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FREIGHT MOVEMENT FROM ORIGIN TO DESTINATION

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HEARING

BEFORE THE

SUBCOMMITTEE ON
HIGHWAYS AND TRANSIT

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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April 22, 2008

SUMMARY OF SUBJECT MATTER

TO: Members of the Subcommittee on Highways and Transit

FROM: Subcommittee on Highways and Transit staff

SUBJECT: Hearing on "Freight Movement from Origin to Destination"

PURPOSE OF HEARING

The Subcommittee on Highways and Transit is scheduled to meet on Thursday, April 24, 2008, at 11:00 a.m., in Room 2167 of the Rayburn House Office Building to receive testimony on freight movement from origin to destination. The Subcommittee will hear from the Vice Chairman of the Technical Oversight Committee of Transportation Research Board's National Cooperative Freight Research Program and executives of third-party logistics providers and intermodal carriers.

This hearing is part of the Subcommittee's effort to prepare for the reauthorization of federal surface transportation programs under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which will expire in September 2009. The design, organization, capacity, and operation of our surface transportation system to move freight efficiently and reliably to its destination is one of the major issues that the Subcommittee will consider in the reauthorization.

BACKGROUND

As the economy and population of the United States have grown, so has the nation's dependence on surface transportation infrastructure. This is particularly true for the growth in freight movement. Since 1970, imports to the U.S. have more than tripled as a share of GDP, while exports have more than doubled. In 2002, U.S. freight carriers moved over 19 billion tons of freight valued at more than $13 trillion, and traveled over 4.4 trillion ton-miles over our transportation network. The U.S. Department of Transportation estimates that by 2035, the volume of freight shipped on the U.S. intermodal transportation system will increase to 33.7 billion metric tons, worth more than $38 trillion—an increase of more than 48 percent.

Advances in logistics have made our nation's roadways real-time warehouses thanks to just-in-time delivery, which builds greater efficiencies and cost savings into the system by allowing businesses to order parts and inventory stock in smaller batches. The growth in congestion on the nation's roadways threatens these efficiency gains. Many segments of the nation's transportation network are currently operating at or near capacity. With future trade volumes expected to more than double across all modes, the nation must develop a strategy and identify the resources to finance the development of the intermodal system that meets these needs.

The Texas Transportation Institute's 2007 Urban Mobility Report demonstrates the impact of the lack of strategy and underinvestment in the nation's surface transportation network. The wasted fuel and time translated into a total congestion cost of $78.2 billion in 2005. Overall, congestion in 2005 caused a total of 4.2 billion hours of travel delay that resulted in an additional 2.9 billion gallons of fuel being used by shippers, travelers, and commuters on congested roadways.

Roadway congestion has also increased logistics costs. According to the Council of Supply Chain Management Professionals, between 2004 and 2005, after 17 years of decline, total logistics costs for U.S. companies increased by $156 billion. Transportation accounts for $744 billion of the $1.18 trillion in total logistics costs. The largest portion of the transportation cost is for truck transportation. The logistics cost relating to intercity trucking reached $394 billion in 2005, up from $335 billion a year earlier. Total logistics costs accounted for 9.5 percent of the Gross Domestic Product in 2005, up from 8.8 percent in 2004.

Transportation Accessibility and Modal Choice

Transportation is used mostly as a means to achieve some objective and is rarely used for its own sake. Individuals use transportation for daily activities, including traveling to work, to school, to obtain health care, or for leisure activities. Businesses use transportation for activities such as delivering freight. The ultimate goal of transportation is not the travel itself, but the access it provides to other activities. In economic parlance, use of the transportation network represents a derived demand. The difference between traveling on the transportation network for its own sake and using the transportation network to reach a desired destination is the difference between transportation *mobility* and transportation *accessibility*.[1]

Operationally, accessibility takes into account the entire journey and endeavors to find the most cost-effective way to go door-to-door. This approach works equally well for moving passengers as for freight, and does not pre-judge which mode is appropriate for a particular movement. Instead of viewing a problem as a highway problem or a transit problem or a rail problem, it is being dealt with simply as a transportation problem. Initially, it leaves open the question of modal choice and concentrates on finding ways—usually, but not always, in an intermodal manner—to get a person or cargo to the desired destination in the most cost-effective manner.

When shippers or carriers transport freight, the objective is to get to the final destination at a desired time. Taking into consideration the entire journey, as opposed to focusing on congestion at discrete locations along the way, could provide a more holistic way to address our transportation

[1] Congressional Research Service Memorandum to Subcommittee staff, August 2, 2007.

logistics challenges. If congestion is anticipated along the way, either the route can be changed or a different mode can be used as part of the pre-trip planning to get around the bottlenecks.[2]

Transporting a shipping container that has arrived at the Port of Los Angeles to a warehouse in Little Rock, Arkansas presents an interesting example to demonstrate the challenges facing both shippers and carriers. The container may leave the port on a truck to a near-dock transfer depot where it is loaded onto a train to travel half way across the country to Little Rock. Alternatively, the container may be loaded on a train at the port that travels on the Alameda Corridor to an intermodal transfer facility in Colton, where it is loaded on a truck for the remainder of the journey to Little Rock. If highway congestion is expected in Dallas-Ft. Worth, the container may be placed on a rail car or it may be hauled by truck but on an alternate route around the metroplex of Dallas-Ft. Worth. The choice is not governed by mode but by what is most cost effective—in other words, the shortest travel time given what the customer is willing to pay.

Obviously, pre-trip planning by the logistics manager in the example above is important. Equally important is transportation planning by agencies at all levels of government as they must respond to private travel decisions and develop programs and projects to accommodate private travel demands.

The decision of how to move people or goods efficiently and cost effectively depends on where the origin and destination are and what congestion challenges (at specific locations) may be present along the way. The options to overcome those challenges include selecting an alternate route, using a different mode of transportation, expanding modal capacity, or rationing existing capacity by means of price. The focus, however, is a much broader one that encompasses the entire journey. Therefore, federal transportation policy in the future may take a more holistic approach, rely more extensively on planning and performance goal-setting at the national level, be geared toward facilitating the efficient and cost-effective movement of people and goods from their origins to their destinations, with special attention paid to smooth transfers at intermodal nodes, and not be preoccupied with tackling traffic congestion at specific bottleneck locations.

Freight Accessibility

The volume of freight movements is determined by the production and consumption of goods and services required to support the national economy. These movements are carried out by various transportation modes. The level of finished goods consumption significantly determines the demand for freight transportation, especially trucking.[3]

Focusing on the number of goods produced in the United States (for both domestic and export markets) and of goods imported into the United States provides valuable insights into the freight traffic pattern and transportation demand. For example, growth in trade (especially rising imports of goods for final consumption) and relative decline in domestic manufacturing, would mean more goods must be moved from our ports directly to distribution centers and final sales

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[2] Changing the time of travel to avoid rush-hour congestion may not be a realistic or viable option as most workers do not have the opportunity to set their work schedules, and cargoes shipped to meet just-in-time requirements are expected to arrive at their destinations at specified times that do not take into consideration rush-hour traffic along the way.

[3] Hudson Institute, *2010 and Beyond: A Vision of America's Transportation Future*, 2004, p. 89.

outlets. This makes the decisions of locating such distribution centers extremely critical to a company's business success. At the same time, it puts enormous pressure on carriers to improve their service flexibility and reliability in response to shippers' business requirements. This also means that the suitability, efficiency, and reliability of connections between the ports, highways, railroads, and intermodal facilities are that much more crucial to the performance of the freight transportation system.[4]

As trade patterns evolve, entirely new trade corridors may need to be developed or existing ones modified or expanded. For instance, the sharp rise in goods imported from China and other Asian countries in recent years has put the performance of our West Coast ports, their connections to more inland transportation networks, and our overall surface transportation system to the test. U.S. international container traffic is expected to triple in the next 20 years. An expansion of the Panama Canal is under construction and estimated to be complete by 2014. This will bring further increases in freight traffic volume to the southeastern U.S. ports of Savannah, Charleston, and Norfolk as well as ports on the Gulf Coast. The performance of the transportation systems that move freight from port to destination will not only determine freight accessibility but, more importantly, our standard of living.

Using data presented in the 2000 Bureau of Transportation Statistics report entitled *The Changing Face of Transportation*, the 2002 *Freight-Rail Bottom Line Report* by the American Association of State Highway and Transportation Officials (AASHTO), and the 2003 American Trucking Associations report entitled *U.S. Freight Transportation Forecast to 2014*, the Hudson Institute has developed the following, admittedly conservative, composite annual growth rates for the various transportation modes, in ton-miles, for the period between 2000 and 2020:

- Trucking 2.5%
- Rail 2.0%
- Barge 0.7%
- Air Freight 4.0%

This means that by the year 2020, our freight transportation system will have to accommodate a 64 percent jump in trucking ton-miles, 49 percent growth in rail ton-miles, a 15 percent increase in barge traffic, and more than double in air freight.[5]

Further, analysis by AASHTO shows that if the rail industry makes investments only enough to maintain its current traffic volume, it will lose market share to other modes including trucking, and the equivalent of 31 billion vehicle-miles will move onto our roads.

This is another way of looking at how an intermodal freight transportation strategy plays out in the real world. It suggests that a comprehensive, coordinated, and balanced approach to transportation planning and investment must be taken by decision-makers at all levels of government.

Since about 1980, highway capacity expansion, measured in terms of either total lane-miles or net capital stock of highways and streets, has fallen well behind the explosive growth in traffic demand, as measured by vehicle-miles traveled. Much of the additional roadway traffic has been

[4] *Ibid.*, pp. 90-91.
[5] *Ibid.*, p. 103.

accommodated through improved operational efficiency of the roadways and enhanced intermodal transportation services provided by carriers and logistics providers. Today, third-party logistics providers offer trip routing, brokerage, and carriage services to meet their customers' freight movement demands. They are not predisposed to choosing one mode over another in transporting cargoes. Instead, they rely on an intermodal approach and use up-to-the-minute information to help move their customers' goods door-to-door as quickly as possible, consistent with the price their customers are willing to pay.

As manufacturing, distribution, and retailing businesses move to the just-in-time method, inventory control is central to their success. Warehousing is replaced by transportation logistics. Logistics costs have declined over time until 2005, when they rose for the first time in 17 years—from 8.8 percent of GDP in 2004 to 9.5 percent in 2005. For the United States to remain competitive in the global marketplace, our surface transportation system must be constantly upgraded and renewed so that it continues to meet the evolving logistics demands. In fact, the nature of logistics may largely determine the character of our freight transportation system.

PREVIOUS COMMITTEE ACTION

The Subcommittee held a hearing on June 7, 2007, on the problem of congestion facing our nation's surface transportation system and some of the options to deal with the problem. The Subcommittee also held a hearing on January 24, 2007, on the challenges that the surface transportation system likely will face in the future, including freight. In the 109th Congress, the Subcommittee held a hearing on May 10, 2006, on the current state of freight mobility on U.S. highways and the challenges posed by a freight capacity shortage in the near future.

WITNESSES

Mr. C. Randal Mullett
Transportation Research Board
Vice-Chair, Technical Oversight Committee
National Cooperative Freight Research Program
Washington, DC

Mr. Scott Haas
UPS
Vice President of Transportation
Hodgkins, IL

Mr. Michael Uremovich
Pacer International
CEO
Dublin, OH

Mr. Gary Cardwell
Northwest Container Services
Divisional Vice President
Portland, OR

HEARING ON FREIGHT MOVEMENT FROM ORIGIN TO DESTINATION

Thursday, April 24, 2008

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT,
Washington, DC.

The Subcommittee met, pursuant to call, at 11:05 a.m., in Room 2167, Rayburn House Office Building, the Honorable Peter A. DeFazio [Chairman of the Subcommittee] presiding.

Mr. DEFAZIO. The Subcommittee on Highways and Transit will come to order.

We have a hearing today on Freight Movement from Origin to Destination.

I welcome the witnesses.

Before we get to opening statements, it is sort of a bittersweet day in one way for the Committee. We are about to launch one of our long-term and most esteemed staff members on a new career or he is about to launch himself on a new career, and we are going to be left behind, but I am sure we will still benefit from his knowledge in the future.

Art Chan began work on the full Committee as a chief economist. Sometimes I refer to economists as pointy heads, but Art is more of an applied kind of guy, one of my favorite economists.

In 1995, he moved to Water Resources. Then he moved to Highways and Transit in 2000. He was a highway policy director for eight years, and he was key on our side of the aisle and I would say overall on both sides of the aisle in crafting key components of SAFETEA-LU.

He has always been able to explain things to me like RABA, and some other mysteries of highway funding and budgeting, and I am sorry that he won't be here to try and turn those things into English for me anymore.

There is no one that knows Title 23 better than Art. That is for certain. This Committee and the Subcommittee have benefitted from his experience. Over the last 15 years. It will be a loss, as I said earlier.

Now that he is joining the private sector and he will have more substantial means, Art has changed his mind about those new Lexus lanes on the way into Washington, D.C. and no longer feels they are particularly price discriminatory.

In all seriousness, though, I wish Art well in his new endeavor, and I want to thank him for his years of work.

Thank you, Art.

Mr. CHAN. Thank you.

Mr. DEFAZIO. So, with that, Mr. Duncan, would you like to say anything?

Mr. DUNCAN. Well, I also want to congratulate Dr. Chan. Art and I had a nice visit together yesterday, and he told me of his plans. He has been a valuable asset to this Committee, and he has worked well with people on both sides of the aisle.

So I want to also congratulate and wish him the best as he moves into this new part of his life. I am sure he is going to be just as successful in the years ahead as he has been in past years in his career thus far.

Mr. CHAN. Thank you.

Mr. DEFAZIO. This, in a way, is a hearing about health, and we have actually a couple of health diagrams that I want to put up on the screens. One, this is 2002. It is the estimated annual daily average of truck flow.

As you can see, it is pretty robust. In fact, I used this chart in particular on the cover of a presentation I had about our cracked bridge problem in Oregon when educating Members of the Committee and Congress as we went into SAFETEA-LU about how vital the I-5 truck route is, the third busiest in America.

We are looking at that, but now if we go to the projects for 2035 and suddenly it looks like a lot of either overstretched or perhaps clogged arteries, not so healthy, and that is why we are here today.

I believe in the next reauthorization we have to chart a new course for America in dealing with our problems of movement of people and freight. Rather than doing triage on the existing congestion, we have to anticipate future flows, and we have to build a system to mitigate or accommodate those flows and mitigate the problems that might arise from that growth in traffic.

What I have talked about, and I still don't have the total vision, is the idea of a least cost transportation plan. Least cost, from my mind, obviously, it goes to the taxpayers. It goes to the public in terms of their costs. It goes to business.

It would be least cost also in terms of, in my mind, impact on the environment and other critical factors, and it would be truly multimodal and would facilitate better the movement of freight.

Freight has to become more easily mobile or, in dealing with this chart and these projections, with the current levels of investment, the idea that we are using trucks as sort of portable warehouses with just-in-time delivery, we are going to moving things into more or less permanent storage in gridlock on the system. It would be tremendously expensive to business, a tremendous cost to the economy, and a tremendous cost to our economic competitiveness in a global economy.

I see sort of a new role here for the Federal Government in partnering, where the Federal Government would be implementing some national level planning to anticipate, get ahead of these issues, try and be more truly multimodal and demand accountability of the States and those who are responsible for implementing the program, so we are no longer so fragmented but more integrated.

This is a tremendous challenge, and I am hoping some of the members of the panel today can give us ideas on how we might get

there. This is one in a number of ongoing hearings that we have held on this Subcommittee to try and learn the subject matter better and create a vision for the next transportation bill.

I just had a contest to name a bill I introduced on cell phones on airplanes, and I gave a bottle of wine as the prize. I don't know what we will do for the contest to name the next highway bill, but we will figure out something.

With that, I turn to the Ranking Member, the esteemed Member from Tennessee, Mr. Duncan.

Mr. DUNCAN. Well, thank you, Mr. Chairman, and thank you for calling this hearing, and I want to thank the witnesses for being here with us.

All of us know that transportation experts have expressed deep concern regarding the freight capacity shortage in America's transportation system. The last several decades, as you have noted, have witnessed steady growth in the demand for freight transportation and will continue to do so, but freight capacity, especially highway capacity, is expanding too slowly to keep up with the demand.

Our witnesses today will provide testimony regarding the immediacy of the freight to mobility crisis caused by expanding freight transportation needs and the lack of transportation capacity. Specifically, they will address how inefficiencies in the transportation system impact a company's ability to manage its supply chain.

Over 19 billion—19 billion with a B—tons of freight valued at $13 trillion moves through our transportation each year. By 2035, demand for freight transportation is expected to increase by 92 percent. The U.S. economy depends on its interconnected transportation network to move raw materials and finished goods around the Country efficiently and reliably.

The United States need to continue investing in our transportation system if we want to retain our position as a leader in the global economy. We also desperately need increased domestic energy production if we are going to not see diesel prices and other transportation costs just skyrocket in the years ahead.

China is in the process of building a 53,000-mile national expressway which will rival the U.S. Interstate Highway System when it is completed in 2020. India is building a 10,000 national highway system, and the countries in the European Union are spending hundreds of billions of Euros to upgrade their existing network of highways, bridges, tunnels, ports and rail lines.

If the United States does not adequately invest in its transportation infrastructure, our market share in the world economy will deteriorate.

Our witnesses will bring to the table, valuable knowledge of freight logistics and intermodal transportation, and I hope the witnesses will help shed some light on where and how future transportation dollars should be spent.

I yield back the balance of my time.

Mr. DEFAZIO. I thank the gentleman.

I just see our chart went down, but that is okay.

I was remiss in not, at the outset, welcoming a new Member to the Subcommittee, Mr. Sires of New Jersey, who obviously, if we looked at the clogged arteries, kind of lives at the epicenter here. I am certain he will want to contribute to the solutions in this proc-

ess and, obviously if we look at the other end of the Country, Mrs. Napolitano lives right near another one of those choke points.

Are there other Members who have a brief opening statement?

Mrs. Napolitano. Okay, go ahead.

Mrs. NAPOLITANO. Thank you, Mr. Chair, and thank you for holding this very important meeting.

As you pointed out, I am from the Southern California area, and we do have big-time choke points. So anything that we can work with the industries to be able to address not only infrastructure but being able to get the product to market on a timely basis, whether it is transportation or highway, it means business and also if we are able to expedite it, then we have a solution for environmental issues.

Along with that, of course, goes labor issues and all of those other good things that we have to deal with.

I am looking forward to the testimony and again, thank you, sir.

Mr. DEFAZIO. Thank you, Mrs. Napolitano.

Any other Members have brief opening statements?

Mr. COBLE. Mr. Chairman?

Mr. DEFAZIO. Mr. Coble, yes, sir.

Mr. COBLE. A very brief opening statement, Mr. Chairman. I appreciate your and Mr. Duncan's calling this hearing.

Mr. Chairman and ladies and gentlemen, I know of no domestic issue any more significant than the matter of freight movement from origin to destination. It is critically important, and I appreciate your having this hearing, Mr. Chairman. I am looking forward to the testimony forthcoming.

Mr. DEFAZIO. Howard, for a moment there, I thought you were saying the movement from Oregon, and I was getting really excited, but then I realized it was southern for origin.

Mr. COBLE. Well, then maybe Oregon may well be palatable too.

Mr. DEFAZIO. Thank you. I appreciate it.

Any other Members?

If not, we will proceed to the panel then.

The first witness will be C. Randall Mullett, Vice Chair of the Technical Oversight Committee, National Cooperative Freight Research Program, Transportation Research Board.

Mr. Mullett, proceed, please.

TESTIMONY OF C. RANDALL MULLETT, VICE CHAIR, TECHNICAL OVERSIGHT COMMITTEE, NATIONAL COOPERATIVE FREIGHT RESEARCH PROGRAM, TRANSPORTATION RESEARCH BOARD; SCOTT HAAS, VICE PRESIDENT OF TRANSPORTATION, UPS; MICHAEL UREMOVICH, CEO, PACER INTERNATIONAL; AND GARY CARDWELL, DIVISIONAL VICE PRESIDENT, NORTHWEST CONTAINER SERVICES.

Mr. MULLETT. Thank you, Mr. Chairman, Ranking Member Duncan and distinguished Members of the Subcommittee. I appreciate being invited here before you today.

I am Randall Mullett. I was invited here this morning because I am Vice Chair of the TRB's National Cooperative Freight Research Program Technical Oversight Committee. This is a congressionally authorized applied research program that is managed by the TRB of the National Academies.

As you all know, the Transportation Research Board is a research institution rather than an advocacy group, and my comment should not be considered advocacy on their behalf.

Mr. Chairman, you are to be commended for calling this hearing and for focusing attention on one of our Nation's greatest transportation challenges, assuring a freight transportation infrastructure system that can meet the current and future demands of our Nation's economy.

Every day, hundreds of thousands of shipments containing everything from grain to computer parts flow through our ports, across our borders and on our rail, highway, air and waterways systems as part of a global, multimodal logistics program.

This system is a complex array of moving parts that provides millions of good jobs to Americans, broadens the choice of products on store shelves, and creates new and expanding markets for U.S. businesses.

Unfortunately, the system is showing signs of stress. Freight transportation has been described as the economy in motion.

This illustration strengthens the indisputable truth that we cannot somehow decouple economic growth from transport growth and that constraints that limit the capacity of the freight system therefore place caps on our economic growth.

Modern supply chains are intermodal, often international systems that are connected in ways that stretch the ability of government agencies and funding models that were established within traditional modal silos. Also, many important public policy issues including the environment, energy, social equity, safety and security have all become part of the transportation equation.

More than 10 years ago, researchers warned, this broadening of objectives has expanded the range of relevant actors in transport policy and operations.

As a consequence, the traditional transportation institutional framework is being forced to accommodate a wider than traditional range of objectives and interests at the same time there is rapid change in transport technology. Danger occurs when focus on the freight transportation system is lost in an effort to accommodate other public policy objectives, no matter how worthy.

The surface transportation system, particularly highways, is under attack from users, safety groups, shippers, thought leaders and policy-makers at all levels. Lack of a shared national vision makes it difficult to develop public policies that address these concerns in a manner guided by established objectives and related performance measurements.

To respond to these concerns, we must consider a systemic, holistic approach to freight transportation policy rather than the current model that focuses on discrete locations and is modal specific. Freight transportation extends State and national boundaries and moves freely among and between modes, but the current planning process does not.

A patchwork of locally derived solutions does not somehow evolve into a national freight transportation system that supports today's complex intermodal relationships. The Federal Government is the only entity able to focus on the national interests and develop a framework to identify appropriate solutions.

In conclusion, addressing the issues facing the Nation's freight transportation infrastructure system will require revolutionary thinking, a new paradigm, if you will, that might include:

Recognition that a traditional reauthorization program is no longer able to address the problems or take advantage of the opportunities associated with the freight transportation infrastructure system;

A strong Federal role leading a wide variety of stakeholders in developing and articulating a national vision for the freight transportation system;

A systemic view with clearly articulated national objectives;

Strategic investments that maximize system performance with appropriate performance measurements and accountability;

A focus on the full promise of true intermodal and multimodal freight transport to enhance the door to door movement of freight and seamlessly connect the U.S. economy to the rest of the world;

A commitment to critically examine and remove existing regulatory constraints;

And, finally, a commitment to refocus on the national freight transportation infrastructure system as a key to our economic vitality.

The opportunity before us is not simply to keep up with freight transportation demands but to develop a long-term vision of the freight transportation infrastructure system that results in a supply chain that is faster, more efficient and more predictable than the one we have today.

Members of the Committee, thank you very much for this opportunity to be here. I will be glad to answer any questions you may have.

Mr. DEFAZIO. Thank you very much, Mr. Mullett.

We would now move on to our next witness who would be Scott Haas, Vice President of Transportation for UPS.

Thank you for being here, Mr. Haas.

Mr. HAAS. Chairman DeFazio, Ranking Member Duncan and Members of the Subcommittee, thank you for your focus in this hearing on freight and for the opportunity for UPS to present its views.

UPS frequently has an opportunity to share its experience with our Nation's leaders as they tackle critical issues of the day, but today's subject surely ranks well into the top tier both in importance and timeliness.

My name is Scott Haas. Throughout my 29 years with UPS, I have had numerous operational assignments which have taken me from the Canadian border to the Gulf of Mexico.

Currently, I am responsible for the single largest distribution facility in the UPS network which is based in suburban Chicago. That facility has 7,500 employees and process 1.5 million packages per day, 40 percent of which arrive and depart via rail.

In this capacity, I live every day and all too many nights in close proximity to the transportation challenges and opportunities that face UPS, our customers and the Nation as a whole. At times, this is particularly frustrating work, but day after day I also witness how obstacles can be overcome through planning, ingenuity and perseverance.

The U.S. and global economies depend on the movement of freight and increasingly on movement that is time definite and expedited. It is well documented that the U.S. transportation infrastructure is not maintained and improved at the level needed to sustain current activity at optimal levels, let alone the growth in freight that is inevitable in the future.

During the past 50 years, the United States has had a national vision regarding surface transportation policy, that being the Interstate Highway System. That system has served the Nation extremely well.

A broader vision, one that includes all modes of transportation and an investment in technology is now required. It should focus on the movement of freight and must take a coordinated approach that crosses the traditional barriers between modes of transportation. This vision requires the establishment of national priorities. It requires national and regional planning.

Freight movements go well beyond State and local boundaries. Any particular shipment may move through hundreds, if not thousands, of jurisdictions. An effective national freight policy requires a strong Federal role, in conjunction with State and local planning, to ensure the development of an infrastructure that best serves national and global commerce.

UPS understands this and is reminded of it every single day. Each day, the UPS network handles 6 percent of U.S. gross domestic product and 2 percent of the global gross domestic products.

UPS is the Nation's third largest private employer, and its workforce of 425,000 delivers 16 million packages and documents to almost 8 million customers around the world every day with a vast majority of those deliveries being within, to or from the United States.

To accomplish this, UPS puts 94,000 vehicles, from package delivery vehicles to tractor-trailers, on the U.S. highways and roadways every day.

As one of the largest customers of Class I railroads for the past 25 years, many UPS trailers are put on rail cars, approximately 3,000 rail cars every day, many of them moving to and from U.S. ports.

In addition, UPS airplanes fly 1,130 daily segments in the U.S. which connect its national transportation network.

But to UPS, these are not separate numbers but part of one seamless system, and that is how public policy should view it as well. Let me give you a few real world examples of how this all fits together.

UPS has customers in Los Angeles that export products to China and, yes, we handle a lot of exports to China. In some instances, for smaller urgent shipments of parts, for example, a package delivery vehicle will leave a customer's facility and use local roads and highways, namely the 710 Freeway, to get to our regional distribution center in the Los Angeles suburbs.

From there, the packages to the Ontario, California, regional airport for a flight to our Anchorage air gateway in Alaska where they will be put on another airplane for delivery to Shanghai the next day. Any major congestion on those roads or highways en route to

the airport, the packages may not arrive to their destination on time.

Unfortunately, surface transportation congestion isn't solely the domain of the U.S. highway system. America's Class I railroads are a key service partner in the UPS transportation network. Railroad congestion, bottlenecks and lack of fluidity—much of which can be attributed to inadequate railroad investment—create a ripple effect that impacts other modal movements within the UPS system.

Additional rail infrastructure investment will relieve congestion in the network, benefit the environment and alleviate commercial highway traffic.

A Chicago-land example from just yesterday is typical of the daily challenges that UPS faces in running our business. A westbound from the New York-New Jersey metropolitan area feeds my facility with approximately 54 trailer loads full of small packages every day. That is roughly 65,000 packages.

We take these trailers off of that train, unload them and sort them to other trailers for transportation to their final destination. We have a four-hour window in which to operate.

Many of those outbound trailers are loaded onto a westbound train headed for the Pacific Northwest. If the inbound train is delayed to the extent that it causes us to miss the outbound departure time, we have to decide to delay the final arrival of thousands of packages by one day or put additional trucks on the highways to recover service.

We are a service company, so we put up the additional tractor-trailer movements, adding more vehicles to the highway system, burning more fuel and increasing our costs.

As you can tell, congestion is very costly to both UPS and our customers. While the company has not determined the exact cost of congestion, we do know that if each of our package delivery and over-the-road drivers is delayed 5 minutes each day, the cost to UPS is 100 million per year.

Multiply this problem nationally, and the numbers are staggering, costing our economy $78 billion annually as well as 4.2 billion hours of travel delay and 2.9 gallons of wasted fuel each year according to the American Road and Transportation Builders Association.

UPS firmly believes that the magnitude of this challenge is an opportunity for our Nation to set an example for the world regarding the establishment and maintenance of an efficient transportation system with the emphasis on the system as a whole and not just one or the other of its parts.

Thank you again for the opportunity today to share UPS's views on this important matter, and I too look forward to the opportunity to answer any questions you may have.

Mr. DEFAZIO. Thank you, Mr. Haas.

Next, we would turn to Michael Uremovich, Chief Executive Officer and Chairman of the Board, Pacer International, Incorporated.

Mr. UREMOVICH. Thank you very much and thank you for the name. I am from a large family. So, hey, you works as well, but thank you very much for the opportunity to speak today, Mr. Chairman.

You have a prepared statement, and I won't repeat my way through that. I would like to make a couple of points.

Pacer International is a $2 billion a year company that coordinates the movement of goods for major retail stores and other kinds of U.S. consumer goods through the international and the domestic system. We fundamentally make a living because the transportation system is broken up into a whole bunch of pieces, and there isn't anybody other than a coordinating function that could choose the proper mode at the proper time for that kind of a movement.

UPS, obviously, Fed Ex and some other huge companies do that in their own networks and do a very, very fine job of that. Pacer, however, does it for smaller companies and for people who need to get their goods to destination on time and in the right order.

We handle about a million loads per year on the U.S. transportation system. We run the largest double-stack container network in the United States. We also have a whole series of owner-operator truck drivers out there making the final deliveries.

I want to make two additional points to my statement today, and that is, first and foremost, the intermodal system provides an opportunity to help a lot of what you pointed out, Mr. Chairman, relative to the artery diagram on the system.

If we had just moved our freight, our little company's freight on the trucks last year, we would have put 25,000 more trucks on the U.S. highways. We would have run how many more miles, we would have risked how many more lives, and we would have been terribly inefficient relative to the use of fuel, an increasingly scarce and expensive resource for all of us.

So, one point I would like very much to make is that when you consider the national transportation policy approach, please consider—I urge you to consider—the use of maximizing each of the individual modes for those things that they do best. The railroads have made significant additional investment in their infrastructure over the last several years in order to help mitigate the significant transportation capacity crunch we had in the 2005-2006 freight year which was terrible for all of us.

Secondly, however, I also urge when you make those considerations, please, please think through and consider some of the unintended consequences. It always frightens a businessman when Congress begins to talk about national policy that will somehow reach out and solve a whole series of problems that we have to deal with every day.

This is a very, very complicated system, and it is impossible to tweak only one part of it and not expect it to come out some place else. I will give you a specific example of that that Mrs. Napolitano will probably be familiar with.

When the Southern California ports choked up two years ago because of some infrastructure problems and the shipping companies began to reroute cargo to the East Coast, the highway between Charleston and Atlanta became impossible. That is not something that could have necessarily been foreseen by people further downstream.

In the freight business, we have a phenomenon called the pig in the python, and that is if you get a problem in some part of this

system, it takes forever to work through it. It is not something that can simply be handled by a policy declaration and expect the thing to work efficiently. I urge you, when you do that, to seriously consider these unintended consequences as we go through the process.

I share with my colleagues here at the table today, concern about individual local actions that do the same thing. You have to think of our freight business as an enormous plumbing system, and when you tweak a knob some place, it is either going to back up or dry up some place else. So, please, rely on the staff and some of the folks who have to make that freight move as you consider this policy.

Again, I thank you very much for the opportunity to be with you here today.

Mr. DEFAZIO. Thank you.

I will turn to Mr. Baird who would like to introduce the next witness.

Mr. BAIRD. I thank the Chairman.

It is indeed a pleasure to introduce Gary Cardwell to the Committee.

Mr. Cardwell has served as Chair of the Oregon Governors Small Business Council. He is a member of the Regional Freight and Goods Movement Task Force that is seeking ways to improve the regional freight system and develop strategies that address the environmental impacts of freight and goods movement.

He has also served on the Pacific Northwest International Trade Association, working to promote international trade throughout the Northwest.

His business, Northwest Container Service, employs close to 100 employees and provides intermodal container transportation services throughout the Pacific Northwest. He has some innovative ideas to share about how we can fund projects.

I, as a fellow Northwesterner, welcome him to the Committee and thank him for his testimony.

Mr. DEFAZIO. I thank the gentleman.

Washington can claim some credit and I would like to claim credit too since his business operates in the State of Oregon.

With that, we would welcome Mr. Cardwell.

Mr. CARDWELL. Thank you, Mr. Chair, and thank you, Congressman Baird, for the introduction.

Northwest Container has been in business for 25 years. We are a short-haul rail provider.

We subcontract with the Class I railroads to hook and haul from our facilities, utilizing our rail cars, to our facilities. It is a model that has worked for 25 years. We rail between the ports of Seattle, Tacoma and Portland.

We average about 70,000 containers a year, which is equivalent to about 100,000 truck trips annually, and 85 percent of those containers are loads. The model we have tried to design—give steamships the opportunity to reload those containers with loads versus trucking them back as an empty.

We all know a trucker is going to drive down with a load. He needs to come back as an empty. Fifty percent of the time an international container is on the highway, it is empty. That is a lot of containers.

Our model is designed to try to give the opportunity to reload those, and we have done that by developing our own infrastructure and our own facilities to do that.

In providing short-haul rail service, we pick that international box up at the port. We truck it at our facility. Rail it down to Portland and then deliver it to the Nikes and the Columbia Sportswear and the Nordstrom clothes and the tire guys. That empty then comes back into our facility and then has the ability to reload with an Oregon export.

Christmas trees are our claim to fame to Hawaii. We move about 500,000 Christmas trees on an annual basis to Hawaii through Matson.

So the idea is to reload those. One of the things is the load-load strategy for us has been very successful.

We believe that there needs to be a combination of smart land use planning as well as new, innovation transportation packages.

One of the problems that we see in the Pacific Northwest is that our importers are in one place and our exporters are in another place. What we are not doing is we are not moving the current new wave of imports into distribution centers where the exporters are. If we could do that, again, that container could then be reloaded with an export. Instead, exporters now have to retrieve empty containers before they can move their product to market, trucking empties all over our highway system.

Central Valley, California is another example. Again, they are not rail served, so they are trucking it. They are trucking it 200 miles inland to unload at an IKEA or a Target or a Wal-Mart.

That empty is then brought back to the port, and the exporter out of that region then drives into the port to get the empty to bring it back in as a load.

It is a very inefficient model. A more appropriate land use model would position distribution centers in a way that minimized load-empty-load container movements.

Within the rail world, a lot of questions have been brought up about open access, allowing shippers on. My belief is the railroads don't have capacity to provide open access. I think that is a strategy that we need to move away from.

Instead, I urge the committee to consider supporting a program designed to connect existing short lines. By connecting the short lines with new rail investments, new freight rail systems can be created. Building a new rail mile is less expensive than a new highway mile. By investing in new rail miles, connecting short lines, shippers could utilize short-haul rail for intrastate, intra-region business.

The Class I's have designed their business model through acquisition and merger for long-haul freight movement from L.A. to Chicago, from Seattle-Portland to Memphis. They are leaving behind a lot of the short-haul intrastate business.

Oregon just happens to be a tweener. We are between California and Seattle/Tacoma. The volume of freight traffic driven through downtown Portland and eventually over our new Columbia River bridge—20 years from now—is staggering and projected to get much worse.

There is a lot that could be done intrastate, intra-region that I think that we could do. As private owners, as short lines, toll us to ride on your rail network to help connect those short lines. So it is a program.

I think we need to start thinking outside the box. There was actually an article in the Journal of Commerce where India has decided to do just that. The private sector will construct their own intermodal facilities, the country will build its rail network and you sign up to have them hook and haul your unit trains from one part of the country to the another.

Here in the U.S., I think we need to look at that intrastate, intra-region that is, at this point, noncompetitive with the Class I's. Let them do the long haul. Assist them in expanding and making that investment into their network.

One example that I wanted to bring up also is the Connect Oregon bill. Connect Oregon was a $100 million bill. There was one two years ago. There was one this year. There were 250 million in applicants last time. There were 250 million in applicants this time.

In Connect Oregon I, $45 million of the $100 million was dedicated to rebuild rail infrastructure. I believe that there will be closer to $65 million that will be used out of that program, again, for rebuilding the existing rail infrastructure. But what is not going in is development of new infrastructure to connect existing short-lines.

The short lines need investment. A Visionary Federal and State program to help connect short-lines, to create those unit trains, to get to the Class I's to haul long haul, is an approach we need to look at.

Thank you.

Mr. DEFAZIO. Thank you.

We now proceed to questions from the Members.

My first question is related to the big picture, and we may have some differences. Mr. Uremovich raised the issue of unintended consequences and concerns about national policy or national planning.

On the other hand, we had a vision that the Federal Government finally delivered beginning in the Eisenhower years of an interconnected national highway system. When we finally accomplished that goal, we didn't put forward a new broad vision, but we began to give more flexibility to the States to accomplish what they saw as their priorities and their needs.

What we lack, I think, is both some level of accountability on how those funds are being spent and how that is applicable to these national problems. So I guess what I would ask members is how do we balance this equation?

I don't think what we are doing currently works well. You are worried about what we might do in the future because of unintended consequences, but there is something, some sort of balance in between. I would first direct it to you and Mr. Mullett or anybody else who wants to respond.

Mr. UREMOVICH. Thank you.

I am simply not competent to provide any counsel regarding the Federal-State relationship issue. I mean that is something clearly that you folks are in a much better position to judge.

Mr. DEFAZIO. Well, then if I could, just to clarify, I believe a lot in decentralizing and working with the States as partners and not dictating. But there is also a national goal here which transcends State borders, and that is the key, at least for some of the funds we are investing.

Mr. UREMOVICH. I certainly agree that an overall view and guidance plan, if you will, is necessary and certainly one that I would be very, very much supportive of, as our company would be.

However, again, I caution that frequently it seems, and I am sure we have all been to an airport recently when we have all seen situations that don't seem to make very much sense just in a pure common sense way in getting on an airplane. I would hate to see a national transportation policy that imposed essentially unworkable kinds of tasks.

Now, to some extent, I speak against the interests of my own company when I do that because we make a living and a pretty good one because this thing is all broken up and somebody needs help putting it together. All right?

So, believe me, I am not opposed at all to coordination or rationalization or those kinds of things. I am just, like most business people, a little bit concerned when you folks come out to help us too much in what we do on a day to day basis.

Mr. DEFAZIO. I share your caution.

Mr. Mullett, do you want to share with us how you would address that?

Mr. MULLETT. My opinion is that while the notion of some kind of Federal command and control system is probably way out of bounds, that is not the same as what I have been talking about, which is leadership and a vision for the system. The Federal Government does have a lot of opportunities through agenda setting, through appropriate measurements and accountability systems, to help impact this.

I would never advocate taking away the important role that States and localities take in the planning process, but somebody has to lead.

One of the things that you have done that is, I think, vitally important is just having these kinds of hearings that focus on the freight system. Freight runs on the same exact system that our commuters, our vacationers, our recreational drivers all operate on. Freight sometimes loses its place among all those other things, and we don't think of it in the way of the vital role that it plays.

I loved your artery analogy and the clogged artery. We all know what happens in our bodies when that happens.

Mr. DEFAZIO. Would anybody else like to comment on this?

Mr. Haas?

Mr. HAAS. An additional point, I think several of us are trying to make is called a holistic approach to our infrastructure, meaning that the highway bill that funds our surface transportation with that mode, the highway transportation.

The railroads are out there making decisions, investment decisions on their own. I am not even sure how we fund port expan-

sion, the Port Authority, and then you have the FAA and the airlines. I think the point we are trying to make here is that what is required here is an approach that integrates all of those modes because that is the way freight moves today.

The model that we are using today to make those decisions, I think, we all agree is a bit outdated.

Mr. DEFAZIO. I think that is a very good point.

We just held a hearing last month in the Rail Subcommittee on the need for investment, and one of the statistics we have before us today would be if rail doesn't invest sufficiently to meet new demands, that we are going to see 31 billion more vehicle miles in 2035.

But the trick there is how do we work with, partner with?

My State has done some innovative things with the railroads. Anyway, we are trying to work with them and figure out how we get them to make the needed investments, and then we have the new hedge funds buying into railroads and demanding that the railroads not make capital investments. So I mean we have some interesting problems.

Mr. Cardwell, I am just curious, and I would love to see the article if you would provide it to the Committee. It seems like India has figured out a way to perhaps deal with some of that issue in terms of dealing with the Class I railroads, do you think?

Mr. CARDWELL. Well, actually, they had a Class I railroad and they took it over, and they decided to make it their own. What they did is they had 19 to 20 people signed up to utilize their hook and haul, that all agreed to build connecting facilities to that so that you could deal with the ports and the inland movement and the outlet movement, especially for the exports of freight.

Again, it is an approach that is more regional in the United States than national would be my vision.

In Portland alone, there is only a couple of miles between the corp and the Portland Western. That could get you from K-Falls all the way up to Portland. There is probably 10 more miles from Portland into Rivergate. In the Rivergate area north of Portland is 100 percent of the international boxes.

However, none of those have the ability to get to Eugene, to Albany, to K-Falls because that is not a connecting service to the short lines. It is also not a service that the Class I railroads want to do. It is not unit train business. It is smaller business.

So we are talking Lowe's, for instance, that moved into Lebanon, they were going to have three days a week at 250 containers come in. Unfortunately, due to the economy and the housing market, they are down to about 50 to 100.

We were looking at moving trains from 30 to 50 containers a week for them. Then those empties would be reloaded down in Eugene with the hay-straw agricultural product and then brought back up to Oregon, freeing up capacity through downtown.

So the land is available. The exports are available. The Lowe's model is a regional distribution model where within 100 miles, the distribution centers feed stores within 100 miles of all their distribution centers.

Mr. DEFAZIO. Right, and that might add another element to what a national plan would consider, which would be avoided cost. What

would it cost for another lane mile if we need to accommodate the trucks to carry that freight or could somehow we get the Federal Government to partner with or somehow work, through inducement or otherwise, with rail to provide that capacity there.

I think it is a very interesting problem, one I would hope people would address, although I thought at the outset that you were kind of recommending nationalization of railroads. I know you are having some frustrations, but I have only had one other person recommend that to me, who was one of the most conservative people in my district who owned a lumber mill after the merger of UP and SP.

He waxed poetic. He said, couldn't we go back to the way it was in World War II?

I said, well, I wasn't around in that era.

He said, oh, the government did a great job running the railroads.

I pointed out that is socialism, but he was so frustrated with his inability to get the railroad to move his goods.

So I think there is an appropriate role here for the government. Something that is in the interest of many of these individual firms may not serve the national interest, and we may need to somehow induce them to better serve the national interest.

Mr. UREMOVICH. You might, Mr. Chairman, find a closer example of this kind of thing if you examine what some of the ports are doing in the U.S. Southeast in some of the regional planning and regional transportation activities that are going on down there. I don't believe they are connecting rail networks at that particular point, but it is a very clear example of folks recognizing that individual locales are no longer in a position to do some of the things that are required to be done.

Mr. DEFAZIO. Okay. Thank you. I thank the panel.

Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman.

Good to have you all with us, gentlemen.

Mr. Haas, it is distressing to learn or to hear that congestion may be costing UPS up to $100 million a year. Are there strategies that UPS uses to hopefully reduce the impact of this congestion and the cost associated with it?

Mr. HAAS. Yes, we have several.

One is the computerized routing that we use to minimize the number of miles traveled. There has been an awful lot of press lately about the fact that UPS routes its drivers to only make right-hand turns. I had a discussion about it last night as a matter of fact.

I know everybody smiles when we say that, but the fact of the matter is if you think about sitting at an intersection with a stoplight, in most places, you can take a right-hand turn immediately rather than sitting there, waiting and burning fuel. It saves us a lot of time and fuel as well.

On the tractor-trailer side, we measure the number of minutes that our tractor-trailer drivers sit idling every day. I get a report every morning that tells me how many minutes we spend with the motor running and the wheels not turning. We, obviously, take a

look at that and decide which corridors are causing us the most fuel burn unnecessarily and reroute where possible.

But, by definition, keep in mind that those major arteries, and I will go back to Chicago because I am most familiar with that. If we have construction on the Dan Ryan, for example, and we have to reroute around that, the definition of those ulterior routes are not as efficient by design as the original one.

So, yes, we have electronics to help us with it, but there is no solution, long term, for what we are here to talk about today.

Mr. COBLE. Thank you, Mr. Haas.

Mr. Mullett, in your written testimony, you state that we can no longer afford to spend limited Federal resources on projects that do not meet the most important national needs. Are there specific Federal programs that exist today that you feel should be eliminated because they do not serve national needs?

Mr. MULLETT. No, sir, there are no programs that I think need to be eliminated. Rather, I would say we need to concentrate in the freight world on things like corridors of national significance and do a better job, I think, of analyzing from a national perspective where those dollars can be invested that have the most impact on making the system efficient and effective.

Mr. COBLE. I got you.

Mr. Haas, let me come back to you for a second question. In your written testimony, you state that the Country needs a coordinated approach that breaks down the traditional barriers between different modes of transportation similar, probably, to Congressman Mica's concept of a National Transportation Strategic Plan.

Do you feel, Mr. Haas, that some in the transportation community would resist removing these modal barrier because of fear of perhaps losing market share or dedicated Federal funding?

Mr. HAAS. I believe initially that may be the case in some places, but as an example I will go back to the Class I railroad situation for just a second, not to say that regional issues are not important, but if we can use the Class I model as it stands today. Their investment, although it has been fairly healthy in the last few years, is not keeping up. Someone mentioned 2005-2006 years were a nightmare from a railroad perspective.

I don't know if you brought this up when you were talking to the railroads, Mr. Chairman, a couple days ago, but one example would be a trust fund established for the Class I railroads similar to what we have for the highways.

To your point, I do think they resist that, at least initially, but I think if done correctly it would not only provide the necessary funding, which on occasion they will say they don't have, but direct it in ways which will increase the fluidity and the speed of those railroads.

Mr. COBLE. Mr. Chairman, this has been an informative hearing, I think, and again thank you all for being here.

I have to go to another meeting imminently. Did anyone else want to weigh in on the question I put to Mr. Haas before I conclude?

Mr. UREMOVICH. The only thing that I might add there is that the modal boundaries are probably more strongly drawn here in

Washington these days than they are drawn in the private community.

As Mr. Haas pointed out, all of us work on all the modes all the time, so we are very familiar with them. I am not so sure that that is the case when you talk about the various Federal railroad bureaucracies and air bureaucracies and port bureaucracies here in Washington.

Mr. COBLE. I want my friend from Oregon to take note that I am yielding back before the red light illuminates.

Mr. DEFAZIO. You get credit for next time, Howard. That is incredible, especially since you are not known to talk real fast.

Mr. COBLE. Thank you, Mr. Chairman.

Mr. DEFAZIO. Thank you. Good questions.

I will recognize Members on the Democratic side in the order in which they appeared for questions, and Mr. Sires would be first.

Mr. SIRES. Thank you, Mr. Chairman.

The district I represent includes the North Port and the Elizabeth Port. One of the things that over the weekend I did was with the Army Corps of Engineers, watched the dredging that is going on.

As you talked, it just frightens me because I see the Panama Canal being widened. They are building these super tankers. They are putting these cranes on these ports that can lift two boxes at a time. If you can see, there is no white up there. Everything is red.

We have a huge UPS hub in Secaucus, New Jersey, which already clogs up the highways, but skip it. We get a lot of jobs there.

Mr. HAAS. I am glad you see the tradeoff.

Mr. SIRES. I worked there as a college student.

I mean where are we headed with these super tankers?

Even the Newark Bay Bridge in New Jersey, they are talking about raising it because these super tankers can't make it through there. Are we preparing? Are you prepared to handle all this freight that is coming in?

The area already is so congested. Let's face it, most of the rail lines over the years have been paved over. I am frightened to death of what you are talking about here. I mean how are we going to deal with some of this?

Nobody seems to be focusing on when all this freight is coming in. They are talking a few years, and I know the port grows sometimes 10 percent a year, of the freight that comes in.

Anybody?

Mr. UREMOVICH. Certainly in these cases, there are not going to be any easy answers, and there are going to be some very, very difficult choices and tradeoffs to be made. As Mr. Mullett pointed out, you have a whole series of competing, not just economic but social, questions regarding these kinds of solutions.

Certainly, I would not offer any silver bullet, if you will, because I don't know if there is one. There won't be easy choices or easy solutions, only intelligent choices.

Mr. HAAS. I think it starts with elevating the issue, and I think that is what this Committee, and I commend you for doing it. I think it has to be a national dialogue. Up until this point, at least

outside of Washington, it doesn't appear that that is the case from, like I said earlier, a holistic point of view.

Then, secondly, I will go back to this comprehensive strategy again. You are absolutely correct. If we don't take a look at the entire intermodal network, a lot of it is going to be forced onto those arteries.

I keep looking at them. I like that picture too. I keep looking at those red arteries, particularly in the area of the Country that you come from. It will only get worse unless we take a look at it from a comprehensive strategic standpoint.

Mr. CARDWELL. I will add, the statistics say the United States needs to add 1.5 million TEUs of port capacity a year to keep up with imports.

The drawing up there, three years ago in 2005, to 2015, freight, container freight will double. It doesn't say that, but that is what is going to go on by 2015.

The next bill is an extremely important bill to think outside the box because it will be out in 2009 and go to 2015. So thinking multimodal, thinking ocean and thinking rail in how we can help ourselves is going to be a big part of that transportation bill.

Mr. SIRES. I only spoke about the New Jersey side. I didn't even mention the New York side, what is going on, all the growth on the New York side.

Any silver bullets? No? All right.

Thank you very much, Mr. Chairman.

Mr. DEFAZIO. Thank you.

I would now turn to Mrs. Drake who was first on the Republican side.

Mrs. DRAKE. Thank you, Mr. Chairman.

Gentlemen, thank you all for being here.

I represent the Port of Virginia. So it is fascinating for me to hear your testimony today.

I think everyone in America knows the number one issue in Virginia is transportation and the problems that we have had trying to address our transportation needs. My big concern in our district is how do you grow that port and meet the needs that you are talking about if the transportation system doesn't support that?

We are going to be the start of the Heartland Corridor in Portsmouth, Virginia. We are very, very proud of that. We are talking about a pilot program to barge containers between our ports which certainly would get trucks off the road.

I want to start with Mr. Cardwell because you talked about something near and dear to our hearts, and that is the containers and these empty containers. I wasn't aware, and I don't think America is either, that probably 50 percent of those trucks you are looking at on the highway are carrying empty containers. So one of my questions is: Is there work being done right now on how to get around this issue?

Is there some way that those containers could be shared between companies, almost like a lease system where you don't ship them back empty? They sit somewhere until they are filled and come back because my understanding is there is a very narrow window of time before they have to be sent back to where they originated. Maybe that is something.

But is somebody looking at that issue?

Mr. CARDWELL. I am not sure.

I think, again, the issue is more smart land use planning, putting imports where exports are. No one wants to move an empty, railroads, truckers. It doesn't pay to move an empty.

So what we need to do is develop a better system where the importers are where the exporters are. They get immediately reloaded and back.

In order to grow the ports to where they are going to be, there is a lot of talk of inland intermodal centers. So, again, you are railing 150 miles into an area where the exporters are. That container is unloaded. It is loaded and brought back.

The ports do not have the capacity in the future to store empties. So the whole idea of future inland intermodal centers is to rail off the port, out with loads, to get reloaded and then rail those loads back onto the port and immediately put on the ship and out.

You can't build enough land. If you look at the ports today in L.A., Long Beach, New Jersey, Oakland, California, it is going to have to be the model. They can't continue to handle the empty volume that they do and be able to handle the future growth that is needed by this Country.

Mr. UREMOVICH. With due respect to Mr. Cardwell, I will tell you unequivocally that half the movements in this Country in containers are not empty. All right. They are simply not.

If you look at the empty miles statistics, I am sure from UPS or certainly from my company, our boxes are under load at least 80 percent of the time. All right.

I happen to live in Virginia Beach, so I see that all the time. There are some empty movements, but we would not be in business, and I would argue that no transportation company around would be in business if we were moving half the time, empty.

Mr. HAAS. Yes, I would agree with that. We do, on a small scale, have some partnerships. It is a relatively recent effort on our part to eliminate empty movements.

But as an example, if we have an imbalance of loaded trailers on the highway network, going east to west, and the railroads have the exact opposite, we partner with them so that our empties are used. We use their containers on a chassis on the highway, and they use them coming back in the other direction.

Mr. CARDWELL. Maybe I should clarify that. Intrastate, intra-region, the majority of those, 50 percent of those containers are going to be empty. Cross-country, long-haul, I think they are correct. I think a majority of those are loaded.

Mrs. DRAKE. That is a concern because of the number of trucks on the road.

But, Mr. Mullett, just real quick because I am running out of time, I think everyone agrees we are under-investing in our transportation system across the board, and we talk a lot about public-private partnerships. We talk about tolling, congestion pricing. Are there any other things you would suggest for us to have in that?

Certainly, in Virginia, we are trying to work on that issue.

Mr. MULLETT. Yes. I don't think there are any additional ones that have not been tabled. If you are looking for something that no one has thought about, I don't believe that that is the case.

What I do believe is very, very important is that we look at this full range of things as tools that are in out tool box that we can use and don't get caught up in this one absolutely is the end game or this one is absolutely the end game.

I do think that we have under-invested in our infrastructure. I think reasonable fuel tax increases are probably appropriate. I also think there is sixty to eighty billion dollars of private equity money sitting out there and funds that want to invest in our infrastructure and if we can put a proper framework in to allow that to happen, that that can probably happen.

Now that is not to say that every public-private partnership is good. There need to be constraints and frameworks around those, but we have a lot of different mechanisms that we can look at. If we are not willing to look at them all and consider them all, I don't think we will ever reach the level of investment that we need to have to really make a difference to meet the future needs.

Mrs. DRAKE. Thank you, Mr. Chairman. I yield back.

Mr. DEFAZIO. I thank the gentlelady.

Next would be Mrs. Napolitano.

Mrs. NAPOLITANO. Thank you, Mr. Chairman, and thank you for holding this hearing.

I have a great interest in highway movement. I worked for Ford Motor Company in transportation for 12 years and have a great interest in goods movement as well as public safety on the highways and increasing the support for expanding freeways and highways to be able to accommodate not only truck traffic but also people going to work, et cetera.

Several things come to mind as I am looking at that map on the wall. Any of you do nighttime deliveries?

Are you even considering looking at what is being proposed with maglev to be able to utilize it to be able to move big containers through Maglev?

Those are ideas that are being floated around here in Congress and also discussed especially at the L.A. Port. Long Beach and Los Angeles, recently, they are looking at establishing in three phases maglev container movements. While it sounds great, they are asking for Federal funding and, of course, the public to pay for a lot of the transit improvements.

I feel that the railroads have to great partners in this, and so I would like some of your opinions on this.

Mr. UREMOVICH. I can't speak to the maglev at all, but I do know that in your area during the 2005-2006 crunch, one of the benefits, if you will, coming out of that was that a number of our customers, particularly in the Inland Empire and down in the Long Beach area, were willing to shift to night receipt.

For years, many of our customers were unwilling to do that because it does raise their costs. Night work typically pays different than day work. So that is becoming increasingly common. It is not yet the norm.

Mrs. NAPOLITANO. Well, during the Olympics in Los Angeles, back when Mayor Bradley was in office, Ford went to nighttime delivery with a lot of other folks, and they found it really created a lot of solutions because you didn't have the pollution, you didn't have the traffic, you didn't have congestion on the highways. All

they needed was to be able to set aside a special area where the driver had keys to make the delivery to. That worked. In fact, they are still doing it.

So there are other benefits from something of that nature, and I was just wondering if any of you have gone to that.

Mr. HAAS. Not necessarily what you are speaking to but necessarily because of the way our network works, a good chunk, I want to say the majority of our tractor-trailer movements, not the ultimate delivery to your home but the tractor-trailer movements that we have in our movements occur at night, but it is just by design. It is the way our network works. We didn't do that to help relieve congestion during the day.

Mr. MULLETT. I can't speak about the Maglev situation, but I can tell you that a researcher named Jose Vargas at Rensselaer Polytech has done a good bit work in this notion of delivering at night in New York and what that might ultimately mean.

I think that his research shows that depending on the type of deliveries that are being made, there is good applicability to that but that when you get into can you get everybody to take their delivery at night or does it create two different deliveries in the same area, one during the day and one at night, and he also did a lot of work on what does it really mean in terms of energy consumption and energy use for keeping all these places open in the evening.

I think that the research indicated, at best, that it was very questionable about whether that was a good policy from that point of view for everything.

Now, are there specific instances that it makes a whole lot of sense? Yes, and in the commercial markets we are seeing an awful lot of people are taking advantage of that when they can.

Mrs. NAPOLITANO. Do you have any suggestions then to add, alternatives ways to add highway capacity?

I know we have to have investment to be able to, Federal investment as well as State investment to be able to do the upgrades or widening of roads. But consider, in some areas, you have an eminent domain, so that is out of the question. Would you then look at planning on a second level, elevated?

Mr. UREMOVICH. I have no idea.

Mr. MULLETT. I am not an engineer, so I can't make. I know that that has been looked at different places, and it has been tried at different places

Mrs. NAPOLITANO. Well, that would add capacity.

Mr. MULLETT. Right, and I also think there are some other public policy things that are really hard decisions to make, but I think we have the ability now to do some good research in connectivity between modes and are there ways that we can do some modal shifting.

There is also, I think, the opportunities now to do some research in looking at truck productivity and how do we handle that. We are building some constraints at our ports and our borders that have to do with security protocols and things like that.

So that, while I think that physical infrastructure is definitely something that needs to be looked at and has to happen, there are other short-term public policy decisions that we can probably look at that might have some small but more immediate impacts.

Mrs. NAPOLITANO. Thank you, Mr. Chair.

Mr. HAAS. I am not an engineer.

Mrs. NAPOLITANO. I am sorry. Go ahead.

Mr. HAAS. I am not an engineer either, but I do believe that anything we set our sights on is possible. It usually comes down to funding, and it may surprise some people in the room that my company is not opposed to increases in the fuel gas tax, provided with the caveat, of course, that it is directed and we know that it is directed and there is accountability to its direction to increase these highways and the byways that we use.

If that includes double-stacking highways on top of one another, I am sure that is possible, but it requires an awful lot of money. We understand that. We are not opposed to it as long as it funded to the proper place.

Mrs. NAPOLITANO. Thank you, Mr. Chair.

Mr. DEFAZIO. I thank the gentlewoman for her questions.

I would now turn to Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

Thank you, gentlemen, for being here and part of this discussion this morning.

The interstate system has certainly been a big concern of mine. I know we haven't really made any improvements since 1954, thereabouts, except maybe add additional lanes. I was just wondering if you all could give me some input.

My thought would be, as we look at the reauthorization bill, that we take a look at freight movement, traffic movement and maybe try to find alternative routes rather than to just keep expanding the original routes which we really haven't done much about that since the original in 1954, looking at maybe Interstate 2 or some aspect of that.

You know we have the decision we are going to making pretty soon when the Panama Canal is completed, and a lot of that freight that is stopping over in Los Angeles and over on the West Coast is going to be coming through the canal and coming up to the East Coast, and the movement is going to be going in a different direction.

Just for general discussion, how do you think, as we propose the next reauthorization, that we should address the interstate system.

We will start with Mr. Mullett. That would be good. Thank you.

Mr. MULLETT. This is a very, very difficult question because, as you know, it involves an awful lot of planning and analysis of freight flows, future demographic changes in the Country. If you are going to put a brand new road in or add additional corridors in different areas, those things have to be taken into consideration.

I subscribe to the field of dreams theory of road building, which is build it and they will come. It is because of the hydraulic nature of the freight system. If it bumps up against a capacity constraint some place, it is going to find an alternative route, whether it is an alternative mode or an alternative road, and we are seeing those things happen now.

So I definitely think that that thought process has merit, and I know there is research underway about those long-term capacity flows, long-term demographic changes that might help shed some light on that kind of planning.

Mr. BROWN. Mr. Haas?

Mr. HAAS. Keeping in mind, as I mentioned before, this integrated approach because, to Mr. Mullett's point, if freight is an example, and I didn't come here to beat up the railroads. I know it sounds like I am.

If freight on a railroad is bumping up against capacity issues, it is going to go on a highway, no different than the highway flows. If we run into one of those arteries up there that is severely over capacity, we are going to find another way to do it. If that is going back to the rail, now you are bumping up against the same issue.

So, like I said before, I think the biggest piece of this discussion should be centered around the way to look at all of those modes at the same time. I think that is a better approach to take.

Mr. BROWN. I know you are certainly tracking your lost time by congestion on the highways, and it is interesting to see the movement on that. Are you seeing a sizeable increase?

Mr. HAAS. The best comparison I am prepared to give you, and this may not answer your question but I think it will, is our network in the Oklahoma area. I think most folks know that there is not a whole lot of congestion, and your map shows that, in Oklahoma. Our tractor-trailer drivers spend on average, in their 10-hour day, 21 minutes idling.

In the New York and New Jersey area, we have an hour and nine minutes. Same fundamental activity, putting those tractor-trailer units together which requires some running of the engine to build up the air pressure, but the vast majority of that difference between 21 minutes and an hour and 9 is sitting in traffic, not moving, with the engine running.

Mr. BROWN. So that is costing you about 10 percent of overhead, maybe even more, just sitting in traffic.

Mr. HAAS. Correct, in that area, yes.

Mr. BROWN. Right.

Mr. Cardwell, in relation to the question I asked about the Panama Canal, do you have any advice for the eastern seaboard ports versus what is going to happen, I guess, when the Panama Canal comes with your experience on the West Coast?

Mr. CARDWELL. My understanding is there is going to be a lot more freight going shipped from Asia directly to the East Coast versus stopping on the West Coast and going over, but at the same time you have the Port of Houston is expanding and growing. The Panama Canal is certainly going to give the ability to bring larger ships through, and they are going to, in turn, get paid to do that.

So, again, there is going to be a lot more capacity that is going to be coming into New York and New Jersey as well as the West Coast. Again, we have to find a way of making, generating 1.5 million TEUs of capacity a year, and that may be one way of doing it because it is not all going to continue to go to L.A. and Long Beach.

They have talked about how Seattle and Tacoma. Tacoma wants to grow from 2 million TEUs to 10 million TEUs. Seattle wants to go from two to four. However, there isn't the rail capacity to deal with half of that growth. So it is going to eventually either there will be new ports crop up or they will find other ways of getting

to where they need to go, which is typically where the consumption is.

I will just add one more thing. If we are going to think outside the box as far as new routes and new highways, again, a new rail mile is less expensive than a new highway mile. I think we need to think about the whole package of water, rail and highway.

Mr. BROWN. I think with the reauthorization of the new highway bill, I think that is going to be the total, also including air as part of that formula too.

Thank you very much, gentlemen.

Mr. DEFAZIO. I thank the gentleman.

On the Democratic side, we now turn to Mr. Lipinski.

Mr. LIPINSKI. Thank you, Mr. Chairman. I would like to thank you for holding this hearing today.

It is really good to hear from out witnesses and thank you for your testimony. This is a really critical although, unfortunately, overlooked aspect of our economy and how important it is to our Country.

Thank you for your testimony on this and really talking about having a greater investment and smarter investment in our transportation infrastructure.

In particular, I would like to recognize Mr. Haas who is the Vice President of Transportation at the UPS facility in my district in Hodgkins. I will be going past there at least four times the next couple days.

I think that it is no coincidence here that after the Chairman's questions on the Democratic side, we had a Representative from the New York-New Jersey area and a Representative from California. Well, now it is time for one of the other hubs that is really seeing issues with congestion in Chicago.

I would like to ask Mr. Haas, where do you think we should be looking in terms of investing in transportation infrastructure in the Chicago area?

It is very important for certainly my district and the people who live in the Chicago area to improve the situation with the congestion, but it is also critical for the Country, Chicago being the hub for rail, roads and also aviation although that is not included in here.

I really think we have a great opportunity with Chairman DeFazio's leadership and Chairman Oberstar's leadership on the next highway bill to really do something significant.

Mr. Haas, what do you think is most important to invest in, in the Chicago area?

Mr. HAAS. Okay, two things really, Congressman, on the rail side.

The scenario that I painted earlier this morning when the westbound train is leaving to Chicago, what typically happens, and I know you have seen this, is that the Chicago-land area is such a thoroughfare for railroads in general, that when one of those railroads has an issue—it could be 200, 300 miles from Chicago—there is not enough capacity in that network so that it starts to back up.

When one is late, there is another behind it. There is another behind that. They all converge on the City of Chicago, and everything comes to a grinding halt.

You have sat at the crossroads just like I have and waited forever for these freight trains to come through there. That just sends a ripple effect that I have to believe that everyone else in Chicago who uses the railroads feel the same impact.

Everything in my system backs up. A lot of it is timed and scheduled to take advantage of off times during the day for highways. When that scheduled gets thrown off, it just throws fuel on the fire, for lack of a better term.

So, initially, I think this highway infrastructure improvement issue to be addressed. I mentioned earlier the possibility of a trust fund for the railroads. My intuition is they are not entirely in favor of that at this point, but done correctly, I think it is the right thing to do.

Then from a highway standpoint, again, you and I travel back and forth on the same highways and byways, I am sure, during the rush hour in Chicago.

I don't think it is any different from the major hubs of activity you see up there, but an investment in the Chicago-land area that is a public-private partnership—and I know that you are thinking of a project right now that is very familiar to you called CREATE—would be a nice, efficient way of using a combination of public policy and private investment. I know that is not fully funded, it may never be, but in my opinion that is the right path to take.

Mr. LIPINSKI. We are talking about CREATE. What about anything in terms of highway projects that you think would be helpful in the area to ease the congestion? Is there anything particular?

Mr. HAAS. Specific routes, you mean?

Mr. LIPINSKI. Yes.

Mr. HAAS. Well, I think what is going on, and this is not going to mean much to the rest of the people in the room, but I think what is going on I-88 right now. As you know, all the growth from Chicago is going west and northwest. So that artery from downtown the western suburbs, there are current expansion plans or current expansion going on there right now.

I got to believe that the other artery that is going to cause us bigger issues going forward than we recognize right now is 290 going up to the northwest, if you are looking for specific arteries.

Mr. LIPINSKI. Certainly, any congestion that is going on in Chicago area has the impact with all the traffic that comes through, has an impact on freight movement through the entire Country. So I think all those are important.

As I said earlier, I think it is a great opportunity that we have in this next transportation bill to very smartly invest in transportation and to really have a national plan in terms of a vision of what we should be doing to help move freight through the Country.

I thank all the witnesses for their testimony.

Mr. DEFAZIO. Okay, thank you.

All right, we would now turn to Mr. Arcuri.

Mr. ARCURI. Thank you, Mr. Chairman, for convening this hearing and, gentlemen, thank you very much. I found your comments very informative. It has been a real learning experience for me, and I appreciate your input here and your testimony.

A couple of points that I would like to ask you about: We talk a lot around here about globalization, and we talk about how effec-

tive it is in terms of bringing cheaply made products into this Country from other places, places like China.

Listening to you, it certainly strikes me as the fact that while we may be getting our widgets pretty cheaply from China, the cost is dramatically rising of getting those widgets to the consumers, the John Q Public in America. Eventually, the cost of getting them, if we don't do something, from where they are made in China to the people is going to be higher than the actual cost of production and eventually make it probably be what many of us would like to see and that is promote domestic production of some of these things.

Do any of you have a comment on that?

Mr. UREMOVICH. Perhaps Mr. Mullett from TRB can address this as well, but I think if you look at the numbers over the last, let's say, 10 or 20-year period of time, you will find that the transportation or logistics component of total cost has come down dramatically. As a result of increasing productivity in the freight business itself as well as the removal of some regulatory barriers and things like that, I think it has actually come down.

Now that doesn't speak to the most recent, let's say, last year spike in fuel prices which may change things rather dramatically in the longer term where that is concerned.

Perhaps Mr. Mullett has something.

Mr. MULLETT. I can't answer about the globalization notion, though I think that if you look back over time that as transportation got faster and more efficient and we kept less inventory, we were able to source things and use markets that were international and truly international.

Your comments are right, that freight transportation and logistics have continued to drop as a percentage of GDP and goods sold until the last couple years. Most of that trend started to change pre the spike in fuel and oil prices. So that is, in large part I think, attributable to congestion and lack of capacity that puts strain on the system.

When we get this shifting back and forth between is it in inventory or is it in movement and just in time, it becomes very, very scary to people that are involved in purchasing internationally because those lengthened supply chains have more risk.

Now is that risk enough to cause them to start moving things back to the United States, back to North America from where they have been purchasing and selling now? I don't know, but I do anticipate that those kinds of shifts will continue to take place over time. I don't know that there are any models that accurately predict how that would happen or how we might be able to influence that.

Mr. ARCURI. Thank you.

Those comments, I think, bring me to the point that I think is the most important point, the question that I have. That is that I am looking at some of the background from the hearing, and I am looking at Hudson Institute projection that was made that showed the annual growth from 2000 to 2020. It shows that air freight will probably increase by 4 percent—this is their prediction anyway—trucking, 2.5 percent; rail, 2 percent; and barge, 0.7 percent.

Now what I find interesting about that is that the two that are going to increase the most are probably the two most dependent

upon fuel prices. As the fuel prices continue to go up, where do these projections sit?

We try to make decisions here in this Committee as to where to focus our limited resources. If we are focusing our resources in a place that projections are saying are going to increase, like let's say on the roads, but gas goes up so dramatically that it may not be the most effective and efficient way to do it. So what we need is input.

Fuel prices probably aren't going to go down. I mean we may see some fluctuations. We are certainly hopeful about it, but that may not happen. So what we need, I think, is some help from people you and your business to tell us where do you anticipate the future being in terms of moving your products.

I mean that is the big question. That is what we are trying to determine. With limited amount of resources, where do we put it? Do we put it in fixing our roads, do we put it in improving our airports or do we put it in improving the rail?

I don't mean to put you on the spot, but therein I think is the real conundrum for us in terms of where do we focus our resources. Do any of you have any thoughts on that?

Mr. UREMOVICH. I can't speak specifically to the Hudson study because I am not familiar with the numbers and whether they are talking ton miles or dollars or how they took it.

The freight business, generally speaking, moves relatively slowly in its changes in modes. The last big shift was the shift to containerization and domestic containerization in the late sixties, seventies and early eighties. I think that was the last major big shift.

So I don't know whether. I don't see anything from our perspective that would significantly alter the kinds of growth patterns in spite of the fuel situation, at least insofar as it exists today. I mean if it doubled or tripled from where it is today, everything obviously would be out the window.

I don't see anything that is going to cause a massive modal disruption that would be inconsistent perhaps with what the folks at the Hudson Institute or elsewhere.

Mr. ARCURI. But I mean if the gas prices continue to rise, the ability to bring in cheap products from places like China is definitely going to affect, I think, demand.

Mr. UREMOVICH. Perhaps, it might. It would most likely first affect modal shift. It would probably move more traffic toward the intermodal system because that is roughly three times as efficient from a fuel perspective as over-the-road truck.

That doesn't work very well where you are in short-haul lanes, all right, the last 100 miles, your last 200 miles, 300 miles. It is much more difficult.

Again, there are a whole bunch of tradeoffs here, and my crystal ball is certainly not clear enough to describe where that is going to come out.

Mr. CARDWELL. I was watching the Business Channel this morning, and actually they were talking about the food shortage and the cost of food. Actually, over the last six months, the transportation of food has gone from 5 to 10 percent of the cost of producing the food.

To answer your question, I think we need to invest in all the modes. Again, there isn't one fix to have just a highway package or just a rail. I think it is a combination of all of them that are going to get us out of this.

It is just going to continue to grow, and it is just going to continue to get bigger. There is no one magic button to say let's invest 300. California has a $2 billion bond package that is coming out, and the majority of that is going into multimodal transportation.

I just think we need to think more about multimodal. The railroads are great for the long haul, but that last 100 miles becomes extremely difficult. What are we going to do within that last 100 miles? What are we going to do intrastate to help out?

Mr. HAAS. Congressman, can I answer?

Mr. ARCURI. Yes. Go ahead.

Mr. HAAS. I think I understand the depth of your question. We are struggling with it a little bit up here as you can tell.

I think whether the product is made in Southeast Asia or, based on rising fuel costs, it comes back to the Southeast United States, if we want this economy to continue to be the robust world leader that we expect it to be, those goods have to move to the end consumer, to your point about the last 100 miles.

No matter what the shifts are in the economics in this global economy that we live in, this Nation has to have a transportation infrastructure that moves it no matter where it is made. That is really what we have been talking about all day.

I am not trying to dismiss your point.

Mr. ARCURI. No, no. I understand.

If I may, thank you, Mr. Chairman?

You mentioned earlier you hope that we here in Congress don't do things that hurt you, that we sort of give you the room to expand. Well, we have to look into our crystal ball, and we have to make determinations because there is a limited amount of resources that we have to apply, and we have to decide in which way to apply them best.

So, please understand, I am not trying to be difficult, but I am trying to get some input from you as to what ways you believe would be the best for us to focus the limited resources, your tax dollars, that we have to apply to improve, so we can get the goods cheaply.

Thank you, Mr. Chairman. I appreciate your indulgence.

Mr. DEFAZIO. That was a good line of questioning.

I would just observe, $2 billion for the eighth largest economy in the world, which is what California is, is a pathetic amount of money, just as the amount of money we are investing nationally is pathetic.

When I took the Subcommittee to Europe, I think one of the most telling statistics, and it doesn't go to the particular issue before us today, but it is very telling. One second tier city in Europe, Barcelona, is investing almost as much money in one subway line than the entire United States of America is investing Federally in transit. Now that is kind of pathetic.

So we are heading toward third world infrastructure which is something new. Formerly first world infrastructure quickly fell to

the bottom of the heap with the levels of investment we are putting in nationally.

Two billion dollars may sound like a lot of money, but in the California economy, it is nothing. Better than nothing, I guess, but not much.

Ms. Hirono.

Ms. HIRONO. Thank you, Mr. Chairman.

I hear all of you saying that what we should be focusing on is really an intermodal transportation system nationally. I think with the jurisdictional scope of this Committee as well as the full Committee, I hope that our decisions will be informed by that kind of perspective.

I was particularly interested, Mr. Haas, in Mr. Eskew's Getting America Moving Again article as we were talking about how best to move freight as well as, in my view, passengers. I was interested in item five which says that we should use technology to make more efficient use of what we already have, and I am wondering.

For example, in Hawaii, we have gridlock on every island but particularly on Oahu, and it occurs to me that we should be using technology to keep traffic moving.

I am wondering, do you have any information as to how well the States and localities are doing at implementing these kinds of technologies at least to keep things moving on what we have now, our highway system now?

Mr. HAAS. I think with respect to point number five, I believe it was, Mike makes two points in that article. One is that there are systems out there to monitor traffic electronically. If we had this loop technology embedded in our highways, we could predict ahead of time where the traffic congestion is and give commuters and businesses like ours, options to bypass that traffic before we get into it.

With respect to your question about how we are doing with that, I am not aware that we are doing very well at all. That is just a concept that we know works, that is out there but not being used on any large scale that I am aware of.

The second point he makes is wrapping goods with technology, meaning that this lean supply chain that we have talked about a couple of times is enhanced by making sure that the goods that are moving are wrapped in technology, so you can make decisions on the fly.

One of the benefits of that is to keep it moving at all times, so you are not warehousing product, meaning that I move product from Point A to a warehouse, warehouse to Point B. I go from Point A to Point B, and it takes congestion off our highway systems, one movement instead of two.

Ms. HIRONO. I think it is really important where the technology is already there that we do everything we can to encourage the local and State Governments to utilize those technologies.

Then I was also looking at number eight, increase modal capacities, and what leaped out at me was the statement regarding making capacity, increasing capacity. He gives an example of Asian ports handle 18,500 containers annually per acre a facility whereas our ports only average just 3,900 containers. What the major reasons for this kind of a difference in terms of handling capacity?

Anybody?

Mr. UREMOVICH. In one of my prior lives, I was Vice President of American President Lines in California, and we saw exactly the same kind of productivity differences. A lot of it had to do with they work the ports 24 hours a day, 7 days a week in Asia. They have work rules for a whole variety of reasons that make it more efficient in terms of a throughput basis, and that has not changed.

As you probably know, we are in the midst now and have just begun the negotiations of the West Coast labor agreements with the ILWU. So that has started.

But a lot of it had to do with structural barriers around the labor rules and working, the speed with which the folks worked on the docks, fundamentally.

There was not a technological difference, though some of those ports are smaller. So they tend to have greater throughputs per acre just because that is the way the arithmetic works, and ours tend to be spread out a little more and be wheeled operations as opposed to grounded operations, primarily.

Ms. HIRONO. If you are saying that most of this is due to labor issues?

Mr. UREMOVICH. There are a variety of issues. Among some of them are the way the ports are designed because, as I described, in the U.S., many of the ports are wheeled operations as opposed to grounded operations. So you tend to use land less efficiently, but you use other things more efficiently. That is not the only measure of throughput in a terminal.

Secondly, yes, there were significant differences in the way the work rules are structured.

Ms. HIRONO. I don't want anyone to get the impression that hard-fought labor gains are what we are going to look at to make our ports more efficient.

I think that is all the questions I have for now. This has been a really informative hearing, and I thank all of you very much for your testimony. I yield back.

Mr. DEFAZIO. I thank the gentlelady.

Unless Members have further questions or there is something that someone on the panel feels was said that they really want to enumerate further, if not, then I will thank you for your time and your testimony. When you come up with a grand idea on how we put this all together, I would be happy to take credit for it and insert it in the next bill.

[Laughter.]

Mr. DEFAZIO. Thank you very much.

The Committee stands adjourned.

[Whereupon, at 12:40 p.m., the Subcommittee was adjourned.]

Subcommittee on Highways and Transit

Hearing on "Freight Movement from Origin to Destination"
Thursday, April 24, 2008

Statement – Congressman Jason Altmire (PA-04)

Thank you, Chairman DeFazio, for calling today's hearing to discuss the movement of freight across our nation's infrastructure. I look forward to hearing from our witnesses today about their expectations for freight movement in the years to come.

Our nation's infrastructure facilitates an enormous amount of freight movement each year and this number is only expected to rise in the near future. The Department of Transportation estimates that by the end of 2035, more than 33 billion metric tons will be moved on our transportation network each year. This represents a nearly 50% increase over current levels.

To accommodate the foreseeable increase in freight movement, our nation's infrastructure will have to be extended and improved. Next year's reauthorization of SAFETEA-LU will provide us with an opportunity to make significant investments in our nation's infrastructure and implement a comprehensive plan to ensure our transportation network can adequately handle the movement of freight. I look forward to working with Chairman DeFazio and the entire subcommittee, to ensure that we effectively prioritize and implement these upgrades.

Chairman DeFazio, thank you again for holding this hearing today.

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Statement of Rep. Harry Mitchell
House Transportation and Infrastructure Committee
Subcommittee on Highways and Transit
4/24/08

Thank you, Mr. Chairman.

As you know, Arizona is growing fast, and so are our surface transportation needs.

The Phoenix metropolitan is now the 13th largest metropolitan area in the country.

Keeping pace with this kind growth continues to be a challenge.

In addition to serving as a national conduit for the movement of goods between the east and west coasts, we are now face a rising demand for the transport of goods within Arizona and across the southwest.

As we consider the reauthorization of SAFETEA-LU, it is critical that we address the importance of a cost-effective intermodal system that can support the dynamic and changing needs of transportation of goods.

I look forward to hearing from our witnesses.

I yield back.

Harry E. Mitchell

STATEMENT OF
THE HONORABLE JAMES L. OBERSTAR

HIGHWAYS AND TRANSIT SUBCOMMITTEE HEARING
FREIGHT MOVEMENT FROM ORIGIN TO DESTINATION
APRIL 24, 2008

- I want to thank Chairman DeFazio and Ranking Member Duncan for holding this important hearing.

- Before we begin today, I'd like to take a moment to recognize one of my long-serving Committee staffers, Art Chan. Art has been an integral part of the Committee on Transportation and Infrastructure for the last 15 years, and is now moving on to begin a new chapter in his distinguished career.

- Beginning in 1995 when he joined our Full Committee as Chief Economist, and continuing with his work on our Water Resources and Environment and Highways and Transit subcommittees, Art's dedication and extensive knowledge on various transportation topics have made him an asset to our Committee.

- Art was instrumental in the passage of SAFETEA-LU. He has been a tireless advocate in maintaining the integrity of our surface transportation

programs, and has always provided insightful counsel to the Members and staff alike.

- Art will be greatly missed by the Committee and I wish him the best of luck in his new endeavors.

- As we have discussed in previous hearings, we are at a critical point in the history of the nation's surface transportation program. Freight volumes are exploding. Our international competitors rapidly upgrading their transportation networks to meet the needs of the global economy.

- We must answer these challenges, and develop a new intermodal vision and commitment to providing the resources and tools to meet the needs of all modes of transportation.

- Advances in logistics have made our nation's roadways real-time warehouses thanks to "just in time delivery", which builds greater efficiencies and cost savings into the system by allowing businesses to order parts and inventory stock in smaller batches. Yet the surface transportation system that facilitates freight movements has not evolved to meet the changing demands.

- Since the Interstate Highway System was created over 50 years ago, the nation has undergone significant economic and demographic changes:
  - Between 1950 and 2007, the U.S. population has doubled from 150 million to 300 million.
  - Land use and economic development patterns have changed significantly, as have migration patterns, all leading to an increased dependence on our transportation infrastructure, particularly highways.
  - The use of highways has become the primary mode of choice for most Americans. The 2001 National Household Survey (the last survey completed by U.S. DOT) found that 87 percent of daily trips involved the use of personal vehicles.
  - In 2005, there were more than 3 trillion vehicles miles traveled, 5 times the level experienced in 1955.
  - Imports to the U.S. have tripled and exports have doubled since 1970.

- Despite the significant growth in use of our infrastructure, we are not making the investments necessary to bring these systems up to date, much less making the investments necessary to accommodate future growth. As a

result, all of our transportation networks are at capacity or have exceeded capacity.

- According to the Federal Highway Administration's "Freight Analysis Framework", in 2002 approximately 11 percent of the National Highway System (NHS) roads "approached or exceeded their capacities, and 3.4 percent of the roadway links exceeded their capacities." The report projects that by 2035, approximately 40 percent of the NHS roadways will approach or exceed capacities, and 25 percent of roadway links will exceed capacities.

- The results of this failure to keep pace with demand have been staggering:
  - According to the **Council of Supply Chain Management Professionals**, between 2004 and 2005, after **17 years of decline**, total logistics costs for U.S. companies increased by **$156 billion**.
  - Total logistics costs accounted for **9.5 percent** of the Gross Domestic Product in 2005, up from **8.8 percent** in 2004.
  - UPS estimates that if each of their package delivery drivers incurred 5 minutes of delay due to congestion, it would cost the company $100 million.

- The recently released Minnesota 2020 report, entitled "Moving Forward: The Benefits of Transportation Investment to Minnesota's Economy", found that General Mills, which spends close to $650 million a year trucking hundreds of millions of cases of food to market, estimates that every one mile per hour reduction in average speed of its shipments below posted limits adds $2 million in higher annual costs.

- In order for our nation's intermodal transportation network to continue as the backbone of our economic vitality and quality of life, the system and the programs that support this network must evolve.

- This will require a new national vision and strategy, and a commitment to developing and investing in the surface transportation network to meet the needs of the 21st century.

- With our nation's population expected to grow to 420 million by 2050 and freight volumes expected to grow by 70 percent by 2020, future demands on the intermodal surface transportation network will require a bold new vision and approach to addressing these challenges.

Opening Remarks to Subcommittee on Highways and Transit
Hearing on Freight Movement: From Origin to Destination
Thursday, April 24, 2008

Thank you Mr. Chairman, I am pleased to see this subcommittee come together to draw attention to such an important set of issues facing our nation: freight mobility and our aging transportation infrastructure.

As you know, I have been a co-chair of the Goods Movement Caucus since I first came to Congress in 2005. I am also pleased to have the Chairman of this subcommittee as one of the new co-chairs of this caucus.

In my district, freight mobility is vital to the Ports of Seattle and Tacoma. Combined, these Ports represent the third largest port in the nation and over 70% of goods head east out of the region. This results in heavy congestion in an already crowded urban area.

We must do more to focus on freight mobility and I am pleased to see this hearing this morning and to receive the testimony from the distinguished panel. As we begin to discuss the reauthorization of SAFETEA-LU next year, these hearings and subsequent briefings hosted by the Goods Movement Caucus will provide solid background in this issue.

I thank the Chairman again for recognizing me again and welcome all the panelists to this Committee and look forward to gaining insight from your testimony.

I yield back…

Old

Congresswoman Laura Richardson
Statement at Transportation and Infrastructure
Subcommittee on Highways and Transit Hearing on
"Freight Movement from Origin to Destination"
Thursday, April 24, 2008
2167 Rayburn House Office Building-11:00 A.M.

Mr. Chairman, I want to thank you and Ranking Member Duncan for holding this hearing on the issues specific to freight and goods movement that this Committee will face when we reauthorize SAFETEA-LU.

As my colleagues on this Committee know, I proudly represent California's 37th District. ~~The 37th~~ which is ~~a~~ dynamic, ~~District~~ with a rich culture and tremendous ethnic diversity. However, perhaps our most defining characteristic is the presence of the San Pedro Bay Port Complex and its

impact, both positive and negative, on our communities.

The San Pedro Bay Port Complex, which includes the Ports of Long Beach and Los Angeles, is the largest in the nation and moves 45% of the nation's imports onto American soil and through my District.

These goods move into American stores and power our economy. It is undoubtedly in the federal government's interest, and in this Committee's interest, to ensure that American invests heavily in freight movement infrastructure. Investment now is critical; trade flowing through the San Pedro Bay Port Complex alone has tripled since 1990 and will

triple again before 2030. The reauthorization of SAFETEA-LU is an opportunity to raise the bar on "goods movement infrastructure" investment and keep American competitive with China, whose investments in this arena are paying dividends.

The argument to invest goes well beyond the macro-economic need to keep pace with overseas competitors. Americans living in freight movement epicenters feel the strain on their quality of life and the federal government has a moral responsibility to reduce the environmental impacts that often accompany transportation corridors. Again, I believe we have an opportunity before us with this reauthorization to invest in projects to move

freight quickly and a greater concern for air quality.

As such, I look forward to working with Chairman Oberstar and Chairman DeFazio on reforms to dramatically raise our federal investment in goods movement.

Thank you, Mr. Chairman.

House Committee on Transportation and Infrastructure
Highways, Transit and Pipelines Subcommittee

Hearing on "Freight Movement from Origin to Destination"
Thursday, April 24, 2008
Washington, D.C.

Testimony submitted by
Gary S. Cardwell
Divisional Vice President
Northwest Container Services
Portland, OR

Northwest Container Services, a division of Waste Connections, Inc. (NWCS), is pleased to submit the following written testimony to the House Transportation Subcommittee on Highways, Transit and Pipelines. We are also grateful for the opportunity to appear before the Subcommittee and share our thoughts and ideas on how freight movement from Origin to Destination, and its component parts - rail, truck and barge, may be utilized to improve freight and goods movement efficiency and contribute to economic development locally, regionally and nationally.

Background

NWCS has been providing containerized short-haul intermodal logistics services since 1985. The NWCS mission is to improve freight mobility in the Pacific Northwest and other regions of the country by providing intermodal or multimodal transportation solutions to customers utilizing rail, truck and barge. The NWCS business model is built on a network of privately owned intermodal facilities capable of building and deploying unit trains for short-haul rail service, typically 300 miles or less. Additionally, over the last several years, NWCS has entered into Public-Private Partnerships (PPP) with public ports and private entities that embrace our mission of expanding transportation options for shippers. Currently, NWCS operates five intermodal facilities in Washington State and Oregon linking the major West Coast ports of Seattle, Tacoma and Portland with in-land intermodal centers in Washington and Oregon. Negotiations and plans are underway to expand the network to include a new facility in eastern Oregon near Boardman, OR.

NWCS utilizes a "hook and haul" intermodal rail operation. We contract for dedicated rail line-haul capacity and engine power with either the Union Pacific Railroad (UPRR) for the Seattle, Tacoma and Portland service, or, the BNSF Railway (BNSF) for the Pasco service.* NWCS owns its facilities and equipment assets, including a fleet of forty-one double-stack container rail cars.

By the Numbers

By using dedicated direct trains (supported by truck and barge services) to transport international containers, NWCS is able to ensure timely, efficient, cost-effective delivery of cargo for importers and exporters.

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* It is interesting to note that the original NWCS start-up service between Portland and Seattle/Tacoma, in 1985 served as the "test model" for the UPRR's experiment with a "two engineer" crew operating the intermodal train. The success of this test resulted in the UPRR switching to all two-person crews system-wide, resulting in significant economic savings in labor costs.

NWCS provides a Port (Origin) to Door (Destination) service by utilizing Truck to pick the imported marine container up at the Port, truck to NWCS Intermodal rail facility, hook and haul with Class 1 railroad and truck to door. The emptied container is then returned to the NWCS intermodal rail facility near the destination and then trucked out again to be loaded with a PNW export. and then railed/trucked back to the Port. The foundation for this model is to locate our facilities near the major Port's and plans now will be to expand inland to where the exports are processed.

NWCS's business model is built on a "load-load" strategy. The majority of the time our intermodal trains haul loaded containers, rather than empty containers. This load-load strategy not only optimizes our operational efficiency, but it also results in better and more efficient equipment utilization. It is always our objective to build trains moving in each direction to our facilities with loaded containers – imports in, exports out. An interesting fact regarding intermodal container movement – primarily truck movements, is that 50% of the time a container is moved by truck, it is empty. This high rate of movement of empty containers results from the need to reposition the empty container back to its origin within the same day. Our model allows the steamship line to reload the imported container with a local export saving both the steamship line and the exporter the cost of repositioning the empties.

NWCS has averaged over 70,000 intermodal containers via our short-haul intermodal rail system. This figure represents 5 - 6% of the total container volume moved through the ports of Seattle and Tacoma. The majority of this cargo was moved through the Seattle-Tacoma-Portland I-5 Corridor. Viewed another way, this represents 100,000 truck trips off of Interstate 5 and the Columbia river bridge that were shifted to rail, freeing up valuable highway capacity for "people" movement and other freight and goods. Additionally, these intermodal rail movements saved road maintenance dollars, contributed to cleaner air, and relieved highway and port congestion. With unprecedented volume growth predicted for import and export container movement in the Pacific Northwest, the West Coast and nationally, NWCS is well positioned to expand on its current success and duplicate its business model in other areas of the Northwest and into other regions of the County that would benefit from improved utilization of an intermodal transportation network.

Opportunities

NWCS believes that there is great opportunity to expand its "footprint" into inland regions of the country where there is an export and land to develop future distribution centers.

Areas such as this are a perfect fit for our business model because of the import-export volumes that move through the area. In the San Joaquin Valley, CA, for example, there are tremendous volumes of food and agricultural exports, while at the same time major U.S. retail importers such as Target, Wal-Mart, Sears, IKEA, and VF Corp., to name a few, have located mega import distribution centers in the valley to service their regional retail stores, or reposition containers on east bound long-haul unit trains for Mid-West distribution. Unfortunately, the majority of the San Joaquin agriculture exports and the retail import volumes are trucked from the ports of Los Angeles and Long Beach. A better

model would be for retail importers to move loaded containers from steamship carriers calling the Port of Oakland to their distribution centers in the San Joaquin Valley via short-haul rail. There, agricultural shippers could utilize the equipment to move loaded export containers back out. In this case, the Port of Oakland provides a competitive alternative because it is not faced with the capacity and congestion issues experienced at the ports of Los Angeles and Long Beach.

This is but one significant example of how a short-haul intermodal rail corridor would benefit U. S. export shippers by providing a competitive alternative to trucking. There are other regional examples in the Pacific Northwest, Mid-West, and East Coast where the short-haul rail intermodal business model is a viable alternative, and actually enhances the effectiveness of all intermodal transportation components. A critical element in the future viability of this model, however, is the willingness and ability of the federal government and states to adopt smart land-use planning and develop its own short-haul and short line strategy. Development of a national, regional, and state multi-modal investment infrastructure program needs to be a top priority of federal and state policy makers and regulators.

Future Issues and Concerns

NWCS shares the same concerns that many in the modal transportation industry have expressed in recent months and even recent years. Real questions continue to be raised about the major railroad industry's obligation to serve its customers and the nation's transportation needs. Against this backdrop, the undercurrent of rhetoric and actions is the same theme faced in virtually every state in the lower 48 faces: the Class I railroads own and control a majority of our Nation's major rail infrastructure, and in response to their shareholders, they have clearly determined that it is in their financial interest to dedicate a majority of their capacity for long-haul intermodal container movement and profitable bulk commodity movement, bypassing significant volumes of intra-state and intra-region cargo. Open-access is not the solution, these are their assets and they should be able to do with them as they wish. We would suggest instead, that there need to be federal and state programs providing viable intra-state and intra-regional infrastructure and investments. With rare exception, a mile of new rail track is less expensive to build then a new mile of highway. A program which combines smart land-use planning and investments in a public/private intra-state, inter-regional rail network while utilizing shortline railroads could be the more cost efficient alternative to new highway lane miles.

We believe that serious attention needs to be focused on how intra-state and intra-regional service can be maintained, enhanced and expanded. The investment that states and other local public entities are now making in improving infrastructure – overpasses, grade separations, port infrastructure, etc., which contribute to the railroads increased efficiency and velocity -- are not enough. Programs like Oregon's "Connect Oregon" and Connect Oregon II" are providing funding for expanded rail infrastructure. This program is a step in the right direction. But two $100 million dollar programs, while significant in the State of Oregon, won't be enough to address the needs that now exist.

Without a strong visionary program at the Federal level – one that is funded at a level that will result in the development of new rail infrastructure that can augment and complement existing rail infrastructure and/or bridge critical gaps in our nation's short-haul network, new short-haul freight models like I have described today, will be difficult to replicate. We need a strong and visionary program from the Federal Government and we urge the Committee to consider developing such a program as one of the Titles in next year's reauthorization effort.

Thank you for the invitation to testify before you today, it has been my privilege. I would be happy to answer any questions you might have for me.

Statement of Scott Haas
Vice President of Transportation, UPS

Before the Committee on Transportation and Infrastructure
Subcommittee on Highways and Transit
"Freight Movement from Origin to Destination"

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Statement of
Scott Haas
Vice President of Transportation, UPS
Before the Subcommittee on Highways and Transit
Committee on Transportation and Infrastructure
U.S. House of Representatives
April 24, 2008

Chairman DeFazio, Ranking Member Duncan and members of the subcommittee:

Thank you for your focus in this hearing on freight and for the opportunity for UPS to present its views.

UPS frequently has an opportunity to share its experience with our nation's leaders as they tackle critical issues of the day, but today's subject surely ranks well into the top tier in both importance and timeliness.

In my role as vice president of transportation at UPS, I live every day, and all too many nights, in close proximity to the transportation challenges and opportunities that face UPS, our customers, and the nation as a whole. At times this is particularly frustrating work, but day after day I also witness how obstacles can be overcome through planning, ingenuity and perseverance.

The U.S. and global economies depend on the movement of freight, and increasingly on movement that is time-definite and expedited. It is well-documented that the U.S. transportation infrastructure is not maintained and improved at the level needed to sustain current activity at optimal levels, let alone the growth in freight that is inevitable in the future.

During the past 50 years, the United States has had a national vision regarding surface transportation policy – the Interstate Highway System. That system has served the nation extremely well. A broader vision – one that includes all modes of transportation and an investment in technology – is now needed. It should focus on the movement of freight, and it must take a coordinated approach that crosses the traditional barriers between modes of transportation.

This vision requires the establishment of national priorities. It requires national and regional planning. Freight movements go well beyond state and local boundaries; any particular shipment may move through hundreds, if not thousands, of jurisdictions. An effective national freight policy requires a strong federal role, in conjunction with state and local planning, to ensure the development of an infrastructure that best serves national and global commerce.

UPS understands this and is reminded of it every single day. Each day, the UPS network handles six percent of U.S. Gross Domestic Product and two percent of the global Gross Domestic Product. UPS is the nation's third –largest private employer, and its workforce of 425,000 people delivers nearly 16 million packages and documents to almost 8 million customers around the world every day, with the vast majority of the deliveries being within, to or from the United States.

To accomplish this, UPS puts 94,000 vehicles – from package delivery vehicles to tractor-trailers – on U.S. roadways every day. As one of the largest customers of Class I railroads for the past 25 years, many UPS trailers are put on rail cars – approximately 3,000 rail cars every day – many of them moving to and from U.S. ports. In addition, UPS airplanes fly 1,130 daily segments in the U.S., which connect its national transportation network.

But to UPS, these are not separate numbers but part of one, seamless system – and that is how public policy should view it as well.

Let me give you a few real world examples of how all of this fits together.

UPS has customers in Los Angeles that export products to China – and yes, we handle a lot of exports to China. In some instances, for smaller urgent shipments of parts for example, a package delivery vehicle will leave a customer's facility and use local roads and highways – namely the 710 Freeway – to go to our regional distribution center in the Los Angeles suburbs. From there, the packages go to the Ontario, CA, regional airport for a flight to our Anchorage air gateway in Alaska, where they will be put on a plane for delivery in Shanghai the next day. Any major congestion on those roads or highways en route to the airport, and the packages may not arrive on-time to their destination.

The congestion on the 710 causes UPS and its customers delays which adversely impact the movement of critical goods. These delays ultimately have a negative impact on the nation's economy.

Unfortunately, surface transportation congestion isn't solely the domain of the U.S. highway system. America's Class I railroads are a key service partner in the UPS transportation network. Railroad congestion, bottlenecks, and lack of fluidity – much of which can be attributed to inadequate railroad investment – creates a ripple effect that impacts other modal movements within the UPS system. Additional rail infrastructure investment will relieve congestion in the network, benefit the environment, and alleviate commercial highway traffic.

Another example involves larger shipments, where a UPS tractor-trailer may pick-up a container at a customer's facility and take it over local roads and major highways to a railhead in Chicago, where it is put on a railcar for a cross-country trip to Portland, OR, where it is off-loaded, placed on another tractor-trailer and taken to the port of Portland for shipment to Shanghai. Any congestion on those roads, in the rail system, or at the port will again affect efficiency of delivery.

Congestion is very costly to UPS and its customers. While the company has not determined the exact cost of congestion, we do know that if each of our package delivery and over-the-road drivers is delayed five minutes each day, the cost to UPS is $100 million per year.

Multiply this problem nationally and the numbers are staggering, costing our economy $78 billion annually, as well as 4.2 billion hours of travel delay and 2.9 billion gallons of wasted fuel each year, according to the American Road and Transportation Builders Association.

Now there is a tax that would be a good target for cutting. It may be a hidden tax, but it is a tax nonetheless.

UPS firmly believes that the magnitude of this challenge is an opportunity for our nation to set an example for the world regarding the establishment and maintenance of an efficient transportation system – with the emphasis on the system as a whole and not just one or the other of its parts.

And while time does not permit me to go into detail regarding some of UPS's suggestions, a copy of an article by former UPS Chairman and CEO Mike Eskew is attached to my submitted testimony. The article outlines UPS's eight-point plan to address the infrastructure issues impacting the company, its customers, and the nation.

Thank you again for the opportunity today to share UPS's views on this important matter. I look forward to the opportunity to answer any questions you may have.

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COVER STORY

Getting America Moving Again

Outgoing UPS Chairman Mike Eskew posits an action agenda to break through the infrastructure gridlock before it's too late.

The sheer volume of unsettling statistics about our country's overwhelmed transportation infrastructure might actually numb Americans to the magnitude of the problem—just flip through any issue of *World Trade Magazine*. For example, the U.S. Department of Transportation reports that congestion on our nation's highways, seaports, airports and railways costs the country $200 billion a year. But it's not until a vacation flight turns into an airport sleepover, or assembly lines grind to a halt waiting on critical parts, or a late medical device postpones needed surgery that abstract numbers really hit home.

While commuters can feel the personal assault of traffic jams and flight delays, many don't appreciate how congestion affects the movement of the nation's freight—and how an over-stressed infrastructure slows delivery times, creates unpredictability in supply chains and ultimately makes U.S. businesses less competitive and consumer goods more expensive.

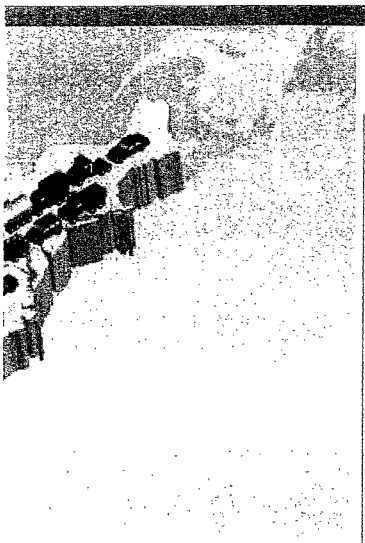
At UPS, we don't need statistics to tell us that our nation's infrastructure is in trouble. Every hour of every day, we depend on our national transportation infrastructure to deliver millions of packages and freight shipments—representing about 6 percent of the nation's GDP—to their destination. When we're not using our own 94,000 domestic vehicles or 603 airplanes to move goods, we rely on multi-modal transportation partners. For example, UPS is the nation's largest corporate customer of Class 1 Railroads, and we contract for significant space on ocean cargo carriers.

Bottlenecks and delays are a regular part of our day-to-day contingency planning. But this isn't just a concern for UPS, of course. By 2025, imports and exports will represent about 37 percent of our country's GDP, up from about 25 percent today.

Is our nation really prepared to accommodate the increased transportation demand? Only if we take action now.

Avoiding devastating gridlock will take a concerted, integrated effort by the public and private sectors. Later this year, the National Surface Transportation Policy & Revenue Study Commission is expected to make its comprehensive recommendations to Congress, and the Bush Administration has already unveiled its National Strategy to Reduce Congestion on America's Transportation Networks. Many of these proposals will take years—even decades—to implement. There are, however, things we can do in the shorter term to keep the transportation infrastructure from strangling commerce.

I'd like to propose an Agenda for Action for getting America moving.



Mike Eskew: A Tireless Proponent of Trade

On December 31, Mike Eskew will step down as chairman and CEO of UPS following a 35-year career with the company. As head of the world's largest parcel delivery company, Eskew was instrumental in charting UPS's strategic shift from a focus on small package to enabling global commerce.

He was a tireless proponent of free trade and the benefits of globalization and sought to improve the regulatory climate for companies doing business across borders. During his tenure, Eskew authorized the development of a number of UPS services to reduce the complexities of global trade and speed the flow of goods, information and funds.

In addition to his UPS responsibilities, Eskew served on the President's Export Council and was chairman of the Business Strengthening America's Steering Committee. Earlier, he led the U.S. China Business Council.

Eskew's career revolved around the expansion of global transportation capabilities while knocking down barriers to free trade.

1. Elevate the Issue.

In order to build a national urgency for action, leaders in the public and private sectors must sound the alarm about our transportation infrastructure. The general public has little notion of the challenges we face, save news reports on airport delays or traffic jams. Elected officials and candidates—including the '08 presidential candidates—must elevate the issue and debate solutions. Business and academic leaders should leverage high-profile forums to educate the public on the business impact of worsening congestion and the threat to our economy. The U.S. Chamber of Commerce—with its "Let's Rebuild America" campaign—is off to a good start.

Interestingly, some of the parties most affected by congestion—such as the big corporate shippers—seem to be relatively silent on the problem. A survey of 500 shippers by MIT's Center for Transportation and Logistics found that the majority of shippers never talk or meet with government agencies concerning transportation issues.

What's true for addicts is true for our transportation infrastructure: The first step is admitting we have a big problem. Our economic health depends on it.

2. Create a Comprehensive National Transportation Strategy.

One of the primary weaknesses with the approach to our transportation infrastructure thus far has been its piecemeal nature. We traditionally address bottlenecks on the highways, at the ports, across the railways and in the air as separate problems.

Unless we manage our transportation infrastructure as a national, integrated system, we won't really eliminate capacity constraints. We'll just move them to another part of the network. After all, some of the biggest bottlenecks occur where different transport modes—like highways and ports—connect.

We need a strategy that recognizes how these different modal networks connect—one that directs investments precisely where they are needed to balance the demands on the infrastructure. Yes, we need to spend more to add capacity. But we also need to spend that money wisely, in the right places, according to a careful blueprint.

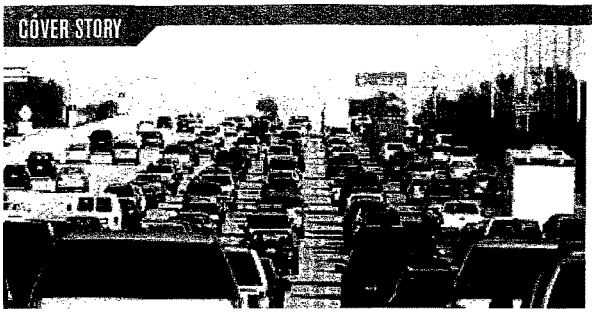
In Atlanta, a fifth runway was recently added to the world's busiest airport. Before it's time to add a sixth runway, we need to consider alternatives to keeping aircraft out of the skies and further choking an already clogged system. For example, a light rail system could connect nearby cities and eliminate the need for short commuter-type flights.

What's more, we have lost a national perspective. Congressional appropriations are directed to states to fund locally popular projects rather than nationally significant priorities. To clear up bottlenecks in the national system, we need to cross-subsidize projects across regions.

We must settle soon on a national strategy that incorporates the best ideas from the federal government, the Surface Transportation Policy Commission and the private sector.

3. Support Some User-Based Taxes & Fees—But Dedicate Them to Infrastructure Investment.

Most experts agree that we need to invest more in infrastructure capacity. But they disagree on how we should



fund that capacity. UPS believes that a fair way to pay for capacity expansion is to charge users of the infrastructure—with the caveat that all proceeds are solely dedicated to new projects that add net new capacity.

While not a perfect measure of highway usage, the gas tax hasn't been raised since 1993 and has been eroded by inflation. Like many other business leaders, UPS supports raising—or at least indexing to inflation—the federal gas tax, as long as all related monies from the Highway Trust Fund are dedicated to highway improvements and not used as a general-fund checking account.

To fund modernization of our aviation system, users should pay their fair share of the costs of the system. One reasonable proposal before Congress combines a $25 modernization surcharge on all flights in controlled airspace with an elimination of the fuel tax for commercial aviation and an increase in the general aviation jet-fuel tax.

Our **transportation infrastructure** challenges should be addressed in **a holistic approach.**

4. Make More Efficient Use of Existing Capacity.

It will take years to add significant capacity to our transportation infrastructure, so the best thing business users of that infrastructure can do is to manage our supply chains better. Effective management of the flow of goods is the key to more efficient use of the infrastructure, particularly the way we manage and stage inventory. Companies need to focus on ways to disaggregate inventory and move products only once, avoiding the into-warehouse, out-of-warehouse, multiple hand-off approach.

5. Leverage Technology.

Information technology also can help us use existing infrastructure more efficiently. On our nation's highways, federal and state authorities should accelerate the adoption of real-time traffic monitoring systems. "Loop detectors" buried under streets and freeways can collect data on traffic density and display estimated travel times between points. New techniques designed to merge historical data with real-time traffic-flow information can alert drivers of impending congestion and suggest alternate routes. The alerts can be sent to their cell phones, car radios or dashboard display screens.

Wireless and digital-signal systems on railways are replacing analog systems and helping make the most of existing capacity. Wider adoption of real-time telematics systems and Positive Train Control should enable railroads to track shipments, monitor cargo conditions and even reroute freight around railway bottlenecks.

Technology also can help us make better use of crowded airspace. Absolutely critical to this effort is the transition of air-traffic control from a ground-based system of radars to a satellite-based system as part of the FAA's multi-year modernization plan known as the Next Generation Air Transportation System (NextGen). The backbone of NextGen is a satellite-based in-flight technology called ADS-B (Automatic Dependent Surveillance-Broadcast), which lets aircraft continually broadcast position and speed. UPS has already outfitted more than 100 of its airplanes with ADS-B, and we're already seeing tangible benefits in terms of route and fuel efficiency, noise and emissions reduction.

6. Enhance the Virtual Infrastructure as well as the Physical Infrastructure

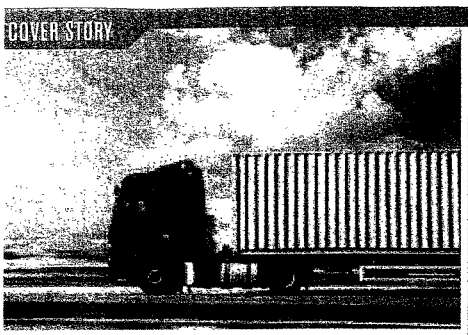
Information is the key to moving from just-in-case to just-in-time. When you wrap goods with information, you have the recipe not only for leaner supply chains, but also for balancing the flow of trade with the need for security. Goods moving swiftly cannot afford to be stopped in their tracks because of inefficient customs processes.

Our nation's borders are natural chokepoints. Post-9/11 security measures and a huge surge in imports have left U. S. Customs with more shipments to process. Here, too, there are steps the public and private sectors can take to speed clearances without threatening national security.

Harmonizing tariffs across North America would be one step to simplify customs paperwork and compliance, as would raising the minimum value at which imported goods must receive clearance.

More companies that ship globally should take the security steps necessary to qualify as trusted shippers by U. S. Customs. Public-private programs like C-TPAT (Customs-Trade Partnership Against Terrorism) create "fast lanes" through Customs and yield tangible speed and security benefits. A recent survey of C-TPAT participants found that 35 percent have reduced their rate of Customs inspections by at least half. Some 24 percent said they had improved supply-chain visibility, and 29 percent reported fewer supply-chain disruptions.

Information technology can strengthen security, as well. At our main air U.S. air hub in Louisville, UPS—working cooperatively with Customs officials—developed a proprietary online targeting tool. Customs



officials can leverage UPS's targeting system to query electronic shipping manifests and entry information using any search filter they choose. This automation allows Customs to target suspicious or high-risk air shipments while expediting processing of low-risk shipments.

7. Encourage More Public-Private Partnerships.

The incredible price tag of updating and expanding our infrastructure—the American Society of Civil Engineers estimates it will cost a staggering $1.6 trillion to improve our nation's roads, bridges, dams, water systems and airports—means that public and private sectors must work together.

The Alameda Corridor—a public-private initiative that created high-speed, dedicated intermodal connections between California's biggest port and railroads—is one successful example. Another example: Burlington Northern Santa Fe Railroad, in conjunction with private developers, has built intermodal logistics parks in places like Fort Worth. The concept of placing distribution facilities and truck terminals near rail hubs to alleviate intermodal choke points is one that deserves wider consideration.

We need more collaborative thinking between the public and private sectors.

8. Increase Modal Capacity.

There's no getting around the fact that a lot more capacity is needed across the modal networks. It's important to note that priority should be given to investment opportunities that increase our capacity to move freight. The movement of goods, after all, is the engine of our nation's commerce.

The U.S. depends on trucks to transport 90 percent of the products made or shipped in the U. S. But trucks are increasingly stuck in traffic, going nowhere fast. To keep freight moving, we need to consider adding truck-freight-only lanes.

The nation's railroads—all privately owned—had been reducing capacity in the years after deregulation in the 1980s, but a recent upsurge in business has led to shortages in capacity, equipment and crews. One estimate says that railroads must invest $175 to $195 billion in the next 20 years to keep up.

To help railroads shoulder the burden, a user-fee-based Railroad Trust Fund would be a good step. Federal and state agencies should also make available tax credits and low-cost loans for railroads to invest in infrastructure. The railroads have made investments in technology; however, it is not enough. Much more is needed. Other strategic initiatives could include expanding creating regional fast rail lines, intermodal connections, adding back the rail sidings that were eliminated after deregulation and creating high-speed corridors that bypass commuter traffic. Double-stack trains and double and triple tracking at key bottlenecks of the freight-rail system, particularly in the western U.S., are long overdue.

> We must **settle on a long-term national transportation strategy** and be **creative in the short term** about how we make the most efficient use of existing capacity

The FAA Reauthorization Bill before Congress includes billions in funding for the NextGen air-traffic-control system. We urge Congress to appropriate the estimated $15 to $22 billion needed over the next 18 years to build a system that must handle three times the current traffic. We certainly need it. Air cargo traffic in the United States alone is expected to increase 5.1 percent each year in the next decade.

At our nation's ports, experts predict that growth in global trade will create capacity problems at three-quarters of major U. S. ports by 2010. We need not only more capacity but also more efficiency at our ports. Asian ports, for example, handle 18,500 containers annually per acre of facility. American ports average just 3,900 containers.

Several port initiatives have either been proposed or are being implemented, including reducing container free time and relaxing labor-union work-rules. Tax incentives for building intermodal connections (with railroads and trucks) could help relieve chokepoints at the ports, as could expanding capacity at alternate ports on the Gulf and the lower East Coast.

Is gridlock inevitable? Not if we recognize the threat our aging infrastructure poses to America's success in the global economy. We must settle on a long-term national transportation strategy and be creative in the short term about how we make the most efficient use of existing capacity. It's time to get America moving again. WT

Michael Eskew is outgoing chairman and CEO of UPS, the world's largest package delivery company and a global leader in supply chain services.

For reprints of this article, please contact Sunny Coverly at coverlys@bnpmedia.com or 610-436-4220 ext. 8522.

Before the

Subcommittee on Highways and Transit

Committee on Transportation and Infrastructure

United States House of Representatives

Statement of

C. Randal Mullett
Vice Chair – Technical Oversight Committee
National Cooperative Freight Research Program
Transportation Research Board

On

Freight Movement from Origin to Destination

April 24, 2008

National Cooperative Freight Research Program
Transportation Research Board
500 Fifth Street, NW
Washington, DC 20001

National Cooperative Freight Research Program

The National Cooperative Freight Research Program (NCFRP) was authorized in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). The NCFRP is sponsored by the US Department of Transportation's Research and Innovative Technology Administration (RITA) and managed by the National Academies, acting through its Transportation Research Board (TRB), with program governance provided by an Oversight Committee including a representative cross section of freight stakeholders. A contract to begin work on the NCFRP has been executed between RITA and the National Academies and became effective on September 6, 2006.

Need and Purpose

- America's freight transportation system makes critical contributions to the nation's economy, security, and quality of life. Nearly $800 billion (over 6 percent of the US Gross Domestic Product) is spent annually to move domestic freight, and the cost and volume of goods movement are crucial to the productivity of the entire US economy.

  The freight transportation system in the United States is a complex, decentralized, and dynamic network of private and public entities, involving all modes of transportation—trucking, rail, waterways, air, and pipelines. In recent years, the demand for freight transportation service has been increasingly fueled by growth in international trade, and bottlenecks or congestion points in the system are exposing the inadequacies of current infrastructure and operations to meet growing demand. US domestic freight, measured by ton mileage, is expected to grow by some 50 percent in the next 20 years. Strategic operational and investment decisions by governments at all levels will be necessary to maintain freight system performance, and will in turn require sound technical guidance based on research.

  The National Cooperative Freight Research Program (NCFRP) will carry out applied research on problems facing the freight industry that are not being adequately addressed by existing research programs. SAFETEA-LU, in authorizing the NCFRP, called for development of a national research agenda addressing freight transportation and for implementation of a multi-year strategic plan to achieve it. More about the NCFRP and a complete list of current projects can be obtained at (http://www.trb.org/CRP/NCFRP/NCFRP.asp).

Introduction

Chairman DeFazio, Ranking Member Duncan, and distinguished members of the Subcommittee, thank you very much for inviting the Transportation Research Board's National Cooperative Freight Research Program Oversight Committee to testify before you today. I am Randal Mullett, Vice Chair of the National Cooperative Freight Research Program and Vice President, Government Relations and Public Affairs for Conway Inc., located in San Mateo, CA.

Mr. Chairman, you are to be commended for calling this hearing and for focusing attention on one of our Nation's greatest transportation challenges – assuring a freight transportation infrastructure system that can meet the current and future demands of our Nation's economy, both domestically and internationally. When your predecessors were considering America's transportation needs more than a century ago, they were racing to keep up with the industrial revolution and a rapidly growing population. Sixty years ago, they recognized that a safe, efficient system of highways connecting America's cities, towns and rural areas was absolutely necessary to meet our country's economic and military security needs. Their vision produced an Interstate Highway System that has served our country well, and today allows even the most rural American businesses to participate in the global economy. It is time for a new vision for freight.

Every day hundreds of thousands of shipments containing everything from grain to computer parts flow through our ports, across our borders, and on our rail, highway, air and waterway systems as part of a global multimodal transportation logistics system. This system is an increasingly complex array of moving parts that provides millions of good jobs to Americans, broadens the choices of products on store shelves, and creates new and expanding markets for U.S. businesses.

Unfortunately, today's freight transportation system is showing increasing signs of stress across all modes, creating fragility and risk in an ever more complex, interconnected, and interdependent global supply chain. And, though it has served us well in the past, a business as usual approach to the reauthorization process will be inadequate to address the needs of the freight transportation system of the future. Given the serious and profound implications for our economic and social well-being that will result from the success or failure of the freight transportation infrastructure system, a paradigm shift may very well be required to alter the way we approach these problems.

To that end, Mr. Chairman, I believe that incremental solutions will not allow us to meet the Nation's current and future freight transportation needs. The federal surface transportation program in its current form will not suffice. While more resources than are currently available will be necessary to finance the transportation improvements needed to relieve the stress and risk in all modes, we can no longer afford to spend limited federal resources on projects that do not meet our most important national needs. Federal funds must be invested in a manner that support a renewed vision for freight transportation and most effectively support that vision. Additionally, outdated federal laws and regulations that do not support this new vision must be reformed. As you are

very familiar with the current system's capacity constraints and the issues associated with the projected growth of freight levels due to economic growth, my comments will focus on broad themes rather that prescriptive remedies to accommodate current and future freight transportation infrastructure demands.

Focus on Freight

Freight transportation has been described as the economy in motion. This simple illustration strengthens the indisputable truth that ***we cannot separate economic growth from transport growth.*** Said another way, any constraints within the freight transportation system result in economic constraints that slow our economy and keep the Nation from realizing its full potential. Using this axiom as a benchmark can help foster a renewed focus on freight while developing a new Federal vision. The opportunity before us is to not simply keep up with freight transportation demands, but to develop a long-term vision of the freight transportation infrastructure system that results in supply chains that are faster, more efficient, and more predictable than they are today.

With few exceptions, Congress and the states tend to view the authorization process as an opportunity to address parochial interests, without putting these decisions into the context of a broader national vision. What attempts are made to focus on national priorities tend to get lost in the battle for greater state apportionments and earmarks for local projects because these national priorities are not articulated within a shared vision. The ability to create a national vision and to plan, from a national perspective, to meet the transportation challenges of the 21st century, is impossible within this parochial atmosphere.

The key to developing a new national freight transportation system is to ask the right questions. Traditionally we have asked:

- How do we insure a safe, efficient, flexible, transportation system? (The standard answer has been almost exclusively to reduce congestion by increasing construction funding through various means.)

Perhaps it would be better to ask:

- How do we insure a reliable, safe, and efficient freight transportation system that takes advantage of the full range of intermodal and multimodal possibilities to provide a platform for economic vitality and growth?
- What constraints (note I did not say congestion) exist in the freight system?
- What are all the potential solutions?
- How do we bring accountability into the equation?

Freight System Complexity and Stress

There are increasingly complex relationships among freight transportation, inventory levels, access to domestic and international markets, and the effect on our Nation's economy and competitiveness. There also are increasingly complex relationships within and among different modes of freight transportation. Many shipments begin or end their journeys beyond our borders and often travel via more than one mode on their journey. Sophisticated logistics management technology systems and the fluid nature of freight flows have combined to mask the fragility of an increasing stressed system.

In all modes freight takes on hydraulic properties and will flow to the path of least resistance when constrained. Freight shifts easily between modes or modal segments and there are many alternate routes and modes between origin and destination pairs. The ability to manage this complexity has masked the fragility of the freight system as more and more constraints are encountered. Our reliance on Just-in-time inventory models has made the risk to our economy even more profound.

If Just-in-time becomes Just-in-case:

- Supply chains are less reliable
- Inventories must be increased
- The number of potential customers and suppliers is reduced
- We become less competitive in distant markets
- Transportation costs go up to maintain satisfactory levels of service

In Memphis, TN, at a hearing of the NSTPRSC, on November 15, 2006, Doug Duncan, CEO of FedEx Freight, summed up the freight community's acute concerns, "I'm afraid if things don't turn around soon, we'll begin turning the clock back on many of the improvements that these supply chains have made and begin to restrain commerce instead of support commerce."

To insure there is no further degradation within the freight transportation system and improve the free flow of goods, every level of government should work to:

- Improve road connections between ports and intermodal freight facilities and the national highway system;
- Improve connectivity and capacity so that railroads can efficiently and reliably move cargo between ports and inland points;
- Develop a national intermodal transportation network so that cargo can flow at speed among multiple alternative routes;
- Help prioritize infrastructure improvements of long-term network plans and projects of national significance and then reserve funding for such projects; and

- Eliminate bottlenecks on the National Highway System.

Institutional Challenges

Modern supply chains are complex, intermodal, often international systems that are interconnected in ways that stretch the ability of governmental agencies and funding models that were established within traditional modal silos to meet present and future needs of the freight transportation infrastructure system. "Government transportation institutions traditionally focused on mobility and efficiency objectives. Later, as the systems became bigger and more complex, to operate safely became an important goal. Then environmental quality and equity became important societal goals. These objectives subsequently found their way into transportation policy. More recently, national competitiveness, economic development and technological leadership have been added to the national policy agenda in general and thus also to the transportation policy agenda. This broadening of objectives has expanded the range of relevant actors in transport policy and operations. As a consequence, the traditional transportation institutional framework is being forced to accommodate a wider than traditional range of objectives and interests at the same time that there is rapid change in transport technology." (Strough and Rietveld, 1997) The real problem occurs when freight transportation policy is viewed as a means to achieve these other related policy objectives rather than being viewed as the policy objective itself.

In a presentation on February 5th of this year, Robert Puentes, a Fellow at the Brookings Institute raised similar concerns when he questioned whether the U.S. has the right kind of infrastructure to position it to compete in the 21st century. He went on to say, "Current Federal policy, or lack thereof, exacerbate these challenges" and "Federal freight transportation policies are either absent, outdated, or compartmentalized." Other points Puentes made are: "There is no national vision, purpose, or overall goals. No oversight for how funds are spent and no focus on outcomes. The focus is on overly devolved flexibility and minimum funding. The result is a system that has become an unaccountable free-for-all where policies remain modally-siloed and rigidly stovepiped with resulting policies often being at cross purposes." (Puentes, 2008)

The NCFRP is currently funding several research projects focused on institutional relationships and freight policy development that should be completed by the end of the year.

A Case for Change

The surface transportation system (particularly highways) is under attack from users, safety groups, shippers, thought leaders and policy makers at all levels of government. A lack of clarity of purpose and a shared national vision make it difficult to develop public policies that address these concerns in a rational manner guided by established objectives and related performance measurements. Additionally:

- Profound demographic, economic, social, and cultural forces are reshaping the Nation: Demographically, the country is growing, aging, and diversifying. Economically, the nation is being transformed by globalization, deindustrialization, and technological innovation. Culturally, the nation is changing its attitude towards cities and suburban living. Despite these trends, "The U.S. remains the only industrialized country in the world that has not pursued an integrated approach to transportation policy." (Puentes, 2008)
- The growth in international trade is overwhelming U.S. intermodal freight capacity. Over the next 30 years, domestic freight volume is forecast to double and international freight volume entering U.S. ports may quadruple, according to the American Association of State Highway and Transportation Officials (AASHTO).
- Under our current freight transportation authorization programs, even if we had every dollar necessary, we cannot build physical infrastructure fast enough to stay ahead of even moderate growth. Under our current programs, problems in the freight transportation system continue to worsen.

To respond to these trends, a paradigm shift is required. We must consider a systemic, holistic approach to freight transportation policy rather than the current model that focuses on discrete locations and is modal specific. **A patchwork of local solutions does not somehow evolve into a national freight transportation system that supports today's complex intermodal relationships and meets the needs of a growing economy.**

Federal Leadership and National Vision

When the federal highway program was created, it had a clearly defined mission: to finance construction of the Interstate Highway System. When that mission was complete, the money was still coming into the Highway Trust Fund (HTF), but Congress did not identify a new federal role. A new national vision must be adopted.

As Ranking Member John Mica (R-FL-07) aptly articulated in an op-ed in *The Hill* in 2007, "[t]he federal government must take a lead role in developing a national strategic transportation plan for the next 50 years that makes the most efficient use of every transportation mode and incorporates the expertise and resources of both private and public sectors."

The only way to assure a successful freight transportation system is federal leadership and federal investments that are carefully aligned with the national interest. Though every level of government must participate, the federal government bears prime responsibility to insure that:

- A national shared vision is developed within the Federal framework and there is a focus on the "end game;"

- A systemic approach, focused on national level planning rather than local solutions is developed and followed.
- Utilization of existing networks is maximized, balancing investment with regulatory changes to reduce constraints in the system.
- Objective goals and related performance measurements are determined.
- Freight transportation system infrastructure investment is aligned with the needs that arise from the global economy, trade policies, and the flow of interstate commerce.
- Modal specific policies and programs do not inhibit the freight transportation system by unintentionally encouraging unhealthy modal self interest.

The failure by planners at all levels of government to adequately identify and address constraints affecting the movement of freight points to problems in the transportation planning process itself. Freight transportation extends across state and national borders and moves freely among and between modes, but the current planning process does not. The federal government is the only entity in a position to determine the national interest and develop a framework to identify solutions to facilitate the movement of freight.

Discussions Cannot be Decoupled

Any discussion of freight transportation policy would be incomplete without acknowledging the complex relationships that exist with other important issues. My respectful caution to the Subcommittee is, please insure that any national vision formulated to support our freight transportation infrastructure system is focused on freight and its importance to our economy rather than viewing freight policy as a means to achieve other policy objectives. Related issues include:

- Sustainability, climate change, and environmental concerns
- Energy sources, prices, and supplies
- Devolution of Federal transportation authority and responsibility
- Social equity and social change
- Modal protectionism
- Safety
- Security
- Funding

Mr. Chairman, Congress recognizes the importance of these inter-related issues. Their influence, positive or negative, on the freight transportation infrastructure system is real and the system's ability to serve as our Nation's economic arteries, as it was meant to be, must be the central focus of this Sub-committee's work.

Conclusion

The Nation's freight transportation infrastructure system is vital to the U.S. economy. To insure its vitality and successfully address the complex issues surrounding freight transportation, a new paradigm will be required. That paradigm will mean:

- Recognition that a business as usual reauthorization process is no longer able to address the problems or take advantages of the opportunities associated with the freight transportation infrastructure system.
- A strong Federal role in developing and articulating a national vision for our freight transportation system
- A systemic approach with clearly articulated national objectives rather than local solutions
- Strategic investments that maximize system performance with appropriate performance measurements and accountability
- A focus on the full promise of true intermodal and multimodal freight transport to enhance the door to door movement of freight and seamlessly connect the U.S. economy with the rest of the world
- A commitment to critically examine and remove existing regulatory constraints
- A commitment to refocus on the national freight transportation infrastructure system as key to our economic vitality

The National Cooperative Freight Research Program Oversight Committee and the Transportation Research Board stand ready to help in this important effort.

Members of the Committee, thank you very much for the opportunity to be here today. I'll be happy to answer any questions you may have.

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STATEMENT OF

MICHAEL E. UREMOVICH

CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF BOARD

PACER INTERNATIONAL, INC.

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON HIGHWAYS AND TRANSIT

HEARING ON FREIGHT MOVEMENT FROM ORIGIN TO DESTINATION

APRIL 24, 2008

PACER INTERNATIONAL, INC.
6805 Perimeter Drive
Dublin, OH 43016
614-923-1972

I want to thank you for the opportunity today to address the movement of freight from origin to destination by use of the intermodal transportation system.

Pacer International is a major customer of the Class I railroads purchasing more than $1 billion in intermodal rail transportation annually. We currently manage one of the largest double stack intermodal networks for containerized freight in North America. The roots of Pacer go back to the first double stack train that left Los Angeles in 1984.

Pacer also maintains one of the largest domestic container fleets in North America, which consists of more than 28,000 containers, mostly 53' in length, as well as nearly 28,000 chassis to support these containers. We in turn provide access for direct shippers, ocean carriers, and intermodal intermediaries called "Intermodal Marketing Companies", or IMC's, to the rail intermodal network.

Today, the U.S. intermodal network is served primarily by six Class I railroads:

- Union Pacific (UP)
- Burlington Northern-Santa Fe (BNSF)
- CSX
- Norfolk Southern (NS)
- Kansas City Southern (KCS)
  Canadian National (CN)

Pacer has access to all networks, but our service currently runs primarily over the UP, BNSF, CSX, and KCS (in Mexico) networks through long-term agreements.

Pacer, as a transportation intermediary, provides basically two intermodal products to our customers today. The first is what we refer to as international Ocean Container Services product which provides double stack service to six major ocean carriers. We plan and manage the movement of their international import and export freight, to and from the port and to and from the inland destinations. International freight primarily moves in 20' and 40' containers (which are referred to as International type containers).

Our second product is what we call our domestic intermodal service which moves freight between origins and destinations within North America, including Mexico and Canada. Domestic freight typically moves in 53' domestic containers (which are referred to as Domestic type containers). Domestic type containers are not used for international shipments because the ocean vessels are normally built to carry mostly 20' or 40' containers. The entire domestic intermodal container fleet today numbers more than 130,000 containers. Most of this equipment is operated by domestic companies similar to ours. While some of the Class I railroads provide domestic intermodal equipment for Customers, the numbers have declined in recent years, and private fleet operators like Pacer have increased their investment in domestic equipment allowing the overall domestic fleet to grow 3%-5% annually.

As a domestic intermodal transportation company, we work with our customers to provide door-to-door service, which includes purchasing space on intermodal trains as well as arranging for short-haul trucking (also referred to as either cartage or drayage) between the rail ramps and the shipper's origin and the receiver's destination. In this regard, we operate our own cartage company, and contract with other cartage companies, to provide this service for our Customers. We assist our customers in optimizing their modal choice by balancing our access to both train and equipment capacity with a competitive price, a consistent transit reliability, and competitive service levels which translate into an overall competitive intermodal product from origin to destination for our Customers.

Intermodal transportation relies on the foundation of a dependable highway and rail network that has developed in the U.S. in the last 50 years. Intermodal, in our opinion, is vital to providing the shippers of today and tomorrow with a cost effective, efficient, and reliable transportation service that is an alternative to long-haul highway transportation. Intermodal's

efficiency results from 280-300 containers being loaded onto a single train. These containers would otherwise have moved on the highway by 280-300 trucks. As an efficient and important result, intermodal transportation removes trucks from highways, helping to reduce congestion and pollution, while providing a more environmentally friendly and efficient mode of transportation when compared to an all truck/highway movement.

International freight shippers depend on the seamless movement of their goods from the vessel, through the port and onto trains - and in the reverse for export shipments. With the development of the Asian Basin as a major producing area for products consumed in the U.S. over the past decade, the U.S. West Coast ports and the inland transportation system serving these ports have become a focal point for the movement of inland destined intermodal containers. We have seen our import volumes grow exponentially and this has created pressure on the Los Angeles and Chicago transfer points. We have seen the Alameda Corridor project help reduce some of the congestion problems that slowed intermodal trains operating to and from the ports of Los Angeles and Long Beach. I need not speak at length on this subject as it has been well documented in reports such as the National Surface Transportation Policy and Revenue Study Commission and the National Rail Freight Infrastructure Capacity and Investment Study prepared for the Association of American Railroads as well as recent news coverage.

We have found that our shippers choose intermodal transportation because it provides a cost effective alternative to long-haul truck service and provides multiple service levels and products that balance price and transit times. For example, there are excellent expedited intermodal service offerings that compete with long-haul truck/highway transit in high volume freight corridors between Los Angeles, Chicago, Dallas, Memphis, and Atlanta.

However, there are events and issues that affect intermodal service today. Both international and domestic shippers are affected by disruptions in service on the intermodal rail network. While not as prevalent today as in prior decades, disruptions such as unanticipated derailments, transit delays due to insufficient rail network capacity, and weather related disruptions still occur more frequently than the industry would like.

Congestion at some port and inland rail terminals, such as in the Chicago area, a major intermodal transfer point between rail carriers, continues to occur at unacceptable levels even today, causing the late delivery of product to intended markets. These rail disruptions and congestion issues have led many customers to believe that intermodal transportation is less reliable than truck transportation – a negative perception we work every day to overcome.

Moreover, current studies, to which I have already referred, also indicate that 12% of the intermodal rail corridors are currently operating near or at their theoretical capacity. By the year 2035, it is anticipated that 45% of the rail system will be at or over its theoretical capacity. As a primary provider of intermodal services we are concerned that our ability to deliver goods to manufacturers, distributors, and ultimate consumers will be adversely affected by a rail transportation system that will no longer support the ever increasing future volumes that current models predict.

Our intermodal transportation infrastructure continues to be challenged, is aging and needs to be updated and improved to prepare for the expected future growth. There are major investments and improvements underway that must continue, such as:

- Double and triple tracking of key freight corridors, such as the UPRR Sunset Route between Los Angeles and El Paso
- Improvement of signaling and other train control processes on major corridors
- Expansion of key port and rail terminal facilities,
- Investment in "Green" Locomotives and additional intermodal double stack rail cars

- Double Stack capable corridors in the Northeast and Mid-Atlantic

The investments necessary to make these improvements in the rail network and terminal facilities should remain primarily in the hands of the railroads and companies that operate these facilities. Help can be provided to the private sector through tax incentives and Public-Private Partnerships that can provide the kind of cooperation for developing timely and effective solutions to the issues we are facing in our transportation infrastructure. The Chicago Region Environmental and Transportation Program (CREATE) is an excellent example of such a program whereby the railroads and the State of Illinois are working together to solve the issues in the Chicago area I have already spoken about.

In closing, we think it is vitally essential to ensure there is continued investment in the nation's intermodal transportation system, which includes both the rails and highways that will provide for an uninterrupted flow of goods from shipper origins to receiver destinations. Access to an efficient intermodal transportation system will give shippers a cost competitive alternative to long-haul truck transportation, helping reduce the number of trucks and resultant congestion on the highways, reducing greenhouse gas emissions and pollution, while promoting overall fuel efficiency and less dependency upon oil in the future.

Again, I thank you for the opportunity to speak to you today.

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