

Competitive Domestic Supply Chain Infrastructure Roundtable

29 October 2008



Overview

On October 29, 2008, the Department of Commerce's Office of Service Industries (OSI) brought together 35 supply chain stakeholders from several federal agencies, individual companies, industry associations, and business advocacy groups for the "Competitive Domestic Supply Chain Infrastructure Roundtable." The purpose of the Roundtable was to hear individual views from supply chain stakeholders to help the Department identify priority topics for a series of workshops that would lead to a major conference on what it takes to create a highly competitive domestic supply chain infrastructure. As an advocate for business on supply chain matters, OSI will help to ensure that private sector priorities for how to develop an effective, reliable, and cost-efficient supply chain are considered in the federal policy making process.

In their opening remarks, Assistant Secretary for Manufacturing and Services (MAS) William G. Sutton and Deputy Assistant Secretary for Services Mark A. Brady set the stage for an open and frank discussion on the interdependence of U.S. infrastructure and supply chain competitiveness.

The purpose of the event and the follow-up activities (issue workshops, conference, and outreach program described below) is to move forward the policy debate on the development of a competitive supply chain. Infrastructure capacity and operational efficiency are integral components of a sophisticated supply chain logistics industry, which is essential for U.S. industry to be globally competitive. Further, a greater understanding of the dependency of supply chain competitiveness on infrastructure capacity and operational efficiency can lead to more active support across all levels of government and the private sector, as well as an improved use of taxpayer funding.

DAS Brady asked the participants: What are the elements of a national vision that links supply chain infrastructure to the economic growth and competitiveness of U.S. industries?; What are the necessary elements of a comprehensive strategy the underpins competitive supply chain infrastructure?; How can the necessary financing, both public and private, be identified and brought to bear to optimize key supply chain assets?; and, What policies should the government pursue to implement this vision? He also asked participants to comment on the development of a supply chain advisory committee. MAS leadership affirmed their commitment to serve as a proponent of U.S. industry and welcomed the perspectives of these public and private sector representatives.

Perspectives on a National Supply Chain Policy

Transportation Improvements Advanced Competitiveness.

Many representatives emphasized that in order to facilitate a competitive and integrated supply chain infrastructure, transportation and infrastructure investment priorities must be integrated into the national and business competitiveness dialogue. Most private and public sector representatives expressed the need to consider transportation and infrastructure enhancements on both a federal and regional level basis to maximize America's competitiveness in the global economy. Globally, countries are continually upgrading their trade capacities and abilities to move people and goods efficiently and safely, while the United States lags behind in updating and upgrading their world class supply chain infrastructure. Most private sector representatives expressed the need to approach transportation and infrastructure policy with an awareness of global trends. Several participants stressed that there is no single approach to improving economic competitiveness. Infrastructure investments can positively affect competitiveness by creating jobs, improving transportation systems, ensuring sound environmental practices, and establishing more resilient supply chain security.



DAS Mark Brady addressed participants at OSI's Competitive Domestic Supply Chain Infrastructure Roundtable

More Integrated National Multimodal Freight Policy

Several private and public sector representatives identified intermodalism, i.e., the movement of freight seamlessly through air, land, and water, as an area to be formally recognized in a national supply chain policy for improving the efficiency and cost-effectiveness of moving freight. Several private sector representatives at the Roundtable also stressed the need for interagency cooperation and to inform and educate federal agencies involved in freight policy development to focus more on the intermodal needs of a modern and globally competitive infrastructure and freight transportation system. Some representatives ex-

pressed disappointment that previous attempts to move towards an intermodal approach have been unsuccessful, however representatives recognized that developing an integrated intermodal approach would be a difficult process due to parochial interests within individual modes of transportation and the compartmentalized structure of government. Not only should interagency and interdepartmental cooperation be promoted, but it's important to connect federal decision makers to state and local municipality authorities. These efforts should be concentrated to support a coordinated national freight policy with a strategic vision centered on these intermodal priorities.

The Impact of Domestic Congestion on International Freight Movement

Many participants pointed out several of the inadequacies within the transportation system that hinder the flow of freight. One of the most important issues to individual participants from both the private and public sector is congestion and capacity constraints at many domestic intermodal hubs in domestic intermodal links that often hampers competition. In addition, these constraints have as much of an impact on domestic good movement as they do on international goods movement. Several stakeholders emphasized that nearly 90 percent of total freight tonnage moved on the U.S. freight system is domestic. For example, the majority of U.S. imports from China arrive at the Ports of Los Angeles/Long Beach and must be routed through limited options to continue on to their final destination. These limited intermodal options contribute to congestion and rising transportation and inventory costs. Several private sector representatives stated that backups in and around domestic hub locations such as Chicago and St. Louis cause train traffic delays as far away as Los Angeles or New York, and cause container ships to stack up along both coasts. Many representatives urged that flexibility must be built into any national strategy to anticipate and adjust for future shifts in trade patterns, such as expansion of the Panama Canal, global suppliers moving from one market to another, and the effect of fluctuating energy costs seen in volatility of the price of oil, which in the last year has ranged from \$60-\$145 per barrel. As a result of congestion on the U.S. transportation network, shippers are increasingly routing freight movements through Canadian and Mexican ports that provide easier and less expensive access to U.S. destinations through international rail and short-haul options. This North-South trend will continue to present a serious challenge to the competitiveness of the U.S. companies that have traditionally moved these goods directly from a U.S. port of entry.

Regulation and Policy-- the Soft Infrastructure

Several participants also distinguished these challenges from "soft" infrastructure—comprised of laws and regulations intended to improve the security across the supply chain or reduce the environ-

mental impacts on areas of intense freight movement. Some private and public sector representatives are concerned that these regulations are overly burdensome and costly for supply chain operators, suggesting that federal enforcement agencies are not sensitive enough to private companies already struggling with compliance. National and local regulations are being developed without considering how vital freight movement is to the national economy and often cause slowdowns in productivity and growth. Improvements in “hard” and “soft” infrastructure must be harmonized to maximize the efficiency of freight movements domestically and internationally.

Financing the Supply Chain, Transportation, and Infrastructure

In addition to congestion and capacity constraints, several Roundtable participants identified infrastructure funding and federal appropriations mechanisms as a primary concern. Some private sector representatives are apprehensive to contribute to federally managed trust funds intended to support national transportation systems because of perceived lack of accountability in appropriating funds to areas they were not originally intended to support, appropriating funds for certain projects over another, and in some cases, trust fund resources are collected and then not allocated at all. There is a perception that the political process influencing public funding is replacing clear-eyed analytical rigor and discipline in the project selection process. User fees for particular U.S. transportation corridors are equally troubling to several Roundtable representatives, who expressed concern that these fees give the appearance that the U.S. lacks a holistic view of transportation and infrastructure funding. Many private sector participants recognize a need to contribute user fees to support improved infrastructure, but they want assurances that these increased costs are cycled back into system improvements that meet their needs. Lastly, many representatives mentioned that desperately needed infrastructure maintenance is frequently overshadowed by the desire for new projects, which often shifts federal funding to short term stimulus and job creation as opposed to lasting economic growth and prosperity fueled by a competitive supply chain. Several industry representatives suggested the following ideas for future financing options for funding the needed transportation infrastructure; tax incentives, fair and equitable user fees, investment tax credits, foreign investment, a federal freight fund, and public/private partnerships.

Moving Forward

Following the discussion, Deputy Assistant Secretary Mark A. Brady received positive feedback from all the Roundtable participants on the possibility of creating a comprehensive supply chain advisory committee. Most representatives suggested that an advisory committee not duplicate the efforts of existing committees handling transportation and logistics issues, but to coordinate individual pieces into a single entity that promotes supply chain competitiveness on a more comprehensive level, and include policymakers at the Secretarial or Presidential Export Council level. OSI is looking into the development of a potential supply chain competitiveness advisory committee. OSI has developed a list of concentrated workshops based on the suggestions raised at the Roundtable, which include a discussion on:

- Linkages Between Transportation Improvements and Economic Competitiveness
- Elements of a Multimodal National Freight Policy
- Refocusing Priorities on Domestic Bottlenecks
- Coordinating Regulatory and Security Policy

- Making the Supply Chain Environmentally Sound

Most stakeholders recognized that there are many challenges moving forward towards improving supply chain competitiveness, and stated that we must do something to confront these challenges to improve Americas competitiveness on a global level.

The participants included: American Association of Port Authorities (AAPA), American Association of State Highways and Transport Officials, American National Standards Institute, American Society of Transportation and Logistics, American Trucking Associations, The American Waterways Operators, APL, Association of American Railroads, Coalition for America's Gateways & Trade Corridors, Committee on the Marine Transportation System, Council on Foreign Relations, Department of Transportation (Federal Highway Administration, Maritime Administration), DHL, Elan International, Emergency Committee for American Trade, The International Air Cargo Association, International Franchise Association, Laredo Development Foundation, National Industrial Transportation League, National Retail Federation, UPS, Wal-Mart, and Waterfront Coalition.

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