OUTSOURCE

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THE SOURCE

Inside this issue

Cover Story:

USMCA is getting POLITICAL. Really!!

Democrats meet on changes in new NAFTA to prepare for vote

By: Erik Wasson and Jenny Leonard Jun 19, 2019 Bloomberg News

House Democrats plan to meet for the first time Wednesday to discuss changes they want in President Donald Trump's new North American trade deal, paving the way for a vote to take place later this year. The nine-member working group will discuss possible revisions to be proposed to U.S. Trade Representative Robert Lighthizer, said Ways and Means Trade Subcommittee Chairman Earl Blumenauer, an Oregon Democrat. Democratic concerns with the agreement include provisions regarding labor, the environment, pharmaceuticals and overall enforcement mechanisms. Blumenauer, one of the lead negotiators on drug pricing, said he wants to pick one of the four issues and "knock it off," one at a time. "My goal is sometime that people feel that all four of these items have been addressed," Blumenauer said. "Whether they are perfect I don't know."

The U.S.-Mexico-Canada deal, intended to would modernize but not fundamentally change the 1994 North American Free Trade Agreement, is the Trump administration's top legislative priority this year. Talks on the accord have accelerated this month since Trump decided not to impose tariffs on all Mexican imports because of unrelated immigration issues.

Quick Decision

If Lighthizer is willing to be flexible, Blumenauer said, lawmakers should be able to figure out a path forward. Speaking during a committee hearing on Trump's trade agenda Wednesday, Lighthizer told Blumenauer he is ready to engage and is confident he can quickly find solutions that would satisfy Democrats because he agrees almost entirely with the changes they are demanding. "I could sit down with the members that I have to sit down with on the labor provision and come to a decision within half a day," Lighthizer said. "I don't need weeks or months."

Ways and Means Chairman Richard Neal, the Democrats' lead negotiator, sought assurances from Lighthizer that the administration wouldn't rush the process. Lighthizer agreed, but pushed back on the premise of the question, noting that the agreement has been public and signed for many months. "I don't believe that waiting nine months to get to the point when you can make improvements is rushing anything," Lighthizer said. "We're in a position where the members know what they want, I know what the members want, it's a question of sitting down and deciding where the lines are and what can be done and what can't be done."

August Timeline

Illinois Democrat Jan Schakowsky, who is working with Blumenauer on the drug pricing provisions, said there was no deadline for the working group to come up with conclusions. "We feel no sense of urgency," she said in an interview Tuesday, adding that members will soon offer their proposals to Lighthizer. The White House is pushing for a vote on the deal before the congressional August recess, but Democrats say they need to build consensus within their caucus before voting.

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-OUTSOURCE- THE FREIGHT MANAGEMENT COMPANY

Democrats meet on changes in new NAFTA to prepare for vote

(Front page article continued)

Connecticut Representative John Larson, also part of the USMCA working group, praised Lighthizer and expressed confidence a vote can be held this summer. "He is obviously sincere," Larson said in an interview. "Getting it done by August is possible. We'll see." Wisconsin Democrat Ron Kind was less hopeful; he said passing the USMCA by August is "doubtful."

"Usually when a trade agreement is up it's a full court press from the administration. This is a one-man show, it's just Bob," Kind said, in reference to Lighthizer. "Where's the treasury secretary, the commerce secretary, the agriculture secretary?" Kind said Lighthizer needs to quickly offer the committee a specific "action plan" for addressing Democratic concerns. "What we have now is a game of chicken where neither side wants to make a proposal first," the lawmaker said.

Lighthizer to meet China trade chief before presidential summit

By: Erik Wasson and Ryan Haar, AJOT, Jun 19 2019

U.S. Trade Representative Robert Lighthizer said he'll speak with his Chinese counterpart to prepare for a high-stakes meeting between the two countries' presidents later this month that may revive trade talks. Lighthizer, testifying to the House Ways and Means committee on Wednesday, said he plans to speak by phone with Vice Premier Liu He this week. He and Treasury Secretary Steven Mnuchin will then meet in person with Liu before President Donald Trump and Chinese leader Xi Jinping sit down together during the Group of 20 summit in Japan on June 28-29. Lighthizer said it's still unclear if official trade talks will resume. "When actual negotiations begin again I can't say at this point. But we're talking, we're going to meet," Lighthizer told lawmakers in Washington. "If we can resolve these issues in a way that improves this relationship, preserves the competitive advantage of the United States, we have an obligation to do that."

Lighthizer said the U.S. wants to make a trade deal as much as China does, and that "we are ready to engage." But he said the Trump administration sees the trading relationship as unbalanced and wants to make sure that's addressed.

Trump announced Tuesday that he had a "very good" phone conversation with Xi, and that the two leaders will hold an "extended meeting" at the G-20. The U.S. president had repeatedly threatened more tariffs if Xi spurned the opportunity to talk. The last time Trump and Xi met face-to-face, at the G-20 in Argentina in December, they agreed to a temporary tariff ceasefire. In the following months, the two sides repeatedly said they were making progress toward a deal, but negotiations broke down last month when the U.S. accused China of reneging on promises it made in a draft agreement. Trump then followed through on a threat to raise tariffs on $200 billion of Chinese goods and said more are on the way.

Commerce Secretary Wilbur Ross over the weekend downplayed the prospect of a major deal in the near term. "I think the most that will come out of the G-20 might be an agreement to actively resume talks," possibly with new ground rules and a schedule, Ross he told the Wall Street Journal.

TRIVIA QUESTIONS

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1) Instead of Brown, what color was first considered for UPS trucks when they started delivering by truck?
A. White **B.** Blue **C.** Red **D.** Yellow

2) What color uniforms did UPS use in West Germany when they were starting business there in 1976?
A. Grey **B.** Green **C.** Pink **D.** Blue

3) What simple solution did UPS incorporate in their routes to minimize fuel consumption?
A. No Idling **B.** maximize right turns **C.** coast downhills **D.** Drive primarily at night

4) How many FedEx status tracking requests are made daily (as of 3/17/18)?
A. 105 million **B.** 85 million **C.** 125 million **D.** 35 million

5) What is the average daily shipment count across all divisions (express, ground, home etc) as of 3/17/18?
A. 14 million **B.** 85 million **C.** 6 million **D.** 54 million

6) What year did FedEx start in Memphis? It is the same year overnight delivery started.
A. 1975 **B.** 1969 **C.** 1971 **D.** 1973

Answers Later In The Newsletter

FUEL REPORT

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

	6/03/19	6/10/19	6/17/19	Change from week ago	Change from year ago
U.S. National Average	$2.807	$2.732	$2.670	-0.062	-0.209

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From the US Energy Information Agency (www.eia.gov)

Different types of energy sources (or fuels) are used for transportation in the United States

The major types of energy used for transportation in the United States are

- Petroleum products—products made from crude oil and from natural gas processing, including gasoline, distillate fuels (mostly diesel fuel), jet fuel, residual fuel oil, and propane
- Biofuels—ethanol and biodiesel
- Natural gas
- Electricity (produced from many different energy sources)

Petroleum is the main source of energy for transportation

In 2018, petroleum products accounted for about 92% of the total U.S. transportation sector energy use. Biofuels, such as ethanol and biodiesel, contributed about 5%. Natural gas accounted for about 3%, most of which was used in natural gas pipeline compressors. Electricity provided less than 1% of total transportation sector energy use and nearly all of that in mass transit systems.

Carriers Evergreen, Hapag-Lloyd Seeking Megaships Worth $2.2 Billion

By Costas Paris June 20, 2019

Shipping lines Evergreen Marine Corp. of Taiwan and Germany's Hapag-Lloyd AG have put in separate requests to Asian yards for the construction of more than a dozen mega-container ships that would have a combined value of about $2.2 billion. The proposals signal that a lull in new orders in the sector is ending as carriers seek ever-bigger vessels to carry goods. The fleet additions would widen the gap between capacity and demand on container shipping's critical Asia-to-Europe trade lanes, where operators have been mostly losing money over the past five years.

Hapag-Lloyd, the world's fifth-largest container operator in terms of capacity, is sounding out yards in Japan, South Korea and China for up to six ships that could each move 23,000 containers, people with knowledge of the matter said. Evergreen, the seventh-biggest player, is considering adding eight or nine ships in a deal that may be signed by the end of the summer, these people said. "Evergreen's order will come faster and Hapag-Lloyd will be later," a person involved in the matter said.

The carriers are members of competing alliances that share ships and port calls to cut costs. A typical one-way trip from Asia to Northern Europe involves at least 10 port calls in which the megaships drop off and take on cargo. "Some of the vessels are to fulfill capacity commitments within the alliances and others to renew older and less efficient ships," another person involved in the matter said. "Yes, there is overcapacity and the trade picture does not look good with the tariffs and the economic slowdown, but these ships will run for the next 25 years and now is a good time to buy."

Taiwan's Yang Ming Marine Transport Corp. and China's Cosco Shipping Holdings Co., the third-biggest box-ship operator, are also in the market for new ships but no orders are imminent, the people said.

The orders would be the first for big ships in the container-shipping sector since last fall, when South Korea's Hyundai Merchant Marine signed contracts for 20 vessels. The order included 12 of the biggest ships, carrying up to 23,000 20-foot containers.

Demand for shipping consumer goods, manufacturing parts and other staples of global trade is waning this year amid a slowing global economy and continuing tensions between the U.S. and China. Maritime data provider Alphaliner in late May cut its container volume growth estimate for this year to 2.5% from 3.6%.

Chinese shipping executives say they have withdrawn capacity in the trans-Pacific route since a first round of U.S. tariffs on Chinese goods happened last summer. Operators say they have little choice but to invest in new ships despite a gloomy outlook because of stricter environmental regulations kicking in next year. Starting in January, all oceangoing vessels will have to sharply reduce their sulfur emissions. Maritime operators expect to slash greenhouse gas emissions from ships by half by 2050. "This means a lot of older ships will be scrapped because the cost of retrofitting them to meet clean-air standards will be too expensive,'' one of the people familiar with the recent orders said. "We actually expect supply of new ships to match demand by 2021, which is just around the corner."

'An end to shipping alliances would see freight rates skyrocket'

By Gavin van Marle in Rotterdam 19/06/2019

Shipper opposition to deepsea liner shipping alliances may be dangerously misplaced, delegates at the TOC Container Supply Chain event in Rotterdam heard yesterday. Lars Jensen, chief executive and partner of SeaIntelligence Consulting, said efforts by some to bar container lines from operating in alliances, claiming they have become anti-competitive, would result in freight rates "skyrocketing".

The EU's Block Exemption Regulation (BER), the de facto legislation covering liner alliances and vessel-sharing agreements (VSAs) on container trades to and from Europe, is set to expire on 25 April next year, and EC regulators are assessing whether to extend it for five years. Mr Jensen said: "If the anti-trust exemption isn't extended, it doesn't necessarily mean shipping lines can't run alliances. It may well just mean the lines have higher hoops to jump through, and I believe that they will do that. But it will mean a lot of legal costs and the carriers will have to recoup those costs and the only they can do that is through higher rates," he added. "However, if shipping alliances are outlawed altogether, then freight rates will skyrocket, because alliances are the only way that carriers can operate ultra-large container vessels (ULCVs) effectively."

He explained that, on its own, Maersk Line could only run two Asia-Europe services a week, and even then, it would have a much more limited port rotation than under its 2M alliance with MSC. "I think you would see these services calling at just three Chinese export ports and three main European port calls. And MSC is in the same situation. "Now, if you are shipping from Shanghai's container yard to Rotterdam's, then that's fine, rates will stay relatively low. But for any other origin or destination you will have to use far more transhipment than currently, and shippers would be faced with an enormous jump in freight rates. "So I am of the opinion that shippers should pray the lines are allowed to continue to operate alliances," he said.

Answers to Trivia

Secretive Magic Leap Says Ex-Engineer Copied Headset for China

By: Peter Blumberg, AJOT, Jun 18 2019

(San Francisco) Magic Leap Inc., a U.S. startup that makes a headset to project digital objects onto the real world, accused one of its former engineers of stealing its technology to create his own augmented reality device for China. In a lawsuit filed Monday, Magic Leap alleges that Chi Xu, who left in 2016, exploited its confidential information to "quickly develop a prototype of lightweight, ergonomically designed, mixed reality glasses for use with smart phones and other devices that are strikingly similar" to the Florida-based startup's designs.

The lawsuit marks the latest accusation from an American firm of intellectual property theft by Chinese companies, a perennial sore point that's helped escalate tensions between the world's two largest economies. With more than $2 billion in financing, Magic Leap is one of the better-funded startups delving into so-called augmented or mixed reality, a technology that gives users the illusion that fantastical, three-dimensional digital objects exist in the physical world. Xu, who founded Beijing-based Hangzhou Tairuo Technology Co., also known as Nreal, unveiled his own augmented reality glasses at a major Las Vegas trade show in January, touting them as lighter than the Magic Leap One, Forbes has reported. Apart from Magic Leap, Facebook Inc., Microsoft Corp. and Alphabet Inc.'s Google are also developing products for virtual or augmented reality. It remains to be seen whether anyone can turn the area into a big money-spinner.

Magic Leap released its headset last August after seven years of secretive work and more than $2 billion of investment. The startup alleges that Xu plotted during his roughly 13 months working there to launch his own competing company in China and "neglected his work duties" to acquire proprietary information. "Whereas Nreal purported to develop its Nreal Light product in under two years, Magic Leap developed its technology after extensive investment of time (multiple years), money (hundreds of millions of dollars spent on research and development) and human resources (hundreds of engineers)," according to the complaint.

Xu is accused in the suit of breach of contract, fraud and unfair competition. Nreal is also named as a defendant. Representatives at Nreal had no immediate comment on the lawsuit, while Xu did not respond to a message sent to his LinkedIn account. The case is Magic Leap Inc. v. Xu, 19-cv-03445, U.S. District Court, Northern District of California.

FedEx's next year outlook may be weighed down by trade war

By: Esha Dey Jun 20 2019 | Air Cargo News | International Trade

FedEx Corp's pains are far from over. Expectations from its upcoming fiscal fourth-quarter results have already hit rock bottom, and now analysts say its entanglement in the prolonged U.S.-China trade war may dampen the outlook for the next year as well. "Given several macro overhangs (trade war, U.S. industrial economy, Eurozone softness, etc.), we wouldn't be surprised to see a fairly wide EPS guidance range," Raymond James analyst Patrick Tyler Brown wrote in a note to clients. The analyst said the recently announced dividend for FedEx's fiscal first quarter was the first time since June 2009 that the payout did not increase and wondered if it provided a "telling sign" for sluggish guidance.

FedEx is due to report the fourth-quarter numbers on June 25, after the market close. Analysts on an average expect adjusted earnings of $4.88 a share, on revenue of $17.81 billion, according to Bloomberg data. While the results may be disappointing, some say the market has already factored that in. FedEx shares are down nearly 34% over the past 12 months. "The weak fundamental outlook for FedEx is more than priced into the stock," Sanford Bernstein analysts wrote in a note on Thursday. "Based on our read of sentiment, nothing FedEx says next week is likely to make the stock work." However, the company still has enough levers to pull, the analysts added, and "earnings should be up mid-single digits in fiscal 2020."

PANYNJ wraps up ExpressRail Port Jersey project

Progressive Railroading 6/20/19

The rail facilities were designed to reduce the port's historical heavy reliance on trucks

The Port Authority of New York and New Jersey (PANYNJ) yesterday announced the completion of the ExpressRail Port Jersey facility, the final piece of the port's intermodal rail network spanning facilities in Elizabeth and Newark, New Jersey, and Staten Island, New York. Opening the Express Rail Port Jersey intermodal facility allows the port to advance its five-year goal to handle more than 900,000 rail lifts a year — the equivalent of 1.5 million fewer truck trips traveling through local roads, PANYNJ officials said in a press release. The rail facilities were designed to reduce the port's historical heavy reliance on trucks to transport cargo and expands its geographic cargo reach to inland hubs. Trucks still account for moving 85 percent of all containers on and off port terminals today, they said.

Completion of the rail network wraps up two decades and about $6 billion worth of investment in the port to drive cargo growth. In addition to the $1.7 billion Bayonne Bridge project and the $600 million in port rail network investment, the port has also deepened harbor channels to 50 feet, rebuilt wharves and berths, enhanced its internal road network and installed improved security systems and infrastructure, port officials said.

As a result of those investments, PANYNJ is poised for the first time in at least 20 years to overtake the Port of Long Beach in California as the nation's second-busiest port, they said. From January through April, PANYNJ posted 1,690,214 loaded 20-foot equivalent units (TEUs) compared to the Port of Long Beach's 1,669,440 loaded TEUs for the same period. PANYNJ surpassed Long Beach in volume of both loaded imports (1,203,674 TEUs) and loaded exports (486,540 TEUs), officials said. "The port has been the lifeblood of the New York-New Jersey regional economy for decades, and completion of this intermodal rail project will only help to bolster our already strong position in attracting international cargo destined for the northeast region and beyond," said PANYNJ Chairman Kevin O'Toole.

FOR IMMEDIATE RELEASE June 12, 2019

ATA Calls for Data-Driven Approach to Transportation Reauthorization

Highlights Trucking's Efforts to Improve Safety, Foster Innovation, and Increase Efficiency

Arlington, Virginia — Today, American Trucking Associations President and CEO Chris Spear told members of the House Transportation and Infrastructure Committee that the nation's preeminent trucking advocacy group is committed to working with lawmakers as they begin work on a transportation reauthorization bill. Spear also spoke to the industry's commitment to strengthen and grow the industry's workforce, as well as to maintain fair and free trade. "ATA pledges to help this subcommittee write legislation that takes into consideration the state and future of the trucking industry, looking beyond the hood – 5, 10, 15 years out – and how we can improve safety through innovation; how we can grow a diverse, well-trained workforce that shores up the very real and well-documented shortage of talent; how trucking can generate and invest real money into our decaying infrastructure; and, how trucking can help you shape free and fair trade agreements that make the United States the strongest economy in the world."

In his testimony, Spear said the industry is committed to safety on the nation's highways, and to the deployment of proven technologies that will make the roads safer. "Safety anchors the very foundation of the trucking industry, shaping our core values and decision making," he said. "That is why the trucking industry invests approximately $10 billion annually in safety initiatives, including onboard technologies such as electronic logging devices, collision avoidance systems and video-event recorders. "These investments also include driver safety training, driver safety incentive pay and compliance with safety regulations," Spear said, "and while some of these investments are made to meet a myriad of regulatory requirements, many of them are voluntary, progressive safety initiatives adopted by our members and they're paying dividends in highway safety."

Spear's full testimony outlines ATA's agenda for reauthorization, which includes data-driven improvements to the current hours-of-service rules, rejection of onerous mandates for dubious technologies, support for proven safety technology systems, enhanced employer notification systems, use of hair samples for mandated drug screenings, workforce development measures like the DRIVE-Safe Act and increased infrastructure investment.

Southwest Air Joins American in Extending 737 Max Cancellations

By: Mary Schlangenstein | Jun 13 2019 | Air Cargo News

Southwest Airlines Co. pulled the Boeing Co. 737 Max from its schedule for an additional month, citing uncertainty over when regulators will allow the jet to resume service. Southwest, the narrow-body aircraft's largest operator, will cancel about 100 daily flights as the Max is removed from schedules through Sept. 2, the Dallas-based carrier said in a statement Thursday. The airline previously had the Max returning to service Aug. 6. The delay comes as carriers wait for Boeing to complete fixes to Max software and for regulators to decide when the plane can resume flights. It was grounded worldwide on March 13, following two fatal crashes within five months.

American Airlines Group Inc. recently took the Max out of its schedule through Sept. 3, the day after Labor Day. The two carriers' moves ground the plane at least through the traditional summer travel season. United Continental Holdings Inc., the other U.S. carrier operating the plane, plans to resume flights Aug. 4. The Federal Aviation Administration has said there's no time frame for signing off on Boeing's proposed software fix and revised pilot training for the aircraft. An agency official said Wednesday that he expects the plane to be back in service this year.

Improvements to freight rail could make shipping easier for Charlotte businesses

By Eva Ellenburg June 19, 2019

Businesses will be able to ship goods by rail more easily between Charlotte and the Port of Wilmington thanks to planned improvements to a freight rail service. The N.C. Department of Transportation will receive $34.8 million in federal grants to enhance the safety and efficiency of the Queen City Express, a direct freight rail service running daily between the Wilmington port and the intermodal terminal in Charlotte. Construction will begin in 2022. “What these improvements do is they contribute to the capacity of that route to handle container traffic, making that a more attractive option for existing businesses in the Charlotte area and even potentially attracting new businesses to the region,” said Jason Orthner, director of the NCDOT railway division. CSX launched the Queen City Express in 2017 to increase intermodal shipment of containers — the transport of containers of goods between multiple transportation modes like ships, trucks and trains — between Charlotte

Other planned improvements include increasing the speed at which trains can travel through Wilmington to the port and increasing the capacity of sidings, where trains pass each other, at several points along the route. These two improvements will allow the railway to handle more and longer trains. Paul Cozza, executive director of the N.C. Ports Authority, said in a statement that the project will make Charlotte more accessible for ports via rail. According to the N.C. Ports Authority, one freight train can take up to 280 trucks off the highway. Orthner said the NCDOT project will hopefully increase the use of the Queen City Express, thereby reducing air pollution, traffic and road damage caused by semi-trailer trucks. Bethany Welch, spokeswoman for the N.C. Ports Authority, said data on how many Charlotte businesses use the freight service cannot be released without companies’ permission.

Mark Bartmann, the national intermodal manager of the global transport company Kuehne + Nagel International AG, said the Charlotte branch of the company uses the Queen City Express infrequently because only a few sailings arrive to the port each week. But the company is looking to increase its use of the rail service to reduce its environmental and highway impact, as well as save money on shipping. Bartmann said Kuehne + Nagel would be more likely to use the route for higher volumes of container transport if the freight service received more ships and had more efficient railway capacity between Charlotte and Wilmington. He said the NCDOT project could encourage more businesses to use the service. “We need to put more freight onto the rail and in order to do so the infrastructure needs to be set in the right way,” Bartmann said. “The more trucks we can take away, the better it is for all of us.”

Kentucky firm celebrates 100 years of making hard hats.

By DC Velocity Staff, 6/12/19

Visit any construction site or distribution facility, and you'll likely see workers wearing safety vests, work boots, and the ubiquitous hard hat. Though perhaps the most recognizable safety product worn at job sites today, the hard hat is a fairly recent addition to the protective-work-gear lineup, marking its 100th anniversary just this year.

A Cynthiana, Ky.-based protective-equipment manufacturer named Bullard claims credit for the invention. According to company lore, the founder's son, E.W. Bullard, returned from World War I with the idea of adapting his iconic "doughboy" army helmet for use as protective headgear for miners. The result was the "Hard Boiled hat," introduced in 1919 for industrial and emergency-response applications.

The hard hat has evolved over the decades from a leather-and-fabric contraption to the lightweight polyethylene-plastic version we know today. "The original 'Hard Boiled hat' was manufactured out of steamed canvas, glue, a leather brim, and black paint," said current CEO Wells Bullard in a statement. "My great-grandfather built a suspension device into what became the world's first commercially available industrial head-protection device. We may take it for granted today, but we are proud to be celebrating 100 years of an innovation that truly helped our country grow and keep the hard-working women and men who built it safer."

Booming economy drives U.S. business logistics costs up 11.4 percent

By Susan K. Lacefield, DC Velocity June 18, 2019

In the face of tight transportation capacity and rising freight rates, overall U.S. business logistics costs jumped 11.4 percent in 2018 to a total of $1.64 trillion, or 8.0 percent of the U.S.'s $20.5 trillion gross domestic product, according to theCouncil of Supply Chain Management Professional's 30th annual State of Logistics Report. The report, which was issued this morning at the National Press Club in Washington, D.C., is written by the global management consulting firm A.T. Kearney and sponsored by logistics service provider Penske Logistics. It found that all the components that make up U.S. business logistics costs—transportation costs, inventory carrying costs, and other administrative costs—rose in 2018. The report's findings echo the experience of many major companies, which have reported in their Securities and Exchange Commission (SEC) filings that they exceeded their supply chain budget spending in 2018.

The biggest increase occurred in the area of inventory carrying costs, as companies responded to trade tensions between the United States and China by building up their inventories before tariffs went into place. Inventory levels rose 4.6 percent year-over-year in 2018, and inventory carrying costs rose 14.8 percent. Meanwhile transportation costs jumped up 10.4 percent, with every mode experiencing an increase. Particularly big increases were seen in intermodal, which spiked up 28.7 percent, and in the private or dedicated fleet market, where costs rose 13.1 percent. The increase in these two modes was driven by shippers seeking alternatives to common carriers, which saw rising rates in the first half of the year, particularly in the spot market. The report attributes the rising logistics costs to four factors:

- The continuing growth in e-commerce sales (an increase of 14.2 percent over the previous year) has meant that many companies have had to redesign their supply chain networks. For example, the rise in urban fulfillment needs has led many companies to turn to smaller, more costly warehouses.
- Existing truck fleets saw an extremely high utilization rate in 2018 due to growing demand. As a result, truck capacity was tight, and rates spiked.
- Government regulations on driver "hours of service" forced many smaller trucking companies to cease operation, consolidate, or be acquired.
- The low unemployment rate made it harder to attract and retain truck drivers and warehouse workers, causing companies to increase wages. In many cases, carriers and warehouse providers passed these costs on to their customers.

Cresting the hill

While the economy boomed in 2018, many economists anticipate that growth will soften in the later part of 2019. As a result, shippers can expect that transportation costs will ease somewhat in the upcoming year, according to the report. For example, trucking capacity started to catch up to demand in the second half of 2018, and freight rates have begun to slide back to "normal levels." The report also predicts that the air freight and ocean shipping sectors will not match the cost increases seen in 2019.

"[The logistics industry] has overcome a tough and exhausting year," said Michael Zimmerman, partner with A.T. Kearney and co-author of the 2019 report. "Now, demand has softened, and growth is in doubt—but not to the point where a steep decline is visible, a context we summarize in the report's title, 'Cresting the Hill.'" The authors predict that economic realities—particularly the tight labor market—will drive many companies to embrace new technologies and innovations in the upcoming years. They anticipate increases in automated trucks and warehouses and in vehicle electrification. In particular, the report emphasizes the positive impact that the rollout of the 5G mobile broadband and communications standard will have on the logistics industry. The new standard will enable faster download and transfer speeds, greater connectivity and device density, and greater energy efficiency. In the near-term, it will help reduce the cost of operations for existing information technology (IT) and increase visibility across the supply chain. In the long term, according to the report, 5G will enable large-scale deployments of emerging technologies such as the Internet of Things, robotics, artificial intelligence, drones, and real-time tracking.

The report also sounded an optimistic note on greater collaboration between shippers and carriers. The report says that more shippers are moving beyond having an adversarial relationship with their transportation providers and are instead embracing concepts such as shipper of choice programs, collaborative contracts, and asset-sharing models for better use of last-mile drivers and warehousing space. More shippers, carriers, and third-party logistics providers are also collaborating on supply chain network design.

Quotable: **"These ships will run for the next 25 years and now is a good time to buy."** **a person familiar with new container ship purchases**