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The battle
over freight
transportation
priorities
begins with
manufacturers
at center stage

Shippers and the Return on
**INFRASTRUCTURE
INVESTMENT**



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Editor's Letter



■ Paul Page, Editorial Director

Supply Chain DRIVERS

ONE OF THE favorite pastimes for most business leaders, after the profits are counted, is lamenting how deeply the government misunderstands the needs and the drivers of business.

That's why there was so much to admire about Washington's most recent attention to the supply chain, even if the admiration comes filtered through what we might charitably call diminished expectations.

In fact, last week's public session on U.S. infrastructure in Washington run by the departments of Transportation and Commerce not only gave hopeful signals about government understanding of the industrial supply chain, but also went beyond many of the debates within the transportation industry itself about policy priorities and funding needs.

That's because the summit went beyond the familiar rhetoric about infrastructure investment that comes from an often insular transportation community to get to the heart of supply chain needs by putting the real drivers of trade at the center of the event. Speakers from Cisco Systems, Caterpillar and Coca-Cola covered a broad spectrum of manufacturing and shipping. More importantly, their presence provided a vivid reminder that transportation and infrastructure investment based on the entrenched, mode-based interests doesn't really help if your goal is to establish a national, intermodal supply chain strategy.

Cisco didn't build its technology networking business on the idea that different nodes within networks should remain separate and make plans in blind silos, a point Cisco supply chain management chief Angel Mendez had no trouble linking to transportation strategies.

Supply chain infrastructure "has to be thought of as a system, not just roads, rails and ports," he said.

Equally important as the shipper presence was the close working relationship evident between Commerce and the DOT. While transportation operators traditionally go through the DOT in matters where the lines between regulation and broader policy goals often seem to blur, the Commerce Department has a clear eye on what drives, well, commerce.

Commerce Secretary Gary Locke said his view of supply chains was formed as governor of Washington, where the import and export trade supported 10 percent of the state's private-sector jobs.

"America's job prospects depend on the health of the infrastructure that supports our domestic and international supply chains," he said. "Of five major industry sectors that represent over 80 percent of the U.S. economy, four — manufacturing, retail, services, and agriculture and natural resources — are critically dependent on transportation. The fifth sector is the transportation and distribution sector itself."

That's an important lesson for transportation companies and groups looking to have an impact on coming infrastructure investment. The government is looking for evidence of the returns that investment will bring to Cisco, Caterpillar and other companies that depend on infrastructure.

Ports, railroads and truckers may serve supply chains, but the drivers are the shippers, Locke is saying, and that's where the administration wants to see the return on investment.

The government might just understand business after all.

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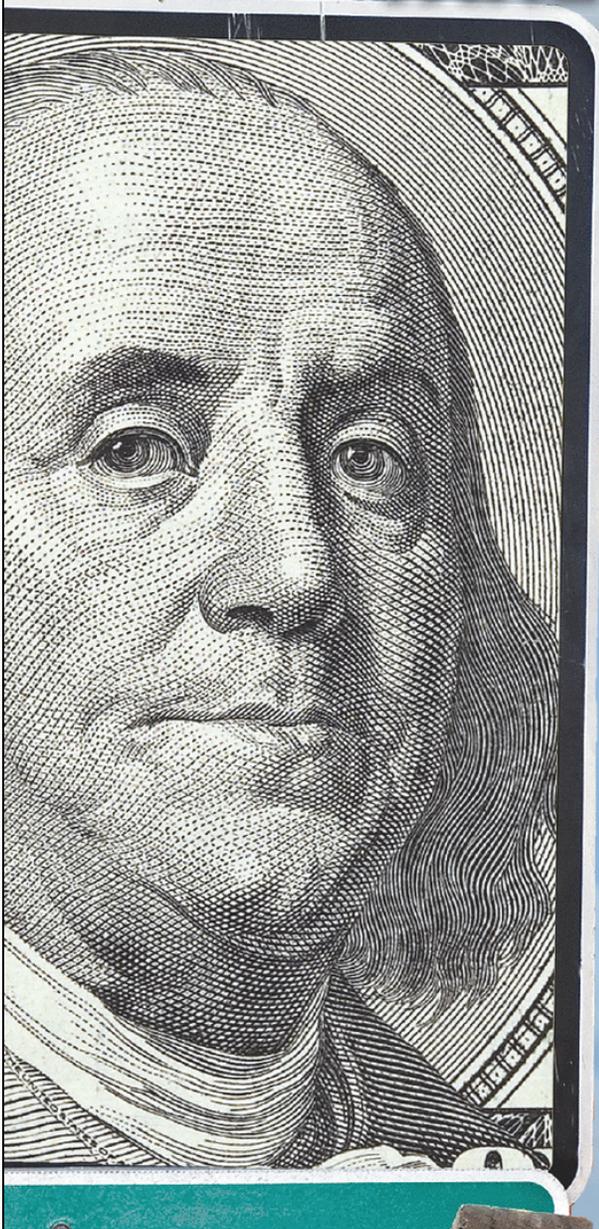
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SHIPPERS TAKE THE LEAD

By William B. Cassidy



The White House kicks off a bid for freight transportation funding with major manufacturers at center stage

THE BATTLE OVER transportation infrastructure funding is shaping up to be about more than how much to spend on highways, railroads and ports over the next five years.

It's about the strength of the transportation backbone that makes U.S. companies competitive worldwide, and the White House hopes to recruit America's largest importers and exporters to make that argument before deficit hawks on Capitol Hill as the Obama administration seeks hundreds of billions of dollars in additional funding this year for infrastructure.

To win those shippers, the government is talking about supply chains and promising to resume work on a national freight policy that lost momentum in recent years under the weight of mounting deficits.

Shippers, in return, say they want clear federal leadership. In particular, they want to avoid the type of protracted debate over highway spending that stranded the last transportation bill in a legislative ditch for more than two years and left the country's economic foundation strapped.

This time, they're willing to raise the stakes and push for a more expansive definition of infrastructure that encompasses more areas affecting their ability to compete.

Shippers from several of the country's largest manufacturers were front and center last week at what amounted to a kickoff of the administration's plans for infrastructure funding and what is becoming a large, high-stakes debate over the future of transportation in the U.S.

"How we define infrastructure and how we think about it has to change," Angel Mendez, senior vice president of global supply management at \$39.5 billion technology company Cisco, told the May 11 summit on infrastructure strategies staged by the departments of Transportation and Commerce. "It has to be thought of as a system, not just roads, rails and ports."

Freight carriers have been making the same case, but the meeting in Washington offered the first substantial move by the Obama administration beyond the high-speed rail initiative that has been the

"HOW WE DEFINE INFRASTRUCTURE AND HOW WE THINK ABOUT IT HAS TO CHANGE."

centerpiece of its transportation vision.

With many suggesting the federal stimulus plan that passed in March eased the pressure for greater investment, the meeting that put shippers alongside federal leaders and legislators signaled there is an appetite for bigger plans over the long term.

Mendez envisions a wired infrastructure that includes a broadband communications grid to transport information faster than high-speed trains might transport passengers or freight.

"Supply chains are becoming far more complex, far more global," he said. "We have to drive broadband penetration because it is critical to cooperation across the chain."

The message from the technology industry matched the plea from the more traditional construction world.

"We need to wake up to our internationally competitive situation in terms of infrastructure," said Douglas Oberhelman, group president of Caterpillar, the \$45

FUTURE INVESTMENT NEEDS

■ Five-year projections, in billions of dollars.

CATEGORY	NEEDED	ESTIMATED SPEND	ARRA	SHORTFALL
ROADS, BRIDGES	\$930	\$351.5	\$27.5	\$549.5
RAILWAY SUMMIT	\$63	\$42	\$9.3	\$11.7
AVIATION	\$87	\$45	\$1.3	\$40.7
INLAND WATERWAYS	\$50	\$25	\$4.475	\$20.5

Source: American Society of Civil Engineers

billion manufacturer of construction, manufacturing and mining equipment. "We are getting more behind by the day."

Oberhelman pointed to estimates by the American Society of Civil Engineers that it would take \$2.2 billion over the next five years just to bring U.S. infrastructure up to "good condition." Highways and bridges alone would require \$930 billion, the ASCE said.

"We move a lot of goods a lot of miles," Oberhelman said, noting 60 percent of Caterpillar's business is "non-U.S." Delays caused by stateside congestion threaten that business. Right now, "We've got to plan for rail delays around Chicago and for traffic delays around the ports of Los Angeles and Long Beach," Oberhelman said.

That's forced the company to shorten its supply chains, he said. "By stranding items in our supply chain between here and China, we encounter all kinds of problems, from storms at sea to congestion at ports and railheads," Oberhelman said.

"It's important that we partner with the public sector" to resolve infrastructure problems and ensure adequate funding for a 21st century transportation network, said Ron Lewis, vice president for the North American supply chain at Coca-Cola Enterprises.

"Congestion on our roadways leads to bottlenecks, and if they're left unchecked,

they become chronic," he said. For Coca-Cola, that means 7,000 trucks making 90,000 deliveries a day are at risk.

"As more people move into metro areas, we have to ask, how can we take more trucks off the road?" Lewis said.

The summit was the first joint effort for the DOT and the Commerce Department, which promise a more integrated approach to transportation planning at the federal level.

"Our nation has long enjoyed a world-class infrastructure," Secretary of Commerce Gary Locke said. Keeping that distinction will require not only new sources of financing, but a new outlook on the connection between transportation, logistics and international trade. "We need to view that relationship more broadly," he said.

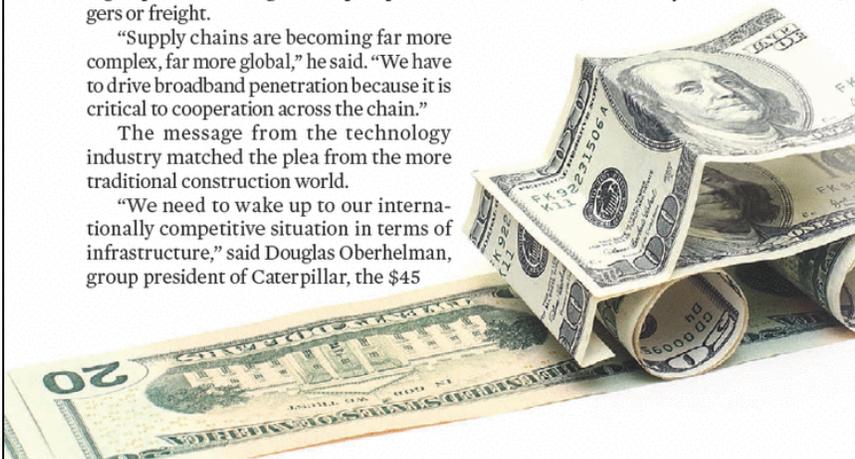
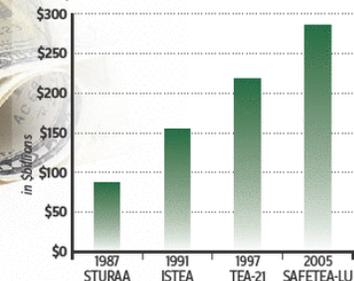
Locke called the joint conference the starting point for developing a new national action plan based on recommendations from companies that depend on supply chains that are "faster, safer, more efficient and environmentally friendly."

"Old solutions are not enough," he said. "Supply chains today are being changed dramatically by forces that go beyond traditional transportation remedies.

"At every level of a supply chain, one sees more advanced information technology applications, more sophisticated equipment, more integrated business processes," he said. "These developments require higher

FEDERAL INFRASTRUCTURE FUNDING

■ Funding levels set by recent surface transportation bills.



HOW MANY TAPPAN ZEES?

THE NATIONAL INFRASTRUCTURE BANK proposed by President Obama will likely have many twists and turns on its journey toward a new way to fund infrastructure projects.

The mission of the NIB, included in the budget proposal submitted to Congress on May 7, will be to deliver financial resources to projects of "significant national or regional economic benefit" and "help foster coordination through state, municipal and private co-investment in our nation's most challenging infrastructure needs."

But it's off to a slow start.

Last fall, Obama called for a bank funded with \$60 billion over 10 years. The budget proposal requests \$5 billion in fiscal 2010 and a total of \$25.2 billion from 2010 to 2019.

Everett Ehrlich, chairman of the infrastructure commission for the Center for Strategic and International Studies that originally recommended such a federally mandated bank in 2007, said the initial financing sources should come from the funds now dedicated to existing infrastructure programs, such as the Highway Trust Fund.

"There is nothing wrong with continuing to charge users a motor fuels tax, an air ticket surcharge, port fees and other fees that now are imposed for using infrastructure," Ehrlich wrote in the New York Review of Books last October.

But Rep. James Oberstar, D-Minn., chairman of the House Transportation and Infrastructure Committee, already has balked at anything that could take away from or compete with existing funding mechanisms.

And even if the bank can get funded, there remains the question of how it will help shore up what the American Society of Civil Engineers calls a \$2.2 trillion infrastructure funding gap.

"I would like to see it function more as a real bank, not just a way to allocate funds," said Dana Levenson, who's responsible for North American infrastructure at the Royal Bank of Scotland. "I would prefer to see entity that can be capitalized, with the ability to leverage a balance sheet that's far bigger than \$50 (billion) or \$60 billion. All that gets you is two Tappan Zee Bridges."

Pennsylvania Gov. Ed Rendell called for much greater funding for the bank.

"If you had a trillion dollars in the bank, imagine the interest over five years," he said, adding the NIB should become the lender of first resort for major infrastructure projects. "Use conventional funds to give states the basics, then have all the major projects apply directly to the infrastructure bank," he said at a May 11 infrastructure summit in Washington.

— John Gallagher

levels of education and training — plus some means to fund them."

For Locke and others, the goal is to break a mold that produced a string of highway spending bills stretching back to the Surface Transportation Assistance Act of 1982 and eventually replace that model with more comprehensive supply chain funding legislation.

It means reaching across federal agencies and congressional committees, Transportation Secretary Ray LaHood said. "For too long we've funded transportation infrastructure in a piecemeal fashion," he said. "We need policies that treat the supply chain holistically, that go beyond our current view of freight and passenger movement."

Based on statements by legislators, regulators and industry officials at the

conference and other events, those policies could include the most radical overhaul of the DOT since it opened its doors in 1967. "If ever there was an agency that was ripe for reinvention, it's DOT," Sen. Mark Warner, D-Va., said at the conference.

"We need to get beyond the stovepipe approach," he said, referring to the long-standing practice of funding infrastructure and regulating industries along modal lines.

Rep. James L. Oberstar, D-Minn., chairman of the House Transportation and Infrastructure Committee, has said he wants to see a much more intermodal approach to transportation policy at the DOT. Shippers say it's an approach that fits today's global supply networks.

"Re-establish the Office of Intermodalism within DOT," Rick Gabrielson, director of international transportation at \$62.9 billion retailer Target, said at the conference. "Make that the group that crafts the national transportation strategy. You've got a lot of stakeholders, you need someone to pull them together."

Visit www.joc.com for more coverage, including:
***Video:** Debra Van Opstal, senior vice president of the Council on Competitiveness, on getting shippers into the infrastructure debate.
***Video:** Jim Butts, senior vice president of C.H. Robinson Worldwide, on a logistics provider's view on national freight policy.

Funding is what Warner called "the giant elephant" in the room. It's unclear whether Congress will have the appetite for additional infrastructure funding after spending trillions of dollars on industry bailouts, the economic stimulus package and the federal budget — even before the administration crafts a health care proposal.

"I'm not sure we'll see the full highway bill put out this year," Warner said, "with all the other spending going on." A new bill must be passed by Sept. 30, or the 2005 law will have to be extended.

The answer, Pennsylvania Gov. Ed Rendell said, is "to take every potential means of funding and put it in play." That includes establishing a federal infrastructure bank and encouraging-private participation in roads, the Democratic governor said.

Rendell's effort to bring private investment to the Pennsylvania Turnpike fell apart a year ago under heavy criticism of the plan, one example of the political difficulties that arise with various funding mechanisms. LaHood in his first days at DOT stumbled on the political issue when he said in an interview that user fees for road use should be on the table, prompting the White House to publicly disown the statement.

"The restriction on states placing tolls on federal interstates has to end," Rendell said. "This is the time to change the whole concept and the way we do it. Let's look at the tax code and make changes to it to make investment in infrastructure more attractive."

The political will needed to make such changes may be weak on Capitol Hill, but there won't be a better time, the governor said.

"If we don't change the way we structure spending and the amount of spending with this highway bill," Rendell said, "we're going to miss an opportunity that we won't get again for a decade." **joc**

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TOP U.S. HIGHWAY PROJECTS

■ Leading surface transportation projects, ranked by value.

1. I-69 TRANS-TEXAS CORRIDOR	\$30 billion
2. I-81 REGIONAL 'STEEL WHEEL' INTERSTATE	\$8 billion
3. N.J. TURNPIKE IMPROVEMENTS	\$5.4 billion
4. WASHINGTON SR 99 VIADUCT, SEAWALL	\$4.3 billion

Source: CG/IA Infrastructure, "Top 100 U.S. Projects"