



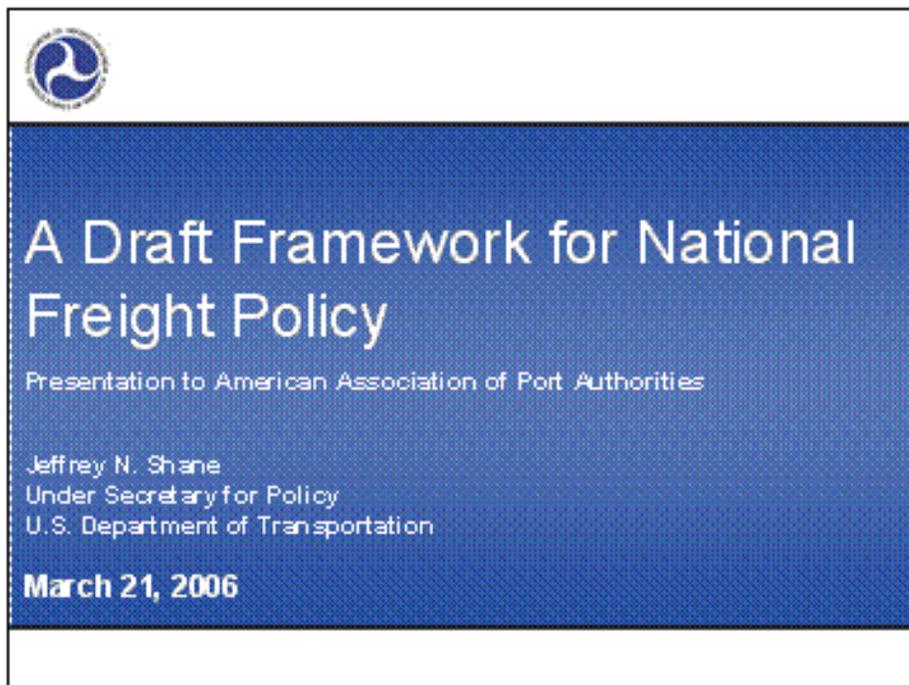
A Draft Framework for National Freight Policy

Presentation to American Association of Port Authorities

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March 21, 2006

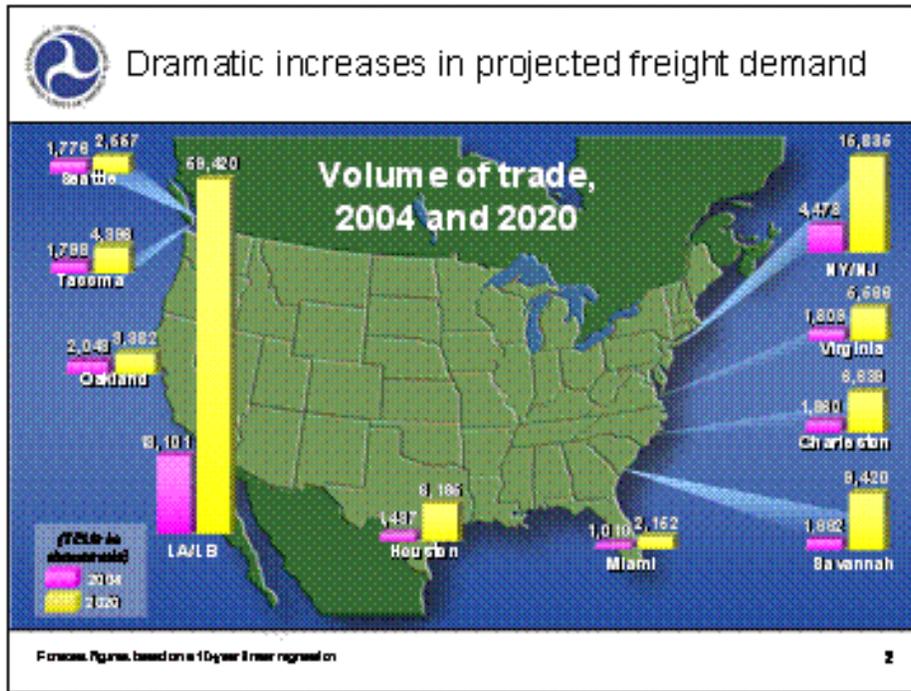
Slide 1



Before I start my comments on the National Freight Policy Framework, let me first sincerely thank each and every one of you in the audience who keep ports in this nation and elsewhere in the Western Hemisphere operating as vital gateways for the globalized economy. “Globalized economy” is quite the cliché, but it is this audience who really understands the front line of a globalized economy and what trade partnerships are really about. In the U.S. context, thank you for managing the flow of over 2 billion tons annually, generating \$729B of the nation’s GDP, and facilitating 1.1 million direct and indirect U.S. jobs. This AAPA

meeting is about talking to Washington leaders, but Washington leaders also need to thank you folks for being on the job every day, 24X7.

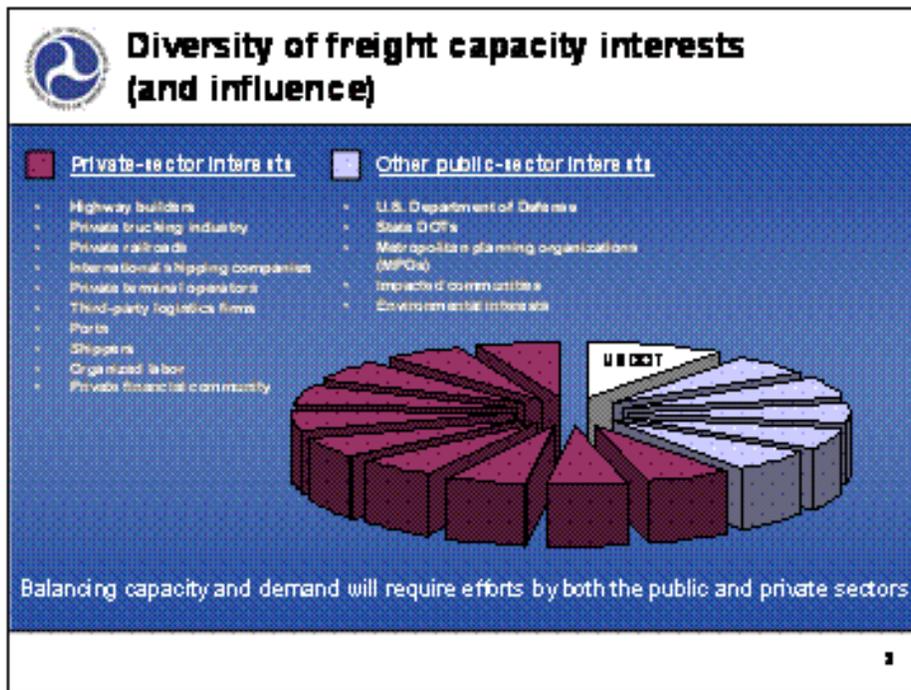
Slide 2



I think this slide is self-explanatory, especially in front of this group. What you see is a graphic depiction of the expected growth in containerized trade at selected U.S. ports. This growth will demand focused and sustained attention, and that is the driver that underpins my remarks to you today. The Department and the freight community – and most especially the port community – need to work together to systematically address this wave of international goods entering and exiting our country.

So let me outline what we have assembled as our way of systematically engaging and addressing this nation’s freight capacity challenges: a National Freight Policy Framework.

Slide 3

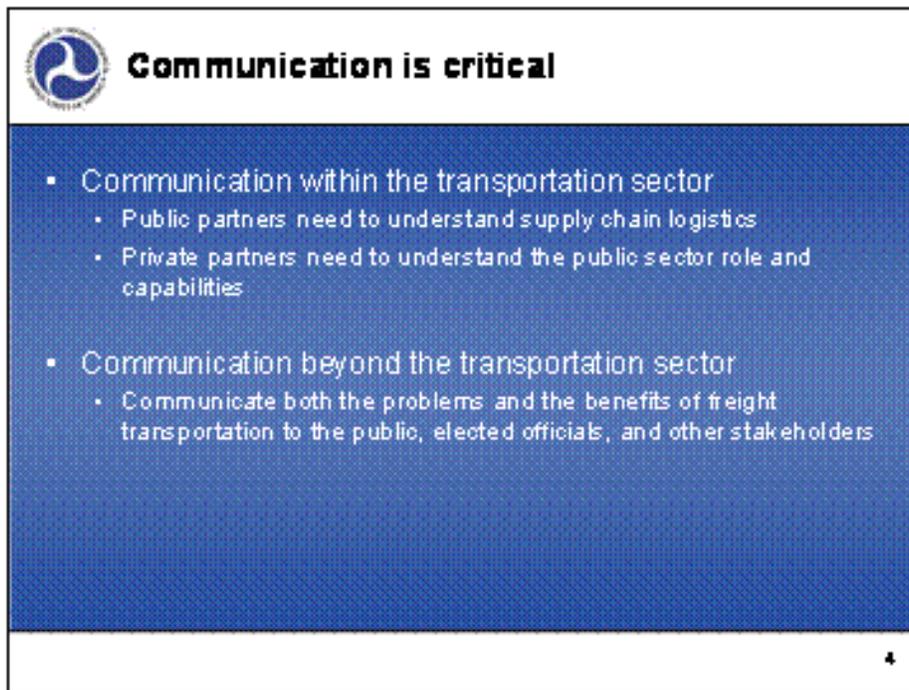


Given the double digit trade growth that my slide illustrates and the information you just heard from Ed (Hamberger, AAR), it is clear that the task before us requires the combined attention of the public and private sectors. It's not an understatement to suggest that we are in the midst of a freight revolution. Globalized production and distribution continue to grow dramatically – particularly on the part of key trading partners such as China – and the U.S. freight system has gone through rapid rationalization and integration. The resulting escalation in the volume and velocity of both domestic and international goods movement now challenges the global pre-eminence of the U.S. freight system. Private sector freight management practices change daily in response to these market forces, and public sector freight policy responses must change as well.

As you all can appreciate, SAFETEA-LU did not leave the department with as much in the way of discretionary dollars as we had requested to address freight issues. But, even though the Department of Transportation has limitations on its resources, you can rest assured that we are fully engaged in assuming the Federal leadership role that AAPA, AAR and other industry leaders have suggested. This challenge will also require strategies, policies, and incentives that bring our approach to freight in tune with the globalized economy.

This schematic diagram demonstrates the paradox that Federal freight transportation policymakers face. As you know, freight sector challenges call for Federal leadership. However, as the slide indicates, the vast majority of freight capacity issues – a good guesstimate is 75% – are controlled elsewhere in the public and private sectors. The private sector operates the vast majority of the freight transportation system, and most public infrastructure investments are made by state DOTs and MPOs. Consequently, any meaningful freight policy will require efforts by both the public and private sectors.

Slide 4



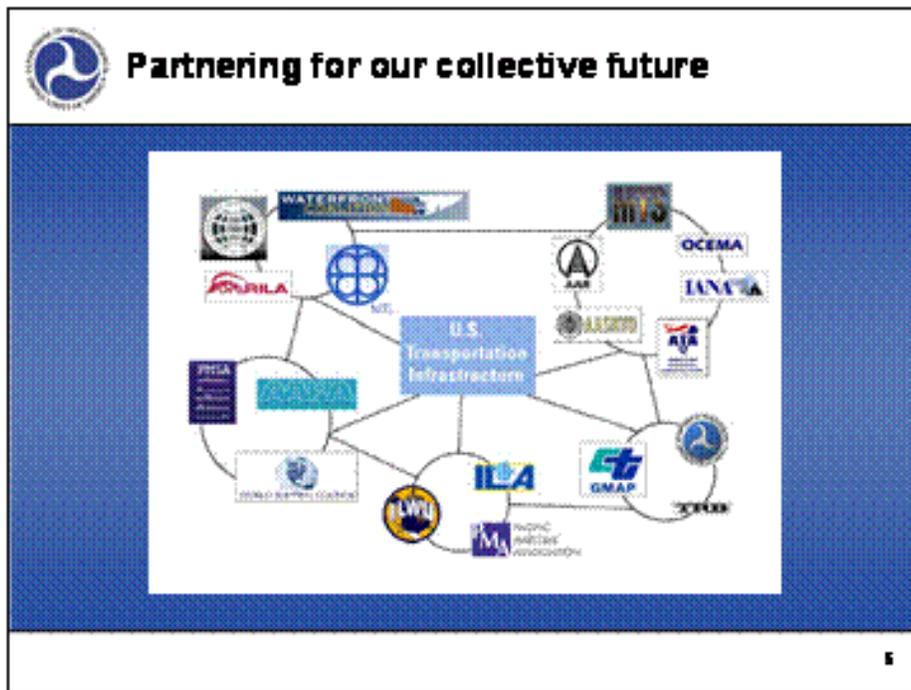
Communication is critical

- Communication within the transportation sector
 - Public partners need to understand supply chain logistics
 - Private partners need to understand the public sector role and capabilities
- Communication beyond the transportation sector
 - Communicate both the problems and the benefits of freight transportation to the public, elected officials, and other stakeholders

An effective freight policy – or, for that matter, any wise and well-managed change – must start with communication. Our collective response will come first in word and then in deed. There is currently a communication gap between the freight industry and public transportation officials. With good reason, few of today’s policymakers fully understand the industry’s supply chain logistics practices, and few in industry fully understand the role and capabilities of the public sector in relation to freight. We need to close that gap and seek opportunities for mutual give-and-take in planning and financing our joint freight future. Industry must convey their needs and challenges to us in the public sector, and we must inform them of how we can facilitate the operations of the freight industry.

We also need to join together to spread a common freight story – a gospel of the benefits of the freight system and the challenges that it faces. As Woodrow Wilson once remarked, “The ear of the leader must ring with the voices of the people.” Real change will require support from the public, elected officials, and other stakeholders, so our story must resonate beyond the transportation community.

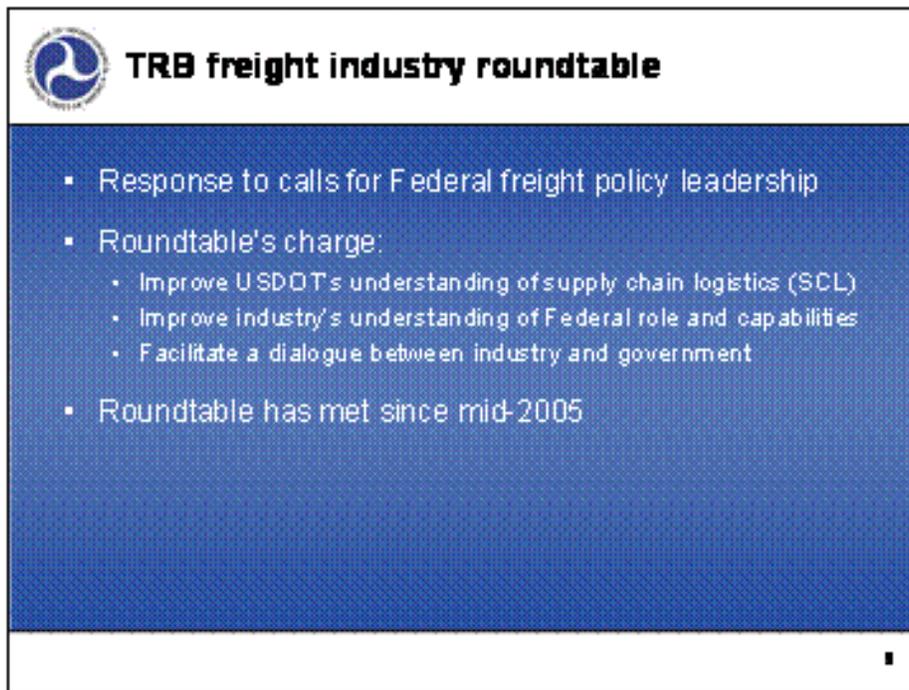
Slide 5



If you do not know this already, I am pleased to tell you that AAPA was one of the first trade associations to step forward and offer a letter of support on the Freight Policy Framework. And much more importantly, your Association and the people who represent your interests in Washington have offered their time to work with my staff to make this Framework take life, allowing it to not only fully reflect the outstanding accomplishments of U.S. ports, but also to help us inform Congress of work that needs to be undertaken.. Let me offer my sincere gratitude to Kurt Nagle and Jean Godwin, both of whom represent your interests very well. Thanks to Kurt, Jean and your fine staff.

It's clear that there is a wide cross section of freight interests that we'll have to engage to make this work. To date, we have been very impressed at the mutual sense of urgency and the dedication of time we have seen from our industry partners.

Slide 6



The slide features a white header with the TRB logo on the left and the text "TRB freight industry roundtable" in bold. The main content area has a blue background with a white dot grid pattern. It contains a bulleted list of three main points, with the second point having three sub-points. A small black square is located in the bottom right corner of the blue area.

- Response to calls for Federal freight policy leadership
- Roundtable's charge:
 - Improve USDOT's understanding of supply chain logistics (SCL)
 - Improve industry's understanding of Federal role and capabilities
 - Facilitate a dialogue between industry and government
- Roundtable has met since mid-2005

This audience includes many of you who have called upon DOT to take the lead in addressing the challenges facing the freight sector. As I mentioned, prior to last year's transportation reauthorization, we had hoped that Congress would provide the Department with discretionary funding for freight projects. While SAFETEA-LU's provided substantial funding for freight gateway projects, the majority of it was earmarked. Had Congress favored some of our suggested discretionary funding proposals (many of which AAPA worked hard to support), especially on dedicated funding for intermodal connectors, our leadership role could have been clearer. Nonetheless, we intend to keep moving forward in providing Federal leadership in freight policy, even absent significant discretionary funding.

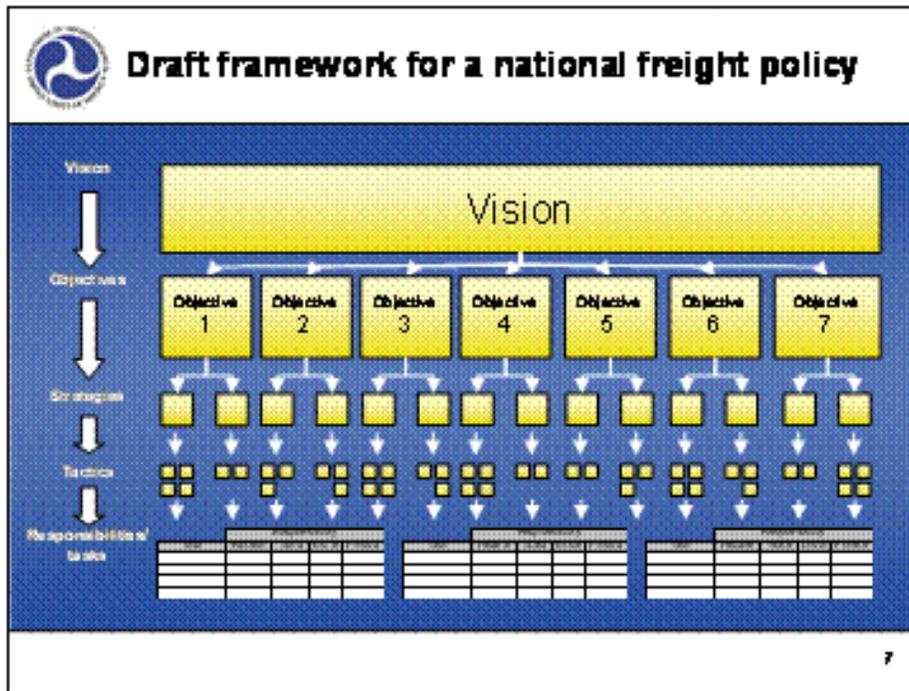
We've heard the various calls for leadership loud and clear, and have first reached out to the freight industry – the private sector that is in the direct ownership seat with the majority of freight challenges and knows firsthand what works well for industry.. Again, communication is the starting point, starting with the issue-owners, and help is often best defined in the eyes of the recipient. So, with the good services of Transportation Research Board we convened a Freight Industry Roundtable. We wanted this Roundtable to open full communications not only with the carriers of freight, but also with the shippers – the people who most fundamentally drive supply chain logistics.

We charged the Freight Industry Roundtable with three objectives:

1. Improve DOT's understanding of the policy and technical context for 21st century supply chain logistics (SCL).
2. Improve industry's understanding of the Federal role, capabilities, and awareness of SCL challenges
3. Facilitate a dialogue through which industry and government could form a common policy approach.

I'm pleased to report that the Roundtable has been successful on all three counts. And on a personal note, it's been a real education and an adventure to work with industry leaders on the Roundtable. Once again, we were fortunate to have AAPA fully engaged in these Roundtable discussions.

Slide 7



In trying to better understand the challenges of freight policy, we learned how leading shippers such as Johnson & Johnson approach performance-based change. What you see here is the beginning – hence a draft – of a performance-based framework for a national freight policy. Such a performance-based framework must include a shared vision and a set of objectives, followed by strategies, tactics, and finally specific tasks and responsibilities. I have repeatedly stressed performance-based framework for a good reason. When we initially discussed with the Roundtable our previous work at the Federal and state level, our industry friends immediately reminded us of the obvious: “All these plans and studies are interesting and commendable, but without performance-based accountability very little will get done.” An obvious and seemingly simple admonition from industry, but a good directive for those of us in government!

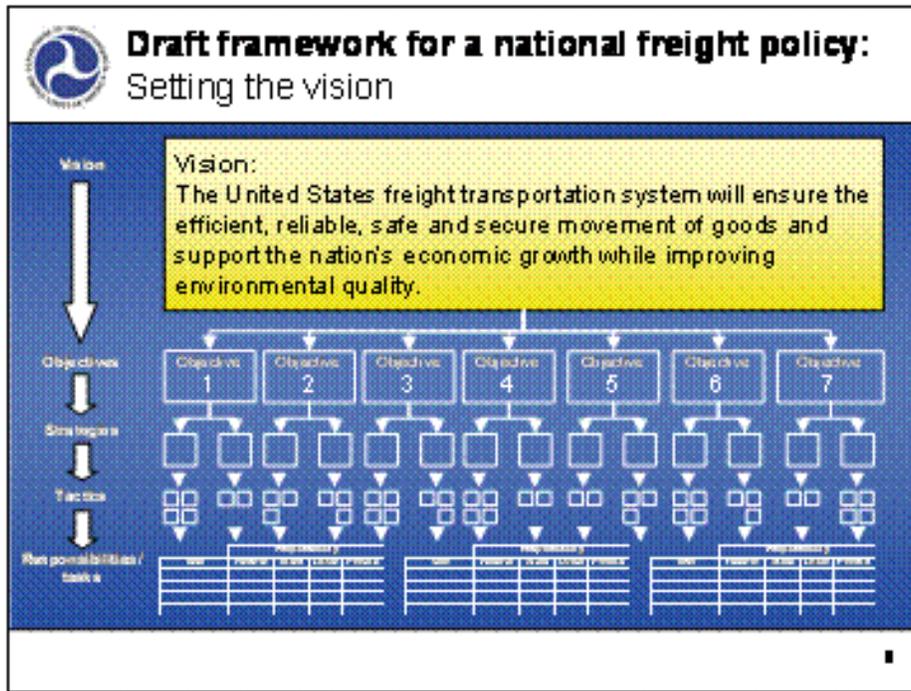
We at DOT have gotten the message, and have been working with the Roundtable to develop a draft framework for a national freight policy, which I’m happy to walk you through today. The wording in the title was chosen very carefully:

- First: “draft.” While valuable, this document is only a first step, and we plan to work with our partners in both the public and private sectors to revise it over time.
- Second: “framework.” Within the Federal government, we’re used to dealing with detailed statutes, regulations, and policy statements that may be hundreds of pages in length. This document, in contrast, is five pages long. Rather than laying out a detailed list of governmental freight programs, it provides a structure – a framework – that is flexible enough to incorporate a wide and constantly changing variety of public and private sector freight initiatives.
- And finally: “national freight policy,” rather than “Federal freight policy” or “DOT freight policy.” This Framework is not something for DOT to solve alone; any successful effort calls for a blended effort which draws upon both the public and the private sector. We all face the incredible national challenge of improving our freight capacity, and we at DOT fully embrace working on this freight framework together

As I lead you through our framework, I want you to keep in mind four overarching themes:

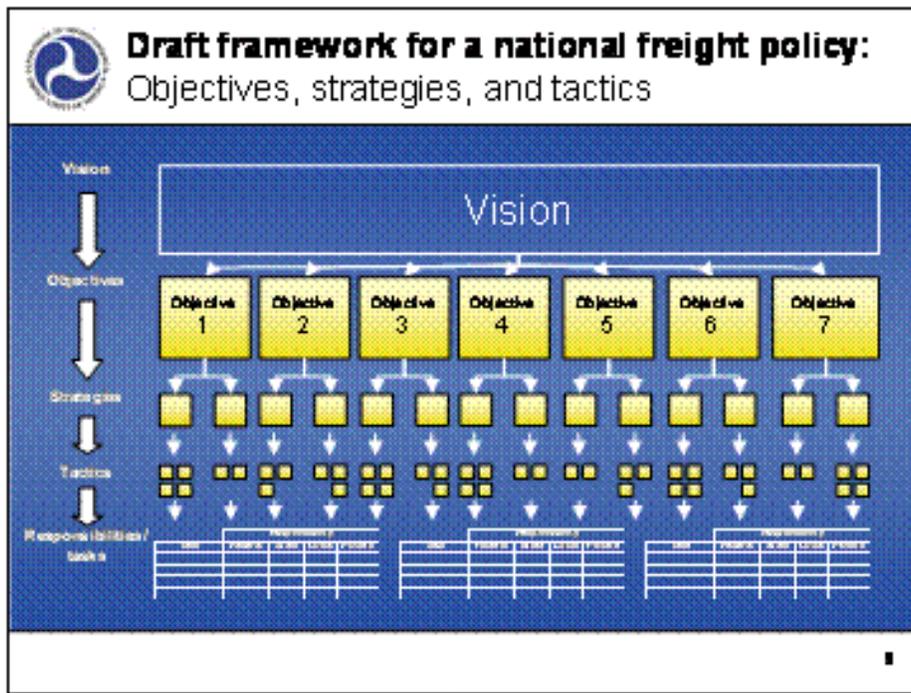
1. As I mentioned, this is a **framework for national, not Federal, freight policy**.
2. **Investment is a crucial component of any freight capacity solution**, though the sources of investment looking forward may – and probably will – differ from those that we have traditionally relied upon.
3. **The need for public-private collaboration**. DOT will not be able to be successful if it stands alone.
4. This is a **living document**, and must be as dynamic as the freight sector and the economy that it serve. We fully expect the framework to evolve as conditions change and tactics are tried and evaluated.

Slide 8



Let's start with the framework's vision. As you can see, our vision is of no less than "a U.S. freight transportation system that will ensure the efficient, reliable, safe, and secure movement of goods and support the nation's economic growth while improving environmental quality." After all, American container ships, stack trains, and 747 cargo aircraft set the benchmark for global trade, and our vision must continue to raise the bar on world-class leadership

Slide 9



This slide illustrates strategic planning 101. We set a vision and then went on to support that vision with objectives, strategies, tactics and finally responsibilities.

Slide 10

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- Freight policy objectives**
1. Improve the operations of the existing freight transportation system
 2. Add physical capacity to the freight transportation system in places where investment makes economic sense
 3. Use pricing to better align all costs and benefits between users and owners of the freight system and to encourage deployment of productivity-enhancing technologies
 4. Reduce or remove statutory, regulatory, & institutional barriers to improved freight transportation performance
 5. Proactively identify and address emerging transportation needs
 6. Maximize the safety and security of the freight transportation system
 7. Mitigate and better manage the environmental, health, and community impacts of freight transportation

The framework contains seven broad objectives:

1. **Improve the operations** of the existing freight transportation system. This includes changing how we do things in the freight system in order to improve throughput or capacity;
2. **Add physical capacity** to the freight transportation system in places where investment makes economic sense. This means we actually need to build things at certain points in the system;

3. **Use pricing** to better align all costs and benefits between users and owners of the freight system and to encourage deployment of productivity-enhancing technologies;
4. **Reduce or remove statutory, regulatory, & institutional barriers** to improved freight transportation performance. I think this is pretty self-evident, as we all live in this world of organization and regulations that need to be modernized;
5. Proactively **identify and address** emerging **transportation needs**. We obviously need to have a pulse of where the bottlenecks are today, or where they are going to appear tomorrow;
6. Maximize the **safety and security** of the freight transportation system – job one every day for DOT; and
7. Mitigate and **better manage the environmental, health, and community impacts of freight transportation**

We've also developed – and are continuing to develop, in consultation with our public and private sector partners – the underlying strategies and tactics that should help us to reach each of these objectives.

None of the seven objectives stand alone. There are synergies between them, and improvement against one objective can produce benefits in others. Similarly, lack of attention in one area can negatively impacts other areas as well.

Let's look at some specifics. As one example, we have evidence that pricing stimulated off-peak moves at the Port of L.A./Long Beach through an off-peak pricing initiative called Pier Pass. This program has reduced congestion on I-710, and intuitively we believe it has some offset on emissions from trucks that are not operating under congested conditions.

Another example is chassis pools. The glowing success story here is that a chassis pool, such as those instituted at the Port of Hampton Roads, VA, can free up space and increase the velocity of freight movements. Here's what happened when industry changed its operating procedures around chassis pool management: (1) 5,000 chassis were removed for the pool – a reduction of 20% from the existing fleet; (2) this reduction freed up 40 acres of on-terminal land; and (3) over-the-road repair incidents went down by 30%. So you see there are synergies in this framework; positive steps from one sector (i.e. making a chassis pool operating change) result in benefits against another objective in the Framework (i.e. additional capacity and a safer freight system).

Now I will drill down a bit on the other objectives, highlighting a few of the strategies and tactics that we feel hold particular potential.

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 Objective 1: Improve the operations of the existing freight transportation system

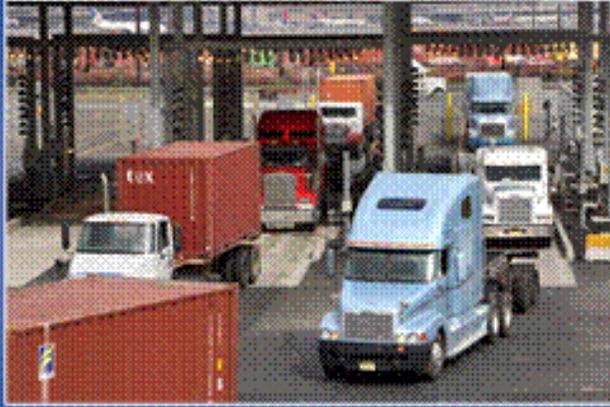


Photo courtesy of Maher Terminal

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Objective 1: Improve the operations of the existing freight transportation system

What you are looking at here is a Maher Terminal Gate – which represents the state-of-the-art in the U.S. – heavily instrumented to improve gate flow. As this picture demonstrates, technology is critical to improving operations. We collectively must embrace technology in every aspect of the supply chain; this applies to management, to labor, and to public agencies.

We must focus on choke points at Bottlenecks and connectors. We know where they are, and now the challenge becomes how to work with industry, states and municipalities to create some hybrid financing solutions. The much celebrated public-private partnership model has to move from a nice phrase to active examples.

Slide 12

 Objective 2: Add physical capacity to the freight transportation system in places where investment makes economic sense



Photo courtesy of the Alameda Corridor Transportation Authority

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Objective 2: Add physical capacity to the freight transportation system in places where investment makes economic sense

First and foremost, let's not forget that since 1980 the Federal government has put over \$500 billion into the national highway system, which is the backbone for over-the-road freight movement. Looking ahead, technology and operations can't do it all; we simply need more physical capacity in some areas. The SAFETEA-LU transportation reauthorization bill called for Projects of National and Regional Significance, and we plan on working with local leaders to get these built. The picture behind me shows the Alameda Corridor in southern California – a prime example of this type of project. In areas where earmarked funds are not readily available for freight related investments, there are a number of other Federal programs that can be used, in combination with more pricing innovations, to help finance the construction of new freight infrastructure. Our staff is currently working on loans through the Transportation Infrastructure and Finance Act (TIFIA), state infrastructure banks (SIBs), and Private Activity Bonds as they may apply to truck-rail interface projects. Additionally, the Federal Rail Administration will be administering the Railroad Rehabilitation and Improvement Financing (RRIF) program. As you just heard from Ed, the rail industry has asked us to look into investment tax incentives for investment in railroad capacity. We'd like to see TIFIA and RRIF funds used to assist in port distribution systems, and we'll be sending one of our financial specialists to the AAPA Port Financing Seminar in a month or so.

Slide 13

 Objective 3: Use pricing to better align freight system costs and benefits and encourage the deployment of new technologies



Photo courtesy of PierPass

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Objective 3: Use pricing to better align all costs and benefits between users and owners of the freight system and to encourage deployment of productivity-enhancing technologies.

Pricing is economics 101. When demand exceeds supply, prices can be adjusted in order to manage and meet that demand. Today, with record levels of freight moving, almost every segment of the industry is using its pricing power. At certain busy freight gateways, heavy freight volumes strain freight system capacity, causing congestion that imposes costs on shippers, but there is insufficient funding for congestion-reducing infrastructure projects. In this situation, a user who is shipping more goods is likely to have a willingness to pay *if* there is a value proposition for freight improvements. Freight policy solutions should capitalize on that value proposition through the use of pricing mechanisms.

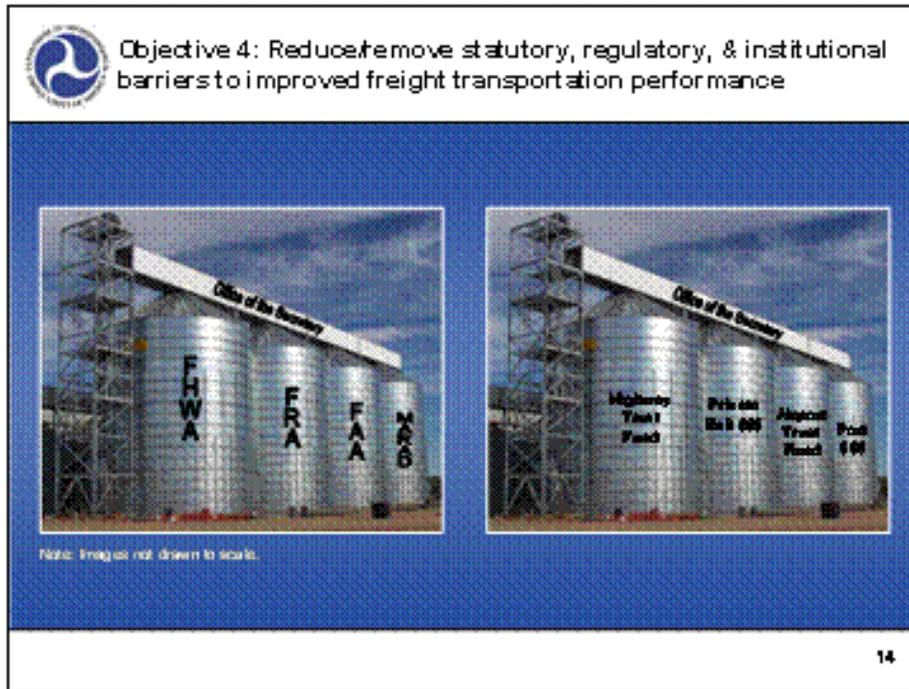
What we see in the picture behind me is the Pier Pass operation at the Ports of Los Angeles and Long Beach. At L.A. and Long Beach the terminal operators collaborated to charge more for peak gate moves than for off-peak gate moves, and it's been quite a success story. The extended Pier Pass gate operations, which operate Monday through Thursday nights and during the day shift on Saturdays, now handle about 10,000 truck trips per day. About one-third of the total port complex traffic, and, more importantly, about 40 percent of all import cargo, now moves during the off-peak hours! The bottom line is that peak hour freight-related congestion is down on I-710, the main artery into the ports, thanks to pricing. We think that this success can be replicated at other congested terminals.

We also have another pricing-related issue that we hope to discuss with ports and freight terminals across the country. We think that port and terminal managers must continually assess their charges to see whether they are charging rates sufficient to recover the costs of both their services and the related infrastructure demands that their customers place on landside connections to the port. Cost-benefit issues need to be fully appreciated in any pricing adjustments. And if one can believe press coverage, we see that there some serious discussions about project specific user fees are beginning to taking shape in the Ports of Los Angeles and Long Beach. We think this is a good sign.

I don't want to give you the wrong impression by focusing entirely on L.A. and Long Beach. Our framework

envisioning a greater use of pricing as a tool for managing capacity at not just ports, but also throughout the entire freight system. Examples of this include SAFETEA-LU initiatives such as congestion pricing pilots and private toll road demonstration projects.

Slide 14



Objective 4: Reduce/remove statutory, regulatory, & institutional barriers to improved freight transportation performance.

Guess what? We're not perfect at DOT.

Please take a moment to revive from that admission.

When the Department was formed in 1967, combining several different modal activities under one roof, its institutional setup was a great improvement over the status quo. Since then, times have changed, and so must the Department. We're working hard to become more multi-modal and intermodal through activities such as gateways teams that cut across the modes. We have Gateway teams in place to respond to freight issues in Chicago (CREATE), in LA/Long Beach, and in Seattle, and we soon will be responding to a request for a Gateway team to focus on freight activities at the Port Authority of New York and New Jersey.

In spite of some good cross-departmental efforts, including the team who developed this policy framework, we know that we can do more to clean up our own house. Laws and regulations need to be reviewed and updated, and land use planning statutes around freight facilities may need to be re-examined. This may not be a Federal role, but localities need to be in tune with land use policies that enhance freight movements and address quality of life issues as well.

Slide 15



Objective 5: Proactively identify and address emerging transportation needs

What you are looking at in this map is one of the real DOT successes in freight. This map was generated by the Freight Analysis Framework, a Federal Highway Administration effort that has done a great job of consolidating data on freight flows into images such as this.

But, I have to pose some tough questions for ourselves at DOT. Do we have adequate freight data and perfect freight forecasting tools? The answer is an unequivocal no. Do we have the right freight research, and is it being done in a timely manner? There is ample room for improvement here, too. We know that we must do better in these areas, which was part of the impetus behind the Secretary's wisdom in creating the new Research and Innovative Technology Administration (RITA). We can and must do a better job with freight data and freight forecasting. And, I might say to our industry friends here today, we are fully cognizant that we are going to need substantial help from your side on this new initiative. So please stand by to work with us in this area.

We also expect to substantially bridge that research and forecasting gap with the imminent launch of the TRB Freight Cooperative Research Program. This program, which is to be up and running later this year, holds great promise to support research into some of the toughest issues before the freight community. We hope to see a heavy private-sector representation on the Advisory Committee for this Cooperative Research Program. We also hope that this program is structured in such a way that private dollars may augment the \$3.75M in federal dollars (2006-09) that the program has been allocated. Incidentally, AAPA was a real supporter of this Cooperative freight research initiative, and we very much want to see some port experts on the TRB oversight committee

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 Objective 6: Maximize the safety and security of the freight transportation system



Photo courtesy of U.S. Customs and Border Protection

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Objective 6: Maximize the safety and security of the freight transportation system

Let's be clear, objectives 1-5 we think are new ground for the DOT, though certainly not for the private sector. In contrast, safety and security are collectively job #1 for all of us, all day, every day. In relation to freight, we must maximize safety and security without compromising efficiency. This has been our mantra ever since 9-11 and it will continue to be our message in the years ahead.

For example, the Federal Motor Carrier Safety Administration is currently in the process of its Intermodal Equipment Roadability Rulemaking, which will help to ensure safe chassis in and around our terminals. This puts us in active partnering with the trucking, rail and containership industries, and we will strike the right balance between commerce and safety. DOT is also fully engaged with the industry on Operation Safe Commerce, which is aimed at increasing both security and productivity at our ports. Our private partners labor diligently to accommodate new DHS regulations in every part of the supply chain, and we are clearly making progress. It may be challenging at times, but the system is working.

Slide 17

 Objective 7: Mitigate and better manage the environmental, health, and community impacts of freight transportation

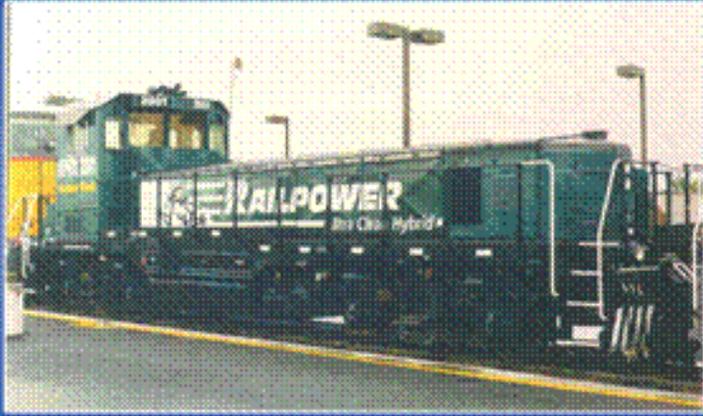


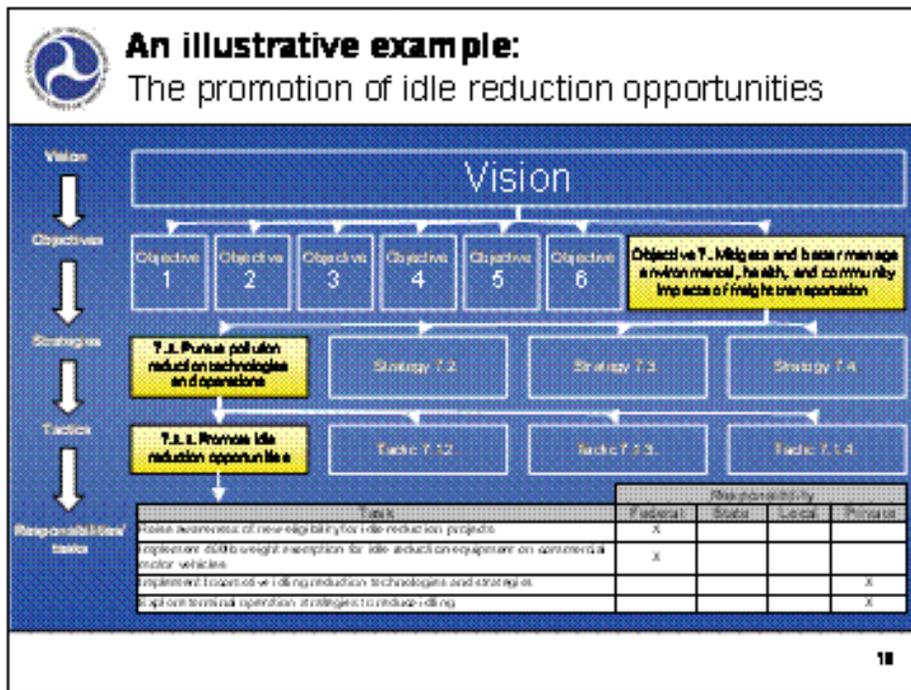
Photo courtesy of www.nriindustry.com

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Objective 7: Mitigate and better manage the environmental, health, and community impacts of freight transportation

The importance of environmental stewardship almost goes without saying, and it is critical that DOT remain a steward of the environment while still keeping people and goods moving. Yet, as freight volumes grow, there is a clear and growing correlation to environmental impacts. More trucks, more trains, and more congestion add up to new environmental, health, and community management challenges. We must and we will offset vehicle idling around terminals. What you see here is a “green,” low-emissions locomotive that the rail industry is using for switching in and around busy freight terminals. Similarly, noise and dredging impacts must be checked and offset. Communities must be assured that freight can be a good neighbor.

Slide 18



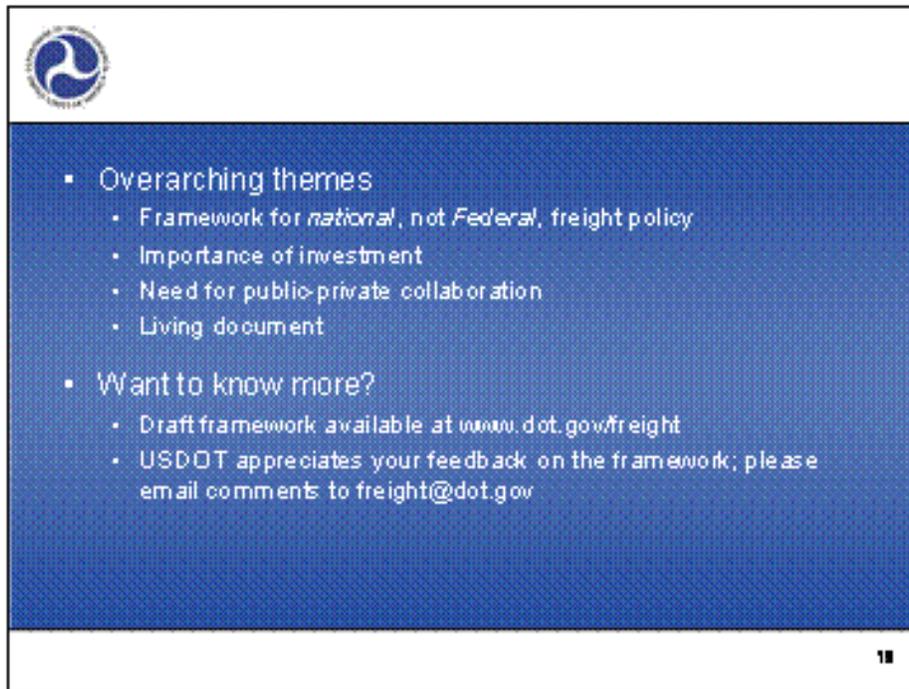
A national framework for freight policy is just another document on the shelf without accountability. The private sector has made this point to us very clearly. Those who directly manage the supply chain often call accountability “supply chain metrics.” As we frequently hear, “you can’t manage what you can’t measure,” and we recognize that the National Framework must ultimately include performance metrics. We’re not quite there yet, but in the interim, we have begun the process of assigning ownership, responsibility, and, ultimately, accountability. In many cases, responsibilities and accountability will likely be joint and complex, and there will be a need for broad-based communication and a willingness to change practices across the board.

Let’s drill down on an illustrative example of a specific tactic within the Freight Policy Framework: the promotion of idle reduction policies and projects. First, we need to raise awareness that some of these activities are already underway.

- Trucks are allowed a 400lb exemption in size and weight restrictions for idle reduction equipment, allowing them to reduce their emissions without sacrificing their ability to carry cargo.
- Railroads such as Union Pacific are beginning to utilize “green goats” – locomotives with more fuel-efficient engines, such as the picture that I showed a moment ago – to reduce emissions during movements within their rail yards.
- Some terminals are looking at compressed natural gas (CNG) as a more environmentally-friendly method for fueling their yard equipment.

Right now we’re working with various stakeholders to address market based approaches to retrofit legacy diesel engines, and we look forward to innovative demonstration projects of this nature. We have to get down to some economically-feasible initiatives to protect the environment in freight dense areas. The impacts are real and the responses must be proactive. We’re also looking at the MARPOL annexes addressing ship stack emissions, new diesel standards in 2007 for trucks, and ways to use DOT’s Congestion Mitigation and Air Quality (CMAQ) program to fund pilot projects that reduce emissions. Finally, I would be remiss if I didn’t point out the fact that the private sector has already played a huge role in addressing idle-related emissions. All of these initiatives are good, but there’s more work to be done.

Slide 19

A presentation slide with a blue background and a white header. The header contains the USDOT logo. The main content is a bulleted list. The footer contains the number 19.

- Overarching themes
 - Framework for *national*, not *Federal*, freight policy
 - Importance of investment
 - Need for public-private collaboration
 - Living document
- Want to know more?
 - Draft framework available at www.dot.gov/freight
 - USDOT appreciates your feedback on the framework, please email comments to freight@dot.gov

In closing, I'd like to reiterate the four overarching themes that carry throughout the framework:

1. This is a **national** freight policy, not a **Federal** freight policy or a **DOT** freight policy.
2. **Investment is crucial.** There is no substitute. Jawboning can be effective, but there are limits.
3. **There is a continuing – and growing – need for public-private collaboration.** The days of the Federal government building infrastructure through grants and entitlements are over, and the public and private sectors must work together to achieve freight policy solutions.
4. And finally, **this is a living document.** In contrast to many Federal policies, I don't envision this framework ever being fully "complete." Instead, it will continually evolve to guide both public and private freight policy efforts over the coming years.

I realize that I've just presented you with a lot of information, and I'm sure that some of you would like to read more about the specifics of our freight policy framework. As you can see on the screen behind me, we've made a copy available at our new Departmental freight webpage – www.dot.gov/freight – and we encourage and welcome any feedback that you would like to provide. We've also set up an email inbox at freight@dot.gov, to which you should send any thoughts on the framework or Department-wide freight policy. This is a work in progress, so I look forward to your questions and comments.

Again, thank you for all the good work you do, and for your support of the Department and this Framework effort. I'd be happy to take a few questions if time allows.

[Briefing Room](#)