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From left: Bjorn Vang Jensen, Mark D. Schweitzer, Richard Smith

If you thought 2013 was wild, with freight rates bouncing up and down like a yo-yo, stick around. As the members of last year's Shippers Roundtable predicted, the sheer amount of new vessel capacity that was due for delivery during 2013 led to extreme volatility in the ocean trades. With Europe still in the doldrums and China's growth slowing, the resulting overcapacity depressed freight rates. Every time carriers tried to put through a general rate increase, they were successful for about a week and then watched rates fall back to pre-GRI levels or lower. The number of GRIs was "insane," said Bjorn Vang Jensen, vice president of global logistics for appliance maker Electrolux, and a participant in this year's Roundtable.

The rerun of vessel overcapacity and volatile freight rates will be compounded this year by the advent of the P3 Network among Maersk Line, Mediterranean Shipping Co. and CMA CGM, which hope for a spring launch after regulatory authorities in China, Europe and the U.S. have their say. The P3 will intensify competition this year as other carriers scramble to create new alliance groupings that match the threat they see coming.

All of this could be good for beneficial cargo owners. Our Roundtable members don't think freight rates will increase this year, nor do they think carriers will be able to manage the glut of capacity that only promises to get bigger. Their relationships with their carriers have improved enormously in the last few years.

As they did last year, our shippers are keeping an eagle eye on costs. They will seek out the least-expensive option for routing their cargo. Although they don't think there will be a strike on the West Coast when the ILWU contract expires at the end of June, they are monitoring the negotiations and stand ready to route their cargo to the East Coast.

One development that will help them rein in costs on land and at sea is the outlook for flat fuel prices. But on the land side in the U.S., the shortage of truck drivers, combined with new hours of service could create problems in distribution.

There will be no shortage of problems to watch as the year rolls out.

***JOC:** How will you remember 2013? Good year, bad year, indifferent?*

Richard Smith: Overall, I think it was a positive year. From a freight standpoint, the year started out very difficult. On the West Coast, international freight was kind of backed up as a result of two things: the clerical workers strike at Los Angeles-Long Beach in late 2012, and then more freight than normal went into the West Coast that December because of potential diversions from the East Coast over uncertainty of the East Coast labor situation. So that created a bottleneck of freight in mid- to late-December (2012).

Once we got by that, the year was positive and we felt pretty good about it. Capacity was there, and we were able to move our freight. I think rates are in line. So we were pleased with the year.

Bjorn Vang Jensen: I'll remember it for the insane number of GRIs in a desperate effort by carriers to get rates up to where they would like them to be. The fact that not only has volatility not decreased in any way, but, rather, has increased as carriers have raised the GRIs to almost absurd levels — that's probably what I'll remember most. Also, of course, the final arrival of Maersk Line's Triple Es, and the excitement surrounding the P3. If you would pick three events in 2013, those are the three that stand out for me.

Mark Schweitzer: When thinking about North America transportation supply and demand, the predictions the industry made in 2012 for 2013 of lane constraints and catastrophic inland issues didn't occur.

I believe this was avoided because companies are starting to forecast and plan for their requirements. We continue to build stronger customer, ocean carrier and railroad relationships that take us beyond identifying the problems but rather collectively creating solutions for issues. When everyone begins looking into cutting the waste in supply chains, all involved gain efficiencies, which helps avoid potential issues. So for us, 2013 was a transportation growth story.

***JOC:** In the sense that it met all your needs and exports were growing?*

Schweitzer: Exports were definitely growing. We came from tight agriculture grain stocks as a result of the 2012 drought to more normal 2013 U.S. crops, where we are building grain stocks. That makes global markets again a marketing alternative.

***JOC:** What do you see for 2014? Are you changing strategies?*

Schweitzer: 2014 should be a growth year. Our macro strategy isn't going to change significantly. We will continue to look at supply and demand on the freight side, as well as the commodity side. We will work to balance this equation by matching up excess equipment to product within these geographic locations. We will also work with our transportation partners to reposition equipment out of surplus areas to areas where we can produce match-backs in volume.

Jensen: I think 2014 is going to be a very difficult year for the (ocean) carriers, and that's going to continue until the capacity overhang goes away. As far as I can see, that's actually a situation that's going to continue well into 2015. Much will depend on whether the P3 gets approval (from regulatory authorities), and if they do, what will become of the surplus tonnage once those three carriers rationalize the services. Timing plays a role here, too. When they (Maersk, CMA CGM and Mediterranean Shipping Co.) announced the P3, they were confident they would go live at the end of the first quarter. Now the party line seems to be the end of the second quarter. Frankly, I strongly doubt that. I would say some time in the third quarter. If it were the first quarter, P3 would potentially have a material effect on rate negotiations that BCOs and NVOs will be going through at the end of the first quarter. If we are all left hanging until the end of the second quarter, I think we'll be forced to approach those negotiations almost as if the P3 didn't exist, because we will have no way of knowing whether it will.

Beyond that, carriers will have to deal with massive cascading problems in 2014. For example, the workhorse vessel on Asia to Latin America has gone from 4,000 TEUs to 7,000. The same thing is happening on Asia to Australia. If the carriers are going to deal with it by not deploying those ships, what are they going to do then with the ships that are going to be idle?

Smith: We've got a positive outlook. I don't really see a change in how we operate from a transportation standpoint in 2014. From an international standpoint, we see capacity continuing to be available. Obviously, the one thing we're really keeping our eye on is the West Coast labor situation.

***JOC:** We'll come back to that in a bit. What are you forecasting for costs next year?*

Smith: We sign multiyear contracts, so our costs on that will remain static. The real variable is fuel. It's great that it's down right now, but who knows what's going to happen? If I had that crystal ball, I'd probably be doing something else.

Jensen: Our supply chain costs are holding relatively steady. We of course have long-term deals on ocean shipping, so our ocean shipping costs are at the same level they've been since last May, and they will stay at that level through this April. In other areas, air freight is going up, and courier service rates are increasing, but mostly driven by holidays and specific product launches.

As far as fuel goes, we regulate bunkers through our own formula (under long-term contracts), and that formula operates with certain triggers. None of those triggers was pulled in 2013, and bunkers are obviously trading in a very stable band. If I could predict oil prices, I'd probably have a different job, but if you ask me to come up with something, I would say I don't expect bunker costs to change materially in 2014, absent any major geopolitical events.

Schweitzer: We're in a little different spectrum. On the export side, we continually look for the lowest-cost shipping alternative and arbitrage these opportunities. If one lane becomes costly, we can arbitrage shipments to another lane. If one mode of transportation isn't cost effective, we shift, say, from containerized vessels to bulk oceangoing vessels. We are still going to ship the product; however, we will simply utilize the best cost-pricing model.

As for fuel, assuming no civil unrest in oil-producing regions, the supply and demand tables suggest a stable market.

JOC: *Domestically, do you arbitrage between barge, rail and truck?*

Schweitzer: Yes. In North America, it's truck-rail-barge to get to a port. Again, our business is based off of large economy-to-scale shipping. Most of our business is done in oceangoing bulk vessels. Containerized freight allows us to get into certain geographic regions that we had not previously been able to get into or to sell reduced quantities to smaller customers.

JOC: *A huge amount of ocean shipping capacity is hanging over the industry. Do you think carriers will be able to manage capacity any better in 2014? Do you think they'll be able to sustain rate increases or do you think it'll stay pretty much as is?*

Smith: In general, no, I don't see rates changing significantly. Carriers are all aware — I just came back from two full weeks of meetings with them — of the extra capacity situation. They're kind of scratching their heads on how they manage that. And I think maybe this alliance situation, such as the P3 and the G6, may ultimately have an impact. I think they'll get a better handle on capacity, but I think it's going to happen during the course of the year and not all at once. It may drive spot rates up by mid- to end-year, but contract rates I think are going to stay pretty constant.

Jensen: It depends on how you define managing. From an operational perspective, they are managing it very well. But the overhang persists, and will for some time, and I don't know that it's possible to manage it all. Carriers are clearly not laying up nearly the number of ships or the percentage of the fleet they were if we go back to the horror year of 2010, but the blank sailings nightmare that we all find ourselves trying to navigate right now is almost worse. With the G6 (alliance) now extending to the trans-Pacific and trans-Atlantic, chasing the P3 model, this bodes well for carriers' capacity-management efforts. But the question remains: No matter how well you manage your capacity, what are you going to do about the enormous gap between supply and demand? You can rationalize and create all the alliances you want, but you'll still have a bunch of ships lying around idle. If you have 300 ships and you can do it with 250, that's great, but what are you going to do with the other 50? If you're lucky enough to have chartered those 50, you can hand them back, of course, but the NOO (non-operating shipowner) isn't going to sit and watch his assets rust either. I see carriers trying to manage capacity and get (vessel) utilization up, but they are still kicking the can down the road.

Schweitzer: Fundamentally, we evaluate many products and raw materials on supply and demand tables. The latest numbers suggest we are adding more capacity than demand, signifying that the capacity will be looking for the demand in months to come.

JOC: *Do you think the P3 will force you to change your supply chain?*

Jensen: No, not at all. Personally, I have a very positive view of P3, if only because I think it's time the industry gets shaken up by something new and by somebody who's got more muscle, even if it's only operational muscle rather than commercial. I accept that P3 is a purely operational alliance. I don't buy the collaboration talk.

One of the many reasons I am positive about P3 is because some of the positive effects on the cost side ought to trickle down to the shippers. History bears me out.

JOC: What do you think it will mean for rates?

Smith: We've seen some preliminary discussion of rates, but the P3 to the U.S. and I think to Asia and Europe is going to actually add capacity initially, so I don't see how it's going to be a rate move. Ultimately, as the P3 and other alliances grow, I think that does give the carriers the opportunity to manage capacity a little better. But it also can create a situation where it can drive rates down because of that additional capacity.

JOC: *How can they manage capacity without violating antitrust regulations?*

Smith: That's what I'm still waiting to find out. I have the same question.

Schweitzer: As an exporter, any time you can increase volume in a grain region, this can create a future shipping opportunity.

JOC: *Do you see the P3 spurring further consolidation among other carriers?*

Schweitzer: I have not heard anything about that, but when you look at a market, competition is contagious, so I would expect something else to transpire.

Smith: I come up with the same thing. I think it will spur more competition.

JOC: *So the P3 is good for you guys?*

Schweitzer: As an exporter, yes. We like to have the ability to ship volume. When you talk about what we ship as a company, less than 1 percent of our shipping needs execute in containerized freight. The largest part of our business is driven by bulk ocean vessels. When you think about agriculture products as a match-back for the container business, this volume will also help with railroad and steamship line balances.

Smith: I won't endorse it the same way. The jury is still out. On the one hand, if there's more capacity coming into the market and some additional sailings as a result of that capacity, the supply chain is moving better, it can be positive. We have to see how the others unfold. Again, understand that this additional capacity is a problem to the industry in total. You can share some of those pains.

I spoke at the TPM Conference last year about basically these kinds of alliances. On this end, when we're getting freight off and you've got an alliance — the P3, for example — they're going to select terminals and regardless of whose ship they sail on, whether it's an MSC ship or a CMA (CGM) or a Maersk ship, they're going to have a consistent terminal. But terminals can be challenged to handle some of that. It becomes problematic.

One of the things we did, quite openly, really, in the bid this past year is we wanted to understand who was shipping with whom because we've got several very heavy lanes. And when we bring in hundreds of containers and we try to split them between a couple of carriers, we're kidding ourselves that it all comes in on the same ship. So, we want to make sure that when we split the freight, it's coming to different terminals at different timeframes.

We had some problems in late 2012 — I mentioned December on the West Coast, where freight was coming in. We were getting it in Terminal 1 out in Los Angeles, and they were short of chassis. It was very difficult to get in. We had a lot of problems being able to access our freight. And those issues have to be worked out, as well. So, we're keeping a very close eye on the situation. From what I hear, the P3 has the right approach, or it's going to have the right approach. We'll see how the others, if there are others — and I believe there will be — how they unfold and how they're going to operate their services.

JOC: *Do you plan to shift any East Coast-bound freight from Asia to the Suez Canal, away from the Panama Canal? Or are you going to shift back when the new locks open 2015? Are you using the Suez route now?*

Smith: We do have carriers bringing product into the country through the Suez. We do not specify to the carrier that they use the Suez or Panama. Obviously, for product going to the East Coast, we look at cost and length of service. Quite frankly, we don't care how they get it there. They can go around the Cape of Africa if they want, as long as the cost and the service timeframe are competitive. So, we don't direct one way or the other. But we do have some services coming through the Suez.

As far as the Panama Canal, I've never been a big believer that the Panama Canal is going to create a significant shift in freight. What will create a significant shift in my opinion is going to be a cost or service equation. So, if we continue to slow-steam, or if you move larger vessels and possibly use the Panama Canal as a transfer point to split freight off between the U.S. East Coast and possibly South America, that can probably do nothing but slow the freight down.

In terms of cost, there should be some cost efficiencies. Whether the carriers pass those cost efficiencies on to the shippers can be a different question. Unless they do — and I'm suspecting they won't — I do not see a significant shift in freight patterns when the canal opens in 2015.

Schweitzer: Again for us, it's all about value. We look at all lanes and all pricing, whether East Coast through the Panama Canal or through the Suez Canal or West Coast directly to Southeast Asia. In the past year, we have been shipping through the Suez Canal from the East Coast into Asia. I believe in the future that will become a greater factor, considering the larger Triple E vessels being built today will not work through the expanded Panama Canal. Once you take the Triple E-class and employ them into Asia-Europe, then you cascade down the 12,000- to 14,000-TEU vessels, they are also too large for the Panama Canal. I would assume long term that the Suez Canal could have a large vessel competitive advantage. It is a longer transit time, but it has the draft and beam. At the end of the day, however, ocean carrier pricing will dictate transit patterns, right?

JOC: *How has your relationship with your carriers changed over the past, say, three years?*

Schweitzer: We have advanced from a vendor relationship to a partnership relationship. We are continually working with the steamship lines to determine how to take waste out of the supply chain. We are always looking for that consistent import and then align it with a match-back.

Smith: Our relationships with the carriers have been getting consistently better. Obviously, they were at a low point in probably January 2010. I think the concept of the multiyear contract allows us to build partnerships over time, allows us to work with carriers. But there are two aspects to the relationship. There's the transporting of freight, and there's the ability to communicate the interrelationship and information sharing. Those aspects have gotten much better with our carriers. We're in a much more cooperative space of a joint partnership with our carriers today than we were, say, three or four years ago.

Jensen: It's improved markedly, or maybe it's just returned to the pre-2009 stage. You definitely chose three years quite deliberately, because I think we all agree that 2010 marked the absolute nadir in the relationship between BCOs and carriers. In the last two years, we have observed carriers sticking to what they promise, which, candidly, isn't that hard when you have a capacity overhang of
30 percent. But equally, we have reciprocated — and I think most shippers have. There are trades where rates have plummeted well below what we locked in last May, but we aren't going back and changing terms and tearing up contracts because I think we all realize that this type of action, which many shippers took in 2009, led to 2010-type behavior on the part of carriers, and I don't know anybody, on either side, who wants to return to that situation.

Having said that, the current blank sailing regime and multi-thousand-dollar GRIs do not represent a step in the right direction.

GRIs amuse me, but they also irritate me. I understand why they go on. I understand the rather twisted logic of pushing GRIs to stratospheric levels, with the argument that if a $200 GRI erodes in a week, then a $2,000 GRI will take longer to revert to zero. But the danger here is that if this raises rates at the opening of BCO negotiations, which anyone can see are unsustainably high, then large BCOs may wait until rates fall to a more sensible level over the next four to five months and take their chances with the spot market. That would be a fundamental, and possibly irreversible, change in market dynamics. There is a built-in danger vis-à-vis your long-term rate negotiations with your BCOs if you expect the current spot market rate to lay the foundation for your contract talks in the first quarter. I say that without knowing that is the assumption carriers are making. We'll find out very soon.

JOC: *The International Longshore and Warehouse Union will be negotiating a new contract to replace the six-year deal that expires in June. What do you see and what are you concerned about?*

Jensen: There's always some level of concern. Do I think there will be a shutdown? No. The recovery in U.S. volumes is quite significant for us as well as for the rest of the trade, and I don't see any of the players involved wanting to precipitate another crisis by causing a shutdown on the West Coast. I would be more concerned if it were on the East Coast because they seem to be a lot more trigger-happy on the shutdown front. Being dependent on U.S. West Coast gateways, I'm sufficiently concerned to monitor developments closely, but I'm not terribly concerned that it will result in a shutdown.

Smith: We certainly haven't heard the banter from the West Coast that we heard from the East Coast a year ago. That said, we are concerned. I mean, the West Coast is the largest area where we import freight. I think it's critical to both the import and export markets. And, obviously, you get concerned about any sort of impact on the workflow that goes out there. And being in retail, the product we import into the country in July and August is heavily to support Christmas sales.

JOC: *And that's when the contract expires. Are you concerned about longshoremen sticking closely to work rules, which means effectively a slowdown, and that real negotiations won't get under way until that happens?*

Smith: I've heard conjecture about a number of scenarios. That's certainly one of them.

Schweitzer: We monitor longshoreman negotiations very closely and we keep track of those situations, like we did with the East Coast port negotiations last year. Again, for us, it's an arbitrage. If we start to see issues on the East Coast, we will switch our product to the West Coast. If there are problems on the West Coast, then we work to complete our supply chains via the East Coast or we will use the western Canadian ports. Our product lines are adaptable and our Midwest locations allow for the ability to move our supply chains either East Coast or West Coast.

JOC: *How are retail markets for your products shaping up in the U.S.?*

Jensen: Very well. The U.S. was one of the big stars in our show in 2013. There has been a marked recovery in our volumes, driven by the rebound and particularly by housing sales, which is obviously one of the major drivers in our business. Our overall import volumes into the U.S. increased by about 20 percent in 2013, and we see similar volumes for 2014.

JOC: *What about the rest of the world?*

Jensen: The rest of the world is a mixed bag for the white goods market. White goods are products that people think long and hard about before they go out and buy. Europe is in a bad place and will remain there for several years to come. Europe is going through what North America went through for some years. There are green shoots in some of the European economies, but it's not about the rebound in the overall economy; it's about the rebound in the consumer spending mentality and confidence in the future.

To put it bluntly, if you don't know whether you're going to have a job next week, you're unlikely to decide to renovate your kitchen, unless your appliances break down irreparably and you have to replace them. And even then, you may be tempted to trade down.

That said, from a shipping volume perspective, Europe is dull, not trending down, but flat. Asia continues to do very well. We are seeing growth in all of our Asian countries. Latin America is slowing down significantly compared to our own expectations and relative to their own aspirations. We will be more conservative in our volume forecasts to Latin America than we were in 2013.

North America is going to continue to be a locomotive for us in 2014, greatly helped by the Asia-Pacific region.

JOC: *One of the big lessons from the recession was with inventories. They remain lean. When we get a sustained recovery, will shippers strive to keep it that way? How does the shift to online sales change the inventory equation?*

Jensen: The shift in online sales hasn't changed the inventory equation in a positive way for us because we don't work in the build-to-order space. If you're in the build-to-order space and you work online and can get the cash up front, like the model Dell pioneered, the shift to online sales is terrific. But it's not necessarily terrific for us, because our customers, mainly retailers, place quite stringent demands on our ability to deliver within tight time windows. So online sales don't necessarily help us reduce inventories.

Having said that, inventory management and net operating working capacity management is a religion in Electrolux, and we will do anything we can to keep inventory as lean as possible.

It makes me smile whenever the carriers start talking about "peak season," because I think they destroyed the notion of significant peak seasons in 2010, when they took all the capacity off the market at the precise point when shippers needed it. We've learned. We've adapted as shippers, learning to ship more consistently over the year. Will there be a small peak? Yes, there always will be. But these "peaks" seem to me to be more driven by artificial capacity constraints than by real demand fluctuations. BCOs and retailers are much better at managing that flow and flattening the curve.

JOC: *How is demand shaping up for 2014?*

Schweitzer: For 2014, we are optimistic about our export program. Demand around the world continues to be strong for our products, so we are looking forward to employing our network to meet these needs.

JOC: *Are you concerned that the ability of some of your competitors, like Brazil or Ukraine, to deliver more efficiently, gives them cost advantages?*

Schweitzer: That is a great question. One of the things that makes North America unique and so competitive is the Mississippi and the inland river tributary. This river system is a transparent benchmark. In North America, this river system keeps other modes of transportation competitive.

When you think about South America or other parts of the world, they do not have the river system combined with a network of transportation infrastructure of highways and railways to consistently give competitive efficient movements.

JOC: *How do you classify the state of trucking and rail service?*

Schweitzer: For ADM, keeping the trucking and rail service moving efficiently and effectively is imperative. One of the biggest hurdles we have is the current truck driver shortage. We are trying to do things that are proactive with the industrywide shortage. We have a huge culture shift going on within our company in the way we are hiring drivers. We are partnering with truck-driving training schools to be able to educate and train drivers appropriately, with the hopes of future employment. We continue to look for different hiring avenues. We have had a lot of success working with and hiring military veterans. We are working to create solutions to help our shortage situation for our own ADM Trucking division.

Smith: I would have to agree. I mean, first of all, I'll say this: You have two aspects of rail on the import side. You've got the intermodal rail service coming from transload centers — from Los Angeles, or Savannah or New York, for example. We feel there's capacity there. Our intermodal carriers are servicing us well, both in terms of capacity and in terms of service expectation.

In terms of any direct international rail, where we're moving product from the ship onto a rail for an inland destination, we're seeing gaps in our service expectation. And we're actually working with our carriers on some of those gaps and trying to understand them. In my opinion, it's taking far too long to get off the ship and on the rail.

From a truck standpoint, again, I'd echo what Mark said. There's truck trailer capacity, but if the trucks aren't seated with drivers, that impacts capacity. So, especially since new hours of service took effect in July and through the heavy shipping period last fall, some of our carriers have been very challenged to meet the capacity we need.

JOC: *Any problems with availability of equipment?*

Schweitzer: Each year there are always regional equipment shortages, and this past year was no exception. We saw equipment shortages early in the year off the East Coast and then later this past fall we saw Chicago tighten up as well. Some years are worse than others based off of import and export volumes. We are finding that our role is to be a catalyst for the match-back and balance the supply of containers to the demand for containers with our products in a timely manner.

Jensen: We haven't had any problems. We've had the occasional shortages of 20-foot equipment, but I'm talking about maybe single-digit TEUs per week. It's totally negligible. We have no issues at all, not even in peak seasons.

JOC: *What will you be doing in the coming year on the environmental front?*

Smith: I work with a company that retails a lot of products. It's huge in appliances. We're very much involved with energy-saving appliances and that type of thing. We have sustainability programs in all of our distribution centers and our stores. We're very conscious of it.

From a supply chain standpoint, we only do business with SmartWay carriers. From an ocean standpoint, what we do and what we're looking at is the impact of these larger ships, you know, the slow sailing. We think we've got rail pretty much saturated, but we're always looking for opportunities to go to rail. And in every aspect of our business we're conscious of the environment
and we look at a variety of things to continue to improve what we think is already a pretty good record on the environment.

Schweitzer: ADM is constantly striving for green solutions. We have, as Rick said, sustainability programs in place. One program to eliminate highway trucking miles was to build an intermodal ramp in Decatur, Illinois. This ramp was built to compress supply chain costs. These efficiencies themselves have a natural positive impact on the environment, because when you are taking those trucks off the road and you are putting them on rail, you create less greenhouse gases.

Jensen: This is one of my big hobby horses at the moment. We are proud of our efforts as a member of the Clean Cargo Working Group, which we presented at TPM two years ago. One of the stakes we put in the ground in Long Beach that made some waves in the industry was our insistence on only doing business with carriers that are members of the Clean Cargo Working Group, starting from May 2014. We have been really tickled by the fact that all major carriers have since joined up. That's not our sole credit, but rather a combination of a concerted effort by all CCWG shippers, and the generally strong environmental awareness across the carrier spectrum.

JOC: *How would you classify the state of U.S. transportation infrastructure and in the various modes you use? How does it compare with other nations you do business with?*

Smith: We live and work in a country that far and away has the best infrastructure in the world.

The roads, the rail services, the variety of options … I think we're top-notch. How do we stay top-notch? We need to continue to improve the roads. We need to improve the ports.

There's a lot of work that has to be done on the ports in terms of deeper water so you can bring in bigger ships.

Schweitzer: The infrastructure as I said earlier is benchmarked off of the Mississippi and inland river system. It appears the rail side of the business has capacity for growth. The trucking industry will continue to consolidate, and the driver shortage, which is an extremely difficult situation to manage, will continue to weigh on the industry creating unforeseen regional shortages.

JOC: *How should we pay for the critical upgrades for infrastructure?*

Schweitzer: An upgrade in infrastructure must have a return on investment. These investments could be financed by a usage fee.

Smith: Simple question, not a simple answer. I mean, obviously, there are commissions in Washington evaluating the infrastructure in the U.S., and certainly the big part of that is, "What needs to be done and then how do you pay for it?" The American Trucking Associations, I've been told, already has stated it'd be willing to pay a fuel surcharge. So, it's a usage change. But the ATA wants that money earmarked to specifically go into road improvement and not into port improvement — nothing into rails or airports. They're saying it's not a usage tax. So, it gets to be very complex. But ultimately, how do you pay the billions of dollars that go into infrastructure improvements. One way or the other, you're going to pay it in usage changes, I think.

JOC: *Congress will be negotiating a new surface transportation bill this year. What would you like to see out of that?*

Smith: Again, I think that's a simple question, but very, very complicated. The next surface transportation bill is really going to address what we need in the next 10 to 15 years. The actual roadway system, the paths are fine, but the roads aren't going to hold up. They need to continue to be improved and worked on, as well as bridges, and, as I said, the ports. The ports are going to need deepening of water and that type of thing. So, I think those two things in particular.

JOC: *How are increasing manufacturing costs in China impacting your sourcing decisions?*

Smith: They definitely impact them. When we do the sourcing, we're always looking at competitive pricing. You have to look at China a little differently. First, there's a tremendous amount of product imported into this country that's manufactured in China — lawn and garden, patio sets, grills and those type of things. China has built a manufacturing infrastructure that really isn't matched anywhere, to be able to produce the quantities they are currently producing. So, that's not going to be a short-term shift.

The short-term shifts are largely going to happen in the apparel world for what's probably an overly simplistic reason: It's a lot easier to move sewing machines than big stamping plants. And we're seeing Southeast Asia, Vietnam, Cambodia, Indonesia, Bangladesh and Myanmar, as well as Mexico and Central America, getting more apparel business. It's making it a more competitive marketplace. I don't see any huge shifts of volume, but there will be some shifts. We're always looking around the world for where we can have the product made and brought in.

Jensen: Manufacturing costs always impact our decisions. In everything we do, we perform a careful study of where to source, and then we perform a make-versus-buy analysis. Southern China isn't nearly as competitive as it was before. However, there are a lot of levers you can play with in your supply chain to maintain the competitiveness of some of your suppliers, things like payment terms, vendor-managed inventory, relocating to other areas. So southern China isn't going away any time soon, but we definitely seeing a lot of our southern China suppliers on their own initiative relocating to North and Northeast China to bring their costs down. Some of that presents new challenges for us, because when they move inland, the Chinese inland haulage cost structure is quite tough. You can get close to the tipping point just in getting stuff from an inland point in China to a base port.

In terms of near-sourcing, we are always looking at those options, and always have been. In some cases, we pull the trigger on sourcing in Mexico, from the U.S. or from eastern Europe, but China is still there for us. We moved a cooking-appliance plant from Quebec to Memphis. Tennessee made it very attractive for us to put the plant there, and that phenomenon is no secret. It's recently been highlighted in a Bank of America report on near-sourcing that low-cost U.S. states can be quite competitive, particularly when total cost of ownership is factored in. We intend to load our own plants more in 2014, globally, but our low-cost country sourcing strategy isn't going to change. So long as the consumer — and that obviously includes all of us — insists on lower prices every day, we have no choice.

JOC: *Put yourself in January 2014. What will your top concerns be?*

Smith: The big thing for us is that our two-year contracts will be expiring. We'll be going into a new set of bids for another two years. And I'll be interested to see, after all of this talk for years, what the carriers are going to do with the Panama Canal. They should be starting to significantly talk about it by about this time next year. And, of course, we'll have to see what happens with the P3, G6 and any other alliance groups.

Schweitzer: The top concerns I have are the ones you cannot plan for: civil unrest in areas around the world and the effect on energy prices and what happens if a natural disaster takes out a coastal port. I know that is probably not the catching response you were looking for, but those are my top concerns. How we prepare for these kinds of disruptions is to leverage ADM's global footprint of transportation, grain origination and processing networks to always have the ability to serve the needs of our customers worldwide.

Jensen: I'll be sitting here reviewing very carefully how the supply-demand gap in ocean shipping has changed. If it has materially shrunk, then one of my top concerns will of course be: "What does that do for my shipping cost going into 2015?" Another concern will be whether the parts of the world that aren't having a good time right now, will have moved closer to having a good time, and I hope we'll be looking at a different European landscape, that we'll be looking at significant growth in North America and that we'll be looking at sustained growth in Latin America. Hopefully, we won't be going into another dip.

Bjorn Vang Jensen, Electrolux

Bjorn Vang Jensen is vice president of global logistics at Electrolux. As the global head of procurement and operations of ocean, air and express freight and associated logistics services, Bjorn manages the movement of more than 170,000 TEUs of Electrolux products a year, as well as 30,000-plus tons of air cargo and courier freight, and 10,000 metric tons of road and rail freight. This involves management of a dedicated team of more than 30 logisticians, spread across five locations worldwide, and an annual spend of $700 million.

Mark D. Schweitzer, Archer Daniels Midland

Mark D. Schweitzer was appointed ADM's managing director of intermodal and international container freight in January 2008. Prior to this position, Mark advanced through various management responsibilities within grain merchandising, North America oilseed processing, North American warehousing, oilseed and energy risk management. He earned his bachelor's degree from The Ohio State University, masters of business administration from Indiana Wesleyan University and executive development management from Harvard. He and his wife, Elaine, and their two children reside in central Illinois.

Richard Smith, Sears Holdings

Richard Smith is vice president of global transportation for Sears Holdings. He is responsible for the purchase and operation of all domestic and international transportation operations serving Sears Holdings entities. This includes all vendor-to-distribution center and DC-to-store freight for Kmart and Sears retail outlets as well as Lands' End, Sears and Kmart.com operations. All told, Sears Holdings transports more than 500,000 truck, intermodal and ocean shipments annually. Richard has served in various leadership roles in steering committees for the Retail Industry Leaders Association and has presented to international conferences such as TPM.

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