

NICOLE Y. LAMB-HALE
ASSISTANT SECRETARY FOR MANUFACTURING AND SERVICES
INTERNATIONAL TRADE ADMINISTRATION
U.S. DEPARTMENT OF COMMERCE
TESTIMONY BEFORE THE
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COMPETITIVENESS

for a hearing entitled

“Doubling U.S. Exports: Are U.S. Sea Ports Ready for the Challenge?”

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INTRODUCTION

Chairman Wyden, Ranking Member Crapo, and distinguished members of the Subcommittee, thank you for giving me the opportunity to speak to you today about our national competitiveness and how it is affected by the state of our Nation’s transport infrastructure. As Assistant Secretary for Manufacturing and Services at the International Trade Administration, I welcome the Subcommittee’s interest in this crucial issue.

My name is Nicole Lamb-Hale, and I am the Assistant Secretary of Commerce for Manufacturing and Services. My organization, the Manufacturing and Services unit of the International Trade Administration, provides specialized industry expertise and economic analysis to foster America’s economic competitiveness and job growth.

The Obama Administration is deeply committed to expanding globally competitive manufacturing, exports, and job growth in the United States as part of American economic recovery. As part of this effort, the International Trade Administration is dedicated to enhancing the global competitiveness of U.S. industry, expanding its market access, and increasing exports in order to promote economic recovery and job growth.

Through comprehensive industry analysis and outreach to industry, we evaluate the impacts of domestic and international economic and regulatory issues on U.S. businesses. We then work with the private sector and with our partner Departments to develop public

policies that advance U.S. competitiveness at home and abroad. Today's hearing could not be timelier, or more important. Earlier this month, President

Obama signed a historic Executive Order creating the National Export Initiative – an ambitious agenda of trade advocacy and promotion efforts aimed at doubling U.S. exports in order to support two million American jobs over the next five years. The International Trade Administration will play a key role in the success of this competitiveness initiative.

As we move forward with this effort, a crucial element of this discussion must be the state of America's supply chain infrastructure – its ports and the interconnected road, rail, and air connections that make our industrial, export and job growth possible and support our manufacturers both here and abroad.

Last May, Secretary Gary Locke said, "To be competitive in today's global economy, U.S. companies need to be able to move products and goods securely, quickly and efficiently within our borders and beyond. America cannot compete successfully in the 21st Century with a 20th Century infrastructure." As a former Governor of Washington State, Secretary Locke knows the importance of a strong supply chain infrastructure. The exports and imports that flow through Washington's supply chain support more than 10 percent of the state's private sector jobs. According to a U.S. Department of Transportation study, the transportation related sector accounted for some 13 million jobs in 2008, or nearly 10 percent of the U.S. workforce. A U.S. Chamber of Commerce study points out that some 99 million other U.S. jobs – manufacturing, retailing, services, and agriculture – are economically dependent on the transportation sector.

America's manufacturing and services industries depend on our supply chain infrastructure to be competitive at home and abroad. One cannot thrive without the other.

This infrastructure includes the ports and the interconnected roads, rail, and air connections that make American exports and job growth possible.

America's inefficient, insufficient, and poorly-connected freight infrastructure network is impeding the smooth flow of our products from manufacturer to port to market. The resulting delays and costs are resulting in missed export opportunities and domestic development – which in turn block our efforts to restore American jobs and competitiveness in the global economy. As one senior transport executive recently told us, "Do our policy makers really think we can substantively expand our manufacturing base with our existing supply chain infrastructure?"

For this reason, the Department of Commerce is working with America's shippers and the Department of Transportation and other agencies to recognize the key importance of improving our supply chain and transport infrastructure from the complementary

perspective of international competitiveness – and to ensure that this is our guiding principle as our transportation infrastructure policy is being developed.

The Department of Commerce views supply chain infrastructure from a competitiveness perspective. Thus, we need to explore some key questions regarding U.S. supply chain infrastructure.

What enhancements to U.S. infrastructure could help manufacturers stay globally competitive?

What are we doing now to move freight, people, and ideas – as efficiently as possible?

What is our foreign competition doing by comparison?

To address these questions, Commerce has already begun the important process of examining our policies and programs, and also of seeking industry input to ensure that our companies can compete at every step in the supply chain process.

AMERICA'S FREIGHT INFRASTRUCTURE AND SUPPLY CHAIN COMPETITIVENESS

As sourcing and product delivery operations span larger and longer distances, firms are transforming the way they look at and manage supply chains. No longer are individual companies competing with each other, entire supply chains are. Effective supply chains and just-in-time delivery systems drive modern global business.

Supply chain infrastructure is the glue that binds successful trade routes. It affects the cost of every single product in the United States. Inefficient connections and capacity limitations lead to delays that raise the price of a company's product, and make it harder to compete globally. Supply chain infrastructure is an important factor in a company's decision on where to invest, build, and employ people. These decisions require substantial lead times, and the quality of the infrastructure determines the attractiveness of a particular location.

As world commerce becomes more integrated, and as sourcing and product delivery operations span larger and longer distances, America's firms and supply chains are being transformed. It has long been the case that it is no longer the individual companies that compete with each other. Rather, entire supply chains – fully integrated processes that connect manufacturer to transporter to distribution center to point of sale – are now the primary competitors in domestic and global commerce. Efficiencies in supply chains lead to competitive advantages, and they make possible global sourcing, just in time delivery systems, and modern global business itself.

The velocity and efficiency of each supply chain depends on the infrastructure through which these goods and products flow. The increasingly time-sensitive and integrated nature of modern supply chains make smooth, just-in-time goods movement a critical element in that supply chain's ability to compete in the global economy.

Industry today sees infrastructure as an interconnected network of physical transport facilities, combined with modern information technology systems. The efficiency of this infrastructure -- and the industries that depend on it—is affected by environmental and sustainability considerations, new financing options, education, and regulatory and trade security measures. This speaks to the growing sophistication and complexity of modern supply chains, and their critical reliance on the quality of America's supply chain infrastructure to support modern, high-tech manufacturing.

Industry members have told us that supply chain infrastructure makes a difference because it affects the cost of every single product made or used in the United States. Missing connections and capacity limitations between port and manufacturer lead to delays that raise the price of every American export product and make it harder to compete with international producers. To illustrate this point, a recent Wall Street Journal article reported that a key harbor grain terminal in the Port of Los Angeles lacks enough space to handle the volume of exports arriving from inland producers due to the limited rail service to that terminal.

Leading executives have also told us that a nation's supply chain infrastructure also makes a difference when deciding where their firms will invest, build facilities and employ people. These decisions require substantial lead times, and the quality of the infrastructure at the point of decision – the efficiency of the ports, the level of inter-modal connections, the quality of the IT systems, and more – determines in part the attractiveness of a location.

The United States has long been accustomed to having a top-flight freight system. However, for many reasons – including our lack of a comprehensive, system-wide U.S. freight infrastructure development strategy, and our overly modal approach to planning and investment – we are not improving our freight infrastructure fast enough to keep pace with the needs of our 21st Century supply chains, and with the development of integrated transportation systems in the nations that compete with us in the global marketplace.

Our national supply chain infrastructure is a global competitiveness issue. Studies have shown the impact of our inability to respond to this global challenge. A recent World Bank LPI survey ranks the United States as only the world's 15th most competitive economy in logistics performance terms, behind such global national competitors as Germany, Singapore, Japan, the United Kingdom, Hong Kong, and Canada. The survey also found that the U.S. is only the world's 7th most efficient economy in terms of its infrastructure, again behind such leading competitors as Germany, Singapore, and Japan.

Senior executives from industry tell Commerce repeatedly that what is missing is a comprehensive and coordinated national policy approach to moving product in the United States. According to industry, the basic elements of a national policy approach must include:

- Viewing the supply chain infrastructure as a whole, a system of interrelated parts emphasizing the interconnection points;

Emphasizing the needs of the system users, i.e., the manufacturers and shippers whose products flow through the system;

Ensuring that supply chain infrastructure enhances America's economic competitiveness and export growth;

Acknowledging that security of this critical infrastructure system is vital and requires an interagency and public/private partnership approach; and

Recognizing that a competitive, modern supply chain infrastructure is indispensable to the sustained recovery of American manufacturing and exports and the success of our nation's export strategy.

In other words, a port is only as competitive as the road, rail, and air networks to which it is connected.

DEPARTMENT OF COMMERCE: FOSTERING ECONOMIC GROWTH

In response, the Department of Commerce has initiated a comprehensive initiative to understand our freight infrastructure problems and to restore jobs and expand our exports through improving the quality of America's supply chain infrastructure. This initiative is spearheaded by my Manufacturing and Services unit.

In light of current economic challenges, it is imperative that we immediately address key "game changing" issues that could hinder our long-term recovery and our ability to compete in the global economy. Industry is increasingly aware that our global trading competitors, including Canada, Europe, and China, ensure their firms enjoy an integrated freight movement system. The global competitive challenge facing U.S. manufacturers and shippers is thus our incomplete supply chain infrastructure.

These issues are integral to the National Export Initiative and to American economic recovery. Moving forward we must have an efficient and well-developed logistics and transportation system to facilitate our export growth and the continued growth of our economy.

In May 2009, Secretary Locke and Transportation Secretary Ray LaHood co-led a national conference with top U.S. supply chain executives and government leaders to

understand how our domestic infrastructure and policies must be improved to promote national economic competitiveness and growth.

At the conference, these stakeholders revalidated every one of these ideas. They emphasized the need to consider transportation and infrastructure investments and enhancements on both a federal and regional basis to maximize America's competitiveness in the global economy. They also stated that the individual elements of freight and transportation issues needs to be coordinated in a broad, cross-modal approach that promotes supply chain infrastructure development from a national economic and competitiveness standpoint.

At the conference, both Secretaries expressed their commitment to work together and with the stakeholders to develop this new course for transportation policy, in order to improve the domestic and global competitiveness of our supply chains through comprehensive and coordinated freight infrastructure development.

We are moving forward with activities to meet these commitments. Commerce is working with our colleagues at Transportation to further discussions towards the development of a new, competitiveness-driven national freight policy, coupled with an investment strategy that recognizes the interconnections between various transportation modes and facilities. This includes developing a series of regional events to gather user opinions on local freight transportation problems and how they affect (and are affected

by) national freight system problems and national freight policy. These industry perspectives will be helpful in an effort to develop an inclusive national freight policy.

Further, we are considering establishing an industry advisory committee to address these supply chain issues. Through this committee, we will gain input and key insights into the practical and policy issues that are impeding freight movements both domestically and for export, and ensure that these matters are fully reflected in our national freight policy.

We will continue to work closely with Transportation and other agencies to address these important issues in a coordinated fashion. We will use the information gathered through these efforts to help shape Administration transportation policy, and to promote the development of a holistic, user-focused, competitiveness-oriented national freight system that meets America's needs for the 21st Century.

CONCLUSION

The global competitive challenge facing U.S. shippers and transportation providers has been building for years. Our supply chain stakeholders are fully aware that our national competitors are offering competitive advantages to their firms by building world-class national freight transportation systems.

In light of current economic challenges, it is imperative that we immediately address these key “game changing” issues that could hinder both our short-term economic recovery and long-term investment in America throughout the 21st Century. We look forward to working with the Members of this Committee to achieve these goals.

Thank you very much.