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HOW LOGISTICS FACILITATE AN EFFICIENT FREIGHT TRANSPORTATION SYSTEM

(113–27)

HEARING

BEFORE THE

PANEL ON
21st-CENTURY FREIGHT TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

JUNE 26, 2013

Printed for the use of the
Committee on Transportation and Infrastructure

Available online at: http://www.gpo.gov/fdsys/browse/committee.action?chamber=house&committee=transportation

U.S. GOVERNMENT PRINTING OFFICE

81–677 PDF WASHINGTON : 2013

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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June 20, 2013

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SUMMARY OF SUBJECT MATTER

TO:	Members, Panel on 21st Century Freight Transportation
FROM:	Staff, Panel on 21st Century Freight Transportation
RE:	Panel Hearing on "How Logistics Facilitate an Efficient Freight Transportation System"

PURPOSE

The Panel on 21st Century Freight Transportation will meet on Wednesday, June 26, 2013, at 1:00 p.m., in 2167 Rayburn House Office Building to receive testimony related to the impact of the logistics industry on the U.S. freight network. At this hearing, the Panel will receive testimony concerning the correlation between logistics and a productive, efficient, and safe National freight system, and will hear suggestions on ways to strengthen this relationship. The Committee will hear from David Abney, Chief Operating Officer of the United Parcel Service; Tracy Rosser, Senior Vice President of Transportation for Walmart; Edward R. Hamberger, President and Chief Executive Officer of the Association of American Railroads; Scott Satterlee, Senior Vice President of Transportation for C.H. Robinson Worldwide; Mark DeFabis, President and Chief Executive Officer of Integrated Distribution Services; and Richard Fisher, President of Falcon Global Edge.

BACKGROUND

Logistics is the planning, execution, and control of a complex organization involving many different moving pieces and interests, all within a system designed to achieve specific objectives. According to the Council of Supply Chain Management Professionals, logistics management is the part of supply chain management "that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements."[1]

The U.S. freight system moves nearly $19 trillion worth of goods each year. These products frequently move back and forth between ocean vessels, highways, railroads, air carriers,

[1] CSCMP Supply Chain Management, *available at* http://cscmp.org/about-us/supply-chain-management-definitions.

inland waterways, ports, pipelines, warehouses, and distribution centers. Logistics providers play a key role in alleviating inefficiencies and bottlenecks, which can impede freight mobility and drive up the cost of the impacted goods. By optimizing the movement of freight across all modes of transportation, the logistics industry helps ensure the health of the United States economy and the future of the Nation's global competitiveness.

What the Logistics Industry Does

The logistics industry adds value to the supply chain by improving the planning, implementation, and control of the flow of goods from point of origin to point of consumption. Today, nearly all of the Nation's top executives have some form of logistics strategy. Every Fortune 100 company, and 80 percent of all Fortune 500 companies, employ at least one third-party logistics (3PL) provider to improve their operations.[2] In 2011, domestic spending in the logistics and transportation industry totaled nearly $1.3 trillion, roughly 8.5 percent of the Nation's gross domestic product. The growth of the logistics industry far outpaces that of the economy at large, further emphasizing the important value that logistics can have in facilitating the efficient movement of goods.

Third-party logistics providers are also known as freight forwarders or transportation intermediaries. Depending on the industry in which a 3PL operates, the 3PL may also be known as a broker (if involved in the trucking industry), a Non Vessel Operating Common Carrier (if involved in the maritime industry), or an indirect air carrier (if involved in the air freight industry). Despite all of these different names, the essential function is the same. At its most basic level, a 3PL is an entity that facilitates the movement of goods.

History of the Logistics Industry

One of the earliest 3PLs was the Company Limited of London, established in 1836 by Thomas Meadows.[3] Meadows recognized the demand for these intermediary services as the rail transportation and steamship industries expanded. As trade increased between Europe and North America, Company Limited arranged for the transportation of goods from manufacturers to the steamships. The logistics provided by Company Limited, however, soon expanded beyond the mere carriage of goods. Meadows realized the value that additional information could offer, and soon began consulting with his clients on documentation and customs requirements in the country of destination.

Since Company Limited, 3PLs have traditionally operated as non-asset based companies that arranged for the transportation of a shipper's goods with another company that owned and operated a common carrier. Today, many 3PLs also operate their own trucks, aircraft, warehouses, and distribution centers, in addition to offering the traditional logistical advice and analysis that is the hallmark of the industry.

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[2] Statistics used in this memorandum are taken from the U.S. Department of Commerce, the Transportation Intermediaries Association, the International Warehouse Logistics Association, and the Airforwarders Association.
[3] Thomas Meadows & Company, *Understanding the Freight Business* (London: The Company, 1978).

THE IMPORTANCE OF LOGISTICS

Put simply, the logistics industry is valuable to the Nation's freight system because logistics improve the efficiency of the supply chain. To name just a few real-world applications, the use of logistics can ascertain the best mode, or combination of modes, to move a particular product to a particular location, give a small carrier access to a large shipper's freight, reduce the number of empty containers a trucking company has to carry, eliminate the need for operating distribution centers in-house, and maximize warehouse layout and productivity. By carefully collecting and analyzing data about the supply chain, logistics providers can identify areas of lost efficiency and develop strategies to move goods more intelligently.

One of the ways that manufacturers and retailers can maximize the value of 3PLs is through the concept of Just-in-Time Delivery (JIT). The idea behind JIT is that business efficiency will be the greatest when carrying costs are minimized. In other words, by delivering goods at the precise moment when they will be consumed, businesses will not need to pay to store the goods before they are used. JIT relies intrinsically on the logistics industry to efficiently forecast and transport the goods at the moment when they are needed. By avoiding the unnecessary storage of inventory prior to its use, the logistics industry can greatly improve the operating efficiencies of the manufacturing and retail industries.

Each year, shippers outsource more of their traffic, transportation, and logistics functions to 3PLs, as these companies can offer better purchasing economies, more sophisticated data analysis systems, and better market knowledge than the shipper can afford to develop internally. Many 3PLs describe themselves as the "travel agents" of the freight system, as they are tasked with planning, overseeing, transporting, and storing their clients' goods and products from one end of the supply chain to the other.

There is one notable exception to the general trend towards outsourcing logistics functions, however. Many of the large big-box retailers have developed complex internal logistics operations. They have found that there are economies of scale in their own operations that increase the profitability of maintaining their own warehouses, distribution centers, and trucking fleets.

WITNESS LIST

David Abney
Chief Operating Officer
United Parcel Service

Tracy Rosser
Senior Vice President, Transportation
Walmart

Edward R. Hamberger
President & CEO
Association of American Railroads

Scott Satterlee
Senior Vice President, Transportation
C.H. Robinson Worldwide
On behalf of the Transportation Intermediaries Association

Mark DeFabis
President & CEO
Integrated Distribution Services
On behalf of the International Warehouse Logistics Association

Richard Fisher
President
Falcon Global Edge
On behalf of the Airforwarders Association

HOW LOGISTICS FACILITATE AN EFFICIENT FREIGHT TRANSPORTATION SYSTEM

WEDNESDAY, JUNE 26, 2013

HOUSE OF REPRESENTATIVES,
PANEL ON 21ST-CENTURY FREIGHT TRANSPORTATION,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The panel met, pursuant to call, at 1:00 p.m., in Room 2167, Rayburn House Office Building, Hon. John J. Duncan, Jr. (Chairman of the panel) presiding.

Mr. DUNCAN. The panel will come to order. Good afternoon and welcome to this hearing of the Panel on 21st-Century Freight Transportation.

Before I begin, I want to let everyone know we are expecting a vote series anywhere from 1:45 to 2:30 this afternoon.

With that, I recognize Mr. Miller.

Mr. MILLER. Mr. Chairman, I request unanimous consent that the chairman be permitted to declare recess during today's hearing.

Mr. DUNCAN. Without objection, so ordered.

Today's hearing examines the relation between logistics and a productive, efficient, and safe freight system. The movement of goods across the country may not always grab headlines, but the efficiency of freight transportation has a major impact upon the lives of every American on a daily basis. From the clothes we wear to the cars we drive to the food we eat, the freight transportation system impacts all aspects of our everyday lives.

The logistics industry is valuable to the Nation's freight system because logistics improve the efficiency of the supply chain. The logistics industry adds value to the supply chain by improving the planning, implementation, and control of the flow of goods from point of origin to point of consumption.

As I have said before, the purpose of this panel is to provide recommendations to the committee on ways to modernize the freight networks and make the United States competitive in the 21st century. We have been given cross-jurisdiction across all the different subcommittees, and we are going to try to do our best with that opportunity. We have been working hard toward our goal, holding multiple hearings and roundtable discussions and visiting critical freight facilities in southern California and a few days ago in the greater Memphis area.

We also have before us today an outstanding group of witnesses. I am interested to hear from them regarding their operations as well as any recommendations they have on ways to improve our

Nation's freight system, and we would appreciate their specific recommendations.

First, we have David Abney, the chief operating officer of UPS. UPS is the world's largest package delivery company, delivering over 16 million packages to almost 9 million customers every day.

Second, we have Tracy Rosser, the senior vice president of transportation at Wal-Mart Stores, Inc. Walmart operates over 4,000 stores across all 50 States and is a large user of all modes of transportation.

Third, we have Ed Hamberger, the president and CEO of the Association of American Railroads. AAR represents all of the Class I railroads as well as over 170 short line railroads and regional lines.

Next we have Scott Satterlee, a senior vice president at C.H. Robinson, testifying on behalf of the Transportation Intermediaries Association, TIA. C.H. Robinson is a leading third-party logistics company, and TIA is the professional organization for the third-party logistics industry.

Fifth, we have Mr. Mark DeFabis, president and CEO of IDS. Mark is testifying on behalf of the International Warehouse Logistics Association, IWLA. IDS is a warehouse logistics company from Indianapolis, Indiana, and IWLA represents warehouse-based logistics companies.

Finally, we have Richard Fisher, president of Falcon GlobalEdge, testifying on behalf of the Airforwarders Association, AFA. And Falcon is, of course, a logistics company focusing on air cargo. In his capacity as chairman of AFA, he represents 360 similar companies.

I thank all of our witnesses for joining us today, and I now recognize our ranking member, Mr. Nadler, for his opening statement.

Mr. NADLER. Thank you, Mr. Chairman.

Mr. Chairman, thank you for holding this hearing today and for your leadership as this panel carries out its work. Through hearings, roundtables, and site visits we have made steady progress in spotlighting the challenges facing our freight transportation system. Today we have the opportunity to hear how companies serving a variety of critical functions in the movement of goods employ logistics to maximize the efficient movement of freight. What these private entities are doing to move commerce is remarkable. Some testimony will underscore what is very visible to consumers, such as UPS moving 16 million packages throughout the world every single day. Other testimony will reveal a largely hidden network of third-party forwarders and warehousers and warehouse-based supply chain management. Each of these companies, through innovation and adaptability, ensure that the movement of freight across the country does not come to a screeching halt. Advancements in logistics have made our Nation's roadways, railways, waterways, and skies realtime warehouses thanks to Just in Time delivery. Yet the transportation systems that facilitate freight movements have not evolved to meet the changing demands. Logistics and technology can only help companies maximize the efficiency of operating on the existing transportation network, and the bottom line is that the existing infrastructure becomes less and less adequate to maintain our Nation's global competitiveness. While freight volumes across the globe are exploding, our international competitors

are rapidly upgrading their transportation networks to meet the needs of the global economy.

With our Nation's population expected to exceed 400 million by 2050 and freight volume is expected to grow by 60 percent in the next three decades, future demands on our intermodal freight network will require a bold new vision and approach to addressing these challenges. Providing a vision for a 21st-century freight transportation system and ensuring that funding is available to upgrade and maintain the infrastructure in which freight moves remains the responsibility of the Federal Government. We must work to bridge the gaps that exist in all modes—highway, rail, water, and air—between current system capacity and our growing goods movement needs. Robust investments across our freight network will ensure that shippers and logistics providers will have good choices to make among modes. We must also work to specifically identify and address freight bottlenecks that cause congestion, slow the movement of goods, and come at a cost to our economy.

We will hear from Mr. Abney today that if every UPS vehicle is delayed just 5 minutes each day, it would cost UPS $105 million annually. Particularly with respect to surface transportation, we do not currently have a reliable way to fund large-scale transportation investments whose impacts can be felt regionally and nationally. These high-cost projects overwhelm the ability of any State to take on and, as a result, most often do not advance. We need a dedicated source of funding outside of the existing State-based system to foster and prioritize these investments which are crucial to freight movement.

I am pleased to hear that the witnesses on this panel agree with this assessment. Some are willing to go further and recommend ways to fund freight movement. I look forward to an active discussion today and at future meetings of this panel not only on investment needs but on revenue options to meet the enormous challenges before us.

I thank you and I yield back.

Mr. DUNCAN. Well, thank you very much, Mr. Nadler.

Does anybody else wish to say anything? Any other statements at this time?

All right. We will go ahead and proceed with the witnesses. I think I have chaired about 250 or 300 hearings since I have been here. And they have thrown me. They have reversed the order for the first time. So we are going to go backwards. I guess it doesn't make any difference. It fooled me though.

Our first witness will be Mr. David Abney, the chief operating officer of UPS. Mr. Abney.

TESTIMONY OF DAVID ABNEY, CHIEF OPERATING OFFICER, UPS; TRACY ROSSER, SENIOR VICE PRESIDENT, TRANSPORTATION, WAL–MART STORES, INC.; EDWARD R. HAMBERGER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ASSOCIATION OF AMERICAN RAILROADS; SCOTT SATTERLEE, SENIOR VICE PRESIDENT, C.H. ROBINSON, ON BEHALF OF THE TRANSPORTATION INTERMEDIARIES ASSOCIATION; MARK V. DEFABIS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, INTEGRATED DISTRIBUTION SERVICES INC., ON BEHALF OF THE INTERNATIONAL WAREHOUSE LOGISTICS ASSOCIATION; AND RICHARD H. FISHER, PRESIDENT, FALCON GLOBALEDGE, ON BEHALF OF THE AIRFORWARDERS ASSOCIATION

Mr. ABNEY. Chairman Duncan, Ranking Member Nadler, and members of the panel, thank you for the opportunity to testify about how UPS utilizes logistics to move freight and the opportunities we see to improve America's productivity.

UPS plays an important role in freight transportation. I have four slides. If we can show the first slide. And you can just see that we have 400,000 UPS employees, many of which are in the United States. And we have almost 100,000 commercial vehicles. At any given time, the economic value of the goods and services that are in the UPS network are equal to 6 percent of the U.S. GDP and 2 percent of the world's GDP.

If you look at slide two, I am just going to give you a quick example of logistics in action. And in this case, we have a supplier in Los Angeles, a manufacturer in New York, and a customer in Germany. And I am just going to focus on the transportation mode changes. So it goes by truck. And then when it gets to Chicago, to our catch hub, it gets shifted into rail. It will move by rail to New Jersey. At that point, it will have another mode shift. It goes back to truck. And then it gets delivered to the manufacturer where it is added and final assembled and then again it goes by truck. And then of course it would travel by air to Germany. And then it would be delivered.

This is very common to see these shifts in our modes of transportation. And you know most times things go very well. But as the next slide will show, there are some challenges. And when those challenges occur, they can delay the movement of goods. And one of those is weak intermodal connections. So when you are trying to change from one mode to the other. Now a good example of a project that is going to correct one of these large ends is the project created in Chicago that Congressman Lipinski is involved in. We certainly appreciate your efforts there. There is always highway congestion in all the urban cities. We all know that. And then the air traffic controller delays could be because of many reasons, but our antiquated navigational system is one of those. You can see at the bottom of the slide that there is real cost to this congestion and to these delays. And as was quoted by Ranking Member Nadler, every 5-minute delay to every one of our vehicles is $105 million. And what it causes us to do is to overstaff and to put more trucks on the road than we need to to make up for the congestion.

The last slide, I just wanted to talk about solutions for a minute. And I will highlight the first three. And you can see the others. But

over the decades, America's transportation infrastructure has been built in silos. So highways were built to connect to highways. Railroads were built to connect with railroads. Congress has tried to link them together, but it is still a patchwork. And America needs a freight system that is built like a network. And I encourage Congress to take a long-term coordinated view of how the different modes can work together.

For highways, the simplest improvement that we would recommend is to increase the length but not the weight of each trailer from 28.5 feet to 33 feet in twin trailer configurations. This would allow freight to move more efficiently, reduce the number of trucks on the road, and would provide environmental benefits without compromising highway safety. Because we are not increasing the weight limit, there is no risk of further damage to highways and bridges. UPS also supports raising the motor fuels tax and indexing it to inflation.

The other mode I will mention is air transportation. And we endorse increased funding of the FAA's next generation air traffic control system, and we think those benefits have been well documented.

So I joined UPS 39 years ago. I could not have imagined the incredible growth and global commerce or could I have imagined the role that UPS plays in facilitating America's economy. But I also cannot imagine that nearly four decades later, America's transportation infrastructure would still be stuck in the 20th century. This panel can help modernize infrastructure, build connections between different modes, address global barriers to freight movement, can move our freight transportation system into the 21st century, boosting America's efficiency, growth, and competitiveness. It is a critical mission, and all of us stand ready at UPS to assist you in this vital effort.

Thank you very much.

Mr. DUNCAN. Thank you very much, Mr. Abney.

Our next witness is Mr. Tracy Rosser, who is senior vice president of transportation for Wal-Mart Stores, Inc.

Mr. ROSSER. Chairman Duncan, Ranking Member Nadler, distinguished members of this panel, thank you for the opportunity to speak with you today. My name is Tracy Rosser, and I am senior vice president of transportation for Wal-Mart Stores, Inc. I am responsible for domestic transportation, our private fleet operations, and global transportation.

Walmart's logistics network is critical to providing goods to our customers throughout the world. The ability to replenish our stores and clubs quickly and at low cost has been a key contributor to our success. Technology, innovation, and the commitment of our associates continue to drive our mission in providing customers an outstanding shopping experience that saves them money so that they can live better.

Walmart opened its first distribution center in 1970, using a system designed to quickly and efficiently replenish our shelves. Walmart logistics employs 77,000 associates at 150 distribution centers and 87 transportation offices. We run 6,200 trucks, 55,000 trailers, and we have 7,500 drivers in our private fleet operations.

And I would say that our private fleet operations is among the safest, with a 1.56 million miles per preventible accident.

Our fleet drivers log approximately 700 million miles per year, with the average truck driver logging more than 100,000 miles a year. Our distribution center network typically serves from 90 to 100 stores and uniquely caters to the needs of specific stores within a 200-mile radius of those distribution centers. They move hundreds of thousands of cases each day, and our import facilities provide efficient methods of handling international merchandise. Walmart also has nine disaster distribution centers strategically located across the country stocked with relief supplies.

We have set really ambitious strategic sustainability goals that include doubling our fleet efficiency by 2015 with solutions like cross-dock consolidations networks, lean routing, reduction of empty miles, and optimizing how merchandise gets loaded in our trailers. In 2012, we delivered 297 million more cases, driving 11 million fewer miles than in 2011. We continue to work with the trucking industry on a variety of innovative technologies, including hybrid and other advanced power trains, alternative fuels, aerodynamics, and advanced tire technologies. For 2012 alone, such reductions helped us avoid emitting 103,000 metric tons of carbon dioxide, the equivalent of taking 20,000 cars off the road. In addition, by reducing food miles between farmers and markets, reducing food waste and working with farmers to optimize production, we have been able to strengthen local economies and create logistical and environmental savings.

With over 4,000 stores in the U.S. and locations in every State, Walmart is a user of all modes of transportation, from our ports to our rail networks to our highway infrastructure. The transportation infrastructure is an asset to our country, offering a competitive advantage that should be utilized to the fullest.

Looking ahead, we believe it is important to focus on maintaining a system that yields the highest degree of safety, efficiency, and environmental stewardship. We encourage your panel to dedicate attention and funding on areas with the highest priority maintenance needs and areas of extreme inefficiency and congestion. Like other users, we have noticed that bottlenecks can develop across all modes, at points of significant freight movement, as well as in and around urban areas. When we find that customers in urban areas share a similar demand for goods and services in other areas of the country, the logistical costs of meeting those needs can be significant. In addition, as e-commerce grows, customers are demanding faster delivery tailored to their schedules. Without a focused effort to address timely movement of the freight through urban areas, restrictions and workarounds will continue to add cost, both environmental and economic. Although we pride ourselves on our ability to adjust quickly, challenges underscore the need for a national freight policy. State and local regulations often share similar goals of safety and efficiency, but the variety of measures can be cumbersome and costly to interstate commerce.

We encourage the development of solutions that address the needs of our transportation network in as uniform a manner as possible. Maintaining a strong infrastructure will also help our suppliers to remain competitive. Walmart recently announced a

commitment to buy an additional $50 billion in U.S. products over the next 10 years. As the economy continues to improve, domestic producers will rely on a lean, efficient transportation network to get their products to market quickly and cost-effectively.

To conclude, as a significant user of the Nation's infrastructure, we understand the value of our Nation's system and of ensuring that it remains competitive in the decades to come. We encourage the use and development of safe, efficient, and sustainable solutions in freight movement. We also believe that attention and financial resources should be directed towards areas in high needs of maintenance, congestion points, and challenges of urbanization.

Finally, a clear national freight policy can promote interstate commerce while meeting safety and efficiency needs and goals. Walmart appreciates that this panel has been tasked to consider ways to best meet the demands of the Nation's freight network. There is no easy answer here, and we look forward to working with you as you address the challenges ahead.

Thank you again for your time today. I am happy to answer any questions. Thank you.

Mr. DUNCAN. Thank you very much, Mr. Rosser.

Next is Mr. Edward R. Hamberger, who is the president and CEO of the Association of American Railroads. Mr. Hamberger.

Mr. HAMBERGER. Mr. Chairman, thanks to you and the other members of the committee for the opportunity to be here to represent North America's freight railroads and address this important topic.

A couple of years ago, Mr. Chairman, we came to the conclusion that the story of logistics and freight needed to be told on a wider basis. So we went ahead and put together a video. I do have a clip I would like to show you today under the theory that a picture is worth a thousand words. So this is about a minute and a half of what we believe are rail logistics in the supply chain.

[Video shown.]

It may not be as catchy as some other logistics videos I have seen, but we think it gets the point across. And I hope the point that you take away from it is that we see ourselves as an interrelated network. Obviously it was freight rail-centric, but you saw a lot of our other modal partners in it. Working together with our partners and customers here, we create jobs, grow the economy, and keep American products competitive in world markets.

Let me just get right to the end. How do we keep that going? In terms of public policy, we recommend, as my two previous colleagues did, that you continue to focus programs to improve the first mile and last mile connections where freight is handed off from one mode to another, from truck to rail or rail to truck, at intermodal terminals. Improving these connections will lead to large increases in efficiency and fluidity throughout the network.

While we have been reinvesting more private capital than ever before, $25 billion this year alone, 40 cents of every revenue dollar back into the infrastructure—as you saw, $500 billion in the last 30 years—sound public policy helps to ensure that these investments continue. So we would say, number one, please keep in place the current balanced economic regulatory structure governing our industry.

Number two, please encourage more voluntary—and I emphasize voluntary—public-private partnerships for freight rail infrastructure improvement projects.

Three, please try to improve the environmental and other permitting reviews to make them more efficient, by shortening the time it takes for these reviews of freight expansion projects, of course in ways that do not adversely affect the quality of those reviews.

Fourth, we ask that you defer consideration of any truck size and weight legislation until the congressionally mandated study from MAP–21 is completed next year.

And five, sort of more of a philosophy, ensure that various freight modes pay their own way. That is to say, the "user pay" concept has worked very well for developing and growing the infrastructure in the country. We believe that the "user pay" concept should continue into the future.

Thank you for the opportunity to testify and I look forward to answering any questions.

Mr. DUNCAN. Thank you very much.

Our next witness is Mr. Scott Satterlee, who is with C.H. Robinson, on behalf of the Transportation Intermediaries Association.

Mr. SATTERLEE. Chairman Duncan, Ranking Member Nadler, and members of the committee, thank you for the opportunity to testify at today's hearing. As one of the Nation's largest third-party logistics providers and a proud member of the Transportation Intermediaries Association, C.H. Robinson has a unique view on how goods and commerce flow from manufacturer to consumer. My name is Scott Satterlee, and I am senior vice president for C.H. Robinson. I joined C.H. Robinson in 1991. And I am responsible for overseeing the operations of our 175 U.S. branch offices which employ more than 8,400 U.S. employees.

C.H. Robinson was founded in 1905 and facilitates the movement of over 11.5 million shipments a year. We have been named the number one 3PL for 2 years in a row by Inbound Logistics magazine. Additionally, C.H. Robinson is a member of the Transportation Intermediaries Association. The TIA is a professional organization of the $162 billion third-party logistics industry. TIA represents over 1,300 member companies most of whom are small family-owned businesses.

C.H. Robinson relies on all the Nation's freight capacity to manage our customer shipments on a daily basis. We do not own equipment with wheels. So we are mode-neutral when tendering shipments. We monitor and qualify over 45,000 U.S.-based motor carriers for proper authority, valid insurance, and other data points. 82 percent of the carriers operate three or fewer trucks, and 98 percent of the carriers operate 25 or fewer trucks. Many of these companies do not have their own dedicated sales force, so companies like C.H. Robinson enhance their sales capabilities. We also have access to all Class I railroads for intermodal freight. We operate a series of gateways and consolidation centers for air freight and ocean freight and perform customs clearances as a licensed customs broker. Some shippers only use our services a handful of times when they need assistance finding a truck while other customers have fully integrated our services and even our people into their transportation departments.

So how does freight get assigned and picked up across the country in a regional or long-haul marketplace? We act as a traditional freight broker for almost all of our transportation customers. If our rates and service levels are competitive, we bring thousands of carriers of all sizes to our customers that normally would never have a chance to access their freight due to technology, payment, or contracting requirements. For some customers, we also act as a 4PL or shipper's agent by executing the routing guide. In theory, transportation should be pretty simple. If you have a load you need transported, you locate a truck, you assign the truck, and wait for the freight to deliver. Unfortunately, many variables make the matching of a load with an available truck much more complex than that. For example, weather and traffic delays, equipment failures, changing regulation, lane capacity imbalances, business seasonality, and economic conditions all add tremendous complexity to the system. In addition, systematic problems, such as short lead times and heavy reliance on expedited services, excessive loading and unloading time, poor visibility to inbound or outbound freight, and securing surge capacity during busy seasons combine to add inefficiency to the country's transportation system.

Property freight brokers and 3PLs like C.H. Robinson mitigate these factors that contribute to inefficiency by matching the right load to the right piece of equipment at the right time. Finally, we offer these recommendations where Government can reduce both chronic and unexpected exceptions, therefore increasing efficiency in the supply chain.

One, provide shippers and brokers clarity in which carriers are safe to hire in regards to the CSA program. Freight brokers and shippers should not need to second-guess the FMCSA on who is authorized to operate on the Nation's roadways.

Two, encourage our transportation system to have built-in modal flexibility. An example of modal flexibility would be an increase in rail ramps across the Nation or a viable shortsea shipping program.

Three, make sure trucking remains a great opportunity for the small- and medium-sized entrepreneurs. They provide the flexibility and service to keep our entire transportation system in equilibrium. Barriers for small carriers include California's environmental regulations which is significantly different from the rest of the country.

Four, help industry address the growing rise of sophisticated cargo theft. Regional cargo theft task forces are under increasing budgetary pressures from law enforcement agencies but provide industry and consumers valuable deterrent to a costly problem.

Lastly, ensure consistency between food safety regulations and cargo claims regulations. It is now common for a shipper to request the destruction of hundreds of boxes of food without clearly establishing proof of actual damage. 3PLs are often caught in the middle of a tension between freight cargo claims responsibility and food safety fears.

We are encouraged and optimistic that the next highway bill can and will find ways to improve the Nation's freight efficiency by addressing some of the noninfrastructure barriers to the efficient flow of freight across the country as well.

Thank you.

Mr. DUNCAN. Thank you very much.

Our next witness is Mr. Mark DeFabis, president and CEO of Integrated Distribution Services. Mr. DeFabis.

Mr. DEFABIS. Chairman Duncan, Ranking Member Nadler, members of the committee, thank you for inviting me to testify today. I represent members of the International Warehouse Logistics Association and serve on the organization's executive committee.

The IWLA is the only trade association for warehouse-based third-party logistics providers. These are companies like mine that offer warehouse-based supply chain management services to other businesses across North America.

Independent warehouses are a vital part of the economy. We best serve our customers by identifying efficiencies that allow goods and materials to move with more velocity from creation to the end consumer while navigating the legislative and regulatory waters that affect goods movement. We do all of this while constantly looking for ways to achieve efficiencies within the overall supply chain. And our success is evidenced by the fact that logistics costs as a percentage of GDP have fallen almost in half from 16.2 percent of GDP in 1981 to 8.5 percent in 2012.

Our unique position in the supply chain allows us to understand just how goods move across the country and exactly where the system needs to focus to ensure smooth commerce in the future. Today's commercial freight is multimodal. And the warehouse-based 3PL is the point at which modal interchange happens. This is one reason IWLA members' facilities are located near every major airport, seaport, harbor, railyard, interstate interchange, and why adequate access to these locations is imperative.

As I mentioned, velocity and security and accuracy within the supply chain are mission critical outputs. This is the reason that warehouse-based 3PLs provide a growing number of value-added services. These warehouses, once only big boxes where goods were stored, now may label, package, sort, blend, test, and save customers on transportation costs to speed the process. These same warehouses may also support made-to-order operations and handle returns processing and refurbishing of returns.

Warehouse-based 3PLs also play a key role in another growing segment of the economy, Internet commerce. This increasing amount of e-commerce sales means more shipments are being delivered directly to the consumer. This fact demonstrates that commercial freight does not just move on interstate highways but extends all the way to the residential doorstep.

This new model, based on value-added services, exposes warehouse-based 3PLs to regulations that previously only applied to manufacturers. One distinction between the warehouse and manufacturers is important to keep in mind. Warehouse-based 3PLs do not own any of the products that move through our facilities. Ownership of the goods remains with the customer and the relationship is that of a bailor and bailee governed by Article VII of the Uniform Commercial Code. It seems that this relationship is often not understood or considered during the drafting of Federal rules and regulations. While warehouse operators are prepared to live by rules and regulations governing the handling and storage of various

products, we can only act upon the direction and information supplied by our customer, the bailor. As bailee, we should not be held to the same level of liability that applies to the owner of the goods.

From its unique position in the supply chain, the warehouse-based 3PL can see and is directly affected by bottlenecks and choke points within the commercial freight network. These often manifest themselves at the warehouse where increased costs are incurred to keep the supply chain moving in a coordinated fashion. A strong logistics industry enables a healthy and growing economy. But a strong logistics industry is only possible with freight policies that support the needs of the 21st-century supply chain.

With this in mind, the members of the International Warehouse Logistics Association ask the committee to consider the following: Develop new approaches to infrastructure financing for all commercial transit modes. These can come via traditional revenue sources and through new sources, such as user fees, mileage-based taxes, and greater use of private investment. Implement policies to ensure that revenue designated for commercial freight projects cannot be diverted in the same way that Highway Trust Funds are today. Guarantee that fees that are collected on imports at the ports through the U.S. Harbor Maintenance Trust Fund are used for their intended purpose, dredging and maintaining the Nation's ports and waterways. Also, with expansion of the Panama Canal, many ports will need dredging to accommodate the larger ships transferring through the canal.

We have made other recommendations as a part of our written testimony, and we would ask your attention to those as well. But on behalf of the International Warehouse Logistics Association, I thank you for your time. And our industry stands ready to work in partnership with the committee on ways to enhance commercial freight movement that would result in economic growth for the economy.

Mr. DUNCAN. Thank you very much.

Next is Mr. Richard Fisher, who is the president of Falcon GlobalEdge, for the Airforwarders Association.

Mr. FISHER. Chairman Duncan, Ranking Member Nadler, and members of the committee, thank you for inviting me to testify before the committee today. I also would like to thank Chairman Shuster and Ranking Member Rahall for setting up this important panel.

My name is Richard Fisher, and I am president of a forwarding company called Falcon GlobalEdge, and I am also chairman of the Airforwarders Association. Falcon GlobalEdge is headquartered in Boston and operates both domestically and internationally.

Today I am testifying on behalf of the Airforwarders Association. Our association represents 360 member companies, employing tens of thousands of employees and contractors. AFA members range from small businesses to large companies employing thousands, with business models varying from domestic to worldwide operations, with some members operating their own aircraft. In short, we are the travel agents for freight. We move cargo throughout the supply chain in a time and cost efficient manner regardless of the transport mode that is chosen.

The global economic downturn continues to erode forwarder margins in the face of increasing costs. And these expenses only escalate as the regulatory web expands. For example, in the case of an air shipment between Washington and Paris, the timely delivery of our customers' product is dependent on a myriad of U.S. Government agencies and regulations beginning with TSA and CBP. It is critical that both FAA and CBP are adequately staffed to manage flights and clear shipments quickly and efficiently. When going to or from the airport, shipments that move by truck fall under the purview of the DOT, and the trucker himself falls under the oversight of FMCSA. Ultimately, one import shipment arriving in the United States could meet 13 regulatory agencies at our border, and delays can and will result. Sun Tzu once said, "The line between disorder and order lies in logistics." True in war and in forwarding.

Aviation is a key for many of our members' businesses. According to the International Air Transport Association, air cargo transports over $6.4 trillion worth of goods on an annual basis, amounting to 35 percent of trade by value.

Allow me at this point to thank the committee for resolving the FAA furlough situation and keeping our control towers open and operating. As an industry, we are heavily dependent on passenger carriers. As an aside, the administration's proposal to impose billions of dollars in new and higher aviation taxes should be flatly rejected. It is in our Nation's economic interest to have a healthy and robust aviation sector, and increasing taxes on airlines runs contrary to this goal. Our industry's operations are immensely complicated by new regulatory burdens. Conversely, the Government can assist by continuing to support the modernization of our antiquated air traffic control system by deploying what is called NextGen which has been alluded to by my colleagues. The benefits of NextGen have demonstrated that the technology can save flight time, greatly increase the safety of flight operations, and reduce emissions. I urge this committee to maintain its strong support for NextGen development.

AFA members and their customers see the impact of high fuel prices every day by paying higher freight rates and higher prices at the pump. Still, we also realize that our shipments require good roads and bridges to get to and from the airport, and current funding sources are insufficient to maintain this vital infrastructure. For example, one in nine bridges in the United States remains structurally deficient. Proposed solutions range from increasing the Federal gas tax to a vehicle miles traveled tax. Before embracing the higher tax, we need assurance that existing taxes are being invested as intended. Given the new hours-of-service regulation that will take effect next Monday and requires as many as 40,000 new truckers, it is even more critical for the CSA program to better work for industry. We need to have surety on who is authorized to operate on our Nation's highways.

In conclusion, I urge members of the committee to remain vigilant on the promulgation of additional regulations and its impact on the freight industry. Thank you for this opportunity. And I will be happy to answer any questions you might have.

Mr. DUNCAN. All right. Thank you very much.

I apologize, but we do have two votes going on on the floor right now. So we will have to be in recess until we conclude those votes. Thank you.

[Recess.]

Mr. DUNCAN. All right. I am sorry that we got interrupted by votes, and then we only had two votes but we had to have an announcement about the women Members' softball game tonight, so obviously, obviously very important business on the floor of the House, but we certainly appreciate all the testimony that all of the witnesses gave and now we will get into a little discussion.

Mr. Abney, as you understand, I think, the purpose of this panel is to try to coordinate all our different subcommittees and come up with a way to always be trying to improve our freight mobility or freight transportation system, and you said in your testimony that our present system was built in silos and is more a patchwork of modes.

If you could change one thing about how the Federal Government addresses our freight system, what would it be? What is the big thing that you see for UPS?

Mr. ABNEY. You know, the big thing for us would be long-term planning that would link the intermodal connection. So, those strategic locations in the U.S., whether it be for national importance or whether they be regional, but if those intermodal connections would be strengthened where we do switch from ocean to ground or from ground to rail, and Project CREATE is a good example of an area that is focused on that. But right now we just see that highways are meant to connect with highways and the railroads to railroads, and that would be the area we would like to see the biggest focus on.

Mr. DUNCAN. Mr. Rosser, you want to take a stab at that?

Mr. ROSSER. Sure. Thank you, Chairman, for the question. I think you are already doing it, frankly. When you think about the issues that you are addressing, I think you are nailing it, so studying the problems, continuing research and engagement with the private sector like you are doing to understand where the issues are, continue to invest in the intermodal network in terms of identifying and finding those areas that add costs. So, our business, we are all about helping our customers save money so that they can live better, and those issues that Mr. Abney talked about are critical issues that add cost to our customers, and I think solving those issues on behalf of those constituents is a really important thing.

And so I would just add, focusing on those things that improve the safety and efficiency of the network in total.

Mr. DUNCAN. Let me ask you something else I am a little curious about. When, oh, I think just about a year after 9/11, the FedEx people told me that they had spent about $200 million on security measures that they wouldn't have spent if it hadn't been for 9/11, and it just really boggles my mind how much we have spent on the Federal level, the State level, all the local governments, and then all that the private companies have spent on security, and now we have this huge industry related to security.

Is that spending, has it leveled off? I guess what I am thinking about, is a few months after 9/11, the Wall Street Journal had an editorial, and they said they noticed that all the departments and

agencies were sending up requests for additional money for security and they said, from now on, a wise legislative policy would be that anytime the word "security" was mentioned, a wise legislative policy would be to give it twice the weight and four times the scrutiny, yet we are not doing that. The Congress votes for anything that has the word "security" attached to it. Then I go to these ports and I go to all these places and I see all the trucks have to stop and go through the machines and all that kind of stuff, and it just seems to me we have gone ridiculously overboard on all that stuff.

But are your companies, or your association, what do you say? What do you find in that regard? Are you still having to spend a lot of money on security? Anybody?

Yes, sir, Mr. Abney.

Mr. ABNEY. Yes, I could answer for UPS, and the answer is that it continues to grow, and I wouldn't tie it to just 9/11. I would tie it to all the terrorism activity that has happened throughout, and one of the areas that we are really working on and working with the Federal Government on is to take a risk-based approach. So while we deliver almost 16½ million packages a day, most of those packages, we would have no reason to suspect. So with the technology that we have that can put various parameters in and tying it into the Federal Government system, we can zero in on those areas that are—have the most risk of security, and that would be a better use of the dollars and it would allow you to target versus this shotgun approach.

Mr. DUNCAN. Well, I just think it is sad that we are spending so much money on all of that. But Mr. Hamberger, in your testimony you mentioned the first mile and last mile connections are vulnerable to disruptions. Can you elaborate on that a little bit? What are your solutions there?

Mr. HAMBERGER. Well, I think one of the areas that you probably saw when you were out in southern California concerns the transfer points from the ports to a railyard. For example, I know that one of our members has been working for 8 years to get an intermodal transfer station sited. We need to focus attention on improving the regulatory permitting review system. That station is going to take millions of trucks a year off the road, and they finally got their approval this year. And now, of course, they will be in court for the next couple of years fending off challenges. But it is that transfer point from one mode to another which needs attention.

Mr. DUNCAN. All right. I have got many more questions, but I am going to go now to Mr. Lipinski first.

Mr. LIPINSKI. Thank you, Mr. Chairman. Thank you for holding this hearing on logistics. I appreciate the participation of all the witnesses today, and a couple of things that I just want to mention, I probably won't have time for comments on this, but I just want to make sure I mention the—I think next year, and was mentioned as I think that is very important, that we move forward more quickly on that than we have, and also, what Mr. Nadler had mentioned in his opening comments about the importance of having a Project of National and Regional Significance, a fund so that we can make sure that we get the funding that is needed for some of these really, really big projects that are critical to our Nation.

Mr. Abney, I appreciate your package flow example in your comments about CREATE and how important CREATE is when we are out in the ports of Long Beach and L.A. They talked about the importance 2,000 miles away of how important CREATE was to them.

Your testimony highlights that Illinois is the transportation hub of the country. You know, I have the honor of representing Hodgkins, which is home of the UPS Chicago Area Consolidation HUB that you reference in your example. The facility employs over 6,000 people and forwards 1.3 to 1½ billion packages every day. It is also located adjacent to the BNSF Chicago Willow Springs intermodal facility which opened at the same time as the HUB in 1995. I visited that complex a number of times. I more was impressed not just by the logistics used there but also the men and women who work there.

So, that example that you had shown us, Mr. Abney, I had noticed and actually Mr. Nadler had mentioned this to me as he was leaving, what impacts the decision about what modes to use, because I noticed it was as you moved by truck from California to Chicago and then by rail from Chicago to New York. What influences those decisions?

Mr. ABNEY. Excellent question, and we have noticed that over the years, too, believe me, and you know, we put over 3,000 loads or containers a day on the rails. We are one of the largest customers and we have been doing that my entire career at UPS. What causes us to put this particular segment on the road is time in transit. If we truck it to Chicago, we can cut at least a day's time in transit the way it works with the train schedules, and so we look at each of these lanes and where we can place it on the rail and maintain the time in transit, we certainly do so. That is our first option. Where we can improve time in transit, we have to measure the increased cost compared to the customer demand, and in this case to be able to reduce the days, time in transit, we put it on the road.

Mr. LIPINSKI. But know you do move by rail also from—out from southern California to the Willow Springs CACH, I understand.

OK. I wanted to ask Mr. Rosser. You had talked about increasing your efficiency of your trucks on the road. How did you, as a company, increase the sufficiency of movement?

Mr. ROSSER. Thank you for the question, Congressman Lipinski. So, we had an objective set forth back in 2005 where our CEO challenged us to double our fleet efficiency, our own trucks that we operate by 2015. I am glad to say that we are about 80 percent there and still have some work to do.

Our focus has been on moving the most cases over the fewest amount of miles and in the most efficient equipment. So kind of a three-pronged approach, and the way we measure our efficiency is cases shipped per gallons of fuel burned, is how we measure that. I will tell you that in 2011 we delivered 297 million more cases and avoided 11 million miles. And I stated earlier, too, compared to 2007, we moved 658 million more cases, driving 298 million less miles, which saved us about $875 million that we were able to pass along that savings to our customers.

If you think about the approach, I will tell you that we are probably a little biased and we think we have the best truck drivers

in the industry that are working for Wal-Mart Stores, and it starts with our people, and our truck drivers are very cognizant of fuel economy in our tractors. We work on some of the basics relative to fuel economy with engine calibrations, driver training, managing our speed, our maintenance programs, things of that nature. We are constantly looking with—at advanced technology with our vendor partners, looking at aerodynamics, weight, things of that nature, fuel efficient tires, et cetera. And then the other things that we are looking at that are fairly basic is just increasing what we are able to put on the trailer.

We work with our merchants and our suppliers to reduce packaging size, so we are able to move more product in our trailers with more efficient packaging. We have used technology with loading techniques in managing our loading techniques to get more cases per trailer. For us, one additional case per trailer can save us and our network about $680,000 over the course of a year just getting that one extra case per trailer.

We look at delivery frequency to our stores, multistop networks. We optimize the—utilize technology to reduce our network miles driven. Our supplier base is constantly changing. Our ship points are constantly changing, and so we have to constantly evaluate what the network looks like, and we do so on an ongoing basis to reduce miles driven, and so I will tell you that, you know, it is not any one thing. It is a recipe of a variety of basic fundamental operations that have allowed us to reach the 80 percent point of our goal.

Mr. LIPINSKI. Thank you. I had another question, but let me just throw out if we don't get another round, I just wanted to—I was going to do this for a question for the record, Mr. Fisher and Mr. Abney, about the impact of night tower closures at airports because I know Midway, in my district, was threatened with that, Ontario was also threatened with that, and just interested in the impact, if that happened in the future, which is still threatened. But way over time now, so I yield back.

Mr. DUNCAN. All right. Thank you very much. Mr. Webster.

Mr. WEBSTER. Thank you, Mr. Chairman. I had a question for Mr. Hamberger. Are there any Federal laws that are impeding efficient freight transportation?

Mr. HAMBERGER. I think there are, as I mentioned, environmental permitting regulations that are slowing down the siting.

Mr. WEBSTER. OK. I will add that to my question, too, Federal regulations.

Mr. HAMBERGER. Slowing down the siting of intermodal yards. I mentioned the one in southern California. What I have learned this morning is that at the other end of that yard where the railroad wanted to move the trailers and the containers across the country to Edgerton, Kansas, there was a dry riverbed. That situation led to a lawsuit before the State Supreme Court of Kansas challenging the Corps granting of a 404 permit to build an intermodal yard around that dry riverbed. So those kinds of regulations are something that I know the committee worked on in MAP–21. I know you have tried to do it in WRDA. If that moves, we would ask that you take a look at some way of streamlining regulations in the rail infrastructure building arena as well.

Mr. WEBSTER. All right. Thank you.

Mr. Abney, how do you see the emergence of e-commerce affecting the logistics chain?

Mr. ABNEY. You know, it has had a big effect on our business. It at one time, the largest part of our business, is about a little more than 50 percent now, was from shipper to another business, so B to B. And so we were delivering 50 to 100 packages to a commercial stop. Now we see a lot more B to C, which is going to be one, one-and-a-half packages per stop, and it is just a fact of life and it is one thing that through our technology has allowed us to make changes to where we can address those needs.

So, now we have an example of that, is UPS My Choice where an end consumer that has got a package coming to their house can request to have that package redirected, redirected to their office, redirected to their neighbor or held for a day until they are going to be home. So it is those kind of creative things that we do that allow us to adjust to this change. But—and we see it especially during Christmastime. You know, the percent of packages that we deliver to residential neighborhoods increases greatly and we have had to adjust our network to that.

Mr. WEBSTER. Thank you. Anyone else on that question?

Mr. DEFABIS. Congressman Webster, I would also say that what we—you know, as e-commerce grows, there is a number of services that are offered through UPS, FedEx, other parcel carriers, that also are these hybrid services that utilize the U.S. Postal Service for last-mile delivery for some of these lighter weight packages, and I would say that as we look at logistics in total there probably is some role that the Postal Service is playing today to facilitate e-commerce for delivery of those lightweight packages that needs to be considered as well. And as I said in my comments, the commercial freight now with e-commerce is moving all the way to the doorstep, so we can't just say that it is moving on the freeways. It is really moving into the residential streets, and how are we going to efficiently do that.

Mr. WEBSTER. Thank you. Yes, one more.

Mr. FISHER. The Airforwarders Association, Mr. Webster, has a slightly different view. As it applies to our business, we just recently endorsed IATA's e-Air Waybill initiative, which is to transmit all information to air carriers in a standardized fashion electronically. We are a paper dependent business and have been for years, so we will see in the future all of that information going electronically to carriers, which will make us more efficient and make the carriage of freight more efficient as we go forward.

From a personal perspective, in my own company, we have been electronic now for several years. We don't like paper. We have tried to get rid of it. All of our communications to our other offices are done electronically. There is very little document transfer, so it is the wave of the future for logistics to embrace e-commerce in that fashion.

Mr. WEBSTER. Thank you. Thank you, Mr. Chairman.

Mr. DUNCAN. Thank you very much. I am going to go to Ms. Hahn, but I do have to tell you that people used to say that we had to go to all the computers to cut down on the paperwork, and

all it has done is greatly increased the papers that come into our offices.

Ms. Hahn.

Ms. HAHN. Thank you. I really appreciate everyone coming here today and listening to your testimony, and I, too, always want to give a shout out to Chairman Shuster and Ranking Member Rahall for agreeing to impanel us to, as I understand, the first time come up with recommendations for a national freight policy as we move forward. So, I know everyone on this panel is listening very intently to your suggestions and your recommendations as we really try to come up with a national policy, understanding, fundamentally, how important goods movement is to our economy, to being competitive globally, to creating good jobs. So this is really, I think, a great moment in our history as we move forward to create one that makes a lot of sense.

And one of the things I was going to ask, and any of you could respond. Should we look at doing something really bold like really start to talk about opening our ports for off-peak cargo movement? I know in 2002, when I traveled to Hong Kong and Singapore and saw those ports operating 24 hours a day 7 days a week, I came back to Los Angeles and spearheaded what has been sort of an incremental program. It's called PierPASS and it has been pretty successful in moving cargo off peak. It is now 4 nights a week, and you know, maybe 1 day on the weekend, maybe not. Wondering how that would impact logistics for all of you if you weren't always trying to meet gates that were only open certain hours, and is that something we should look at as a policy for all of our ports in the country?

I would like to hear your responses on that.

Mr. ROSSER. I will take first stab at that. Thank you for the question, Congresswoman Hahn. So our customers shop our stores 24 hours a day. And what we try to do in every decision we make is we start with what does the customer want, what do they expect, and then we work to solve their need. And as a consequence of our customers wanting to shop 24 hours a day, most of our stores are open 24 hours a day.

Ms. HAHN. You know, I will say, Walmart was one of my partners when we were crafting the off-peak cargo movement policy at Los Angeles-Long Beach.

Mr. ROSSER. Yes, and thank you. And our distribution centers operate 24 hours a day and our trucks are running 24 hours a day, trains are running 24 hours a day, and I would just—I would tell you that to the extent that we can fully utilize the assets that the country has, you know, we are open to those discussions to have, you know, the discussions where we can operate safely and efficiently and fully utilize the great assets that we do have as a country.

Ms. HAHN. Thank you. Anybody else?

Mr. FISHER. Yes. Thank you, Congresswoman Hahn. I want to congratulate you on the PierPASS program and which you have implemented, but I have to tell you I was terrified by it when I first saw it, but we have adapted, and I think that knowing that ocean transportation is an imperfect science, if many more ports had PierPASS programs and more open gate programs, we would

be much more successful in getting product to our customers. I think it is a good idea.

Ms. HAHN. Well, you know, it was one of the things I thought about when I worked on that was, again, I mean, obviously I would like to fix every highway, every bridge, widen freeways, more near dock, on dock, I would like to do it all, but in the meantime it seems like we could utilize our current infrastructure more efficiently, smarter, and it would give a lot of the goods movement industry an opportunity to travel our roads when the commuters are also not on the roads. I know that the truck drivers would love to not have us on the road with them because they don't think we know how to drive either, so I think it would, you know, really sort of move cargo, I think, in a more efficient way.

The other thing—my time is almost up—you know, I am a big believer in spending the money that we are collecting for the purpose for which it was collected, and the harbor maintenance tax has been collected year after year after year. We have an $8 billion surplus. We are not spending that money for the purpose it was intended, which was to, first of all, dredge our harbors and ports and waterways so that we have, you know, efficient movement of cargo. So, I am advocating that, I have a bill that would encourage us to spend that money and also possibly look at—you talked about the last—the first mile and the last mile. I also think it would be something we might look at if ports have already completed their dredging. Is this money that we could use for landside infrastructure and improvement? I mean, we worry about cargo being diverted to ports in Canada, in Mexico. I have always been told that the number one reason cargo is diverted is not for some new regulation or environmental fee that we place on containers, but it is because of landside congestion. You-all want that stuff in and out and to the destination as quickly as possible. So I would like to hear you give an affirmative to Congress, actually, as part of this policy, spending the tax for the purpose it was intended in the locations that it matters. Please, please, please nod your heads affirmatively out loud for the record. You think that is a good idea that we should?

Mr. HAMBERGER. Yes.

Mr. DUNCAN. All right. Well, thank you very much, and we do need to do more with that harbor maintenance fund.

Ms. HAHN. Yeah, we got it.

Mr. DUNCAN. Mr. Hamberger, you mention in your testimony that the railroads are ready to handle the traffic from the expansion of the Panama Canal, and you know, this is my 25th year on this committee, and I can remember many years ago when they thought a 4,000 TEU ship was a pretty big ship, and then they started talking about, they thought an 8,000 TEU ship was huge, and now, of course, they are talking about—it is just mind boggling, the ships they are talking about.

So, everything is in this together. I mean, when we were out in California, for instance, Matt Rose told us that his biggest customer now was the Hunt Trucking Company then, and he said a few years ago they were 90 percent trucking, 10 percent by rail. He said today they are 80 percent by rail, and there are other examples like that that I can give. But are there any particular choke points? Are there any places—for instance, all the ports are want-

ing to expand and so forth. Are the railroads set up to handle big increases from most of these ports or are there particular places where we need to do more?

Mr. HAMBERGER. Well, of course, it is my job to answer yes, we are ready. But in fact it is impossible to predict exactly how the opening of the canal will impact traffic. There are so many factors that come into play, depending on what is being shipped. Is the timeliness of transit the most important thing? Is it the cost? What is the fee at the canal going to be? What will the landside facilities be? Will the ports be dredged? Which ports will be dredged? So it is impossible to predict exactly what the impact will be on the flow of commerce. But what I am trying to get across in my testimony is that our members are in fact investing with ports. I know in Florida, major investment is going on between the State and the Florida East Coast Railway. CSX is trying to make sure that the port in southern Florida is ready; the east coast carriers are spending money to be able to double-stack their tunnels. Tunnels maybe 100 years old weren't designed for double-track or double-stack and so a lot of money is going into that. The intermodal yards that are being built in the center of the country are BNSF's investments out there and Union Pacific's investments on the west coast.

So, we hope we are ready, we think we will be, but it is not something that is sneaking up on anybody here. Everybody is trying to be best positioned to handle the flow of commerce wherever it does hit.

Mr. DUNCAN. Well, I guess—and you have covered some of it, but what I guess partly of what I was aiming at was like in southern California we saw that at the ports most things have to be trucked out to where the railroads are, and I am just wondering, are there places, the Panama Canal or other places in the country where we really need to expand the rail capacity or the lines coming in, anything like that? Are there any particular places where you see that we may have a problem in the years ahead?

Mr. HAMBERGER. Well, let me get back to you for the record on that, but just to draw your attention to the fact that again each one of these Class I's has corridors in mind. I would be remiss if I didn't join Mr. Abney in thanking Mr. Lipinski for his leadership on the CREATE project. One-third of all railcars originate, terminate, or transit through Chicago, so that is an area we have been focused on and we need to get that to conclusion.

But let me get back with more specifics for you.

[The information follows:]

> As the committee knows, freight railroads fully maintain and develop their transportation infrastructure. As a result, the freight rail industry is among the most capital intensive of any of America's industries, annually reinvesting about 17 percent of its revenue back into capital investments in the rail network. A significant percentage of these expenditures is used to expand capacity to handle

more rail volume more expeditiously. Investments considered each year by the individual freight railroads include:

- adding new track to existing right-of-way, such as a second main line;
- adding or extending new sidings on existing right-of-way;
- constructing new intermodal or transload facilities;
- new, technology-based expansion, such as signaling dark territory;
- new locomotives that increase the horsepower capacity of a railroad's fleet.

Railroads evaluate a wide variety of factors in making these investment decisions—including present and future traffic demands (as determined by railroads working closely with their customers at ports and elsewhere) and the expected return on their private invested capital. Our Nation's freight railroads are in a good position now, and are working diligently to be in an even better position in the future, to offer the safe, efficient, cost-effective service that their customers need no matter where those customers are, no matter what the freight is, and no matter where the freight is going. America's freight railroads have reinvested $525 billion (including maintenance expenditures) since 1980—including $25.5 billion in 2012—to create a freight rail network that is second to none in the world. If there is any area where railroads could use assistance in developing the infrastructure necessary to support the Nation's growth, it would be in having the ability to have an expedited environmental permitting process particularly as we need to add intermodal and other terminal capacity.

Mr. DUNCAN. OK. All right. Mr. Satterlee, you mentioned the need to reduce chronic delays due to congestion. You got into that pretty much in your testimony. Are there any ways in which you feel we can better allocate or better use our transportation funding to go at this congestion problem a little bit better? I mean, we all know it is there. Then, too, you mentioned that the typical lead time for shipments is only 48 hours. Are there any ways that you know of that, you know, that we could work on that or do anything to help on that?

Mr. SATTERLEE. Thank you, Mr. Chairman. Your question is a very good one. You know, it is challenging to answer when you think about all the different sorts of investments that you could make. You know, we think a little bit about congestion. We think about the supply chain as a whole. It is really about trying to drive as much efficiency and streamlining and simplifying things, you know, as necessary. And so, you know, from an infrastructural standpoint, you know, ways to be able to create opportunities for a more efficient transportation over the road with the asset-based players, you know, to be able to get from point A to point B more efficiently within the regulatory laws, investments in the road systems, all those sorts of things are, I think, have been discussed and are very important. And we think about it from a 3PL standpoint. You know, it is really about creating as much flexibility as you pos-

sibly can to be able to make as efficient and drive out inefficiencies by, you know, really decongesting, you know, the flow information and the flow of, you know, the transport of the goods themselves.

And so the—you know, the specific things that would help from an infrastructural standpoint, I made a couple of comments, increasing rail ramps and the regulatory laws that may affect or help improve things like shortsea shipping programs, kind of like Congresswoman Hahn was referencing, you know, those things help speed up the infrastructure and the flow of goods. And so, you know, what we see is there is some things that affect both infrastructurally and regulatory that we think that the Government can put a little bit more energy in.

Mr. DUNCAN. All right. Thank you. Mr. DeFabis, tell me about your business. All of you, all of the witnesses today know much more about their businesses than I do, but I know probably the least about your business. And what I am wondering, I am wondering several things, but tell me a little bit about your business. Did you see a big downturn 2 or 3 years ago, and is it coming back now, and what do you see in the future for the warehouse logistics business?

Mr. DEFABIS. Thank you, Mr. Chairman. Well, in general, I think the warehouse logistics industry in the recent recession did see a downturn. Our particular business, my company is actually in the—80 percent of our revenue is from e-commerce, direct to consumer business, and we held up pretty well during that period of time and continue to see growth based upon the growth of e-commerce. I think more recently the general industry, warehouse-based logistics continues to see good growth because of the increasing reliance of manufacturers and others to outsource their logistics needs, and to concentrate all of their time and effort and capital on the things that are their core competencies and let someone like a warehouse-based 3PL begin to handle the logistics side of it as efficiently as possible. And that is why I think you see more activities being done within the warehouse that were traditionally done at the manufacturers, whether those be sub-assembly work, refurbishments, repackaging kinds of activities, is that the manufacturers are starting to stick to the knitting, so to speak, and let those that are more appropriately placed begin to handle those activities. Also, they can save on the transportation cost. Since you have your products in a warehouse, don't move them from there to somewhere else to be repackaged, redone, then moved back to a warehouse to be delivered to an end customer. Leave them at that point and do as much of these value-added services as you possibly can before you move them out to the end user.

But I think the industry continues to be very bright. If you look at the amount of Fortune 100 and Fortune 500 companies that outsource to 3PLs, that is going to continue to grow over time.

Mr. DUNCAN. Well, thank you. Mr. Fisher, you mention in your testimony, you discuss the negative impact of regulations on time-sensitive freight movements, and in another committee on which I serve, a few days ago there was an expert who described herself as a progressive or liberal Democrat who generally is in favor of more regulations, but she said—and I have got the quote here. "At the time each rule is created, it made sense, but over time, the in-

creasing of rules and regulations ends up costing us money and frustrating the public and destroying jobs." And what I am wondering about, are there any specific regulations that you see as especially burdensome?

Mr. FISHER. Thank you, Mr. Chairman. My testimony did indicate that we, as an organization, as the Airforwarders Association, along with other associations represented here today, are very concerned with FMCSA's new regulations under the CSA program. As you know, hours of service are going into effect on Monday, CSA is one of many acronyms that we deal with every day. Stands for compliance, safety and accountability, and within the CSA, there is a measurement system that is being promulgated called SMS, which stands for safety measurement system. We are concerned that recent statements by FMCSA stated that is not the case, that it is actually a prioritization system and doesn't have as much to do with safety.

The point is, all of us in industry and our customers need to have a clear idea of what Government wants us to do, and there is much confusion about the promulgation of this regulation. In fact, there are a couple of lawsuits pending against FMCSA on this very subject. So that is just a microscopic version of one of the regulations that could add cost, add litigation and slow down the delivery of goods to our customers.

Mr. DUNCAN. All right. Thank you very much. We are going to bring this hearing to a conclusion here in just a minute, but let me just ask you. One of the big things we are discussing here now or about to discuss is the Marketplace Fairness Act, Internet and sales tax. In every article you read, everybody says that we are going to go more and more with each passing year to doing business over the Internet. Well, each of you or some of you tell us what effect you think that will make on your businesses and what it means for our freight mobility and for our transportation system.

Mr. Abney.

Mr. ABNEY. Well, we certainly see the e-tailers growing their business quicker than most of the brick and mortar companies. What we are seeing, though, is more and more of our customers that do have that brick and mortar are moving to this omni-channel distribution to where they are looking at how they can utilize their brick and mortar and be able to compete with some of these large e-tailers.

A good example of that is a retailer with 100 different stores. If they do have a customer that wants a product that is not in their store, obviously the second choice would be to ship it from distribution into that store and then ask the customer to come back and pick it up. Now, what we see them do is they have total visibility to their systems and they look at which is the nearest store that has that product, and instead of asking the customer to go to that store or shipping store to store, they will ship it from that other store and then the next day be able to deliver it to the customer's house or their residence. That is a way that they are able to compete more with the large e-tailers. And we are seeing a lot of interest in that area, and we are tailoring products and services around that retail part of our business where people can use this omni-channel distribution.

Mr. DUNCAN. All right. Mr. Rosser, you know, I am a big baseball fan, but I have said for a long time that I don't believe the national pastime is baseball. The national pastime is going to Walmart on Friday or Saturday night, and I have found out that that is a really good place to campaign. You may not realize it. I don't set up headquarters there, but if I have some free time, I can always go in to buy some toothpaste or shaving cream and see a lot of people. Tell me how is Walmart—what effect Walmart is going to have if——

Mr. ROSSER. First of all, Mr. Chairman, thank you for your business, and we hope you had a great experience at the store, too. I will tell you in conjunction with what Mr. Abney said, it is a rapidly growing segment of business just in general, e-commerce network, and in my testimony I stated that we have over 100 distribution centers. Well, what we are finding is exactly what Mr. Abney said. We have over 4,000 distribution centers when you think about the role of e-commerce in our network to help support our customer needs. In the e-commerce channel, generally what you will find is that customers expect immediacy in terms of response, and from the time they order their product to the time that they want it delivered, but what we are also finding is that customers want a degree of flexibility. There is some items that they do need quickly and there is some items that they can actually wait to get, maybe a little bit longer than today. But what we are trying to do is come up with solutions and a menu that allows us to meet whatever the customer's needs is. And I would just tell you that the solutions are out there in terms of delivering from our supplier through our distribution centers to our stores, what we call site-to-store. We have options out there for our customers so that we can actually order fill from our stores and send product directly to the customer's homes. So there is a variety of different solutions that we are actually testing right now across our entire network. So we are learning each and every day how to meet that customer's needs and I will tell you that we are working with all of our suppliers, our transportation partners to understand how we accomplish that mission to solve that equation for the customer. But it is a rapidly growing opportunity for the American consumer.

Mr. DUNCAN. All right. Anybody else?

Mr. DEFABIS. I would say that the e-commerce segment is probably one of the fastest and most entrepreneurial segments of the economy right now. E-commerce entrepreneurs are coming up every day and we see them all the time. That is who basically our customers are. I think that what is driving e-commerce is convenience for the customer. Some of it is price. It is selection and being able to shop over multiple vendors conveniently at home on multiple devices is what is driving that. If you want my personal opinion in terms of any impact that an e-commerce sales tax may have, I don't know that that is a big driver of e-commerce sales one way or the other. I think there are other factors that are driving the e-commerce economy.

Mr. DUNCAN. You think that is being somewhat exaggerated, huh?

Mr. Fisher, do you have any suggestions on how we could make the TSA or the CBP operations a little more efficient or a little less time-consuming?

Mr. FISHER. Thank you for that question, Mr. Chairman. I have been afraid you would ask me that. I can tell you that both of those agencies believe in stakeholder involvement, and as an association the Airforwarders Association has been the go-to association for both TSA and CBP, more recently CBP under different programs, but we have found the private-public partnership with TSA to work very, very well. CBP historically has been known for their sharing of stakeholder information and using stakeholder information to develop programs. We are working currently with other organizations on the ACAS program, which is an advanced cargo air screening program, which is combined authority with TSA and CBP, and that program is coming along quite nicely.

I don't have any really other suggestions as far as those two agencies are concerned.

Mr. DUNCAN. All right. Mr. Lipinski.

Mr. LIPINSKI. Thank you, Mr. Chairman. I know that we have some witnesses who have some time constraints here, so I will just be pretty quick here. Projects of National and Regional Significance, which I had mentioned before, do you—I just want to ask all of you, do you believe that it is important that we do what we did in SAFETEA–LU, have such a program and pay for it out of the Highway Trust Fund? MAP–21 had a program for 2013, subject to appropriations. There are no appropriations. It is not authorized for 2014. But this is a way—there is some major projects in the country such as CREATE, but that is not the only one that can only be really—we can only really get completed, I believe, with large sums of money, and they are not going to go through formula funds for the States, they are not going to get it done that way. So does anyone have any thoughts on that, the need for such a program?

Mr. HAMBERGER. Mr. Lipinski, I think you have it spot on. Yes, there is a need for such a program. I don't think you can expect a county in southern California to be able to deal with all the commerce coming through L.A.-Long Beach. You can't expect Cook County to deal with all the commerce coming through Chicago. So there needs to be Projects of National and Regional Significance. Whether or not they are funded in or out of the trust fund is an item that can be discussed, but the concept of recognizing that there are such projects was an important step forward when Congress did take that step.

Mr. LIPINSKI. Does anyone else have any thoughts on that? And I certainly think it needs to be in the trust fund or else we are subject to the whims of the appropriators who aren't likely, just like we saw in 2013, to—it was zero funded there.

Just very, very quickly, what I raised earlier, Mr. Fisher, Mr. Abney, the effect of if there are nighttime closures of towers, I don't see how we, right now, avoid doing anything but a CR for next year, so on October 1st we will once again be faced with, you know, FAA is going to have to make cuts, tower closures may again be out there. So how would those nighttime tower closures impact you?

Mr. Fisher.

Mr. FISHER. Well, closures would likely affect UPS more than members of the Airforwarders Association, but there would be

delays for us as well. Any tower closure, regardless of the time of day, is going to affect transportation of air cargo, but particularly nighttime closures would affect the integrators more than forwarders who are putting their shipments on passenger aircraft, although there would be, obviously, some effect on those passenger flights, but our shipments are time critical. We cannot afford any delays, and tower closures anywhere would cause us a problem.

Mr. LIPINSKI. Mr. Abney, you have anything to add to that?

Mr. ABNEY. I do. For UPS, our biggest area of concern by far was Ontario. That is our western United States air hub. We have 27 operations that come in or out of Ontario between 9:30 at night and 7:00 in the morning, and so from the west coast standpoint, it is the most important location we have. It was on the original list as a midnight closure. The FAA adjusted that list. They took Ontario off to our pleasure, but it is something that is an ongoing concern that will it come back and be on the list, and that would far out shadow any of the other facilities that were on that list as far as affecting our customers' packages.

Mr. LIPINSKI. Again, I want to thank all of our witnesses, and we have a unique opportunity with this panel and under the chairman's leadership to really, when we come out with our recommendations that we are asked to do in October, to have a major impact on reauthorization of MAP–21. We know that there is a lot that has to be done, and so I thank you for your testimony here today.

Mr. DUNCAN. Well, thank you very much. I will just close with this.

I just, you know, for many years we had so many countries that were just completely underdeveloped. We had many, many other countries that were under the thumb of communism or socialism and we really didn't have much competition throughout the world.

Now, you know, I have traveled all over the world and I remember, been to Vietnam a couple of times, and boy, they are just going gangbusters. I mean, you want to start a business over there, you just go out and start it, and it is a little bit harder to really let the free enterprise system work the way it could in this country, but we are going to have to. We have got much more competition now from all over the world than we ever had in years past, so we have got to do more, we have got to do better, we have got to be constantly seeking ways to improve, and we have to do that in all areas, but particularly in this area in regard to freight mobility, and so that is what we are trying to do with this panel.

And I appreciate all your testimony, your suggestions. If you think of other things that you think we need to know about or take a look at, you certainly can submit that to our staff.

But that will conclude this hearing. Thank you.

[Whereupon, at 3:00 p.m., the subcommittee was adjourned.]

United States House of Representatives
Committee on Transportation and Infrastructure

The Panel on 21st Century Freight Transportation

"How Logistics Facilitate an Efficient Freight Transportation System"

* * *

"From Patchwork to Network: Moving Freight Transportation into the 21st Century"

Testimony of David Abney
Chief Operating Officer
UPS
June 26, 2013

Chairman Duncan, Ranking Member Nadler, and members of the Panel, thank you for the opportunity to testify about how UPS employs logistics to move freight and the opportunities we see to improve America's productivity.

Chairman Shuster and Ranking Member Rahall should be commended for creating this special working group, and I want to applaud this Panel for its very thorough approach. You have previously heard testimony from representatives of different transportation modes, including air, truck, rail and maritime. At UPS, we have expertise in each of these modes, but today I want to offer a more holistic view of how these different modes work together to move freight efficiently.

I will offer an insider's look at how our system operates by tracing a package as it moves from California to New York and on to Germany. Its journey will include states represented by six members of this panel.

As we track this package, three things will become clear:

1. First, the secret to moving freight efficiently and economically is the ability to shift between different modes. When you – as a customer – order a product, you don't care how it gets to you, as long as it arrives on time, in working order, and at the right price. But for us as a logistics company, the ability to move that package across different modes along the way – from air to truck, truck to rail, or air to ocean – is essential to delivering that package in the most efficient, economical, and environmentally friendly manner possible. In the example I'll share today, you will see three different mode shifts.

2. Second, logistics can give us the most efficient path between two points, but logistics cannot improve the underlying transportation infrastructure. Upgrading our highways, airways, railways and ports is something that only Congress and the Administration can do. Until our infrastructure is modernized, logistics gains will stall.

3. Third, our country's freight transportation system was built in silos and stitched together as a patchwork. If we want America to reach the next level of efficiency and productivity, we must shift our approach and transform our infrastructure from a patchwork to a network.

About UPS

At UPS, we have an intimate understanding of how freight moves. Since our founding 106 years ago, we have grown into the world's largest package delivery company and a leading global provider of specialized transportation and logistics services.

Each day, we deliver 16.3 million packages to 8.8 million customers. We serve every address in North America, and we operate in more than 220 countries and territories.

Our system includes:

- 400,000 UPS employees,
- a delivery fleet of more than 96,000 commercial vehicles,
- one of the largest airlines in the world with more than 560 aircraft,
- and an extensive network of ocean intermodal connections.

We are also one of the largest customers of America's freight railroads.

We appreciate the critical role that freight movement plays in America's economy. It is estimated that at any given time, the economic value of the goods and services moving in the UPS supply chain equates to 6% of our country's gross domestic product, and 2% of global GDP.

We Love Logistics

You may have seen our TV commercials, which say, "We Love Logistics." For us, logistics is the seamless synchronization of transportation modes, technology and data. It's invisible to the customer, but it's critical to the timely and efficient movement of commerce.

Our entire culture is built around rigorous measurement, continuous improvement, and customer service. Every day, our engineers and experts work to shave just a few

seconds off an activity. If there's a greener or more time efficient way to do something, we will find it.

Package Flow Example

To see our logistics in action, let's follow a typical package on its journey through the UPS system.

There is a manufacturer in New York. He orders parts from his supplier in Los Angeles. Those parts will move as a ground package, which is the most economical way to ship a package at UPS. Once the part arrives in New York, the manufacturer will assemble his product and export it to a customer in Germany.

1.Origin to Bay Center

In central Los Angeles, one of our local drivers, in a brown UPS package car, would pick up the package and drive it to our nearest local pick up and delivery facility. In this case, it would be our Bay Center facility located outside Los Angeles.

At the center, the package would be scanned, sorted and loaded onto a trailer with other packages that are destined for the nearest UPS HUB.

2. Olympic HUB

This package is headed to our HUB in downtown Los Angeles, which we call the Olympic HUB.

3. Tandem Trailer (Olympic HUB to CACH HUB)

Next, the trailer would be driven on the highway in a double-trailer configuration from the Olympic HUB in Los Angeles to Chicago, where it would arrive at our Chicago Area Consolidation HUB – known as CACH.

4. CACH HUB

At CACH, the trailers would be unloaded and sorted. The package would be loaded into a rail trailer and brought to a nearby rail yard.

5. Chicago Rail Yard

The trailer is loaded onto a railcar. That's our first mode shift – from road to rail.

6. Rail from Chicago to NJ

Then, it would travel by rail from Chicago to Little Ferry, New Jersey.

7. Little Ferry Rail Yard

The train would arrive in New Jersey at a rail yard. The trailer is removed from the train, put on a chassis, and driven to our Island City HUB in Queens, NY.

That's our second mode shift -- from rail to road.

8. Island City HUB to Foster Avenue Facility (Brooklyn)

From the HUB, it's sorted, broken down, and travels over the road to our destination facility in Brooklyn on Foster Avenue.

9. Foster Avenue to Destination

At our Foster Avenue facility, the parcel is put on a brown package car and delivered to its recipient in Brooklyn. This domestic trip would take 4 business days. As I mentioned, that's our most economical option.

You can see that we use a hub and spoke system. We start with small local facilities. We consolidate packages at larger facilities and move them across the country. Then, we move them through smaller facilities until the destination.

Once the manufacturer in Brooklyn receives the part, he assembles his product and calls UPS to export it to a customer in Cologne, Germany by Next Day Air Express.

10. Philadelphia Airport to Cologne, Germany

UPS would truck the package from New York to the Philadelphia Airport, where it would travel by air to Cologne, Germany in our final mode shift.

Data Drives Unseen Efficiencies

As a package moves, we use data and analysis to become more efficient and create more value for our customers. For example, we scan the shipping label at every step, so our customers can know where their package is. We can even re-route a package while it's underway if a customer decides he'd like it to be sent to his home rather than his office. Much of our analysis is invisible to our customers. To make our package cars as safe and efficient as possible, we track 200 different factors from time spent idling to speed and seat belt use. Every night, we analyze that data to improve our performance and minimize our carbon footprint. We also keep very detailed records of our shipping volumes so we can accurately plan for peak seasons like Christmas.

Freight Obstacles

Despite our best planning and technology, many things can go wrong as that package moves from California to New York and onto Germany. At each leg, there could be

delays due to traffic congestion. The package could also be delayed by bottlenecks in the freight rail system, and let's not forget the unpredictable nature of weather.

When a package is sent via Next Day Air, it would travel by aircraft part of the way and would be vulnerable to air traffic control delays.

The Cost of Congestion

Every obstacle that slows freight has real economic costs to the sender, receiver, shipper, and our economy. We are all familiar with the 2012 report from the Texas Transportation Institute, which found that congestion cost the U.S. economy $121 billion in 2011.

At UPS, we feel that impact every day. If every UPS delivery vehicle is delayed just 5 minutes each day, it would cost UPS an additional $105 million annually.
We regularly have to dispatch redundant trucks on the road, so we can meet our customer commitments despite traffic congestion. Putting additional trucks on the road hurts our efficiency, increases congestion, drives up costs, and hurts air quality.

Causes of Inefficiency

There are many reasons for today's inefficiencies. They include:

- the lack of long-term planning to link intermodal connections,
- an antiquated air traffic control system,
- a lack of commitment to adequately finance the Highway Trust Fund,
- crumbling surface transportation infrastructure,
- too few trade agreements,
- and customs delays for commercial good entries.

As a result, the U.S. capacity to move goods suffers and, in turn, so does U.S. competitiveness.

Solutions

So what will it take to move freight transportation into the 21st century?

Let me suggest a few policies that would make the system more efficient and America more competitive.

First, we must link different transportation modes together, moving from an approach that is silo-ed to one that is seamless. America's transportation system has been built mode-by-mode in silos. It's a patchwork. What we need is a network.

This Panel can help the Committee on Transportation and Infrastructure, and Congress at large, recognize the importance of a truly multi-modal approach to freight transportation.

Some have called for a diminished federal role on transportation and abdicating this traditional federal responsibility to state governments. In UPS's opinion, this would be a grave mistake. We need greater centralized coordination in transportation policy, not a scaled-back federal role. The current transportation law (MAP-21) included a "focus on freight," and we would like to see a greater commitment to this concept in the next Surface Transportation Bill.

We would also encourage a greater commitment for transportation spending on projects of national and regional significance.

There are also ways to improve individual modes.

To improve highway transportation, we endorse increasing the motor fuels tax and indexing it to inflation. We also support using tax revenues exclusively for highway spending programs to bolster the Highway Trust Fund. Further, Congress should explore alternative funding mechanisms, such as:

- mileage-based user fee programs
- and tolling authority for new highway capacity, where the new lanes are optional to users.

To modernize air transport, we endorse increasing funding for the Federal Aviation Administration's NextGen air traffic control system. NextGen will increase air cargo service performance, provide environmental benefits by limiting ground and air holds, enhance direct routing, and add precision to flight paths.

To improve rail "time in transit" and reliability, we must increase fluidity, efficiency and safety in the freight rail network. That will allow us to continue to move freight off the highways and onto the railroads.

International Opportunities

So far, I have focused on freight movement within the U.S., but there are significant opportunities to improve international freight. Ninety-five percent of the world's consumers are outside America's borders. The more we can do to sell to them, the stronger our economy will be. That represents a huge opportunity for America's small and medium sized businesses.

At UPS, we have found that after the U.S. signs a free trade agreement, our U.S. export volume to those countries increase by more than 20 percent. That means more jobs and more growth here at home.

That's why UPS supports:

- the Trans-Pacific Partnership (T.P.P.) negotiations,
- the recently launched Trade and International Services Agreement (T.I.S.A.) negotiation,
- and the expected launch of the Transatlantic Trade and Investment Partnership (TTIP) negotiations.

In addition, Congress should address the barriers that freight faces "at and behind the border," including inefficient and uncoordinated customs clearance, security procedures, and facilitation programs.

Reducing supply chain barriers to trade could increase global GDP by nearly 5% and trade by nearly 15%, according to a recent World Economic Forum study.

According to the Organization for Economic Co-operation and Development, improving trade facilitation could reduce total trade costs for countries by 13.2 to 15.5 percent.

Cutting red tape at the border through trade facilitation reforms could boost the world economy by as much as $1 trillion and generate more than 21 million jobs, according to the Peterson Institute for International Economics.

These gains will be enjoyed by small businesses, who are the real job creators in America's economy.

A Quick Improvement

Many of the solutions I have suggested will take significant resources and many years to implement, but there is one relatively quick and simple step Congress could take:

- Increase the length – but not the overall weight – of each trailer from 28 1/2 to 33 feet in twin trailer configurations.

This would allow freight to move more efficiently, would reduce highway congestion and the number of trucks on the road, and would provide environmental benefits without compromising highway safety. Because we would not increase the weight limit, there is no risk of further damage to highways and bridges.

Conclusion

In closing, 39 years ago as a college student, I joined UPS as a part-time package loader. Back then, I could not have imagined the incredible growth of global commerce or the role my company would play in facilitating America's economy. But I also could not have imagined that nearly four decades later, America's transportation infrastructure would still be stuck in the 20th century.

The challenges are big, but so are the opportunities. This Panel can help modernize our infrastructure, build connections between different modes, and address global barriers to freight movement. It can move our freight transportation system into the 21st century, boosting America's efficiency, growth and competiveness. It is a critical mission, and all of us at UPS stand ready to assist you in this vital effort.

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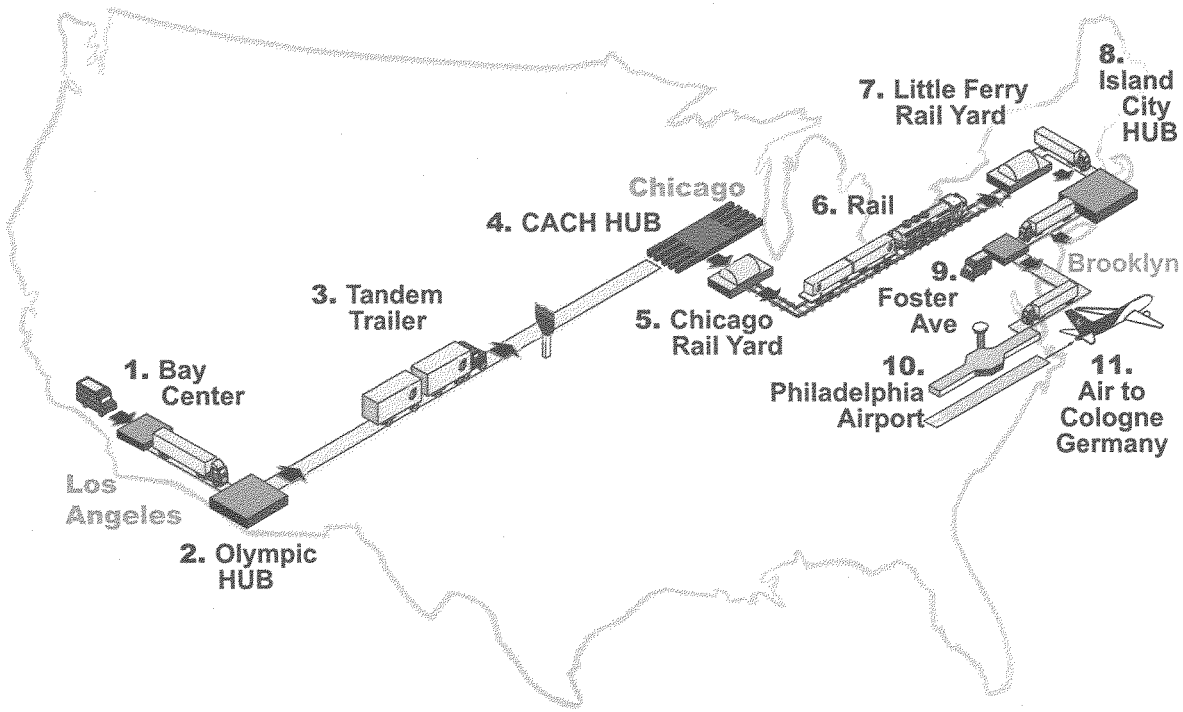
UPS Package Flow Example



Prepared Statement

Tracy Rosser, Senior Vice President, Transportation, Wal-Mart Stores, Inc.

Chairman Duncan, Ranking Member Nadler, and distinguished Members of this 21st Century Freight Transportation Panel, thank you for the opportunity to speak with you. My name is Tracy Rosser and it is an honor to be here today as Senior Vice President of Transportation at Wal-Mart Stores, Inc.

In this role, I am responsible for domestic transportation, Walmart's private tractor trailer fleet, and global transportation.

By way of background, Walmart helps people around the world save money so they can live better – anytime and anywhere – in retail stores, online, and through their mobile devices. Each week, more than 200 million customers and members visit our 10,600 stores under 69 banners in 27 countries and e-commerce websites in 10 countries. With fiscal year ending January 31, 2013 sales of approximately $466 billion, Walmart employs more than 2.2 million associates worldwide. Walmart continues to be a leader in sustainability, corporate philanthropy and employment opportunity.

Critical to Walmart providing goods and services to our customers throughout the world is our transportation and logistics network. Since the early days of our company, the ability to replenish our Stores and Clubs quickly and at low cost has been a key contributor to success. Today, technology, innovation and the commitment of our associates continue to drive Walmart Logistics' mission in providing customers an outstanding shopping experience that is not only uniquely tailored to their community, but saves them money so they can live better.

Walmart's logistics operations began in a garage in the 1960s. We opened our first distribution center in 1970, pioneering a hub and spoke system designed to quickly and efficiently replenish shelves. Walmart logistics employs 77,000 associates at 150 distribution centers and 87 transportation offices. We have 6,200 trucks, 55,000 trailers and 7,500 drivers in our private fleet, which is among the safest with 1.56 million miles per preventable accident. Collectively, our fleet drivers log approximately 700 million miles per year, with the average Walmart truck driver logging more than 100,000 miles annually.

Our distribution centers typically serve from 90-100 stores, and uniquely cater to needs of specific stores within a 200 mile-radius. Regional distribution centers can have up to twelve miles of conveyor belts, moving hundreds of thousands of cases through the center each day. Our grocery distribution centers service a wide assortment including dry groceries, perishable items such as produce and frozen food. Our 10 import facilities provide efficient methods of handing international merchandise. Walmart has nine disaster distribution centers strategically

located across the country stocked with relief supplies needed to help communities recover in the event of a disaster.

As part of our commitment to helping customers live better through everyday low prices, the company works to keep costs down through the efficient use of resources. Walmart is proud of the advances the company, and specifically the Logistics Division, have made in sustainability. We have set ambitious strategic goals that include doubling fleet efficiency by 2015 and we are working toward that objective with sustainable solutions like cross dock consolidation networks, lean routing, reduction of empty miles and optimizing how merchandise gets stacked in our trailers. In 2012 we delivered 297 million more cases driving 11 million fewer miles than in 2011. Compared to 2007, we have delivered 658 million more cases driving almost 300 million fewer miles. We have also increased the fuel efficiency of our tractor trailer equipment through both advanced technologies and improved operations. We continue to work with our partners in the trucking industry and with truck and trailer manufacturers on a variety of innovative technologies including hybrids and other advanced powertrains, alternative fuels, aerodynamics and advanced tire technologies.

All of these efforts have resulted in significant environmental benefit. For 2012 alone, such reductions helped us avoid emitting 103,000 metric tons of carbon dioxide (CO2) – the equivalent of taking 20,000 cars off the road. As a company, we continue to transition toward 100% renewable energy, are working to send zero waste to landfills and to utilize and sell sustainable products. Remaining committed to these goals will help reduce costs and impacts on our nation's infrastructure and environment as well as drive better resource management.

Walmart has also been able to improve transportation efficiencies by reducing the miles traveled from farm to fork. Walmart's grocery business continues to commit to buying local. Walmart forms direct partnerships between farmers and markets, reducing food waste, motivating farmers to optimize production and sustainably sourcing key agricultural products. By doing so, we're strengthening local farmers and economies, while providing our customers access to fresh, affordable, high-quality food, and providing for logistical savings and environmental benefits.

With over 4,000 stores in the United States, Walmart has operations in every state, and is a large user of all methods and modes of transportation from ports, to rail networks, to our highway system. Without a doubt, our transportation infrastructure is an asset to the country, offering a competitive advantage that should be utilized to its fullest. As we look ahead, we believe it is important to focus on maintaining and developing an efficient system that yields the highest degree of safety, efficiency and environmental stewardship. Toward that end, we encourage your panel to dedicate attention and funding on the areas with the highest priority maintenance needs, and areas of extreme inefficiency and congestion. Like other users, we

have noticed that bottlenecks can develop across all modes at points of significant freight movement as well as in and around urban areas.

While we find that customers in urban areas share similar demand for goods and services as in other parts of the country, the logistical costs of meeting these needs can be significant. In addition, as e-commerce and site-to-store business models continue to grow, customers are demanding faster delivery tailored to their schedules. Without a focused effort to address the timely movement of freight through urban areas, restrictions and workarounds will continue to add costs, both environmental and economic.

Although we pride ourselves on our ability to respond quickly and adjust to unforeseen circumstances in serving our customer, these challenges underscore the need, which you have already recognized, for a National Freight Policy. State and local regulations often share similar goals of safety and efficiency, but the variety of measures in place can often be cumbersome and costly to interstate commerce. We encourage the development of solutions that address the needs of our transportation network in as uniform a manner as possible.

Maintaining strong infrastructure will also help our suppliers to remain competitive. As you may be aware, Walmart recently announced that we would buy an additional $50 billion in U.S. products over the next 10 years in an effort to help continue growth in the US manufacturing sector and to encourage creation of U.S. jobs. As the U.S. economy continues to improve, domestic producers will rely on a lean, efficient transportation network to get their products to market quickly and cost-effectively.

To conclude, as a significant user of the nation's infrastructure we experience firsthand every day the value of our nation's transportation system and its contribution to the economy. Equally important however, we recognize that there is an opportunity to ensure that this network remains a competitive advantage in the decades to come. Toward that end, we encourage the use and development of safe, efficient, and environmentally sustainable solutions in freight movement. We also believe that attention and financial resources should be directed toward areas in high needs of maintenance, congestion points, and the challenges of urbanization. Finally, a clear national freight policy can promote interstate commerce while maintaining a safe and efficient transportation infrastructure.

Walmart appreciates that this panel has been tasked to consider ways to best meet the demands of the nation's freight network. There is no easy answer here and we look forward to working with you as you address the challenge ahead.

Thank you again for your time today and I am happy to answer any questions that you may have.

TESTIMONY OF

EDWARD R. HAMBERGER

PRESIDENT & CHIEF EXECUTIVE OFFICER

ASSOCIATION OF AMERICAN RAILROADS

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
PANEL ON 21ST CENTURY FREIGHT TRANSPORTATION

HEARING ON HOW LOGISTICS FACILITATE
AN EFFICIENT FREIGHT TRANSPORTATION SYSTEM

JUNE 26, 2013

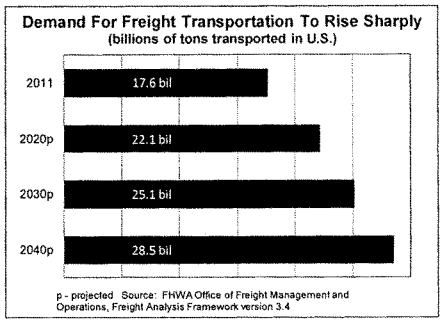
Association of American Railroads
425 Third Street, S.W.
Washington, DC 20024
202-639-2100

Introduction

On behalf of the members of the Association of American Railroads, thank you for the opportunity to discuss logistics, multi-modalism, and freight transportation. AAR freight railroad members, which include the seven large U.S. Class I railroads as well as approximately 170 U.S. short line and regional railroads, account for the vast majority of freight railroad mileage, employees, and traffic in Canada, Mexico, and the United States. Amtrak and several commuter railroads are also members of the AAR.

No country can be a first-rate economic power without having first-rate logistics and freight transportation capabilities. I commend this panel for recognizing this point and for your efforts to find ways to ensure that we have world-best logistical capabilities.

To be sure, there is a tremendous amount of strength and flexibility in our nation's freight transportation systems — more so than in any other country in the world. It's also clear, however, that our nation faces significant challenges in maintaining the freight-moving capability we have today and continuing to improve it to meet the even greater needs of tomorrow. Recent forecasts reported by the Federal Highway Administration have found that, thanks to population growth and economic growth, total U.S. freight shipments will rise from an estimated 17.6 billion tons in 2011 to 28.5 billion tons in 2040 — a 62 percent increase.

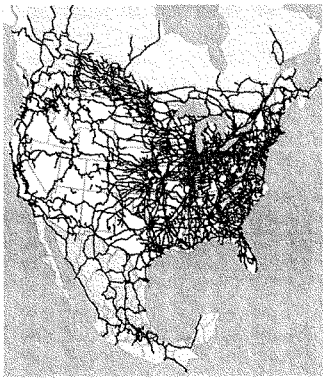


America's freight railroads are doing their part now — through record private investments in infrastructure and equipment, the development and implementation of innovative technologies, and operational enhancements — to ensure that they have adequate railroad

capacity tomorrow to meet their customers' needs. Looking ahead, railroads must be able to both maintain their extensive existing infrastructure and equipment and build the substantial new capacity that will be required to transport the significant additional traffic our economy will generate. That's why legislative or regulatory actions that restrict the rail industry's ability to invest would have negative capacity, efficiency, safety, and service reliability consequences.

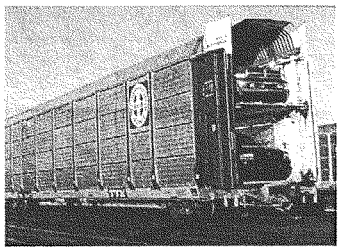
The Transportation Backbone of America

North America's Rail Network



America's freight railroads and their 140,000-mile network serve nearly every industrial, wholesale, retail, and resource-based sector of our economy. In fact, our railroads carry just about everything.

Railroads carry more coal than any other single commodity. Historically, coal has generated much more electricity than any other fuel source, and most coal is delivered to power plants by rail. But railroads also carry enormous amounts of corn, wheat, and soybeans; fertilizers, plastic resins, and a vast array of other chemicals; cement, sand, and crushed stone to build our highways; lumber and drywall to build our homes; animal feed, canned goods, corn syrup, frozen chickens, beer, and countless other food products; steel and other metal products; crude oil, liquefied gases, and many other petroleum products; newsprint, recycled paper and other paper products; autos and auto parts; iron ore for steelmaking; wind turbines, airplane fuselages, machinery and other industrial equipment; and much more.



Rail intermodal — the transport of shipping containers and truck trailers on railroad flatcars — has grown tremendously over the past 25 years. Today, just about everything you find on a retailer's shelves may have traveled on an intermodal train. Increasing amounts of industrial goods are transported by intermodal trains as well.

Given the volume of rail freight (close to two billion tons and 30 million carloads in a typical year) and the long distances that freight moves by rail (nearly 1,000 miles, on average), it's hard to overstate freight railroads' role in our economy. The rail share of freight ton-miles is about 40 percent, more than any other transportation mode. But freight rail's contribution to our nation extends far beyond that:

- Thanks to competitive rail rates — 44 percent lower, on average, in 2012 than in 1980[1] and the lowest among major industrialized countries — freight railroads save consumers billions of dollars every year, making U.S. goods more competitive here and abroad and improving our standard of living.
- Railroads are, on average, four times more fuel efficient than trucks. That means that moving freight by rail helps our environment by reducing energy consumption, pollution, and greenhouse gases.
- Because a single train can carry the freight of several hundred trucks — enough to replace a 12-mile long convoy of trucks on the highways — railroads cut highway gridlock and reduce the high costs of highway construction and maintenance.
- America's freight railroads are privately owned and operate almost exclusively on infrastructure that they own, build, maintain, and pay for themselves. When railroads reinvest in their networks — which they've been doing in record amounts in recent years — it means taxpayers don't have to.
- Railroads are safe and getting safer: 2012 was the safest year in history for railroads, breaking the record set in 2011, which in turn broke the record set in 2010.
- America's freight railroads sustain 1.2 million jobs, including 180,000 high-paying jobs in the freight rail industry itself. Millions of other Americans work in industries that are more competitive in the global economy thanks to the affordability and productivity of America's freight railroads.[2]

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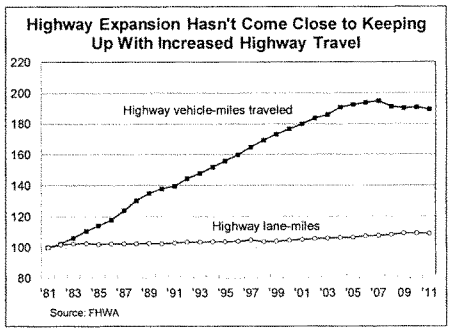
[1] As measured by inflation-adjusted revenue per ton-mile.

[2] For much more background on the U.S. freight rail industry, see my March 5, 2013 testimony to the Subcommittee on Railroads, Pipelines, and Hazardous Materials of the Committee on Transportation and Infrastructure.

For all these reasons, I respectfully suggest that it is in the public interest to enact policies that result in more freight moving by rail.

Freight Rail as a Complement to Trucks

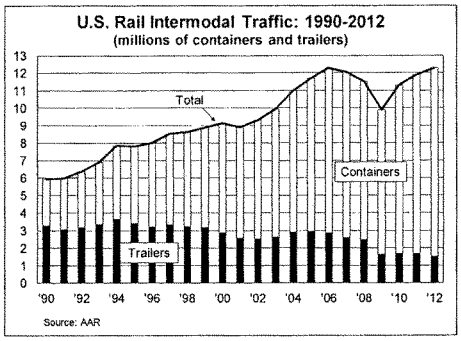
No one, and certainly not railroads, disputes that motor carriers are absolutely indispensable to our economy and quality of life, and will remain so long into the future. That said, because of the enormous cost involved in building new highways, as well as environmental and land use concerns, it is highly unlikely that sufficient highway capacity can be built to handle expected future growth in freight transportation demand. As it is, over the past 30 years, highway traffic volume growth has far eclipsed growth in highway lane-miles (see nearby chart), and there is little reason to think that will change in the years ahead.



The United States has the world's most highly developed highway network, built and maintained at enormous public cost over the years. According to data from the FHWA, in 2011 alone, states disbursed $94 billion just on capital outlays and maintenance for highways.[3] Adding in other expenses such as administration and planning, law enforcement, interest, and grants to local governments brings total disbursements for highways to $150 billion in 2011. Even this huge level of spending, however, is widely considered inadequate to meet present-day, much less future, needs.

[3] Federal Highway Administration, Highway Statistics 2011, Table SF-2.

Fortunately, freight rail in general, and intermodal rail specifically, represents a viable and socially beneficial complement to highway freight movement. Today, rail intermodal takes millions of trucks off our highways each year, and its potential to play a much larger role in the future is enormous, both in traditional transcontinental markets and in short- and middle-distance lanes. In the context of ports, railroads offer tremendous potential in safely and efficiently moving freight to and from port facilities, thereby greatly enhancing overall transportation productivity. In addition, a significant portion of the merchandise that railroads transport in their carload business (in addition to intermodal containers or trailers) is directly truck competitive.

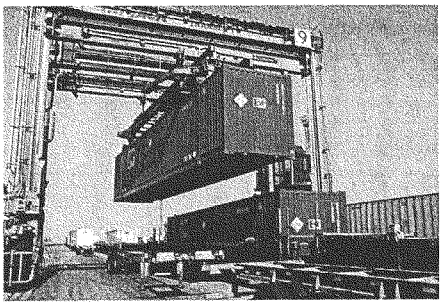


Shippers choose to move this freight on railroads because they find that the value railroads offer, in terms of cost and service, is superior. Railroads recognize that they will have to continue to work hard to earn this business, which is why they are constantly searching for ways to further improve productivity, reduce costs for their customers, and enhance their service offerings.

This does not mean that we should stop building highways or that we should no longer recognize the importance of trucks and highways in meeting our nation's transportation needs, but it does mean that policymakers should be doubly aware of the role railroads play, and can play, in our nation's logistical network.

First-Mile and Last-Mile Connections

One of the main reasons why the United States has the world's most efficient total freight transportation system is the willingness and ability of firms associated with various modes to work together in ways that benefit their customers and the economy. Policymakers can help this process by implementing programs that improve "first mile" and "last mile" connections where freight is handed off from one mode to another — for example, at ports from ships to railroads or from ships to trucks, or from railroads to trucks at intermodal terminals. These connections are highly vulnerable to disruptions, and improving them would lead to especially large increases in efficiency and fluidity and forge a stronger, more effective total transportation package.



Railroads are gratified that the current administration and legislators in both parties and in both houses of Congress have shown a strong commitment to multi-modalism. That's evidenced, for example, in the evaluation and selection process for TIGER grants. To date, several dozen projects that have received TIGER grant funding have been associated in one way or another with freight railroads, and many of those projects are aimed at improving transportation performance by more effectively integrating different transportation modes.

Some intermodal connection infrastructure projects that are of national and regional significance in terms of freight movement could be too costly for a local government or state to fund. Consequently, federal funding awarded through a competitive discretionary grant process, like the TIGER program, has been an appropriate approach for these needs.

Attention to first- and last-mile connections is a critical element of both local and state freight planning and policy as well. At the local level, for example, land use planning has been largely inadequate in appropriately accommodating the needs of freight. Freight movement — whether in rail yards, intermodal facilities, ports, or regional distribution — must be sufficiently taken into account when planning land uses such as residential developments, schools, and recreational areas.

Logistics and Globalization

One of the distinguishing characteristics of our economy in recent years is sharply increasing globalization. In 2000, for example, the value of U.S. exports of goods (as opposed to services) was $843 billion. In 2012, it was $1.3 trillion, a 54 percent increase. In 2000, the value of U.S. imports of goods was $1.4 trillion. In 2012, it was $1.9 trillion, a 36 percent increase. Products and commodities across the industrial landscape have been part of this increased globalization. The table at right shows just a few examples of growth in U.S. exports in recent years.

	U.S. Exports		
	2000	2012	% chng
Chemicals ($ bil)	$77.6	$188.3	142%
Automotive veh. & parts ($ bil)	$80.4	$146.3	82%
Consumer goods excl. autos ($ bil)	$89.4	$181.4	103%
Civilian aircraft & parts ($ bil)	$48.1	$94.0	95%
Soybeans (mil bushels)*	973	1,362	40%

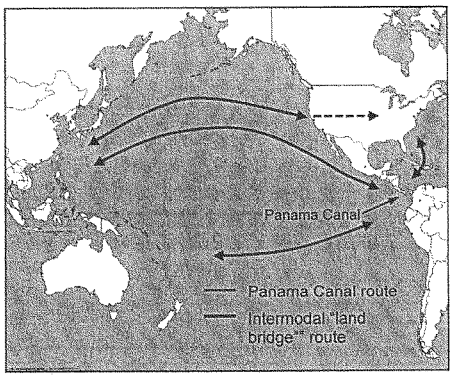
*Production year Source: USDA, BEA, ACC

Railroads have played a key role in this globalization. We estimate, for example, that railroads account for approximately one-third of U.S. exports, and that approximately half of U.S. rail intermodal traffic consists of exports or imports.

There's no doubt that globalization will continue, and railroads are working hard to ensure that they can continue to play a crucial role. The expansion of the Panama Canal is a case in point. As you probably know, the Panama Canal currently has two lock chambers, the

dimensions of which limit the size of container ships that can traverse the canal. So-called "Panamax" ships, the largest ships that can currently use the canal, can carry a maximum of around 4,500 containers. However, a larger third lock chamber is under construction — with completion likely in 2015 — that will allow much larger ships to pass through. These larger "post-Panamax" ships will be able to carry up to approximately 12,500 containers, or nearly three times the maximum number carried by existing ships that use the canal.

The big unknown is where ships carrying cargo that are bound for, or coming from, the eastern part of the United States will go. Today, a significant portion of the cargo from Asia destined for the eastern part of the United States is offloaded at West Coast ports (such as Los Angeles, Long Beach, Seattle, Tacoma, Vancouver, or Prince Rupert in British Columbia), and then transported inland on trucks, railroads, or, in some cases, rivers. Going the other way, cargo headed to Asia from the eastern part of the United States often travels via rail or truck to West Coast ports, where it is loaded onto ships heading west.



It is not uncommon for existing Panamax (or smaller) ships coming from Asia with cargo bound for the eastern United States, as well as ships with cargo from the eastern United States heading to Asia, to go through the Panama Canal on an "all-water" route, rather than use the land bridge (via truck or rail) across the country described in the previous paragraph. Some observers believe that the huge capital costs of the newer vessels and other factors will cause these ships to remain primarily on routes to the West Coast. Many

others, though, think that a post-Panamax ship is just as likely to find it cost effective to use the "all-water" route to or from the eastern United States. Of course, if an all-water route is to be used, the eastern ports must be able to handle the post-Panamax vessels, which is the rationale for the efforts by a number of ports on the East Coast, the Southeast, and the Gulf of Mexico to dredge deeper channels, install new cranes, and/or build new dock capacity to accommodate post-Panamax ships. Meanwhile, ports on the West Coast are pursuing many of these same kinds of improvements to better position themselves as the preferred destination for ocean carriers even after the canal expansion is complete.

Frankly, I don't know which ports will be the "winners" and which will be the "losers" of this competitive battle. I do know, though, that from the point of view of our nation's rail industry as a whole, it doesn't really matter. The fact is, whether the freight is coming into or leaving from Long Beach or Savannah or Miami or Houston or Seattle or Norfolk or any other major port, our nation's freight railroads are in a good position now, and are working diligently to be in an even better position in the future, to offer the safe, efficient, cost-effective service that their customers at ports and elsewhere want and need.

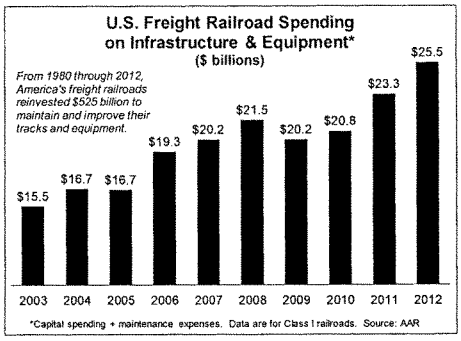
In a June 4, 2012 interview, in response to a question about the Panama Canal expansion, the CEO of Norfolk Southern said, "We are preparing and planning so that if the traffic comes in from the East and needs to move inland, we'll be there to handle it. If the traffic comes in from the West and comes to a western gateway with one of the western carriers, we'll be ready to handle it."[4] He was speaking on behalf of his railroad, but his statement applies equally well to the rail industry as a whole. I'm confident that railroads will be "ready to handle it."

[4] "Q&A with Wick Moorman, CEO of Norfolk Southern," The Virginian-Pilot, June 4, 2012.

Sound Public Policy is Needed

As noted earlier, as America's economy and population grow, the need to move more people and goods will grow too. Railroads are getting ready today to meet this challenge.

In recent years, railroads have been reinvesting more private capital than ever before in their infrastructure and equipment, including a record $25.5 billion in 2012. From 2008 to 2012, Class I railroads purchased 2,669 new state-of-the-art locomotives and rebuilt another 845 locomotives to improve their capabilities. Over the same time period, railroads installed nearly 77 million new crossties, installed 2.9 million tons of new rail, and placed nearly 61 million cubic yards of ballast. Railroads in recent years have also devoted substantial resources to developing and implementing innovative new technologies. These investments have made railroads much safer and much more efficient and productive. The entire logistics chain benefits.



In the years ahead, railroads will continue to reinvest huge amounts back into their systems to help ensure that they can continue to help their customers grow, but if the United States is to have the socially optimal amount of rail capacity, sound public policy is needed.

First, policymakers should keep the current system of balanced rail regulation in place. The global superiority of U.S. freight railroads is a direct result of a regulatory system, embodied in the Staggers Rail Act of 1980, that relies on market-based competition to establish most rail rate and service standards. The Staggers Act did not eliminate government oversight. Government regulators today still can take action, including setting maximum-allowable rail

rates. However, Staggers allowed railroads to act more like other businesses in terms of deciding for themselves how to utilize their assets and price their services.

This balanced regulation has allowed railroads to improve their financial performance from anemic levels prior to Staggers to higher levels today, which in turn has allowed them to plow back hundreds of billions of dollars into improving the performance of their infrastructure and equipment — to the immense benefit of their customers and our nation at large.

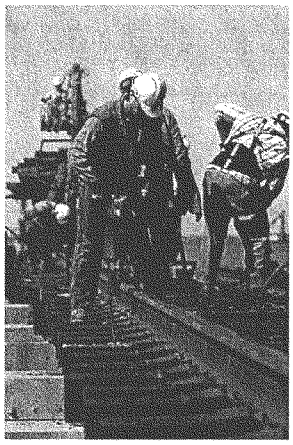
Unfortunately, some special interests are calling for a return to the days of unbalanced and unreasonable regulation that would force railroads to artificially cut their rates to below-market levels to certain favored shippers. A few shippers might benefit, but at the expense of all other shippers, rail employees, and the public at large.

Trucks, airlines, and barges operate over highways, airways, and waterways that the government largely pays for. By contrast, America's freight railroads pay nearly all of the costs of their tracks, bridges, and tunnels themselves. To keep their networks in top condition and to build the new capacity that America will need in the years ahead, railroads must be able to earn enough to pay for it. Artificially cutting rail earnings would severely harm railroads' ability to do this. It would mean less new rail capacity and less reliable rail service, negatively affecting the entire U.S. logistics chain. At a time when the pressure to reduce government spending on just about everything — including transportation infrastructure — is enormous, it makes no sense to enact public policies that would discourage private investments in rail infrastructure that would boost our economy and enhance our competitiveness.

Second, where there is voluntary agreement between public and private sector stakeholders, policymakers should encourage and facilitate public-private partnerships for freight

railroad infrastructure improvement projects where the fundamental purpose of the project is to provide public benefits or meet public needs.

Public-private partnerships — arrangements under which private freight railroads and government entities both contribute resources to a project — offer a mutually beneficial way to solve critical transportation problems. When more people and freight move by rail, the public benefits tremendously through lower shipping costs, reduced highway gridlock, enhanced mobility, lower fuel consumption, lower greenhouse gas emissions, and improved safety. Such voluntary partnerships allow governments to expand the use of rail, paying only for the public benefits of a project. Meanwhile, host freight railroads pay for the benefits they receive. It's a win-win for all involved.



Many members of this panel recently saw firsthand one of the nation's pre-eminent railroad public-private partnerships: the Alameda Corridor. That project combined public and private financing and ultimately facilitated enormous port growth and efficient rail operations while reducing the effects of freight movments on local communities and delivering significant environmental benefits.

Without a partnership, many projects that promise substantial public benefits (such as reduced highway congestion by taking trucks off highways, or increased rail capacity for use by passenger trains) in addition to private benefits (such as enabling faster freight trains) are likely to be delayed or never started at all because neither side

can justify the full investment needed to complete them. The benefits from these projects therefore remain essentially trapped until cooperation makes them feasible.

With public-private partnerships, the public entity devotes public dollars to a project equivalent to the public benefits that will accrue. Private railroads contribute resources commensurate with the private gains expected to accrue. As a result, the universe of projects that can be undertaken to the benefit of all parties is significantly expanded.

Third, we urge policymakers to make environmental and other reviews more efficient. Under existing law, state and local regulations (other than local health and safety regulations) that unreasonably interfere with rail operations are preempted by federal regulations. These federal regulations protect the public interest while recognizing that railroads form an integrated, national network that requires a uniform basic set of rules to operate effectively.

Nevertheless, rail expansion projects often face vocal opposition from members of affected local communities or even larger, more sophisticated special interest groups from around the country. In many cases, railroads face a classic "not-in-my-backyard" problem, even for projects for which the benefits to a locality or region far outweigh the drawbacks. In the face of local opposition, railroads try to work with the local community to find a mutually satisfactory arrangement, and these efforts are usually successful. When agreement is not reached, however, projects can face lawsuits, seemingly interminable delays and sharply higher costs. A number of major rail intermodal terminal projects that yield tremendous gains for the overall logistical system, for example, have been and continue to be unduly delayed. Just one of the many examples involves an intermodal terminal BNSF Railway has been trying to build for years near the ports of Long Beach and Los Angeles. This facility would eliminate millions of truck miles annually from local freeways in Southern California, while utilizing state-of-the-art

environmentally friendly technology such as all-electric cranes, ultra-low emissions switching locomotives, and low-emission yard equipment. It would be one of the "greenest" such facilities in the world, but the project continues to face court actions and other protests.

Policymakers can help improve the movement of freight by taking steps to shorten the time it takes for reviews of rail expansion projects in ways that do not adversely affect the quality of those reviews.

Fourth, truck size and weight limits on federal highways were frozen by Congress in 1991, largely because of concerns about the safety of longer and heavier trucks and the uncompensated highway and bridge damage they cause. Legislation has been proposed many times since 1991 that would increase allowable truck sizes and weights on federal highways. To date, these attempts have failed because the concerns that led to the federal limits in the first place are still valid. Most recently, the 112th Congress rejected proposals to increase maximum-allowable truck weights to 97,000 pounds. Instead, MAP-21 directed the U.S. Department of Transportation to conduct a comprehensive two-year study to examine the impacts of trucks exceeding current federal size and weight limits. We urge policymakers to defer consideration of any truck size and weight legislation until the congressionally mandated study is completed.

Freight Transportation Modes Should Pay Their Own Way

The truck size and weight issue is related to a broader point: as a general rule, the various freight transportation modes should pay their own way. The traditional connection in which users of freight infrastructure pay for that infrastructure should not be broken.

As noted above, America's freight railroads pay virtually all of the costs of their tracks, bridges, and tunnels themselves. Trucks, airlines, and barges, however, operate over highways, airways, and waterways that the government largely pays for. Today, for example, 80,000-

pound trucks pay only about 80 percent of the cost of the damage they cause to taxpayer-funded roads and bridges, while trucks weighing 80,000 to 100,000 pounds pay for only around half of the damage they cause. This huge underpayment, which totals several billion dollars per year, means that repairing much of the highway and bridge damage caused by heavy trucks is paid for by the general public, not by the trucking companies themselves. As the Government Accountability Office (GAO) has pointed out, the existence of underpayments "distorts the competitive environment by making it appear that heavier trucks are a less expensive shipping method than they actually are and puts other modes, such as rail and maritime, at a disadvantage."[5]

Moreover, under current projections, revenues to the Highway Trust Fund (HTF) will continue to decline relative to projected needs. Funding shortfalls in the HTF in recent years have caused the federal government to transfer some $55 billion in general fund revenues to meet contract obligations and authorized funding levels. Absent the addition of new revenue streams, general fund transfers are expected to be required in the future as well — perhaps as high as $15 billion annually.[6] These transfers directly benefit the railroad industry's major competitor, which is trucking. Combined with the existing huge truck underpayments noted earlier, these transfers are an enormous competitive hurdle that railroads must overcome and they artificially distort the freight transportation marketplace.

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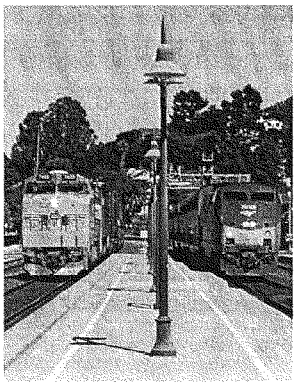
[5] U.S. Government Accountability Office, "Freight Transportation: National Policy and Strategies Can Help Improve Freight Mobility," GAO-08-287, January 2008, p. 16. Proponents of lifting the existing freeze on truck sizes and weights sometimes claim that they support higher taxes to pay for the additional damage heavier trucks would cause. However, the additional taxes these proponents are willing to pay are vastly lower than what is needed to make up for the huge underpayments.

[6] According to a December 2012 report from the Congressional Research Service, general fund contributions include $8 billion in FY 2008, $7 billion in FY 2009, and another $14.7 billion (plus an additional $4.8 billion to the transit account) via legislation passed in 2010. MAP-21 calls for general fund transfers of $6.2 billion and $12.6 billion for FY 2013 and FY 2014, respectively. Congressional Research Service, "Funding and Financing Highways and Public Transportation," December 26, 2012. Report R42877.

Positive Train Control

The term "positive train control" (PTC) describes technologies designed to automatically stop or slow a train before certain accidents caused by human error occur. The Rail Safety Improvement Act of 2008 (RSIA) requires passenger railroads and U.S. Class I freight railroads to install PTC by the end of 2015 on main lines used to transport passengers or toxic inhalation materials (TIH). Specifically, PTC as mandated by Congress must be designed to prevent train-to-train collisions; derailments caused by excessive speed; unauthorized incursions by trains onto sections of track where maintenance activities are taking place; and the movement of a train through a track switch left in the wrong position.



Positive train control is an unprecedented technological challenge. A properly functioning, fully interoperable PTC system must be able to determine the precise location, direction, and speed of trains; warn train operators of potential problems; and take immediate action if the operator does not respond to the warning provided by the PTC system. For example, if a train operator fails to begin stopping a train before a stop signal or slowing down for a speed-restricted area, the PTC system would apply the brakes automatically before the train passed the stop signal or entered the speed-restricted area.

Such a system requires highly complex technologies able to analyze and incorporate the huge number of variables that affect train operations. A simple example: the length of time it takes to stop a train depends on train speed, terrain, the weight and length of the train, the number and distribution of locomotives and loaded and empty freight cars on the train, and other

factors. A PTC system must be able to take all of these factors into account automatically, reliably, and accurately to safely stop the train.

Freight railroads have enlisted massive resources to meet the PTC mandate. They've retained more than 2,200 additional signal system personnel to implement PTC, and to date have collectively spent approximately $3 billion of their own funds on PTC development and deployment. Class I freight railroads expect to spend an additional $5 billion before development and installation is complete. Currently, the estimated total cost to freight railroads for PTC development and deployment is around $8 billion, with hundreds of millions of additional dollars needed each year after that to maintain the system.

Despite railroads' best efforts, due to PTC's complexity and the enormity of the implementation task — and the fact that much of the technology PTC requires simply did not exist when the PTC mandate was passed and has been required to be developed from scratch — much technological work remains to be done.

Railroads also face non-technological barriers to timely PTC implementation. For example, railroads are involved in discussions with the Federal Communications Commission regarding ways to streamline the currently unworkable process by which thousands of PTC antenna structures must obtain regulatory approval prior to installation. Unless that process changes, the timeline for ultimate deployment of PTC will be delayed significantly. Moreover, current FRA regulations pertaining to PTC implementation impose operational restrictions so severe that the fluidity of the rail network would be drastically impaired. It is important to resolve these issues, and the AAR appreciates that the FRA is considering them in a current rulemaking proceeding.

In addition to the challenges presented by both the FCC and FRA issues, the key unresolved question is, does the system work. Railroads need adequate time to ensure that this is the case. In that regard, the current PTC implementation deadline mandated by the RSIA should be extended by at least three years from December 31, 2015, to December 31, 2018. Given the unprecedented nature of PTC and the uncertainties — both known and unknown — flexibility beyond December of 2018 should also be addressed, with the authority for that flexibility residing with the Secretary of the Department of Transportation. Additionally, we believe that, in order to ensure that railroads can operate safely and efficiently with the PTC system, the imposition of PTC-related operational requirements and associated penalties should be deferred until all PTC systems are fully integrated and testing has been completed.

Conclusion

America today is connected by the most efficient, affordable, and environmentally-responsible freight rail system in the world. Whenever Americans grow something, eat something, export something, import something, make something, turn on a light, or get dressed, it's likely that freight railroads were involved somewhere along the line. Looking ahead, America cannot prosper in an increasingly competitive global marketplace, and freight logistics will suffer accordingly, if we do not maintain our best-in-the-world freight rail system.

TESTIMONY OF
SCOTT SATTERLEE
SENIOR VICE PRESIDENT
C. H. ROBINSON

ON BEHALF OF THE
TRANSPORTATION INTERMEDIARIES ASSOCIATION

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
JUNE 26, 2013

HOW LOGISTICS FACILITATE AN EFFICIENT FREIGHT TRANSPORTATION SYSTEM

C.H. ROBINSON

C.H. ROBINSON

14701 CHARLSON ROAD

EDEN PRAIRIE, MN 55347

Chairman Duncan, Ranking Member Nadler, and members of the Committee, thank you for the opportunity to testify at today's hearing. As one of the nation's largest Third Party Logistics providers and a proud member of the Transportation Intermediaries Association, C. H. Robinson has a unique view of how goods and commerce flow from manufacturer to consumer. The transportation brokerage and third party logistics industries have grown substantially the last 10 years and I look forward to providing you an overview of our role in the marketplace and some recommendations to facilitate the movement of goods as you prepare for the next transportation bill.

Introduction of Scott Satterlee

My name is Scott Satterlee and I am a Senior Vice President for C. H. Robinson. I joined C.H. Robinson in 1991 and have been a vice-president since 2002. I am responsible for overseeing the operations of our 175 US branch offices which employ more than 8,400 US employees.

Introduction of C.H. Robinson

C. H. Robinson was founded in 1905 and currently facilitates the movement of over 11.5 million shipments per year. We have always prided ourselves on being one of the world's most innovative third-party logistics companies and have been named the number one 3PL for two years in a row by Inbound Logistics magazine. All of our offices are networked through a common proprietary operating system that provides our employees, our customers and our contracted carriers' visibility to freight shipments across the country and across the globe regardless of mode. The vast majority of the shipments we manage weigh more than 200 pounds.

Additionally, C.H. Robinson is a member of the Transportation Intermediaries Association (TIA) the leading association for the third-party logistics industry. TIA is the professional organization of the $162 billion third-party logistics industry. TIA represents over 1,300 member companies. Over 70 percent of these member companies are small, family-owned businesses. TIA is the only organization representing transportation intermediaries to shippers, carriers, government officials and international organizations and is the U.S. member of the International Federation of Freight Forwarder Association (FIATA).

C.H. Robinson relies on all of the nation's freight capacity to manage our customers' shipments on a daily basis. We do not own any equipment with wheels, so we are mode neutral when tendering shipments. Our highly trained employees make decisions every minute about how to route freight across the country for over 40,000 customers. We monitor and qualify over 45,000 US-based motor carriers for proper authority, valid insurance, and other data points. 82% percent of all carriers operate three or fewer trucks and 98% or carriers operate 25 or fewer trucks. Many of these companies do not have their own dedicated sales force, so companies like C.H. Robinson enhance their sales capabilities.

We also have access to all class 1 railroads for intermodal freight; we operate a series of gateways and consolidation centers for airfreight and ocean freight and perform customs clearances as a licensed customs broker. We provide visibility to all forms of capacity to our shipper customers.

Since we do not own and operate any power units ourselves, we must add value to both our customers and our carriers. By matching the right mode and route to serve the shipper, we dramatically save time and money for both carriers and shippers. Our industry has helped lower logistics costs as a percent of GDP by several percentage points since deregulation, to what is now estimated to be approximately 8.5 percent according to Rosalyn Wilson, author of the *23rd Annual State of the Logistics Report*. As many of you know, this provides American businesses a significant global advantage.

Because of our broad reach, C.H. Robinson likely had a role in the movement of some of the things you and your staff will use during the course of your day here. From the TV, bottled water, soda or candy in your office; to the produce and food in your fridge or at the restaurant tonight, there is a good chance it travelled on a truck we helped to arrange. From the car battery or the bicycle that started your day to the mattress and beer that may end your day, those are all examples of some of our customers.

Some shippers only use our services a handful of times a year on a transactional basis when they need assistance finding a truck, while other customers have fully integrated our services and even our people into their transportation departments.

From our viewpoint, there are two distinct markets within freight transportation. The first is local distribution typically arranged by a warehouse based 3PL, private fleet such as a beverage distributor, or a dedicated local fleet. Local distribution typically supplies stores, restaurants and other point of sale facilities with regular deliveries in order to restock shelves from a warehouse or distribution center.

The second category of freight transportation is regional or long haul transportation that typically moves from the manufacturer or grower to another manufacturer, packer, warehouse, distribution center, dealer, or job site. These moves tend to be less regular and move on for-hire motor carriers. Transportation is full of exceptions, but for the most part, C.H. Robinson, like other 3PL's, arranges regional and long haul transportation. For many manufacturers, we typically execute shipments between their manufacturing facilities and their suppliers, deliveries to their dealers or distributors and perhaps directly to a customer ordering a full or partial truckload worth of goods.

So how does freight get assigned and picked up across the country in the regional or long haul marketplace? It starts with data. Over the last 10 years, manufacturers and retailers, with the help of 3PL's and sophisticated transportation management software, have collected increasingly better data regarding movements across their supply chains. We help customers both collect this data and turn it into a format that can be bid on by transportation providers. Through C.H. Robinson Consultative Services, a customer conducts a bid to collect and compare rates from a core group of transportation providers. One of those core providers could be our Knoxville or Secaucus transportation brokerage offices.

Once analysis and negotiations have been conducted, a routing guide is developed to be executed over the next year or designated time period. If a shipment is tendered to us electronically by a customer from Davenport to Ft. Collins for example, a division of C.H. Robinson called the Transportation Management Center automatically offers the load electronically to the first carrier on the routing guide in that lane. If that carrier does not

accept the load within a given time period, typically an hour or two, then we offer it electronically to the next carrier. Approximately 40% of freight in the regional or long haul market typically has a lead time of 48 hours or less. This afternoon, across our network, we are receiving our first notice on thousands of loads that will need to be covered tomorrow morning.

Our Transportation Management Center acts as the execution arm for many of our customers' transportation departments. We execute routing decisions of mode and carrier selection our customer has already established and has signed contracts with those carriers directly. Some people call this service a 4PL or shipper's agent role. This environment is highly automated and produces a tremendous amount of data to analyze and improve.

As I mentioned previously, we also act as a traditional freight broker for almost all of our transportation customers. If our rates and service levels are competitive, our TMC division may tender C.H. Robinson brokerage freight just like they would any other provider. In the brokerage environment we provide carriers access to services such as consistent and rapid payment, fuel advances and user friendly websites to search for and manage loads, paperwork, and receivables. Our carrier focused load boards average over 13,300 unique log-ins per day with the average user logging in over 30 times per day. We keep carriers' equipment filled and moving.

We bring hundreds of carriers of all sizes to our customers through our brokerage services that normally would never have a chance to access their freight due to technology, payment, or contracting requirements. For example, one carrier with 10 tractors is

frequently used by our Iowa City office on a lane from California to Iowa. This small carrier may do 40% of all their business with our Iowa City office. Not all of that business will be shipments for the same customer, but we provide that carrier a consistent flow of freight as best as our opportunities allow.

In theory, transportation sounds pretty simple based on what I have described so far. If you have a load, find a truck, assign it and deliver the freight. Then, exceptions happen. Weather and traffic delays, equipment failures, IT glitches, unaligned expectations, changing regulation, lane capacity imbalances, business seasonality, cargo theft, and of course economic conditions all add tremendous complexity to the system. 3PL's excel at exception management and facilitate solutions to both chronic and unanticipated exceptions. Some examples of chronic exceptions we work to identify and resolve with our customers are short lead times and heavy reliance on expedited services, excessive loading and unloading time, poor visibility to inbound or outbound freight, and securing surge capacity during busy seasons such as the end of the quarter. Some examples of unanticipated exceptions we help to manage are cargo theft, cargo claims, recall management, and disaster and storm recovery operations.

As we manage and match carriers to shipments across the country, there are two primary insights about the transportation marketplace we would like to communicate that may help you when thinking about transportation policy into the future. First is to reiterate that a typical lead time on notice of shipments in the industry is 48 hours or less. It truly is amazing that the modern transportation system expects providers to arrange for refrigerated transportation of 40,000 lbs of produce to go from Salinas, CA to Hunts Point

in New York with 3 stops in between on less than 48 hours' notice. Imagine if most of your office appointments, including this hearing, were scheduled only 48 hours in advance. This is one of the primary reasons that truckload service is the dominant mode of transportation for freight in the nation and will be for the foreseeable future.

The second insight from our viewpoint is how important the small and medium sized motor carrier is to the nation's transportation system. 98% of registered carriers have fleets of 25 trucks or fewer. They provide the flexibility and service to keep our entire transportation system in equilibrium. If capacity gets too tight, it is the entrepreneurial owner operator who will start a trucking company or add to their fleet in order to fill the market need. Our current system has a significant advantage because an entrepreneur can get into the trucking business and find freight to support their new business with relative ease, although it is becoming more difficult.

Finally, as the committee and staff prepare for the next investment in our nation's transportation system, we offer these recommendations where government can reduce both chronic and unexpected exceptions therefore increasing efficiency in the supply chain:

1) **Provide shippers and brokers clarity on which carriers are safe to hire in regards to the CSA program.** We testified last September on behalf of the Transportation Intermediaries Association about the confusion in the marketplace around the CSA program. That confusion still exists today. Freight brokers and shippers should not need to second guess the FMCSA on who is authorized to operate on the nations roadways.

2) **Reduce the impact of both chronic and unexpected delays due to congestion.** While calculating the cost of congestion, we have seen a focus on the direct costs such as time and fuel. Congestion delays also have a ripple effect in the supply chain. For example, if a load we are managing is unexpectedly delayed in traffic and may miss an appointment or pick up, our staff and the shippers' staff is disrupted, our carrier may miss their next load assignment or a vendor may be fined by a receiver. Shippers also tend to carry additional inventory to compensate for irregular transit times.
3) **Encourage our transportation system to have built-in modal flexibility.** Modal flexibility helps shippers and 3PL's respond to market forces and provides for competition. Exceptions of all sorts are easier to manage when other options for movement are available. An example of modal flexibility would be an increase in rail ramps across the nation or a viable short sea shipping program.
4) **Make sure trucking remains a great opportunity for the small and medium sized entrepreneurs.** Equilibrium of capacity and transportation freight rates relies upon the ability of trucks to successfully enter and exit the marketplace in an orderly and unencumbered fashion. Barriers for small carriers includes the difficult choices carriers have to make in order to serve the California market due to environmental regulation which is significantly different from the rest of the country.

5) **Help industry address the growing rise of sophisticated cargo theft.** Like the modern transportation system, cargo theft is becoming increasingly sophisticated and crosses many jurisdictions. Cargo theft is a significant form of unexpected exceptions challenging freight efficiency. Regional cargo theft task forces are under increasing budgetary pressures from law enforcement agencies, but provide industry and consumers valuable deterrent to a costly problem.

6) **Ensure consistency between food safety regulations and cargo claims regulations.** Freight cargo claims are guided by federal statute including the Carmack Amendment to the Interstate Commerce Act and regulations promulgated under it. These laws and regulations clearly outline roles and responsibility for motor carriers and shippers. Because of increased awareness of food safety regulation, it is now common for a shipper to request the destruction of hundreds of boxes of food without clearly establishing proof of actual damage. Shippers are expecting settlement under strict liability standards without meeting the necessary burdens of proof established under law. 3PL's are often caught in the middle of the tension between freight cargo claims responsibility and food safety fears. This is a chronic source of exceptions for efficient transportation of freight within the supply chain.

7) **Within the area of supplier diversity goals, we encourage you to recognize the growing opportunities for significant supplier diversity spending within transportation.** Our carrier base is

> becoming increasingly diverse however, when a diverse carrier gets a load through C.H. Robinson, they are not counted as tier 1 or direct spending. The dollars we pay our diverse carrier base should be considered as tier 1 spending because our services are often so heavily intertwined with shippers' transportation departments. We are seeing increasing confusion around the flow of transportation dollars through 3PL's and how they should be calculated towards supplier diversity goals.

Thank you for the opportunity to provide insight into how freight flows across the country. The physical infrastructure of our nation is obviously the most important factor in freight efficiency and we fully support infrastructure investment. However, customers of 3PL's have found that we can significantly improve the efficiency of their supply chains without owning equipment ourselves and improving processes to better utilize the physical capacity available. We are encouraged and optimistic that the next highway bill can find ways to improve the nation's freight efficiency by addressing some of the non-infrastructure barriers to the efficient flow of freight across the country.

U.S. House Committee on Transportation and Infrastructure
The Panel on 21st Century Freight Transportation

How Logistics Facilitate an Efficient Freight Transportation System

Testimony of Mark V. DeFabis
President & CEO
Integrated Distribution Services Inc.

Representing

International Warehouse Logistics Association
June 26, 2013

Chairman Duncan, Ranking Member Nadler and members of the committee:

Thank you for inviting me to testify today. I represent the members of the International Warehouse Logistics Association and serve on the organization's executive committee. IWLA is the only trade association for warehouse-based third-party logistics providers (3PLs). These are companies like mine that offer warehouse-based supply chain management services to other businesses across North America.

Independent warehouses are a vital part of the economy. We manage the movement of our nation's freight and keep goods safe through the supply chain. We must expand and contract to match our customers' – and their end consumers' – trends and seasonal cycles. We employ a growing number of people – and provide them opportunities for advancement. We best serve our customers by identifying efficiencies that allow goods and materials to move with more velocity from creation to the end consumer while navigating the legislative and regulatory waters that affect goods movement. We do all of this while constantly looking for ways to achieve efficiencies within the overall supply and our success is evidenced by the fact that logistics costs as a percent of GDP have fallen almost half from 16.2% in 1981 to 8.5% in 2012.[1] Our unique position in the supply chain allows us to understand just how goods move across the country – and exactly where the system needs to focus to ensure smooth commerce in the future.

Our industry employs approximately 700,000 individuals and operates more than 1 billion square feet of warehouse space. As a testament to the importance and strength of our industry, the U.S. Bureau of Labor Statistics shows that warehouse-based 3PLs are among the few

[1] http://www.joc.com/economy-watch/us-economy-news/logistics-costs-stay-85-percent-us-gdp_20130619.html

employers that have experienced positive job growth during the latest recession; BLS data show that the employment has steadily increased with average wages of $18 per hour[2].

Career ladders in public warehouses take many paths: from entry-level positions to supervisors and managers; from information technology professionals to truck drivers; from regulatory experts to accounting and financial professionals and executives. In fact, the Commonwealth of Pennsylvania and Los Angeles and Alameda Counties in California recognized the warehouse-based 3PL industry's strong promote-from-within opportunities.

Today's commercial freight is multimodal and the warehouse-based 3PL is the point at which modal interchange happens. Freight entering or leaving our ports is trans-loaded (meaning, the goods move from one mode of transportation to another) at warehouse-based 3PLs – whether from truck to ocean container; from railcar to truck (or vice versa). This is one reason IWLA members' facilities are located near every major airport, seaport, harbor, rail yard and interstate interchange, and why adequate access to these locations is imperative.

As I mentioned, velocity, security and accuracy within the supply chain are mission-critical outputs. This is the reason warehouse-based 3PLs provide a growing number of value-added services. These warehouses, once only big-box buildings where goods were stored, now may label, package, sort, blend and test these materials to save on customers' transportation costs and to speed the process. These same warehouses may also support made-to-order operations, handle returns processing and refurbish returns.

Warehouse-based 3PLs are a key player in another growing segment of the economy: Internet commerce. For example, when you place an order online for Jockey apparel, no matter which website you use, that order will be picked, packed and shipped from a 3PL warehouse. In this case, it is shipped from an Integrated Distribution Services, Inc. facility in Plainfield, Ind. From this facility, we ship to consumers all over the world the same day that we receive a customer order.

Ecommerce fulfillment is a special subset of 3PL warehousing, offering unique challenges. Because of the retail nature of most ecommerce companies, they are subject to high seasonality requiring the warehouse-based 3PL to manage peak-season order volumes that are often two- to three-times greater than off-peak volumes. The increasing amount of ecommerce sales means more shipments being delivered directly to the consumer. This fact also demonstrates that commercial freight does not just move on interstate highways but extends all the way to the residential doorstep.

This new business model for warehouse-based 3PLs exposes these organizations to laws and regulations that previously applied only to manufacturers. One distinction between the warehouse and manufacturer is important to keep in mind: Warehouse-based 3PL operators do

[2] http://www.bls.gov/iag/tgs/iag493.htm

not own any of the products that move through their facilities. Ownership of the goods remains with the warehouse's customer and the relationship is that of a bailor and bailee governed by Article 7 of the Uniform Commercial Code.

It seems that this relationship is often not understood nor considered during the drafting of federal rules and regulations. While the warehouse operator is prepared to live by rules and regulations governing the handling and storage of various products, we can only act upon the direction and information supplied by our customer, the bailor. As bailee, we should not be held to the same level of liability that applies to the owner of the goods.

From its unique position in the supply chain, the warehouse-based 3PL can see and is directly affected by bottle necks and choke points within our commercial freight network. As companies strive to develop lean supply chains, it has resulted in the need for goods to move rapidly through the supply chain while maintaining accuracy and safety. This emphasis on velocity is evidenced by increased inventory turns which means, many activities in the warehouse must be tightly choreographed. Goods must be unloaded when scheduled, move through the value-add process and be prepared for shipment - sometimes within a matter of hours. Delays at any point cause a ripple effect that results in increased costs and late shipments. When containers in Long Beach are delayed leaving the port, a truck is delayed in traffic through Chicago or takes three hours to cross the Ohio River via the Brent Spencer Bridge Corridor, an air cargo flight is delayed due to air traffic congestion or a train is annulled, this inefficiency manifests itself at the warehouse where increased costs are incurred to keep the supply chain moving in a coordinated fashion.

A strong logistics industry enables a healthy and growing economy. But a strong logistics industry is only possible with freight policies that support the needs of the 21st-century supply chain.

With this in mind, the members of the International Warehouse Logistics Association ask the committee to consider the following:

1. Develop strong national freight policies that build on the efforts of MAP- 21 and promote the coordinated multi-modal movement of goods.

2. Establish a Freight Trust Fund for the exclusive purpose of financing necessary improvements to high-priority freight bottlenecks in the highway system.

3. Establish a Freight Infrastructure Commission whose purpose is to identify and recommend to the Secretary of Transportation those high-priority freight bottleneck projects that should be financed from the Freight Trust Fund. Funding for the Freight Trust Fund shall come from a highway diesel excise tax differential of (amount to be determined) and indexed for inflation.

4. Develop new approaches to infrastructure financing for all commercial transit modes. These can come via traditional revenue sources and through new sources such as user fees, mileage-based taxes and the greater use of private investment.

5. Implement policies to ensure that revenue designated for commercial freight projects cannot be diverted in the same way that Highway Trust Funds are today.

6. Promote greater cooperation among all classes of railroads and their shippers to increase the efficiency of the entire rail network.

7. Study innovative design solutions for efficient freight movement. Analyze the impact of dedicated truck lanes and review regulatory policies such as truck size and weight with an unbiased cost-benefit analysis.

8. Guarantee that fees collected on imports at the ports through the U.S. Harbor Maintenance Trust Fund are used for their intended purpose: dredging and maintaining the nation's port and waterways. Also, with expansion of the Panama Canal, many ports will need dredging to accommodate the larger ships transiting through the Canal.

9. MAP-21 reformed the project approval and delivery process for highway projects. We support efforts included in MAP-21 to streamline the regulatory review process so that projects can be realized on-time and within budget. We encourage the Committee to monitor the implementation of the MAP-21 streamline directive and adopt additional measures if and when necessary.

On behalf of the International Warehouse Logistics Association, I thank you for your time. Our industry stands ready to work in partnership with the committee on ways to enhance commercial freight movement that will result in economic growth for our country.

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United States House Committee on Transportation and Infrastructure

The Panel on 21st Century Freight Transportation

"How Logistics Facilitate an Efficient Freight Transportation System"

Testimony of Richard H. Fisher

President

Falcon GlobalEdge

June 26, 2013

Chairman Duncan, Ranking Member Nadler and members of the committee,

Thank you for inviting me to testify before the committee today. I also would like to thank Chairman Shuster and Ranking Member Rahall for setting up the Panel on 21st Century Freight Transportation to take a holistic view of the freight transportation system.

My name is Richard Fisher and I am the President of Falcon GlobalEdge and the Chairman of the Airforwarders Association (AfA). Falcon GlobalEdge is headquartered in Boston and employs 21 people and operates both domestically and internationally. Today I am testifying on behalf of the Airforwarders Association.

The Airforwarders Association represents 360 member companies employing tens of thousands of employees and dedicated contractors. AfA members range from small businesses employing fewer than 20 people to large companies employing well over 1,000 with business models varying from domestic to worldwide international operations. Additionally, a few of our members operate their own aircraft. In short – we are the travel agents for freight shipments. We move cargo throughout the supply chain in the most time and cost efficient manner whether it is carried on aircraft, truck, rail or ship. As we are multimodal, we see things from a holistic view and are concerned with the entire transportation supply chain.

Logistics and the U.S. Government

The global economic downturn continues to erode forwarder margins in the face of increasing costs and these expenses only escalate as the regulatory web expands. The logistics of moving a shipment between the United States to or from an international destination can be extremely complex and involves a number of U.S. governmental agencies enforcing many regulations beginning with the numerous complex screening protocols required by the Transportation Security Administration and followed by the transmittal of shipping details to Customs and Border Protection (CBP). For example, in the case of a shipment between Paris to Washington, DC, the successful and timely delivery of a Falcon GlobalEdge's customer's product is dependent on a myriad of U.S. government services and faces a web of regulations. It is critical that the Federal Aviation Administration and Customs and Border Protection are both adequately staffed to manage flights and clear shipments quickly and efficiently. When going to or from the airport, the shipment moves by truck and enters the purview of the Department of Transportation and the independent trucker falls under the regulatory purview of the Federal Motor Carrier Safety Administration. One international shipment arriving in the United States could possibly meet 13 U.S. regulatory agencies at our

border and anyone of these departments can derail the timeliness of the shipment arriving at its destination. Sun Tzu once said, "The line between disorder and order lies in logistics..." This rings true in both war and in the delivery of shipments

Aviation and Air Cargo

With respect to staffing of the air traffic controllers, I would like to thank the committee for resolving the FAA furlough situation and keeping the 149 air traffic control towers open and hope that a long-term solution can be identified for adequate staffing.

Aviation is an extremely key sector for many of our member's businesses. According to the International Air Transport Association, air cargo transports over $6.4 trillion worth of goods on an annual basis. This is approximately 35% of world trade by value.

Much of our airfreight is transported on passenger carriers. As an aside, the Administration's proposal to impose billions of dollars in new and higher aviation taxes should be flatly rejected. It is in our nation's economic interest and in the interest of our industry to have a healthy and robust aviation sector and increasing taxes on airlines runs contrary to this goal.

Our industry's logistics are certainly complicated by new regulatory burdens, potential shortages of key government workers and increased taxes. Conversely, the government can assist our industry by continuing to support the modernization of our antiquated air traffic control system. To meet future demand, improve the safety of flight operations and increase productivity, the nation must deploy new technology. The deployment of this technology – NextGen – is extremely complex and costly. However, the benefits of NextGen have demonstrated that the technology and procedures can save minutes of flight time, increase the safety of flight operations, and reduces emissions. I urge this Committee to maintain its strong support for NextGen deployment by maintaining vigilant oversight.

The Impact of High Fuel Costs on Aviation and Trucking

AfA members and their customers see the impact of high fuel prices every day by paying higher freight rates or dealing with the extreme cost of filling up their truck and car gas tanks at the pump. Still, we also realize that air cargo shipments require sturdy roads and bridges to get to and from the airport and current funding sources are insufficient to maintain this vital infrastructure. For example, one in nine bridges in the United States remain structurally deficient. Obviously this money needs to come from somewhere and there are many proposed solutions ranging from increasing the federal gas tax, a vehicle miles traveled tax or from more transfers from the general fund. Before embracing a higher tax that inevitably will result in higher consumer costs for just about everything they buy, we need assurance that existing taxes are being invested as intended and not diverted for

other purposes. In other words, the extra money collected must find its way to the potholes.

Hours of Service

In addition to identifying a funding mechanism for our deteriorating roads and bridges, we are greatly concerned about the new hours of service requirements for truckers that will take effect next week. As most of our members rely on independent trucks to deliver freight throughout the United States, this new regulation is estimated to require an addition of 40,000 truckers to maintain current service and the number of truckers is already too low today.

In conclusion – I urge members of the Transportation and Infrastructure to remain vigilant on the promulgation of additional regulations and its impact on the freight industry. Thank you for this opportunity and I will be happy to answer any questions that you may have.

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