



Testimony of

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Infrastructure Committee**

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Chairman Shuster, Ranking Member Rahall, and distinguished members of the committee, thank you very much for the opportunity to testify today about the reauthorization of our surface transportation system, and the importance of our transportation infrastructure to companies like Caterpillar as we do business and compete in the global marketplace.

My name is Stu Levenick, and I am a Group President of Caterpillar Inc., responsible for leading the company's Customer & Dealer Support (C&DS) organization. Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives and rail services; and for over 80 years has been making progress possible on every continent.

My organization brings a strong focus to the Caterpillar brand and customer services, and strives to deliver outstanding dealer development. This organization includes Caterpillar's Parts Distribution & Logistics division which provides integrated supply chain services, transportation and service parts logistics to Cat® dealers and customers worldwide. Caterpillar is one of the largest manufacturing shippers by weight in the world, so in this role we manage the transportation and logistics of over 12 billion pounds of machines, engines and parts globally on an annual basis.

The speed, or velocity with which we can move goods, is one of the most critical factors in our overall success. Caterpillar and our dealers are focused on eliminating cost related to excess inventory in the supply chain. Accordingly, goods must move at a consistent, high rate of velocity if we are to deliver a competitive advantage for our customers. While a number of factors both internally and externally impact this value proposition, the state and condition of the transportation infrastructure supporting our supply chain is exceptionally important.

It's no surprise to this committee that Caterpillar is a big supporter of infrastructure investment – after all we are the leading manufacturer of construction equipment in the world. But for us, it's not just about selling more machines, it's about the drag our poor infrastructure has on the U.S. economy, our ability to efficiently import and export, and consequently the adverse impact it has on U.S. competitiveness. In addition to being a Group President for Caterpillar, I'm also the immediate past Chairman of the American Equipment Manufacturers (AEM) and an Executive Board Member of the U.S. Chamber of Commerce – both organizations that share our deep concern about the state of U.S. infrastructure.

I would like to thank the committee for their continued work and attention on the reauthorization of our surface transportation programs. Caterpillar supported the passage of MAP 21 – Moving Ahead for Progress in the 21st Century – in July 2012, and was very encouraged with the important programmatic reforms and modernization that the bill brought about. But despite the progress that law includes, there remains much to be done to improve the quality and efficiency of our nation's transportation infrastructure.

We look forward to working with the Committee and with Congress in a bipartisan fashion to pass a multi-year reauthorization bill that will help to ensure our nation's competitiveness in the global economy. A long-term bill is critical because it will provide states, contractors and others the certainty they need to promote large capital projects, and the necessary capital investments to support them.

Despite the positive provisions included in MAP-21, the simple fact is this - our infrastructure is falling apart and our economy is falling behind as a result. While our global competitors are making infrastructure investment a centerpiece of their economic agendas, infrastructure has not been a priority in the U.S. for decades. In fact, we have been under-investing for approximately 40 years, which has left us with the outdated and insufficient infrastructure we have today. If we are to continue to grow our economy and increase our exports around the world, we need improvements in our infrastructure so that we can export and compete more efficiently and effectively.

Exports and Economic Expansion

As one of America's leading exporters, we are keenly aware of the importance of exports for both job creation and economic expansion. We also understand how absolutely critical it is to have an effective and seamless supply chain if we are to increase exports and maintain our global leadership as a U.S. manufacturer.

Today, Caterpillar exports to every region in the world. In 2012, Caterpillar exported over \$22 billion in products from the U.S. Additionally, the products we make require many manufactured components and a highly integrated global supply chain. As a result, the ability to efficiently import into the U.S. is also extremely important to Caterpillar.

An efficient supply chain takes on added importance as the world rebounds from this global economic recession. This is particularly true for the U.S., with over 95 percent of the world's consumers living outside our borders. Clearly, international trade and exports will play an increasingly crucial role in driving domestic economic growth, creating new jobs, and ensuring continued U.S. leadership in the global economy.

The Federal Highway Administration (FHWA) estimates that the value of freight shipments will more than double between 2010 and 2040 to almost \$39.5 trillion. This growth will put enormous pressure on every element of the nation's transportation infrastructure.

But whether the export opportunities are in our hemisphere, or on the other side of the world, the goods we seek to sell must travel through a multi-modal transportation system that includes roads, rail, water and air. The condition and integration of these various modes will have a significant and direct impact on our ability to move these products quickly and efficiently at the lowest possible cost. As the world marketplace expands, and as our nation faces increasing competition from around the world, our ability to move our goods as quickly and efficiently as possible takes on added importance. Nothing short of our global competitiveness is at stake.

Current Condition of the U.S. Transportation System

This growth in international trade and U.S. exports are critical to the long-term economic expansion of the U.S. However, there is mounting concern that U.S. intermodal freight capacity will be unable to keep pace with this expected growth. While other parts of the world are integrating and modernizing their infrastructure to meet the economic challenges of the 21st century, we are failing to act comprehensively and decisively.

Our transportation system is the backbone of our economy. Economic opportunities are directly tied to the efficiency and reliability of this system. But we are relying on investments made decades ago to sustain our growing and changing economy. Our transportation network is aging and underfunded, and we must renew our commitment to this system if we are to ensure our global competitiveness in the 21st century.

The challenges ahead are significant, and will require a renewed national commitment.

Just as freight volume and goods movement will rise significantly in the coming decades, businesses will desire on-demand supply chains, just-in-time inventories, and reduced logistics costs. All of this will place added pressure on the transportation system as a whole, and freight carriers in particular, to increase velocity and reliability, while simultaneously reducing costs. In other words, our roads, water, rail, and air systems will all be increasingly strained simultaneously.

As the committee is no doubt aware, in 2013 the American Society of Civil Engineers (ASCE) released its latest Report Card for America's Infrastructure, and the results are not good. America's cumulative infrastructure grade is a D+ . Aviation scored a D. Bridges a C+. Inland waterways a D-. Ports a C. Rail a C+. And roads a D.

Likewise, the United States is now ranked 15 in the World Infrastructure Ranking by the World Economic Forum in the "Global Competitiveness Report 2012-2013." In 2005 the U.S was rated number one for economic competitiveness, but now we've slipped to fifth. What has happened? We've neglected our infrastructure. Clearly this is unacceptable. We can and should do better.

Let me give you some examples of why U.S. infrastructure is getting such poor marks. According to the American Society of Civil Engineers – 2013 Report Card for America's Infrastructure:

- One in nine of the nation's bridges are rated as structurally deficient. The average age of the nation's 607,380 bridges is currently 42 years.
- Currently, 32% of America's major roads are in poor or mediocre condition, costing U.S. motorists who are traveling on deficient pavement \$67 billion a year, or \$324 per motorist, in additional repairs and operating costs.

- Forty-two percent of America's major urban highways remain overly congested. Americans wasted 1.9 billion gallons of gasoline and an average of 34 hours in 2010 due to highway congestion. This costs our economy an estimated \$101 billion in wasted time and fuel annually.
- And these road problems will only get worse. Vehicle-miles traveled (VMT) on America's highways increased by 39% between 1990 and 2009, so people are driving longer distances on average. However, newly constructed road mileage has only increased by 4% during that same time.

We are all very much aware of the deteriorating state of our infrastructure. The big question is -- what does it mean for American competitiveness? Let me give you some real life examples of how inadequate infrastructure, and other transportation related challenges, impacts a company like Caterpillar.

Roads

Major interstates and highways provide a particular challenge for the movement of Caterpillar products through the U.S. logistics network. Congestion is a main topic of concern with high levels of traffic in major metropolitan areas affecting trucker turn times and on-time performance.

Many interstates within cities only have two lanes and as loads or commodities get larger, more lanes are needed to accommodate their size. With only two lanes, trucks begin to congest the interstate, slowing down travel and increasing transit time. While many states are updating their network, the majority of the time considerations for movement of over-dimensional and overweight loads are not taken into account. This lack of planning leads to more circuitous routing which also leads to additional expense.

Increased truck traffic due to higher numbers of cargo shipments has only added to this congestion. This is especially true in local areas where there are a high percentage of local deliveries, large metropolitan populations, or commuters (such as New York, Los Angeles, or right here in the Washington, D.C. area). Highway capacity at major cross border points is also not well equipped to efficiently meet the increasing demand.

Similar to highway limits, bridges present a comparable problem with inadequate capacity for large loads or traffic flows. Many bridges are either too low or too old. Bridges that were built early in the transportation industry, such as those in the East Coast states present the largest problems with regard to height and age. These restrictions on large loads increase costs and transit times due to shipper avoidance of certain bridges that cannot accommodate their size. These out of route miles can add up to 20% to transit time. Early bridges were also not designed to handle the current traffic flow which can lead to delays.

Restrictions and regulations also provide a hindrance to smooth flow of goods by bridges. Some states require bridge monitors or state police to coordinate with the carrier and meet before crossing. This coordination requires additional time and money.

But, compounding the congestion and deteriorating infrastructure of our roads, bridges and tunnels are the various and often conflicting state regulations and permitting requirements with which we must comply. Lack of uniformity in the regulation and issuance of permits is impeding flows between the states and to U.S. ports. The lengthy and conflicting permitting processes by some states actually force carriers to drive around certain states to make port deliveries.

For example, moving a Caterpillar 797 off highway truck chassis from our Decatur, IL plant to port of exit requires the plant to remove the engine and the transmission from the chassis prior to shipment. The weight of the overall unit cannot be moved through some East Coast states due to different weight restrictions. The unit must then be reassembled, resulting in added cost and delay.

Another ongoing example is of a 3616 series generator set via truck from our Lafayette, Indiana facility to the Norfolk, Virginia seaport which requires a so-called “Super” permit; these can be postponed by more than ten days due to permit delays. The issuance of some of these permits can actually take weeks.

Rail

Our nation’s rail network is increasingly seen as an attractive, cost-efficient way to help alleviate growing passenger and freight congestion on our roads. Continued investments in rail infrastructure will be essential to sustaining the tangible benefits we know flow from an efficient, effective, and reliable 21st Century rail network.

The rail network is a vital component of our integrated transportation system. However, current railroad infrastructure limits Caterpillar’s transportation options. Many rail lines, bridges, and tunnels cannot accept the physical (height and width) attributes of our products, and accordingly a greater number of rail switching yards and terminals are required, leading to added delays and increased cost.

Freight rail companies are investing record capital in their infrastructure; but the federal government has a role in investing in rail infrastructure, too. The government should be a leading partner when opportunities to advance local, regional and national rail projects of significance are underway, and proven and measurable public benefits are apparent.

Water

Like our road and rail networks, our ports and inland waterways are also posing significant challenges for exporters and logistics professionals. Lack of capacity at U.S. ports and inadequate mode integration are impeding the flow of both imports and exports through the U.S. port system. Capacity constraints at major ports are forcing shippers to disperse their shipments through multiple ports instead of using a single port of entry, or divert shipments altogether through Canadian or Mexican ports. All while the lack of

integration and automation slow thru-put considerably, delaying shipments and raising costs.

Furthermore, access to many U.S. ports is constrained by channel depth, which limits the size of vessels that can call at a port. The largest of the mega-containerships and tankers that are increasingly being used can only be accommodated at a limited number of U.S. ports, and most of these ports must routinely dredge and deepen their harbor channels and pier areas to maintain access

Because of U.S. port capacity constraints, out-dated manual processes and communications, and lack of integration and automation, Caterpillar has come to increasingly utilize Canadian ports for both import and export containers due to improved transit times and costs. Approximately 40 percent of Caterpillar's imports and exports now move through Canadian ports, with 50 percent of our European imports arriving in Halifax.

Our imports from Montreal, Canada arrive in Illinois two to three days faster and more cost-effective than those that arrive from Norfolk, Virginia. And service is also two days faster from Prince Rupert Harbor (north of Vancouver) than going through Long Beach, California.

If ports on the east and Gulf coast are not dredged to accommodate the larger and more cost effective container ships that are coming into the fleet as the Panama Canal is widened, we could be disadvantaged by millions annually to those companies that operate in countries where larger vessels can sail.

Air

Finally, a few words about our aviation system, which was once the envy of the world. Today it is operating with substandard technologies and facing significant capacity constraints. The result is severe congestion at our largest airports that is having a ripple effect throughout our aviation system.

As an example, Caterpillar ships annual about 70 million pounds of mission critical service parts globally through Chicago O'Hare. These parts are typically needed at a customer site within 24 to 48 hours. Last year, the Chicago O'Hare airport overall on time arrival was about 75% - - one in four flights experiencing some sort of delay. This significantly impacts our ability to service our products in the time our customers require.

In sum, our transportation system – roads, rail, water, and air – is aging, inefficient, and in serious need of reinvestment. This reality leads to increased costs and less efficiency, impacting and reducing our competitiveness around the world. Our aging infrastructure and the shipping inefficiencies it creates has added an estimated 3 to 4 days of transit time. We estimate that this alone costs Caterpillar millions in cash flow.

Importantly, we as a nation must do more than just fix this transportation network; we must also transform it into an integrated multi-modal system that will position us well for future leadership in the global economy.

Our competitors in the global economy are not waiting

Meeting the Transportation Challenge Before It's Too Late

With the expected growth in international trade, our global competitors are moving forward to expand and modernize their existing transportation networks with the construction of new integrated multi-modal infrastructure systems to efficiently move freight throughout the world. They recognize the relationship that exists between an efficient, connected transportation system and a strong economy. I see it firsthand whenever I travel around the world.

In Ernst & Young's report entitled, *Infrastructure 2012 – Spotlight on Leadership* they state, "China, India, and Brazil continue to push ahead in building 'from scratch' state-of-the-art new systems, making progress in trying to meet the needs of their expanding economies . . . countries that continue to invest through this challenging economic period are likely to gain global competitive advantage in the long term."

For example, the European Union has established the Trans-European Transport Network (TEN-T) to fund large transportation projects, and as of 2009 has invested \$578 billion developing the multi-modal network integrating various modes throughout the EU. China is investing trillions in infrastructure projects, expanding and modernizing its rails, highways, bridges and ports, while connecting these assets throughout the continent linking China to international trade routes running through Central Asia and the Middle East, to markets in Europe. The Indian government is looking to invest an additional \$1 trillion in infrastructure by 2018. Canada is spending 4 percent of its GDP on transportation investment and maintenance and China is spending 9 percent. The U.S. is spending only 1.7 percent. (*Building America's Future, Transportation Infrastructure Report 2012*)

As the U.S. Chamber of Commerce has succinctly stated, if we are to retain our global leadership in the world economy we must act now to upgrade and modernize our transportation policies, programs, and resources. Such actions will support our global competitiveness, international trade policies, interstate commerce, interstate passenger travel, emergency preparedness, and national defense; all of which are compelling national interests.

Conclusion

If we are to be successful in growing our economy and competing successfully in the global marketplace, our intermodal transportation system must be improved dramatically, and begin to work as an effective, modern, and integrated whole. We can no longer view

any transportation mode in isolation, but rather, must look at our system comprehensively, and in its entirety.

As previously stated, our aging infrastructure and the shipping inefficiencies it creates has added an estimated three to four days of transit time to our shipping. We estimate that this alone costs Caterpillar millions in cash flow. Imagine the broader impacts throughout the national economy, and the impact it is having on the ability of the United States to compete in the global economy? America needs a multi-year surface transportation reauthorization so that we can begin to rebuild our infrastructure, and get back on the road to competitiveness.

Thank you Mr. Chairman, Ranking Member Rahall, and members of the Committee for the opportunity to share with you the views of Caterpillar on this crucial topic. Caterpillar stands ready to work with you and your colleagues in Congress to move surface transportation reauthorization forward. I look forward to your questions.