

Where Does California Fit in the National Maritime Puzzle?

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A March 2003 U.S. Chamber of Commerce study concluded that the U.S. transportation system will face a major freight mobility and capacity crisis within the next decade. International trade is expected to at least double during that time and, in some areas of the nation, triple by the year 2020.

The expansion of the current surface transportation system to meet this expected growth will be problematic. The Federal Highway Administration (FHWA) in January 2003 outlined the challenges facing U.S. freight mobility and concluded that building more highways is not the solution. At an average cost of \$32 million per mile, a 15-mile, four-lane section of interstate highway will cost over \$500 million, without including the cost of interchanges, bridges and the associated environmental impacts. Therefore, the projected doubling in freight demand will overwhelm any practical and realistic -- in terms of time and financial resources -- increase in highway or rail capacity. Simply put, we do not have the time or money to build ourselves out of this impending crisis.

To help address this impending crisis, the Department of Transportation (DOT) and the Maritime Administration (MARAD) are actively promoting short sea shipping as an environmentally-friendly, proven, timely and cost-effective way to expand freight capacity. Short sea shipping entails using existing vessels and infrastructure to move freight between coastal ports and between coastal ports and inland ports, as a means of reducing congestion on America's highway and rail system.

The short sea shipping concept envisions waterways as a complementary mode with trucks, rail and pipelines providing timely, physically and economically integrated, and competitive service to move the freight to final destinations. In the longer term, short sea shipping will require new, technologically advanced vessels and infrastructure to meet capacity demands, which will help revitalize the American maritime and shipbuilding industries. Finally, short sea shipping could provide important environmental benefits, especially in reducing emissions and energy use, compared to routing the same cargo by rail or road.

The European Union (EU) has aggressively used short sea shipping to mitigate its significant surface transportation problems for over 10 years now. Today, in excess of 44 percent of all freight movements in the EU are waterborne and EU policy-makers have put short sea and coastal shipping, in close coordination with rail and highway freight improvements, at the top of their transportation agendas.

In America, public and private sector leaders believe that short sea shipping is a promising concept and agree it has clearly been successful in Europe. However, there is no agreement on its application in the U.S., due to the infrastructure, legal, and economic constraints facing our shipping supply chain. As a result, only 6 percent of all U.S. freight is moved by water. It is the intention of MARAD's short sea shipping initiative to more fully advance the potential of waterborne freight movements in the U.S. and overcome the systematic obstacles to new service development.

Although "international short sea shipping" has yet to be defined here in the United States, EU's short sea shipping, known as "the motorways of the sea," is already a vital part of the European Union's transportation system. Short sea shipping is clearly a growth industry in Europe and is the only European transportation mode that has kept pace with the growth of road transportation. It performs 41 percent of all ton-kilometers in Europe while the share of road transport is 43 percent. The European short sea shipping growth rate is above the EU industrial production rate and its ton-kilometer performance grew by up to 38 percent in the 1990s as compared to 40 percent growth in road transportation. In America the expanded use of international short sea shipping has the potential to relieve surface transportation along our coastal transportation corridors, in our heartland through the expanded use of our inland waterway system, and at the border crossings with our NAFTA trading partners,

The U.S. has yet to achieve a truly intermodal national transportation system. The system today represents an aggregate of public and private modes of freight and passenger delivery, each with its own stovepipe areas of interest and funding. While considerable work has been made in developing a national transportation system, much work remains to make this a true intermodal national network.

Further U.S. transportation planners readily acknowledge that our national highway and rail systems cannot build themselves out of an impending trade explosion. Water, especially the water along our coastlines, offers a natural and inexpensive solution to many of our impending congestion problems. The inherent trade advantages enjoyed by the United States could be negated, in the very near future, if we do not make a concerted effort to maintain, enhance, modernize, and expand the base our marine transportation system and the services at our nation's ports.

The importance of maritime commerce was dramatically illustrated by the 10-day shutdown of West Coast ports in September and October of 2002. It has been estimated that the combined 10-day disruption, and the resulting 23-day backlog, cost the Ports of Long Beach/Los Angeles in lost trade. Clearly, terminal, highway, or railway capacity constraints can have the same adverse economic effects as a port shutdown.

Transportation delays severally impact the cost of doing business, the environment, our nation's ability to compete internationally, and ultimately our

economic growth possibilities. The nation faces the real possibility of transportation gridlock if we do not act decisively to build a truly intermodal transportation system that handles the trade growth that looms just around our collective economic corner.

Since early 2000 I have had the honor of working with the Secretary of Transportation's Marine Transportation Advisory Council and working to develop the Marine Transportation System initiative to, for the first time, fully integrate our total national transportation system. The MTS initiative seeks to develop a transportation planning process for coordinating a national transportation network that fully integrates water into our intermodal network. Secretary of Transportation Norman Mineta has named this initiative SEA-21. Clearly he recognizes that we, as a nation, must give the same attention and resources to our MTS as we provide for our surface and air transportation systems.

The MTS offers a viable solution to our nation's existing and growing surface freight transportation congestion problem -- a solution that needs to be fully explored and nurtured. Years after the passage of ISTEA, the integration of the modes remains an unanswered challenge for our transportation planners and the marine transportation system remains an underutilized national resource. With the proper incentives Short Sea Shipping will play a major role in the maximization of our transportation resources.

At presents, MTS stakeholders have varying degrees of responsibility for the financial support of the existing system. Monies that are collected into the various funds are primarily earmarked for specific marine infrastructure development purposes. The inflexible "stovepipe" nature of the present funding process has created an "I've got mine" mentality among system stakeholders and marine transportation program managers. Therefore, the SEA-21 initiative addresses the marine system as an integral part of the overall national intermodal transportation system. Furthermore, the initiative seeks to eliminate the "stovepipe" nature of current funding mechanisms by formulating the metrics for the evaluation of future system-wide marine infrastructure investments.

As yet, the United States does not have a comprehensive plan for the development and financing of our national intermodal transportation infrastructure. It has been the intent of the MTS National Advisory Council to begin the process of ensuring that the national intermodal transportation system function properly as a system and ensure funds are directed toward that policy objective. As such, we have offered policy suggestions to the Secretary of Transportation so that we might begin the process of truly integrating water into our overall transportation system and build the intermodal transportation system the Secretary envisioned as a Member of Congress a decade ago. SEA-21 begins this vitally important process.

As we all know, building necessary intermodal freight and passenger capacity in congested metropolitan or transportation corridor areas is capital-intensive, time consuming, and sometimes controversial. The largest and most complex of these critical improvements can take decades to plan, design, publicly vet, and

construct. Compounding the enormous costs of port and intermodal investments is the fragmented funding approaches of each mode.

The General Accounting Office (GAO) *Marine Transportation Report, Federal Financing and a Framework for Infrastructure Investments*, found that "substantial new investments in the maritime infrastructure by federal, state, and local governments and by the private sector may be required because of an aging infrastructure, changes in the shipping industry, and increased concerns for security. Pressure on the federal government to bear a significant portion of these new costs is evident. "The GAO Study further found that, "there is a growing awareness of, and agreement about, the need to view various transportation modes from an integrated standpoint, particularly for the purposes of developing and implementing a federal investment strategy and alternative funding approach."

The disparity in modal funding sources, the huge capital costs, and the overlapping of modal operations create financial fault lines between the modes. A SEA-21 legislative package would correct this disparity by fully integrating water transport into the national intermodal transportation system and the transportation planning process. A SEA-21 legislative package will seek to create program priorities and a funding process that levels the modal financial funding field and begins to systematically fund MTS projects of national significance.

The MTS National Advisory Council has investigated the following SEA-21 related legislative initiatives that will directly stimulate short sea shipping services in the United States:

- A short sea shipping marketing study to include an examination of market feasibility, fuel efficiencies, successful existing short sea shipping services, a safety and security analysis, military applications, an inventory of underutilized port infrastructure, and infrastructure investment comparisons,
- Direct funding for terminal design, revitalization, and the new construction of short sea shipping facilities.
- Loan Guarantees for Short Sea Shipping Terminal Design, and Construction.
- The expansion of the Capital Construction Fund – a tax-deferred savings account that carriers can use for vessel construction - to facilitate short sea shipping services (contiguous domestic trade).
- Short Sea Shipping Pilot Projects and Programs
- Workforce Development
- The identification of Research, Technology, and Development for short sea shipping
- The expansion of TIFIA eligible projects to include a public or private port or rail facility and to lower the threshold for TIFIA from \$100 million to \$50 million.

- Expanded freight planning and freight development eligibility
- Integrate short sea shipping with surface transportation projects
- Harbor Maintenance Tax exemption for cargo containers transshipped by short sea shipping
- A national Outreach Program to Educate Short Sea Shipping Stakeholders

As SAFTEA legislation presently stands freight transportation funding comprises only a small portion of the \$247 billion bill. States will be able to spend 2 per cent of the Highway Trust Fund allotment on “last mile” projects funding connections between ports or rail hubs and the interstate highway system.

If we are to adequately meet the congestion problems of the future we must apply additional resources now. This nation requires many more Port and Intermodal Distribution Networks and these initiatives will require additional resources – government resources.

Clearly, the Highway Trust Fund will not provide the resources necessary to fund the overall needs of our nation’s MTS. Our nation’s marine transportation system must have its own dedicated funding source if we can have any hope of providing for the needs of the system and accommodate future freight and passenger growth.

The Ports of LA and Long Beach account for over 40% of all the cargo containers that come into the United States. These port facilities, and all the ports of the State of California play an huge role in the continued economic security of our great nation – a vital role that cannot be ignored by our transportation planners or our elected leaders in Washington.

The local California MTS Council has done a great job in articulating the issues that face this state’s intermodal transportation system. This message must now be turned into a legislative transportation agenda that will address your expanding transportation needs and meet the tremendous growth in trade that looms on our economic horizon.

I do not need to tell you that the California Delegation is the largest and arguably the most influential in Congress. It is time for the California delegation to use that power and plan for the state’s future transportation growth needs. A unified, non-partisan, MTS policy agenda is needed to bring maximum federal resources to bear on the impending transportation crises.

California is the ground zero of trade growth. If your system fails, our economy fails. It is, therefore, incumbent of all of you to make your needs known to our political and transportation planning leadership. The time for limited quick fixes of our marine infrastructure has ended. A comprehensive development program is needed to accommodate our future growth and security needs. And, California must lead the way.

