

**American Association of Port Authorities
Annual Meeting**

Keynote Address by Gerald L. Shaheen

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Thank you very much. I'm delighted to be here today and especially pleased you have chosen New Orleans as the site for this meeting.

Of course, it makes sense to have this event in a city that boasts one of the nation's most important and active ports. But more importantly, it sends a strong message about your commitment to the

reconstruction of New Orleans, which is one of America's treasures.

My immediate predecessor as Chamber chairman is Maura Donahue, who owns a small contracting business in nearby Mandeville. Maura is a Louisiana native. She was one of the fortunate ones who didn't sustain catastrophic damage to her home or business during the storm, but she was still impacted deeply, as was anyone who cares about this great city or does business here.

Maura has been a tireless advocate for the rebuilding of this region and is convinced it will come back

stronger than ever. She would be the first to applaud your decision to bring your event here, and the first to twist your arm to come back next year and the year after, and to tell all your friends to come as well!

Our nation recently recognized two significant anniversaries – the one-year mark of Hurricane Katrina and the five-year anniversary of the September 11 attacks. These events force us to think about the strength and security of our critical infrastructure, and especially our ports and associated roads, rails, and waterways.

Are we responding to the terrorist threat with the smartest, most effective security solutions possible?

Does our infrastructure have the capacity to handle increasing volumes of freight? Is our system of public financing for port and associated infrastructure adequate to meet the demands of a growing global economy?

For Caterpillar, these are \$13.6 billion dollar questions – that’s roughly the value of Caterpillar exports and imports that move through U.S. ports in a year’s time, either going to or arriving from the 40 countries in which Caterpillar operates.

For us, the capacity of the U.S. transportation system is a competitiveness issue on footing with U.S. trade policy, the workforce, regulations, and taxes.

Caterpillar's success depends on the safe and efficient movement of goods – every business does.

U.S. ports and associated rail and trucking infrastructure are vital to that goal – and will be even more so in the future.

That's because U.S. freight traffic is expected to double in fewer than 20 years, spurred by increased consumption and production in China, India, and other fast growing developing nations.

Our ability to handle that volume of traffic will depend greatly on the security measures we put in place. The five-year anniversary of 9/11 has led to a lot of public debate about the security of our ports and what might happen if terrorists were to breach that security.

The Rand Corporation recently conducted a hypothetical study of what would happen if terrorists detonated a 10-kiloton nuclear bomb in a shipping container unloaded onto a pier at Long Beach.

I'm sure many of you saw the conclusion – 60,000 people immediately killed and another 150,000

exposed to hazardous radiation, causing 10 times the economic loss of the September 11 attacks.

While studies with doomsday scenarios can grab people's attention, they don't tell of the progress we've made on port security since 9/11. American businesses have made significant, voluntary investments in supply chain security. At the same time, the federal government has worked to push out U.S. borders through a multi-layered, risk-based approach.

As Congress considers proposals to further strengthen our ports against attacks, it must keep in mind four key principles.

First, we need a common sense, cost-effective approach that achieves the greatest amount of security with the least possible disruption to the system.

A requirement for 100% radiological or density scanning of maritime cargo containers is not only unrealistic, but would also divert resources away from successful risk assessment approaches.

Think of the impact on our economy if we tried to install a completely airtight system. The 2002 West Coast dockworkers strike gave us a taste of what we might expect. Who can forget dozens of cargo ships stacked up offshore...unstocked shelves in stores around the country...logistics systems and supply chains completely disrupted, all of which combined to drain \$1 billion per day from our economy.

There will have to be some give and take and some compromises as we strive for the best possible security solutions.

Second, we need to recognize the importance of a voluntary partnership between the private sector and the government in securing the supply chain. A model to follow is the Customs-Trade Partnership Against Terrorism, or C-TPAT for short. Through this program, businesses work cooperatively with Customs and Border Protection staff to strengthen their supply chain security practices in exchange for the expedited processing of cargo. It is one of the most successful public-private partnerships to occur since 9/11 because it is voluntary and flexible.

Third, we should recognize that one-size-fits all security mandates don't work. We need to be

flexible and allow companies to customize their security plans based on their business models. And we also have to be mindful of small- and mid-size companies that don't have the economies of scale, internal efficiencies, and marketplace leverage to meet demanding security regulations.

Finally, it's important to remember that our supply chain is global, and therefore we must work collaboratively with our trading partners and reject regulations that might not work abroad and which put American businesses at a competitive disadvantage.

Congress should build upon existing programs such as C-TPAT and the Container Security Initiative, or CSI. CSI helps push our borders outward by stationing Customs officers overseas to screen U.S. bound cargo, improving security while avoiding additional congestion at our ports.

We can make improvements to these programs to ensure that when a container poses a risk, U.S.

Customs and Border Protection has the appropriate resources to conduct further container screening overseas in partnership with the host country.

With the right set of policies and through technology, new risk assessment tools, voluntary public-private partnerships, and increased cooperation with our trading partners, I'm convinced that we can prevent harmful cargo from entering our country while allowing for the quick passage of safe cargo.

Let me move to the issue of port infrastructure. Are we making the investments and implementing the policies necessary to keep pace with rising trade flows? The answer is a resounding "no" and, unfortunately, the consequences could be devastating.

An independent study of the U.S. port system for the U.S. Chamber identified the challenges: insufficient funding, incoherent and burdensome regulatory procedures, an aversion to automation and information technology, and failure to move toward a truly integrated “intermodal system.”

So if we don’t act to improve our ports, what will happen?

Transportation breakdowns in and around ports could force businesses to alter their production strategies or back away altogether from assembling products in the United States because of unreliable

supply chains. That means fewer jobs in this country.

An ill-maintained port system could undercut our national defense. Did you know that during the first Persian Gulf War, 24 commercial U.S. ports loaded nearly a million pieces of equipment onto more than 500 ships bound for Saudi Arabia?

For the current conflicts in Iraq and Afghanistan, the numbers are many times that. As the U.S. military works to become leaner, meaner and more mobile, it will depend on U.S. commercial ports to realize its goals. Will ports be up to the task?

So where do we go from here? Addressing the highway funding shortfall is a good place to start, because much of the congestion that cripples our ports occurs on highways and roads leading to and from them.

National Highway System connectors to intermodal freight facilities are in worse condition and receive less funding than other NHS routes.

While Congress could do better by targeting investment in “last mile” road segments, the best possible solution is increasing the size of the entire pie.

The truth of the matter is that last year's highway reauthorization bill does very little to address the persistent, long-term shortfall in highway funding across America.

How big is our surface transportation challenge?

Consider this: by 2015, current revenue streams from all levels of government will fall more than \$1 trillion short of what's needed to modernize our infrastructure to where it improves the nation's economic productivity.

The federal Highway Trust Fund alone is not the answer to our problems. In fact, an independent

study released by the Chamber last year shows that without changes in the current federal funding structure, the Trust Fund will run out of funding as early as 2009.

The Chamber study is the first to analyze a variety of options for fully funding our transportation system, and the first to quantify those options in terms of what financial impact they will have.

The Chamber does not endorse all of the recommendations put forth in the study. I can't stress that enough. But we think they deserve to be considered. Let me share three of them.

First, in the immediate term, the study concluded that indexing the federal gas tax to inflation should be considered.

It's the only major existing user fee not indexed.

Since the establishment of the Federal Highway Trust Fund in 1956, we've periodically increased the amount per gallon that the government collects in taxes, but these adjustments have not kept up with inflation.

Just since the last adjustment, in 1993, gas tax revenues have lost one-third of their purchasing power in part because the cost of materials to build

and maintain roads and bridges – things like steel, cement and labor costs – have all gone up. Simply put, we're trying to do more with less money.

Second, we should consider closing exemptions to the Highway Trust Fund so that revenues collected for surface transportation are in fact spent on transportation and not deficit reduction or other programs.

Third and finally, the study recommends that states should think about stimulating greater use of innovative finance tools such as loan guarantees, private activity bonds, tax-credit bond financing,

investment tax credits, tolling, and vehicle miles of travel fees.

Tolls can help pay for the wear and tear incurred on heavily used roadways, yet only about 3% of America's roads are toll roads. Tolls are an option, but not an end-all solution.

Assessing user fees based on miles of travel is one way for states to reduce their dependence on the gas tax. While greater fuel economy is a positive development from an energy security and conservation perspective, it also contributes to

declining gas tax revenues, which means fewer available funds for highway investment.

These recommendations do not provide all the answers to our transportation funding challenges, and again, the Chamber does not endorse all of them.

But they are a conversation starter. In fact, the National Surface Transportation Policy and Revenue Study Commission, a body created by last year's reauthorization bill, is using the Chamber study in its deliberations. The commission will submit its report to Congress next July.

What the Commission recommends and what Congress chooses to do with those recommendations is left unseen. But this much is certain: freight transportation providers, shippers, and the port authorities need to more carefully examine the challenge, estimate the revenues needed to fix it, and quantify the fiscal impact of a number of possible solutions. Most importantly, we need to form a consensus on the best possible solutions and then present them in a unified fashion to Congress.

I don't spend too much time in Washington, but I've been there enough to know that when the private sector stakeholders on any issue are divided, the

likelihood of Congress taking action is greatly reduced.

Ladies and gentlemen, the challenges I've laid out are not easy to overcome. Years, even decades of neglect have taken a toll on our ports and associated infrastructure.

To continue to lead the global economy, innovate, and maintain the world's highest standard of living, we must work together to create the very best transportation system. The U.S. Chamber of Commerce will continue to work with AAPA and all

the members of the Freight Stakeholders Coalition to
make this happen.

Thank you very much.