

Steve Odland Speech - US Chamber of Commerce July 15, 2009

The Office Depot Story

- When I joined Office Depot in 2005, transportation considerations were a significant part of doing business as a global retailer.
- At Office Depot, we are Taking Care of Business for millions of customers around the globe – everyday.
- For the local corner store as well as the Fortune 500 company, Office Depot provides products and services to its customers through 1,600+ worldwide retail stores, a dedicated sales force, top-rated catalogs and an almost \$5 billion e-commerce operation.
- Office Depot has annual sales of approximately \$14.5 billion and employs about 42,000 associates around the world.
- The Company provides more office products and services to more customers in more countries than any other company, and current sells directly or through affiliates in 48 countries.
- Starting as a single store in south Florida in 1986, Office Depot has grown significantly over the past 23 years.
- Today, 58% of our sales come outside of our North American Retail stores...divided equally between our delivery business in North America (29%) and our International operation (29%).
- In turn, this has required upgrades in our IT functions, technology skills and transportation capabilities in general.

Office Depot and the U.S. Transportation System

- Today's transportation environment at Office Depot includes two separate North American supply chains: one for our retail and one for our business solutions division serving our business and contract customers.
- All of Office Depot's operations are supported by a complex network of cross docks, warehouses and delivery operations. In fact we make a half million deliveries every week direct to customers and deliver to our more than 1100 stores multiple times per week.
- Of course, all of our logistics and retail outlets are supported by the respective country's transportation network – the system of roads and rails, ports and rivers, transit systems and airports that move our employees, customers, and products every day.

The Commission

- Congress created The National Surface Transportation Policy and Revenue Study Commission in 2005 under Section 1909 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act—A Legacy for Users (SAFETEA-LU). The Commission was created because, as Congress declared, "it is in the national interest to preserve and enhance the surface transportation system to meet the needs of the United States for the 21st century."
- The Commission was comprised of 12 members, representing: Federal, state and local governments; metropolitan planning organizations; transportation-related industries; and public interest organizations. One member was the U.S. Secretary of Transportation, who chaired the Commission. Three members were appointed by

the President; two by the Speaker of the U.S. House of Representatives; two by the U.S. House minority leader; two by the U.S. Senate majority leader; and two by the U.S. Senate minority leader. In 2005, I was appointed to the Commission by President Bush.

- The Commission worked to examine not only the condition and future needs of the nation's surface transportation system, but also short and long-term alternatives to replace or supplement the fuel tax as the principal revenue source to support the Highway Trust Fund over the next 30 years. The study required an assessment of the current condition and performance of the Interstate System and the future of the Interstate System, based on a range of legislative and policy approaches for 15-, 30, and 50-year time periods. We looked at numerous factors that could determine the future of the system, including demographic and economic changes, the expected use of the surface transportation system, and the potential for expansion, upgrades, or other changes.
- The Commission expired on July 7, 2008. But for two years, the Commission met with national transportation advocates, policymakers, and representatives from industry, labor, and the general public about the challenges facing America's surface transportation network. We held hearings all over the country.
- It was an eye-opening experience.
- While I had been exposed to the strengths and weaknesses of our transportation system throughout my professional career, this was the first time I had taken a really comprehensive look at the nation's transportation network.

- Instead of looking at the supply chain and our retail needs as a complex obstacle course to be navigated, I looked at the system as a policy-maker and advocate for the general business community.
- The first half of our nation's history saw that economic development was directly tied to infrastructure development. The creation of roads for vehicles and the transcontinental railroad led to trade and prosperity across the vast continent. This in turn vaulted the nation into a position of significance in the world. The second half of our history has been dominated by the move from an agrarian society, through the industrial revolution, into a largely urban society and the world's primary economic and military superpower. All of this was facilitated by the foresight of private and public sector leaders who further developed the country's infrastructure including the interstate highway system, the nation's freight rail system, and urban mass transit. Now we have outgrown this system and it is time for new leadership to step up with a vision for the next 50 years that will ensure U.S. prosperity and global preeminence for generations to come.
- During my time on the Commission I was exposed to some interesting data:
 - Approximately 42,000 people are killed annually on the nation's highways, with 15,000 of those traffic fatalities in crashes where substandard road conditions, obsolete designs, or roadside hazards were a factor.
 - That is the equivalent of having a commercial jet fall out of the sky every day.
 - \$78 billion worth of time and fuel is lost each year due to a decaying surface transportation system and the economic cost of vehicle crashes is about \$230 billion dollars each year.

- But, what was most striking was how these challenges are accelerating:
 - Over the last two decades, the time commuters spent in traffic increased from 25 to 85 hours annually.
 - Even with the current economic challenges, we're still expecting to see the nation's population to swell to 420 million people by the middle of the century – a 50% increase over 50 years.
 - That's the equivalent of 11 new Los Angeles metropolitan areas spread out on a transportation grid already strained by congestion and disrepair.
 - As a result, by 2050, congestion costs could represent 14 percent of national GDP.
 - To provide some perspective, that would be up from 1.5 percent of GDP in 2003.

The United States now has incredible economic potential but has significant transportation needs to fulfill this potential. We need to invest \$225 billion annually for the next 25 years to upgrade our existing system to a state of good repair and begin creating a more advanced surface transportation system for the next 50 years to sustain and ensure strong economic growth in the years ahead. The current levels of fuel tax alone will not sustain the existing system and keep America competitive. A significant increase in public funding is needed.

Additional and continual private investment in our system is needed. And we will need to charge for the use of our system. More tolling will need to be implemented and new and innovative ways of funding our future system will need to be employed. Maintenance and expansion of our freight system will require a set of policy tools that incent more private investment and directs public funds toward projects which alleviate capacity constraints and allow for more traffic to

flow across an efficient, sustainable inter-modal freight network. Chokepoints at our major gateways and trade corridors represent not just congestion and environmental hot spots, but a potential trade barrier as well. Trucks and rail will have to work even more closely in the coming years in order to deliver the commerce this nation produces, imports, and exports.

- Our nation will need to put more emphasis on transit and intercity passenger rail and make it a priority for our country. A cultural shift will need to take place across America to encourage our citizens to take transit or passenger rail when the option is given.
- In addition to putting more money into the system we also must create a system that is measured by a cost/benefit analysis and performance-based outcomes. We need a system that ensures each project is designed, approved, and completed quickly; one that provides a fully integrated mobility system that is the best in the world; one that emphasizes modal balance and mobility options; one that dramatically reduces fatalities and injuries, one that is environmentally sensitive and safe; one that minimizes use of our scarce energy resources; one that erases wasteful delays; one that supports just-in-time delivery; and one that allows economic development and output more significant than ever seen before in history.
- So what is the problem?
 - Layers of regulations and frivolous litigation slow infrastructure investment in every community, and the private sector is frequently deterred from making investments commensurate with demand.
 - Readily available technologies to improve the safety and management of our infrastructure aren't a priority...and demand management tools, such

as congestion pricing and off-peak delivery options, aren't utilized effectively.

- In sum, comprehensive transportation investment is simply no longer a priority in this country.
- The limited resources available for these investments have been stretched too thin and the process by which we invest has been made entirely too complicated.
- This is in stark contrast with our international competitors who are investing substantial sums into their emerging infrastructure.
- For example, China spends 9% of its GDP on infrastructure investment, which includes transportation, telecommunications and power networks, and India spends 5% and that number is rising.
- The United States, on the other hand, budgets only \$112 billion or 0.93 percent of its GDP.
- Despite these pervasive challenges, however, our system is still one of the best in the world and there is a lot we can do to chart a new course and address these needs.
- The Surface Transportation System of the United States is at a crossroads. The future of our nation's well-being, vitality, and global economic leadership is at stake. We must take significant, decisive action now to create and sustain the preeminent surface transportation system in the world.
- All levels of government and the private sector must make a renewed commitment to serving these complex needs and seeing beyond parochial interests.

- It all starts with making this a national priority and there's no better group to tackle that challenge, than the business community.

Commission Recommendations

- With regard to the Commission, much of our responsibility was to make specific recommendations about how to maintain and modernize this system to ensure it continues serving the needs of the United States.
- I hope Congress and the new Administration will take note of our findings as they develop legislation this year.
- The needs in the nation's surface transportation infrastructure are clear. This Commission is not the first to identify them. And now it is time for Americans to face facts: continued underinvestment and business-as-usual transportation policies and programs will have a detrimental impact on the ability of the United States to compete in the world economy and on the everyday lives of Americans. Steady economic growth and increasing and shifting population make a high-performing transportation system more important than ever.
- First and foremost, the Commission concluded that continuing the status quo is not an option, the consequences of inaction are just too great:
 - The nation's current system will fall into further disrepair;
 - Automobile crashes will increase;
 - Congestion will grow; and
 - U.S. economic leadership will suffer.
- To change course, Congress needs to establish a new Federal Compact with the American people that

- Provides for a strong Federal role in surface transportation oriented to meet national interests;
 - Supports increased expenditures from all levels of government and the private sector to compensate for past investment failures while addressing significant increases in future demand;
 - Makes a commitment to make more effective use of taxpayers' funds for the national interest;
 - Emphasizes performance-based and cost-beneficial outcomes with accountability for a full range of economic, environmental, and social costs and benefits of investments; and
 - Advances far-reaching program reform to eliminate waste and delays in Federal funded program delivery.
- To maintain the margin of U.S. competitive advantage a transportation network providing reliable, fast, and cost-effective performance is critical.
 - Some things are working well:
 - Interstate system
 - Consistency of system, ease of use
 - Capacity outside key urban areas
 - Capacity inside urban areas during certain times of day and week
 - But there are issues:
 - Metropolitan congestion
 - Road conditions
 - Safety
 - Over the past 25 years the population has grown +28%, GDP +115%, vehicle miles have doubled and are growing at twice the rate of highway mileage growth

- Congestion costs a lot (\$200B?)
 - Causes increased inventory and therefore inefficient use of capital
 - More variable operating cost
 - Less customer service
 - Lowered efficiency, profits
 - Less global competitiveness
- In a “Just In Time” world, America needs to ensure it has the capacity in the right places to compete just in time. The local truck that delivers goods to a neighborhood store is often the last move in a supply chain that spans half the world, with the final retail price of those goods reflecting 10,000 miles of hard-gained freight transportation efficiencies within that chain.
- Over the next 50 years population will grow 50% and GDP can triple. But to do this we need capacity. If we do not step up and focus on this, we may slip from first place in the world to second or even third place as other countries pass us by.
- When it comes to funding and financing, every option must be considered to address the enormous problems of the aging transportation infrastructure.
- While I believe strongly in the free market, capitalist system and the role of the private sector, government also plays a very important role in funding and managing the surface transportation system in a combined effort with the private sector.
- It is essential that we de-politicize the process. Everyone from Congress itself to businesses to Main Street America is frustrated with the current process. The recommendation to create the National Surface Transportation Commission (NASTRAC) helps to take the politics out of the governance of this 50 year plan, and insure funding is targeted at the projects required for the entire US system. The

precedent has been set for a Commission like this in many areas including The Base Closure and Realignment Commission, Postal Regulatory Commission, and State Public Utility Commissions. We realize this recommendation is visionary, but you asked us to be visionary.

- The revenue issues continue to be the “elephant” in the room.
 - Unfortunately, much like many of our state and local communities around the country, we find the federal transportation programs in a dire budgetary situation.
 - As many of you know, the Highway Trust Fund is the main source of funding for these programs and is supported in large part by federal gas and diesel tax receipts.
 - Because our leaders here in Washington have had little appetite to raise taxes, the balance of the Trust Fund has been spent down to the point of insolvency.
 - If Congress and the Administration do not take action soon, we could see a 30-50% reduction in current federal programs.
 - The order of magnitude of such a cut is significant – as the federal government currently provides 40-45% of all highway and public transportation investments.
- Unfortunately there just aren’t a lot of ways out of this problem. The government can:

- Roll back existing programs commensurate with available funding and leave the rest to states and localities;
 - Continue with increased deficit spending or impose non-transportation tax increases; or
 - Borrow, essentially leaving the burden of these investments to the next generation
- Clearly, none of these options are all that attractive, but the Commission, along with the U.S. Chamber of Commerce and many other organizations around the country have determined that raising the gas tax is currently the simplest, most efficient way out of this problem.
 - Of course, our support for such a gas tax increase is dependent on whether or not Congress and the Administration can be better stewards of the system and the traveling public's taxes...and advance a responsible legislative package of reform.
 - These objectives will not be advanced easily or without sacrifice -- which is why it's essential for the business community to reinforce Congress' efforts.
 - After all, these are investments in our future.

It's a Matter of Business

- For much of the 20th century, the transportation network in the U.S. was the gold standard of the world, led to great economic growth, and improved the standard of living for Americans.
- While the network still is impressive, it is at capacity in urban areas, is in disrepair throughout, and is not ready for the future.

- The American economy works in large measure because shippers, manufacturers, and service providers have a national transportation system connected to the international economy that provides many ways to access labor and move raw materials and finished products.
- Adequate transportation infrastructure capacity and reliable and cost-effective transportation services are essential to improve economic growth, increase productivity, and maintain the competitiveness of American businesses across all economic sectors. But as conditions and capacity deteriorate, the cost of doing business increases, and the congestion and waste of our time diminished our quality of life. All this means fewer jobs, increased prices, less value creation, and a loss of competitiveness vs the rest of the world.
- It's time that the business community does its part and makes this a top tier issue.
- I'm happy to see the U.S. Chamber of Commerce leading the way.
- This year, the nation's core surface transportation programs are up for reauthorization and we must convince our leaders in Washington to seize this critical opportunity and change course.
- Continuing the status quo is not an option.
- Our transportation system has helped build the greatest economic powerhouse in history. This has allowed us to become the greatest superpower nation. We should seek to build on that legacy for the next 50 years.
- Our recommendations are designed to create and sustain the preeminent surface transportation system in the world.
- Today, businesses from around the country will be visiting their members of Congress to let them know how critical this issue is to our economy and way of life.

- Today, we must let the politicians in Washington know that we mean business.
- The good news is that we can do it. The United States is the greatest nation in the world and our citizens need a better system. We cannot sit back and wait for the next generation to address these ever increasing needs. The crisis is now and we have a responsibility and obligation to create a safer, more secure, and ever more productive system. We need to create and sustain the preeminent surface transportation system in the world. We need to do it now.
- Thank you.

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