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Speech

TRANSPORTATION POLICY TRENDS IN THE UNITED STATES: MEETING THE CHALLENGE OF GLOBALIZATION

Remarks of
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Good morning. I want to thank the ECMT for affording me the opportunity to share a few thoughts about U.S. actions to address global challenges in freight. It is clear from the discussion of Europe-Asia transportation links that we are facing many of the same challenges: as in Europe, every year the U.S. economy grows more dependent on global markets. International trade now accounts for nearly one-third of the U.S. GDP and will continue to climb upward, with freight volumes expected to increase by at least 50 percent by the year 2020.

Furthermore, world trade and sourcing patterns are changing. We are increasingly relying on resources and manufacturing in China and other locations in Asia. For example, over 40 percent of mainland China export value is accounted for by exports to the U.S. and Europe, compared with less than 20 percent in 1990. U.S. shipping companies are forecasting Asia-to-U.S. cargo growth of between 10 and 12 percent this year alone.

This demand means that we are more dependent than ever on the output of the transportation sector. In fact, transportation is now embedded in the very fabric of our economy as never before. American businesses are integrating transportation into their just-in-time manufacturing and inventory processes so that transportation isn't just a service to manufacturers; it is an essential *part* of the manufacturing process. It isn't just a service to retailing; it is a surrogate for traditional means of maintaining inventory.

That is way bottlenecks in the supply chain, if left unaddressed, will have far more serious economic consequences than ever before.

In the U.S., the challenge is that, while we have achieved significant gains from robust service competition, transportation companies are now operating on an aging infrastructure network that is performing less reliably and efficiently. Congestion costs are escalating in every urban area of the country because of the inability to efficiently deliver goods to the marketplace.

The same forces of competition, innovation, and customer-driven growth that we unleashed by deregulating the service businesses need to be applied to the underlying network itself. The private capital markets are not being effectively tapped to improve the U.S. national transportation system, particularly highways, airports, and seaports.

A big part of the reason is that our laws actually discourage private participation in infrastructure development. We must begin tearing down legal, regulatory, and even cultural obstacles to creativity and risk-taking in the provision of infrastructure. These obstacles slow the deployment of new technologies, stifle innovation, and lead us to neglect potential efficiencies that could arise from improved system management. We have an enormous and growing demand for transportation services. We need to make it possible for the market to respond to that growing demand by delivering new infusions of supply.

President Bush's legislative proposal for the next few years of America's highway, transit, and safety programs lays an important foundation for reform. That proposal includes a number of actions to improve freight transportation, including dedicated funding for intermodal connectors; the establishment of a freight coordinator in each of the 50 state governments; and a number of public-private financing tools that will help those who carry or accommodate freight. Congress has responded by including much of what we proposed in the legislation that it is considering.

Under the leadership of my boss, Secretary of Transportation Norman Mineta, our Department has also developed a new "Freight Action Agenda" to help guide our partners, our stakeholders, and ourselves in efforts to improve goods movement throughout our transportation system. The Freight Action Agenda lays out a vision that reaches far beyond where our Department has gone in the past, recognizing that freight policy, given its inherently intermodal nature, must be driven by strong leadership.

Our agenda includes initiatives to develop better freight data and analytical tools, improve intermodal freight research and technology, educate the next generation of freight professionals, and advance nationally significant freight projects.

We are focusing currently on three nationally significant freight Gateway projects -- in Chicago, at the large port complex at Los Angeles and Long Beach, and in Seattle -- because rapidly increasing demands on the system are creating serious bottlenecks in these high demand areas. If we fail to alleviate congestion in those particular areas, businesses' track record of success will be jeopardized.

Equally important, our policy recognizes that State and local governments need greater freedom to pursue new and innovative ways of providing transportation services. That includes the freedom to experiment with dynamic, variable pricing on existing and new highways.

As ECMT members know, cutting-edge technologies now available are able to monitor traffic flows and make real-time price adjustments based on those flows. Efficient infrastructure pricing has the potential to significantly reduce congestion in all modes, as well as to significantly increase production. The benefits are evident every day on SR-91 in Southern California where variably tolled lanes carry twice as many vehicles per lane as the unpriced lanes at speeds 3 to 4 times faster. Not surprisingly, the public overwhelmingly supports continued pricing of the facility.

Our proposed surface transportation legislation would also eliminate the bias against private sector investments in highways and intermodal freight transfer facilities. Under current law, a public entity that turns over bond proceeds to a private developer must retain significant control over the project or else risk spoiling the tax-exempt status of the bonds. That restriction makes a privately constructed and managed project significantly more expensive than the same project built by a public agency, <u>even</u> <u>if</u> the private project is delivering comparable public benefits.

Not surprisingly, there have been no more than a handful of privately-owned and managed highways in the interstate era.

We are beginning to see signs of change. Texas, Virginia, and the City of Chicago have all announced exciting new agreements with private sector owners and developers in the last six months. These agreements will result in large new investments in the U.S. transportation system. California, Delaware, and Florida are seriously exploring similar agreements. Major institutional investors, construction companies, and Wall Street are all starting to awaken to these trends.

We know, of course, that we have a lot of company as we try to address these issues. Both Europe and Asia have witnessed ambitious and creative efforts to harness the power of the private sector to boost transportation infrastructure.

So what are our next steps? Clearly, we must find strategies that can help us better manage and finance network assets. Right after our surface transportation legislation is passed and the full-scale implementation of our long-awaited freight gateway program commences, we will have a frank discussion with our stakeholders about what a more comprehensive set of strategies would look like to ensure that in the 21st Century transportation continues to serve as an engine of economic growth and not an impediment to it.

We will also develop a toolkit beyond what we currently possess. Market-based pricing and tax incentives are just two examples of the kinds of policy tools that will help us to address freight capacity.

We are all facing exactly the same kinds of issues and so we must learn from each other. The vision of a high-technology infrastructure brimming with creativity and innovation, and delivering more productivity gains will be realized only if transportation and business leaders are prepared to join in waging a sustained fight for change.

Thank you for allowing me to share these thoughts, and for your attention.

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