

**THE FINANCIAL, DECISION-MAKING AND POLITICAL DIMENSIONS OF  
FINANCING AND LOCATING GOODS MOVEMENT TRANSPORTATION  
FACILITIES IN SOUTHERN CALIFORNIA**

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**A. INTRODUCITON**

The late Mel Weber, Professor at the University of California at Berkeley and “Dean” of California transportation planners and faculty once said, “One can’t fully understand the problem until you know the solution.”

My task today is to convince you that there is a solution – both to the mitigation of goods movement impacts such as pollution and congestion and to most of our other pollution and congestion issues. According to Mel, if we know the solution we also know the problem. According to me the problem is the inability of our society, its culture, ethics and laws, to hold the user (consumer) accountable for the costs of what we inflict on others.

I will discuss first why I believe our present approach to dealing with externalities is ineffective and that unless we commit to the ethic of holding the user (consumer) more directly accountable for the consequences of one’s use, we have no chance in the long term – maybe in the short term – to solve and mitigate some of our region’s, country’s and earth’s most challenging issues and dangers.

I will then discuss some of the basic dimensions of financing and construction of goods movement facilities and goods movement mitigations in Southern California and make the case that in order to solve these externalities we need to facilitate the growth of the Ports.

My basic premise is: **The inevitable legacy of externalities is that a cost which is not accounted for in the private economy will turn up, sooner or later, as a public cost to government or society in the form of pollution or congestion.**

Because we most often use governmental resources to treat the externality after it has already occurred, rather than prevent it, our solution (such as spending tax money or regulating) is highly wasteful or inefficient or cannot mitigate the externality at all. Our overall approach to dealing with externalities is wrong and mis-focused.

We try to manage or treat the externality with the traditional governmental toolbox of spending **tax money** (as opposed to user fees), **regulation or planning**. These tools have their place but inevitably increasing externalities spawned by our technological advances will overpower our traditional governmental interventions and mechanisms designed to mitigate the externality.

Our real solution will be to charge the user (beneficiary) more directly the total cost of one's consumption choices – which are increasingly bigger houses, bigger cars, longer trips.

An example: When I drive I create costs (pollution and congestion) for which I am not held directly accountable and thus these costs are passed onto society or to the environment as a whole.

The T.V. passing through the Port of Southern California on its way to Iowa creates pollution and congestion for which the ultimate user (beneficiary) in Iowa does not pay and thus these costs are passed to those of us in Southern California – in the form of unfunded grade separations, freeway congestion, higher road and highway maintenance costs, and air and water pollution risks.

I am advocating a new way to use price to better allocate our resource use.

**This requires nothing less than a new definition of the role of government: The role of government must shift from just providing services to creating opportunities and an environment for all of us to become more directly responsible and accountable for the costs we inflict on others.**

This has a number of important implications:

- a. The impact of goods movement – diesel pollution, congestion, increased highway maintenance costs – is of the same nature: all are externalities; the solutions are similar.

b. Our governmental tools and approach to dealing with these issues have not evolved to compete effectively with the perverse unintended (and under-appreciated) impact of technological progress: **the increasing ability of technology to enable all of us to impose (external) costs on others as a consequence of our daily consuming lives.**

c. Nothing is local anymore. Everything we do affects someone else – and the scale of these effects is increasing.

An example: Looking back 200 years when one traveled to work one generated very little impact; virtually no externalities. Horses or walking were the modes. Trips were short. And, yes, horses do produce some localized side effects and walking none.

Such commuter behavior was quite different from driving – which has global effects; oil spills 3000 miles away; climate change. Endangering health. Enabling plants to grow in places they couldn't before – from airborne nitrates- and thus endangering native plants and animals.

d. Air pollution and congestion effects of driving are much less the result of “bad” governmental environmental, planning, spending and regulatory decisions than the inevitable result of not charging all of us the full costs of our driving behavior and consumption – thus we have little incentive to conserve and change behaviors.

e. **I would submit, and this a quite different way of looking at why we are having difficulty mitigating many of our externalities, is that as a percentage of the total actual cost of consuming a product (i.e. both direct costs and externalities) externality costs are increasing. This fact is largely ignored by our economic and political system, especially when trying to treat the social costs of over consumption.**

**Technology has enabled us to foist ever increasing costs on others. In other words technology, for all its benefits, is the driving force behind the increase of negative externalities in our economy.**

f. Thus, the user pays, ever since the advent of the industrial revolution, less and less of the real, total cost of consuming and this has three consequences:

1) It provides an incentive to over-consume

2) It provides no incentive to reduce the impact of one's actions or consumption.

3) And, it causes government to try to intervene to treat the externality at a higher cost than prevention, using inadequate, expensive, and inefficient tools.

**To repeat: The basic premise: The inevitable legacy of externalities is that a cost which is not accounted for in a private economy will turn up, sooner or later, as a public cost to government or society in the form of pollution or congestion. And, the role of government must shift from just providing services to creating opportunities**

**and an environment for all of us to become more directly responsible and accountable for the costs we inflict on others. This means internalizing externalities into our prices.**

When externalities are present there is frequently a mis-match between benefits and costs. This is another way of saying that subsidies exist. Goods movement through Southern California from the seaports is an example.

More than 75% of goods flowing through the Long Beach and Los Angeles ports leave southern California. As noted these goods have very high externality costs which are largely borne by Southern Californians to the financial benefit of those who consume these goods elsewhere. This creates a disconnect between those who pay and those who benefit. This is a form of subsidy. I will discuss this in more detail later.

The unfortunate trend in transportation finance is that there is also increasing disconnect between the transportation user and who pays, even disregarding external costs. For instance, the gasoline tax, as a consequence of inflation and more efficient vehicles is producing only about 35% of the revenue per mile traveled compared to 30 years ago. As a result, investment in transportation is declining and non-user based taxes such as sales taxes are contributing increasingly to transportation maintenance and facilities. “Third parties” are paying an increasing share.

Some of you are already thinking – but if we do these things, such as charge more for the cost of product - it will hurt the poor.

The answer is, “**Not if this issue is dealt with honestly.**” It is not the poor who use and consume a disproportionate share of our resources and goods. A policy which shields the consumer from paying the real, total costs of products and consumption is a massive subsidy to the most affluent – who do consume a disproportionate share of goods and finite resources.

Moving to policies which price goods more honestly and using some of the proceeds to provide vouchers or other welfare mechanisms to protect those in need will improve equity and have the added bonus of providing incentives (or disincentives) for the rest of us to conserve and choose more benign products.

This is truly a win-win opportunity and is completely aligned with two powerful and often opposing political ideologies: One which advocates greater equity and protection of the poor and the environment and another which upholds the role of price (rather than government regulation) in allocating resources.

**To Summarize:**

**We have don't enough governmental resources (especially enough money) to solve the impacts of increasing externalities without holding the user more directly**

**accountable to paying for the total costs of one's actions and consumption – including the externalities.**

This user pay proposition has direct bearing on solving the externalities of goods movement. This proposition may seem simplistic and certainly politically difficult. It is. That said, I am convinced that this major change in what we expect from government and public policy is our only chance to effectively deal with what I called the perverse consequences of our technology. We have no choice.

## **B. SOME BASICS ABOUT THE LOGISTICS OF THE SOUTHERN CALIFORNIA PORTS SYSTEM**

Our attention should not be on the Long Beach and Los Angeles Ports, rather on the Port of Southern California. The containers entering the ports have impacts on the transportation systems and public health in all of the SCAG area – particularly the Inland Empire. All issues are system-wide issues. The irony is that the most serious limitations on future expansion of the ports is on the **landside**; not the **seaside** part of the system. Yet we do not have anything approaching a system-wide policy or decision-making process.

Here are the volume basics: Long Beach/Los Angeles: **16** million TEU vs. Oakland **2.2** million TEU (TEU= twenty foot equivalent unit)

**11%** growth in 2006 = **1.7** million TEU

Thus, the one year growth at Long Beach/Los Angeles is equal to **75%** of total the **total** TEU's at Oakland.

There is also a big difference in the function of the two ports: In Oakland about **67%** of container volume is for **local** market vs. **23%** Los Angeles/Long Beach.

Los Angeles /Long Beach is **45-50%** of total US import containers

The ratio of the total value of goods at Los Angeles/Long Beach is **12 to 1** compared to Oakland.

Where do the goods go?

77% leave the area – mostly out of state

23% are consumed in Southern California.

Of the 77% leaving Southern California 43% are moved directly by train.

34% are transloaded and then moved out of state by train.

Transloading means removing the goods from the imported container and repackaging (most likely into a larger 53' container). Most often the marine container will be taken by truck to a distribution/deconsolidation facility and then by truck to intermodal freight rail facility for shipment out of state by train.

In the past 10 years there has been an amazing change. Prior to 1996 virtually **no** transloading occurred. (Spell check still doesn't recognize transloading as a word.)

The economics of how much freight arrives at LongBeach/LosAngeles ports and what happens to it next (i.e. direct shipping by train or truck, deconsolidation etc.) are tradeoffs among the key cost components of moving goods:

These cost components are:

1. Cost of transportation – ship, rail, truck
2. Cost of loading and unloading.
3. The cost of carrying of these goods, i.e. the amount of stocks in the pipeline at a given time.
4. The time it takes to deliver to the final destination. (Thus congestion translates into an increase in stocks which are pipeline and this increase is an expense.)

Supply chain management is built around the idea that “trucks and trains are a moving warehouse.”

**What is important to those concerned about how to mitigate the negative effects of goods movement is to formulate a mitigation strategy with a complete and realistic understanding of the economics which are driving goods movement operations. This means having an appreciation of the economic impacts of goods movement in Southern California so that we can formulate an optimal financing plan for the needed mitigations.**

Why are 34% of goods transloaded?

1. Transloading can delay the decision to allocate goods to an end destination and the ability to delay this decision translates into a reduction of pipeline and safety stocks - and this means a net reduction in delivery costs for many goods.

This decision can be delayed to just 3 days before arriving at the destination port (LALB) vs. 25-40 days lead-time if direct shipping to end destination. This can reduce total pipeline stock by 18-20%. This is a very big savings.

There is a trade-off between lower transportation costs (without transloading) and reduction of inventory costs (with transloading). Generally the higher value goods are more likely to be transloaded – because the savings results in a reduction of the amount of goods which are in transit.

Importers of **moderate value** goods (retail furniture and Wal-Mart) are more likely to transload at the **nearest** port because it will be cheaper. Importers of **high value** goods (Sony) are more likely to transload at a **single** West Coast port

The cost of pipeline and safety stocks inventories is often larger than the total cost of transporting goods from Asia to the destination distribution. The reason safety stocks can be reduced is that the transloading reduces the error in forecasting which stores will need to be re-supplied – because one doesn't have to guess which stores will need particular items nearly as far in advance. Also, with a single distribution center, the retailer can deliver a high percentage of needed inventories (if not quite 100%) to all stores if there is a disruption in supply rather than not being able to deliver anything to some stores...

2. Transloading also offers the opportunity to move goods from 40' marine container to 53' truck container – an increase of 60 to 70%.
3. The evolution to larger container ships will likely reinforce transloading vs. multiple ports. New ships are 1000' to 1300' long and will handle 8,000 to 11,000 TEU's.
4. Transloading is essentially a “side trip” to a “de-consolidation” center. This movement generates extra costs of two additional lifts and two extra days. Thus, there is a critical trade-off between added transportation expenses vs. inventory savings

With or without transloading the rule of thumb is that rail freight becomes cheaper than truck freight for a trip longer than 700 miles. This is why short rail, in which an additional off-load/load is needed, is probably not feasible without a subsidy to cover the additional costs.

Everyone would like to get more of the goods on rail vs. truck – but doing so faces overwhelming economic factors which work against this objective.

The big issue is whether to subsidize short rail (with unknown and perhaps little social benefit) or create a user-based revenue stream (container fees) which will facilitate the flow of goods to deconsolidation centers and by rail out-of-state while at the same time mitigating the environmental and traffic impacts.

### C. “GOOD” FREIGHT AND “BAD” FREIGHT – IT IS BOTH

I have repeatedly said over the past 10 years that I believe goods movement is the single greatest threat to both the quality of life and mobility in the Inland Empire – and to some other areas of Southern California

And also that logistics and goods movement is very important to our economy and our lives.

The point is that some freight is “good” freight – it provides employment and economic activity for the region. And some freight is “bad” freight – it has impact on local transportation systems and public health for which Southern California is not compensated or mitigated. The same container can be both.

These unmitigated costs are in reality a **subsidy** provided by Southern Californians to the ultimate consumer of the goods and/or to the sea Ports. “Why should Southern California bear the costs and inconvenience so that someone living in Iowa can pay less for a TV made in Korea?”

Our challenge as Gil Hicks has said is to achieve “**environmental justice**” and “**economic justice**” at the same time. I submit that a policy of achieving environmental justice by trying to stop the ports will do little to improve existing air pollution problems and will reduce jobs. Whereas, a policy which facilitates the movement of goods to produce the revenues necessary to mitigate the negative effects can serve both environmental and economic justice.

#### D. WHAT ARE THE IMPACTS OF “BAD” FREIGHT?

**Increased air pollution – particularly diesel particulates:** Diesel fuel usage and in particular diesel particulates, create smog components most correlated to reduced lung function, cancer, and heart disease. Goods movement (trucks, trains, ships etc.) are major users of diesel fuels. The new “State Goods Movement Action Plan” states, “Goods movement is now the dominant contributor to transportation-related emissions in the State.” A significant engine retrofit program is needed for trucks and trains and new enforceable standards for ships.

**Increased congestion from un-separated rail tracks and arterial roads:** Alameda Corridor East is the name given to the BNSF and Southern Pacific rail lines which cross Los Angeles, Orange, Riverside and San Bernardino counties from the Hobart rail lines in East Los Angeles. There are **125** grade separations needed to mitigate the delay effects of longer and more frequent freight trains at locations where the rail tracks cross roads and highways. These projects will cost at least **\$4.0 billion**. Virtually none of these grade separations would be needed if port rail traffic did **not** exist. (i.e. rail activity without the Ports would not generate enough delay to justify these expenditures. Therefore, because rail freight provides goods only to consumers outside of Southern California, the need for the grade separations should more equitably be paid for by non-California consumers.

A few months ago I attended a meeting in Sacramento to discuss container fees with industry representatives. I was most amused with the response of one of the participants

when I pointed out that these grade separations would not be needed were it not for the ports. That response was, “The problem is that the need for grade separations is not the rail lines – it is that so many more people are crossing the tracks,” and that “Government should have controlled/stopped growth.”

I assured them that if legislators had the power to stop growth they would most likely stop port development first.

**Reduced freeway capacity:** Trucks in mixed flow lanes slow all traffic 30-40%. Projections of increased truck traffic (all sources) will shut down most Southern California freeways in the future... The cost to build a system of separated truck lanes will be in excess of \$20 billion.

**Trucks Don't Pay Sales Tax:** Virtually all gasoline/diesel taxes are now used only for maintenance and not capital. The vast majority of new construction money comes from county-wide sales tax for transportation and consequently are paid for largely by residents. Trucks don't pay sales tax.

**Increased freeway and road maintenance:** It is well documented that heavy trucks impose maintenance costs on highways and roads which are exponentially higher than lighter vehicles. One heavy truck (**5 axles, 80,000 lbs.**) is likely to cause maintenance impacts equal to **10,000** cars.

One of the most efficient mitigations to road and highway maintenance cost would be to move to a system of axle-based fees vs. total weight fees. This is done in some countries and results in a motivation to truck owners to use more axles, thus reducing maintenance costs. There is also research supporting the finding that axle-based fees could be imposed without imposing higher cost on the trucking industry as a whole, though heavier trucks would pay more of their fair share than is now the case.

**Delay on commuter rail lines because of conflict with freight rail:** Freight rail frequently causes delays on the Metrolink lines because of lack of capacity on some lines.

U.S. world trade policies, which save most Americans money – cheaper prices – should not also be a mechanism for Southern California residents to suffer higher costs – congestion, air pollution, lack of grade separations, etc.

In other words, recent Federal Administrations and Congress have enacted policies facilitating the expansion of world trade. I personally support liberalization of world trade. As a result American consumers are paying less for many goods **but** the Federal government has not taken responsibility for the increased costs such trade inflicts on urban areas having port facilities.

A further irony: By artificially lowering transportation costs (by not including the externalities of goods movement) we have created an incentive for manufacturing jobs to move further away – out of the country.

The Federal government has understandably recognized the need to attend to the port security issues involving potential terrorism. It is, however, unjustifiable that the Federal government has devoted essentially no resources or attention to providing security from the on-going disruption of mobility and from the health effects of port-generated goods. In the long term it is almost certain that these effects will have greater economic and health impact than port-related terrorism. The point is that both are important.

#### E. WHAT ARE THE BENEFITS OF “GOOD” FREIGHT?

Economist John Husing has stated that logistics employment is “one of few non-population related sectors of the Southern California economy to provide significant job growth since 1990.” His 2005 study concluded that average logistics pay exceeds most blue collar jobs:

Manufacturing:	\$43,800
Construction:	\$40,400
Logistics:	\$45,300

The transloading process is a value-adding process which provides economic benefit far greater than does freight which is shipped directly out of the area. In a sense, the freight container is a “tourist” and by staying overnight becomes more valuable to the local economy.

Husing has also stated that goods movement at Port and distribution facilities provide jobs which won’t migrate elsewhere. They must be here. This, in the context of an economy, according to Husing, in which Southern California is “losing jobs that pay well and don’t have to stay in the region,” such as aerospace and electronics. To also quote Husing, “Logistics is one of few non-population related sectors of the Southern California economy to provide significant job growth since 1990.”

One in 12 jobs in Southern California is related to transportation. Job growth in transloading centers has been particularly strong and added to significant employment expansion in the Inland Empire. For instance, from 1990 to 2005 Riverside County went from 304,000 to 574,000 jobs; San Bernardino from 409,000 to 643,000 jobs. During this time Los Angeles County added virtually no net new jobs.

#### E. SOLUTIONS AND STRATEGIES

1. **The Basic Investments We Need To Make.** The following investments to mitigate (and improve) the flow of goods through Southern California are priorities in my mind:

- a. Diesel conversion and related air quality improvement investments (\$15 billion?)

b. Separated truck lanes (\$20-30 billion?) A significant portion of this cost should be paid for by tolls.

c. Grade separations: (\$4-5 billion)

d. Rail freight capacity investments – unknown amount. There may be justification for some “public” investment in increasing rail capacity.

Thus the total cost of needed mitigation measures is very large, at least \$40 billion.

## 2. Short-haul rail?

The “State Goods Movement Action Plan” states, “A key strategy to improve mobility is to increase the share of container moves by rail and decrease the share of container moves by truck.”

However, there are real questions about the feasibility of short haul rail and the capability of rail to supplant truck operations for the short hauls necessary to transport goods to distribution facilities. The extra costs of loading and unloading and the lack of deconsolidation space at rail lines are major barriers to short haul rail.

Some advocate moving freight by rail to the Banning and Victorville area to be transloaded there. It is possible this would create more truck movements back into the Los Angeles area. More detailed cost and feasibility analysis is clearly needed before committing to this strategy.

Recently both the possibility of Maglev cargo system and cargo rail (cargo moved overhead on pillars) has been proposed. I am not optimistic these will be feasible. However, appropriately, studies are underway on these possible systems.

In my view short haul rail (Maglev or not) will require a subsidy which is better spent elsewhere. Short haul rail may have minimal mitigation impacts on either congestion or air pollution.

The point is before and if we embark on an expensive program to incentivize shifting from truck to rail we need to take a very careful look at the cost and benefits. From what I have seen it will be cheaper and far more beneficial to subsidize the clean up of trucks and trains and invest in congestion relief infrastructure than to subsidize what would likely be a very small shift from truck to rail.

## F. HOW TO PAY FOR THE SOLUTIONS

This past week The Economist wrote, “In the end most of the long term solutions involve forcing Americans to pay for the full cost of using their roads, airports, and railways.”

There are not many alternatives. Existing revenue streams (transportation revenue streams are more like a dry wash) are diminishing and not sufficient for traditional transportation investment and maintenance.

There is little hope of significant Federal outlays – but we should try.

The State Transportation Improvement Program (**STIP**) is “dead” That is, almost all of the gasoline taxes, Federal and state, which have funded the STIP in the past, are now allocated for maintenance of the system with little available for new infrastructure. The new State Bond Funds allocated for goods movement, though helpful, are only **\$3B** - at most **10%** of total cost of mitigations.

The only option which has any hope of improving mobility and air pollution improvements is to treat the costs of transporting goods and related externalities as a commodity and do so in the most neutral and equitable manner: such as container fees.

Those who oppose “honest” user fees on the grounds they are “taxes” don’t understand how a free economy allocates resources; nor that by not holding the consumer accountable for true costs of a product, taxes or other costs for everyone are bound to increase.

When user fees can be imposed (meaning that it is possible to clearly identify the beneficiary of the service or use and assess those beneficiaries) but are not, the costs to society will inevitably be higher - and will often lead to higher taxes to mitigate or treat the negative externalities of over use and over consumption.

**Thus, those who oppose user fees on the grounds that they are “taxes” actually encourage a policy which will increase costs and taxes to society as a whole.**

Some form of user fees (such as a container fee or customs tax) appears to be the most efficient and equitable approach. The customs tax can be viewed as a surrogate user fee. About **\$7.0** billion of customs tax is collected in Los Angeles port area – over 20% of national total and up significantly in the past few years. Virtually all of this goes to the United States Treasury to pay for non-transportation programs. Shifting some percentage of the annual increment of the customs tax for goods movement mitigation would be very helpful and logical but this is unlikely.

Gaining support, or at least concurrence, of the private goods movement sector will be a challenge. For such to happen, it would have to be a package with a clear-cut nexus between the funds raised and how such funds will be invested. It will have to include “firewalls” so the funds cannot be diverted to other purposes. And, the package must also deal with mitigation of air impacts of goods movement, not just mobility.

I am discouraged by the lack of the State’s willingness to directly confront the funding issue and virtually ignoring the concept of container fees. This inadequacy is evident in the just released “State Goods Movement Action Plan”. The Plan dances around the

fundamental funding issues and identifies at most 15%, the \$3 billion from state bonds, of a likely underestimated total need of \$20 billion. It is hard to understand where the “action” is with more than 85% of the “plan” is unfunded.

The Plan provides a long list of existing revenue sources. However, these sources are already committed to other programs and many of these sources, such as Federal and State gas taxes, are also declining in purchasing power.

There is oblique reference to some private funding, such as, “Equity participation from the private sector will be key to closing the gap.” The only mention of a container fee is in reference to the existing container fee for the Alameda Corridor, which was a mutually negotiated fee for that specific purpose.

The most aggressive statement in the State Action Plan is as follows: “User Fees – The issue of whether a system of user fees could be established to cover part of the public health and environmental mitigations costs raises many legal and policy issues . . . . This issue has been and is likely to continue to be the subject of ongoing discussion at the Legislature.” Hardly an endorsement.

In my opinion the State still is not able to provide leadership that is so desperately needed to raise and resolve the tough questions and to bring together those parties who will be essential in crafting a unified program.

#### G. WILL CONTAINER FEES (OR OTHER SIMILAR USER FEES) DIVERT GOODS FROM THE PORT OF SOUTHERN CALIFORNIA?

When the words container fees are spoken we frequently hear from the Ports and port industries that “Container fees will raise cost of doing business here and drive freight to Seattle and Vancouver.”

There are two possible responses to this.

First, it is probably not true – other ports would likely “equalize” by imposing fees to deal with their mitigation issues. There also appears to be a margin, up to which fees could be imposed, without causing any or much diversion. I will come back to this shortly.

Secondly, for a moment let us assume it is true – that diversion would occur if fees were imposed.

**If true, it is an admission that the Los Angeles and Long Beach Ports depend on Southern California residents to subsidize, pay for and endure nasty conditions in order to make the Ports economically viable.**

Congestion and pollution translate into **real** costs; **real** dollars. To the extent that Southern California residents are subjected to such costs from goods movement activities such subjugation is a subsidy of someone else's consumption and life style.

If ports and port-related activity have net economic value to Southern California (and I believe they do) such activities should be able to assist in paying necessary mitigation costs.

Our challenge is to mitigate the negative impacts of goods movement so that the port-driven job creation engine for Southern California can continue to expand.

And it must be a package - deal with environmental and congestion reduction issues.

The good news is, as described below, that there is high degree of likelihood that a container fee, if invested in infrastructure, would both mitigate the congestion effects of goods movement on our transportation system and reduce the cost of transporting goods across Southern California and would not lead to higher consumer prices. This is clearly a win/win situation.

Robert Leachman's research two years for SCAG concludes that a fee of up to \$200 per container, if invested in goods movement facilitation improvements, would cause minimal diversion from the Southern California ports. At \$200 per container great progress could be made to fund both environmental and congestion mitigations over the next few years.

There is also an additional benefit. Container fees will increase proportion of good which benefit from transloading because, as noted previously, as value of the goods increases, the economic benefit of transloading increases. This is a job development bonus.

#### H. THE LACK OF INSTITUTIONAL COLLABORATION AND STRUCTURE FOR DECISION-MAKING

Building a collaborative process when many of the players are in competition with each other is difficult. It has been noted that, "Public and private action in freight transportation policy, programs and finance remains a challenge given the competitive nature of the private freight business."

**No one wants to play their cards until there is a real negotiation. As yet there is no negotiating table at which the cards can be played and consensus possibly reached We lack an institutional model to deal with the inter-dependency of goods movement and mitigation. Goods movement policy is overwhelmed and overpowered by independent public and private decisions which have a dysfunctional impact on what should be a seamless system.**

The United States Chamber of Commerce, in a report issued in 2005 on goods movement stated:

“Freight planning in the United States is mode specific with no consideration of how the investment ties together with the global supply chain. As yet, there is no national freight planning and investment policy to foster the nation’s global trading competitiveness and integrate the modes and their underlying information systems into a cohesive system.”

## I. CONCLUSION

I began by talking about the inept way by which our society attempts to manage and mitigate externalities. I have presented a case for internalizing externalities into the price of goods. The mitigation of the negative impact of goods movement is one of our most important opportunities to apply these principles.

I then described both positive and negative aspects of freight flows through Southern California and described some of the key economic factors which influence the volume and type of goods arriving at the ports.

I have tried to make the case that user-based fees on goods movement (container fees) and subsequent investment in environmental mitigation, congestion mitigation and infrastructure to improve the flow of goods is our solution.

I have pointed out that freight moving through the Long Beach and Los Angeles Ports is more likely to be diverted to other ports by failure to invest in increasing landside congestion than from the imposition of container fees. In the unlikely case that diversion does occur, port growth will be slowed **but** we will be left with all our same problems and externalities – and no money to solve and mitigate them.

**I hope I have reconciled in your mind my seemingly contradictory position that freight movement is both a major threat to our quality of life and that user fee financed investments and environmental mitigations to enable the expansion of port and port related activities is also the solution to our conundrum.**

Thank you.

