American Association of Port Authorities
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*Conference Takeaways and Policy Implications*

## 1. Speaker Takeaways and Analysis

a. Government needs to provide a better regulatory environment for business and promote smarter infrastructure investments in transportation.

b. Industry is cautiously optimistic about the state of the economy. This optimism is based on data showing the economy (GDP) is expanding at 3%+ in the U.S., increasing consumer confidence, and expanding businesses. Caution is based on (1) the fear of a possible double-dip recession and/or slower economic growth and (2) fears of escalating oil prices. *<u>Rapporteur's Note</u>: improvements in reducing fuel use and promoting greater efficiency may make this effect more pronounced than it otherwise would have been. In addition, as one speaker noted, the fact that nations outside of Europe and North America are now cumulatively using more oil than Europe and North America means we are more interdependent on global growth than ever.*

c. The rebound in the U.S. manufacturing sector, and the high price of fuel, is leading to greater U.S. exports, causing a rebalancing of networks. The economists noted that U.S. agriculture, bio-technology and water industries are potential sectors for future growth.

d. The delivery of new larger container ships will challenge existing port and landside infrastructure—some are preparing. These new deliveries will help lower per-unit fuel costs and together with slow steaming may help offset some overcapacity and pricing concerns. The delivery, together with the opening of the widened Panama Canal, will alter ship utilization and landside movements in many unforeseen ways. This creates a great deal of dynamism and uncertainty in the industry.

e. *<u>Rapporteur's Note</u>: It is clear that providers of infrastructure and industry players will strive to strike the right balance between **financial risk** (overcapacity) and **service risk** (congestion). The balance of opinion from this conference suggests that most are still willing to take on more service risk as concerns about the sustainability of the economic recovery and rising oil prices trump fears of congestion and poor service levels. In contrast, a belief that economic growth is sustainable will likely lead to greater transportation infrastructure investments.*

f. Port officials noted that with the greater level of investments required it is imperative that all have "skin in the game" to help manage financial risk where investments are being made. This is especially important with infrastructure developed for the new super-sized container ships. One implication of this is to fund capacity through public-private partnerships where public and private money are put together in different combinations. *<u>Rapporteur's Note</u>: the federal government could assist this risk mitigation by clarifying the rules for public-private partnerships.*

2. **Policy Context and Implications**

a. The policy context in Washington at present is very challenging and dynamic. The nation lacks multi-year plans (or authorizations) for surface and aviation, and the trust funds backing these plans are under severe financial pressure. Only by $30+ billion in general fund infusions has the surface authorization and its programs been funded. That type of general-fund appropriation will not be available in the current political context. Long-term plans also are unsustainable or non-existent for Amtrak, high-speed rail, intermodal discretionary grants and other infrastructure assistance programs.

*b. <u>Rapporteur's Note</u>: The appropriations process for the Fiscal Year (FY) 2011 and 2012 budgets will be extremely challenging. With the strained on the trust funds and overall political pressures to cut spending, infrastructure programs are likely to face a period of flat growth and retrenchment. More details should be available after the release of the President's FY 2012 budget, which may set a baseline of sorts for congressional action, and the legislative machinations surrounding the raising of the debt ceiling in April or May of 2011.*

c. Funding aside, there are encouraging signs in Washington for the long-term future of transportation programs. First, the industry has done a good job recently in making the case for a more focused approach to freight investments. The Obama Administration has responded with a more aggressive rail policy, intermodal discretionary grants (TIGER) and a desire for more focus on a "national program." And second, the fact that current policies are financially unsustainable puts the pressure on for long-term reform, even as the prospects for short-term solutions appear bleak.

*d.* <u>Rapporteur's Note</u>: Washington continues to lack a fundamental understanding of transportation impeding the prospects for optimized, long-term reforms. Examples include:

  *i.* *Not fully appreciating transportation networks and how passengers and goods actually move from origin to destination. Instead of a systems-focus, transportation decisions have been beset by sub-optimized, disjointed and incremental modal policies and funding streams.*

  *ii.* *Connected with (i) above, not focusing on the true users of the transportation system: the passengers and shippers. Instead the focus is too often on modal movements, which leads to the familiar "stove-piping" of transportation programs.*

  *iii.* *Too much focus by many Democrats on greenhouse gas emissions (GHGs) directly, rather than on energy policy and energy security. The latter approaches are much more likely to (1) generate political support, (2) lead to conversion of transportation fleets to more sustainable fuel sources and (3) help dampen the effects of how oil prices on transportation.*

  iv. *Putting too little focus on funding large-scale transportation projects that require large capital investments or costs and deliver dispersed benefits such as increases in productivity and national wealth. Investments in these "public goods" (e.g., Alameda Corridor, CREATE) are supported by liberal and conservative economists alike who cite the market failure in providing an optimal level of these goods.*

e. Passing effective transportation policies and reforming our nation's policy architecture will require strong leadership from both ends of Pennsylvania Avenue as well as continued work by the freight and passenger sectors to educate policymakers and the public about the indispensible role transportation plays to our economy and our daily lives.