

ADVISORY COMMITTEE ON SUPPLY CHAIN COMPETITIVENESS

Department of Commerce  
Room 3407  
Washington, DC

Wednesday,  
April 15, 2015

The meeting was convened, pursuant to notice,  
at 12:10 p.m., MR. RICK BLASGEN, Chairman, presiding.

APPEARANCES:

COMMITTEE MEMBERS:

MR. RICK D. BLASGEN  
MS. LESLIE T. BLAKEY  
MR. DENNIS E. BOWLES  
DR. SANDOR BOYSON  
MR. STAN BROWN  
MR. JOSEPH G.B. BRYAN  
MR. JAMES COOPER  
MS. LAURIE HEIN DENHAM  
MR. PAUL FISHER  
MR. BRANDON FRIED  
MR. LANCE R. GRENZEBACK  
Mr. WILLIAM HANSON  
MR. JEVON T. JAMIESON  
MR. RICKY KUNZ

LISA DENNIS COURT REPORTING  
410-729-0401

MS. TIFFANY MELVIN

MS. ELIZABETH MERRITT

MR. MARK MICHENER

MR. CHRISTOPHER S. SMITH

MS. ANNE STRAUSS-WIEDER

MR. JUAN VILLA

MR. SHAWN WATTLES

MR. THOMAS WEILL

MR. DEAN H. WISE

U.S. DEPARTMENT OF COMMERCE:

MR. RUSSELL ADISE  
International Trade Specialist

MR. EUGENE ALFORD  
International Trade Specialist

MR. RICHARD BOLL  
International Trade Specialist

MS. SARA BONNER

MS. RACHEL CROFT

MR. BRUCE HARSH  
Division Director  
Distribution and Supply Chain

MR. DAVID LONG  
Director  
Office of Service Industries

MR. JOHN MILLER  
International Trade Specialist

MR. AJAH SHAH

ALSO PRESENT :

MS. NICOLE ADAMS

MR. KEITH DEVEREAUX

MR. WILLIAM HABNSON

MR. GERARD HORNER

MS. ELISA MAUERBI

MS. YVETTE SPRINGER

MR. RICHARD TRACY

MR. MARCUS TRUJILLO

MR. JEFF WHITE

## I N D E X

PAGE**COMMITTEE WELCOME****INTRODUCTORY REMARKS AND MEETING GOALS**

David Long, Director  
Office of Supply Chain  
Professional Business Services  
U.S. Department of Commerce 5

**ITDS UPDATE AND DISCUSSION**

Christa Brzozowski  
Senior Advisor to the Secretary  
Office of Policy  
U.S. Department of Homeland Security 14

Maria-Luisa Boyce  
Senior Advisor for Private Sector Engagement  
U.S. Customs and Border Patrol 25

Steve Hilsen  
Lead Executive, Single Window Initiative  
U.S. Customs and Border Patrol 27

**FREIGHT MOVEMENT GROUP:****FRAMING THE ISSUES IN PORT CONGESTION**

Dr. Walter Kemmsies  
Chief Economist  
Moffatt & Nichol 62

**REGULATORY GROUP:****PERMIT SPEED/REFORM PROPOSALS FOR****INFRASTRUCTURE PROJECTS**

Dean Wise  
Vice President, BNSF 106

**DISCUSSION/PREVIEW DAY 2 AGENDA AND WORK PLAN**

David Long, Director  
Office of Supply Chain  
Professional Business Services  
U.S. Department of Commerce 137



1 [Laughter]

2 MR. LONG: -- supply chain dominance is not in  
3 jeopardy on that. And then Page was similarly  
4 preempted at the last minute.

5 To launch things here, let's just go around  
6 the room real quickly and just identify who everybody  
7 is. We will also have a signup sheet going around.

8 MR. SMITH: Chris Smith with AASHTO. We're  
9 the 50 State Departments of Transportation.

10 MR. FRIED: Brandon Fried with the Air  
11 Forwarders Association.

12 MS. MERRITT: Liz Merritt, Airlines for  
13 America.

14 MR. FISHER: Paul Fisher, CenterPoint  
15 Properties.

16 MR. WISE: Dean Wise with BNSF Railway.

17 MR. JAMIESON: Jevon Jamieson, ABF Freight.

18 MR. VILLA: Juan Villa with TTI.

19 MR. COOPER: Jim Cooper with the American Fuel  
20 and Petrochemical Manufacturers.

21 MR. BOWLES: Dennis Bowles, the Stupp  
22 Corporation.

23 MR. BROWN: Stan Brown, CA Technologies.

24 MS. STRAUSS-WIEDER: Good morning. Anne  
25 Strauss-Wieder of A. Strauss-Wieder.

1 MS. BLAKEY: Good morning. Leslie Blakey with  
2 the Coalition for America's Gateways and Trade  
3 Corridors. And I have an advertisement. I want  
4 everybody to look back here, during the break, on the  
5 table and I will put out our new Follow That Freight  
6 brochure for everyone, along with the little gimmicks  
7 we use to get congressional attention. But I hope you  
8 all enjoy these. This is part of our group's effort to  
9 educate Congress about the multimodal delivery of goods  
10 in the United States. So my contribution to this.

11 DR. BOYSON: Sandy Boyson, University of  
12 Maryland.

13 MS. DENHAM: Laurie Denham, American Society  
14 of Transportation and Logistics.

15 MS. MELVIN: Tiffany Melvin with North  
16 American Strategy for Competitiveness.

17 MR. BRYAN: Joe Bryan, Parsons Brinckerhoff,  
18 here for OneRail.

19 MR. WEILL: I'm Tom Weill from Campbell Soup.

20 MR. KUNZ: Ricky Kunz, Port of Houston  
21 Authority.

22 MR. GRENZEBACK: Lance Grenzeback, Cambridge  
23 Systematics.

24 DR. KEMMSIES: I'm Walter Kemmsies, Moffatt &  
25 Nichol.

1 MR. MILLER: John Miller, Department of  
2 Commerce.

3 MR. HILSEN: Steve Hilsen with Customs and  
4 Border Protection.

5 MS. BRZOWSKI: Christa Brzowski with  
6 Department of Homeland Security.

7 MR. DEVEREAUX: Keith Deveraux, Department of  
8 Homeland Security.

9 MR. HORNER: Gerry Horner, Commerce, Bureau of  
10 Industry and Security.

11 MS. SPRINGER: Yvette Springer, Department of  
12 Commerce, Bureau of Industry and Security.

13 MR. ADISE: Russ Adise, Department of  
14 Commerce.

15 MS. BOYCE: Maria-Luisa Boyce, Customs and  
16 Border Protection.

17 MR. SHAH: Ajay Shah, intern for Department of  
18 Commerce.

19 MR. ALFORD: Eugene Alford, Department of  
20 Commerce.

21 MR. BOLL: Richard Boll, Department of  
22 Commerce.

23 MR. HARSH: Bruce Harsh, Department of  
24 Commerce.

25 MS. CROFT: Rachael Croft, Department of

1 Commerce.

2 MR. TRUJILLO: Marcos Trujilla, AASHTO.

3 MR. TRACY: Richard Tracy, Global Cold Chain  
4 Alliance.

5 MR. LONG: Fantastic.

6 MR. WATTLES: Shawn Wattles, Boeing.

7 MR. LONG: Oh, yes, a small firm.

8 [Laughter]

9 MR. LONG: Terrific. I want to thank for  
10 again making the effort to be out here. Appreciate the  
11 sacrifice of time to be able to do that.

12 A few things about meeting logistics today.  
13 One thing, we are in a new location today. This is not  
14 the usual room. Tomorrow we will be back in the usual  
15 place, on the first floor right by the elevator.

16 Facilities or restrooms are down the hall in  
17 the same location as they are for the other meetings.  
18 And I think everyone has found the snacks and coffee at  
19 this point, so we're good there.

20 A couple of things about the meeting itself.  
21 This is a public meeting of the Advisory Committee.  
22 I'm opening a central path to our Designated Federal  
23 Officer, Rich Boll.

24 Just a reminder that everything we say here  
25 today is on the record. We transcribe all of the

1 meeting proceedings and publish the transcription on  
2 the Website when it's over.

3           At your request, we have arranged a number of  
4 expert briefings on this and we also have other people  
5 who will be coming and going during the day from other  
6 parts of the Federal Government. They are here  
7 basically at your request to make sure we have the  
8 relevant government and other private sector experts in  
9 the room to help out with the discussions that you are  
10 conducting.

11           Be we turn in to that, too, I just want to  
12 mention that as always, the idea in having outside  
13 voices and government reps here is just to back up the  
14 idea that this is your meeting. What counts here are  
15 your ideas, you reviews and your recommendations. That  
16 is what counts here.

17           Before we turn to the substance, something we  
18 will talk about later today, Leslie Blakey and CAGCT  
19 have also been generous enough to organize the  
20 networking session.

21           MS. BLAKEY: And Paul Fisher of CenterPoint.

22           MR. LONG: Paul Fisher. So I think that is  
23 extremely nice, very generous. I think that's  
24 extremely nice for a general session. I hope everyone  
25 can maintain that.

1           Let's get into the substance of the meeting  
2 today. What we'll do here, by popular demand, we're  
3 doing another 2-day meeting. We are using today's  
4 afternoon session to take a review of where we are on  
5 the whole single window project; launch some major new  
6 work in the committee this year to understand the  
7 underlying dynamics of court congestion in light of  
8 what we saw in the recent west coast situation.

9           We have a new proposal here for an ad hoc  
10 group relating to the speed of permitting processes. I  
11 think this offers some real potential for us. This has  
12 to do with the pace at which regulatory action is taken  
13 for an infrastructure project.

14           We have work to do to close out some of the  
15 last remaining recommendations from the previous  
16 session, and we also have an opportunity to act on new  
17 recommendations presented last time by the IT and Data  
18 Committee.

19           So for the recommendations, we want to be sure  
20 we have identified the remaining issues and presented  
21 all the recommendations once where everyone can see  
22 where it happens.

23           So essentially what we'll do today, we'll take  
24 a quick look at what is going on with the ITDS system  
25 and have a chance to talk to the leading people in the

1 project, all of whom are familiar to you now.

2 We will hear a presentation by Dr. Kemmsies on  
3 the nature of congestion. Dean Wise, et al, will talk  
4 about the permitting. At the end, we'll take a look  
5 subcommittee-by-subcommittee to set the stage for  
6 tomorrow. I think we'll find that that goes pretty  
7 quickly with that, 3 hours will pass pretty quickly.

8 I guess the first thing is we'll start today  
9 with an ITDS single window update from DHS and CBP. I  
10 invite our friends to come to the table and join us on  
11 this.

12 Christa, here is your tag.

13 MS. BRZOWSKI: Great. Thank you so much.

14 MR. LONG: So what I'd like to do, without too  
15 much further ado and to keep things moving, I think  
16 everyone knows Christa Brzowski from the Secretary's  
17 office in DHS, a frequent participant in the meetings.

18 Also, Steve Hilsen, who is the technical czar  
19 for the program.

20 MR. HILSEN: Czar.

21 MR. LONG: Czar is on his business card.

22 [Laughter]

23 MR. LONG: Also, that fulfills one of the  
24 recommendations that this group had made earlier is to  
25 have some clear focus on who is in charge of the

1 technical side. And Maria-Luisa has joined onto these  
2 projects.

3 At your request, I have invited them to come  
4 to talk to us about where the program stands, what has  
5 happened since January, and also, in particular, to  
6 talk a little about some of the work that is going on  
7 with the pilot programs and the thinking behind that.

8 There will be a chance to take all kinds of  
9 questions. And rather than waste anymore of their  
10 time, let me turn it over to Christa.

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25



1           So briefly, developments since the last  
2 meeting of this group, two pretty significant meetings  
3 on our behalf, from the government perspective, one  
4 deputy level meeting, so a deputy committee meeting  
5 convened by the National Security Council earlier this  
6 year, and also an interagency executive committee  
7 meeting.

8           So we've got lots of different processes for  
9 overseeing and managing the coordination and work that  
10 is going on with the single window project, and this is  
11 everything from the tech build, the policy development,  
12 the legal framework development, how the processes and  
13 operations are going to work, how funding is going to  
14 be maintained and coordinated across the interagency.

15           So a lot of different pieces to that involving  
16 lots of different offices and levels of engagement  
17 throughout, arguably, 47 different agencies.

18           We generally convene and rely on the National  
19 Security Council at the White House to convene deputy  
20 level meetings when we really need to formalize a  
21 decision or potentially if there are issues where there  
22 might not be consensus among every one of the  
23 departments and some additional discussion at the very  
24 senior level is warranted or, frankly, if we need  
25 engagement from the Office of Management and Budget,

1 either the management side or the budget side, or other  
2 offices at the White House, like the National Economic  
3 Council and such, and reserve the big meetings, the  
4 Border Interagency Executive Committee meetings, which,  
5 as you recall, were created by the recent executive  
6 order -- well, a year ago I guess now -- to sort of  
7 maintain the -- we had a monthly pace for a while.  
8 We're now looking at about a quarterly pace on just the  
9 overarching policy issues or strategic issues  
10 associated with the project.

11 So at the last deputies, the discussion really  
12 focused on clarification of some of the really  
13 important milestones for ITDS and single window  
14 implementation, and I'm sure Steve and Maria will have  
15 maybe have time for those or are happy to have  
16 questions at the follow-up, but clarification around  
17 expectations for November 1 of this year as really a  
18 time when we are pushing to have a lot of the value of  
19 electronic transmissions through this new ITDS single  
20 window system and that we're planning, realizing what  
21 would have to happen engagement-wise with industry on  
22 our end in delivering the IT capabilities, as well as  
23 operational and business rules type information, our  
24 requirements, and then sort of what would happen in  
25 those situations where there might be complications

1 like regulations that may not be completed or  
2 situations where we want to make change, but probably  
3 will require longer-term consideration.

4           These are things like papers that are required  
5 now per treaty obligation, government-to-government  
6 type of papers that it would be difficult for the  
7 Executive Branch or on our own to kind of change that  
8 process.

9           So figuring out how to accommodate sort of  
10 some minimum amount of paper still in the process as of  
11 that November date, but really drive toward an  
12 electronic environment by November and then use  
13 December 2016 to continually refine the system and get  
14 others on board.

15           So that was really the focus of those two  
16 meetings, and also talking about some policy at the  
17 Border Interagency Executive Committee meeting about  
18 how we're going to message amongst ourselves, using the  
19 system to electronically message amongst ourselves as  
20 Federal stakeholders and then with industry regarding  
21 the status of shipments as they are being imported;  
22 when do we have it, who is holding it for what reason,  
23 and when it had cleared. So two pretty substantive  
24 issues that took a lot of work and effort.

25           Focusing on now and in the next couple of

1 months is really nailing down sort of what November 1st  
2 expectations look like, what are some of these  
3 categories that may or may not be exempted, and what is  
4 that going to mean both for us, CBP at the border  
5 operationally, other participating government agencies  
6 and, of course, industry.

7 CBP is still working to meet IT delivery date  
8 deadlines that are in this June-July timeframe and  
9 we're spending a lot of time, DHS, with every  
10 department and agency really going form-by-form and  
11 requirement-by-requirement to understand how agencies  
12 want to receive that information, whether it's through  
13 sort of a discreet message set data element or whether  
14 we're going to leverage continued use of this digital  
15 imaging system and whether that is an interim or sort  
16 of a longer term solution.

17 Pilots are sort of the other big issue that we  
18 are focused on right now. It's really seeking  
19 engagement from industry to start piloting and pilot  
20 with sort of quotes around it because it's really early  
21 use, encouraging early use of the system and then fully  
22 ratcheting it up over the coming months and the summer  
23 and the fall timeframe and having a strategic way to  
24 ensure that we understand sort of where the fault  
25 lines, if you will, among industries are so that we're

1 leveraging White House and our own leadership to really  
2 reach out and supplement the years of effort and  
3 ongoing effort from CBP and other agencies to engage  
4 with industry to make sure that folks that account for  
5 our volumes or specific industries are getting what  
6 they need in terms of our support and are also doing  
7 their internal thinking about this updating to be able  
8 to accommodate this change.

9 Two other quick focus now issues that you  
10 might be interested in. One is an ongoing study that's  
11 called the time release study. I think I might have  
12 mentioned this last time.

13 The World Customs Organization promulgates  
14 guidelines for these types of assessments. This is the  
15 first time we've done it at the USG collectively and  
16 the idea here is to measure the times associated with  
17 certain steps of the import process from government  
18 perspectives so we have something to assess a year or  
19 two from now and hopefully see improvements.

20 So that has been contracted and is underway  
21 and we hope to have that done, at least this first  
22 baseline version, in the June-July timeframe.

23 The second is an independent -- DHS has  
24 actually contracted an independent security assessment  
25 from a cyber perspective, again, just to take another

1 look, another set of eyes on the actual security of the  
2 system, the IT system, the frameworks, the firewalls  
3 between agencies, how we're getting the data, how  
4 secure is it to both intentional attack or even just  
5 scheduled or unscheduled outages, sort of what are the  
6 continuity plans in place.

7 MS. BOYCE: Christa?

8 MS. BRZOZOWSKI: Yes, please?

9 MS. BOYCE: I'm sorry to interrupt. On the  
10 metric side, very important, that is a huge study that  
11 we are doing from your perspective. From a business  
12 perspective, we want to measure the environment today  
13 of where we are, what we can measure without having  
14 automation or what are the metrics and timing of the  
15 process and how is this going to look in 2017.

16 So this is the guideline that we are  
17 developing so that we can have a good measurement in  
18 2017 of with the automation, what are the efficiencies  
19 of the process that we have realized and what we are  
20 looking at.

21 So I think that one was just to give a little  
22 bit of that perspective from a business side, from you  
23 guys. It was very important for us. We are hearing it  
24 a lot from industry, where we are today and where we  
25 are going, and we are combining that, asking the input

1 from industry themselves as to what do they currently  
2 measure so that we can also have it from both sides how  
3 are we going to measure in 2017.

4 MS. BRZOZOWSKI: It's a big reinforcing one.  
5 I'm sort of skipping through some of these, but that is  
6 a really important study and it took us a long time to  
7 get that off the ground and find the budget for it. So  
8 we're pretty proud of that one.

9 I was also going to note, when I switch over  
10 to the stuff that I think that maybe industry would be  
11 interested in, is either driven at the aggregate or  
12 your own company at the very least, perhaps do  
13 something similar, assessing your processes as they are  
14 now and we'd be interested in sort of understanding  
15 them in a year or two. And realizing there are lots of  
16 different ways that these things can be accomplished,  
17 so we chose to follow the global guidance that was put  
18 out by the deputy CO.

19 The last thing I just wanted to focus on, the  
20 last chunk of issues would be some of these outstanding  
21 work screens, these things that we have identified  
22 either in the executive order that sort of is the  
23 framework for a lot of our work, but also that have  
24 come up in our policy discussions that were just we  
25 know we need to be focused on and maybe a fraction of

1 us are or a fraction of our time, but some input and  
2 suggestion or even sort of framing of the problem would  
3 be really, really helpful because we're just not  
4 putting a huge amount of time into it right now, but  
5 these are things that will coming at us very quickly.

6 The first, from my perspective, is really the  
7 interoperability, sort of the globalization of single  
8 windows. We're building our own national one, of  
9 course. There are other national ones that currently  
10 exist and there are different sort of flavors. What is  
11 our strategic approach and timelines and goals for  
12 regional integration with some of our hemispheric  
13 partners, global integration.

14 We're finding that many, many countries are  
15 looking to the United States for sort of best practices  
16 or insights into how we're doing it and I feel that we  
17 could be doing a much better job on engaging with them  
18 in sort of a prioritized, strategic way and giving a  
19 consistent message.

20 This is also in our best interest because  
21 there are so many folks at CBP with the expertise, and  
22 particularly as you look to requests now coming out of  
23 the World Trade Organization Trade Facilitation  
24 Agreement for capacity-building type requests, a lot of  
25 these are going to require customs expertise. Some of

1     them are focused for single window solutions and we  
2     want to make sure that we are partnering with other  
3     interagency folks, like USAID and USTR, as well as the  
4     World Bank and development banks to make sure that  
5     we're not supporting solutions in other countries that  
6     might not necessarily harmonize with ours further down  
7     the road.

8             So that is sort of a big area. I know Tiffany  
9     and NASCO and others have been thinking and talking and  
10    there are some initial recommendations and reports out  
11    about it, but some really rigorous thinking around that  
12    would be incredibly beneficial to us.

13            The second one, and then I will stop, is sort  
14    of the Web-based options. As many of you know, on the  
15    export side, there is an opportunity to engage directly  
16    with the single window, the Ace, through the AES  
17    Direct. We don't sort of have that similar capacity on  
18    the import side. Whether that is needed, whether that  
19    is something that is a market solution, whether that is  
20    something that the government should provide some make  
21    and model of to increase not only that government-to-  
22    business pipeline, but that government-to-citizen  
23    pipeline is something that we recognize some great  
24    possibilities, but haven't really gotten the ball  
25    rolling on how to do this.

1           We've gotten some initial inquires from folks  
2 that have Websites that sort of commoditize things,  
3 could sort of be the next screen when you actually  
4 interface with all the requirements that you attempt to  
5 process the import after you've made your purchase.

6           So those are areas that are much longer-term,  
7 probably post-2016, that your input and focus on might  
8 be helpful to us.

9           So I will hand it over to either Steve or  
10 Maria now.

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25



1 voice that is overlooking -- not related to one voice  
2 in terms of -- the voice of how do we have one approach  
3 and one specific method of presenting the overall  
4 project that is being handle. And specifically, from a  
5 CBP perspective, we wanted to make certain that we do  
6 have that consolidated approach and since we are the  
7 implementers and we are the ones that are building that  
8 information within DHS.

9           Therefore, Mr. Hilsen was recently named by  
10 the Commissioner to be the lead executive for the  
11 single window project within CBP. So he is looking at  
12 all the IT perspectives, working very closely with Ms.  
13 Debbie Augustin, our executive director that oversees  
14 the business office, closely with Tom Mills, who  
15 oversees our IT perspective, and closely with Cynthia  
16 Whittenburg for policy issues, because it is a magnum  
17 -- it is a big project.

18           So with that, I am going to turn it over to  
19 Mr. Hilsen, who is going to give you probably more an  
20 overview of where we are operationally with the other  
21 PGAs coming on board, the other governmental agencies,  
22 what dates are we looking at, and then I will turn over  
23 to the private sector part on that area.

24           So, Steve, thank you and welcome to the  
25 jungle. I already told him that.

1                    ITDS UPDATE AND DISCUSSION (Continued)

2                    Steve Hilsen, Lead Executive

3                    Single Window Initiative

4                    Department of Homeland Security

5  
6                    MR. HILSEN: Thank you. So what I thought,  
7 given the intro and the background information, is to  
8 talk through maybe a few of the specifics and then we  
9 can see where you would like to go from there.

10                   So, again, in context, we are looking at 47 --  
11 well, 48 government agencies including CBP that have  
12 some role in regulating imports and exports. But of  
13 those 47-48, there are really about 22 that have some  
14 kind of automation needs and those are really where,  
15 from the single window Ace perspective, we are engaging  
16 with those particular agencies.

17                   As a subset of those 22, there are really 15  
18 that we identify that have a role at the cargo release  
19 point of the process or the entry summary, the duty and  
20 financial obligation part of the process.

21                   Christa mentioned November 1st. We have three  
22 key milestones in the Ace program coming up. First is  
23 May 1st, transitioning to full use of Ace for manifest  
24 filing and, in reality, what that means is the air  
25 manifest, because the other modes are already in Ace.

1 So moving towards that, May 1st is an important date,  
2 particularly from the air carrier community point of  
3 view.

4 Our next big and the big lift date from a  
5 business process is that November 1st date. It's on  
6 that date that all entry cargo release and all entry  
7 summary filings, if they are done electronically, will  
8 have to be done in Ace.

9 The implications with our single window is  
10 that we are looking at -- we have been working towards  
11 the agencies that -- the part of government agencies  
12 that have requirements at that time to also integrate  
13 them into that electronic process.

14 So we have gone through, and it is work that  
15 has been done over the last several years through the  
16 ITDS Board of Directors, looking at all the forms that  
17 are required as part of or potentially required as part  
18 of that entry cargo release or entry summary process,  
19 and then looking for the electronic solution, either a  
20 2B or an interim process.

21 We're providing really three mechanisms by  
22 which we are going to communicate and coordinate and  
23 integrate with all of our government agency partners.  
24 One is what we call our PG message set functionality  
25 and that's the electronic data elements that are just

1 associated with the electronic submission that goes to  
2 Customs today. It's just we've created new space for  
3 these additional requirements. But what that does for  
4 us is that we are not going to require the trade  
5 community to submit the same information multiple  
6 times.

7 As an example, I will use everyone needs to  
8 know who the importer is, everyone needs to know what  
9 country it came from, everybody needs to know where  
10 it's going to and what it is. And the way that happens  
11 in today's process, in the paper process, is you fill  
12 out another form with the same information.

13 What the PG message set does for us, if we  
14 already collected it as part of the required customs  
15 submission, we don't ask for it again. All the  
16 government agencies are looking for is that additional  
17 unique information associated with their requirements.  
18 So reducing duplication as we look to get rid of the  
19 paper processes.

20 The other process and the other solution we're  
21 providing is this document imaging. If a form does  
22 need to exist, and we continue to push that  
23 conversation particularly through the Border  
24 Interagency Executive Council, if a form really needs  
25 to exist, if it does, can we avoid the handling of that

1 piece of paper and just take a document image, as well.

2 Another important piece of technology that we  
3 have deployed is that that document image can also come  
4 in with the customs submission via Ace. It's not an  
5 upload, it's not an e-mail attachment, it's not going  
6 to some other location to do that. That can come in  
7 with that same electronic transmission. Again, one  
8 submission.

9 So the work we're focused on right now really  
10 is that integration of those partner government  
11 agencies, the 15 or so that have a role and have  
12 requirements at that point in time for November.

13 Our goal, our aim, our direction is that we  
14 want them to be all electronic, but we do recognize  
15 that, as Christa mentioned, there are still some  
16 longer-tail processes, forms that require actual  
17 signatures as part of treaty obligations, but we're  
18 working through that process now to move as far  
19 electronically as we can.

20 Work is progressing well. We're making a lot  
21 of headway with a lot of the agencies. But we're very  
22 engaged and there is a lot of work still going,  
23 particularly with the Department of Agriculture and  
24 FDA. But it's daily conversations, it's daily work,  
25 hourly conversation.

1           Technical work is proceeding. I think we're  
2 over that technical hump that perhaps we've had over  
3 the last several years, and now we're able to focus on  
4 what is the process and what are the process  
5 implications.

6           Another item in conjunction with that work  
7 from the technical side is in CBP, working through  
8 creating a business process document for both internal  
9 use and for external trade community use, specifically  
10 focused on, well, I used to do this, in Ace I'll need  
11 to do that.

12           So that work is ongoing not only within the  
13 CBP processes, but with all of those government  
14 agencies that will have a role particularly for the  
15 November 1st date and the team is working toward a mid-  
16 April timeframe to have a draft out. We'll start  
17 circulating through our advisory and through our trade  
18 support network folks to take a first look and vet that  
19 with the trade community to make sure -- what are we  
20 missing and with the goal of somewhere around the mid  
21 to late May timeframe we would have a business process  
22 document out so that trade could begin to look at what  
23 are the implications to their business process in  
24 addition to the technical requirements.

25           I want to add onto the external review that

1 was mentioned one of the other items that they were  
2 looking at was the capacity to handle all of these  
3 transactions. I know that comes up quite often. Can  
4 you handle all these transactions? And we have folks  
5 who are somewhat sensitive to that from previous  
6 experience in other systems.

7 That review is being done independently and is  
8 getting ready to wrap up. We have always been  
9 confident, because it is built on a platform that is  
10 already taking in all these transactions, and so that  
11 review will be wrapping up very shortly. But what we  
12 can expect to see is that from a systems security  
13 perspective and a capacity perspective, that's not  
14 going to be a concern or an issue from the government  
15 side or should not be from the trade side.

16 Again, we are focusing on how does the process  
17 actually work for this IT.

18 MS. BOYCE: If I may highlight that very  
19 important message. We are not concerned about how to  
20 handle capacity. It is not a concern because at  
21 Customs we deal with that amount of data on a daily  
22 basis. That's our work every day.

23 What we want to focus more on, as Mr. Hilsen  
24 mentioned, as Steve mentioned, is the process. That's  
25 where we need really strong partnership with you guys.

1           MR. JAMIESON: Just to be clear, are you  
2 talking about when you process volume, what happened on  
3 the initial onset of Ace; when we filed on Thursday,  
4 UPS filed 2,800 entry requests on Friday and it blew up  
5 the system for a month, is that what you're just  
6 verifying here?

7           MR. HILSEN: Yes.

8           MR. JAMIESON: Okay. That's what I thought.

9           MR. HILSEN: Verifying that we won't have  
10 that, not verifying that we will have that. So that's  
11 another important aspect that I just want to highlight  
12 with the process that we now implement and we have been  
13 using for rolling out our automation is that we don't  
14 have that big bang. We don't have that turn on the  
15 switch one day and hope everything works.

16           We're rolling this functionality out. What we  
17 do know is that cargo release for air works. We know  
18 that entry summary for the basic types of work, we've  
19 been using it for years. We've got a million-two  
20 transactions that have gone through cargo release as of  
21 last night that include truck, ocean, rail and air.

22           So we know functionality is out there. Our  
23 focus has been making sure the functionality works  
24 while we're making sure we can handle the flow, the  
25 volume, the throughput. But if we know the system is

1 working, then we can roll out that increase and that's  
2 what we're hoping to see and we're going to be working  
3 very close with the trade communities over the course  
4 of the summer. How do we ramp that up so that we can  
5 take into account the trade community and customs as a  
6 process is very good at finding unique ways of doing  
7 the same process, either geographically, by mode of  
8 transportation, by business process.

9           So what this does is it allows us to find  
10 basic processes may work, but we find in the northwest  
11 their cross-port processing didn't quite work as  
12 expected. We're in an environment, well, okay, let's  
13 take that down. You can still clear your freight  
14 because ACS still exists. If we're not stopping  
15 freight, we can fix that before we get to this  
16 mandatory date.

17           So that's why it's important from the trade  
18 perspective that we get folks on and utilizing it,  
19 making sure that it works for your business process,  
20 and there's not something unique, the difference  
21 between on southern and northern border, on the timing  
22 that we'll get the messages. That's all stuff that we  
23 have learned because we have had trade purchase events  
24 working with us as we've rolled out this functionality.

25           MS. BOYCE: If I may, because of time, maybe

1 we can focus -- let's talk a little bit about the  
2 pilots and how do we test the system and what are we  
3 doing and you had it in your list.

4 MR. HILSEN: That was the next item on my  
5 list.

6 MR. LONG: And how were they chosen and what  
7 is your thinking on such sectors and volumes?

8 MR. HILSEN: In pilots, we want to be careful  
9 with terminology on pilots, but what we focused on is  
10 all the agencies are on board. They all have technical  
11 requirements and we're going through the process to  
12 make sure that our system connectivity is appropriate,  
13 that the message set that they have developed works,  
14 that as our software vendors create the programming and  
15 the filers issue transactions, that that works.

16 But an area that we also wanted to pay  
17 particular attention to were those transactions with  
18 which more than one government agency may have  
19 authority or regulatory authority over a transaction.  
20 So how does that back-and-forth work so that we're not  
21 creating unintended consequences because we're waiting  
22 for multiple parties to do their responsibilities.

23 We have identified currently three what we  
24 call cross-agency pilots and they are in the following  
25 areas. The first is electronics, the second is medical

1 devices, and the third is automotive -- we said  
2 aerospace, but we're going to focus on automotive right  
3 now.

4           The intention is that those agencies that  
5 regulate automotive, for example, EPA and DOT, as well  
6 as CBP -- I'll just use as many acronyms as I can get  
7 in one sentence -- and by vehicles and engines, we'll  
8 find a subset which we can run through. And the  
9 primary goal of these pilots is to look at how the  
10 process actually works, what happens when a transaction  
11 comes in and a shipment shows up, how does that flow  
12 through the system, both the physical goods and the  
13 information, to make sure we have coordinated  
14 decisions, we have coordinated messaging, that the  
15 agencies get the information they need in the timeframe  
16 they need and that we're communicating back with the  
17 trade community what the status, what the implications,  
18 what the decisions are.

19           So that is really the focus of these pilots.  
20 So planning has been ongoing. We're going to put  
21 together workgroups of industry representatives across  
22 the supply chain in those areas, as well as our  
23 operational entities, particularly our centers for  
24 excellence and expertise that we're standing up, as  
25 well as partner government agencies in their field, as

1 well as policy operators.

2           Those initial workshops, groups, meetings will  
3 happen over the course of the next couple of months.  
4 The functionality to support that will be deployed in  
5 our June 27 deployment, which is our next scheduled Ace  
6 deployment. And so over the course of the summer from  
7 July and August and into September, we can actually  
8 together walk through transactions and watch  
9 transactions and shipments come through the system to  
10 make sure that the process is going in a way that works  
11 both for the government and for the trade community.

12           MS. BOYCE: At the same time, we're going to  
13 have that testing with the agencies to start -- those  
14 agencies who are actually to start testing all the  
15 messaging.

16           I think it's important maybe for the group,  
17 and you guys are aware of this, but where we're moving  
18 from and where toward we're going. So today industry  
19 just gets a message saying your cargo is en route.  
20 That's it. Guess why? I don't know. So you start  
21 calling and they say, well, it's not us, it's another  
22 government agency. And why is that en route? You know  
23 you have to call the other government agency. So  
24 that's today, the environment today.

25           So I have heard stories where industry tells

1 -- and Dominic always gives me a hard time, I give him  
2 a hard time with this -- where FDA doesn't tell them  
3 what it is and so the broker just starts sending  
4 information until they guess what it is and then the  
5 cargo is released, which is not a very good business  
6 process from a different perspective.

7           So what Steve is mentioning, the whole  
8 messaging coordination, now you're going to receive  
9 cargo is in hold, FDA needs X, USDA needs Y, EPA needs  
10 this. So your broker, your customs broker is able to  
11 provide that information on time, which makes a big  
12 difference. We need to test that with volume on the  
13 messages.

14           MR. LONG: In percentage terms, how big a  
15 share of, say, U.S. imports is this likely to be?

16           MR. HILSEN: I'm trying to remember my  
17 numbers.

18           MS. BOYCE: Thirty-five percent.

19           MR. HILSEN: About 30 percent potentially of  
20 the volume represented by these commodities in the  
21 cross-agency. Again, at the same time, we're  
22 continuing with each of the individual agencies to  
23 bring them online and do testing.

24           But this was intended to add another layer to  
25 the complexity that could potentially happen to make

1 sure we're not having any gaps and not focused solely  
2 on single transactions. But the messaging is very  
3 important and as we have worked with the agencies, that  
4 has been the guiding principle, that they have to be  
5 much more specific about the requirements and we're  
6 really working toward earlier communication of that  
7 information in the supply chain, the benefit  
8 potentially being that in Ace they can submit the  
9 entry, the entry summary well prior to arrival.

10 Then if a response came back and said, well,  
11 this agency is looking for this information because it  
12 wasn't put on there or there is an error message up  
13 front that says something wasn't put in right, there is  
14 time then to resolve that from the trade side prior to  
15 the goods arriving and perhaps we can reduce the number  
16 of cargo holds for document purposes or clarification.

17 That where we're going to be testing these  
18 processes, because that's the way we're building the  
19 system. Are we going to be able to realize that  
20 benefit is going to be what we have to all walk  
21 through.

22 MS. BRZOZOWSKI: Steven, could I just clarify  
23 quickly. The 30-so percent, 36 percent, I think it is,  
24 is really the commodities that we anticipate being  
25 covered by these cross-agency pilots. That, in

1 addition to the goods that are regulated, just like the  
2 EPP is about another 35 percent, and then you've got a  
3 big chunk of ag products, certified APHIS and FSIS, and  
4 then a big chunk of SCA, and then a very, very long  
5 tail involving a whole bunch of other commodities  
6 regulated by a whole bunch of different agencies.

7 So the idea of the cross-agency pilots was to  
8 have added to the 35 percent by CBP, a big chunk by  
9 USDA, the big chunk by FDA, as a way for testing  
10 interagency processes. But the goal by this November  
11 timeline would be for all of the commodities. If  
12 you're buying electronically, our look at what you're  
13 filing would be through the Ace.

14 MR. HILSEN: We'll have the opportunity for  
15 those to be submitted during that time.

16 MR. JAMIESON: Just a quick two-part question,  
17 Steve. This is not port specific.

18 MR. HILSEN: No.

19 MR. JAMIESON: And are you relegating to a  
20 specific agency as classes or if it basically falls  
21 under the, quote-unquote, automotive umbrella?

22 MR. HILSEN: So with the pilots, that is what  
23 these workgroups, the trade, CBP and the PGAs are going  
24 to identify, where to start. We want to start on  
25 something that everyone is comfortable with running

1 transactions within would expand based on the level of  
2 comfort. So the intention with the pilots is similar  
3 to what we've done with all of our rollouts; find a  
4 manageable group, walk through that so that we're not  
5 impacting huge things in case something doesn't work  
6 the way we anticipate, and then expand as the comfort  
7 with the system grows and we're more comfortable with  
8 the business process.

9 They'll probably roll out by port. The  
10 automotive may say Los Angeles is the place, let's try  
11 that first because you have a lot of imports or maybe  
12 Detroit, I don't know.

13 The other item is we're also looking at the  
14 opportunity for an agriculture pilot, as well. That's  
15 another huge chunk. And so we're talking with the  
16 Department of Agriculture and the ag agencies to see  
17 can we find something in the summer timeframe to do  
18 something to test that, at least on a limited scale or  
19 more broadly.

20 So ideas, suggestions and input on that would  
21 always be appreciated.

22 MS. BOYCE: Tiffany, you had a question, too.

23 MS. MELVIN: Well, I did, but you guys kind of  
24 answered it. It was just that my understanding was  
25 that the goal ultimately for single window was to

1 notify the businesses, the industry before they get  
2 held up at the border and that you're missing this  
3 information or it's incorrect or something like that so  
4 that they use the transit time to get it done before  
5 the cargo is on hold and not just to get a message.  
6 But you guys clarified that.

7 MS. BOYCE: So that means then for the last  
8 maybe 2 minutes and then we can open it up for more  
9 questions, what are the challenges that we are facing  
10 and why do we need to partner with you and why do we  
11 need your assistance.

12 So I think Steve did a great job and now you  
13 know why we have him and we're very excited because he  
14 takes all the hard questions.

15 MR. HILSEN: As a good czar should.

16 MR. BOYCE: It's very pleasant to have him on  
17 board. The challenges that we have right now, we were  
18 seeing all of this happening at the same time as you  
19 are having TFA and you're having the coordination that  
20 we're doing with Mexico and Canada, the conversations  
21 that we're having with all our different government  
22 partners on the export side now. You have automations  
23 that you can have more information that you didn't have  
24 before from a customs perspective.

25 There are a lot of areas that are coming

1 together. So our big challenge is how do we continue  
2 to engage with the industry so that work keeps in your  
3 pace. You're not used to this pace of government going  
4 so fast and making decisions. Usually, it's you  
5 telling us you're going too slow, and right now it is  
6 the sense of can we be ready on time.

7 So the pilots, the timing of the pilots, one  
8 of the challenges I think you mentioned in the last  
9 meeting is are the customs brokers and the software  
10 vendors to provide us. The answer today is, no, they  
11 are not ready. So we have completely enhanced that  
12 process.

13 So the answer 6 months ago was no. Today the  
14 answer is some are, some are not. So what we have done  
15 is we're really doing the targeting, very technical  
16 approach, very surgical, of who are we meeting with,  
17 with the customs brokers and the software vendors to  
18 make certain that they have the right information.

19 There is going to be a lot of investment and  
20 time crunch. That is our reality of what we're dealing  
21 with. But we need your partnership on that because we  
22 do want to make certain that we are educating the right  
23 industry individuals within the companies that  
24 understand what the process and the change is.

25 So to give you an example, I am assistant to

1 -- here is our fearless leader, by the way, Mr. Jeff  
2 White. But we are certainly engaged with the committee  
3 and we're talking helping FDA, APHIS, other agencies,  
4 how do they engage their stakeholders.

5 They usually don't deal directly with the  
6 customs broker. They deal directly with the importer  
7 or the exporter who might not know the changes that are  
8 coming. That's only the customs broker that knows it.

9 So we're really looking into who do we need to  
10 communicate what. So one homework or one area that I  
11 do want to ask your help is if you have any key  
12 industry or stakeholders that you think have not heard  
13 about this or will benefit from it, please let us know  
14 because we really want to target on that area.

15 The second point is what we're doing is we're  
16 developing and we're going to have a very aggressive  
17 calendar for the months of May, June and July where  
18 we're hitting all the major ports of entry. We have  
19 done the homework. There is a lot of number-crunching,  
20 a lot of Excel. We have really gotten to use it in the  
21 past 3 days. But we're looking at the volume, which  
22 agencies have the major impact on what ports and what  
23 volumes do we have and we're going to be -- not asked,  
24 but the subject matter experts and technical experts  
25 from the agencies, from our Ace team, are going to be

1 hitting each one of those ports within the next 3  
2 months, meeting with industry and the stakeholders and  
3 telling them about what needs to happen, where we are.

4 Very important for the last ports of entry.  
5 Tiffany, I look forward to partnering with NASCO to  
6 help us really reach out to that audience. But that's  
7 going to happen May, June, July. The schedule is going  
8 to be posted on the Web page. You're going to have  
9 that information.

10 That is going to help us really hit the ground  
11 running on the outreach on that area.

12 Then we're going to continue doing our  
13 Webinars. So we already have done two Webinars, one  
14 with EPA and APHIS and CBP and then a second one with  
15 FDA, and then we're having a series of Webinars with  
16 CPSC. So we have already hit over 1,200 people or 1,500  
17 people on the Webinars. Those are recorded on the Web  
18 page. You can download it. So however you can help us  
19 with that area.

20 The last part that we're working on is the  
21 social media outreach piece, because, of course, that  
22 is a new generation that we are dealing with. How much  
23 can we save, 140 characters, we will find out, but we  
24 have Twitter, we're going to do blogs more. Christa  
25 started the trend, so we're going to continue with the

1 blogging. So all of that is going to happen.

2           So we're doing all this. There is going to be  
3 a lot of outreach, a lot of assessing and getting  
4 questions from industry because we want to make certain  
5 that we are answering and addressing the questions that  
6 you have that are unique to your supply chain.

7           The other piece -- and I'm running out of time  
8 -- is all of this automation, I want to plant the seed  
9 on your brain to move you forward in a year. All of  
10 this automation and all those changes are taking us to  
11 another reality of how the global supply chain moves  
12 for the country, for us.

13           So what are the other areas that we have to  
14 deal with? Still questions that we have at the last  
15 ports of entry, the challenge of you don't have enough  
16 infrastructure, is it staff, how is this automation,  
17 this process going to help us change that dynamic.

18           So what we're talking about in 2017 is going  
19 to be completely than what we are talking today. So I  
20 do want you -- even though, of course, we care about  
21 today and the reality that we are dealing with today, I  
22 think to start thinking also what is it that we look  
23 like in 2017 that is going to require a change of how  
24 we do business.

25           We are changing the way we do business from

1 the U.S. Government perspective, from CBP, and it is  
2 requiring changes in how industry does business,  
3 because we are changing that communication and that  
4 process. So that is going to have something down the  
5 road.

6 I am going to stop there and turn it over for  
7 any questions or comments.

8 MR. FISHER: It seems like so much of the work  
9 of the committees is about integrating the agencies to  
10 solve a problem. I was wondering if you could comment  
11 on the structure of your work organizationally and how  
12 you are getting this done, because it does seem like  
13 you are moving very quickly.

14 So what do you think in the process of getting  
15 these different groups together worked  
16 organizationally, because maybe that can be carried  
17 into the work of some of the other committees where  
18 interagency cooperation is really essential to get  
19 anything done?

20 MS. BOYCE: So I'm going to give you a big  
21 overview and then I will turn it over to Steve if I'm  
22 missing some parts. So it's a great question.

23 From a customs perspective, we have learned  
24 how to manage this for a while now because we were  
25 getting overwhelmed. And after 9/11, when everything

1 changed and all of a sudden the priorities and what we  
2 would measure for completely changed the dynamic of how  
3 we were doing business.

4 We had to come up with a solution of how do we  
5 work with industry, do 100 percent check-in security  
6 and not stop the economy. So big challenge.

7 So what we do, if I'm understanding well your  
8 question, we have identified the tactical, the people  
9 that understand the actual process, we work through  
10 what we call the Trade Support Network and that one has  
11 over 300-and-some representatives of the whole supply  
12 chain process.

13 So whatever you think about, anyone who  
14 touches the cargo from point of origin to point of  
15 delivery is represented in that Trade Support Network.

16 So our subject matter experts, our technical,  
17 our IT people, our engineers meet with them and have  
18 workgroups that Steve mentioned and work out the  
19 solutions.

20 Now, the difference of 10 years ago and today  
21 is that we have changed to an agile system. So it is  
22 faster, we are more flexible, and we have industry in  
23 the process of conversation from the beginning. So we  
24 are not creating something in a vacuum. We have  
25 industry input from that part once we are ready to do

1 that workaround.

2 Before I turn it over to Steve to clarify more  
3 on that, strategically, we at Customs, we have on our  
4 advisory committee a more strategic advisory to give us  
5 more the big picture interaction of how we are working  
6 from a Customs perspective on the interaction with  
7 industry, where they tell us this needs to be a  
8 tactical or a technical working group, and we had to  
9 bring in a bigger perspective.

10 MR. HILSEN: So the piece that was missing  
11 from that was the interagency work. So what has been  
12 going on for a number of years is the ITDS board of  
13 directors looking at a technical perspective.

14 So that's the group representing all the  
15 agencies that have equities in the import/export  
16 process. They are the ones that went through what are  
17 all the forms that could potentially be required,  
18 potentially 200 different forms are possibly required.

19 Looking at the issue of why do we not have any  
20 duplication in our new Ace message, it's because they  
21 went through and identified do you have the same  
22 definition, do you have legal authority to do that.

23 So from a technical perspective, the ITDS  
24 board of directors was a very important piece. But  
25 what we didn't really have now was that next piece of

1 the policy and the coordination. So that's where the  
2 Border Interagency Executive Council has come into play  
3 on creating another structure in which we have the  
4 opportunity to talk, not technical, but as to the  
5 transition.

6 So putting those kinds of things into place is  
7 very important.

8 MR. FISHER: What does the board of directors  
9 do in the government? Is that in the White House, the  
10 ITDS board of directors?

11 MR. HILSEN: No. Treasury chairs that, Mr.  
12 Tim Skud, who is Deputy Assistant Secretary of the  
13 Treasury. So those are representatives. Again, that  
14 was more of a technical level, if you will. So that's  
15 what we didn't have was that higher level policy  
16 coordination, which is what the executive order  
17 codified.

18 MS. BRZOZOWSKI: From my perspective, what we  
19 saw a year ago, we the interagency, is the clear need  
20 was through that political will from a very senior  
21 level. This was a priority within CBP. Frankly, it  
22 was uneven even at the DHS level and often the funding  
23 wasn't coming through just to support that agency.

24 Then the engagement, as Steve said, through  
25 the existing mechanisms created by statute had gotten

1 very technical and tactical and to accomplish it, it  
2 needed deputy or principal level at the department, not  
3 at sort of various offices or agencies within the 47,  
4 scattered across all different departments.

5 So I think what was valuable -- let me put a  
6 finer point on it. You have executive level direction  
7 now coming from the White House creating a board, this  
8 Border Interagency Executive Committee, that  
9 compliments the work of the technical ITDS board by  
10 providing policy and strategic level direction at a  
11 principals level.

12 That work then leads to a meeting, like the  
13 one I mentioned when I started off, where you have  
14 seven deputies, actual deputies, not delegates -- this  
15 didn't always happen, but the last meeting was seven  
16 actual deputies from USDA, Transportation and DHS and  
17 Commerce -- Commerce wasn't able to come to that  
18 particular one, but other ones they did -- sitting  
19 around the table with the head of OMB and sort of the  
20 National Security senior advisors there, National  
21 Economic Council.

22 So you're seeing both sides of it, from a very  
23 political side, as well as a very pragmatic regulations  
24 and money side, and also from a department investment  
25 in sort of leadership and you've now got this -- it's

1 clear to myself and I know folks in Commerce and to CBP  
2 that this is one of the last sort of IT bills of this  
3 Administration and in an environment, after health.gov,  
4 that the eyes are on us, that this is going to work,  
5 that this is going to be something that benefits not  
6 just government, but this is business-friendly, it is  
7 increasing trade, facilitating trade, and improving the  
8 American competitiveness initiative.

9 So I think we've ratcheted up expectations  
10 significantly and that sort of brought a lot more  
11 senior level attention and some bodies to the table.

12 MR. FRIED: I represent the freight  
13 forwarders, which are small and medium size. You  
14 mentioned portal support. I guess I'd like to urge you  
15 to make allowances for Web portalization, I guess it's  
16 called, as you progress, because the small to medium  
17 size entities don't have the resources and they  
18 oftentimes don't connect well unless they can work  
19 through the Web.

20 So I think that is great stuff and, please, I  
21 encourage you to continue.

22 MS. BRZOZOWSKI: Yes. We've got an initial  
23 group looking at it and thinking about it and they are  
24 trying to leverage kind of big White House-type science  
25 and technology engagements, engagements with the

1 cutting-edge of Silicon Valley and how they are doing  
2 things and using Web-based portals and different  
3 solutions and seeing if there is a market for something  
4 that we would be able to either follow or use as a  
5 template or whether we need to create something brand  
6 new.

7 But, again, a lot of the best and the  
8 brightest and the newest thinking is clearly not going  
9 to be through -- it's not me. I'm certainly open to  
10 some of the newer ideas on how to accomplish this.  
11 This is where we're kind of throwing it out to try to  
12 at least get some bound around the policy.

13 MR. HILSEN: Again, we are focusing and we are  
14 committing our full resources and effort between now  
15 and the end of 2016 to get our system up and running,  
16 but I think this is the runway, the timeframe in which  
17 we can start talking about these things. Once we  
18 achieve that milestone, what do we hit the ground  
19 running with next and what does that look like and what  
20 should we be thinking about. So that's why this is a  
21 great time to look for that and have that kind of  
22 conversation.

23 MR. FRIED: I just wanted to add we have been  
24 taking advantage of opportunities through your National  
25 Education Institute, the Freight Forwarders

1 Association, and I think the engagement committee -- if  
2 any of the other associations have such portals or such  
3 opportunities for us to send the message to your  
4 associations in a Web context, we should do that, as  
5 well.

6 MR. FISHER: Steve, where do you reside? Do  
7 you report to the executive committee?

8 MR. HILSEN: I am actually in the  
9 Commissioner's office of CBP, and so my primary  
10 equities are -- we have seven different executive  
11 directorate -- eight offices within CBP that have  
12 equities in the single window from technical build.

13 MR. FISHER: What does CBP stand for?

14 MR. HILSEN: Customs and Border Protection.  
15 I'm sorry.

16 MS. BRZOZOWSKI: The board that was created by  
17 the executive order is actually chaired by the deputy  
18 of Homeland Security.

19 MR. FISHER: Then that committee is driving  
20 this. Okay.

21 MR. HILSEN: That is correct.

22 MS. BRZOZOWSKI: So that's the interagency  
23 committee that's driving it, with obviously CBP as a  
24 big engine behind this whole effort.

25 MR. LONG: We have time for another question

1 or two.

2 MS. MELVIN: I'm just curious. I don't know  
3 if it is appropriate because we haven't really formally  
4 approved the recommendations that we're making, but is  
5 it appropriate if I have a question about one of them  
6 and how it applies here to bring it up?

7 One of the things that our subcommittee, the  
8 IT and Data Subcommittee that has worked real closely  
9 with all of you, with Christa and Maria-Luisa, and on  
10 the single window initiative, one of the things that we  
11 weren't real clear on at the last meeting and  
12 previously was exactly who is responsible for  
13 coordinating the work of all the different agencies.

14 So one of the recommendations that we were  
15 about to make was to immediately appoint a full-time,  
16 dedicated senior program manager, and I know that David  
17 referenced this, that he was saying this probably is  
18 slightly you or he said it was you, that it's being  
19 addressed by your position.

20 However, we were thinking of it more as an  
21 independent position, not one -- like you appear to be  
22 the one coordinating all the efforts within CBP. But  
23 what we were talking about is a person that is fully  
24 accountable and responsible for the coordination of all  
25 the different agencies and not really housed within one

1 agency necessarily or whose job temporarily becomes  
2 sort of separate and apart from that one agency that  
3 might be putting up the person to make sure that  
4 everything is moving forward smoothly, because at that  
5 time we weren't really sure about all the different  
6 coordination and what agencies are fully on board,  
7 fully supportive, working really hard.

8           Some of the major agencies are, but some of  
9 them are kind of straggling. I know you're still  
10 having struggles with Agriculture and FDA, things like  
11 that. So that was one of our recommendations and to  
12 get that person appointed.

13           So I would like to get your feedback on what  
14 you guys think about that, if it's helpful or is that  
15 your role now because CBP does have such a huge stake  
16 in the game.

17           MS. BRZOZOWSKI: Let me take that, if I could.  
18 I work directly for Deputy Secretary Mayorkas, but this  
19 is 90 percent of my job, offering this whole sort of  
20 process, but, again, from the very strategic level.

21           He is named as the chair of this group. The  
22 co-chair or the vice-chair, rather, is something that  
23 is going to change from agency to agency. But again,  
24 the distinction there, and it is a very deliberate  
25 decision made by the White House during its development

1 of the executive order, was that any processes or any  
2 disputes or areas that needed formalization of  
3 decision-making or would have significant budgetary or  
4 regulatory or even statutory implications would go  
5 through what is called the presidential policy  
6 directive process, and that is the process that the  
7 National Security Council manages and that allows for  
8 interagency discussion and decision-making at ever  
9 increasing levels, starting at sort of my level all the  
10 way up to the heads of the department meeting with the  
11 President on an issue.

12 As I said, we've bumped it up to that level  
13 twice now, beginning the meeting with the seven  
14 deputies that were involved in this particular issue.  
15 The other one was late last year. So that's sort of  
16 the resolution.

17 What we don't have and we have explored and  
18 are continuing to, if there is an appetite, is almost  
19 like a load executive, if you will, because someone  
20 from industry that could come in and sort of be some  
21 sort of basis, whether that's a permanent basis,  
22 whether that's once a week, whether that's 4 to 6  
23 months kind of thing, that comes in and provides sort  
24 of that CBO level, bringing the private sector  
25 perspective in and assisting the government side with

1 kind of the overall management of this.

2 We have programs and authorities to do that  
3 within DHS and I know other agencies do, as well, but  
4 to date they are working directly with the White House.  
5 They have created this program and are in touch with  
6 many of the sort of CEO level folks in companies that  
7 would be potentially interested. We just haven't  
8 gotten any great traction on that yet. The door stays  
9 open on that.

10 Did that address your question?

11 MS. MELVIN: Yes.

12 MR. HILSEN: So I'm not that position.

13 MS. MELVIN: You're not that guy.

14 MR. HILSEN: I am for CBP.

15 MS. MELVIN: Right. Which is a huge step in  
16 the right direction, don't get me wrong. I just wanted  
17 to clarify.

18 MR. HILSEN: I mean, we coordinate with  
19 Commerce and the other agencies and the role I serve is  
20 that as they are looking for information or we need to  
21 coordinate, they can come to me and I have the access  
22 across our agency.

23 So we're addressing things as they go along to  
24 make sure at least we are coordinating and we have so  
25 many tendrils into this.

1 MS. MELVIN: Okay. Perfect. So on the two  
2 cases where you have kind of elevated it to that level  
3 to sort of resolve and get people to agree to meet, you  
4 feel like that is working effectively as far as sort of  
5 the dispute resolution component that is built into  
6 this.

7 MS. BRZOZOWSKI: Yes, or formalization mostly.  
8 I haven't said that they do not have knockout-dragouts,  
9 but a formalization where you really want a formal  
10 process with a written summary of how that meeting  
11 went, and the Border Interagency Executive Council, the  
12 DHS chairs it, but we're sort of among equals. We are  
13 at that decision-making table through the White House-  
14 convened process, you need a decision coming out of  
15 that meeting, and that's the process that we currently  
16 use for that and it has worked well to date.

17 MS. MELVIN: Okay. Perfect.

18 MR. LONG: At the risk of cutting this  
19 discussion a bit short, we are timing out and we need  
20 to move to the next one. We'll have plenty of  
21 opportunity tomorrow to develop these topics further as  
22 we get into the details and what's coming out of the  
23 group.

24 I want to thank our speakers for joining us  
25 today. Thank you so much.

1 [Applause]

2 MR. LONG: In that same spirit of applause,  
3 our Chairman has arrived, Mr. Blasgen. A round of  
4 applause there seems to be in order.

5 [Applause]

6 MR. LONG: Let me set up the next one and then  
7 I'll hand it to you.

8 One of the big things going on inside the  
9 government right now is a response to the port  
10 congestion situation that everybody saw on the west  
11 coast over the last few months. There are a lot of  
12 interesting questions from this. We have a very  
13 concrete ones coming from our Secretary.

14 Setting aside the whole question of  
15 management-labor relationships, which are a whole  
16 different set of topics and more complicated, the  
17 question we are getting from the management here and  
18 throughout the government is essentially what are the  
19 underlying roots of congestion; is there congestion;  
20 what causes it; what is really going on behind what we  
21 saw during negotiations over the last few months on  
22 ports; are they reaching levels we saw, say, in 2006-  
23 2007 or something else and if so, what is causing that.

24 This raises the question of understanding not  
25 only the impact of what we saw on the west coast, but

1 also the larger question of how this all fits together  
2 with what's going on at the ports at the other coast,  
3 how it ties into the landside connection, and how are  
4 supply chains really looking as they go through that.

5 By popular demand, we have arranged to invite  
6 Dr. Walter Kemmsies, Chief Economist with Moffat &  
7 Nichol, a well known figure in the field, with J.P.  
8 Morgan, Federal Reserve, other places.

9 I believe most of you have already met him or  
10 know him from previously. We invited Dr. Kemmsies to  
11 provide sort of a common factual basis for launching a  
12 discussion on this. Eventually, the objective here  
13 will be to develop some concrete recommendations for  
14 what this set of issues looks like from a shipper's and  
15 the supply chain operator's perspective.

16 To get started on that path, let me turn the  
17 meeting over to Dr. Kemmsies to take us through what he  
18 thinks is important about the subject.

19

20

21

22

23

24

25

1                   **FREIGHT MOVEMENT GROUP: FRAMING THE ISSUES**

2                                   **IN PORT CONGESTION**

3                                   **Dr. Walter Kemmsies,**

4                                   **Chief Economist, Moffatt & Nichol**

5  
6                   DR. KEMMSIES: Thanks for the introduction,  
7 very nice introduction. I'm going to stand behind here  
8 so I can project my voice a little better. I'm  
9 concerned that people might not be able to hear me. If  
10 you can't, just wave your hand or point to your ear and  
11 I'll get the idea very quickly.

12                   Basically, I put a little title on this,  
13 Training Issues and Port Congestion. There are a lot  
14 of issues, obviously, to discuss and a lot of things to  
15 be improved, but I do want to show that there is at  
16 least one instance where things can work and work very  
17 well.

18                   This picture was taken at a southeast port in  
19 the United States in September, which is the peak month  
20 for import volumes, on a peak day at 8:30 in the  
21 morning, when you would expect to see truck lines at  
22 this gate going out for miles, and yet the trucks are  
23 flying through. Trucks are doing nine turns a day  
24 compared to some of the ports that had the worst  
25 congestion running about one and a half turns a day.

1           So the important thing to realize is that it  
2 can be done and it can be done very well. It requires  
3 a lot of coordination and a lot of the comments that we  
4 have heard already today do apply specifically and are  
5 well illustrated in this situation.

6           So having said all of the good things, we're  
7 going to go into a lot of the issues that I think  
8 underlie congestion. Quite frankly, I think it's going  
9 to get a lot worse before it gets any better, and I  
10 will explain why today.

11           But before I do, I just want to be careful --  
12 I'm going to put a disclosure here. Anything I say  
13 here is not necessarily the opinion of my employer,  
14 Moffatt & Nichol. It's my opinion. They may not agree  
15 with it and that probably means they're wrong if they  
16 don't agree with me.

17           [Laughter]

18           DR. KEMMSIES: But the work that I do at  
19 Moffatt & Nichol is essentially developing and building  
20 infrastructure. Sometimes we help people buy things  
21 that exist, sometimes we do green field work, and  
22 sometimes we do brown field improvements. And in all  
23 of these projects, the economic activity, not today,  
24 but down the road, and the type of infrastructure we  
25 have -- and by infrastructure, I don't just mean

1 buildings and channels like river channels, but the IT  
2 systems and the type of equipment you use, all of these  
3 things have to blend together very carefully.

4 I get involved in a lot of these projects and  
5 more recently at state level work trying to figure out  
6 how to allocate increasingly scarce capital to all of  
7 these competing uses.

8 So it is from all of that work that we have  
9 done that I am going to make the comments that I make  
10 today. I will keep the slides at a high level, but a  
11 lot of what you will see is essentially a high level  
12 view of something that we work on in great, great  
13 detail.

14 If I were to describe myself, I would call  
15 myself a global micro economist, but we do have a lot  
16 of macro type charts here to look at today, mostly  
17 because I don't really find the work that comes from  
18 macro analysis very useful for the kinds of things that  
19 we do, but every so often we have to look there.

20 So I have three basic messages to focus on  
21 today, the key ones being that the freight  
22 infrastructure and congestion problems that we are  
23 seeing here is not a U.S. problem. It is very, very  
24 global and I hope to prove that to you as we go through  
25 the slides today.

1           But we shouldn't think about the U.S. problems  
2 as specific or idiosyncratic to the United States.  
3 They're actually very widespread.

4           For full disclosure, I grew up in Brazil and  
5 Brazil, as you will see, is no longer the world  
6 champion in soccer, but they've managed to be world  
7 champions in something else and we'll see the picture  
8 in a few minutes to understand that.

9           But it's not much better in Europe, it's not  
10 much better in Asia. In fact, we are seeing some  
11 global issues and I like to trace it back to the driver  
12 of that. The second bullet, we talk about the global  
13 emerging market middle class, infrastructure  
14 development and congestion problems are related to  
15 economic growth and economic growth can't happen  
16 without the infrastructure.

17           So we have to look at these two things side-  
18 by-side. I'm not going to dwell on it too much, but I  
19 think it's worth thinking about in that nature. And  
20 then, finally, what do we think has to be done to make  
21 global trade and, therefore, global economic growth  
22 prosper without the friction that comes from  
23 infrastructure issues?

24           I think it can be done, but some of the things  
25 that we're talking about don't completely solve the

1 problem. There are other issues, which I will bring up  
2 later on.

3           So just a little bit on some global trends.  
4 The last 1 year, the last 4 years, 5 years, the U.S.  
5 has been the driver of global growth. There was a head  
6 fake back about 10 years ago. Everybody thought it was  
7 the BRICS, Brazil, Russia, India, China, South Africa.  
8 It wasn't. Their economic growth was very high because  
9 they were investing a lot in infrastructure, which  
10 drove that component of GDP very high, and the minute  
11 capital became scarce, so they backed off on it like  
12 China has, the numbers have come down quite a bit.

13           So they're not really driving economic growth.  
14 They just drove an investment boom that looked like it  
15 was growth, and so some people on Wall Street got  
16 confused and told great stories. At least that's what  
17 I think they were thinking.

18           The way we see it now is the consumer  
19 countries, like North America, Europe, Japan, are  
20 beginning to recover or in the U.S. case, we are  
21 recovered. The Asian guys are struggling a little bit  
22 right now. They have the infrastructure, but they  
23 don't have the demand for the goods and they haven't  
24 built their middle class yet to buy these things and if  
25 they don't have much of a market in the developed

1 economies, then the commodity exporters are really  
2 struggling and some of them, in the case of Brazil,  
3 built way too much infrastructure for way too few kinds  
4 of goods. It wasn't sufficiently broad-based, which is  
5 something that's happening in the U.S., as well.

6 I think there has been overemphasis on  
7 container infrastructure and not enough on bulk, but  
8 I'll defend that argument in a minute or I'll try to.

9 So how is the U.S. leading economic growth?  
10 Well, basically, last year it was through our imports.  
11 We're going to spend a lot of time on containers mostly  
12 because it's pretty easy to see the data, but I will  
13 every so often interchange and put the bulk part into  
14 it.

15 These are container volumes running through  
16 major U.S. ports. There are 15 ports here that account  
17 for almost 95 percent of the container volumes handled  
18 at U.S. ports, international volumes. I exclude the  
19 Jones Act volumes. And I've got a blue line for the  
20 empties, the green for the exports, red for the  
21 imports. The gray is the sum of the imports and  
22 exports that are loaded and if you add the empties on  
23 top of the loaded boxes, you get the total volume.

24 I realize some of you can't see this very  
25 well, but in 2014, it was the first time we have seen

1 the peak level achieved in 2007. My estimate is in  
2 2014 we did 39 million containers. Our previous high  
3 was 37 million back in 2007.

4 How did we get there? And there's a lot of  
5 people -- or if you read the press, you would think it  
6 was the big surge in imports last year. It wasn't. It  
7 was actually exports that have been steadily growing  
8 and a number of ports that used to be very heavily  
9 import-oriented became more balanced. Some of them  
10 even swung to become more export-oriented. And then  
11 last year, as imports picked up, we finally got over  
12 the hump from where we were or caught up to the peak of  
13 2007.

14 So the forecast we had way back then, based on  
15 basic arithmetic, basically said that we should see  
16 exports after the 2009 blowup grow faster than imports  
17 and then as we approached the opening of the Panama  
18 Canal, the new set of locks, we would see a period of  
19 high import growth. But by 2017, it switches back to  
20 the exports.

21 That's the good scenario. If that doesn't  
22 happen, then the global economic outlook,  
23 infrastructure outlook is very negative. We're not  
24 going to waste time on that right now because I think  
25 everybody is focused on the right things. Execution

1 may be a little slow, but still that's the right idea.

2           So we had imports lead the way last year, but  
3 the warning that I issued several years ago and it  
4 didn't get a lot of attention because nobody wanted to  
5 listen to it was that eventually, if you look at the  
6 data carefully, you can see that our loaded export  
7 volumes in containers would, at least in about 3 or 4  
8 of the months of the year, exceed the import volumes.  
9 And in November of 2013, on the data I track, that  
10 actually happened.

11           I got it wrong. I thought it would happen in  
12 January through March, but if you include the impact of  
13 the Chinese lunar new year, I couldn't possibly have  
14 been right.

15           But November, it happened in 2013 simply  
16 because we had a lot of exports and as we reached the  
17 end of the peak season, a lot of empties were sitting  
18 around and the liners offered to take these exports  
19 back to other places like Asia at pretty decent rates,  
20 and hence we got that spike in 2013.

21           The numbers that I have run in the models that  
22 we look at say that after 2017, there will be at least  
23 3 months of the year where the exports will exceed the  
24 imports.

25           Now, why this is significant is because our

1 infrastructure is built around this very archaic  
2 thinking that has been in place up until 2008 for the  
3 previous 20 years. Basically, we bring boxes full of  
4 stuff into the country, we dump the stuff out, put it  
5 back on the ship, send it back to wherever to reload  
6 and bring to back to the country, and that kind of  
7 logistics management is very simple. But when we have  
8 to start importing empty boxes to fill them with our  
9 exports, that is going to create a second set of  
10 disruptions, not today, but I would say about a year or  
11 2 after the Panama Canal expansion is complete.

12 That is my opinion. Nobody has to agree with  
13 it, but that is where I see the numbers going.

14 So what would it take for all of that to  
15 happen and why do I it is worth drawing your attention  
16 to this? Let's go through some of the issues.

17 It is pretty well known the U.S. has a  
18 substantial trade deficit. We have a services surplus,  
19 in green, but a good trades deficit, in red. The part  
20 of it that's due to oil is actually marked off in gray.  
21 It has been declining and it has been declining because  
22 of our improvement in fracking technology in order to  
23 extract more oil and gas out of porous rocks. And so  
24 it has declined from a 40 percent component of our  
25 trade deficit to 24 percent and if the Department of

1 Energy is right, by the end of this decade, it will  
2 actually be contributing to a trade surplus. We'll  
3 see.

4 I don't think that it would necessarily  
5 contribute to a trade surplus in terms of just  
6 exporting to oil, but there was a brochure handed out  
7 earlier today and what I saw in there that really drew  
8 my attention is the U.S. lost a lot of manufacturing to  
9 other parts of the world basically because of cheaper  
10 labor costs elsewhere, but having very cheap natural  
11 gas and oil allows us to produce all kinds of  
12 industrial raw materials, particularly in plastic  
13 pallets, that are used increasingly in automobiles and  
14 have allowed the U.S. to regain share, export share  
15 into Brazil at the expense of places like China and  
16 Taiwan.

17 In Asia, it's oil that has been used as the  
18 feedstock to produce plastic. Here we use natural gas  
19 to get to the LPG and because of that, we have been  
20 able to export plastic and plastic inputs at much lower  
21 rates and regain the market.

22 So if it is good for Latin America, it is also  
23 good for the U.S. So we should see more manufacturing  
24 kicking in.

25 But the exports last year didn't do very well.

1 Part of it was cyclical. But it's not the cyclical  
2 part everybody is talking about. The dollar did get  
3 stronger last year. By any estimate, that should not  
4 have impacted the exports until this year. Whenever  
5 the dollar moves, people have contracts in place that  
6 go out 1 to 2 years. I wouldn't expect a stronger  
7 dollar to hurt the exports until the second half of  
8 2015.

9 Nonetheless, the exports did not do very well,  
10 as you saw a couple of slides ago. So the question is  
11 why, and it's because of the congestion at the ports,  
12 in my opinion, and I will trace the exact pieces to it  
13 as we go through it.

14 But basically we have to get the export part  
15 of the equation right and I'm going to spend time on  
16 that because there's a lot of discussion about how the  
17 importers get affected by the congestion issues either  
18 at the ports or on the roadways or on the railways,  
19 and, quite frankly, the bigger problem is not for the  
20 imports, it's for the exports and even the importers  
21 agree that if we don't get the exports right, we don't  
22 have people employed to buy the goods that they import.

23 So there is a lot of concern that we get and  
24 that's a macro concern. At the micro level, the issue  
25 is if the exporters continue to grow, they're going to

1 encroach on the capacity that's been allocated to the  
2 imports.

3           So we do need to sort this out and I do have a  
4 couple of views on it, which I'm more than happy to  
5 debate with anybody. But basically, why did our trade  
6 grow so much? I'm not very good at technology, I  
7 apologize. Old guy.

8           When you look at world trade, what has really  
9 grown since 1950 to 2013 has been global trade in  
10 manufactured goods. The tagger for that growth is 7.2  
11 percent and during this period global GDP grew 3.6  
12 percent, so twice as fast. The *World Trade Economist*  
13 yesterday or the day before published a lowered  
14 guidance outlook for world trade growth. I have  
15 disagreed with them for 20 years and continue to do so.

16           One thing that does impact world trade, of  
17 course, is trade sanctions imposed by countries  
18 stepping into other countries, like Russia has in the  
19 Ukraine. So if you factor those effects out and look  
20 at the DHL Global Connections report, it's pretty clear  
21 that globalization is still ongoing and still has a lot  
22 of momentum behind it.

23           But how do we get trade to grow so quickly?  
24 And you can trace it to about a dozen arguments, but  
25 the four key ones are the free trade agreements which

1 we continue to negotiate and lead. So as long as we  
2 see more emphasis on freeing up trade, the more trade  
3 growth you should expect.

4 The second is the investment in  
5 infrastructure. If we hadn't containerized global  
6 trade we wouldn't have lowered the cost and it wouldn't  
7 have made it so easy to reduce the friction of this  
8 one.

9 The investment in technology is often ignored,  
10 but what people forget is these days you can buy a  
11 little device about the size of my iPhone and operate  
12 using SAP, global production and distribution  
13 decisions, from anywhere in the world and if you don't  
14 have a cell phone signal, as long as you've got a  
15 satellite signal, you can still do it and there are a  
16 number of companies that operate on that basis.

17 So this has really helped quite a bit, but  
18 those are all supply side issues. The key one is the  
19 demand side and the demographic trends are very strong.  
20 We have an aging population in the developed economies  
21 and we have a relatively young population in the  
22 emerging markets.

23 Now, the problem with the emerging markets is  
24 they never did what the U.S. had to do in the 1930s,  
25 which is essentially follow Henry Ford's advice, make

1 sure the workers who make stuff can actually afford to  
2 buy it, because otherwise you remain dependent on other  
3 countries and every so often you get a great depression  
4 when foreign demand goes away.

5 One of the things China is involved in is  
6 building up its middle class so they can buy the stuff  
7 they make as opposed to being dependent on the exports.

8 As that continues, the economists at the OECD  
9 have produced projections for the global middle class.  
10 Many of you have probably heard of this report,  
11 probably even read it. And what they said is in 2010,  
12 the global middle class was about 1.9 billion people.  
13 By 2020, we're at 3.25 billion, and by 2030, 4.9  
14 billion. And I used to be a college professor and I  
15 used to write papers like this and do this kind of  
16 econometrics and then I went into the real world and I  
17 look at these things and you have to take a step back  
18 and say, wait a minute, we're currently at about 2.5  
19 billion people, if they are right, in the middle class,  
20 we are congested out, as you will see in a few minutes,  
21 we have an awful lot of emissions, and we basically  
22 shave two-thirds of the trees off the surface of the  
23 planet to make food.

24 So how are we going to get to 5 billion  
25 people? I don't think we can continue to make things

1 the way we have been making them because we're going to  
2 run out of places to grow food that's reasonable.  
3 Water is already an issue. And then finally, we've got  
4 congestion all over the place.

5 An awful lot of the soy that is produced in  
6 places like Brazil is lost because they just can't get  
7 it onto the ships fast enough and it goes bad. And  
8 some of you might remember that 30 years ago, China was  
9 a major soy exporter and today China is the world's  
10 largest soy importer.

11 What's the problem? Well, stuff they grow on  
12 the farms rots there because their infrastructure  
13 investment was to export manufactured goods and not  
14 agricultural goods.

15 So there are a lot of lessons to learn from  
16 these things which I don't think are being applied in  
17 the U.S. today.

18 So I want to spend more time on the containers  
19 but I do want to show one discrepancy here. When I  
20 look at the non-energy exports, 30 percent of our non-  
21 energy exports go on containers, whereas 50 percent of  
22 our imports by tonnage are coming in containers. So  
23 there is a discrepancy, and I think a lot of this has  
24 to do with the way we have invested in infrastructure.

25 The last 20-30 years, I have seen more money

1 going into import-oriented infrastructure than I have  
2 seen going into export-oriented infrastructure. And  
3 whether it's to support containerized or bulk trade, it  
4 doesn't really matter.

5 I think in both cases, the argument is we've  
6 been a little too focused on the import side.

7 So let's take a look at these exports a little  
8 bit, what do they need and perhaps why aren't they  
9 going in containers. One of the reasons is simply  
10 because of the nature of those goods.

11 I'm not a management or strategy consultant, I  
12 just do infrastructure, and so I use traditional  
13 economics to look at things.

14 Using Bela Balassa's approach to relative  
15 comparative advantage -- so you can't get anymore  
16 academic than that -- we work out that whether it's  
17 containerized or in bulk, rate bulk, the key, the top  
18 commodities that we export where we have a comparative  
19 advantage in the U.S. are agricultural goods, capital  
20 goods and energy.

21 So this is a revealed comparative advantage.  
22 It's not my theory, my argument. It's what the data  
23 says. But I can explain it by looking at the factors  
24 of production. Those goods are capital-intensive.  
25 They're not labor-intensive. So, therefore, as long as

1 capital is cheaper here and labor more expensive here,  
2 that's the way we have to go.

3 You need certain raw materials to make it  
4 work. We have raw materials for those three in  
5 abundance.

6 Then, finally, you need to have the technology  
7 and you need to have the ability to monitor the flow of  
8 these goods, the safety and the quality. Again, that  
9 all fits. And then, finally, you need the scale  
10 economy for it. The U.S. is a 330 million population  
11 economy. That means we can do lots of things to a  
12 market that speaks the same language and has the same  
13 laws applying to 330 million people. Very few  
14 countries have that and the ones that do have a larger  
15 population, while they don't all speak the same  
16 language and they don't really have the same standards  
17 that can be applied in a country this size.

18 So it's not surprising, though, that the U.S.  
19 would have a comparative advantage in these three  
20 things. It's borne out in the trade data.

21 So let's just take a look at them. Just  
22 looking at energy, very quickly, this is British  
23 Petroleum data. It goes back, 1965 to 2013. I haven't  
24 put the 2014 data in yet. The black line is for oil  
25 production, the blue line is natural gas production.

1 We're producing more natural gas than ever in our  
2 history and the oil production is about to make the  
3 peak oil people look kind of silly.

4           There is a lot of confusion about what peak  
5 oil means or peak anything. What it means is peak  
6 cheap oil. We can produce plenty of oil. We can  
7 produce more than we did even back in the 1960s. It  
8 just might cost an awful lot. But nonetheless, there  
9 is a difference between peak volume and peak cheap  
10 volume. So we're past the cheap peak volume, but we  
11 still can produce more oil today than we could 50 years  
12 ago.

13           Hence, we're importing a little less and we're  
14 exporting a little bit more. Unfortunately, the  
15 investment in this has come on so quickly and so harsh  
16 that we've created a massive global glut. I know it's  
17 a little hard to see it, but this is global data that  
18 shows production in blue at millions of barrels per day  
19 and consumption in red, and basically the red and the  
20 blue lines kind of track each other pretty closely.

21           The black line shows you excess supply/excess  
22 demand. When it goes down, that's excess supply.  
23 There is excess demand going up. Basically, since 2004  
24 we've had a growing excess capacity situation in oil.  
25 We know some people were in there playing around with

1 trading oil, a lot of speculation. We know there were  
2 a lot of political crises. So that did help oil prices  
3 stay up. But the glut of oil in the world is so large  
4 now and the jump in production relative to consumption  
5 is so substantial that it will probably take a year for  
6 the oil market to stabilize even if we continue to cut  
7 production levels in the U.S. and anywhere else in the  
8 world.

9           So I think the energy contribution to things  
10 is kind of maxed out. Now, I realize there are people  
11 here from the energy sector who can give you much  
12 better perspective than I can, but basically this is  
13 good for the U.S. Cheap energy always helps economic  
14 growth. It creates a lot of opportunities, and energy  
15 products don't always have to be used for calories.  
16 They can be used as inputs to production processes.

17           So while the manufacturing sector I think  
18 benefits from this, as much as the U.S. has outsourced  
19 a lot of manufacturing, it's not true that the U.S.  
20 manufactures less today than it did years ago.

21           This is from the Federal Reserve. It's the  
22 industrial production index. I basically used this to  
23 calculate a volume index that indicates that compared  
24 to 1950, we're producing almost 8 times as much  
25 manufactured goods, industrial manufactured goods, than

1 we did 60 years ago.

2           How is that? Well, basically, we don't make  
3 the toasters here anymore because we have an aging baby  
4 boom population. Everybody has a toaster. So why make  
5 them here? Move the factory to China. The labor is  
6 cheap, excess production is sent to the U.S. or Europe.  
7 But as demand grows in China, you sell it there. And  
8 it's kind of unlikely that consumer-oriented  
9 manufacturers are going to shut factories in Asia and  
10 move them back to the U.S.

11           But for industrial goods, that's a different  
12 matter. Now, re-shoring, on-shoring, off-shoring, I  
13 don't know what all those words mean, but what I do  
14 know is the U.S. has the technical knowhow, the raw  
15 materials, the cheap capital in order to continue to  
16 expand manufacturing production in the U.S.  
17 Unfortunately, not so much with labor because  
18 employment in manufacturing is down 25 percent relative  
19 to 1950 and I think sinking further as we continue to  
20 automate.

21           There are other jobs that will come from  
22 manufacturing, but not necessarily into direct  
23 production. Could we do really well in this? I mean,  
24 if we're making so much, how much of it is for the  
25 U.S., how much goes abroad? A substantial amount goes

1     abroad. I broke it down here by region and some of you  
2     may want the slides if you want to look at the detail.

3             The key thing is that Asia accounts for 40  
4     percent of our capital goods exports. We make things  
5     like airplanes, nuclear power plants, components for  
6     nuclear power plants, construction equipment,  
7     agricultural equipment, things to treat water. Those  
8     kind of upstream industrial goods where we're very good  
9     at, unfortunately, a lot of those goods are over-  
10    dimensional and we don't have good freight movement  
11    infrastructure to move these things.

12            If you speak to some of the larger  
13    manufacturers who produce things in the Midwest, they  
14    prefer to use Canadian ports. Why? Because big stuff  
15    does not move well in the U.S., whereas Canada set  
16    itself up for that. In fact, Canada 20 years ago  
17    anticipated the Lume appreciating against the dollar  
18    and made a lot of investments in anticipation of that  
19    so it could remain competitive, and I don't think we've  
20    done so here.

21            So if these are the goods and that's where  
22    they go, what ports do they go through? And when you  
23    look at the port data, you see that the west coast  
24    ports, like LA-Long Beach, very dominated by Asia  
25    flows. It does a lot, but still it's dominated by

1 imports, and Houston is the champion. It's mostly an  
2 export-oriented port and I speak only -- the Port of  
3 Houston is here, but basically it is the champion. It  
4 is the only port that did not see a decline in volumes  
5 even at the 2009 crisis. Am I correct?

6 MR. KUNZ: That's correct. Actually, we went  
7 up by .5 percent.

8 DR. KEMMSIES: That's correct. As a matter of  
9 fact, if you look at the container data I have, Houston  
10 is one of the ports in my list and it actually  
11 expanded. Everybody else went down and Houston went  
12 up.

13 So the point is there is a lot that is good in  
14 the U.S. that does work and what's missing -- and I  
15 really enjoyed the CBP talk earlier -- the one thing  
16 that I find missing in the way we look at  
17 infrastructure and transportation is we don't have a  
18 flow path database. We have a database of origins and  
19 destinations, we have a database of who did what but we  
20 don't have a database of how things flow.

21 Paul Bingham -- Paul isn't here today, is he?  
22 Anyway, Paul is running a task force to look at  
23 statistics to do these things. He asked me to join it  
24 and that's the only thing I complain about. Everything  
25 else is absolutely fantastic work, but we need that

1 database.

2           So looking at agriculture, the key thing here  
3 is water and the farmers don't like it if I say what  
4 agriculture is, but the reality is agriculture is water  
5 exports where we've wrapped the water with a little  
6 vitamin and protein, that's what we say.

7           In the Americas, the west side of the Americas  
8 has a bit of an excess demand for water. The east side  
9 has excess supply of water. When you look at the Middle  
10 East and most of Asia, you find excess demand for  
11 water, according to the United Nations data. I don't  
12 agree with it. I work for a marine engineering firm,  
13 so we have guys who know a lot about water.

14           One very simple example, the Ogallala aquifer,  
15 which we started to tap into to get rid of the dust  
16 bowl and today is about 100 or 150 feet below the level  
17 it was at in 1930, we're going to have to tell those  
18 farmers to knock it off.

19           Fortunately, we have places like Michigan and  
20 North Dakota and Minnesota and other places with plenty  
21 of water and they can fill the gap. I would expect to  
22 see a lot being produced in the Midwest going through  
23 the PNW to Asia and when I do look at the volumes, we  
24 find that that is the case.

25           Actually, I'm getting ahead of myself, but I'm

1 trying to be careful. We started a little late, but  
2 I'll try to get us back on schedule.

3 So the difference in productivity from the  
4 Americas, which is these four countries here, versus  
5 China, Indonesia and India, which are 40 percent of the  
6 world's population, says these guys should be making  
7 food and sending over to these guys, and, in fact, that  
8 is what you see in the trade data is Brazil is trading  
9 into Canada, U.S., Argentina.

10 When you look at their trade data, it shows  
11 that Asia is the main destination for these  
12 agricultural products and the ports that are dominated  
13 by exports to Asia are the ones on the west coast.

14 Now, we all know that New Orleans is the  
15 traditional exit point for agricultural production  
16 because we produce stuff along the Mississippi waterway  
17 and we drain it down to New Orleans and send it out,  
18 and, therefore, it's not surprising that New Orleans is  
19 still the biggest port for agricultural exports. But  
20 it is losing its position and we'll come back to that.

21 So we can trace all of this. It all makes  
22 sense to us. But the problem we have is that we  
23 haven't been investing in export-oriented  
24 infrastructure and my exact example is what is  
25 happening to the waterways, inland waterways.

1           Is Mike Steenhoek here?

2           MR. LONG: He couldn't make it.

3           DR. KEMMSIES: He couldn't make it. All  
4 right. So I know Mike real well. I know the guys in  
5 Texas Transportation Institute. I went to school  
6 there, so I kind of know some of those guys. I know  
7 some other people from the Soybean Council.

8           Basically, they have all sponsored research  
9 into the inland waterways system and what they noticed  
10 is that starting in 2000, the number of hours of  
11 outage, unscheduled outage of the locks and dams  
12 started to increase. And when you look at the age of  
13 the infrastructure, a substantial portion of it, over  
14 half of it is over 70 years old, and the engineers in  
15 the room will tell you that once you hit 75 years on  
16 infrastructure, you've got to shut it down and build it  
17 again because you've kind of done what you could with  
18 it.

19           So there we are with the inland waterways  
20 system. Now, it is important to invest in things that  
21 help trade flow, but this is the heartland of the U.S.  
22 and what's happening to us now is that as the inland  
23 waterways systems become more difficult to navigate,  
24 we've seen that New Orleans, which had 61 percent share  
25 of U.S. oilseed and grain exports, has dropped down to

1 52 percent; at one point, was as low as 48 percent.  
2 And Columbia Snake, which is where Longview, Washington  
3 is located, has gained the most share.

4 So what we're seeing is all this investment by  
5 the railroads who saved the day for the farmers,  
6 because increasingly we're sending stuff along the  
7 railways. This is where you're seeing the biggest  
8 increases in soy production and corn and this is where  
9 you're losing it.

10 So you're losing it along the inland waterways  
11 system and you're gaining it along the steel way  
12 system. That's what the railroads are doing. It's very  
13 popular. It was very popular last year to yell at the  
14 railroads. I recommend we don't do that because they  
15 have really put a lot of money to work and essentially  
16 they are -- so the railroads are here. Good thing I  
17 didn't say anything bad about them. But basically,  
18 that is what saved the day.

19 Now, the way I see it is the highways haven't  
20 been invested in enough and the waterways are not  
21 invested in enough. So everybody is trying to find  
22 someplace to get to where they want to go and everybody  
23 is trying to jump onto the railroads, and I think the  
24 railroad guys just couldn't possibly have invested in  
25 advance of that. Nobody expected it. But then again,

1 I shouldn't speak for the railroads since they are  
2 represented here and I will knock it off there.

3           The bottom line is this is infrastructure we  
4 need for exports that's not getting invested. We could  
5 go on with other examples, but basically we would try  
6 to containerize the exports that can't go off bulk.  
7 That's not that easy to do. And when you look at the  
8 USDA data on container availability, they've done an  
9 incredible job of collecting the data and guys like me  
10 who have no data on equipment location and flow, which  
11 is critical to analyzing freight movement, I mean,  
12 figuring out how many miles from here to there and how  
13 many dollars it costs per mile to go from here to  
14 there, that's fine. But if you don't have the  
15 equipment, it's a ridiculously useless calculation.  
16 You have to have the equipment where it's needed so you  
17 can get things to where it has to be.

18           So the railroads are pretty good about helping  
19 you out on that.

20           The containers, the liners have been giving  
21 the data to the USDA. In areas where we have the  
22 biggest agricultural surplus, we also have the highest  
23 frequency of container unavailability. So we looked at  
24 the data from the USDA and calculated what percentage  
25 of the time did you not have 20s or 40s or high cubes

1 or dry ones or reefers or iso-gas, everything we could,  
2 and this is a chronic problem. It was a chronic  
3 problem the last 12 months, a chronic problem in the  
4 last 4 years.

5 Now, I think this is exacerbated by congestion  
6 and I'll explain the story by looking at what's going  
7 on with Alphaliner. They gave us the data. So how do  
8 we get there? So we broke down the container stuff  
9 using Alphaliner's data. We find that in 2006, there  
10 were no ships larger than 10,000 TVUs. Then the Maersk  
11 came along and then the next thing you know, we're in  
12 2015 and the chart on the upper right says that 20  
13 percent of the global container capacity is in vessels  
14 bigger than 10,000 TVUs, which is too big to go through  
15 the Panama Canal as it stands today, but will be okay  
16 after 2016.

17 Now, what's remarkable about this is we've  
18 gone through one of the worst global economic periods  
19 since the Great Depression. Indeed, liners were  
20 struggling financially and yet they were able to build  
21 up so much capacity on big vessels. So they've been  
22 investing in deploying in these things. The order book  
23 is now picking back up. The Asian guys weren't really  
24 behind this. It was mostly European guys. Now the  
25 Asian guys are getting into it.

1           What's going to happen is we're going to move  
2 more freight on fewer vessels. That's the conclusion.

3           This is the trend we are on. It's not a statistical  
4 inference. It's a mathematical calculation. And big  
5 ships do not want to make a lot of port calls. Big  
6 ships are designed for basically pendulum services, one  
7 or two ports here, one or two ports there and then go  
8 back over here.

9           If I were to put an 18,000 TVU vessel on the  
10 west coast, which I wouldn't today, I would basically  
11 stop it someplace like Ningbo, Yokohama and then over  
12 to Long Beach, completely unload, reload and then send  
13 the ship back. If I'm running 85 percent average  
14 capacity utilization during the year, that's a 1.5  
15 million containers.

16           Considering that the U.S. has done about 39  
17 million containers loaded in total in 2014, then you  
18 can calculate from that how many terminals we need. We  
19 have a lot more terminals than we need. We need  
20 terminals that are going to be bigger and the ports  
21 have to figure out how to reallocate the real estate.  
22 They also have to dredge a bit to accommodate the  
23 larger volumes. But this process didn't start last  
24 year.

25           The first post-Panamax vessel was actually

1 introduced in the 1970s and as the fleet became more  
2 and more characterized by very big vessels that barely  
3 made it through the Canal or couldn't make it through  
4 the Canal, we have seen container volumes in the U.S.  
5 become concentrated at fewer and fewer ports. They  
6 want to make fewer calls and that's the bottom line.

7           So what we're getting is more stuff on fewer  
8 boats at fewer ports trying to go on the same size  
9 roads. And in Rotterdam, they have the most fantastic,  
10 brand new, high capacity terminal. In California, this  
11 picture I think was taken well before July 1 when the  
12 contract expired; Shanghai, well, you know Shanghai  
13 always looked like that before containers even, so  
14 maybe it's not a fair picture. But Brazil, this is at  
15 the Porto de Paranagua, which is an important soy  
16 export port, it's just to the south of Santos, and if  
17 you look at this road sign very carefully you will see  
18 that it says 78 kilometers from here to the Porto de  
19 Paranagua. So they are no longer the world's best in  
20 soccer, but they are the world's best in truck lines.  
21 You can't beat these guys.

22           So this is not a U.S. problem. This is a  
23 global problem and the way we think about it has to be  
24 thought of globally and not just U.S.

25           What is Brazil doing about it? Well, for full

1 disclosure, my high school friends, I went to school --  
2 I was the poor kid on this side of the railroad tracks.  
3 The other guys from the other side, they had a lot of  
4 money and they've joined others who would invest in  
5 putting large terminals here. This is the Cerrado of  
6 Brazil which has three growing seasons a year. The  
7 produce a lot more soy a lot cheaper than we do. They  
8 have overtaken us in soy exports, and that's running  
9 through the horrible Paranagua Highway.

10 As these terminals open and the Panama Canal  
11 expansion is complete, they will be able to barge  
12 transshipment over the Panama Canal and they will be  
13 able to deliver soy at a total cost that will be in the  
14 \$500-and-some per ton range compared to \$650 out of the  
15 middle of the Midwest in the U.S.

16 I was an at Ag meeting with a big agricultural  
17 producer, some of the smartest people I've ever met in  
18 the ag world were sitting there and what they told  
19 people who paid them a lot of money is the U.S. has  
20 lost the industrial soy export market. We still have  
21 the consumer soy from North Dakota and those places,  
22 but we have lost this market. And it's just going to  
23 get worse and that's the consequence of our non-  
24 infrastructure investment policy.

25 So just to kind of summarize the whole thing,

1 because I'm running a little bit over, this is not a  
2 U.S. problem. It's a global problem. If you want  
3 growth, we have to invest in the infrastructure. We  
4 have to be not only in key things like ports and  
5 railroads, but also an information technology, which  
6 the last report really made me very happy to hear, but  
7 also the things like standards.

8 Right now, ocean liners are buying ships that  
9 are dual engine or dual fuel. They would like to use  
10 LNG and reduce their carbon and sulfur and other  
11 footprints. The problem is if you try to build  
12 terminals where you can actually fuel the vessels with  
13 liquid natural gas, there are no safety standards or  
14 design standards in place and those things still have  
15 to be done by the public sector. Don't yell at the  
16 public sector, they didn't do it because nobody was  
17 using this fuel.

18 So we have a lot of chicken-and-egg problems  
19 and I think what we really need, what this third bullet  
20 really says is that we need to bring back the Office of  
21 Intermodalism. We've all got to kind of get together  
22 and figure out where the chickens and the eggs are and  
23 start cracking them in the right place.

24 Thanks for your time. I'm sorry I ran a  
25 minute over there. Thank you.

1 [Applause]

2 MR. COOPER: You did say this was going to be  
3 made available. That is great information.

4 DR. KEMMSIES: Thank you very much. And you  
5 can always just see me and I'll be happy to send you  
6 the whole packet.

7 MR. COOPER: You said you needed a flow path  
8 data fix. What is that and what are the impediments it  
9 is creating?

10 DR. KEMMSIES: The flow path database is a  
11 really critical thing because when we -- we can sit  
12 there, we've got wonderful models that calculate the  
13 cost of moving something from any point in the world to  
14 any other point in the world and most of the firms that  
15 I work with, my colleagues, guys like Joe Bryan, all  
16 have the same kind of models and frameworks.

17 The problem is although I can calculate which  
18 part of the U.S., New York is the best place to import  
19 goods from Shanghai, I don't know whether or not that  
20 cheap flow path is actually being used. I can't verify  
21 it.

22 So I have to go out and talk to lots of people  
23 to see if, in fact, that is how they're moving the  
24 goods. And the reason that is so important is because  
25 you find that if you want to improve the flow, there

1 are things that you don't capture in the data that make  
2 a big difference.

3 For example, we were using cellular data on  
4 truck movements to figure out whether or not the trucks  
5 were following the lowest cost path that we calculated  
6 and it turned out that 90 percent weren't. So we went  
7 out and asked the truckers why not and they said  
8 because if we take the slightly longer route, it's a  
9 little faster because we don't get stuck at the weigh  
10 station.

11 So what that state did is they took the weigh  
12 station off that road, moved it someplace else, and the  
13 trucks started to go the way we thought.

14 But right now, every little improvement we  
15 want to make requires thousands and thousands of man  
16 hours and people making phone calls and finding folks  
17 who are willing enough to help you out to answer that.

18 So we don't really have data on if you've got  
19 point A and point B. Did go there straight line or did  
20 it zigzag and if it did, why is it? Was it scale  
21 economies or was it because you should be using a tour  
22 model as opposed to a trip model to calculate the  
23 movement of freight? We can't really distinguish that.

24 So all of us guys who do what I do have to  
25 talk together and share data to see if we can crack it.

1           MR. COOPER: Isn't that something that the  
2 Department of Commerce could do? You aggregate all  
3 sorts of data.

4           DR. KEMMSIES: We do use their data. Then we  
5 kind of back it out. But I still have to call lots of  
6 people and reality check it and, quite frankly, the  
7 truck guys are very helpful, the railroads are very  
8 helpful, but it still is an awful lot of time spent on  
9 something that I should really have a junior guy open  
10 up an access database and just pull the numbers and say  
11 you're out of your mind or, no, you're absolutely spot  
12 on. So that creates huge lags in us being able to  
13 calibrate the models and come up with good  
14 recommendations.

15           MR. LONG: This may be an area where we're  
16 looking at a lot of new data from inside Commerce. We  
17 might be able to build something out.

18           DR. KEMMSIES: What CBP is doing should be a  
19 good step in the right direction.

20           MS. BLAKEY: I have kind of a two-part  
21 question here, because I'd like for you to elaborate a  
22 little bit on where you see things going on the  
23 maritime side, because as I understand it, Maersk just  
24 has no appetite for bigger ships. So they've got on  
25 order a 25,000 TVU. Where is it going to stop? How

1 big is the ocean?

2 So I very much appreciate what you're saying  
3 about bigger ships, fewer calls, which raises serious  
4 policy questions for the United States in terms or will  
5 we become too dependent on too few locations for  
6 movement of goods.

7 So the second part of my question is USDOT is  
8 in the process right now of doing their national  
9 freight strategic plan for -- we've got a 5-year  
10 horizon and then it gets reupped for another 5 years.  
11 So it's kind of long-term, but not really. But how are  
12 they supposed to account for this shifting dynamic that  
13 you are looking at for all these trucks and rails,  
14 whether they're doing that for the strategic plan?

15 DR. KEMMSIES: Those are terrific questions.  
16 In fact, I work with a bunch of guys who are much  
17 smarter than me and we have lots of good debate. So  
18 let me just share a little bit of what we've found.

19 In considering that there's a lot of one-  
20 upmanship that goes on between these guys and because  
21 they really like puzzles and everybody wants to show  
22 their answer is better, I don't think we have enough  
23 gateways in the U.S. I think we need to develop more  
24 gateways simply because there are issues like whether  
25 situations -- other political situations that you just

1 can't anticipate and clearly better communication to  
2 the shippers, as well as between ports.

3           So you don't find that your box ended up on  
4 the wrong coast or the wrong port and not because of  
5 anybody's fault other than an unanticipated event. But  
6 to get to that answer, we do have to change the  
7 mentality in the U.S.

8           When I say we need the Office of  
9 Intermodalism, the reason I say that is because I think  
10 the guys who have been the most successful -- guys or  
11 gals, sorry for my kind of chauvinist language -- but  
12 basically you have to be gateway-centric in your  
13 thinking, not port-centric or road-centric or ramp-  
14 centric. And when I speak with people, you say that,  
15 you get a lot of heads that nod and they go, yeah,  
16 yeah, you're right, it is a gateway. This is a whole  
17 flow path.

18           But then turn around and the next thing you  
19 know, everything that's being done is back to being  
20 port-centric or road-centric and it just doesn't stay  
21 in there. You need a guy like me out there every so  
22 often in some places repeating the gospel over and over  
23 again, you have to be gateway-oriented, and we don't  
24 hear enough of that. I mean, I just don't see enough  
25 of that happening.

1           I think the consequence of that is we don't  
2 develop enough infrastructure in the country. And  
3 that's just the first part.

4           In terms of what do we do in the long term, as  
5 an economist, the thing I hate doing the most on that,  
6 I get this right, on average, more than I get it wrong,  
7 but what I really hate is forecasting prices. So the  
8 dollar exchange is critical. It affects where we  
9 import from, whether or not we import, as well as the  
10 exports. Nobody can really forecast that correctly in  
11 the long term.

12           The other thing is commodity prices.  
13 Commodity prices have a tendency to build up to a  
14 certain level where it creates excess investment and  
15 the prices crash and we go through one innovation cycle  
16 after another. And the only way I think you can  
17 approach this rationally is to do scenario-based  
18 planning.

19           Even if you talk to an econometrician, he'll  
20 tell you there is no such thing as a point estimate.  
21 Everybody wants to know what is the growth rate of U.S.  
22 containers going to be next year -- 7.3 percent. A  
23 bunch of baloney. No model can reasonably give you  
24 that. It will give you a range with a probability that  
25 it will be in that range, but it's not going to give

1 you a point estimate, and yet that's how we act.

2           So just changing the way we produce the  
3 outlook to be scenario-based or oriented and being  
4 respectful of what forecasting technology can and can't  
5 do would help an awful lot, but unfortunately, it  
6 creates a communication problem. Your average person  
7 wants a specific number and if you notice carefully, in  
8 the speeches I've given in the last 10 years, I've  
9 never given a number if I could avoid it because it's  
10 going to be wrong. The odds are against you.

11           So if we could educate people to think more in  
12 terms of ranges and scenarios, I think that would help  
13 an awful lot.

14           MR. SMITH: I was struck by your stats on the  
15 different export markets depending on ports and  
16 gateways, obviously, Asian market for west coast, Latin  
17 America. As we're thinking about national  
18 infrastructure policies and investments, should we also  
19 be looking at regional blocks, southwestern region  
20 focusing on Latin America trade from the south or the  
21 western region focusing on Asian trade rather than a  
22 national strategy or both strategies?

23           DR. KEMMSIES: I think the answer is both, but  
24 instead of regional, I would think of economic basis  
25 strategy because certain parts of the country are

1 really good at producing something to the point where  
2 they sell it to the whole world, but on the other side  
3 of the country we don't have a lot of expertise in  
4 production, but it turns out to be cheaper to import it  
5 from, say, Mexico to California than to send it by rail  
6 from south Florida to California.

7           So rather than break the country into  
8 political regions, which doesn't really work for me, if  
9 I break it into areas of comparative advantage and then  
10 look at how those areas of comparative advantage can  
11 sell into the global market, that would really help.

12           We model the U.S. economy not as one economy,  
13 but as seven. You just have to because if you're  
14 looking at agriculture, you go up the Mississippi  
15 waterway. If you're looking at oil, we've got  
16 different parts of the country that produce a lot of  
17 oil, other parts that have to import it. So we  
18 basically chop them into regions by commodity and we  
19 forecast that way because the U.S. is just too damned  
20 big for you to model as a single entity. It just  
21 doesn't work commodity flow-wise.

22           MR. LONG: Last question.

23           MS. WIEDER: Hi, Walter, from the other end of  
24 the long table. Leslie brought up the point about the  
25 very large container vessels that are coming online and

1 we've seen a lot of bulk products that have shifted  
2 into containers rather than traditional bulk vessels.

3 Is that shift to containers driven by the fact  
4 that there are so many containers or is there something  
5 in the commodity and the origin and destination that is  
6 pushing that direction?

7 I go back to your point about the bulk  
8 facilities and then, again, this conundrum of  
9 containers. You were also pointing out the shortage in  
10 the Midwest of containers. What are your thoughts?

11 DR. KEMMSIES: That's true. I think this is  
12 one of the reasons we're seeing automation all over the  
13 place. If you look at trains, they want to get longer  
14 because we have the technology to be able to run a  
15 longer train safely at a higher speed through the  
16 country. A four-mile uni-train for containers is not  
17 conceivable.

18 When you look at barge fleets, we're running  
19 very, very long barge fleets through our waterways  
20 system wherever we can. The same thing applies to the  
21 container vessels. Trying to put more and more  
22 shipments into a single trip produces great scaled  
23 economies and it keeps the cost of trade way down. It  
24 reduces the footprint, the environmental footprint that  
25 these things have in terms of emissions and other

1 byproducts.

2           So no matter how you cut it, it is a very  
3 efficient thing provided that you have the technology  
4 that allows you to do it. So as we continue to  
5 automate and improve our information and communication  
6 technology, it's just natural that we would go there.

7           It also helps reduce the fuel cost component,  
8 but as a percentage of total cost, I believe that it is  
9 lower today than it was 20 or 30 years ago, adjusted  
10 for fluctuations in energy prices. But then, again,  
11 I'm not the guy who operates these things. The guys in  
12 the railroads can tell you that better than the liners,  
13 too. But from what I have seen in the data, that does  
14 seem to be the case. Does that answer your question,  
15 Anne?

16           MS. WIEDER: Well, are we crowding out the  
17 bulk vessels because we have so many containers that  
18 they can handle bulk?

19           DR. KEMMSIES: We have been a few places. Not  
20 generally, but it has happened in a few places. I  
21 worked in a port project last year where they basically  
22 ran out of parking spaces in the port and they had to  
23 find new places to anchor the vessels because they just  
24 simply couldn't do it. But other ports, I have not  
25 seen this problem and perhaps the Port of Houston might

1 -- I don't see you have an issue there, right?

2 MR. KUNZ: It's not an issue for us.

3 DR. KEMMSIES: Bulk is pretty uniform.

4 MR. GRENZEBACK: I guess the other comment is  
5 bulk is not all uniform. So you're getting exports of  
6 soy out of Minnesota and North Dakota. Some of it is  
7 genetically modified, some of it isn't, and one of the  
8 reasons for containerizing it is to keep it separate  
9 and targeted. We're getting designer bulk products and  
10 shipping by container becomes a way of guaranteeing  
11 that supply chain.

12 MR. WISE: I think the identity preserve  
13 piece, as Lance describes, is a requirement, but the  
14 bigger volume is just opportunistic and good economics  
15 because the empties were there. In total, it's still a  
16 drop in the bucket versus the bulk model.

17 DR. KEMMSIES: Exactly.

18 MR. WISE: However, the bulk export capacity,  
19 as you point out, has not been growing, and this kind  
20 of gets into our next topic. There is a big red stop  
21 sign on building new facilities to handle bulk traffic,  
22 whereas the containers -- while there are some  
23 congestion issues, there are some ports that say bring  
24 it on. Seattle would love more volume, for example,  
25 right now.

1 DR. KEMMSIES: But Longview seems to be  
2 absorbing it.

3 MR. LONG: It looks to me that that's a  
4 perfect transition. I invite you to join, we have a  
5 working reception after this. We can talk then or  
6 after the meeting and, of course, you're welcome to any  
7 and all of them.

8 We're a little bit behind, but we have plenty  
9 of opportunity to pick it up at the last part. So I'll  
10 give the floor to Dean to talk about an ad hoc proposal  
11 he and some of our other members have put together on  
12 this whole question of infrastructure and permitting  
13 and what is associated with that.

14 Take the time you need. We can make it up at  
15 the end.

16

17

18

19

20

21

22

23

24

25

1                   **REGULATORY GROUP: PERMIT SPEED/REFORM**

2                   **PROPOSALS FOR INFRASTRUCTURE PROJECTS**

3                   **Dean Wise, Vice President, BNSF**

4  
5                   MR. WISE: I think we can be quick because  
6 this is really -- let me try to frame it up to the  
7 group.

8                   Our little team here, we were out there to  
9 serve our Regulatory Subcommittee. It's just that four  
10 of us had a burning interest in this and we thought  
11 there were some things we could pull together quickly  
12 for you and we're just going to put this on the table  
13 as an issue.

14                   We actually think this is as big an issue for  
15 supply chain competitiveness as something like funding  
16 or single window and so forth and we wanted to kind of  
17 put some ideas out.

18                   Walter was a good lead into this because the  
19 dynamics of the global supply chain are changing where  
20 we need to build the capacity. There's a lot of  
21 capacity out there, but it's in the wrong places, as  
22 you see the shifts, all the kinds of shifts, import,  
23 export, bulk, non-bulk, Brazil-U.S..

24                   Just speaking for myself, your point about the  
25 grain, where it was getting a lot of grain last year,

1 we couldn't build it fast enough and it used to be we  
2 couldn't build it fast enough because we didn't have  
3 the money. Now, we have the money and we've got a guy  
4 named Uncle Warren (phonetic) who is pretty good with  
5 that -- our capital budget this year is \$6 million and  
6 25 percent is just for expansion. So it's like \$1.5  
7 million to just expand our network, whether that's new  
8 siting, new terminals, siting extensions, et cetera.

9 But we can't build it fast enough. The  
10 obstacle is permitting and what we call social  
11 licenses. It's community opposition to growth and it's  
12 in ports, it's in railroads. Paul sees it in the  
13 warehouse industry. So we're two private sector folks  
14 who are saying this permitting thing is a problem.

15 Jeff Cooper sees it in the oil and gas area,  
16 obviously, drilling issues, and Leslie, of course, sees  
17 the whole landscape because she's got a big brain.

18 So the four of us said, hey, let's put  
19 something on the table and see where it lands with the  
20 group and if we want to do something with it. So I  
21 really just want to get a few observations and then we  
22 have a very broad set of ideas for how we might take  
23 this to the Secretary if we want to do something with  
24 it.

25 So I hope you can read in the back. What do

1 we mean by this? So permit speed is really the process  
2 speed, how long it takes to get a permit, how complex  
3 it is, how much it costs you to do it, and really a big  
4 one is what is the uncertainty of that timing.

5 So reforming it is really reforming the front  
6 end of doing construction projects. It used to be it  
7 took forever to build something. Now it takes longer  
8 to get a permit. So how do we do that and still  
9 recognize that, as a society, we want things to be  
10 safe, we want it to be environmentally sound. How do  
11 we find the right balance so that we can get things  
12 built, but not be like the way China is today?

13 Obviously, we have responsibility for the  
14 environment and safety. So the reason that's a problem  
15 -- if you go to the next page -- I stole some of this  
16 from the Chamber of Commerce material, which is very  
17 hard-hitting, as you can imagine, on this topic. But  
18 the Hoover Dam was built in 5 years from start to  
19 finish, the Empire State Building 3 years, the Pentagon  
20 1.5 years, biggest building in the U.S., New Jersey  
21 Turnpike 4 years. Can you believe that?

22 Now, we have not just fossil fuel opposition,  
23 but the cape land, that optional land in Massachusetts,  
24 permitting took 10 years. Port of Savannah dredging 13  
25 years; drilling permits for oil and gas, 300 days on

1 Federal land, 30 days on state land.

2 I could give you a whole bunch of stories from  
3 the railroad perspective, where we actually have  
4 Federal preemption to build new stuff in our right-of-  
5 way. It's basically brown field. But we get hammered  
6 on permitting and delays.

7 It's just rife across everything. It's not  
8 just big projects, it's little projects. It's not just  
9 public, it's private sector. So the result is we're  
10 really falling behind.

11 If you can see all these stats, the condition  
12 in the U.S. gets a D-plus from the engineers for the  
13 infrastructure condition. Highway congestion, billions  
14 annually. The latest report from, what was it, 2045  
15 DOT America Report said \$163 billion in public sector  
16 transportation investment needed by 2020 for basic  
17 highways, public transit center.

18 So that's great, but nowhere in that report,  
19 by the way, was -- I think there is one mention of  
20 permitting as an issue, a 100-page report that just  
21 came out last month, not much about permitting.

22 All ships arising, so to speak, with the  
23 population is going to grow 70 million, the  
24 transportation sector will be \$1.6 trillion. The  
25 demand is just growing and the opposition and the

1 constraints are up against it.

2 In the meantime, we see China build a new port  
3 in Shanghai faster than we can even get a port  
4 permitted in the U.S.

5 I think one of the things that is not that  
6 well recognized is because of that uncertainty about  
7 the timing, private sector money isn't there. So this  
8 is not about getting low interest loans, getting RIF  
9 loans, all that. This is about I can't make a good  
10 investment, I can't actually a good ROI if I can't be  
11 certain I can get something shovel ready in 3 years or  
12 5 years.

13 BNSF has a project and if I showed it to you,  
14 you'd say this is great, it will take trucks off the  
15 highway, improve emissions, we're still 10 years later  
16 -- all we have to show for it is 20 lawsuits. This is  
17 the air dock facility in Los Angeles, which right now  
18 we truck a billion loads a year between the ports of  
19 LA/Long Beach and downtown LA 22 miles. This would  
20 basically build a facility in your dock and take all  
21 that off the highway. We've done all the mitigation  
22 you can imagine and still 10 years later we don't have  
23 much to show for it.

24 Ten years ago, if somebody told us that, I  
25 don't think we could do it. That's true across

1 everybody in the supply chain. So that's kind of  
2 framing up the problem of all of us together. Maybe  
3 it's a good exercise, by the way, for this group  
4 because we have so much experience to kind of put some  
5 more examples on the table.

6 If you go to the next one, the solutions, if  
7 you read all the literature, our team spent a lot of  
8 time reading through a lot of stuff and it really boils  
9 down to about eight things that all seem to make  
10 perfect sense about how you reform this.

11 Using some shorthand here, have a lead agency.  
12 So kind of like a single window, right? Have somebody  
13 like DOT say, okay, I'm a project sponsor, I'm going to  
14 spearhead all the five or six or seven organizations,  
15 not so many as in the trade documentation, but it's a  
16 big bunch. So there is one-stop coordination,  
17 collaboration across agencies, get everybody together  
18 and look at timelines and be accountable for getting  
19 things done.

20 Standardization across agencies. I can tell  
21 you a little story. FAA has a -- if you put a tower  
22 with a radio on it and you disturb the land, the FAA  
23 says you must put that tower up to a Native American --  
24 post it to a Native American site so they can comment  
25 on it. They say what do you mean comment on it. Every

1 Native American tribe in the U.S. can comment on any  
2 single disturbance of the ground.

3 The FAA says we don't know where the tribes  
4 were. First of all, that's not logical, right?  
5 Because 500 tribes can say my tribe -- your court can  
6 say I think we're buffalo hunting in Texas. I' making  
7 a little joke about it, but the reason I bring it up is  
8 it's not consistent with every other agency's view of  
9 how you have tribal notification. They have some  
10 geographic limits. They have some regional limits.

11 So we have to deal with those kinds of  
12 differences between agencies. It drives you nuts.  
13 Federal-state coordination. There are sometimes when  
14 you have a very competent state review this pretty good  
15 and maybe we could avoid having to redo the whole thing  
16 for the Federal.

17 Tools and education, GIS tools are fantastic  
18 these days. There are some technical assistance ideas  
19 to help local and state agencies to do this better.  
20 Early screening, very important, let's get everybody  
21 together and say, hey, we know there's a project, there  
22 are probably some issues, what are the big issues,  
23 let's get that on the table. We could actually start  
24 some mitigation. The private sector is willing to take  
25 a risk and do some mitigation in advance if they have

1 some certainty that they're going to get the  
2 permitting. They want to get things done now.

3 Shot clock, this is a big one where you would  
4 actually say -- and Canada has some good examples there  
5 where we say everybody can weigh in, but after 3 years,  
6 we're done, or 5 years, shot clock, like in hockey or  
7 in basketball.

8 Current reviews. Well, instead of agency one  
9 do their review and then agency two and so forth, do it  
10 concurrently so we can obviously save time there.

11 Tracking transparency, the big buzzword here  
12 would be a dashboard. I'll show you what the  
13 government has done there.

14 Then the last one, which is probably the most  
15 controversial from the environmental standpoint, is a  
16 finite challenge period. So the statute of limitations  
17 now can be 6 years. We get proposals out to make it  
18 180 days or less. So one could challenge, because the  
19 worst thing that happens, if you're going through the  
20 process, you're at the 11th hour, a month away from  
21 getting the permit and somebody says, wait a minute,  
22 restart the process or 6 months later, lawsuits.

23 So these are all just basic stuff. There's  
24 eight of them and if you read all the literature, you  
25 see it's scattered throughout over the administrative

1 recommendations, some of the legislation that's out  
2 there, and I think what is important is let's just kind  
3 of codify this and see how we can get some momentum  
4 going to make this stuff happen.

5           The Administration -- the next slide --  
6 actually is moving in the right direction. President  
7 Obama actually announced that he wants to slash  
8 bureaucracy, streamline the permitting process for key  
9 projects. They actually have set up a dashboard.  
10 There's a whole series of executive orders over several  
11 years. Set up a dashboard to track major projects, I  
12 will show you a list. You can look online and see it.

13           The stated goal is to cut permitting time in  
14 half, a very laudable goal, and create an  
15 implementation plan to take what was best practice on  
16 these big projects and say how do we take best practice  
17 to common practice. I love that term, best practice to  
18 common practice, kind of codify and institutionalize  
19 it.

20           Then they have created this BATIC, Build  
21 America Transportation Investment Center, which is at  
22 DOT. I didn't even know about this until I read it  
23 about in the last month or so.

24           Did anybody know about it or heard about it?  
25 I don't know what's there, who is in it. There is a

1 Department of Commerce detailee to it. We're trying to  
2 find out who they are and see what they say about it.  
3 But in other words, the Administration is saying the  
4 right things and putting a lot of things forward, but  
5 the timeline you can see is a couple years here.

6 I would say, in my opinion, is moving in the  
7 right direction, but slowly. So in 3 years, if you  
8 kept watch of that dashboard, you would have seen 61  
9 projects. About 30 of them are complete. Some of them  
10 are really great. The Tappan Zee Bridge, they took a  
11 year and a half, I think, out of the timeframe. You  
12 save money when you take time out.

13 There are now only 29 projects on the  
14 dashboard. One is a waterways project, 11 are surface  
15 transportation projects. In this whole scheme of  
16 things, when you've got to spend \$121 billion, I can  
17 tell you it's not easy to spend \$1 billion a year on  
18 these kinds of things. We had better have more than 29  
19 projects and we better institutionalize it so thousands  
20 of projects could see some expedited focus.

21 The implementation plan, if you read it, you  
22 kind of don't feel too good afterwards. It's kind of  
23 very bureaucratic. It's quite vague. It's studies,  
24 more studies and reviews, focus groups. So it didn't  
25 really come across to me at least as being a real hard-

1 hitting action plan.

2 I won't name names, but some pretty senior  
3 observers have said, hey, this momentum that Obama  
4 created, they still believe Obama is showing interest  
5 in doing it, it's just not happening. Nothing against  
6 the folks involved, but the people are overburdened.  
7 It kind of loses that push that you have when it's an  
8 expediting focus. You're just kind of whacking a mole  
9 and after a while you get tired. So, again, need for a  
10 broad approach.

11 I don't know what that status is. It seems  
12 like no one here does. What is BATIC all about? We're  
13 trying to find out what is Department of Commerce's  
14 participation.

15 All leading to there is a lot of  
16 administrative actions and a lot of legislative action  
17 that could happen.

18 The next couple pages are just summaries. I  
19 won't go through all these details, but if you have a  
20 chance to read this, just the blue highlights and  
21 you'll say, wait a minute, that list of the seven  
22 things to do, they're all in these legislative  
23 proposals. The big one is the Grow America Act and  
24 Leslie knows probably more about that probably than  
25 anybody, Chris I'm sure does too, the proposal

1 basically for reauthorization. It's got a lot of good  
2 stuff in there around reform.

3 The RAPID Act, this is probably the most  
4 comprehensive, but also the most controversial. It hit  
5 all the buttons. So it talked about coordinating  
6 current reviews, allowing state level environment  
7 reviews, process stuff early, comment early, keep track  
8 of regional process for scoping alternatives,  
9 reasonable deadlines, statute of limitations, 6 years  
10 to 180 days. That's when the NREGC said, "Whoa," and  
11 all the environmental opposition came up and the  
12 Administration actually said, no, Obama is not going to  
13 sign this. This is probably the most comprehensive  
14 bill out there.

15 The next one, some other legislation. There  
16 is one, Federal permitting improvement. You see the  
17 same kind of things. The TRADE Act, which is a great  
18 acronym, I like it. Track Railroad and Infrastructure  
19 Network Act, basically focusing on the railroad, where  
20 we actually have, as I said, Federal preemption to do  
21 this, it would actually make us on the same basis as  
22 Federal Highway. So right now we don't have any kind  
23 of safe status for categorical exclusions. FHWA can  
24 have CADX for highway within their right-of-way. We  
25 don't. So we're just trying to make that consistent.

1           The next one, next page, a bunch of other  
2 legislation. The Water Resource Development Act  
3 actually was passed, Boxer, so this is across political  
4 lines. Boxer has been a big supporter of permit reform  
5 improvement.

6           Natural gas pipeline improvement and reform.  
7 That would basically make the FERC stick to a 12-month  
8 deadline to approve or deny permits.

9           So it crosses all modes, it crosses all  
10 parties, it crosses all interests, but not happening.

11           Next page. These are some things we thought  
12 and just want to throw out to the group just  
13 directionally. I think we all like to hear David from  
14 the DOT and the DOC about, hey, what is DOC doing with  
15 this thing, who is on these groups, what is their sense  
16 of progress, what does the dashboard look like, what  
17 does the implementation plan look like.

18           Then a bunch of things we thought, it might be  
19 good, if we were comfortable with it, bringing it up  
20 perhaps by the next meeting. Let's make this, if we do  
21 think it's as important as some of the other issues on  
22 competitiveness, let's make it front and center,  
23 something that we, as a collaboration of private and  
24 public sector folks, think would be a good for DOC to  
25 energize and become the voice of commerce mobility

1 under permit reform, because it is affecting our supply  
2 chain future here.

3 Who is on the detailees to these various  
4 groups? Do we have the right people there? It may be  
5 a month before we all have a bunch of projects that we  
6 could say to Secretary Pritzker, why don't you -- you  
7 can nominate projects to that dashboard, why don't you  
8 take some from our group and propose them up to the  
9 dashboard.

10 As you know, I probably have a few. This is  
11 not just self-serving. I think with all those  
12 legislative solutions, despite the fact that there's  
13 going to be opposition to them, who is going to be  
14 behind some of these things moving forward.

15 Other team members, please weigh in, all.

16 MR. COOPER: I distributed these out earlier.  
17 Not everybody got them. A few people came in  
18 afterwards, but I've got a stack left over here. Over  
19 the past 2 years, we put together a partnership that  
20 included academics, the labor industry from a variety  
21 of sectors, including the Chamber, and we started  
22 discussing, okay, there is this thing going on called  
23 shale development and what does that mean to  
24 manufacturing or what could it mean.

25 You would be amazed at the topics that kept

1 coming up. We held a series of discussions at  
2 different academic settings around the country and  
3 every single time permitting came up. Every single  
4 time workforce came up. Every single time  
5 infrastructure build-out came up.

6 So all this stuff, I mean, everybody is  
7 thinking about it, not just this group. So I wanted  
8 everybody to take a look at this just so you can see  
9 what others have been saying about these same topics.

10 But when it comes to the potential that we  
11 could realize as a country, if we don't do this right,  
12 we're not going to get there. We might as well hand it  
13 over right now, because we are sitting on that kind of  
14 resource. As you said earlier, this has to do with  
15 every manufacturing supply chain, whether it's  
16 plastics-related, processing, chemistries.

17 Chemicals affect about, I think, 95 percent of  
18 different manufacturing supply chains, and this is the  
19 nuts and bolts of it. It's coming out of the ground in  
20 North Dakota, Texas, Pennsylvania, Ohio. We just have  
21 to get it to the right places where we can use it.

22

23 MS. BLAKEY: Dean, I just want to reiterate  
24 one thing that you said in the early slides there,  
25 which is that one of our stated objectives in talking

1 about infrastructure in the United States from the  
2 Federal level is that we need to leverage Federal  
3 expenditures better.

4 We have recognized that the Federal Government  
5 can't pay for everything. Obviously, state and locals  
6 can't pay for everything. We can't use public dollars  
7 to pay for everything. We have to be able to bring  
8 more private investment into our infrastructure build-  
9 out.

10 In order to do that, it has been consistently  
11 pointed out by the investment community, pension funds,  
12 others that have a lot of us that can be a foot into  
13 public-private partnerships and other kinds of  
14 development, that one of the biggest, if not the  
15 biggest stumbling block to engaging more private  
16 capital is the risk associated with exactly this  
17 problem and the sense of uncertainty that impedes  
18 private dollars flowing into public infrastructure  
19 projects.

20 So I think that this cannot be more critical  
21 and it is this whole concept of trying to get more  
22 private money leveraged into the system is exactly the  
23 principle behind this idea of the Build America  
24 Transportation Investment Center, and yet, I agree, I  
25 don't think that this is something that they have

1 really zeroed in on and it's a great opportunity for  
2 leadership by DOC.

3 MR. FISHER: I can from personal experience,  
4 you've got Uncle Warren, we've got Uncle CalPERS, who  
5 has more money than just about anybody in the world and  
6 we did some major infrastructure projects, one for the  
7 BNSF in Elwood, Illinois and we've managed to get  
8 through the permitting process through some very  
9 innovative moves we made where we essentially took the  
10 risk with some assurance, which was facilitated by  
11 Senator Durbin, that the various agencies would follow,  
12 adhere to some of the these suggestions that we talked  
13 to. But that has not been institutionalized.

14 So more recently, our company has essentially  
15 said we can't park capital in a major project for years  
16 and years and years and carry that capital.

17 We've had 20, 30 million bucks tied up for  
18 years, but if you don't know you're going to get to the  
19 end of the process, you say why are we going to do it.

20 So we have taken our focus to shorter-term,  
21 more certain projects. So while I've spoken a lot  
22 around the country in our industry about the necessity  
23 of public-private partnerships, there's a lot of  
24 capital and I think we can solve it, but if we don't  
25 get the permitting issue right, it's just never going

1 to happen.

2 So I think it's not a sufficient condition,  
3 but a necessary condition if we really want to move  
4 infrastructure forward with private money.

5 MR. LONG: Let me just add a couple of things  
6 here. I started looking to see who was engaged in the  
7 programs, which, frankly, I had not heard of inside the  
8 department. It seems a number of the key people on  
9 some of these in the Secretary's office recently left  
10 the government. So I don't think it's going to be any  
11 particular problem to get real attention for this,  
12 especially because it ties in nicely with what we're  
13 talking about, what North America should look like,  
14 what suggested solutions look like. So I'm happy to  
15 take that on.

16 Speaking for myself, I have long thought that  
17 the uncertainty in the permitting process was a big  
18 obstacle to financial planning. We will do our part to  
19 get the names and the places. I can do that.

20 DR. KEMMSIES: I have a comment. Actually, I  
21 really appreciate your comments because projects I've  
22 worked on where we had a 13-year time lag to the  
23 permit, from the time you apply to the time you are  
24 actually turnkey.

25 I mean, somebody like me who had a silly job

1 of forecasting the stock market has to predict what is  
2 going to go through an area where there is no port  
3 today what is going to go through that port in 13 years  
4 and how it will grow for the following 20 years so you  
5 can pay for all that investment is just amazing to me.

6 When I was told this is what I had to do, I  
7 thought I would go back to Wall Street because I didn't  
8 feel so embarrassed there. But basically, that is a  
9 problem.

10 Just to answer -- I forgot the name of the  
11 lady who asked the question earlier, but 13 years means  
12 you have to tell me what is going to go through this  
13 area in 13 years, so you have to know what the world is  
14 going to be like, and then how much is it going to grow  
15 so you can pay for this.

16 It's not a possible task and when I talked to  
17 a Chinese firm that does this in China, one of the  
18 analysts there, he thought I was kidding. He goes how  
19 can you possibly know all that.

20 MR. KUNZ: Their question is what is a permit.

21 [Laughter]

22 MR. KUNZ: It's very true. I've heard that  
23 personally.

24 MS. WIEDER: A couple of things. One, we're  
25 talking at the Federal level, but I think we have to

1 recognize that permitting issues exist at the state and  
2 local level. Talk to anyone involved in industrial  
3 development, the time involved -- and I'll also throw  
4 in here that this affects Federal money, the costs  
5 involved, not just the delay factor, but the actual  
6 costs of doing everything, like hiring Walter to look  
7 out 13 years is a huge impediment.

8           So one is considering what we have here, but  
9 also recognizing there are state and local issues and  
10 also not forgetting the industrial buildings, because  
11 all the permits evolve. Some areas have been able to  
12 do quite well and CenterPoint can attest to this. They  
13 could get industrial development pretty quickly because  
14 they have one-stop shopping to get all the permits for  
15 the building. They expedite it and they keep the costs  
16 relatively low to the size of the project.

17           Other areas have essentially blocked it by the  
18 permitting involved and the number of layers that have  
19 to take place. So I just add that.

20           MS. BLAKEY: Could I just massage one thing  
21 that you're saying there, because one of the possible  
22 recommendation solutions that we've only begun to  
23 really germinate in our discussion is that -- you are  
24 right about the multijurisdictional layers that come  
25 into play and frequently it is the state and locals,

1 and particularly the local, the need for local  
2 engagement and the social justice and all of that, that  
3 really starts to throw everything into very long-term  
4 scenarios and frequently into the courts, which is the  
5 absolute worst place to make these decisions.

6 So one possible way to think about this is  
7 that when we are handing out Federal money, if we are  
8 doing it on a competitive basis where you bring your  
9 best deal to the table from the state and local level,  
10 meaning you have an incentive to work out some of your  
11 local issues, including acceptance and agreement and  
12 engagement in advance of presenting for Federal  
13 dollars, then it really gives an incentive. You're not  
14 going to get the money unless you do this. It gives  
15 those state and locals an incentive to coordinate their  
16 permitting and coordinate their local opposition or at  
17 least we get those negotiations done early.

18 MR. FISHER: I would just say that in our  
19 experience, I have always felt the Federal Government  
20 could do a lot more to leverage its position to drive  
21 state behavior, but they don't feel empowered to do  
22 that.

23 But if Federal programs are designed to  
24 require compliance within a timeframe that is  
25 consistent with the Federal program, I think we could

1 get these things going a lot faster, because I think  
2 the state and local problems are often a decisive  
3 factor in whether you want to move forward with it. It  
4 could be as simple as a curb cut and they can't get it  
5 done.

6 MR. WISE: I think, also, the stakeholder  
7 share or the governors and the mayor are very  
8 supportive of this. They are impatient about these  
9 delays. So the political leadership at the state and  
10 local level could be very helpful on this.

11 MR. BOYSON: I just had a quick question. I  
12 attended a conference with the Office of Intermodalism  
13 in DOT a few years back and they had presented a GIS  
14 system and it showed all the major flows and the  
15 corridors in the country. It was very sophisticated at  
16 the time.

17 They had begun a process called strategic  
18 corridor projects and that designation was ended to  
19 facilitate permitting and investment flows and  
20 leveraged investment from Feds and private sector and  
21 state.

22 Does anybody know what happened to that?

23 MS. BLAKEY: The Office of Intermodalism is  
24 dead. There had been various corridor designations  
25 over the years, but I believe that that is not actually

1 -- there may be a reference to strategic corridors in  
2 the national strategic plan, but I don't think there is  
3 an active effort to use that in the way that you are  
4 describing. I've not heard that. Maybe some of you  
5 guys that do that.

6 MR. VILLA: I just want to add that not only  
7 the maritime ports, but also we are working for the  
8 North American Development Bank, trying to develop a  
9 system also to keep track of the projects because a  
10 land port of entry can take from 10 to 15 years to be  
11 built. Obviously, there are two countries involved,  
12 but most important, I think that the delays are on the  
13 U.S. side in this particular case because of all the  
14 different agencies that are interacting.

15 The process is led by the State Department.  
16 So, again, that is something probably that we need to  
17 take into account in this Department of Commerce  
18 involvement in trying to expedite the process of  
19 building new ports, not only maritime ports, but land  
20 ports of entry.

21 MR. BLASGEN: I'd just like to make a couple  
22 points, because I was up late at two or three different  
23 events, either speaking or moderating or just  
24 participating, and every time the issue of ports came  
25 up -- and, Walter, I liked the way you framed it -- you

1 just see the visible change on people's faces and these  
2 are the people that actually are responsible for  
3 putting freight into our country from other parts of  
4 the world, people that make the decisions, the  
5 transportation people, heads of supply chain who are  
6 dealing with this.

7           So the way you framed it, although I will say  
8 that you said this isn't a U.S. problem, it's a global  
9 problem, that's probably right. Most people in the  
10 world of supply chain management companies who manage  
11 this would probably say it's a self-inflicted wound in  
12 many cases of our own country and let's go fix that.

13           So just a couple of comments, since I love the  
14 way Dean set this up, that I'd like to make is it  
15 happened, Sandy, with your group, with single window,  
16 we talked about intermodalism, now we're talking about  
17 permitting, and it came up three different times about  
18 a single funnel through which to voice the balancing  
19 tradeoffs of what we're trying to accomplish here.

20           I want to remind us that we are the Advisory  
21 Committee on Supply Chain Competitiveness for the  
22 greater country.

23           So if you go back and you think of the  
24 evolution of our discipline, supply chain management,  
25 it started with physical distribution management, then

1 we coined the term logistics and said it would be good  
2 for transportation inventory management and warehousing  
3 people to talk to each other for the horizontal flow of  
4 inventory information.

5 Then we added in procurement and sales and the  
6 horizontal real link from the acquisition of raw  
7 materials and packages and applies all the way through  
8 delivery to the consumer in its various forms. And we  
9 coined the term supply chain management and said we  
10 ought to plan that whole thing together. Right?

11 That's what we're doing in modern business  
12 today. So if you take that and overlay it on  
13 government, it's completely the opposite, it seems.

14 So we as a group that's talking about supply  
15 chain competitiveness should be responsible and have an  
16 obligation to toss up bold, elegant solutions to this  
17 problem, knowing that some of this may not get done  
18 tomorrow, but it's not us that moved and that's one of  
19 the reasons why the committee is assembled and we are  
20 connected to the Department of Transportation and  
21 National Freight Movement Committee.

22 So let's be vocal and voice these things,  
23 because they're right, we know they're right. We live  
24 it every day. And when I march around the country and  
25 -- I was in Mumbai not long ago visiting their port,

1 brand new port, the roads that take the trucks to get  
2 there, it takes 5 to 7 days.

3           You asked the question, well, why didn't you  
4 build this great port that's very productive and very  
5 efficient, well, we had the Ministry of ports, we had  
6 the Ministry of Roads, Ministry of Air, Water and  
7 Seaways, and nobody talks to one another. It's  
8 unbelievable.

9           So there are a lot of examples that you teed  
10 up that are understandable, Dean. And, Walter, I loved  
11 the way you framed it up. So we can sort of take this  
12 and say there should be a single voice talking -- we  
13 talk about it in business all the time, right? Single  
14 voice to the customer, somebody who is responsible for  
15 collapsing all the conflicting points of the supply  
16 chain and have somebody responsible for it, we'd make a  
17 lot of headway.

18           DR. KEMMSIES: What you just said, the poor  
19 analyst point of view. But the single biggest failing  
20 of economists is that all of these models and analysis  
21 are done in a dimensionless world. All of these  
22 calculations, GDP, et cetera, that we use to drive  
23 these decisions, if I double the infrastructure in the  
24 United States and I ask a forecaster like me or any  
25 other macro guy, it's not going to change his forecast.

1 He'll say, well, that's investment spending and that  
2 adds to the GDP.

3 But in terms of what it means to the  
4 flexibility that a firm has to address markets, it's  
5 not captured. And we really have not made any progress  
6 as economists in terms of these things since Simon  
7 Kuznets invented GDP in 1929 and we don't have the  
8 models for this.

9 So the work that you're doing here should be  
10 driving the economists to go back and rethink about how  
11 they model the world, because we don't have the tools.  
12 We have kind of become top-down and stop about 20,000  
13 feet short where you sit in this room and we have to  
14 guess about the rest.

15 That's why I was hoping Paul Bingham would be  
16 here to comment on it because the work he is leading I  
17 think is the most important piece to get to what you're  
18 saying.

19 MR. LONG: This is a good topic and it also  
20 helps with some problems where, in the past, we've  
21 talked about sequencing the recommendations coming out  
22 of the group. This might provide some opportunities to  
23 manage that.

24 MR. WISE: I would just say one thing, too. I  
25 think the encouraging thing from our team was while we

1 all feel this pain, it sounds like all of us here feel  
2 the pain, the solutions are known and the  
3 Administration is singing the tunes. All of the  
4 proposed legislation have the elements that we need.  
5 So it's a question of, as usual, political will. And I  
6 think a new, fresh push about this is actually  
7 important could really be helpful.

8 MR. WATTLES: I want to just throw my support  
9 in. First of all, I think you did a great job  
10 presenting it. But I'm all in favor, I like the  
11 recommendations.

12 Let's hear from somebody who would come in and  
13 give a status on where some of this stuff is. But  
14 absolutely, let's get this put together in a set of  
15 recommendations and fly it.

16 And now for my little tiny -- before this gets  
17 saved, the final version, on the server, you need to  
18 fix Secretary Pritzker's name spelling.

19 MR. COOPER: Just one last thing. Not  
20 everything that we're talking about requires  
21 legislative action and those are the ones that really  
22 are ripe, the ones that we can recommend to the  
23 Secretary or we can recommend that the Secretary  
24 coordinate with -- those are the things that are  
25 actionable right now.

1           The longer-term goals obviously may be  
2 legislative in nature, but we've got good short-term  
3 stuff here I think.

4           MR. BRYAN: I'd like to add a different  
5 dimension to this argument around the permitting, also,  
6 which is I think there is a morale issue that goes into  
7 it and that is, I think, relevant to the question of  
8 competitiveness.

9           Companies invest substantially in morale.  
10 They care about how their employees feel and what their  
11 attitude is. The same thing happens in regions. I've  
12 been working in a region that hasn't been able to get  
13 things done for decades. They are dying to change it.  
14 They feel the burden and they think it reflects on  
15 them, and, in fact, it does.

16           When you can't accomplish anything, you feel  
17 more of it and you start to act in a defeatist way, oh,  
18 we can't really do anything, and then the results you  
19 get all follow from that.

20           If you think you can't accomplish it, you  
21 won't and you don't even try anymore. So you have got  
22 to take problems like this, cut through the knot, make  
23 it possible to change, and the morale changes with it  
24 and it matters to how countries act.

25           When we look at China and see how rapidly they

1 can do things, and this used to be a can-do country, it  
2 matters to us. Everybody here feels it. We need to  
3 change it.

4 MR. LONG: The timing is good on this, too.  
5 The way the calendar shakes out, the next meeting is  
6 actually in June. It's a little bit out of sequence, a  
7 little sooner. So there is some incentive to do things  
8 quickly.

9 Let's turn to the last set of issues. We  
10 basically worked through the agenda for today. We have  
11 a complicated agenda tomorrow that includes the chief  
12 economist from DOT.

13 But the key thing that we need to do in the  
14 last 15 minutes or so here is very, very briefly hear  
15 from the different subcommittees sort of a one or two  
16 sentence preview of what is going to be in their study  
17 reports tomorrow and if there is something that you, as  
18 the subcommittee chairs, think is controversial or  
19 needs some attention or some warning to the group that  
20 it may be more than standard issue work, this would be  
21 a good time to flag it so people know.

22 I think it would be good to take a quick spin  
23 around the room on that.

24 Tiffany, say a few words about what you're  
25 planning for the recommendations and what you will be

1 talking about tomorrow?

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1                    DISCUSSION/PREVIEW DAY 2 AGENDA AND WORK PLAN

2                    David Long, Director

3                    Office of Supply Chain, Professional Business Services

4                    U.S. Department of Commerce

5

6                    MS. MELVIN: Sure. As you guys might recall,  
7 last meeting we kind of had gone through in a little  
8 bit more detail the different recommendations that have  
9 been outlined, but the recommendations were couched in  
10 a background paper and we had a letter and we needed to  
11 kind of find -- because it was very confusing the way  
12 it was sort of produced and you had to dig a lot to  
13 find out what was going on.

14                    So we've cleaned it all up. We've got a  
15 letter of recommendations to Pritzker. We have the  
16 recommendations in a second document and then we have a  
17 background paper for review or any type of information  
18 she or her staff may need.

19                    So the recommendations are pretty  
20 straightforward. I think they were sent out to  
21 everyone a couple of weeks ago.

22                    MR. LONG: I got no comments.

23                    MS. MELVIN: Great. So this should take about  
24 45 seconds tomorrow. However, the only thing different  
25 is that I think we are going to meet, however many of

1 us are here, right after the meeting because based on  
2 the presentation today, I think we should probably  
3 factor some of their comments into our one main -- one  
4 of our recommendations was to have an independent kind  
5 of senior level person come in to manage all the  
6 different agencies.

7 That is not going to change, but I think they  
8 have given us some pretty good language to use as to  
9 what they are open to as far as how that should look.

10 So I think that the committee might want to  
11 take 5 minutes just to wordsmith, to maybe make it  
12 actually more of a realistic suggestion that actually  
13 might be followed as opposed to something that might  
14 step on a bunch of toes.

15 But we'll discuss that quickly in the  
16 committee meeting after and if any changes need to be  
17 made, we can make them and it will be pretty quick  
18 tomorrow. It should be very basic.

19 MR. LONG: Rick is in China and will be  
20 calling in tomorrow. Can you say a couple of words  
21 about what the plan is for the Freight Movement Group  
22 tomorrow?

23 MR. BRYAN: We'll be doing a -- well, we're  
24 reviewing some of this stuff in our committee meeting  
25 this afternoon, but what we'll be discussing really is

1 about port congestion, the multiple components of it,  
2 and how it might be tackled.

3 A lot of what we had done in this committee to  
4 date is relevant to it, some of the topics you've heard  
5 today are relevant to it, and some of the things that  
6 we had done in this subcommittee prior to now that  
7 related to the points of breakdown on the supply chain  
8 and, if you like, the pain points, this is one of the  
9 major ones.

10 It's complex and appropriately complex and has  
11 lots of things that this committee is relevant to.

12 MR. LONG: That's super. We'll hear some  
13 things from Sue Helper tomorrow and some of the tools  
14 available to do some of the cost analysis in that, and  
15 also our friends from DOT will have some information on  
16 what is happening to supplement that.

17 Sean, a quick update?

18 MR. WATTLES: We're coming in with our third  
19 review of our proposed letter. The few pages that we  
20 got last time, we decided -- we've got, I think, five  
21 suggestion areas to go back and look at then making  
22 either some includes or some word tweaks. So we've  
23 updated those and we'll be sharing that and hopefully  
24 get that approved through tomorrow.

25 MR. LONG: Thank you. Anne?

1 MS. WIEDER: Well, we had two very good  
2 presentations by people and I would recommend the  
3 Department of Labor person, Ben Schneider, address the  
4 entire committee.

5 Just some idea, DOL has put over \$300 million  
6 into training grants specifically for the supply chain  
7 over the last, say, 4 years. I'll have my notes  
8 together. So hearing about the programs and what  
9 they're doing is very important to everyone here.

10 They are focused on four areas, as mentioned,  
11 training; connecting people with those job locations,  
12 we heard about some of that today; image is very  
13 important, not just image of the whole area, but in  
14 hearing from one of the presenters today just how  
15 important it is within their own companies to  
16 understand the importance of getting these workers or  
17 keeping these workers and making it easier for them.

18 The fourth area has been these levers and I'm  
19 going to add a fifth, which is probably a common theme,  
20 as Rick has said, herding the cats. There are a lot of  
21 different efforts underway on the private side, on the  
22 public side, and the academic community, training and  
23 so forth. So we're going to have to think about how to  
24 bring that all together.

25 So nothing controversial, but a lot of

1 progress.

2 MR. LONG: Thank you. Norm Schenk is unable  
3 to join us for this session because of something he had  
4 to take care of suddenly. I just go the word recently  
5 myself. Is there someone from the Regulatory Group?

6 MR. JAMIESON: Yes. We're going to have a  
7 couple of issues that we'll bring forth that we're  
8 going to basically drop from our currently handling.  
9 One of them is the ATC situation. We think that's  
10 probably relegated better to the Finance Group if we  
11 can pass that over.

12 But we're also going to bring forth a formal  
13 proposal for the truck regulatory stuff, for size and  
14 weights tomorrow. We've got a couple of revisions I'm  
15 going to write tonight and I'll have those off to John  
16 ready for tomorrow.

17 MR. LONG: That's great. Thank you. On the  
18 Finance Committee side, in the e-mail I sent around, I  
19 mentioned that Mike Steenhoek would be stepping down at  
20 some point as chair of that committee and we'll work  
21 out the suitable transition for that. But he is not  
22 here at the meeting for this one.

23 I think what we'd like to do with that, Leslie  
24 and a few others are engaged in this, I think what we'd  
25 like to do tomorrow with that is take a few minutes and

1 start roughing out what some of the issues and areas  
2 for something really creative around the things we've  
3 seen on congestion in North America could look like,  
4 because everything I have seen so far in the discussion  
5 suggests that the finance side and infrastructure side  
6 is going to be really important.

7 If there are those among you who would like to  
8 join that committee or subcommittee or a backup  
9 subcommittee chair for that, please let me know and  
10 we'll start working on those lines.

11 MR. BLASGEN: One thing I wanted to reiterate,  
12 David, is that we aren't getting a lot of comments on  
13 some of the recommendations that come from the  
14 subcommittees and that's fine, but recognize it does go  
15 to the entire committee as a whole, because when we  
16 send them up a letter, it's from the entire committee.

17 So if there is something that you want to  
18 comment on, feel free to do so, even though many times  
19 the subcommittee does such a good job and fleshed out  
20 all the issues for the meetings like this that there is  
21 not a lot to comment on.

22 So the assumption is everybody is looking at  
23 it and that silence is agreement and the entire  
24 committee, if not otherwise saying something about it,  
25 is behind all the recommendations that we send up. So

1 it will be great to see how we're gating those  
2 recommendations from tomorrow, what is going to be  
3 coming up in June.

4 Again, we can always have a deliberation and a  
5 vote on a particular recommendation before we meet  
6 again, as well.

7 MR. LONG: We can also take some more time  
8 tomorrow to talk about this permitting issue. I think  
9 that would be time well spent, too, if you all agree.

10 MR. BLASGEN: Right. And I know Rick  
11 Gabrielson will be phoning in. He's very passionate  
12 about this whole issue. I've talked to him a couple  
13 times on port congestion things. So a good time for  
14 that, as well, to have the conversation here.

15 MR. LONG: The meeting tomorrow is at 4830,  
16 which is our usual meeting room, fourth floor, right  
17 around the elevators.

18 Leslie, Paul, do you want to say anything  
19 about the reception?

20 MS. BLAKEY: For you all to come.

21 MR. JAMIESON: Is there a new way to get into  
22 the building instead of coming in the Secretary's  
23 entrance?

24 MR. LONG: That's actually a really good one  
25 for tomorrow, but you can use the side on the 14th

1 Street side. It's almost down to Constitution. It's  
2 on the other side of the building.

3 MS. BLAKEY: David, I want to give Paul some  
4 credit here. It was really Paul's idea to do this  
5 reception this evening and I think that one of the  
6 things about it is that we all do better work when we  
7 get to know each other better and when we have the  
8 opportunity to, oh, yeah, there -- not necessarily on  
9 that committee, but still I'd like to know how they are  
10 thinking about it.

11 So it's just a really good way for us to have  
12 a little bit more interpersonal interaction that helps  
13 kind of boost the energy level behind our work.

14 MR. LONG: Thank you. I think it's a  
15 wonderful thing to do and I think it testifies to the  
16 kind of group this is. Thank you very much.

17 MR. BLASGEN: Thanks, everybody. We'll see  
18 you back here at 9:00 a.m.

19 [Whereupon, at 3:06 p.m., the committee was  
20 recessed.]

21  
22  
23  
24  
25

C E R T I F I C A T E

This is to certify that the foregoing proceedings of a meeting of the President's Export Council, held on Wednesday, April 15, 2015, were transcribed as herein appears, and this is the original transcript thereof.

---

ANTHONY DENNIS,

Court Reporter

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25