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THE SOURCE

Commentary: Supply-Chain Risks From the Coronavirus Demand Immediate Action

By Yossi Sheffi 2/18/20 — *Yossi Sheffi is director of the Massachusetts Institute of Technology's Center for Transportation and Logistics. He is the author of two books on supply-chain risk management, "The Resilient Enterprise" and "The Power of Resilience.*

As scientists' race to develop a cure for the coronavirus, businesses are trying to assess the impact of the outbreak on their own enterprises. Just as scientists are confronting an unknown enemy, corporate executives are largely working blind because the coronavirus could cause supply-chain disruptions that are unlike anything we have seen in the past 70 years. For now, the best course of action for companies is to analyze possible outcomes in the context of known supply-chain risks based on historical precedents, and to take precautionary measures that minimize exposure to future disruptions. Predictions regarding the impact of the virus range from dire to optimistic. Pessimists draw parallels with the 1918 Spanish flu pandemic, which killed tens of millions of people world-wide, and the aftermath of the 2008 financial crisis. On the other side, optimists foresee an epidemic akin to a typical flu outbreak that will run its course.

From a supply-chain perspective, the disruptions associated with past crises such as the 2003 outbreak of severe acute respiratory syndrome, or SARS, that swept across Asia; the 2011 Fukushima nuclear disaster; or the 2011 Thailand floods are not a good yardstick for the current epidemic. Those events shook specific companies for a relatively short time, but the impact of the coronavirus could be much more sustained. Moreover, the virus formally known as Covid-19 is affecting both supply and demand, so the potential threats are graver than those earlier disruptions. This is especially true because of China's growth since the SARS crisis as a manufacturing powerhouse and as a major consumer market.

Today's supply chains are global and more complex than they were in 2003. Not only are Chinese factories affected by lockdowns and quarantines, production sites in other countries already are running low on parts for products assembled in China. For example, Apple Inc. works with suppliers in 43 countries, all of which receive components from Apple's contract manufacturers in China. To understand which companies in supply chains are the most vulnerable, one has to understand the so-called supply-chain bullwhip effect. Assume, for instance, that a retailer experiences an X% drop in demand for a product. It surmises that future sales will be lower too, and so concludes that its current inventories are too high. So, the retailer cuts its orders to the wholesaler by twice the amount of the drop in demand. The wholesaler sees that cut in its orders and, using the same logic, cuts the orders to the manufacturer by double that amount, or four times less than the retailer's drop in demand. The manufacturer reduces its orders to parts suppliers by even more, and so on. At each level of the supply chain the decline in demand sparks a bigger decline in orders from suppliers. Each company reasons that they need to quickly cut production to adjust to declining sales and work off their now-bloated inventory. The most vulnerable companies are small and leveraged suppliers upstream in the supply chain that are in danger of going under. Continued on page 2

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THE FREIGHT MANAGEMENT COMPANY

Supply-Chain Risks From the Coronavirus Demand Immediate Action (Front page article continued)

Then-Ford Motor Co. Chief Executive Alan Mulally tried to mitigate the impending bullwhip during the 2008 financial crisis by imploring U.S. lawmakers to save his competitors. He argued that if automotive Tier 1 suppliers failed, then their suppliers would also fail, and so on, affecting the entire U.S. automobile industry. When demand revives, the bullwhip pattern reverses as each echelon boosts ordering, both to cover expected higher sales and to quickly replenish depleted inventories. The reverse bullwhip of oscillating orders and inventories strains the ability of production and logistics operations to keep up. After a period during which many upstream suppliers fail and remaining companies fail to deliver during the recovery, a multinational enterprise may find it easier to leave China and set up manufacturing elsewhere. Faced with so many unknowns, companies should take sensible "just in case" steps to prepare for the effects of the coronavirus.

1. Set up a central emergency management center. At this point it can be virtual but should include a clear roster of participants with clear decision-making rules in case of a pandemic.
2. Review the company's product portfolio and the customer base in order to set priorities. If capacity is reduced, there will need to be rules for which products should be built and which customers should be supplied first.
3. Review suppliers. Who makes critical parts? Are there alternate sources? What is the suppliers' inventory status?
4. Plan for operating to maximize cash flow rather than profits.
5. Maintain communications with federal and local authorities, as well as Chinese and other Southeast Asian friends and colleagues on the ground.

Hoping for the best while preparing for the worst may not seem like a rigorous business approach to the crisis. But given our lack of knowledge, it is the most prudent strategy for managing risk.

Coronavirus supply chain headaches spread as more than one in two Asia – North Europe sailings are cancelled

February 19th, 2020, Sam Chambers of Sam Chambers Containers

More than one in two carrier departures from Asia to North Europe are being cancelled in the wake of the coronavirus that has hammered China, the world's manufacturing center, very hard since the start of the year. Analysts at Alphaliner have counted 33 cancelled sailings on the tradelane with the largest boxships in the world in the last four weeks, meaning 46% of scheduled departures on the route have been dropped. Moreover, carrier schedules and customer announcements seen by Alphaliner indicate that another 17 sailings are to be blanked in the next four weeks. Capacity reductions over the eight-week period from Chinese New Year are expected to reach about 700,000 teu, far more severe than the 340,000 teu cuts seen in the same post-Chinese New Year period last year.

Capacity reductions on other routes have been similarly debilitating for global supply chains with Alphaliner estimating the Asia – Med route will reach about 290,000 teu, while 680,000 teu will be removed from the transpacific. "While work in China has finally resumed after the extended three-week holidays, the container demand recovery has been slow. Vessel capacity utilisation therefore remains low, despite the many cancelled sailings," Alphaliner noted in its most recent weekly report. In a report from early February Alphaliner warned that the coronavirus will reduce container cargo volumes at Chinese ports – including Hong Kong – by more than 6m teu in the first quarter of 2020.

Data from Copenhagen-based Sea-Intelligence earlier this month suggested the coronavirus has been costing liners up to $350m in lost revenues every week. Lars Jensen, a leading container shipping analyst and regular Splash contributor, warned on a LinkedIn posting yesterday that the blank sailings were creating further headaches for liner executives. "There will be clear ripple effects from the raft of additional blank sailings as this will inevitably curb the backhaul capacity down the line – not to mention the impact from disruption in the carriers' ability to effectively manage their empty repositioning," Jensen wrote.

This ripple effect is becoming evident with Hapag Lloyd announcing a $325 surcharge per container from North Europe to Asia and other surcharges kicking in from the Mediterranean back to Asia too. Jensen suggested now was the time to also consider "round 2" of the ripple effects. "Assuming the virus outbreak gets under control, Chinese factories resume full production in March-April, and may even run at higher output initially to make up for lost production. This will happen at the same time as the amount of vessels returning to Asia with empty boxes is at a very low level due to the current blank sailings potentially triggering equipment shortages (and associated rate hikes) for Asian exports," Jensen warned.

FedEx and UPS battle for Mexico traffic without a solution to capital's airport puzzle

By Ian Putzger, The Loadstar, Americas correspondent 2/12/2020

While the air cargo industry waits to see how the three-cornered airport system puzzle at the Mexican capital plays out, FedEx and UPS are both ramping up their game in the country. The latest move came from UPS – a new air route between Louisville and Mexico on 6 February, on the heels of the ratification of the new free trade agreement, USMCA, by the US government. The integrator now operates five nights a week between its main hub and Querétaro with an A300 freighter, bringing the tally of UPS flights into Mexico to nine a night, Monday to Friday. "The new air route will help drive growth and export opportunities for businesses of all sizes in the state of Querétaro," said Michael Cuesta, UPS Mexico director of marketing. "As a national frontrunner in the automotive, aerospace and manufacturing sectors, this region has experienced strong economic growth. And UPS is investing here to further support the economic development and connect our customers."

Last month, FedEx strengthened its presence in the Mexican market with a $24.6m investment in Toluca Airport, one of three designated airports serving Mexico City, adding 17,000 sq. meters to its controlled zone to double its capacity at the gateway. Both integrators have Mexico's small and mid-sized companies in their sights, particularly those in the e-commerce sector looking to sell to US consumers and other international markets. To attract this audience in the region, UPS is offering preferential rates, with discounts of up to 50% to new customers and a 20% discount on shipments at its customer centers in Querétaro. And, according to one report, FedEx is also offering discounts to SME shippers in the Toluca area.

Querétaro is turning into a shooting star on the Mexican airport scene. In the first half of last year, it was the fastest growing among the nation's larger cargo gateways, with an 11.6% rise in throughput. This was in stark contrast with the Mexican airfreight market overall, which contracted 1.7% during the period. There is even speculation about a possible passenger flight linking the airport to Madrid. Allegedly, Iberia Airlines is eyeing the possibility of teaming up with Mexican bus operator ADO to draw in travelers within a radius of 1-2 hours from Querétaro. Meanwhile, international passenger airlines are still waiting for details of the Mexican government's plans for the respective roles of the capital's three airports. They have been in limbo since the administration killed its predecessor's project to build a new airport to replace ageing and overcrowded Benito Juarez.

Amid growing frustration in November, IATA called on the government to reveal its plans for the airport system, noting that airlines and service companies had been unable to plan or make investments in the absence of any detail or proposed timelines for the project. Since then, few details have emerged and operators are still in the dark on the respective roles of the three airports: Benito Juarez; Toluca; and Santa Lucia, a military base that will be expanded and partially converted into a civilian airport. In the absence of clarification, comments and proposals from parties close to the process are adding to the confusion. In early January, two consulting firms involved in the project floated a proposal to cause a shift of traffic from Benito Juarez to Toluca through a combination of incentives and decrees. Earlier, the architect working on the plans for a passenger terminal at Santa Lucia, supposed to come onstream in 2022, suggested the airport should focus on low-cost passenger and cargo carriers.

Most airlines have refrained from commenting, but one exception has been Lufthansa, which said a separation of passenger and freighter operations would be challenging. The airline has invested in the cargo facilities at Benito Juarez and would be loath to see its all-cargo activities forced to move to Santa Lucia or Toluca. Querétaro might be a more appealing option. The airport is closer to the auto manufacturing region, which has accounted for a considerable portion of Mexico's international air cargo flows. With the new UPS service, its airfreight tonnage looks set to continue its upward trajectory.

Number of the Day

417

Tons of cut flowers American Airlines says it moved from the Netherlands to the U.S. in the two weeks leading up to Valentine's Day this year.

Johnson says he still opposes Heathrow Airport expansion

By Tim Ross, Bloomberg News (as published in the AJOT) 2/12/20

Boris Johnson is on a mission to build more railways and roads in post-Brexit Britain. But there's one massive infrastructure project he still hates: adding a third runway to London's Heathrow airport. On Tuesday, the prime minister noted that there's no sign of imminent work starting on the expansion of Heathrow, which he has opposed since his time as mayor of London.

Appearing in Parliament on Wednesday, he was asked if it's time to ditch the plan and expand another airport elsewhere in the country. Johnson replied that lawmakers have already approved outline planning permission for the project, which he conceded was "a measure that is supported by people across this chamber—not by me, as it happens. "I wait to see the outcome of the various legal processes that are currently under way to see whether the promoters of the third runway can satisfy their legal obligations under air quality and indeed noise pollution," he added.

Heathrow's 16 billion-pound ($20.8 billion) expansion plan was approved by the House of Commons in 2018, and last year overcame a challenge by environmental groups to block it. The airport said in December a decision on the project's costs by the Civil Aviation Authority had delayed the timetable for the work, which is now expected to be completed by late 2029.

TRIVIA QUESTIONS

1) **How many Presidents were Civil War Veterans?**
   A. 4 **B.** 5 **C.** 6 **D.** 7

2) **How many Presidents were from the state of Ohio?**
   A. 7 **B.** 5 **C.** 4 **D.** 6

3) **Which President was nicknamed "Old Rough and Ready"?**
   A. Teddy Roosevelt **B.** Zachary Taylor **C.** William H. Harrison **D.** Dwight Eisenhower

4) **Who was the only President to become Chief Justice of The Supreme Court?**
   A. John Quincy Adams **B.** James Buchanan **C.** Warren G. Harding **D.** William Howard Taft

5) **Which President was NOT assassinated in office?**
   A. William McKinley **B.** James Garfield **C.** James Polk **D.** Abraham Lincoln

6) **Which President's nickname inspired the familiar term OK?**
   A. Martin Van Buren **B.** John Tyler **C.** Zachary Taylor **D.** Grover Cleveland

Answers Later In The Newsletter

FUEL REPORT

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon) http://www.eia.gov/petroleum/gasdiesel/

	2/03/20	2/10/20	2/17/20	Change from week ago	Change from year ago
U.S. National Average	$2.956	$2.910	$2.890	-0.020	- 0.088

"Leaders don't make excuses—-they make improvements."

Marina Barragan, Desert Mirage High School student, testifying during an EPA hearing on updating the ozone pollution standard.

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Daily dispatch, Feb. 6: Diesel prices fall to lowest mark in over two years

CCJ Staff (Commercial Carrier Journal) | February 6, 2020 Trucking news and briefs for Thursday, Feb. 6, 2020:

Fuel prices hit lowest national average since December 2017 The national average price of diesel fell to its lowest mark since the end of 2017, according to the latest numbers from the Department of Energy's Energy Information Administration.

During the week ending Feb. 3, the U.S.' average price for a gallon of on-highway diesel was $2.956, the lowest since the week ending Dec. 25, 2017. During the most recent week, prices fell 5.4 cents from $3.01 per gallon. So far in 2020, the national average for diesel has fallen more than 12 cents from $3.079 per gallon during the week ending Jan. 6 to the current $2.956 average.

During the most recent week, the most significant decrease was seen in the Gulf Coast region, where prices fell by 6.3 cents, followed by the Midwest region, where prices fell by 6.2 cents. The nation's cheapest fuel can be found in the **Gulf Coast region at $2.71 per gallon**, followed by the **Midwest region at $2.839 per gallon**. The most expensive diesel can be found in **California at $3.812 per gallon**, followed by the **Central Atlantic region at $3.18 per gallon**. Prices in other regions, according to DOE, are:

New England – $3.105 **Lower Atlantic – $2.863** **Rocky Mountain – $2.944** **West Coast less California – $3.146**

Year-end cargo volume up 4% at Port of New York and New Jersey

Port marks record year, moving more than 7.4 million TEUs, officials report. By DC Velocity Staff, February 11, 2020

The Port of New York and New Jersey is celebrating a record-setting 2019, port officials said today. The port processed 7.47 million twenty-foot equivalent units (TEUs) last year, a 4.1% increase compared with 2018, when the port surpassed the 7 million TEU-mark for the first time. Imports reached 3.8 million TEUs in 2019, up 2.6% compared to 2018, and exports reached 3.7 million TEUs, up 5.6% compared to the year-earlier period. December results were weaker. Total volume fell 4% to 584,743 TEUs while imports fell nearly 9% to 290,508 TEUs. December exports were up 1.1% to 294,235 TEUs. Rail volume finished the year on a high note, posting a 3% increase compared to 2018, officials said. December rail volume rose by 4.9% over the year-earlier period.

MSC announced all Asia to USA and Canada GRI and PSS

By: AJOT | Feb 10 2020

The post Chinese New Year 2020 is a particular unique one, given the extent and spread of the Coronavirus, slowing down the resuming of cargo exported from China. While MSC does not know when exactly exports out of China shall resume to normal, they do believe that lower stocks in the US and Canada shall require a quick return of export performance, once activities will be safe to do so. In preparation for a strong surge in volume as reserve stocks may need to be activated during the month of March, MSC is announcing a General Rate Increase (GRI), effective March 1, 2020, and a Peak Season Surcharge (PSS) effective March 15, 2020. Effective March 1, 2020 (gate-in date at origin) the following increase shall take effect:

General Rate Increase (GRI) For cargo discharging at a US or Canadian port of discharge:

$800/20
$1000/40'
$1125/40HC
$1266/45'

The above amounts apply to all equipment types.

Effective March 15, 2020 (gate-in date at origin) the following surcharge shall take effect:

Peak Season Surcharge (PSS) For cargo discharging at a US or Canadian port of discharge:

$480/20
$600/40'
$675/40HC
$760/45'

The above amounts apply to all equipment types.

Federal government awards JAXPORT additional $93 million for harbor deepening

By: AJOT | Feb 11 2020

Today the federal government allocated $93 million for the next phase of deepening the Jacksonville shipping channel to 47 feet from its current depth of 40 feet. A milestone for the project and a major victory for JAXPORT, the federal government has now fully funded the government's portion of deepening through JAXPORT's Blount Island Marine Terminal. Of the total $93 million investment, $57,543,000 is included in the U.S. Army Corps of Engineers' Fiscal Year 20 Work Plan, and an additional $35,457,000 is allocated in the A Budget for America's Future – President's Budget FY 2021. "This is a significant win for Jacksonville and as I have said before, the continued support from our state and federal partners demonstrates the strength of JAXPORT's future," said Jacksonville Mayor Lenny Curry. "We are grateful for the continued growth under the leadership of CEO Eric Green. JAXPORT is Florida's number one container port and as we continue to expand its capabilities, we know we will see even more jobs and economic growth."

"This is the first time JAXPORT has ever received funding in the President's budget, which speaks volumes about the significance of this project to the Southeast U.S. and the nation," said JAXPORT CEO Eric Green. "We are extremely grateful to our federal, state and local partners, as well as the dedication and leadership of the JAXPORT Board, for their steadfast support of our growth and the 138,000 jobs Jacksonville's seaport generates in Florida."

Upon completion of the deepening project, the SSA Jacksonville Container Terminal at Blount Island will feature a vessel turning basin and have the ability to simultaneously accommodate two post-Panamax vessels. In November, the U.S Department of Transportation awarded JAXPORT a $20 million grant to enable the facility to accommodate more containers on an expanded footprint.

To date, the federal government, the state of Florida, JAXPORT, and port tenant SSA Jacksonville have contributed or pledged a combined total of more than $394 million dollars toward the cost of the $484 million deepening project, the first project of its kind to include funding from a private business. Harbor deepening is divided into four segments, contracts A-D, which make up the full length of the 13-mile federally authorized project. The current funding model covers the project's first 11 miles through Blount Island (contracts A, B and C). Contractors for the U.S. Army Corps of Engineers are scheduled to complete the first 5.5 miles in spring 2020, marking the halfway point for this portion of the project. Harbor deepening began in February 2018 and is anticipated to be complete in 2023, two years ahead of its original schedule, based on continued funding from all partners.

The 47-foot depth is required to accommodate more cargo aboard the larger ships calling on JAXPORT from destinations throughout Asia and other world markets through both the Panama and Suez canals. Asian container trade is an important part of JAXPORT's container cargo business, up 55 percent in the last five years. Supporters of this funding include President Donald Trump; Assistant Secretary of the Army for Civil Works R.D. James; the Florida Department of Transportation (FDOT); Florida Governor Ron DeSantis; Congressmen John Rutherford, Al Lawson, Michael Waltz, Ted Yoho, Daniel Webster, Neal Dunn, Brian Mast; Senators Rick Scott and Marco Rubio; and Jacksonville Mayor Lenny Curry.

Trump Plan: Make Infrastructure Great Now, Surface Transportation in a Few Months

Eugene Mulero | Senior Reporter, Transport Topics, February 18, 2020

President Donald Trump's infrastructure directive explained in his fiscal 2021 budget to Congress is about a sense of urgency. "The time to act to solve these problems is now, before they get worse," stated the two-page synopsis titled "Historic Investment in America's Infrastructure." ***Emphasis on "now."***

When it came to surface transportation policy, a pillar of the infrastructure system, the administration's directive will be forthcoming. "In the coming months, the administration will submit a comprehensive surface transportation reauthorization proposal to Congress for consideration," is a statement found in the fiscal 2021 U.S. Department of Transportation budget request. ***Emphasis on "months."***

The statement is part of the request's sections about the Federal Highway Administration, the Federal Motor Carrier Safety Administration, the National Highway Traffic Safety Administration, the Federal Transit Administration, the Federal Railroad Administration, the Pipelines and Hazardous Materials Safety Administration, and the Office of the Secretary. For the purpose of clarity, the request included the following statement several times: "Additional details on this account will be provided in the proposed surface transportation reauthorization proposal." This proposed proposal would update a 2015 highway law that expires Sept. 30 of this year. The Senate Environment and Public Works Committee already got the ball rolling by advancing last year an aspect of the law's reauthorization. Other Senate committees, as well as House policymakers, have yet to take up their drafts. Importantly, a highway funding account backed by revenue from fuel taxes is projected to be insolvent in less than two years. The Highway Trust Fund account assists states with maintenance and construction.

Nicole Nason, administrator of the Federal Highway Administration, was asked Feb. 10 about the surface transportation reauthorization proposal. "Federal Aid Highways," for which $50.7 billion is requested, is among the accounts awaiting further details. "We have been working very closely with Congress. We know there's extreme interest in both the House and the Senate. Of course, Senate EPW did report out their piece in a bipartisan manner," she explained. "We've offered record levels of assistance to both the Senate and the House so that we know that they are working up there to try to get legislations through the process, and I can tell you that we are, of course, watching the trust fund levels closely. We look forward to working with Congress in the coming months." ***Emphasis on "months."***

Top 100 Truck Bottlenecks: 2020 ATRI Ranking Has Familiar Choke Points

Eugene Mulero, Senior Reporter, Transport Topics, February 19, 2020

A quick scan of this year's Top Truck Bottleneck List, produced by the American Transportation Research Institute, shows little improvement among the nation's worst freight corridor choke points. The intersection of Interstate 95 and State Route 4 in Fort Lee, N.J., which cars and trucks take to connect to Manhattan's Upper West Side via the George Washington Bridge, earned the dubious distinction of being recognized as the country's premier bottleneck for trucks this year after also topping ATRI's list last year. Previously it led the list in 2014, while consistently ranking in the top 10 over the years. Garden State drivers know traffic congestion. One in 11 bridges are structurally deficient, meaning they require rehabilitation, according to the American Society of Civil Engineers in 2016. The state has 6,657 bridges. A few years ago, New Jersey lawmakers increased the state's fuel taxes to fund projects meant to improve freight and passenger connectivity.

Behind New Jersey on ATRI's list were other notorious points of freight congestion:

- No. 2: Atlanta's I-285 at I-85 North interchange (also No. 2 last year)
- No. 3: Nashville's I-24/I-40 at I-440 East interchange (up from No. 8 last year)
- No. 4: Houston's I-45 at I-69/US 59 interchange (up from No. 5 last year)
- No. 5: Atlanta's I-75 at I-285 North interchange (down from No. 3 last year)

"ATRI's bottleneck analysis is an important tool for TDOT as we work to maximize the safety and efficiency of our transportation system, and ensure we are making the smartest investments possible," Tennessee Department of Transportation Assistant Bureau Chief Freight and Logistics Dan Pallme said. "This report should sound the alarm for policymakers that the cost of doing nothing is too high and provide a roadmap of where to target investments to really solve our nation's mounting infrastructure crisis," added Chris Spear, president of American Trucking Associations.

ATRI relied on truck GPS data from more than one million heavy duty trucks to compile the bottlenecks data. The full listing, featuring a rundown of the nation's top 100 bottlenecks, is available at www.scribd.com/document/447816367/2020-Top-100-Bottlenecks-List#from_embed

FOR IMMEDIATE RELEASE February 4, 2020

ATA Outlines Trucking's Priorities on Safety, Workforce and Infrastructure

Identifies actionable steps for Congress to save lives, create jobs and rebuild America's roads

Washington – American Trucking Associations President and CEO Chris Spear testified this morning at a hearing before the U.S. Senate Commerce Subcommittee on Transportation and Safety, outlining the industry's top priorities and identifying concrete steps Congress can take to enhance highway safety, expand job opportunities in trucking and revitalize America's sagging infrastructure.

On safety, Spear emphasized the dangers of speeding and distracted driving among the motoring public, highlighting that "72% of large truck crashes had no truck driver-related factors recorded, fueled largely by the growing addiction to speeding and texting." He decried FCC's proposal to slash the Safety Spectrum for transportation safety purposes and reallocate it for unlicensed Wi-Fi, and urged the committee to end HHS's unacceptable delays in producing a rule—as required by law now for many years—for hair testing for controlled substances.

Spear also touted the heavily bipartisan DRIVE-Safe Act and called on the committee's members to support it:
"Forty-eight states currently allow an 18-year-old to drive a Class 8 commercial vehicle, making it legal to drive an 850 mile stretch of California. Yet, it is federally illegal driving from Providence, Rhode Island to Rehoboth, Massachusetts – a mere 10 miles. The heavily bipartisan DRIVE Safe Act would require 400 hours of apprenticeship training and safety technology. 48 states require none of this, making the DRIVE Safe Act a leap toward safety, and ATA recommends its immediate passage."

Finally, Spear called for federal investment in infrastructure, touting ATA's proposal – the Build America Fund – as the most viable, cost-effective and fiscally conservative funding mechanism available in the near-term: "Trucking now loses $70 billion each year sitting in congestion. That's 425,000 drivers sitting idle for an entire year. Sixty-seven million tons of CO2 being emitted. Passenger vehicle drivers now lose $1,600 a year due to traffic and repairs. These are the mounting costs of doing nothing."

Answers to Trivia

Carriers seize on conditions for cheap capacity as trucking acquisitions ramp up

Aaron Huff and James Jaillet, CCJ (Commercial Carriers Journal | February 7, 2020

The increased activity around carrier acquisitions will likely continue until the economy heats up again, says Loop Capital's Jeffrey Kauffman. Market conditions over the past 18 months have made the trucking industry a hotbed for acquisitions, with larger carriers snapping up smaller carriers while that capacity's cheap and as part of the industry's ongoing in-fight for available truck drivers. "One thing we see when the market is weak is a pickup in M&A (mergers and acquisitions) activity," says Jeffrey Kauffman of Loop Capital. "Carriers have an opportunity to pick up customers and pick up drivers at a discounted rate," he says. "Business values have dropped," making acquisitions more reasonable and affordable, he says.

Kauffman says acquisition activity is noticeably higher than in 2017 and 2018, when the market was stronger and it was easier for smaller carriers to turn a profit. Those conditions have since pivoted, and softer trucking rates, combined with spiking insurance premiums, have left smaller carriers looking to sell — just as larger carriers are looking to buy. "With so many smaller companies being family owned, they're trying to get out while they can," says Jordan Nelson, an analyst at KSM Transport Advisors. "Trucking…is a fragmented industry," he says, pointing to the tens of thousands of carriers that operate between one truck and 50 trucks. He expects the industry to continue consolidating while current economic conditions persist.

But the biggest driver behind the ramp-up in acquisitions, says Nelson, "is access to more capacity" — drivers and trucks with customers already in place. "A lot of times when you are looking at companies, it is almost exclusively because of drivers," says Dennis Morgan, president of Cowan Systems, a privately held truckload carrier with 2,500 trucks. Cowan has made five acquisition over the past decade, including the purchase of the family-owned Carlisle Carrier Corporation last July. Likewise, carriers are looking to diversify into emerging industry sectors, says Morgan. Echoing Nelson's point, owners of those smaller, family-owned businesses operating in a trucking niche are looking to cash out and retire, Morgan says.

On a macro level, the trucking industry has been responding to the consolidation taking place by its shipper customers, says John Larkin, operating partner at Clarendon Capital's transportation and logistics investment arm. Large shippers, especially in consumer retail, are getting larger and tightening their group of core carriers to reduce administrative costs. Also, says Larkin, interest rates for equity and debt capital are as low as they've ever been.

The liquid bulk segment has been one of the hottest industry sectors in terms of acquisitions, says Larkin. Of note, Keenan Advantage has acquired a number of carriers to take the lead in the gasoline delivery business. Also, Heniff Transportation in December acquired another bulk transporter, Superior Bulk Logistics. Also in the bulk sector, Transwood Carriers (a roughly 800-truck fleet out of Omaha) acquired the 150-truck Kane Transport in December.

Recent deals in dry van include Cowan Systems purchasing Carlisle in July 2019 and Heartland Express buying Millis Transfer in August. Flatbed has also been a hot sector for acquisitions, says Larkin. And as fleets continue to try to find footing in the final-mile segment, acquisition activity has been consistent in that segment, says Kauffman. For instance, J.B. Hunt just last month made another last-mile acquisition by purchasing RDI Last Mile co.

The onset of the electronic logging device mandate has also contributed to acquisition activity, says Steve Rush, owner and chief executive of Carbon Express, a 72-truck liquid bulk hauler based in Wharton, N.J.

Rush has been in trucking for 55 years. The state of the industry today reminds him of the early 1980s when deregulation caused unionized motor carriers to be usurped by non-union carriers that were adapting more quickly to market opportunities. Similarly, Rush believes carriers who have not responded to opportunities in the ELD era are most likely to either go out of business or be bought up. When Carbon Express switched to e-logs more than a decade ago, it began rating by the hour. "It caused us to realize we weren't charging enough money," he said. "We looked at some carriers to buy, who were smaller than us. When we looked, I realized they would be going out of business. They have not raised rates in the most volatile time since deregulation." He added "The industry is made up of so many scared poker players." Rush noted that when he has evaluated carriers for an acquisition, the most important attributes are the character of the management team, the safety record, driver retention and how long they have been on e-logs.

Electric Trucks Must Reap Financial and Environmental Benefits, Execs Say

Joe Howard | Executive Editor Transport Topics February 19, 2020

FONTANA, Calif. — The financial case must be just as sound as the environmental argument if electric trucks are to succeed in the marketplace, stakeholders said. "Economics and sustainability must go hand in hand," Volvo Trucks North America president Peter Voorhoeve said during an event to update customers and media on the progress of the company's Volvo LIGHTS project, a partnership through which the manufacturer and 14 partners are testing early versions of the full-electric Volvo VNR trucks that will go on sale commercially in late 2020. "We need to warm up the engine, make sure we can get the scale and get the trucks on the road. Then, ultimately, the economics will follow." He added, "We want a commercial solution."

Focused on developing electric power options for heavy-duty applications, the Volvo LIGHTS project received $44.8 million in funding from the California Air Resources Board in 2018 as part of California Climate Investments, a statewide initiative that aims to help reduce greenhouse gas emissions, boost the state's economy and improve public health and the environment. Volvo has contributed $36.7 million to the project, and the other 14 partners involved have made investments, as well. The project is valued at $90 million. While the project is centered on California, Volvo Group CEO Martin Lundstedt noted that the state is a good proving ground for EVs nationwide given the size of its economy. "To give a perspective for the continent we are on today, California is [the size of] France in terms of GDP," he said. "It is a huge economy in itself — 40% of all imports go through the ports of California. So, it is a fantastic opportunity to start the Volvo LIGHTS project here, with our partners, and to use it as a platform for the future."

One of those partners, TEC Equipment, is training service technicians to work on the electric VNR models, and will use one of the five trucks that were set to go into pilot testing for parts deliveries within weeks of the Feb. 11 event, company president Dave Thompson said. "People are being trained and we will be supporting about 15 of these vehicles," he said. "And we'll be doing parts runs in the area." Thompson said the company's new 14-acre Fontana facility — the dealership chain's largest location — can accommodate 102 trucks in its service bay and is being prepped for electric trucks. For example, program partner Greenlots has installed two charging stations and has plans to install a third. Greenlots, which in 2019 was acquired by Shell and folded into that company's New Energies group, furnished program management software and the mobile app that drivers will use when activating the charging stations, which were manufactured by ABB.

"There are so many moving parts here, so it is important that program management work," said Greenlots vice president Idine Ghoreishian. "Once [the charging station] is in the ground the job is not done. There is still customer support, maintenance, etc." He also noted that as build-out continues, the electrical grid will need to keep pace with demand, and costs for charging and maintaining the trucks will need to be considered. "The total cost of ownership must be attractive enough to facilitate this transition and the shift to electrification of fleets," he said.

In the near-term, customers of power supplier Southern California Edison will get a break on the rates they pay to charge EVs, said Katie Sloan, director of eMobility for the company. "We have a new EV rate and have eliminated demand charges," she said. "We can eliminate those for the next five years, then phase them back in. By then, companies will have demand management." Volvo's research and development department is studying the performance and life spans of three generations of batteries, just part of the $2.3 billion Lundstedt said the manufacturer is spending on R&D annually. While he and Chief Technology Officer Lars Stenqvist joked about the price tag on the company's research efforts, Stenqvist stressed that his department — and its 12,000 engineers — is preparing the company for what lies ahead. "R&D is investing in the future," Stenqvist said. "If you are an engineer, it's in logistics and transportation where you want to be. Electro-mobility will be one of the most important solutions, and we are well underway."