

Partnering Infrastructure Development to Meet Hemispheric Growth *AAPA Spring Conference*



Agenda

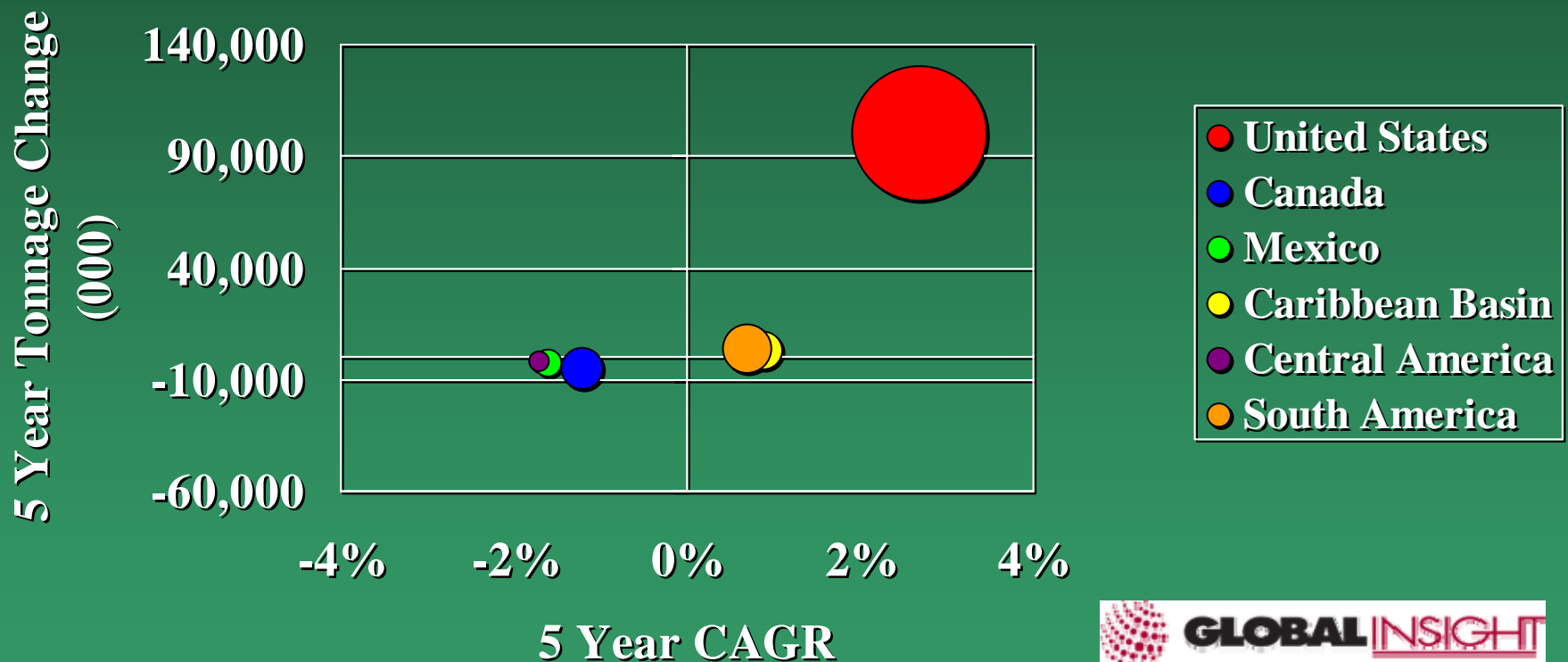
- I. Objectives
- II. Hemispheric Growth Prospects
- III. Modal Challenges
- IV. Partnering Solutions-the Key to a Systemic Solution
- V. Implications for the Port Industry

I. Objectives

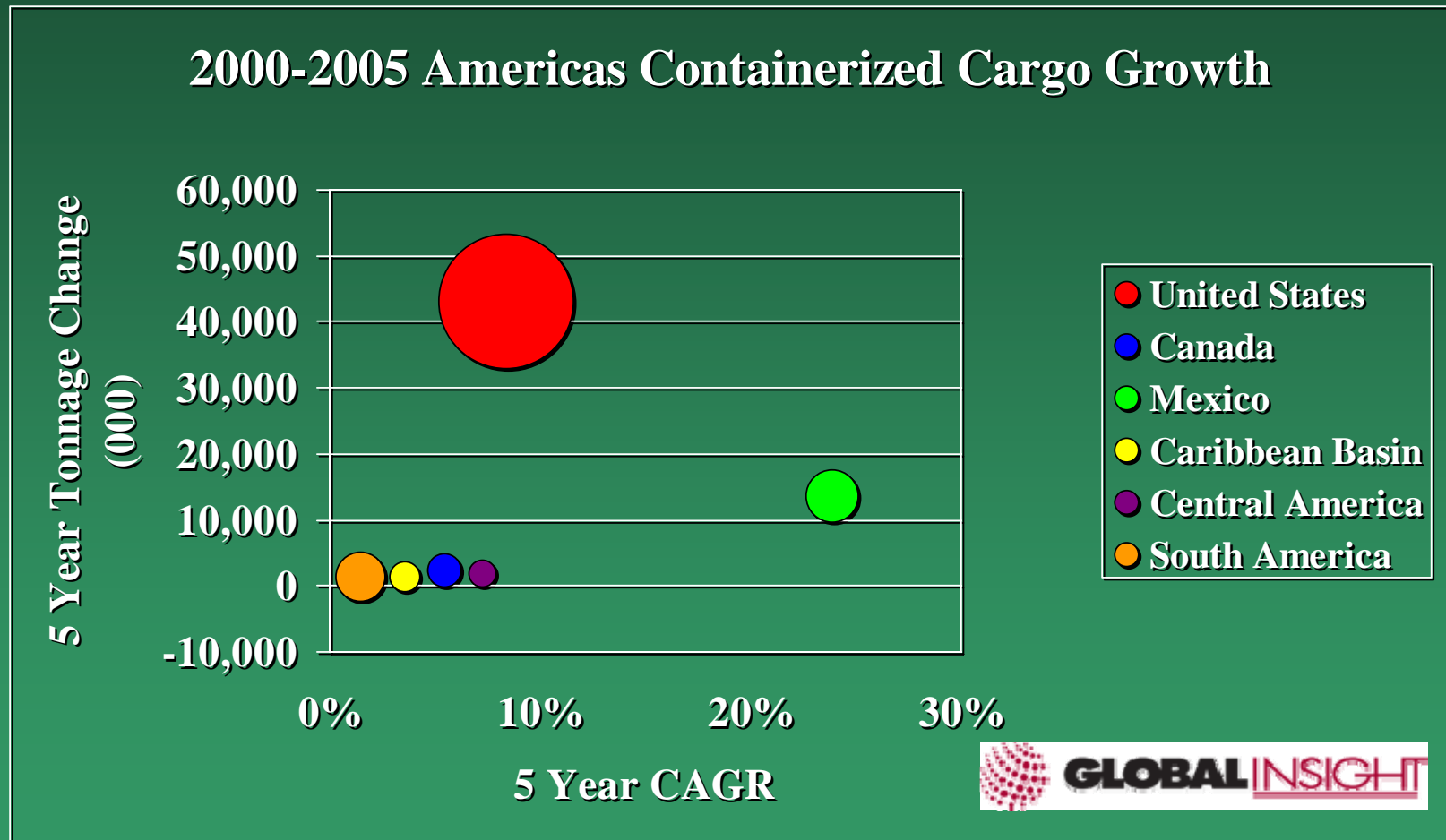
- Review the Growth Prospects
- Define the Challenge
- Outline Some Options
- Discuss Some Specifics

Hemispheric bulk cargo performance has been mixed over the past five years

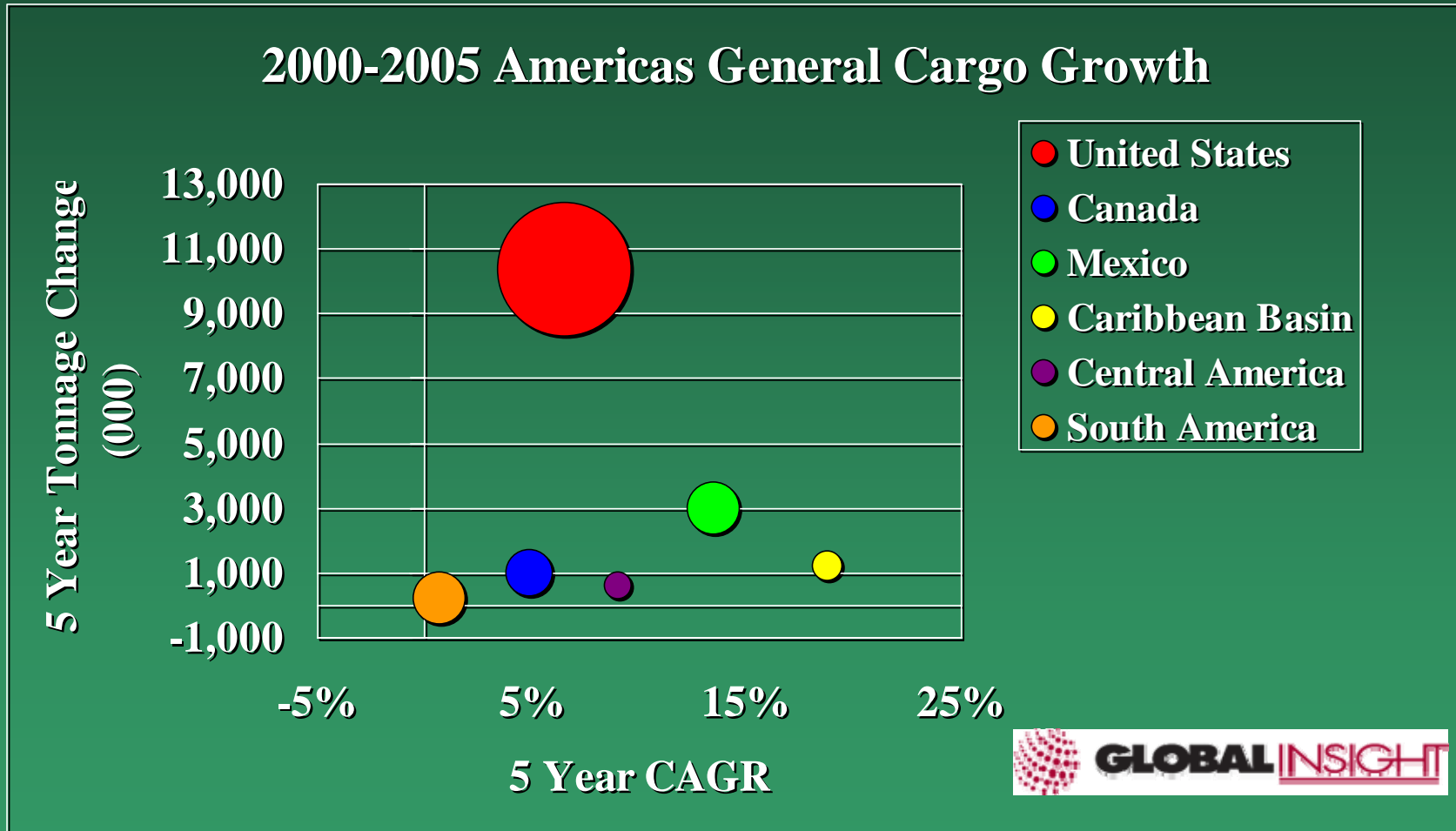
2000-2005 Americas' Bulk Cargo Growth



Mexico has lead the way in terms of growth in hemispheric container trade



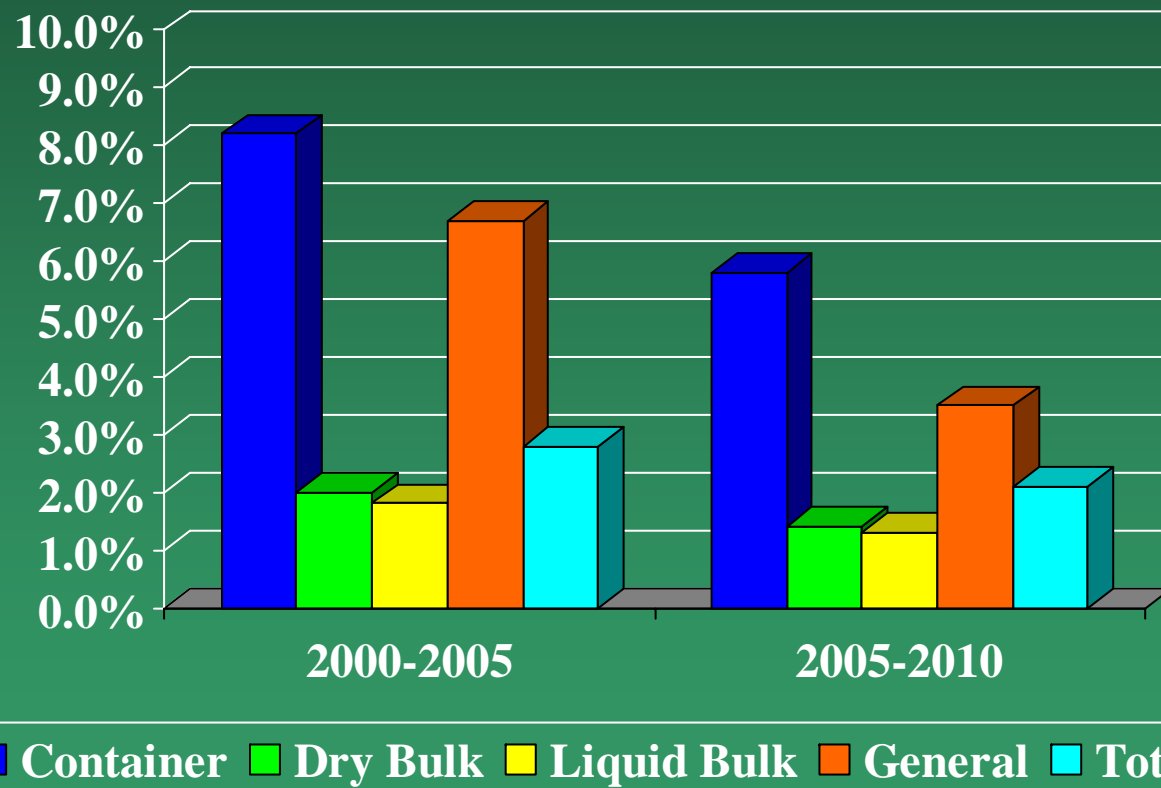
While almost all regions have contributed to overall growth in breakbulk cargoes



Trade Growth Will Continue to Increase the Pressure on Ports

- At a 5% CAGR, trade doubles every 15 years
- At a 7.5% CAGR, trade doubles every 10 years
- In 2005, the major North American ports handled a reported 44+ million TEUs
- By 2010, this volume will approximate 60-65 million TEUs

The next five years will see sustained growth across the hemisphere



II. Define the Challenges



Motor Carrier Challenges



Several factors have driven productivity gains

- Trailer size increased from 40' to 53'
- Truck engine and maintenance cycles lengthened
- Truck engine fuel efficiency increased
- Empty miles were reduced
- Unionized carriers share down
- Improved technology and processes

However, many of these productivity opportunities may be reaching their end

Area of Improvement

- Equipment Gains



- Fuel Efficiency Gains



- Labor Gains



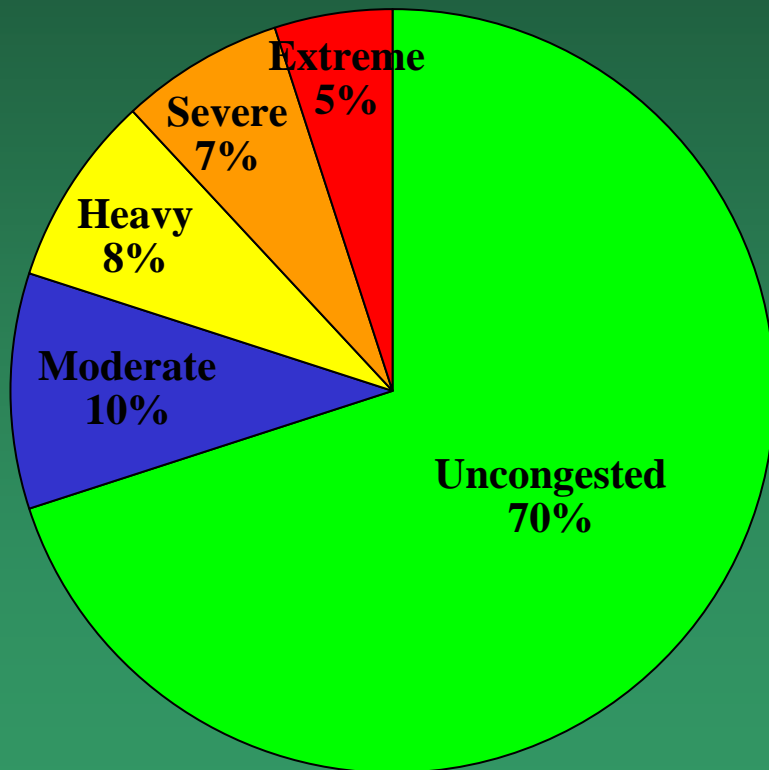
Inhibitor

- 53' to 57' Unlikely
- Environmental Regulations
- Hours-of-Service Regulations

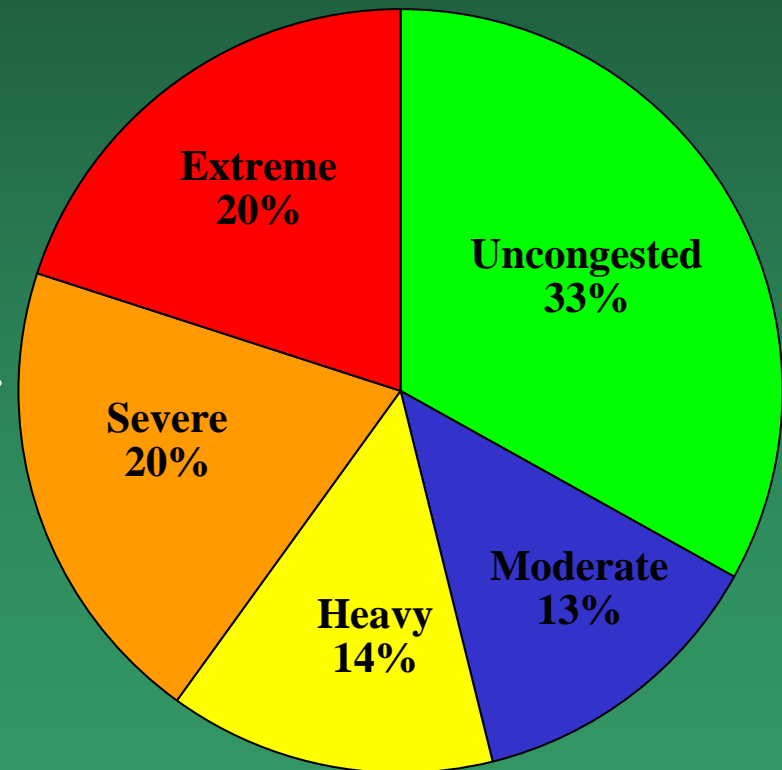
In addition to slower productivity gains, the infrastructure is reaching its capacity

Highway infrastructure is facing significant constraints

Percent of Peak-Period
Travel at Congestion Level
1982



Percent of Peak-Period
Travel at Congestion Level
2002



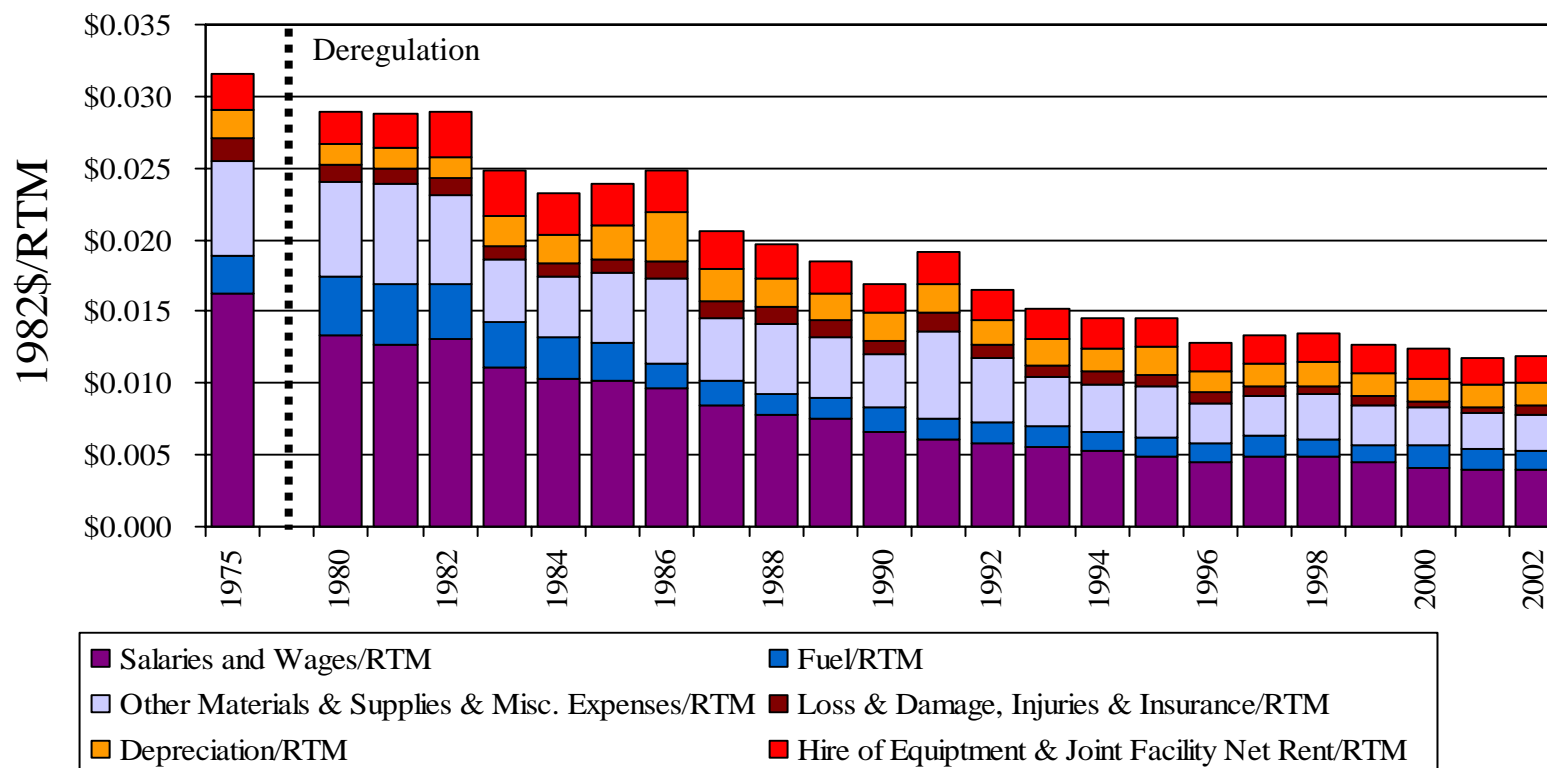
Source: Texas Transportation Institute at Texas A&M University

Rail Industry Challenges



Railroads have more than halved their cost/revenue ton-mile since deregulation

Railroad Expenditures per Revenue Ton-Mile (1982\$)



Note: 1980 and 1981 Salaries & Wages Data reflect AAR's estimate of 95% of total payroll expenses. In comparison year (1982), this measure differs from the 1975, 1982-2002 methodology by 0.4%.

Sources: AAR "Railroad Ten-Year Trends." (various ed.); AAR "Analysis of Class 1 Railroads." (1981); AAR "Railroad Facts" (various ed.).

Productivity gains have contributed to the decreasing cost/revenue ton mile

Productivity Improvements

- Labor requirements declined
- Networks and track were rationalized following mergers
- Engine fuel efficiency increased
- Railcars increased to 286,000 lb. gross rail load
- Many railcar types were improved

For railroads, some of these productivity opportunities may have reached their limits

Area of Improvement

- Equipment Gains



- Labor Gains



- Fuel Efficiency Gains



Inhibitor

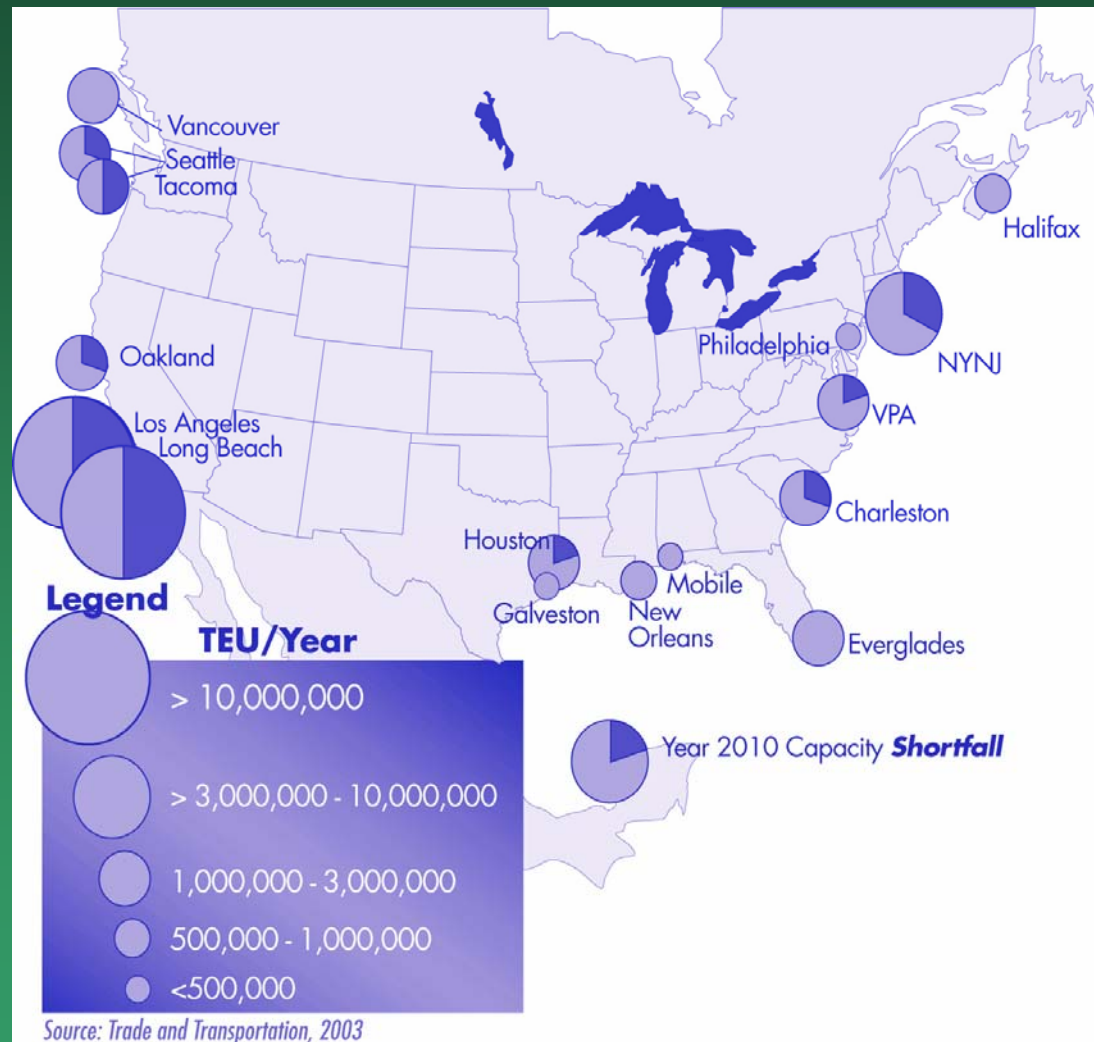
- 315,000 GTW Unlikely
- Adding Employees
- Future Locomotive Environment Regulations?

In addition to slower productivity gains, the infrastructure is reaching its capacity









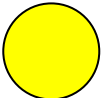

Port Industry Challenges



North American port infrastructure is under increasing pressure



Port Region Container Capacity Summaries

	2005 Net Position	2010 Net Position	Comments
PSW			LA/LB face significant capacity challenges during the next five years. Oakland should have ample capacity
PNW			Tacoma has largest expansion potential although port-rail and continued PSW diversions pose challenges
Atlantic			North Atlantic, particularly with the AMPT-Portsmouth terminal should provide adequate capacity. The South Atlantic will need to improve density and reduce dwells. A significant increase in Suez services would pose challenges.
South Florida			Southport expansion, terminal reconfiguration, higher density and lower dwell should accommodate growth
Gulf			Bayport, Choctaw and some combination of Tampa, Texas City, Corpus Christi, Brownsville, Millennium Port and a rebuilt Gulfport should provide adequate capacity

The Port Industry challenge is multi-dimensional

- Harbor deepening
- Environmental
- Labor efficiency and effectiveness
- Berth utilization
- Reducing dwell times/increasing velocity
- Port-rail interface
- Regional transportation infrastructure

IV. Partnering Solutions, the Key to a Systemic Approach



US Transportation Funding

Characteristic	Highway	Aviation	Maritime
Constituency	Broad-based	Broad-based	Narrow, fragmented
Funding Source	User fees	User fees	User fees and general funds
Management	Centralized: FHWA	Centralized: FAA	Fragmented
Disbursements	Formula-driven	Formula-driven	Generally project-based
Funding availability	Predictable	Predictable	Unpredictable
Cost-benefit linkages	Clear	Clear	Unclear
User fee visibility	Low: gas taxes	Low: ticket fees	High: HMF, fuel taxes

The Challenges

Needs are increasing

Environmental challenges

Funding shortfalls

Modally focused

Maritime Industry:
Fragmented approach

Maritime visibility

Finding the Common Ground

Lessons Learned

What Has Worked

- Project-specific;
focused on bottlenecks
- Finite timelines
- Environmentally
oriented
- Comparatively small
- Tangible benefits
- User-fee based funding

What Hasn't Worked

- Policy-related
- Large scale
- Capacity-driven
- Broad benefits
- Complex funding
- Grant or appropriations
based funding

What Are Some of the Options?

The “Big Bang”

- Centralized, integrated, multimodal policy and funding
- Integrates the surface modes
- Builds on best practices
- Systemic approach to investment

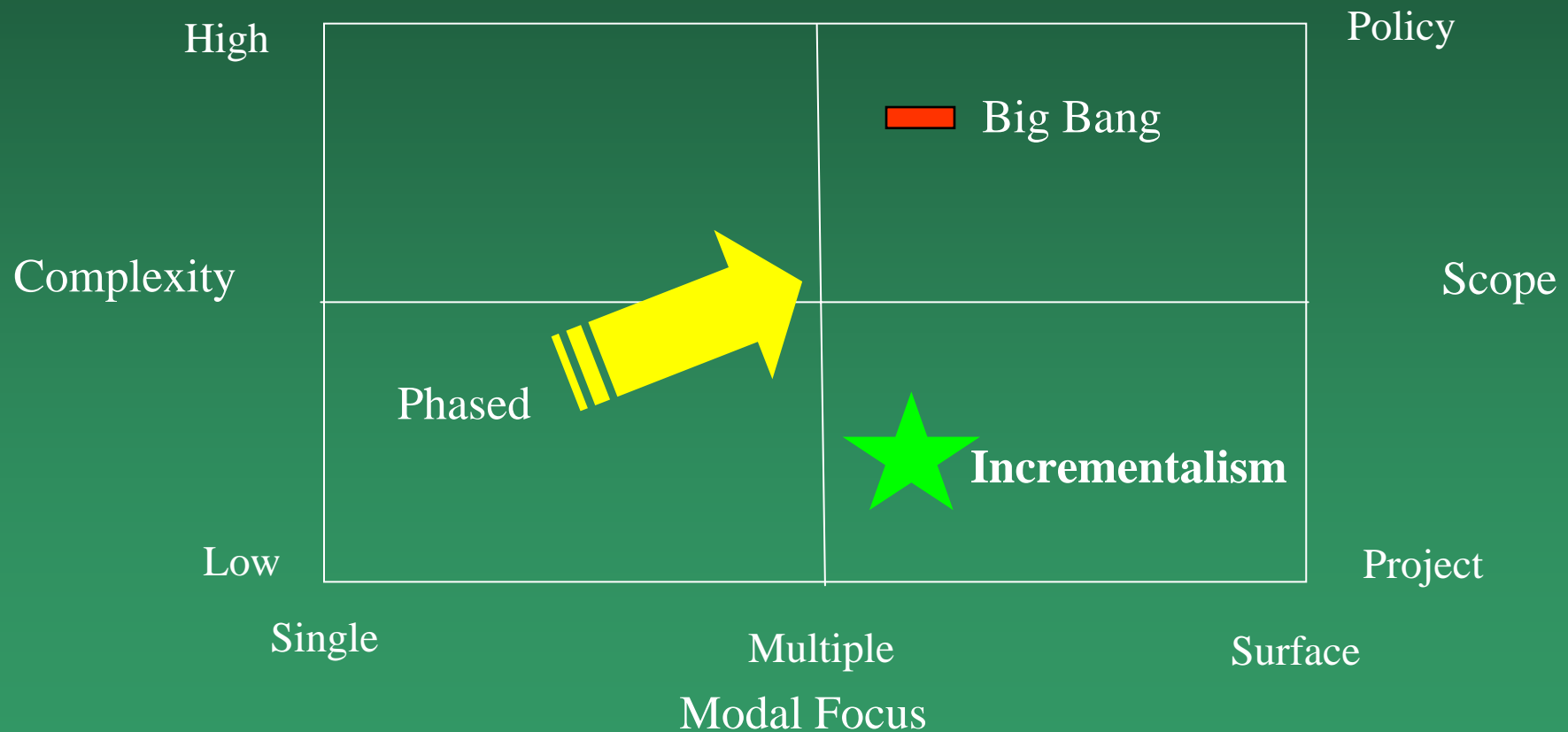
Phased Approach

- Redesign the Maritime Model
- Design a Rail Model
- Develop a sustainable funding source for multimodal projects
- Long-term, evaluate comprehensive modal integration

Incrementalism

- Cooperative, project-specific, industry-driven approach
- Significant industry participation
- Works within existing regulation and funding mechanisms
- Identifies and implements an evolutionary approach to funding

Pragmatism & Political Realities Are Key Success Drivers in the Short to Mid-Term



Implications: A dual strategy most likely represents the best approach

Short-to-Midterm

- Focus on enhancing Maritime funding based on current best practices
 - Centralized
 - Dedicated funding
 - Full disbursement of collected funds
 - User fee based
 - Industry participation

Mid-to-Long Term

- Phased approach that integrates road, rail and maritime (deep sea, short sea, inland) .
 - Initial focus on what works
 - Multimodal
 - Mitigation: congestion, air
 - Specific projects
 - Incremental expansion built on successes

Implications for the Port Industry



It depends on how one views the glass

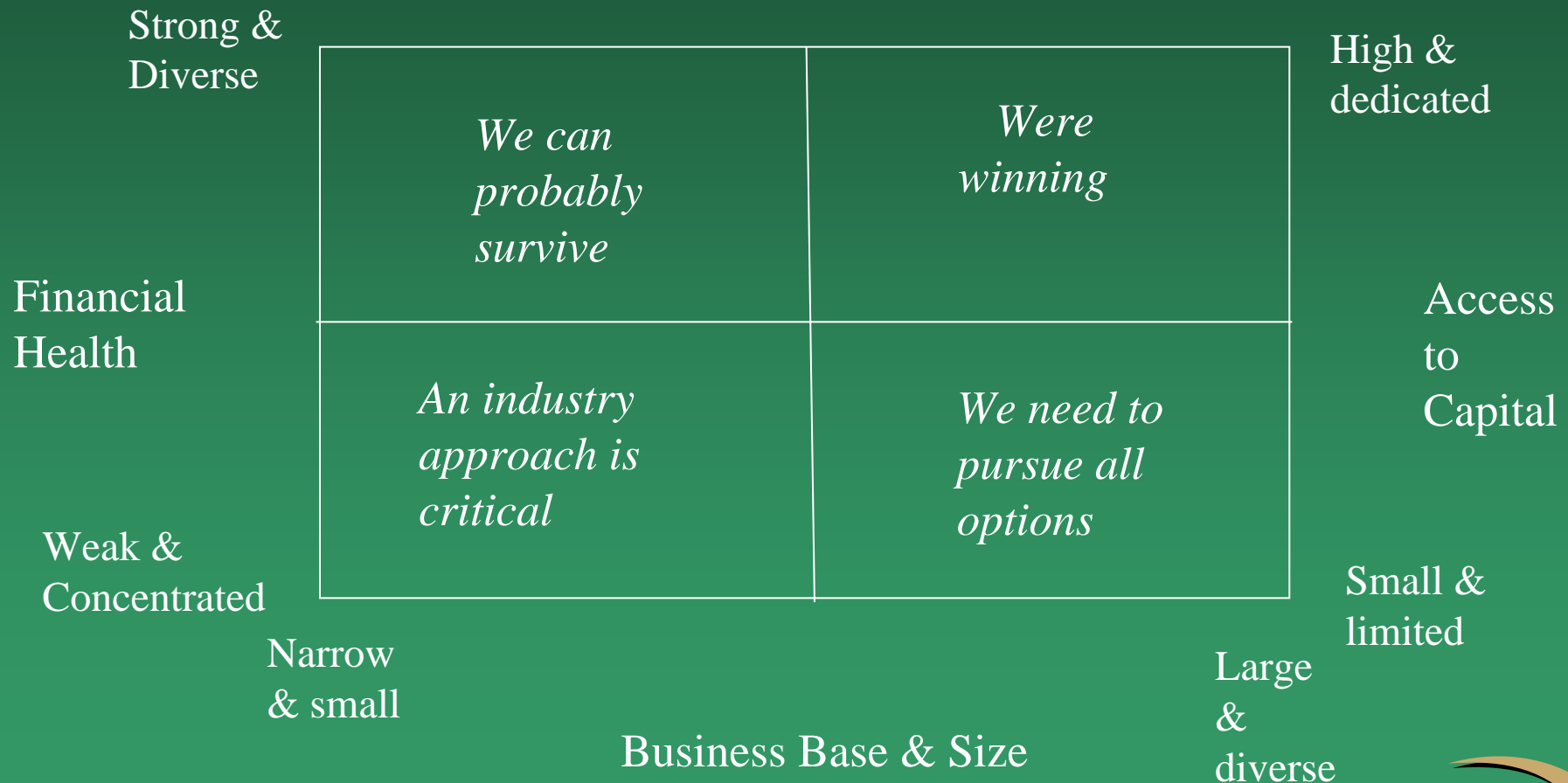


Half Empty



Half Full

The Port Industry is highly diverse in terms of ports' capabilities and needs



It depends on how one sees the glass

Half Empty

- The pot of funds is shrinking
- The status quo is the best we can hope for
- Emphasis is on getting my fair share
- We will cooperate when it is compelling

Half Full

- We can grow the pot of funds
- The status quo is not an option
- We will gain more by cooperating

What is Required?

- ✓ Internal Assessment
- ✓ Port/Maritime(?) Industry Game Plan
- ✓ Multimodal Game Plan

Internal Assessment

- Is the status quo acceptable or is change imperative?
- What do we need?
- What are the critical success factors?
- What are worldwide best practices?
- Are we committed to a sustained change effort?
- How do we fund it?

Port/Maritime (?) Industry Game Plan

- Is it a Port or Maritime Industry Game Plan?
- Who are the key players?
- What are the roles and responsibilities?
 - Government
 - Port Industry
 - Private sector
- What are the key elements of the game plan?
 - Governance
 - Funding: who pays, who benefits
 - Disbursement
 - Oversight & control
 - Performance monitoring
 - Setting long-term direction

Port/Maritime (?) Industry Game Plan-- Continued

- What is the contingency plan?
 - Public-private partnerships
 - A national tariff that is competition neutral
 - Financial self-sufficiency
 - Taxing authority

Multimodal Game Plan

- Who are the key decision-makers?
- Is there common ground?
- Is there a commitment to partnering solutions?
- What does each of the parties bring to the table?
- What does each party leave at the table?
- What is the plan?
- How do we execute?
- Many of these questions are the focus of the Framework for a National Freight Policy

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