocity, to improve speed, because speed is so important to everybody who is depending on the supply chain.

Senator WYDEN. Mr. Paulson and Mr. Bishop, anything else you would like to add?

Mr. PAULSON. I would only add that this has primarily been an effort, and we support it, by the container ports on the west coast. We are not, Coos Bay or us, container ports, but we think that it will serve to benefit us all.

I will add one other observation for the "whatever it may be worth" category. It takes about 14 days-plus to make a ship sail from Asia—North Asia in particular—to call at the Columbia River, either Portland or Vancouver. It takes 28-plus days to go to the Gulf or east coast, including the cost of going through the Panama Canal. So there are some efficiencies not only related to the charter or daily cost of that vessel but, as has been noted, the savings in terms of green gateways that will still continue to facilitate calling on the west coast.

Senator WYDEN. You all have been a very patient panel and a very good panel, and one that I think really highlights the economic challenge for our region. I know the subject is always a part of a passionate debate about how many jobs we get actually in the Pacific northwest out of international trade. I am going to just weigh in by way of saying that I think it is consistently 1 out of 5 or 1 out of 6 jobs in the Pacific north that depend on international trade. They pay better than do the non-trade jobs.

What we ought to be doing, first and foremost, in our part of the world is growing things, making things, and then shipping them somewhere. Because of the relationship between imports and exports, when we ship them somewhere, we want to make sure the people we are shipping them to can send us stuff back. So, this has been very, very helpful, and I want to express my appreciation to all of you.

We are going to make sure that the northwest voice is heard loud and clear on these issues relating to a freight strategy, as we have been discussing this afternoon. If the country is going to accomplish the President's goal of doubling exports in the next 5 years, the Pacific northwest has to make a very substantial contribution to it.

I happen to think Mr. Wyatt's last point about our greening up the trade debate is very, very correct in lots of respects, the wind turbines, the solar panels that we make in the Pacific northwest that would be ideal for shipping to growing markets around the world, the transportation advantage we have to save fuel and have a greener transportation policy is something that is quite obvious, and we are going to be consulting with you often.

I wanted this subcommittee by choice. This is not one that someone stuck me with. A big part of it was, this is where we in the Pacific northwest can tap an extraordinary array of economic opportunities in the days ahead. With your good counsel, we are going to do it.

So with that, we will excuse you, and thank you all for making the long trip.

[Whereupon, at 3:11 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Testimony

on behalf of the

Oregon International Port of Coos Bay

with regard to

"Doubling U.S. Exports: Are U.S. Seaports Ready for the Challenge?"

submitted to the

United States Senate Committee on Finance
Subcommittee on International Trade, Customs, and Global Competitiveness

The Honorable Ron Wyden, Chairman

submitted by

Jeff Bishop

April 29, 2010

Chairman Wyden and members of the Subcommittee, thank you for the opportunity to speak today about the challenges and opportunities regarding rural ports and expansion of U.S. exports.

Caddy McKeown, the port's vice chairwoman, regrets that she is unable to be here and has asked that I convey her personal appreciation to you, Senator Wyden, for the invitation. She looks forward to hosting you again on the South Coast.

At the outset, the Port fully endorses and supports the testimony of the Port of Portland by Bill Wyatt, including the recommendations.

As the Port of Coos Bay's executive director, I want to share with you the challenges and opportunities for a gateway port in a rural area. These challenges can be different than those encountered by ports in population centers.

A few years ago when the international supply chain was operating at capacity, ports also were functioning at or above capacity. Efforts were under way to expand port volume on the West Coast of North America. At least some of the expansion would focus on rural areas, since the major ports in the major population centers were at capacity, and were starting to see gridlock in road and rail systems.

Even in the face of the Panama Canal expansion, major transportation providers recognize that the West Coast will remain North America's principle gateway to the rapidly expanding Asian economies. Further, major global companies believe capacity expansion on the West Coast is important. They know the West Coast is a highly competitive and attractive region for location of distribution facilities and manufacturing capacity.

Coos Bay has one of the West Coast's largest industrial sites with immediate access to a deepwater navigation channel. A significant marine terminal development site is just 7 miles from the ocean. Over the past few years, Coos Bay has hosted visitors from Japan, China, Taiwan, Korea, Australia, Canada, Holland and Norway. All were looking at the feasibility of utilizing this port's natural assets as an industrial site and/or as a transportation gateway.

In the midst of this, one of the world's largest marine terminal operators and parent company of the world's largest container ship lines identified Coos Bay as a potential major international port of entry. Manufacturers, and resource and energy suppliers from around the globe also identified Coos Bay as a potential development site.

A key question for this Committee, and for the purposes of your hearing today Senator Wyden, is whether gateway capacity can be added in rural areas. The major U.S. West Coast gateways are located in the major North American West Coast population centers. The same is certainly true in Oregon. Those are areas served by established transcontinental rail service, interstate highways and, in the case of Portland and Columbia River ports, an inland waterway system.

In order to develop gateways in the less populated areas, there are certain challenges we must overcome.

New infrastructure is required and it is important that the U.S. government determine:

- how to fund the new infrastructure,
- which infrastructure is the highest priority, and
- how to assure the new infrastructure and the additional gateway capacity complements existing gateways.

The next question is: Can we overcome the challenges?

The answer is perhaps most obviously found in Canada's Prince Rupert, an isolated small town in northern British Columbia without access to the Canadian national highway system and certainly no large consuming population. Canada undertook a freight mobility assessment and determined what would be needed to develop a facility there. Then the government implemented it and now Prince Rupert is a significant gateway port for North America.

This model could apply to the United States' West Coast and already is being applied to Mexico's West Coast.

Over the past year, this nation has seen significant new infrastructure funding initiatives. They include the Economic Stimulus (ARRA) funding that the Port put to good use to improve the Coos Bay Rail Link, which connects the South Coast with the nation's rail network. We are pursuing a CONNECT Oregon III grant, as well as a U.S. Department of Transportation administered TIGER grant. For small ports in rural areas with a limited tax base, these infusions of state and federal funds are essential. Build America Bonds is an important component of this infrastructure funding "tool kit," if we can develop a revenue stream, which is very much the Port's objective. Currently, your Committee is considering rail tax credits, which the Port could use. All of these are encouraging.

On the water side, legislation has been introduced to mandate that all funds collected in the Harbor Maintenance Trust fund each year be expended for their Congressionally-mandated purpose, which is the maintenance of navigation channels and jetties. Passage of this legislation would allow ports, including those of us testifying at this hearing today, to maintain fully authorized shipping channel depths. This is essential if U.S. West Coast ports are to remain competitive and serve the current and coming generations of larger, deeper-draft vessels.

There are numerous regulatory hurdles that any infrastructure expansion must address. I am hopeful that in the context of the President's plan to double exports, that the establishment of the infrastructure necessary to handle such volumes is not hindered by regulatory restrictions and delay. We believe that an important component of the export initiative is to ensure all federal and state agencies engaged in the permitting processes for capacity expansion be "on the same page." They must be part of the **solution** to facilitate and expedite infrastructure expansion. This would include agencies, such as the Army Corps of Engineers, Fish & Wildlife, National Marine Fisheries Service and EPA. They all have roles in the permitting process for navigation channel maintenance and deepening projects.

If our ports are to truly serve as international gateways, the permitting process must not delay the projects so long that it undermines the objective -- export enhancement and job creation right now, **not** 10 years from now. The same can be said for permitting for industrial site preparation and utilization. It is incumbent upon Congress when providing funding for industrial sites, infrastructure development and job creation initiatives to assure that all federal agencies are working together to make these projects reality.

The industrial use of ports provides excellent family-wage jobs, but is dependent upon transportation infrastructure. One option is the coastal movement of cargo, more recently known as "short sea shipping." On the southern Oregon coast, coastal barge service has made it possible for the manufacture of bridge components in Reedsport.

Those components are so large that they must travel either on rail or by barge, not road. They have been barged down to San Francisco Bay, but rail service is **most essential**.

To access domestic and international markets, lumber mills and other manufacturers must have access to rail. The loss or lack of freight rail service threatens manufacturing jobs and in rural areas there are fewer alternative sources of employment. We have seen this play out the past couple of years after the closure of the south Oregon coast's only rail line, following years of deterioration. The Port has purchased the line and is working to repair and reopen it in early 2011. That would ensure the viability of manufacturing on the South Coast and ensure a critical link for international ocean cargo movements.

As economic activity rebounds, global companies will again seek additional port capacity on the West Coast. They will continue to seek developable industrial sites. No one will benefit more than rural communities and rural ports prepared to expand capacity. Our time is coming.

NICOLE Y. LAMB-HALE
ASSISTANT SECRETARY FOR MANUFACTURING AND SERVICES
INTERNATIONAL TRADE ADMINISTRATION
U.S. DEPARTMENT OF COMMERCE

TESTIMONY BEFORE THE
SENATE COMMITTEE ON FINANCE,
SUBCOMMITTEE ON INTERNATIONAL TRADE, CUSTOMS AND GLOBAL COMPETITIVENESS
for a hearing entitled
"Doubling U.S. Exports: Are U.S. Sea Ports Ready for the Challenge?"
April 29, 2010

INTRODUCTION

Chairman Wyden, Ranking Member Crapo, and distinguished members of the Subcommittee, thank you for giving me the opportunity to speak to you today about our national competitiveness and how it is affected by the state of our Nation's transport infrastructure. As Assistant Secretary for Manufacturing and Services at the International Trade Administration, I welcome the Subcommittee's interest in this crucial issue.

My name is Nicole Lamb-Hale, and I am the Assistant Secretary of Commerce for Manufacturing and Services. My organization, the Manufacturing and Services unit of the International Trade Administration, provides specialized industry expertise and economic analysis to foster America's economic competitiveness and job growth.

The Obama Administration is deeply committed to expanding globally competitive manufacturing, exports, and job growth in the United States as part of American economic recovery. As part of this effort, the International Trade Administration is dedicated to enhancing the global competitiveness of U.S. industry, expanding its market access, and increasing exports in order to promote economic recovery and job growth. Through comprehensive industry analysis and outreach to industry, we evaluate the impacts of domestic and international economic and regulatory issues on U.S. businesses. We then work with the private sector and with our partner Departments to develop public policies that advance U.S. competitiveness at home and abroad.

Today's hearing could not be timelier, or more important. Earlier this month, President Obama signed a historic Executive Order creating the National Export Initiative – an ambitious agenda of trade advocacy and promotion efforts aimed at doubling U.S. exports in order to support two million American jobs over the next five years. The International Trade Administration will play a key role in the success of this competitiveness initiative.

As we move forward with this effort, a crucial element of this discussion must be the state of America's supply chain infrastructure – its ports and the interconnected road, rail, and air connections that make our industrial, export and job growth possible and support our manufacturers both here and abroad.

Last May, Secretary Gary Locke said, "To be competitive in today's global economy, U.S. companies need to be able to move products and goods securely, quickly and efficiently within our borders and beyond. America cannot compete successfully in the 21st Century with a 20th Century infrastructure." As a former Governor of Washington State, Secretary Locke knows the importance of a strong supply chain infrastructure. The exports and imports that flow through Washington's supply chain support more than 10 percent of the state's private sector jobs. According to a U.S. Department of Transportation study, the transportation related sector accounted for some13 million jobs in 2008, or nearly 10 percent of the U.S. workforce. A U.S. Chamber of Commerce study points out that some 99 million other U.S. jobs – manufacturing, retailing, services, and agriculture – are economically dependent on the transportation sector.

America's manufacturing and services industries depend on our supply chain infrastructure to be competitive at home and abroad. One cannot thrive without the other. This infrastructure includes the ports and the interconnected roads, rail, and air connections that make American exports and job growth possible.

America's inefficient, insufficient, and poorly-connected freight infrastructure network is impeding the smooth flow of our products from manufacturer to port to market. The resulting delays and costs are resulting in missed export opportunities and domestic development – which in turn block our efforts to restore American jobs and competitiveness in the global economy. As one senior transport executive recently told us, "Do our policy makers really think we can substantively expand our manufacturing base with our existing supply chain infrastructure?"

For this reason, the Department of Commerce is working with America's shippers and the Department of Transportation and other agencies to recognize the key importance of improving our supply chain and transport infrastructure from the complementary perspective of international competitiveness – and to ensure that this is our guiding principle as our transportation infrastructure policy is being developed.

The Department of Commerce views supply chain infrastructure from a competitiveness perspective. Thus, we need to explore some key questions regarding U.S. supply chain infrastructure.

- What enhancements to U.S. infrastructure could help manufacturers stay globally competitive?
- What are we doing now to move freight, people, and ideas – as efficiently as possible?
- What is our foreign competition doing by comparison?

To address these questions, Commerce has already begun the important process of examining our policies and programs, and also of seeking industry input to ensure that our companies can compete at every step in the supply chain process.

AMERICA'S FREIGHT INFRASTRUCTURE AND SUPPLY CHAIN COMPETITIVENESS

As sourcing and product delivery operations span larger and longer distances, firms are transforming the way they look at and manage supply chains. No longer are individual companies competing with each other, entire supply chains are. Effective supply chains and just-in-time delivery systems drive modern global business.

Supply chain infrastructure is the glue that binds successful trade routes. It affects the cost of every single product in the United States. Inefficient connections and capacity limitations lead to delays that raise the price of a company's product, and make it harder to compete globally. Supply chain infrastructure is an important factor in a company's decision on where to invest, build, and employ people. These decisions require substantial lead times, and the quality of the infrastructure determines the attractiveness of a particular location.

As world commerce becomes more integrated, and as sourcing and product delivery operations span larger and longer distances, America's firms and supply chains are being transformed. It has long been the case that it is no longer the individual companies that compete with each other. Rather, entire supply chains – fully integrated processes that connect manufacturer to transporter to distribution center to point of sale – are now the primary competitors in domestic and global commerce. Efficiencies in supply chains lead to competitive advantages, and they make possible global sourcing, just in time delivery systems, and modern global business itself.

The velocity and efficiency of each supply chain depends on the infrastructure through which these goods and products flow. The increasingly time-sensitive and integrated nature of modern supply chains make smooth, just-in-time goods movement a critical element in that supply chain's ability to compete in the global economy.

Industry today sees infrastructure as an interconnected network of physical transport facilities, combined with modern information technology systems. The efficiency of this infrastructure -- and the industries that depend on it—is affected by environmental and sustainability considerations, new financing options, education, and regulatory and trade security measures. This speaks to the growing sophistication and complexity of modern supply chains, and their critical reliance on the quality of America's supply chain infrastructure to support modern, high-tech manufacturing.

Industry members have told us that supply chain infrastructure makes a difference because it affects the cost of every single product made or used in the United States. Missing connections and capacity limitations between port and manufacturer lead to delays that raise the price of every American export product and make it harder to compete with international producers. To illustrate this point, a recent Wall Street Journal article reported that a key harbor grain terminal in the Port of Los Angeles lacks enough space to handle the volume of exports arriving from inland producers due to the limited rail service to that terminal.

Leading executives have also told us that a nation's supply chain infrastructure also makes a difference when deciding where their firms will invest, build facilities and employ people. These decisions require substantial lead times, and the quality of the infrastructure at the point of decision – the efficiency of the ports, the level of inter-modal connections, the quality of the IT systems, and more – determines in part the attractiveness of a location.

The United States has long been accustomed to having a top-flight freight system. However, for many reasons – including our lack of a comprehensive, system-wide U.S. freight infrastructure development strategy, and our overly modal approach to planning and investment – we are not improving our freight infrastructure fast enough to keep pace with the needs of our 21st Century supply chains, and with the development of integrated transportation systems in the nations that compete with us in the global marketplace.

Our national supply chain infrastructure is a global competitiveness issue. Studies have shown the impact of our inability to respond to this global challenge. A recent World Bank LPI survey ranks the United States as only the world's 15th most competitive economy in logistics performance terms, behind such global national competitors as Germany, Singapore, Japan, the United Kingdom, Hong Kong, and Canada. The survey also found that the U.S. is only the world's 7th most efficient economy in terms of its infrastructure, again behind such leading competitors as Germany, Singapore, and Japan.

Senior executives from industry tell Commerce repeatedly that what is missing is a comprehensive and coordinated national policy approach to moving product in the United States. According to industry, the basic elements of a national policy approach must include:

- Viewing the supply chain infrastructure as a whole, a system of interrelated parts emphasizing the interconnection points;
- Emphasizing the needs of the system **users**, i.e., the manufacturers and shippers whose products flow through the system;
- Ensuring that supply chain infrastructure enhances America's economic competitiveness and export growth;
- Acknowledging that security of this critical infrastructure system is vital and requires an interagency and public/private partnership approach; and
- Recognizing that a competitive, modern supply chain infrastructure is indispensable to the sustained recovery of American manufacturing and exports and the success of our nation's export strategy.

In other words, a port is only as competitive as the road, rail, and air networks to which it is connected.

DEPARTMENT OF COMMERCE: FOSTERING ECONOMIC GROWTH

In response, the Department of Commerce has initiated a comprehensive initiative to understand our freight infrastructure problems and to restore jobs and expand our exports through improving the quality of America's supply chain infrastructure. This initiative is spearheaded by my Manufacturing and Services unit.

In light of current economic challenges, it is imperative that we immediately address key "game changing" issues that could hinder our long-term recovery and our ability to compete in the global economy. Industry is increasingly aware that our global trading competitors, including Canada, Europe, and China, ensure their firms enjoy an integrated freight movement system. The global competitive challenge facing U.S. manufacturers and shippers is thus our incomplete supply chain infrastructure.

These issues are integral to the National Export Initiative and to American economic recovery. Moving forward we must have an efficient and well-developed logistics and transportation system to facilitate our export growth and the continued growth of our economy.

In May 2009, Secretary Locke and Transportation Secretary Ray LaHood co-led a national conference with top U.S. supply chain executives and government leaders to understand how our domestic infrastructure and policies must be improved to promote national economic competitiveness and growth.

At the conference, these stakeholders revalidated every one of these ideas. They emphasized the need to consider transportation and infrastructure investments and enhancements on both a federal and regional basis to maximize America's competitiveness in the global economy. They also stated that the individual elements of freight and transportation issues needs to be coordinated in a broad, cross-modal approach that promotes supply chain infrastructure development from a national economic and competitiveness standpoint.

At the conference, both Secretaries expressed their commitment to work together and with the stakeholders to develop this new course for transportation policy, in order to improve the domestic and global competitiveness of our supply chains through comprehensive and coordinated freight infrastructure development.

We are moving forward with activities to meet these commitments. Commerce is working with our colleagues at Transportation to further discussions towards the development of a new, competitiveness-driven national freight policy, coupled with an investment strategy that recognizes the interconnections between various transportation modes and facilities. This includes developing a series of regional events to gather user opinions on local freight transportation problems and how they affect (and are affected by) national freight system problems and national freight policy. These industry perspectives will be helpful in an effort to develop an inclusive national freight policy.

Further, we are considering establishing an industry advisory committee to address these supply chain issues. Through this committee, we will gain input and key insights into the practical and policy issues that are impeding freight movements both domestically and for export, and ensure that these matters are fully reflected in our national freight policy.

We will continue to work closely with Transportation and other agencies to address these important issues in a coordinated fashion. We will use the information gathered through these efforts to help shape Administration transportation policy, and to promote the development of a holistic, user-focused, competitiveness-oriented national freight system that meets America's needs for the 21st Century.

CONCLUSION

The global competitive challenge facing U.S. shippers and transportation providers has been building for years. Our supply chain stakeholders are fully aware that our national competitors are offering competitive advantages to their firms by building world-class national freight transportation systems.

In light of current economic challenges, it is imperative that we immediately address these key "game changing" issues that could hinder both our short-term economic recovery and long-term investment in America throughout the 21st Century. We look forward to working with the Members of this Committee to achieve these goals.

Thank you very much.

CATERPILLAR®

Testimony of

Steve Larson
Vice President, Caterpillar Inc.
Chairman and President, Caterpillar Logistics Services, Inc.

Before the

U.S. Senate Committee on Finance
Subcommittee on International Trade, Customs, and Global Competitiveness

April 29, 2010

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.

Statement by Phil Lutes, Deputy Managing Director, Seaport Division, Port of Seattle, Washington

Hearing on "Doubling U.S. Exports: Are U.S. Seaports Ready for the Challenge?"

Subcommittee on International Trade, Customs and Global Competitiveness
Senate Committee on Finance
April 29, 2010

ARE SEAPORTS READY FOR THE CHALLENGE?:

Good afternoon Chairman Wyden, distinguished members of the Committee. I'm Phil Lutes, Deputy Managing Director of the Port of Seattle's Seaport Division. Thank you for the privilege of being here with you today.

In reflecting on the topic question for this hearing, "Doubling U.S. Exports: Are U.S. Seaports Ready for the Challenge?" the short answer for seaports is, yes. Is the overall supply chain ready? No.

Limiting factors in the larger supply chain inhibit U.S. exports reaching overseas markets, but right now, the biggest obstacles aren't the seaports themselves. Even with an economic rebound, U.S. ports in general, and West Coast container ports in particular, have ample capacity for both imports and exports. As U.S. Gulf and East coast ports complete terminal expansions and Canada and Mexico complete their expansion plans, port capacity for exports will be more than adequate. The real issues are enhancing efficient infrastructure throughout our trade corridors, dealing with the current equipment shortage, general promotion of our products abroad and antiquated tax policies that discriminate against certain ports and cargoes.

Seaports are fighting to stay afloat financially in this terrible economy and we continually strive to invest in our assets and improve our operating efficiencies, but our greatest challenges lie beyond the seaport gates.

NATIONAL GOODS MOVEMENT STRATEGY IS KEY:

I wholeheartedly agree with the hearing's general premise that our nation's transportation infrastructure is crucial to increasing exports and providing in general for a competitive US economy. For my port, these projects increase the speed of our discretionary cargo to the Midwest and all fall outside the terminal gates. Some are one to twenty miles from our seaport while other key improvements are much further along the Northern Corridor – such as the CREATE project in Chicago.

Given the scarcity of resources, a key point is that freight projects have tangible benefits for our local communities and environment. For the Port of Seattle, many of our freight projects reduce emissions, fuel consumption and congestion, while also promoting transit, bike lanes and pedestrian safety. Once complete, they improve our operating efficiency by moving goods faster while simultaneously making our community more livable.

Goods movement needs greater federal leadership and a truly competitive, efficient national transportation system requires coordination that can only be achieved at the federal level. Bottlenecks in the supply chain can be found all over the country, but the cost of prioritizing and fixing them is often beyond the means of the states, counties and cities in which the projects are located. Furthermore, building a railroad overpass might be more important to an exporter in a faraway state than it is to the local people who must approve taxing themselves to pay for that overpass.

Instead of subjecting this Subcommittee to a recitation of a long list of the nation's freight bottlenecks, I want to strongly affirm that we need a national goods movement strategy and dedicated fund freight – especially through competitive accounts like the TIGER stimulus program or the projects of national significance program. We also need to ensure that formula dollars to the state departments of transportation and metropolitan organizations ensure that goods movement needs are more strategically recognized and then prioritized accordingly.

Freight projects often involve multiple jurisdictions and represent large investments, either as a single mega project or the sum of several smaller system improvements. The result is that freight ends up falling through the cracks in this state and local process. While goods movement and its positive economic impact are often praised, actual funding does not always reflect that agreed priority. A national strategy with meaningful goals that guide both competitive and formula funding is critical. While our local partners do try to meet the needs of goods movement, there is also a fundamental resource shortage. I expect that we all recognize this fundamental shortage will not change soon; this means we're going to have to be more disciplined in our overall competitive infrastructure strategy and make some tougher choices in our priorities.

Lastly, ports and the goods movement community have led the way on matching federal monies with state, local and private funds, and I also believe we can work together to further expand and innovate on public-private initiatives.

WHY INFRASTRUCTURE? WHY NOW?:

But with all the challenges we face as country, why should infrastructure be a top issue?

First, our initial and mid-term economic recovery depends upon it -- as does the ability to export goods. The most recent economic impact study conducted for the American Association of Port Authorities, which was published in 2008, showed that more than 13 million jobs are related to activity at U.S. seaports, and combined, those jobs generate $650 billion in wages. And this doesn't even capture the immediate construction jobs generated by infrastructure improvement projects.

Second, our competition is hungry and well-organized. U.S.-bound cargo is being diverted to foreign ports of entry in Canada and Mexico. Federal government initiatives in Canada and Mexico are targeting U.S. goods movement jobs as an economic development strategy, a plan that will simultaneously improve their ability to competitively export their goods. Canadian ports have been successful in attracting our cargo under a federal strategy called the "Asia-Pacific Gateway and Corridor Initiative." The stated goal for Canada is to become the preferred point of entry for Asian cargo headed to all of North America – and they have plans for the East Coast, too. In the past two years, long-time Seattle carriers have diverted cargo from our harbor and other West Coast ports to Prince Rupert and Vancouver, British Columbia.

Here's the key impact to exports: when our ports lose market share, it erodes the advantages our exporters have traditionally enjoyed, such as lower transportation costs, more frequent calls by ocean carriers, shorter time to market, and greater container availability. Some of our top exporters have made it clear: If we do not maintain our import market share, and the export capacity that comes with it, their ability to do business is threatened.

TAKING ACTION TO MEET THE THREAT:

Despite these threats, we do have some good news and the West Coast Container Ports are taking action to meet these challenges. Today, the West Coast, with six major container ports and the two main Western railroads have in place a trade and transportation network that offers fast, frequent service that is reliable, efficient and environmentally sound.

To better promote this capability and compete internationally, the six major West Coast Container ports – Los Angeles, Long Beach, Oakland, Portland, Seattle and Tacoma – along with the BNSF Railway and the Union Pacific Railroad, have formed an organization known as the U.S. West Coast Collaboration. We're working together to promote the West Coast as the optimal gateway for moving Asian cargo to and from most of the United States.

The Collaboration began last year at the World Shipping Summit in Qingdao, China. Collaboration partners have made joint calls on members of Congress, participated in a National Port Summit with Transportation Secretary LaHood, and conducted a joint promotion at the Retail Industry Leaders Association annual logistics conference and the Trans-Pacific Maritime Conference just this month.

The West Coast's advantages include: dozens of fast, frequent vessel services; six deepwater ports with exceptional transportation connections to key markets across North America; consistent, reliable inland rail service and capacity; a competitive cost structure; and the lowest overall carbon footprint for goods moving between Asia and the U.S.

If we were to emulate the Canadians and execute a national goods movement strategy, we could improve and make the most of our existing trade infrastructure, create jobs, save billions of taxpayer dollars by ensuring that investments are made in the right place at the right time, and we can do it in a way that minimizes global carbon emissions.

PORT OF SEATTLE – THE GREEN GATEWAY:

I'd like to elaborate on that last point. In 2009, the Port of Seattle released a carbon footprint study conducted by Herbert Engineering, a ship design, engineering, and transportation consulting firm. The study analyzed the carbon footprints of trade routes between Singapore, Hong Kong and Shanghai, and the U.S. distribution hubs of Chicago, Columbus and Memphis.

The results showed that routing cargo moving from Asia to the U.S. through West Coast ports and via rail to inland destinations resulted in far lower carbon emissions than routing the cargo through the Panama and Suez Canals and on to East or Gulf coast ports.

And the carbon emissions difference is not small. In many instances routing cargo through West Coast ports and then by rail across the country resulted in 20 to 30 percent lower emissions than sending ships the long way around through the Panama Canal directly to ports on the Gulf and East coasts. As fuel prices increase, the West Coast's advantages are likely to become more evident.

But the West Coast's environmental advantage is not limited to emissions from ships while underway. At the Port of Seattle nearly all of the container handling equipment on our terminals has been retrofitted with emissions control devices or converted to low sulfur or biofuels, significantly reducing emissions of diesel particulate matter, and we're extending this low sulfur fuel program to at-berth vessels. We've also developed a program to clean up the trucks that move containers between our cargo terminals, local rail yards and warehousing and distribution facilities. Up and down the West Coast, ports and their supply chain partners are making headway in reducing the environmental impacts of port operations.

EXPORT CONTAINER SHORTAGE:

Let me turn to a very near term problem that, if resolved, could boost U.S. exports overnight – a shortage of empty containers for exports.

As you know, consumers are simply not spending like they did during the days of easy credit and the run-up in real estate prices. The number of containers loaded with imported goods moving through our ports has decreased dramatically. Ships loaded with import containers destined for the U.S. generate the supply of empty containers and vessel space for U.S. exports. Due to the substantial decline in imports, carriers have anchored ships, consolidated services and dropped port calls to offset losses. Ultimately, this translates to fewer opportunities for our exporters to move their products.

In addition, the weak U.S. dollar has generated a surge in demand for U.S. exports when containers are in short supply. To compound matters, U.S. exports are typically two to three times heavier per container than imports. That means ships carrying exports can't be loaded to full capacity, which diminishes the space available for exports.

But even when robust imports provide a steady supply of containers for export cargo, it can be expensive to reposition those containers where they're needed. That's because imported goods, and the containers they're in, move primarily to large metropolitan areas where there's a high demand for imported apparel, footwear, electronics and machinery. In contrast, many U.S. exports tend to originate in rural areas. Products such as agricultural goods, minerals, timber and other natural resources make up a large percentage of our export commodities.

The container imbalance has become so extreme that there's even a shortage of containers for exports originating near urban area ports. This short supply of containers, combined with constrained vessel capacity leads ocean carriers to make tough decisions when export demand is high. Carriers become very careful about how they manage this limited space. They are also careful about how they manage empty containers. Often, carriers are so eager to get containers back to Asia for the higher revenue imports, they actually load empties back on the ship at the expense of export loads.

The higher price that carriers receive for moving imported goods actually helps offset the cost of moving U.S. exports. If the lower value export goods were assessed the same shipping rate as imports, it would be difficult for U.S. exports to compete in global markets, even with favorable currency exchange rates. For quite some time U.S. exporters have benefitted from favorable "backhaul" rates and frequent oversupply of container equipment and vessel capacity. But we're not operating under those conditions today. Ocean carriers are losing billions of dollars. Until we see a return to a healthy, balanced trade, export capacity will be constrained.

It will be a challenge for the federal government to quickly affect the financial and operational obstacles to ensuring the availability of containers for exports. Nonetheless, it is a serious issue and raising its profile is a good first step. On a related note, the ports of Tacoma and Seattle sent a letter to Secretary of Commerce Gary Locke last month in which we highlighted the importance of container availability to exporters, and requested that the newly created Export Promotion Cabinet look into this issue.

ADDITIONAL TOOLS TO COMPETE & BOOST EXPORTS:

There are some additional actions the government can take to help ensure the competitiveness of U.S. seaports, and by extension, the ability to get our exports to market.

NATIONAL EXPORT INITIATIVE: I am very pleased and appreciative of the launch of the National Export Initiative (NEI) during President Obama's State of the Union Address. We support the NEI's effort to increase exports, such as improving access to export financing, advocating more forcefully overseas on behalf of U.S. companies, lowering trade barriers by passing new trade agreements and enforcing existing international trade laws.

For many years trade competitiveness has not been prioritized in a way that is commensurate with the impact it has on our nation. Since 2005, exports accounted for 40 percent of U.S. real GDP growth, while in the state of Washington one out of three jobs depends on trade. That is why it makes sense to embrace trade as a means to achieve economic recovery and to assign trade to a position where it will receive coordinated, Cabinet-level attention.

<u>HARBOR MAINTENANCE TAX – LAND BORDER LOOPHOLE</u>: One of the key factors drawing cargo away from U.S. ports is the Harbor Maintenance Tax, or HMT. You could say that the HMT is a good idea that has had unintended consequences. The idea was to raise money for critical channel dredging by taxing shippers bringing goods into U.S. ports. After all, the shippers benefit from the infrastructure why shouldn't they help pay for it?

But increasingly, the HMT, which averages about $130 per container at the Port of Seattle, is an incentive for importers to route their U.S.-bound cargo through Canada and Mexico to avoid paying the tax. By coming across the land border, these imports bound for the U.S. exploit a loophole in the law. Addressing this inequity is important to counter some negative effects:

First, it reduces revenue to the HMT trust fund to pay for needed channel dredging at American ports.

Second, it exports American jobs – both those in the goods movement industry and those that depend on a competitive export capability through U.S. seaports. Both sectors produce well-paying jobs that help people raise families, buy homes and contribute to our economy.

Based on existing trade flows and projected expansion plans, we estimate the HMT fund will lose between $575 million to $2.1 billion in revenue over the next ten years through diversion of cargo to Canadian ports alone, and to the associated land border loophole.

With their deepwater harbors, the ports of Seattle and Tacoma receive no return on the approximately $70 million annually our shippers contribute to the HMT. While we would certainly like to find an appropriate manner to secure some return on this tax payment, we hope that, at a minimum, traditional recipients of the HMT monies will join us in fixing the leak to the HMT trust fund.

<u>CONCLUSION:</u>

Ports are a major driver of economic growth and employment in the United States. If our ports and the transportation network that moves goods in and out of the country are robust and flexible, America's economy will be more competitive as we move forward. It is part of our national economic competitive strategy, just like the need to improve all levels of education and increase our country's investment in research and development.

We're well aware of the leadership that the Senate has provided in the area of infrastructure in trade lanes of national significance, and we're grateful for your support. We look forward to working with you to move these strategic priorities forward.

Mr. Chairman, thank you for calling this important hearing and thank you for allowing me to testify today.

Remarks by Larry Paulson, Executive Director of the Port of Vancouver
Subcommittee on International Trade, Customs, and Global Competitiveness
Senate Committee on Finance
Chairman Senator Ron Wyden (D-OR)
1:00 – 3:00 p.m.
Thursday, April 29, 2010

Good afternoon Chairman Wyden and members of the Committee. Thank you for the opportunity to speak to you today. I am Larry Paulson, Executive Director of the Port of Vancouver, a port on the Columbia River in Washington State, directly across the river from Terminal 6 at the Port of Portland.

We are the third largest port in the State of Washington and are a niche port – we do not handle containers. For that reason and others, we think we bring a unique perspective to this panel and the hearing as a whole.

Rather than handle containers, we deal primarily with bulk, breakbulk, auto and project cargoes and as such, we are largely an export facility. Our top trading partners are Japan, Australia, China, Europe, South Korea and South America. This past year, of the over 4.8 million metric tons we handled, 4.1 million tons or 85% was export cargo. This included:

- 3.2 million tons of wheat (approximately 16% of the US wheat is exported through the port's United Harvest grain elevator);
- 345,000 tons of copper concentrate;
- 318,000 tons of steel scrap (a rapidly growing commodity at the port); and
- Bentonite clay, malted barley, liquid fuels and pulp cargoes also contribute to our outbound totals.

In addition, we are the west coast import facility for Subaru, handling 53,000 autos annually, and we imported 2,700 pieces of wind energy cargo in 2009.

The Port of Vancouver is 105 miles upriver from the Pacific Ocean and relies on our proximity to river, road and rail – a deep water channel, the Pacific Northwest national rail network and the interstate road system – as competitive advantages. Primary among our priorities are the Columbia River Channel Deepening project, maintenance and improvements to Columbia River dams and locks, repairs and maintenance to the jetties at the mouth of the Columbia River, the I-5 Columbia River Crossing project, and port rail improvements and access to the BNSF mainline rail system adjacent to the port. We also have significant UP freight rail activities at our port.

Unlike most of our peers, the Port of Vancouver has over 750 acres of developable land (including 200+ brownfield acres) to expand our marine and industrial operations. We are actively marketing these properties. Our current exports, and our future export growth, are reliant on rail development and freight transportation funding – plain and simple. Without new rail access and improvements encompassed in our West Vancouver Freight Access project and those planned by our partners, BNSF and Washington Department of Transportation, our port operations will be significantly compromised and we will be unable to maximize the intermodal relationship of river, road and rail to maintain and/or attract export businesses.

The primary issues of this hearing – addressing what we need to do locally, regionally and nationally to eliminate inefficiencies and improve our competitiveness – are critical to the economic future of our nation. From our perspective, we need to do several things right now to ensure we are moving in the right direction.

1. *Implement a national strategic freight policy and plan.* – We understand these discussions are underway nationally, but currently observe disconnected guidance and strategy for making sure we properly target our limited resources to the highest national freight system needs.

2. *Priority of, and funding for freight transportation, freight rail and port freight and intermodal projects.* – Over the past year funding has been available for additional transportation projects through programs in the American Recovery and Reinvestment Act programs. Unfortunately, ports like ours who have aggressively sought funding through this program, have struggled to compete. In our efforts, we could show solid job creation both short term and long term; we could demonstrate high economic return; we remedied a system chokepoint; we had completed all environmental reviews; and we had strong partners and matching dollars – we were ready on all accounts – and, yet we have struggled to find infrastructure funding that matches our project. We aren't alone. Several applicants in our industry found their requests being leapfrogged by those with much lower qualifications, because, in part, the direct partnership between federal programs and ports is a more recent phenomenon. In fact, many federal programs have not kept pace and often greatly limit federal help to critical freight transportation, freight rail and port freight and intermodal projects.

3. *Promote federal policies and streamlined, coordinated permitting processes that recognize the role of ports.* – As previously stated, ports often "fall through the cracks" of traditional transportation and infrastructure funding streams and strategic policy guidance to agencies. Tragically, as the country is asking for economic and job growth, as well as significant export growth, the institutions ports must rely upon lack intergovernmental coordination and well defined policies to favor port and freight projects necessary to support these goals. We have experienced this first hand as we have developed our West Vancouver Freight Access project and brought on line new port properties.

4. *Strengthen trade agreements with our global partners and advance an environment supportive of global trade.* – It is important that the President and Congress continue to

negotiate and implement free trade agreements with our partners so we can continue to open foreign markets to U.S. exports. We particularly support the US-Korea Free Trade Agreement, but urge Congress to approve FTAs with Columbia and Panama, plus advise the federal government to implement them with Costa Rica, Oman and Peru. These agreements are critical steps in ensuring our export goods are going to all markets and go a long way to improving our nation's competitiveness.

In closing, the Port of Vancouver is poised to support the National Export Initiative. We are willing participants and look forward to working with our national and regional partners to strengthen and grow the national economy. We need strategic guidance, support and tools to leverage our resources to meet the expectations of this initiative.

If we work hard together – all local, regional and national partners – we can make our ports more efficient and vastly improve our competitiveness with the world.

Thank you for the opportunity to provide comment. I will welcome your questions.

Testimony

on behalf of the

Montana Stockgrowers Association

with regard to

"Doubling U.S. Exports: Are U.S. Seaports Ready for the Challenge?"

submitted to the

United States Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness

The Honorable Ron Wyden, Chairman

submitted by

Errol Rice

Executive Vice President
Montana Stockgrowers Association

April 29, 2010

Mr. Chairman and Members of the Committee. Thank you for the opportunity to speak to you on behalf of the members of the Montana Stockgrowers Association (MSGA) regarding our point of view on seaport infrastructure and beef exports. My name is Errol Rice and I am a fifth generation cattle rancher from Montana. I currently serve as the Executive Vice President of the Montana Stockgrowers Association, one of the oldest cattle ranching organizations in the United States, established in 1884.

Our mission is to protect and enhance Montana ranch families' ability to grow and deliver safe, healthy, environmentally wholesome beef to the world. Our vision is to be the premier institution that exemplifies leading global beef innovation while preserving Montana's complex natural landscape, history, economy, ethics and social values.

Our ranchers value President Obama's recent drive to double U.S. exports over the next five years. We are eager to assist in meeting this challenge. Actively promoting a consensus in support of free trade, we believe, is a central pillar of America's economic strength.

Our ranch families' livelihoods depend on seaports which are our most dynamic and vibrant waterway centers of trade and commerce. There was a time when the largest part of ranching's economic activity was domestic, but our future depends on our ability to be globally competitive. Ranchers must have access to the additional demand for beef from consumers that live outside the U.S. 95 percent of the world's population lives outside the borders of the U.S. The unfolding global landscape, in its breadth and complexity, is creating unprecedented challenges for U.S. beef exports.

High value, perishable products like beef need rapid connection from land to water and an efficient delivery to world consumers. U.S. port infrastructure and their frameworks must ensure efficient and sophisticated transportation of our product to the global marketplace. As economies around the world begin to recover, we see global demand expanding for U.S. beef products. Ranchers cannot meet world consumer demand through inefficient, congested and outdated seaport systems.

Today, Montana beef that is finished and processed in the Midwest is chilled or frozen in regional processing facilities, moved overland to South and West Coast ports, and shipped by sea to over seventy countries around the world. We must continue to make technological advances in port-to-market distribution systems for U.S. agricultural exports like beef. Freshness is a key ingredient to advancing distant foreign markets for beef.

To emphasize the value of our world consumers, total U.S. beef exports amounted to 984,712 metric tons and were valued at nearly $3.62 billion in 2008. 79 percent of U.S. agricultural exports (146.5 million metric tons) were bulk and containerized waterborne exports in 2008.

However, while this committee's task may be to ensure that our seaport infrastructure meets the challenges of doubling U.S. exports, it must simultaneously and successfully resist protectionist impulses at home and deter impulses abroad. Japan, for instance, was once our closest beef trading partner. However, they have largely closed their markets to U.S. beef, after the discovery of one Canadian-born cow infected with bovine spongiform encephalopathy (BSE) in the state of Washington in 2003. Japan's unscientific trade restriction is not consistent with fair-trade practices. This continues to hurt family ranchers by limiting us to about 25 percent of our potential market there (or $1 billion in lost beef exports each year).

Thankfully, Chairman Baucus has tirelessly pursued resolving the unjustified prohibition of our wholesome beef products by the Japanese government. Most recently, Chairman Baucus strongly urged the Japanese government to remove their unfounded barriers to our beef in a letter sent to the Japanese Ambassador on March 16, 2010. But it shouldn't stop there. Together, we must finish our work on other markets, including Taiwan, Korea, China and even Mexico. China is the only major market still closed to U.S. beef and represents one of the largest potential growth markets for ranchers.

Passing pending free-trade agreements (FTAs) is crucial. Passage of the U.S.-Korea (KORUS) FTA would mean $15 million in tariff benefits for beef in the first year of the agreement alone, with about $325 million in tariff reductions once fully implemented. We expect that Korea will provide full market access for U.S. beef, consistent with World Organization for Animal Health (OIE) guidelines. For each day that Congress does not approve the Colombia FTA, American exporters overall pay millions of dollars in unnecessary tariffs. Other countries, such as Australia, are already negotiating FTAs of their own with South Korea. If Australia successfully ratifies a similar bilateral trade agreement with Korea a year before we do, it would give them a 2.67 percent tariff advantage over U.S. beef for the next 15 years.

Montana is hosting the 2011 Asia-Pacific Economic Cooperation (APEC) Trade Ministers meeting. This is a tremendous opportunity for Chairman Baucus and our ranchers to showcase our cutting edge approaches to global beef innovation that we use to deliver safe, healthy and environmentally wholesome beef to many of the 21 Asia-Pacific member economies. This meeting can serve as a proactive model for which greater information sharing and interconnectedness can be achieved to build more effective trade partners, whom are committed to a rules based trading system.

Reaffirming our commitment to all of our international agreements both ratified and pending will lead the development and investment of seaport infrastructure on both ends. Critical challenges such as port capacity, storage space, container availability, ready access to rail and highway systems, customs services, inspections and distribution systems can be better met following these commitments.

The United Nations' Food and Ag Organization (FAO) estimates that by 2050, global food production will need to increase by 70%. The global population is expanding by about 80 million people per year. U.S. ranchers see promising opportunities to be seized.

I appreciate the opportunity that we have been granted to present our testimony today and we look forward to working with you throughout the course of the upcoming years in advancing all areas of U.S. exports.

TESTIMONY OF LEAL SUNDET, COAST COMMITTEEMAN

INTERNATIONAL LONGSHORE AND WAREHOUSE UNION

BEFORE THE

SENATE SUBCOMMITTEE ON INT'L TRADE, CUSTOMS AND GLOBAL COMPETITIVENESS

SENATE FINANCE COMMITTEE

April 29, 2010

"Doubling U.S. Exports; Are U.S. seaports ready for the challenge?"

Mr. Chairman, thank you for inviting me to testify on behalf of the 65,000 members of the International Longshore and Warehouse Union, (ILWU). Based in San Francisco, our union represents longshore workers in California, Oregon, Washington, Alaska, and Hawaii as well as warehouse, maritime, agriculture and hotel and resort workers. I am an elected representative of the Coast Longshore Division, representing dockworkers in the three Pacific Coast States that include the major container Ports of Los Angeles/Long Beach, San Francisco, Seattle, Tacoma and Portland. I work out of our International office in San Francisco and am primarily responsible for all Labor Relations in Ports in Washington and Oregon, though I also deal with California Port issues. I started my career in the tiny Port of Newport, Oregon, transferred to Portland where I was elected President of the Local prior to running for the International office. I am currently serving my second elected term as a representative of the entire Coast Longshore Division.

President Obama has set a high goal of doubling exports and creating 2 million additional trade-related jobs. In previous testimony to Congress, the Department of Labor cited recent research that found the wages of workers are 10 to 11 percent higher at plants that export their products. We welcome the opportunity to load even greater amounts of agricultural goods for export as there are many high paid jobs associated with grain, wheat and other commodities. However, the President and Congress would be remiss if an opportunity were not taken to re-invigorate our industrial base and create manufacturing jobs so we can export value-added products.

The ILWU's priority is the maintenance of good jobs and the creation of good paying jobs with benefits. There is a direct correlation between making the necessary investments in our transportation system and job creation. Infrastructure investments are critical to the long term economic health of our country.

The Recovery Act was a start, keeping the country from sliding further into a depression. The Recovery Act investments created or sustained 280,000 transportation project jobs. Employment growth, including direct and indirect jobs related to these investments, grew by 890,000, according to the House

Transportation and Infrastructure Committee. However, the infrastructure investments were not enough to catapult us out of the recession. The number of the unemployed continues to rise. Therefore, Congress must commit to larger scale investments in jobs and infrastructure if we are to accelerate economic growth and fix the high rate of unemployment in the long term.

Necessary investments in rail and road improvements need to be concentrated in and out of our nation's public ports if we are to double exports. The infrastructure investments in our roads, bridges and rail are critical to the efficient movement of our cargo. Major investments in rail and fast corridors must be a higher priority. For the west coast, it is vitally important that investments be made on projects that move cargo from east to west and visa-versa. Recovery Act projects such as the Gerald Desmond Bridge replacement in Long Beach achieves the priority of moving the cargo efficiently from the interior of the country for export while creating approximately 21,980 jobs. In addition, the Recovery Act investment in the Mercer corridor in Seattle achieves the goal of efficiently moving our exports while creating an estimated 7,000 jobs. These investments as well as investments in infrastructure in the interior of the country are necessary to move exports more efficiently. In terms of investing in port infrastructure, we recommend that Congress continue to work with the public ports on their needs rather than looking at private facilities.

The federal government is carrying a significant deficit, which means every project request should not be funded. Too often do we see other projects funded that have little to do with moving cargo more efficiently or creating high wage jobs of the future. Instead, Congress needs to be making the necessary investments in road, bridge and rail projects a priority.

The ILWU provides skilled labor to handle containers for operators involved in loading and unloading containers on barges or ships. Recently, the Department of Transportation awarded the inland ports of Stockton and Sacramento with $30 million dollars of stimulus funds for the purpose of carrying agricultural products on barges from these ports to the Port of Oakland. As far as we know, there are no barge operators who have committed to this service. No operator is currently talking to us about making this service a reality. Furthermore, agriculture shippers have not committed to using the service. Fred Klose, executive director of the California Agricultural Export Council said, "There are going to be a lot of costs that come up that nobody really was expecting." The Department of Transportation is making an investment in cranes and docks for ports even though the "short sea shipping" project will not work in the long term, according to ILWU officers who have decades of experience in the industry. This is $30 million that could be spent on rail separation projects, fast corridors, and bridge replacements – projects that are certain to create good jobs and move our cargo efficiently.

The ILWU argues the same can be said regarding the spending on port security projects. How many new fences and cameras are really necessary? Is it an impediment to efficient trade to spend countless millions of dollars to radiate 100 percent of containers for export? Do we need to screen a sufficient number of containers that would create the same barrier? The TWIC program is a hugely expensive program that provides very minimal security benefits. Due to incompetence, delays, and lack of concern by TSA employees, the TWIC program has caused great pain for our hard working American citizens.

Please see the attached article concerning a longshoreman from Portland who suffered at the hands of the TSA.

Prior to 9/11, there was a great deal of attention given to the infrastructure necessary to relieve congestion in and out of our ports. Creating fast corridors to move exports and imports that benefit the entire nation as well as workers engaged in international trade became a top priority. The ILWU testified before the House Transportation and Infrastructure Committee on the need to make investments in rail and offered ideas on space management at ports for the purpose of alleviating congestion and more efficiently moving cargo. Of course the attention turned to security after the attacks on our country, but it is now time to prioritize the building of our infrastructure.

The ILWU supports SAFETEA-LU reauthorization. In the context of that legislation, we support a dedicated funding mechanism for infrastructure projects at U.S. seaports and surrounding areas to improve the movement of goods, and mitigate environmental damage caused by the movement of goods. Any fees or taxes levied should not have the effect of diverting cargo to Mexico or Canada. The ILWU represents longshoremen in British Columbia and though it is not our intention to take any work from them, we do want U.S. policy to have the effect of moving and expanding port and trade related jobs away from the United States.

The Corps of Engineers civil works budget should be fully funded to complete critical port maintenance and deep dredging projects. These projects are essential to keep American ports competitive, particularly with the growing need for channels to accommodate a new generation of vessels that require deeper drafts. The harbor maintenance tax surpluses should not be used to mask the federal deficit but should be dedicated to projects that will help provide the capacity to double our exports over the next 5 years.

The ILWU is in full agreement with the Port of Portland regarding the need to keep industrial property around ports from being taken over by condos and apartments or other types of non-trade related development. These areas must be set aside for warehouse jobs related to international trade. This is important for job creation and the efficient movement of our exports and imports. The ILWU is in a constant battle with developers who want to encroach upon our ports. Recently, we won these battles against developers in San Diego and Sacramento but we should not be in a position of constantly fighting development at the expense of port and trade related jobs.

Thank you for inviting us to testify today on this important subject.

STATEMENT OF
POLLY TROTTENBERG
ASSISTANT SECRETARY FOR TRANSPORTATION POLICY
U.S. DEPARTMENT OF TRANSPORTATION

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE,
CUSTOMS, AND GLOBAL COMPETITIVENESS
COMMITTEE ON FINANCE

U.S. SENATE

"Doubling U.S. Exports: Are U.S. Sea Ports Ready for the Challenge?"

APRIL 29, 2010

Chairman Wyden, Ranking Member Crapo, and Members of the Subcommittee:

Thank you for inviting me to appear before you today to discuss the role of U.S. seaports in promoting U.S. commerce and their capacity to meet future projected growth in exports. I welcome the Subcommittee's interest in this topic which raises many important transportation policy, financing and governance issues.

In his State of the Union speech in January, President Obama announced a goal of doubling exports within five years. He reiterated this commitment in a March 11 speech to the annual meeting of the Export/Import Bank, and listed some specific steps he has already taken to reach this goal. The President, by executive order, created an Export Promotion Cabinet to develop and coordinate a new National Export Initiative to improve conditions that directly affect the private sector's ability to export. This cabinet will have its first meeting in April.

The growth of exports will require new investments and more efficient operations at U.S. ports and the intermodal connections and road, rail and air networks that serve them. To get there, we have developed a new national focus on freight policy and investment.

Secretary LaHood has established five key strategic goals as priorities in our national transportation policy – economic competitiveness, safety, state of good repair, livability, and environmental sustainability. DOT policy on freight transportation grows out of our focus on these five key strategic goals.

We want a freight policy that will allow us to target our investments on freight projects that are most effective in allowing us to achieve these goals – especially helping our domestic industries compete globally, creating jobs and economic growth, and reducing energy usage, carbon emissions, as well as the adverse livability impacts on affected communities.

Unfortunately our national transportation policy has often failed to target funding toward investments that will be most effective in achieving these goals.

Developing an effective freight transportation policy has been hampered in the past by the "stovepiped" approach to transportation funding that is written into our transportation authorizing statutes. Expenditures for each freight transportation mode are generally dependent upon their particular funding sources.

The result is that a truly outcome-oriented transportation investment policy – where the outcomes include the strategic goals I mentioned earlier – has been difficult to achieve, because investments have been dictated by where the funding came from, rather than where the investments could have the greatest impact on the desired outcomes.

However, the President, the Congress, and the Department of Transportation have already taken concrete actions to improve the nation's freight transportation system generally and its ports in particular. With the passage of the American Recovery and Reinvestment Act, Congress made $1.5 billion available in discretionary grants for what the Department has called the TIGER program (Transportation Investments Generating Economic Recovery).

We received over 1,400 TIGER applications and conducted a comprehensive multi-modal review process within the agency, including requiring rigorous analytical and benefit-cost analysis for major projects. And at the end of that process, we awarded nearly 50 percent of the TIGER funds for projects that will better move freight, with freight rail projects being the single largest category for TIGER funds. This represents a significant shift from the current allocation of Federal transportation dollars.

Of the $1.5 billion in TIGER grants, we awarded $124 million to port projects, $431 million to projects to improve rail, highway, and intermodal freight transportation (primarily movement of ocean containers and truck trailers), and $277 million to highway projects, many related to freight movement.

In making these TIGER investments, DOT analyzed key current and emerging trends in freight movement and the global ports industry.

Ports fall into two main categories -- those that primarily handle container traffic, which is largely higher-value manufactured goods, and those that primarily handle bulk products such as coal, grain, lumber, petroleum products, and ores. Many ports combine both functions, and efficient connections to the inland portion of the trip of both imports and exports is vitally important for all ports.

The largest bulk port by tonnage is the Port of South Louisiana on the Gulf Coast, which handles primarily grain and petroleum products, followed by the Port of Houston, which handles large volumes of petroleum.

The largest container port in our nation is in Southern California, where the twin Ports of Long Beach and Los Angeles, combined, move nearly half of all ocean containers handled in the U.S. The dominant trend of the past 20 years has been the tremendous growth of container traffic through U.S. West Coast ports; containers handled have increased from about seven million twenty-foot equivalent units (TEU) in 1988 to more than 16 million TEU in 2008, the peak year.

Since that time, traffic has declined due to the 2007-2009 recession, but industry experts believe that container volumes are likely to grow again as the economy recovers.

Much of the traffic through West Coast ports moves east to major U.S. population centers by rail, and some government support has been provided to facilitate and even furnish investment in private railroad facilities to move this traffic.

In Seattle and Tacoma, the ports and the state have undertaken the Fast Track initiative to improve rail service and reduce delays to highway traffic along the rail corridor serving the two ports, reducing pollution and congestion as well as reducing transportation costs.
In Southern California, money from the ports, the state, the Federal government, and the railroads has constructed the Alameda Corridor, a 30-mile rail link that removes truck traffic from local streets and speeds rail service.

However, the rate of container traffic growth through West Coast ports is slowing, while container traffic at East and Gulf Coast ports is expected to grow more quickly. For example, in 2009 West Coast traffic fell by 17.5 percent, while traffic at East Coast ports grew by 13.3 percent. This is a continuation of a trend that began in the late 1990s, as increasing congestion at West Coast ports and their intermodal connectors resulted in traffic from Asia moving either through the Panama Canal or via Suez to the East Coast rather than through West Coast ports.

The 2014 completion of new locks on the Panama Canal will also draw increased freight traffic to the East and Gulf Coasts. The lock expansion will permit very large, 10,000 TEU "post-Panamax" ships to transit the Canal, and it is expected that some of these ships will begin service directly to selected Gulf Coast and East Coast ports, bypassing the West Coast. This will alter trade flows throughout the U.S. and increase traffic demands both at East/Gulf Coast ports and on the highways and rail lines that serve them. Government can help prepare to meet this challenge, and we are already taking action.

The TIGER program made $14 million available to three ports in Maine – Portland, Searsport, and Eastport – to advance Maine's long-term port development strategy and both develop new markets like wind turbines and make old markets like forest products more competitive.
In Massachusetts, we awarded $20 million to the Fast Track New Bedford project to reconstruct two freight rail bridges that serve the port.

We also provided $22.3 million for improvements at Quonset Point, Rhode Island, to facilitate both the manufacture of wind energy equipment and the use of short-sea shipping to move goods between Rhode Island and other points on the East Coast. TIGER has also funded port improvements in California, Hawaii, and Alaska.

There is a renewed focus on water in the Department of Transportation. The Maritime Administration's Marine Highway program seeks to revive a once-flourishing short-sea shipping industry on U.S. coasts and inland waterways. Marine highways can take freight that was traditionally carried by road or rail and move it instead by water – along the East and West Coasts, the Gulf of Mexico, the inland waterways and the Great Lakes. The marine highways can offer shippers an alternative to congested highways, but even more important, marine transportation is green transportation.

To tap into this great promise, the Department of Transportation is investing $59 million in the new America's Marine Highway Program this spring, including $52 million in TIGER grants for marine highway projects in the ports of Stockton and West Sacramento, CA and in Quonset Point, RI.

One of the challenges of this post-Panamax restructuring of trade flows is that distances between Gulf/East Coast ports and the producing and consuming regions they serve are much shorter than distances from West Coast ports. Distance favors rail movement of cargo, since the cost of handling in ports, and of drayage to and from intermodal rail yards, can be spread over a longer rail haul. Shorter hauls favor trucks. Growing volumes of truck traffic from our post-Panamax ports are likely to have an adverse effect on highway congestion and environmental sustainability.

To address these challenges, DOT made a number of major investments to improve freight rail in the East and Midwest. These include $98 million for the National Gateway project, which will complement substantial state and private railroad dollars to create a corridor for double-stack rail movement of ocean containers that reaches from the ports of Wilmington, North Carolina, Newport News, and Baltimore to Chicago.

DOT also leveraged significant private and state dollars by providing $105 million for the Crescent Corridor, which will improve rail corridors between the Northeast and South Central portions of the U.S., and fund a number of new rail intermodal terminals at various locations in the South.

Finally, DOT funded the CREATE project (Chicago Region Environmental and Transportation Efficiency) at $100 million to remove bottlenecks that impede the flow of east/west and north/south rail traffic through Chicago, expediting movement of goods for both import and export across the U.S.

We are currently developing the guidance for the National Infrastructure Investments program funded in the FY2010 Appropriations Act. This program has somewhat different requirements from the TIGER Grant program, but the central focus of this program will remain the same – an outcome-oriented, performance-based program that focuses funding on investments in whichever modes are most effective in achieving our national transportation goals, and that relies on the best economic analysis and professional judgment available to identify projects that promise the biggest returns on our investment.

Similarly, the Administration has proposed a National Infrastructure Innovation and Finance Fund in our FY2011 budget request to provide funding for projects in whichever mode of transportation allows us to achieve our transportation goals in the most cost-effective way. And it will base its project selection on economic analysis to ensure that we get the maximum possible return on our investment.

We have also taken advantage of other statutory authority, such as the TIFIA (Transportation Infrastructure Finance and Innovation Act) program and the Private Activity Bond program, which allow the Department to provide loans or authority to borrow private funds at tax-exempt interest rates. These programs have helped to foster partnerships to provide funding for other projects that improve freight movement.

Ports are particularly appropriate venues for public/private partnerships, since ports have bonding authority and receive revenue from users.

Perhaps the most familiar example of this strategy is the Alameda Corridor, mentioned earlier. The corridor was funded with a mix of bonds, direct funding from the Ports of Los Angeles and Long Beach, and Federal and state contributions. All containers moving on the corridor are assessed a fee which is used to cover dispatching, maintenance, and bond repayment costs.

A less familiar example is the Shellpot Bridge, south of Wilmington, Delaware. This bridge is on a freight rail route that bypasses downtown Wilmington and provides access to the Port of Wilmington. When the owner of the bridge, the Norfolk Southern Railway, was reluctant to spend scarce capital funds on its rehabilitation, the State of Delaware agreed to make the money available – if the railroad would agree to pay a toll charge for each railroad car using the bridge. Five years into a 20-year agreement between the State and the railroad, more rail cars than anticipated are moving over the route, and it appears the State will recoup its investment with interest. Meanwhile, the railroad pays a per-car charge, rather than having to add the cost of the bridge to its capital investment base – thus converting a fixed charge into a variable cost.

One troubling problem is the need for better freight transportation data. The outcome-oriented, performance-based approach to transportation investment that we have emphasized relies on good freight transportation data to make possible the economic analysis of the benefits of freight transportation projects. At present there are major gaps in freight data availability.

For example, imports and exports are recorded in the Journal of Commerce's PIERS (Port Import/Export Recording Service) database, but inland movements of imports are not tracked separately. Data are lacking on many truck movements within metropolitan areas. Records of freight moved by rail in intermodal service often identify commodities as "FAK" (freight, all kinds) without further detail. The Commodity Flow Survey, on which we rely for data on freight flows, doesn't cover some categories of freight, and has too small a sample size to provide detailed commodity-specific data for many metropolitan areas.

We must focus on and invest in better data-collecting capacity. We also plan to make more extensive use of information technology to improve the performance of the freight system. For example, we monitor the speed and travel time reliability of two-thirds of the Interstate System through a cooperative arrangement with the trucking industry through which we receive GPS data from over 500,000 trucks. We are working with shippers in Kansas City to minimize unproductive truck traffic in their urban core through a pilot program that improves information sharing.

Intelligent Transportation Systems (ITS) are also being deployed to help carriers and shippers track shipments on intermodal connectors. Improved information on the location of cargoes can help shippers and consignees manage inventories to reduce costs, improve en route cargo security, and help government to make more effective decisions on transportation investments.

We are also working to reduce the adverse environmental and livability impacts of freight movements. As the volume of freight movements grows, noise, vibration, and pollution impacts on adjacent communities will become more severe. Too often, local communities feel that they are exposed to all the negative livability impacts of freight movements, while many of the benefits accrue to freight shippers and communities elsewhere. Recent controversies over the siting and operation of highway/rail waste transfer facilities and intermodal terminals in several states have brought this concern into sharp focus. Carefully targeted investments in freight infrastructure can reduce impacts on local communities, as well as improving environmental sustainability by enabling cargo to move on more fuel-efficient modes such as rail and water.

We also must remember that, while air cargo constitutes less than one percent of our international trade by tonnage, it represents almost 24 percent of our international trade by value. Moreover, because American exports are disproportionately high-value, light-weight products, they more commonly move by air than our imports do. About 30 percent of our exports move by air (by value) compared with about 20 percent of our imports. So when we think about transportation infrastructure that contributes to our exports, we have to think about airport infrastructure as well as surface transportation.

Finally, I want to mention Secretary LaHood's effort over the last couple of months to engage a diverse range of freight stakeholders through the Department's Surface Transportation Reauthorization Outreach Tour, which has so far held sessions in New Orleans, Minneapolis and Los Angeles. One recurring theme of these discussions has been that the effective and efficient movement of freight is a critical element in promoting and sustaining regional and national economic competiveness.

As noted by virtually all these stakeholders, a coherent Federal freight plan must be developed that addresses these issues. At the Secretary's recent two-day Port Summit in San Diego, there was a consensus among port stakeholders that there must be a fully integrated transportation system in order to improve freight efficiency, improve environmental sustainability, and grow the economy. Freight stakeholders also emphasized the need to ensure a continuing funding stream for the full range of freight transportation projects, and continued encouragement of public-private partnerships within the freight sector.

I thank the Subcommittee for inviting me to testify today and would be happy to respond to any questions that you have.

Statement by Bill Wyatt, Executive Director, Port of Portland, Oregon
Hearing on "Doubling U.S. Exports: Are U.S. Seaports Ready for the Challenge?"
Subcommittee on International Trade, Customs, and Global Competitiveness
Senate Committee on Finance
April 29, 2010

Thank you for the opportunity to present the views of the Port of Portland on the role of U.S. seaports in increasing American exports. About 35 percent of American exports in dollar terms, and a much larger percentage in tonnage terms, moved through U.S. seaports in 2009. Therefore, it is important to understand if seaports are operating as effectively as possible as a conduit for U.S. exports.

First, just some brief background information about the Port of Portland. The Port of Portland is one of a handful of larger consolidated public port authorities in the United States that operate <u>both</u> marine and aviation facilities. The Port of Portland owns and operates four marine terminals, the dredge *Oregon*, Portland International Airport, two general aviation airports, and several industrial and commercial properties.

Focusing just on the Port's marine exports, the Port of Portland has historically served as an export gateway, primarily for agricultural products. For example, the Columbia River is the largest wheat export center in the United States. More than 47 percent of the wheat exported from the United States by water is transported through the Columbia River to overseas markets. If you consider <u>all</u> grains (including wheat, corn, soybeans, and barley), the Columbia River is the third largest grain export gateway <u>in the world</u>. The wheat and other grains are grown in the Midwest and Pacific Northwest, reach the Port of Portland and other Columbia River ports by rail and barge, and are exported to countries throughout Asia and the Middle East.

In addition to bulk grains, the Port exports other agricultural products, such as frozen vegetables, hay, and animal feed, in containers. Commodities such as paper and scrap metal are also exported in containers. These containerized goods originate primarily in the Pacific Northwest and are transported to the Port of Portland by truck and barge. The Port's top five export partners in terms of container volumes are Japan, South Korea, China, Taiwan, and Vietnam. Finally, completing its export portfolio, the Port of Portland also exports bulk minerals, such as soda ash mined in Wyoming and railed to the Port.

The Port of Portland and other U.S. port authorities are committed to helping American producers increase their exports to foreign markets. We recognize the higher value that exports generate for producers, their employees, and the communities in which they're located. The most significant constraint that seaports face in increasing U.S. exports is the capacity and efficiency of the infrastructure that transports exports from their source to seaports to overseas markets.

Four kinds of transportation-related infrastructure directly affect the competitiveness of U.S. exports. First, the poor condition of our ground transportation infrastructure has been well documented. Most containerized exports are transported to seaports by truck and rail, so the condition of our highways, bridges, and freight railroads affect the transportation cost of U.S. exports.

Second, a huge volume of U.S. exports move to foreign markets over our inland waterways and deep-draft channels and harbors. Unfortunately, however, the maintenance and improvement of those waterways have suffered from inadequate funding and excessive planning requirements for many years. As an example, I would cite the Corps of Engineers project to deepen the Columbia River navigation channel by three feet. The Corps of Engineers is completing that project this year, 21 years after it began.

Third, the terminal infrastructure at seaports must be able to efficiently facilitate the hand-over of exports from rail, truck, and barge, on the one hand, to ocean-going ships, on the other hand. Although improvements to terminal infrastructure have historically been the responsibility of port authorities and state and local governments, I believe that there is a role for properly-structured federal investments (as demonstrated by the eligibility of port infrastructure for the recently announced TIGER grants).

The final kind of transportation-related infrastructure that contributes to U.S. exports is less obvious than the others but is still important. That is, the industrial property around seaports on which export and import facilities are located. Many exporters and importers want to locate distribution facilities near the seaports through which their cargo is passing. However, as the areas around seaports become increasingly urbanized, less and less "greenfield" property is available for export and import facilities. This trend makes it more important to be able to develop older, inactive industrial sites that are often contaminated but located near seaports. Like improving terminal infrastructure, creating the conditions conducive for the development of these older sites is primarily a local and state responsibility. However, federal tools, such as brownfields funding and policies, can definitely play a role in transforming these inactive sites into productive shipping operations.

To resolve these infrastructure constraints, I would like to make the following recommendations for your consideration:

1. The Administration should develop a comprehensive and integrated national freight strategy. The strategy should address all modes of transportation, including highway, rail, waterways, aviation, and pipeline, and all kinds of freight, whether domestic or international.
2. The Department of Transportation should establish a high-level office that focuses on freight mobility. The office should not only promote freight mobility within the Transportation Department but it should have a role in determining the funding for the Corps of Engineers' waterways responsibilities as well. To some extent, the Corps' budget should be connected to the freight needs identified by the Transportation Department and the national freight strategy.
3. In the next surface transportation authorization bill, Congress should create a dedicated program to fund freight projects.
4. Public port authorities should be eligible to apply directly for project funds to federal freight programs.
5. Funding for the maintenance and improvement of our waterways should be increased so that the economic, environmental, and safety benefits of this transportation mode can be maximized. In this context, I recommend legislation to require that <u>all</u> the revenue collected into the Harbor Maintenance Trust Fund each year be spent for its statutory purpose of maintaining our waterways.
6. To help make the necessary improvements in freight rail service, the Port of Portland supports legislation that would provide tax credits for freight rail capital investments that would generate public benefits.
7. Federal funding for brownfields assessments and remediation should be increased, and brownfields policies should be streamlined.

In addition to infrastructure constraints, many American producers have been hamstrung in their efforts to export by the limited availability of shipping containers. The Port of Portland is especially aware of this problem in the interior of the Pacific Northwest. Farmers and other producers in eastern Oregon, eastern Washington, and Idaho have experienced difficulties in obtaining empty containers in which to load their export products. Trade data indicate an annual deficit of nearly 70,000 containers in Oregon and southern Idaho.

This problem is more a commercial problem than a policy problem. It is related to the current oversupply of ships, the disparity in rates that ocean carriers earn from import and export cargoes, and rates charged by the class I railroads for repositioning empty containers from the Midwest to the West Coast. At the Port of Portland, we are trying to inject more empty containers into the region by growing the import distribution network. In this case, it is important to note that increasing imports can benefit exports. I also understand that the Federal Maritime Commission recently started an investigation that will, in part, seek to understand the reasons for the container shortage.

The challenges and recommendations that I have described have been fairly specific to seaports' role in increasing U.S. exports. I would like to conclude by expressing support for two more general efforts that would broadly promote U.S. exports, whether they are transported through seaports or not.

The first is the National Export Initiative announced by President Obama in his State of the Union address. I applaud the focused, integrated attention that this initiative will provide for doubling the nation's exports over the next five years.

The second is the U.S.-Korea Free Trade Agreement. I believe that approving this agreement could be one of the most significant steps that Congress could take to stimulate American exports. The International Trade Commission projects that implementation of the agreement would increase the U.S. Gross Domestic Product by $10 to $12 billion. More specifically to the Pacific Northwest, South Korea is the fifth largest trading partner with Oregon, Washington State, and Idaho. By virtue of our geography and our home-grown products, the Pacific Northwest is in an excellent position to take full advantage of a free trade agreement with South Korea. I urge Congress and the Administration to agree on the terms necessary to move this agreement forward.

I commend this subcommittee for its attention to increasing U.S. exports, and I appreciate the opportunity to provide the Port of Portland's views in this important area.