



Volvo Group North America

**House Committee on Transportation & Infrastructure
Subcommittee on Highways & Transit**

February 27, 2014

**Susan Alt
Senior Vice President for Public Affairs
Volvo Group North America**

Chairman Petri, Ranking Member Norton, and distinguished members of the subcommittee, I would like to thank you all for the opportunity to appear before you today and discuss the importance of American infrastructure, and specifically a robust freight system. My name is Susan Alt, I am the Senior Vice President for Public Affairs for Volvo Group North America and I have a background in logistics, having run Volvo's North American supply chain operations for over five years.

The Volvo Group is one of the world's leading manufacturers of trucks, buses, construction equipment, and drive systems for marine and industrial applications. In the United States we produce heavy duty trucks under the Volvo and Mack brands, Volvo construction equipment, Volvo Penta marine engines, diesel engines and heavy duty transmissions, and Prevost and Nova transit coaches and city buses. As a manufacturer Volvo Group subscribes to a "build where you sell" philosophy; and because the United

States is the single most important market to the Group worldwide, we have a substantial manufacturing presence in the U.S.

The Volvo Group has six manufacturing plants located on the east coast in the states of Virginia, Tennessee, Maryland, Pennsylvania and New York, and is headquartered in North Carolina. We employ more than 12,000 people in the U.S. and have invested nearly \$1.5 billion in our facilities in the last 10 years. We have been manufacturing in the United States since 1903. Volvo Group maintains a vast network of American suppliers to support these plants, touching every state in the lower 48. Still, we are both a major importer and exporter of goods. We rely on more than 50,000 truckloads of material each year to supply our plants. We rely heavily on the ports of Norfolk and Baltimore to import 25% of our production material, and those same ports plus Charleston, for the export of our finished goods. We rely on the entire interstate system for the movement of our material, most notably Interstate 81 as four of our factories are located alongside or very near it. It is America's infrastructure that makes all of this possible.

The health of America's freight network matters to Volvo not only because we want to sell more products, but because it has a direct impact on the competitiveness of our American manufacturing operations in the global economy. Like any other manufacturer, we rely on a vast supply chain and our nation's interconnected network of roads, airports, inland waterways and ports to support and supply our operations.

In recent years, the industry has embraced "just in time" and lean manufacturing philosophies to increase production efficiency in order to remain competitive in a market that demands products with a high level of customization and short lead times. This new

efficiency has manifested as a substantial benefit to Volvo Group, our customers, and the economy as a whole. However, to be efficient we must have the right material, at the right time, at the right place, and in the exact amount needed in the production cycle. In modern manufacturing, to be competitive, we cannot have excess inventory in our assembly or delivery process. We deliver parts to the production line just as they are needed for assembly. Our ability to move the parts from supplier to our factory- and finished goods from factory to our customers – relies on the infrastructure of America; the highways, the railways, the air space and our sea ports. America's infrastructure is essential to our – and all manufacturers' – competitiveness in the world economy.

If we design a material flow with five hours transit time to arrival, and it arrives in six, that one delivery could mean shutting down the line...sending workers home.... negatively impacting our products, our people, and their communities.

We know there are things none of us can control that will impact delivery times, but we can plan for those scenarios and build in buffer stocks for a short period if we EXPECT delays in coming days.

What we cannot control, and cannot plan for, are unexpected delays due to traffic congestion – either at the sea port, the airport, or the highway.

This is where we get in real trouble -- when a truck is caught in a traffic jam and can't make his delivery. The ripple effect of one late delivery can be costly. It means we don't build the product on time – tying up capital; it means the product will be re-worked – tying up man-hours and not following normal quality production; it means sending workers home early; it means not delivering to a customer on time and hurting our competitiveness...all because of that one missed shipment.

The speed with which we can move goods has never been more critical to our success. If we cannot move goods quickly and consistently we cannot provide the advantage of efficiency to our customers, and we cannot be competitive.

This committee's own *Panel on 21st Century Freight Transportation* recognized the importance of efficient and safe movement of goods in and out of the United States. The panel further recognized that "the current state of highway infrastructure does not adequately serve the needs of those moving goods across the nation." We agree.

While manufacturers and other shippers are performing optimally for today, we are not well-prepared for tomorrow. Highway infrastructure continues to age without a systematic program to modernize key interstate networks, traffic is returning to peak levels that we have not experienced since before 2008 and we are gradually experiencing economic growth with a strong emphasis on exports.

The Volvo Group urges lawmakers to address this challenge directly and with a clear purpose. Logistics is all about planning. We have to have plans in moving manufactured products and freight and if plans and contingences don't exist, the customer is lost and it reflects poorly on the company. Congress finds itself in a similar situation, and if a long term plan cannot be identified it is the country that will suffer. We recognize that the choices ahead for the committee are neither easy nor painless.

A recent survey of American manufacturers conducted by the National Association of Manufacturers (NAM) and Building America's Future found that 70 percent of 400 surveyed manufacturers believe that American infrastructure is in fair or poor shape and needs a great deal or quite a bit of improvement. There was a unanimous view that not one sector of infrastructure is performing at a pace to keep up with the

needs of business. Further, two-thirds doubted that infrastructure is positioned to respond to the competitive demands of a growing economy.

The last major transportation reauthorization, Moving Ahead for Progress in the 21st Century (MAP-21), was an important step in implementing key surface transportation policy reforms. However, infrastructure investment must be considered as a long-term strategic objective. The Volvo Group believes that a full **six year, well-funded** reauthorization is needed to address the persistent challenges that are already well-documented and recognized as problems facing our transportation system.

Commercial and private drivers alike can agree that America's roads are in poor or mediocre condition. As we move forward we know that this problem will be compounded by heavier use. A 2012 report from Building America's Future found that freight tonnage is projected to increase 88 percent by 2035, port volumes will double by 2020, and passenger miles traveled will increase 80 percent in 30 years. This prediction was supported by the freight panel, which noted that America's reliance on the highway system is growing faster than the system itself. This growth leads to increased traffic congestion, a problem that is already a severe drain on the economy. In fact, the Texas Transportation Institute found that congestion in 498 American cities cost the economy \$121 billion in 2011, up from an inflation adjusted \$24 billion in 1982.

Let me give you one example. Our largest truck factory sits in southwest Virginia along Interstate 81. That plant employs some 2300 workers and is a major employer in the region. We have a large amount of material that travels south on I-81 along a stretch of mountains near Blacksburg, VA, that, until a third truck lane was added, was the site of many accidents, resulting in frequent delivery delays and production disruptions for

our plant. Since the opening of the third lane, we have a marked improvement in on-time deliveries from that route. This is a real world savings that directly benefits our customers, as well as the safety of the driving public.

Virtually every trip in America, commercial or personal, begins and ends on a road. Increased congestion and poor road conditions are not problems that can be efficiently avoided. As the situation continues to worsen, it will continue to negatively impact our competitiveness, as we will have to add buffer stock and design a less efficient material flow with even more trucks, running more frequently, with smaller quantities of parts to ensure we feed that production line....And of course, this leads to higher costs and even more congestion! Modern, world-class roads are needed to support our ports, freight rail and aviation—these modes of transportation are all inextricably linked, and all are needed to realize the competitive advantages of a safe and efficient transportation network.

The Volvo Group strives to design the most efficient and comfortable trucks for its customers. We invest substantial time and capital to ensure that our customers can move freight in the most economical manner possible, but there is only so much we can compensate for through design. If the roads are substandard efficiency suffers, the drivers suffer, and at the end of the day our nation's economy suffers.

We need long term funding for our infrastructure –ideally six years. We need to be sure the funding mechanism allows us to mend and repair our infrastructure, as well as add where we already have or expect to have bottlenecks. A strong infrastructure has a direct and vital impact on America's backbone of manufacturing.

Further, the next authorization must continue to build upon the success of MAP-21 reforms and make improvements where efficiencies have not materialized. When a transportation project can't get off the ground because of a lack of funding or bureaucratic delays, opportunities and jobs are lost.

Congress must take the next steps and return to a fully funded, multiyear surface transportation authorization that offers support for infrastructure projects that improve safety, facilitate trade and create jobs. It is absolutely vital that Congress bring the federal Highway Trust Fund to an improved condition of solvency and sustainability.

Transportation moves our economy, and we need every sector of our economy functioning to maintain growth and remain competitive globally. A strong infrastructure has a direct and vital impact on America's competitiveness. If America is to continue to lead the way in high-value, state-of-the-art manufacturing, our infrastructure can no longer get by on the status quo. Chairman Petri, thank you for the opportunity to testify today, and I will be happy to respond to any questions.

###