Before the

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Statement of

Rick Gabrielson
Director of International Transportation
Target

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TARGET

33 South Sixth Street
Minneapolis, MN 55402

INTRODUCTION

Chairman Lautenberg, Ranking Member Thune, and members of the Subcommittee, thank you for inviting Target to testify before you today. Target is a member of the Retail Industry Leaders Association, and on behalf of the industry, I want to thank you for giving us this opportunity to have a retailer's voice at the table to discuss our nation's transportation system and the need for a national freight policy. My name is Rick Gabrielson and I am responsible for overseeing the global flow of Target's direct imports from the manufacturing markets overseas into the U.S. As the Director of International Transportation for Target, my testimony will specifically address some of the challenges Target experiences in today's supply chain and our recommended solutions to ensure that our nation's freight corridors remain fluid.

BACKGROUND

For background, Target is a 62 billion dollar U.S.-based retailer with approximately 1700 stores operating in 49 states with more than 350,000 team members. Target is the second largest importer of containers in the United States and we operate 37 distribution centers throughout the country.

Each year our distribution centers will collectively process more than 790 million cartons of product from direct imports and domestic purchases.

To demonstrate the complexity of our supply chain, let me illustrate the process that Target goes through to route an imported tee-shirt. Once an order is placed, the tee-shirt begins its journey at an overseas factory, where we have strict compliance regulations; it is then stuffed into a container and moved by truck to a foreign port to be placed on an ocean vessel. The ocean vessel carries it to one of six major port gateways in the United States that Target utilizes. These gateways include: LA/Long Beach, Oakland, and Seattle/Tacoma on the West Coast and Savannah, Norfolk, and NY/NJ on the East Coast. Once it reaches a U.S. port, the tee-shirt is then processed through third party facilities which combine it with similar clothing items arriving from a number of other countries. This completed order is then carried by domestic trailers that travel to our distribution facilities by a combination of truckload and intermodal services.

At the same time our imported tee-shirt and other imported items are making their way to the distribution center, Target has products like toothpaste or tissue paper that are sourced from our North American vendors. Our domestic products move by either truckload or intermodal services based on the distance from each distribution center. Smaller shipments are combined into truckload shipments when feasible through our third party domestic consolidation network.

Once the trailers carrying the tee-shirt and our tissue paper have reached our distribution center, both imported and domestic product categories are processed in the warehouse by individual store assignments and shipped by truck to the stores. This ultimately concludes the tee-shirt and tissue papers' delivery as it has finally reached the store shelf. When taking into account the productivity issues, security concerns, and potential weather conditions that may exist during the course of the above actions, it is easy to understand why our supply chain relies on a well connected and fluid transportation network.

As a retailer, we are a customer of the entire system – we utilize the carriers, the ports, and the surface transportation corridors, both truck and rail. My responsibility is to leverage this system to deliver goods to our guests flawlessly, ensuring we achieve the lowest possible cost, meet shipping grid timelines and maintain adequate capacity to meet our network volume needs. Congestion, delays and capacity shortfalls greatly increase the risk of disappointing our guests by not providing full shelves of product to meet their needs.

CURRENT CONDITIONS

Shippers are facing a number of challenges today. We are in need of a reliable and consistent supply chain. Inconsistency drives increases in inventory and lead time which drive increased costs. Supply chain cargo flows are driven by a need to minimize variable costs such as fuel, port fees and the threat of proposed container fees. These are all factors we consider when selecting gateways. Like many shippers, Target and our core providers currently experience a number of bottlenecks or inefficiencies as a result of infrastructure not keeping pace with demand.

We are all aware of the impact the global down turn has had on our economy and the world markets. An estimated 12 percent of the world's container fleet is sitting idle. While this may be a grim fact, there is actually a silver lining in this cloud.

The depressed volumes as a result of the global economic downturn have actually secured more time to develop the infrastructure needed to sustain our longer range growth. This is vital to our economic well being. If we do not capitalize on this grace period, we will not be prepared to meet our nation's infrastructure needs which will significantly impact our economy. We must have a solid plan to move forward and we must know where to prioritize our vital resources.

Currently approximately 50 percent of cargo that moves into the west coast ports from Asia is discretionary cargo and flows to portions of the Midwest, Mid-Atlantic and the East Coast. One of the significant trends taking place is the diversification by shippers to use alternative gateways into the U.S., such as Savannah and Norfolk to serve mid Atlantic markets and Houston and Prince Rupert in Canada to serve the Midwest. This industry shift is driven by costs, ease of conducting business, and minimizing risk.

Once the widening of the Panama Canal is completed in 2014, the landscape of how cargo moves from Asia will change even more dramatically. Today's largest post-Panamax vessels will be able to move through the canal to the East Coast thereby increasing capacity. This potential shift illustrates the need to have a strong connection to industry stakeholders and to maintain accurate data to adequately determine what the current infrastructure needs are and what they will be in the future. Without this vital information, changes to infrastructure could take place only to determine that the optimum infrastructure solution was not achieved.

RE-DEFINING THE NATIONAL FOCUS

As we look at our nation's transportation policy, it is important to note there has been only a small level of federal involvement in goods movement despite the economic significance of efficient freight movement to our nation. Therefore we advocate that the Office of Intermodalism be re-established within the Office of the Secretary of Transportation and that it hires modal freight specialists with the office of policy to support the effort. Policies that promote international trade and increase goods moving through ports and onto railroads, highways and waterways, for example, could be coordinated within this office to make sure sufficient capacity exists. It could help determine those regional and national infrastructure projects that impact goods movement such as the CREATE Project in Chicago, the Gerald Desmond Bridge in Southern California, and the Bayonne Bridge in New York instead of the compartmental approach that currently takes place at the Department. Target recognizes that funds are limited but it is imperative that we develop a centralized office within the Secretary's Office that can help prioritize the most vital projects with insight from the industry stakeholders.

While specific projects are identified and funded, it is also vital that we look at the complete connectivity of the supply chain including the last mile connectors. Completion of projects like the deepening of the channel at the port of Savannah or the replacement of the Gerald Desmond Bridge in California will not maximize productivity and reduce overall congestion if we don't examine the last mile connectors. These are the short, local or state roads that allow for the efficient movement of shipments to major roadways and rail links. The last mile connectors provide for a smooth transition to the final destination point. A great example is the need for the widening of State Highway 21 in Savannah, Georgia, which is a designated route out of the Port. Increased volumes in and out of the region have placed a great deal of congestion on this road. As the Panama Canal is widened, larger vessels will call this port on a more frequent basis. However, if the connectors are not addressed, congestion will increase and cause significant delays in moving cargo out of the port to its final destination. Virtually all major gateways have similar situations and potential roadblocks to growth. As we look at major infrastructure projects, we must also examine their related connectors for improvement. If connectors are a weak link in the system, they will most certainly raise shipping costs, as well as reduce the productivity and competitiveness of U.S. businesses.

Using more rail and short sea shipping rather than trucks is frequently mentioned as an alternative to address capacity and congestion issues. This is also cited as more environmentally sound which is something that is very important to Target as we move forward with the crafting of this legislation. While there are opportunities to use our railroads, inland waterways, and smaller regional ports to move goods, there are barriers that prevent the concept from gaining broader acceptance with some cargo shippers. To become effective, on-dock or near-dock rail facilities are needed to improve the flow of cargo out of the ports. Also, certain provisions of the Jones Act must be modified such as double taxation of the Harbor Maintenance Tax to benefit short sea shipping. From a shipper's perspective, the handling costs and transit time differences must outweigh those of other modes. With these obstacles yet to be addressed, the concept does warrant additional consideration as we look forward to creating a more national approach to goods movement.

FINANCING

Our nation needs a long-range comprehensive goods movement strategy that encompasses all modes of transportation with respect to goods or freight movement; this inevitably includes ports, port connectors, intermodal rail connectors, highways and waterways. As the next surface transportation authorization bill is written, Target strongly believes that legislation should provide dedicated funds for goods movement. These dedicated funds should aim to support capital investment in critical freight transportation infrastructure which in turn will provide higher productivity and enhanced global competitiveness. Our competitors, such as China, Canada, and emerging markets such as Vietnam have made, and are continuing to make, significant financial investments in their infrastructure in order to move their goods more quickly. The U.S. must make a similar investment in order to remain competitive in a global economy.

The concepts of public private partnerships, Federal tax incentives, and bonds to promote private investment in funding infrastructure projects must also be embraced. Candidly, we have more projects than we have available funding at the federal, state, and local levels. Not only would these concepts bring additional funding to the table, but a 2008 Department of Transportation report found that states and localities can reduce project costs and accelerate project delivery through well-balanced public private partnership concession agreements. Bringing more funding to the table through private investment options should be considered to develop a competitive national transportation system.

As mentioned earlier, the Panama Canal is scheduled to be completed in 2014. A specific focus needs to take place on how to potentially help fund the east coast ports as they begin their efforts of expansion. Target is supportive of isolating the Harbor Maintenance Tax in a firewalled account to be used for its original intended purpose of harbor maintenance and dredging projects. This is necessary to keep our inland waterways, locks and dams and ports in good working order and capable of handling capacity well into the future.

As legislation continues to develop, Target, as a large retailer, would like to have a seat at the table as financing options are discussed. Like you, Target is aware of the current revenue mechanisms and understands the challenges we face in increasing such fees. Target understands that as a user of the system, we will have to pay increased user fees in order to maintain and expand current infrastructure. However, we strongly believe that some revenue methods fall disproportionately on the retailer and we hope that an all inclusive national freight policy would focus on raising revenues on all the users of the system.

CONCLUSION

Before I conclude, I would like to commend Chairman Rockefeller and Subcommittee Chairman Lautenberg for introducing legislation that seeks to establish a new approach and a new standard for the next surface transportation reauthorization.   Our country is in need of a national focus that looks at the current system in a comprehensive manner and seeks to address policy involvement from the federal level.

One of the stated objectives of your proposed legislation is to address the reduction of carbon-related emissions. At Target, we are continuing to take more control of our supply chain, especially in the area of sustainability. Target is a founding member of the Coalition for Responsible Transportation (CRT). CRT is an industry lead solution aimed at replacing older fuel inefficient, high emissions trucks with cleaner alternative fuel or clean diesel trucks using a creative financing model that doesn’t disenfranchise independent owner operators. To date, this group has replaced in excess of 1,500 older high emissions vehicles with cleaner lower emissions vehicles.

I am particularly grateful for your ideas and look forward to working with you as the next surface transportation reauthorization bill develops. I want to thank you for the opportunity to speak to you today and would welcome any questions.