

U.S. DOMESTIC TRANSPORTATION INFRASTRUCTURE
RELATIONSHIPS IN INTERNATIONAL TRADE

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This paper provides a brief overview of some Department of Transportation programs that increase the efficiency of the United States in international trade and the competitiveness of our exporters of both goods and services. The Administration is committed to do whatever is necessary to maintain the free trade system. That means fighting unfair trade practices through negotiation and, when necessary, through retaliation. It also means fighting Congress when it attempts to enact protectionist legislation, such as it is proposing to do in the areas of textiles and telecommunications equipment.

Deregulating Transportation Domestically

The Administration and the Department are also very much aware of the need to adopt domestic policies that increase the efficiency of our transportation services, which in turn, should lower the costs of U.S. exports. As President Reagan remarked in the State of the Union message:

"America cannot hope to compete in world markets if product prices are needlessly inflated by transportation costs, which can account for as much as 25 percent of the cost of a delivered product."

There is a definite linkage between domestic transportation deregulation and export competitiveness. Deregulation, by allowing the actual characteristics of each transportation mode to govern its operations, leads to the best mix of transportation prices and services in the market and through competition to the lowest costs for particular services. As the final prices of virtually all products contain some transportation charges, the lower costs can be directly reflected in lower final product prices. Lower final product prices directly increase the global competitiveness of U.S. industry.

We have seen estimates that, since transportation deregulation, buyers and sellers of U.S. goods save as much as \$56 billion a year due to lower inventory and transportation -- primarily trucking -- costs. Indeed, we know that the logistics costs of all U.S. industry, which include transportation, inventory and related administrative costs, have declined as a percent of GNP since the deregulation of trucks and railroads.

Trucking deregulation is not yet complete. In many states it does not yet apply to the intra-state services of both intra- and inter-state carriers. Perhaps as a result, the Department hears tales such as:

- A retailer in Dallas reportedly pays less for transportation when importing blue jeans from Taiwan than from manufacturers in his own state of Texas.
- In November, an import trading company arranged to deliver 600 pounds of custom-designed pens from Taiwan to Chicago for only \$100. By contrast, it would cost \$100 to ship 600 pounds of office supplies from Boston to New York.

While, obviously, there are many different factors involved in these examples, they do speak to the basic truth that transportation deregulation definitely lowers overall costs. That is why the President has committed to press for legislation to complete the deregulation of trucking.

It is sometimes useful to look at what your competitors are doing and see if you can adopt some of the same practices. By now the Japanese have made famous the so-called "just-in-time" inventory management technique, in which subcontractors manufacture components and transport them to the main assembly plant "just in time" for assembly. The system drastically reduces inventory costs but can only be effective in the United States if the cost of transportation services are lowered.

We have made significant progress toward the Staggers Act goals of a strong and healthy railroad industry, competing in the private market, and regulated only where competition is not effective in constraining rail rate and service actions.

The financial health of the railroads has improved. In 1985, they earned 4.8 percent on investment, compared to less than 2 percent in the crisis years of the 1970's. Deferred maintenance has been virtually eliminated, service is more reliable, deliveries are faster, and rates have gone up less than half as fast as they did before the Staggers Act, rising generally in line with railroad costs. In the six years since the Staggers Act, the percentage of trains moving on main lines under so-called "go slow" orders has decreased from some 30% to under 1% percent. Cost savings, in other words, can be very visible and dramatic.

The Role of Infrastructure in International Competitiveness

There is a definite link between infrastructure and our export competitiveness. If you can't move goods, you can't export; if you can only move goods expensively, then your exports are less competitive.

However, our system of transportation infrastructure is, by world standards, exceedingly efficient. This remains true even by western European standards. It is not falling down. We have made huge federal, local, and private investments in our ports, railroads and highways. The goal now is to concentrate on the rehabilitation and maintenance of this very efficient infrastructure and to prevent it from falling into disrepair.

Even though we believe that maintenance and rehabilitation are the most important goals, we have not excluded new infrastructure projects, such as the 42 port improvement projects that are authorized by the Water Resources Development Act of 1986.

Some of our major exports are basic raw materials such as grains, tobacco, coal, and the like -- commodities that are shipped at low bulk rates. Agricultural products are produced at very competitive prices, and their shipment on inland barges is at an almost absurdly low ton/mile cost. Even coal, which is relatively more expensive to extract in the United States than in foreign countries, and which often has to travel substantial distances to port, is quite competitive in world markets. In general, U.S. infrastructure

has to be much better because we are a large country whose economy has not been generally export-oriented. We are competing against smaller countries which do not have to haul products over such long distances, or large countries like Australia and South Africa which have long oriented their industries (such as coal) to the export market.

Fighting for the Rights of U.S. Airlines and Maritime Interests Abroad

We believe that our international transportation industries are vital to the economy, and we are concerned with their health. That means, on occasion, fighting for access to foreign markets for our carriers, and for their right to operate efficiently once that access has been gained. U.S. carriers do encounter occasional but significant difficulty in gaining access to foreign markets and in operating efficiently once access has been achieved.

Working with the Department of State, we have successfully utilized the special retaliatory powers given to us by Congress for these two service sectors to fight unfair trade practices. (The powers are contained for aviation, in the International Air Transportation Fair Competitive Practices Act of 1974 and the International Air Transportation Competition Act of 1979, and for maritime services, in the Shipping Acts of 1920 and 1984.)

For example, in aviation we:

- Retaliated against the Malaysian airline because Malaysia required U.S. carriers to use a monopoly handling agent in its country;
- Informed the Republic of Korea that we could not engage in meaningful negotiations to improve Korean Airline's access to the United States until Korea corrects certain "doing business" and operational problems that U.S. airlines are experiencing in their country; and
- Refused to grant Lufthansa permanent authority to serve Houston, thereby persuading that airline to correct the anti-U.S. bias in its computer reservation system;

In maritime services, we:

- Persuaded the Philippines to rescind a government decree that unilaterally attempted to establish cargo-sharing in the U.S. - Philippines trade;
- Challenged the Peruvian Government on its move to reserve 100 percent of cargo for Peruvian-flag vessels -- a Federal Maritime Commission action (Section 19) is currently in the works;
- Persuaded the Pakistani Government to suspend an 8 percent gross freight revenue tax that discriminated against U.S.-flag carriers; and
- Continued to make progress in eliminating Japanese barriers to the use of high-cube containers by U.S. carriers.

As a result of these actions, we find that our air carriers and our shipping

lines have retained a healthy share of their markets. Over the past several years, U.S. airlines have carried roughly 50 percent of the traffic to and from the United States, and U.S. ocean liner carriers have retained about 25 percent of total U.S. liner trade.

Trade Enhancing Facilitation Activities

We define facilitation as anything that makes the movement of passengers and goods across our borders more efficient. That means that infrastructure deficiencies can create facilitation problems. Two operational areas in which the Department of Transportation is involved to facilitate international transport include passenger and cargo pre-clearance and cargo documentation.

In a pre-clearance program, the inspection agencies examine passengers and cargo at the airport of departure rather than at the airport of arrival. For the Immigration and Naturalization Service (INS) in particular, this has significant advantages. Rather than having to detain an inadmissible alien, conduct a hearing, and transport the passenger back overseas, INS simply turns the person away. For Customs, there are slightly more problems, but we believe there are advantages for them too. For our air carriers and passengers, the ability to avoid the congested international gateways where federal inspections take place would be an incredible boon.

We have pre-clearance sites in Canada already, and in the Bahamas. What we are trying to do now is acquire additional sites in Europe -- we had a four month demonstration of "pre-inspection" (which involves only INS) at Shannon Airport in Ireland, and it worked very well. Our estimates of its cost efficiency were very impressive. Even through the cost of placing an INS inspector overseas was much greater, the increased effectiveness of enforcement (a larger number on inadmissible aliens turned back, and without costly hearings and detention proceedings) more than made up for that extra cost.

For international shipments of cargo, the volume of paperwork is staggering. It is estimated that 8 percent of total cost is attributable to producing documentation for international trade. One air carrier tells of a shipper that was spending \$24 to manually handle an invoice for air shipments the value of which was only \$7.00.

The computer can cut these costs and make trading more efficient. In the world of paper, a commercial invoice is produced manually, copies are made, and the original sent by mail, received and stored. Overhead, direct and delay costs are high. With electronic data interchange, or EDI, the required information is simply entered into a computer in one country and sent electronically to a computer in another. The First National Bank of Chicago estimates that nationwide there is a \$6.6 billion savings opportunity in generating trade documents electronically.

Here are some examples of these cost savings:

- The cost of generating a purchase order has been estimated at \$50.00 a piece. EDI can bring that cost down to \$7.00. Most companies generate hundreds of purchase orders a day.

- The automotive industry estimates that EDI will save approximately \$200.00 per car; one automobile manufacturer saved \$80 million in freight costs by using EDI.
- One large motor carrier estimates that it can generate 50,000 freight bills at a total cost of 41 cents each.
- One manufacturing firm saved \$30,000 a year in stamps alone by not mailing purchase orders.

The use of EDI is growing dramatically among shippers, carriers, and ports. Booz, Allen, Hamilton estimates the EDI applications will grow at an annual rate of 50 percent during the remainder of the decade, and the Yankee Group estimates that 1/3 of all business transactions will be conducted electronically by 1995.

DESIGN AND OPERATION OF THE NEW ICTF INTERMODAL TERMINAL
IN LOS ANGELES/LONG BEACH

by

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Background

The new Intermodal Container Transfer Facility (ICTF) which serves the ports of Los Angeles and Long Beach has a geographic advantage over other major rail yards in that it is only 4 miles from the ports or a 10-minute truck trip, in comparison to other rail facilities located 25 miles further from the ports. The ICTF features 5 working tracks with 3 center-row parking areas for trucks, and the facility is 1.3 miles long and covers 146 acres.

Funding the Project

The two ports formed a Joint Powers Authority (JPA) as a political entity for the specific purpose of financing and constructing the ICTF. To finance the construction, the JPA issued \$54 million in industrial revenue bonds, which are guaranteed by the Southern Pacific (SP). The facility was built on land leased by the JPA from the Port of Los Angeles, and the land is sub-leased to the SP. In addition to the bond funds, the SP spent \$25 million to reconstruct part of the existing Dolores rail yard to provide rail access to the ICTF. A total of 55 permits and agreements were required before construction could get underway.

Physical Features

Grading the site began in the Spring of 1985, and the subgrade was compacted to a depth of 3 feet. Full scale construction began in July 1985, and the facility opened to traffic in November of 1986. Basic features of the ICTF include:

- 5 loading tracks
- 2 runaround tracks
- 7 buildings including: administration building, operations tower,