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Speech

FREIGHT AND LOGISTICS POLICY: REAUTHORIZATION AND BEYOND

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It's a pleasure to be here today at the NITLeague's Spring Policy Forum. On behalf of President Bush and Secretary Mineta, I would like to welcome all of you to Washington, DC and thank you for giving me the opportunity to speak with you about some of the major freight and logistics policy issues we are working on at the U.S. Department of Transportation. Before I do that, however, I would like to personally thank John Ficker for being such a superb supporter of what we do at DOT and such an excellent advocate for NITLeague members all across the country. The NITLeague has been particularly helpful recently in educating policymakers here in Washington about the challenges we face in moving freight throughout the supply chain. That needs to remain among your most important missions.

As we look at the reauthorization of our surface transportation programs – and we hope to be looking at a final bill very soon – DOT is both preparing to implement the freight provisions contained in that bill and also thinking about what lies ahead. The new "freight gateway" program included in the legislation has been developed in recognition of the critical role that freight and logistics play in our nation's economy, and will help DOT and its state partners perform a more pro-active role in this area. The larger question, of course, is what we do beyond reauthorization to tackle the longer term need for infrastructure – an issue that becomes more pressing every day. That is what I would like to focus on this morning.

TEA-21 Reauthorization

Before I do that however, I do want to say a few things about the pending surface transportation reauthorization. As you know, we all are anxiously awaiting congressional passage of a final bill. A few weeks ago, the House of Representatives overwhelmingly approved its version of the legislation, and the relevant Senate committees are currently marking up their pieces of the bill. The Senate Commerce Committee completed its work on

the safety portion last week. As a result, we do have some reason for optimism, but let me once again make the case, on behalf of the Administration, for the critical importance of Congress completing its work *before the current TEA-21 extension expires in May*. Simply put, our economy depends on it.

The Administration's proposal – SAFETEA, the Safe, Accountable, Flexible, and Efficient Transportation Equity Act – includes total spending of $284 billion, the largest commitment to transportation ever made by any President. In the context of an overall Federal budget that emphasizes fiscal restraint and directs resources to priorities like national security and homeland defense, SAFETEA is pretty amazing. It is $28 billion higher than the six-year total proposed just last year, and *30 percent higher* than the amounts authorized under TEA-21. This level of funding, combined with the policy changes we have suggested to help modernize our federal programs, will allow us to address the immediate needs of our surface transportation system in a creative and aggressive way.

While the debate over this bill has been almost exclusively about funding *levels*, one often-overlooked but equally important item is funding *flexibility*. Discretion and flexibility are absolutely critical if our States and localities are to meet their surface transportation needs in the most effective way possible. Therefore, the reauthorization of these programs must respect State and local discretion and avoid a proliferation of earmarks, set-asides, and new programs.

Of particular importance to this audience, of course, is that the Department's SAFETEA package included several key elements designed specifically to address your shipping needs. American businesses are now integrating transportation into their just-in-time manufacturing and inventory processes in ways we haven't seen before. If they are to remain successful, our intermodal freight system must deliver. That's why passage of SAFETEA's freight gateway package is so urgent. It includes dedicated funding for intermodal connectors, the establishment of a freight coordinator in each of the 50 states, and a number of public-private financing tools that will help those who carry or accommodate freight. This Administration recognized the importance of these issues three years ago when we started putting our SAFETEA package together, and I am very proud to say that Congress has responded by including much of what we proposed.

Freight Action Agenda

Rather than simply waiting for the completion of SAFETEA, DOT has also developed a Freight Action Agenda that helps guide our partners, our stakeholders, and us in efforts to improve goods movement throughout the nation's transportation system. Our Agenda includes initiatives that will help us 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.

Our decision to focus on a small set of nationally significant freight projects is not without some risk, of course, because providing special attention to one project or location can sometimes lead to criticism. We are doing so, however, in recognition of the fact that the

major challenge affecting our national transportation system is no longer connectivity but congestion. Completion of the Interstate highway system linked our nation together far more effectively than ever before. It helped American businesses increase their productivity and lower transportation costs. Now, however, rapidly increasing demands on the system are creating serious bottlenecks in high demand areas. If we fail to alleviate congestion in those particular areas, American businesses' track record of success will be jeopardized.

To be more specific, under Secretary Mineta's leadership we have been paying particular attention to three major projects, facilitating regional planning and development in three critical geographic areas while state and local leaders wait to see what kind of financial support they will receive through SAFETEA. While we have made some progress, we have also seen up close the adverse consequences of the 19-month delay in reauthorizing our surface transportation programs. Without funding certainty, state and local officials are hesitant to move forward aggressively with such large, capital-intensive projects.

We have established what we call "Gateway Teams" to address network improvements in each of these locations.

- First, there is the **CREATE Project** in Chicago, where a rail/transit approach to network improvements will greatly improve freight rail interchanges and reduce delays in Chicago, the nation's busiest rail interchange point. This Gateway improvement is estimated to cost about $2 billion in public and private financing.

- Second, we are focused on the **Ports of Los Angeles and Long Beach** – an area that already accommodates 40 percent of the nation's container shipments and is seeing volume increases of well over 10 percent each year. The scope of the activity includes a wide array of bridge, highway, and rail infrastructure projects in and around the nation's largest port complex, with total needs in the LA basin likely to require as much as $30 billion in financing over many years.

- Finally, we have launched a **Seattle Gateway Project,** a multi-modal project that will improve downtown Seattle's road and rail connections to the Port of Seattle. Overall, the improvement is expected to require about $4 billion in public and private financing.

The Freight Action Agenda is by no means static. Instead, it serves as a general framework for what the Department and its operating administrations are doing, and will be adjusted over time as we identify new activities we want to undertake. It also lays out a vision that reaches far beyond where the Department has gone in the past, recognizing that freight policy, given its inherently intermodal nature, must be driven by strong leadership. Secretary Mineta understands that and he has empowered us to be aggressive in our efforts to keep our national economy moving. At the same time, our modal administrators are also playing a very active role, and you will hear from two of them today – Federal Motor Carrier Safety Administrator Annette Sandberg and Acting Maritime Administrator John Jamian -- about what they have been doing in this critical area.

Understanding our Past to Build a Prosperous Future

Many of you have probably heard me talk about our SAFETEA proposals and Freight Action Agenda before, so let me now move into what I see as the more challenging piece of the puzzle – what we are going to do in the next reauthorization and beyond. We have big challenges coming our way, and it will take a concerted effort among all players – public and private, carriers and shippers, service providers and customers – to be successful. This is an issue that will require vision, focus, and a commitment to execution. I know that many stakeholders are looking to the Department of Transportation to step up to the plate in that regard. Let me assure you that Secretary Mineta and his team are doing that, starting with a commitment to make freight and the capacity of the intermodal supply chain a cornerstone of the Secretary's second-term agenda.

The need for this leadership becomes clear, of course, upon even a cursory review of the numbers, and at the fiscal, environmental and technological challenges that lie ahead. International trade now accounts for nearly one-third of our nation's GDP and will continue its upward climb, with freight volumes expected to increase by at least 50 percent by the year 2020. As the economy becomes more and more global in nature, our economic strength will become ever more dependent on international trade, which makes having a transportation network that responds to these rising demands all the more critical.

If you will allow me to digress for a moment with just a bit of history, recall that in the 19th Century the economy was served by ships, canals and railroads. Beginning in the mid-20th Century we invested significant taxpayer dollars into developing a national highway system and worked with state and local governments to finance a robust system of public airports and seaports. In the last quarter of the 20th Century, noticing that cumbersome government regulation had begun to slow our nation's productivity, a comprehensive *de*regulation drive was undertaken to unleash yet another wave of innovation. Those changes produced huge productivity gains and very competitive prices, from which your firms – and all users of the transportation system -- have derived substantial cost savings over time.

Today, we face a different challenge. We see ever increasing traffic moving over transportation infrastructure that doesn't appear to be keeping up with demand. Truckers contend with increasing congestion at gateways and border crossings. Ports struggle to deal with the huge influx of inbound containers and repositioned empties. Mega-ship operators find that their vessels cannot be handled at many ports, and rail operators struggle to keep up with the terminal operations at major gateways. As an overlay on all this, the general public is becoming increasingly frustrated with congestion levels and their impact on the quality of our lives.

Building new capacity in a mature system is an expensive, complex, time consuming enterprise. It typically raises serious environmental concerns. At the same time, our transportation system is being asked to deliver more and more cost savings as companies look to build on the network integration and optimization that resulted from our policy successes of the last half century. Demand is strongest, of course, at key gateways, corridors and border crossings, which is why we need to focus our efforts most aggressively on those potential

choke points. As I have discussed, that is something we have already begun to do at DOT, but there is much more work to be done.

So what are our next steps? Clearly, we must find strategies that can help us better manage and finance network assets. First, at the risk of belaboring the point, the Department must have a reauthorization bill so that full-scale implementation of our long-awaited freight gateway program can commence. Right on the heels of that reauthorization, we need to have a frank discussion with our stakeholders about what a more comprehensive set of strategies would look like. Perhaps that's the most important message I can leave you with today: that we will need your help in shaping these policies if we are to ensure that in the 21st Century transportation continues to serve as an engine of economic growth and not an impediment to it.

To be more specific, we will need greater input from carriers, shippers, workers and other key stakeholders about what changes they think we need to make to achieve this level of network improvement. We will also need to develop a toolkit beyond what we currently possess. Market-based pricing, tax incentives, and cost service trade-offs are just a few examples of the kinds of policy tools that will help us to address freight capacity. While we will be exploring all of these in more detail going forward, let me make just a couple quick points here today.

Pricing is an important market-based tool for addressing network capacity, and we have been working hard in the context of reauthorization to ensure that states have the flexibility they need to use pricing to respond to capacity needs more quickly. Our proposals to remove restrictions on the use of tolling and private activity bonds, and another to expand the use of existing innovative financing programs, are absolutely essential first steps in addressing our freight capacity needs.

Tax policy can serve as another valuable tool. Last year, the Department began to draw attention to the tax burdens on our maritime sector, with the goal of improving the U.S. fleet's ability to compete internationally and removing disincentives for U.S. companies to invest in ocean shipping. Congress ultimately included provisions in the Job Creation Act of 2004 that carry substantial benefits for the shipping industry, including new corporate income tax based on tonnage that will level the playing field for U.S. flag shipping. Congress also enacted changes to Subpart F of the Internal Revenue Code that will remove a penalty on U.S. investment in overseas shipping assets that does not apply to investment in other sectors of our economy. Finally, the Jobs Act also included both a repeal of the 4.3-cent fuel tax that benefits Class I railroads and inland barge operators and a rehabilitation tax credit that benefits Class II and III short line operators and is intended to promote rail network improvements. It is incentives of this kind that allow carriers to improve and upgrade their capacity, and that ultimately translate into more competitive prices for shippers.

The third component in this toolkit is perhaps the most challenging in that it involves cost/service trade-offs between carriers and shippers. Bear in mind that the federal government does not have a direct role in these private sector trade-offs, but we do acknowledge their importance in terms of freight capacity. Many of your firms are now

asking carriers for service guarantees and are willing to pay for that service, if it is guaranteed. Such agreements may allow for increased investment in transportation infrastructure going forward, but it will be critical to ensure that every dollar of revenue raised is invested in ways that all parties see as valuable. New pricing schemes, like the PierPass system in southern California, are already being developed to squeeze as much capacity out of the existing infrastructure as possible, and we in government must adapt our infrastructure planning accordingly to ensure that the full benefits of these changes, and others in the future, are realized.

Looking Forward: Applying 21st Century Realities to Integrate the Network

Let me leave you with just a few thoughts about the basis for that cooperative discussion:

- First, we should celebrate our past success but realize that this success has created a new set of demands;

- Second, we must recognize that freight impacts and benefits are not always evenly distributed;

- Third, we cannot just build our way out of this problem; and

- Fourth, achieving the kind of integrated, intermodal network we envision will require a team effort.

As you well know, because federal transportation programs have evolved into modal stovepipes, it is difficult to ensure that investments in our transportation network are made in a coherent manner. Secretary Mineta has focused enormous time and effort throughout his career on tackling this problem, and our work in the freight area is a good example of that. To be sure, railroads, motor carriers and ocean carriers are all competitive businesses, so everyone wants capacity that contributes to their own competitive advantage. Going forward, however, we simply will not be able to successfully address the challenges of the 21st Century unless that attitude changes. We are committed to working with all of you to make that happen.

Thank you again for inviting me here today, and for listening.

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