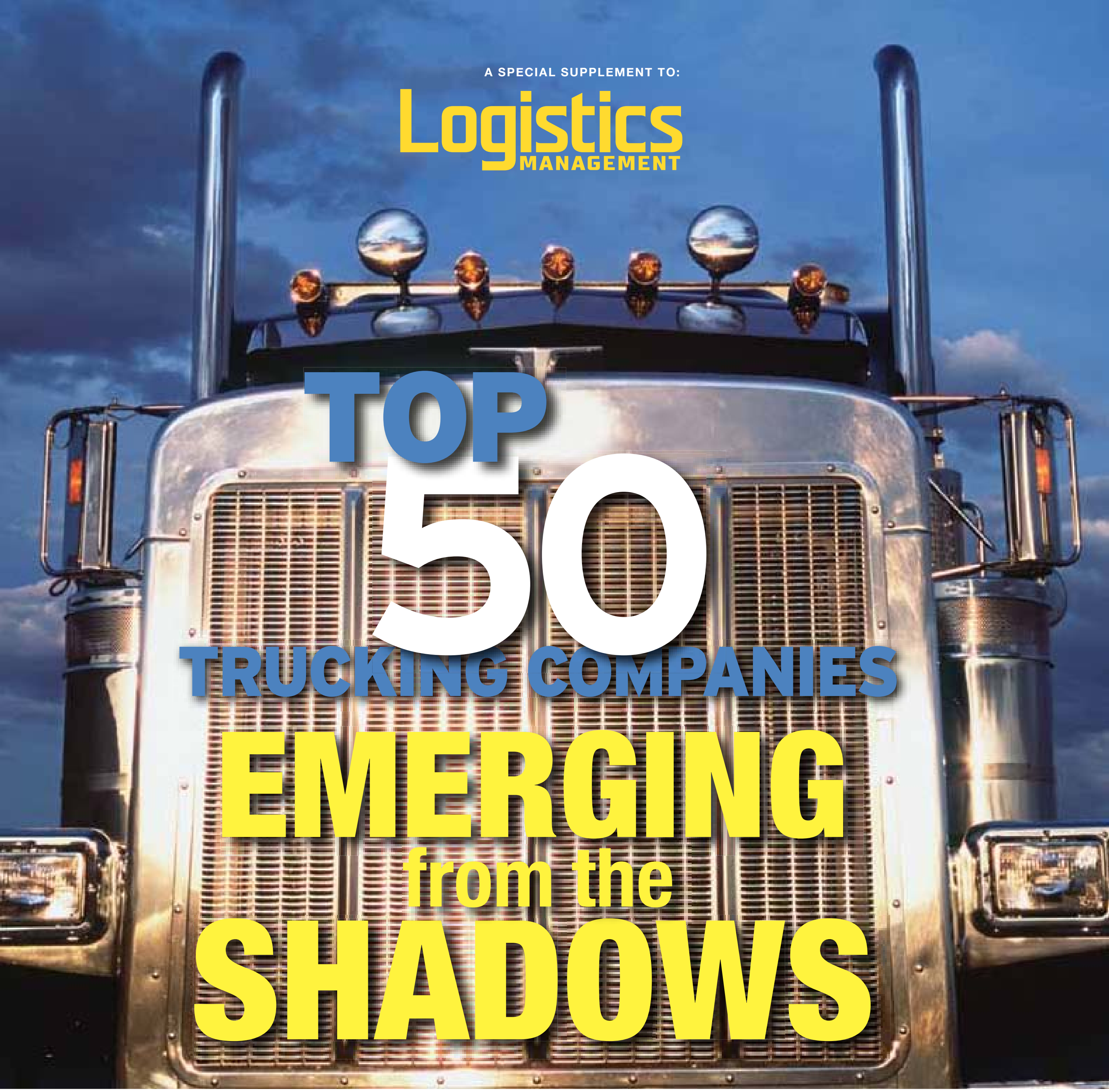

A SPECIAL SUPPLEMENT TO:
Logistics Management

TOP 50 TRUCKING COMPANIES
EMERGING from the SHADOWS

By **John D. Schulz**, Contributing Editor

Leading trucking company CEOs say it's time to pay down debt and put profit to work to recapitalize their businesses—all at a time of tightening capacity. For shippers, the days of rock bottom rates could be long gone.

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What do the Top 50 trucking companies have in common? That's easy. Leading CEOs and trucking analysts agree that their shared traits include shrewd and experienced management teams, an obsession with service and operational details, an ability to react quickly to market conditions, and a motivated work force.

Emerging from the roughest three-year economic cycle since the industry was deregulated, CEOs from *Logistics Management's* list of the Top 50 trucking companies say that they're now focused on improving yield and profits. That's at the same time they're increasingly tailoring their services for each specific customer to satisfy changing shipper demands.

What's making the *LM* Top 50 tick? According to David Ross, trucking analyst for Stifel Nicolaus, the most important aspect of any Top 50 trucking company is the strength, ability, and breadth of experience of its management team.

"Management is number one," says Ross. "They all run the same trucks along similar networks, but it's how you run them that makes the difference. The best make the right decisions on how much to charge, what kind of capacity to bring on, and how much equipment to buy. It all starts with management."

HOW THE TOP 50 ROLL

FedEx Freight this year surpassed YRC Worldwide as the nation's largest less-than-truckload (LTL) carrier. It is at the forefront of industry changes. Bill Logue, president and CEO of FedEx Freight, says he draws his cues from Fred Smith, the founder and CEO of

TOP 25 LESS-THAN-TRUCKLOAD CARRIERS - 2010 REVENUES (Including fuel surcharges)

RANK	CARRIER NAME	2010 REVENUE ($ MILLIONS)	COMMENTS
1	FedEx Freight	$4,421	Revenue adjusted to calendar quarters Includes FedEx National LTL
2	Con-way Freight	$3,026	Surpassed YRC National as second largest LTL carrier
3	YRC National	$2,642	Includes YRC, Inc. (former Yellow and Roadway) and YRC Reimer brands
4	UPS Freight	$2,002	Completed first full year with union workers
5	ABF Freight System	$1,395	Expanding regional service in Western U.S. during 2011
6	Old Dominion Freight Line	$1,377	Most profitable public LTL carrier
7	Estes Express Lines	$1,352	Largest privately-held LTL carrier
8	YRC Regional	$1,257	Includes Holland, Reddaway, and New Penn brands
9	R+L Carriers*	$1,077	Includes R+L, Gator, Greenwood, and Paramount brands
10	Saia Motor Freight Line	$836	Coverage of 34 states
11	Southeastern Freight Lines*	$723	12 Southeast states. Launched logistics division in Jan. '11
12	Vitran Express	$582	Acquired Milan Express (Feb. '11). Coverage in 34 states with Milan
13	Averitt Express	$495	Southeast coverage. Member of Reliance Network for national coverage
14	Roadrunner Transportation	$410	Acquired Bullet Freight (Dec. '09). Light-asset carrier
15	AAA Cooper Transportation	$399	Coverage in 15 states primarily in the Southeast
16	Central Transport International*	$354	Full coverage of 33 states
17	New England Motor Freight	$317	15 Northeast and Mid-Atlantic states
18	Pitt-Ohio Express	$275	Mid-Atlantic coverage. Member of Reliance Network for national coverage
19	Dayton Freight Lines*	$257	11 Midwest states
20	A. Duie Pyle*	$231	13 Northeast states
21	New Century Transportation	$170	Light-asset load to ride hybrid LTL operation
22	Central Freight Lines	$150	Coverage in 14 states primarily in the Southwest
23	Daylight Transport	$144	Light-asset with concentration on West Coast
24	Oak Harbor Freight Lines	$129	Coverage in 5 Western states
25	Ward Trucking	$114	10 Mid-Atlantic states
	2010 TOP 25 TOTAL REVENUES	$24,070	
	ALL OTHER LTL CARRIER REVENUES	$3,401	
	2010 TOTAL LTL MARKET REVENUES	$27,471	

Note: Revenues for LTL operations only, unless otherwise indicated
*Revenues primarily LTL and include less than 10% for truckload and other services
Source: Company reports and SJ Consulting Group estimates
Prepared by SJ Consulting Group, Inc.

FedEx Corp. Logue says no detail at any of FedEx's operating units is too small for Smith to ignore.

"It's a culture created at the top," says Logue. "Fred has always emphasized that we are in business for the customer. But it's our employees who make that customer expect great things. We try and make every employee responsible for that customer treatment."

According to Douglas Stotlar, president and chief executive officer of Con-way, the No. 2 LTL carrier on our list, says that he sees several common characteristics in his operation and those of his chief competitors, including comprehensive

TOP 25 TRUCKLOAD CARRIERS - 2010 REVENUES (Including fuel surcharges)

RANK	CARRIER NAME	2010 REVENUE (In $ millions)	SUBSIDIARY PORTFOLIO / COMMENTS
1	Swift Transportation	$2,631	Swift Transportation
2	Schneider National	$2,350	Schneider National, Schneider National Bulk Carriers
3	Werner Enterprises	$1,542	One-way Truckload, Dedicated, Cross-Border
4	U.S. Xpress Enterprises	$1,450	US Xpress, Xpress Global Systems, Xpress Direct, Total Transportation, Arnold Transportation, Abilene Motor Express, C&C Transportation, Smith Transport, Pinner Transport
5	J.B. Hunt Transport Services	$1,386	J.B. Hunt Truck, Dedicated Contract Services
6	Prime*	$1,019	Flatbed, Refrigerated, Tanker
7	Crete Carrier Corp.	$841	Crete Carrier, Shaffer Trucking, Hunt Transportation
8	C.R. England	$835	England North America, England Mexico, England Dedicated
9	Knight Transportation	$659	Knight Transportation, Knight Refrigerated
10	CRST International	$612	CRST Expedited, CRST Malone, CRST Dedicated Services
11	Covenant Transport	$603	Covenant Transport, Southern Refrigerated Transport, Star Transportation
12	Ruan Transportation Management Services	$591	Ruan Dedicated Contract Carriage, Bulk Transportation
13	Celadon Group*	$542	Celadon Trucking, Celadon Logistics, Jaguar, Celadon Canada
14	Stevens Transport	$501	One-way, Dedicated, Expedited
15	Heartland Express	$500	Heartland Express
16	Ryder Systems	$483	Dedicated Contract Carriage
17	Con-way Truckload	$461	Con-way Truckload
18	Western Express	$432	Truckload Van, Dedicated, Flatbed
19	Penske Logistics	$422	Dedicated Contract Carriage
20	Dart Transit	$415	Dart Regional, Dart Dedicated
21	Interstate Distributor Co.	$413	IDC - Specialized Services, Heavy Haul, Temperature Controlled, Dedicated
22	Anderson Trucking Service	$409	ATS Inc., ATS Specialized, SunBelt Furniture Xpress, Midwest Specialized Transportation, Warren Transportation
23	USA Truck	$402	USA Truck
24	NFI	$401	NFI Dedicated, NFI Transportation
25	Marten Transport	$393	Marten Transport
	TOTAL TOP 25 TRUCKLOAD CARRIER REVENUES	$20,293	

Note: Revenues are for truckload operations and exclude intermodal, logistics and other services
*Revenue adjusted to reflect calendar quarters
Source: Company Reports and SJ Consulting Group estimates
Prepared by SJ Consulting Group, Inc.

service offerings, the ability to execute at high levels against stated service standards, and customers who appreciate a level of consistency.

Astute carrier executives are quick to point out that the lowest rate may not mean the best value. Increasingly, carriers are "bundling" their services to meet ever increasingly exacting shipper needs. As Stotlar told *LM*: "The price/value proposition we offer works to our customers' advantage."

Chuck Hammel, president of Pitt Ohio, No. 18 on *LM's* LTL list, agrees with Stotlar and says that he sees several similar trends. He's seeing more need for time-definite services, and also a move toward LTL shippers trying to increase volumes to qualify

for a truckload shipment. Toward that end, Con-way recently bought Contract Freighters Inc., a major TL carrier, and now ranks as the 17th-largest TL carrier in the nation.

Hammel says he's also seeing more shippers seeking out financial information about their carriers. He says financially strong carriers will have an edge as shippers, under the new CSA 2010 standards, are able to find out more information about individual carriers.

"Carriers who are strengthening their balance sheets by paying down debt, recruiting the best drivers, and adjusting their pay and benefits to stay ahead of what could be a looming driver shortage will have an advantage," Hammel says.

2007-2010: Staying alive

The period from 2007 to 2010 was perhaps the roughest three-year economic cycle for the trucking industry since deregulation in 1980.

Trucking's solution: "Reindustrialize" the U.S.

Trucking industry leaders are unanimous in choosing the No. 1 thing on their wish list of priorities to increase freight volumes, improve rates, and create better services: Reindustrialize America.

Trucking volumes are split roughly half and half between retail and industrial. But the industrialized portion of the business has been shrinking for decades, as the U.S. increasingly became a service economy.

"There's only so much retail," says Myron P. "Mike" Shevell, chairman of the Shevell Group, which includes Northeast regional LTL giant NEMF and truckload carrier Eastern Freightways. "There is virtually no clothing made in the U.S. You've got to produce goods to survive."

How bad is the U.S. industrial base? Consider a few facts:

- The U.S. has lost approximately 42,400 factories since 2001.
- In 2008, 1.2 billion cell phones were sold worldwide. Not one was made in the U.S.
- The U.S.has lost a total of about 5.5 million manufacturing jobs since October 2000.
- In 1959, manufacturing represented 28 percent of U.S. economic output. Today, it represents about 9 percent of all non-farm jobs.
- Today about 12 million Americans worked in manufacturing. The last time less than 12 million Americans were employed in manufacturing was in 1941.
- Dell Inc., the computer giant, is expanding operations in China with an investment of over $100 billion over the next decade. Dell now employs more people overseas than in the U.S.
- Consumer spending accounts for 70 percent of GDP. Of that amount, more than half is spent on services.
- The U.S. has lost 32 percent of its manufacturing jobs since the year 2000.

There are signs, however, that these disturbing trends could be changing. For the first time since 1997, U.S. manufacturing jobs increased. Last year U.S. manufacturing grew by 1.2 percent, or 136,000 jobs. That figure is expected to grow by another 330,000 manufacturing jobs this year, or 2.5 percent, according to IHS Global Insight and Moody's Analytics.

Fortunately, there are serious people who believe the deindustrialization of this country is nothing short of a national crisis. President Barack Obama long has called for a reindustrialization based on "clean" energy jobs and other 21st-century endeavors. His efforts to create a network of high speed rail projects is an example, but hardly the only one.

Manufacturing jobs are actually the "shining star" of this economic recovery, Thomas Runiewicz, an economist at IHS Global Insight, recently told *The Wall Street Journal*. There are several reasons for this manufacturing rebound:

1) Quality: The U.S. worker has continually proven to produce a superior product, albeit perhaps not at the lowest possible price.

2) Onshoring: The trend to offshore outsourcing has begun to end as U.S. manufacturers discover advantages to producing goods here.

3) Excess U.S. industrial capacity and infrastructure: This nation's cities are full of potentially high quality real estate and brick and mortar locations that can easily be retrofitted to nearly any industry.

According to Runiewicz, examples abound. Whirlpool Corp. has 39 factories worldwide but recently decided to modernize and expand its plant in Cleveland, Tenn., to meet rising demand. Dow Chemical is building an 800,000 square-foot factory at Midland, Mich., to design and make hybrid batteries in order to be close to the auto plants of this country. Caterpillar is building a $120 million plant in Victoria, Texas, to build heavy machinery that used to be built in Japan.

All these expansions, and many more, potentially have dollar signs dancing in U.S. trucking executives' heads. That's because eventually every one of those products will be shipped on a truck, even if the long-haul perhaps is handled by intermodal rail.

So while America may never be the industrialized giant it was in the 1950s, it appears it doesn't have to be the manufacturing ghost that it's been in the past decade or two.

"Nobody in this country should be getting a free meal—they should be working either in the private sector or on city, state, or federal projects," Shevell says. "At least then you're paying them for work received. Then they might be buying some goods made in this country. If not, what's the point?"

—By John D. Schulz, Contributing Editor

It saw even top-flight carriers like FedEx Freight and Con-way post their first quarterly losses in their history. Some marginal carriers such as Jevic Transportation, C.W. Johnson Trucking, Alvan Motor Freight, and Boyd Logistics and Cargo Transportation Services declared bankruptcy or closed. Others, such as LTL giant YRC Worldwide, teetered on the brink after losing in excess of $2.3 billion over the past three years. To the surprise of many, YRC is still afloat, although it has moved down *LM's* list in revenue.

But the successful carriers quickly adjusted to the market downturn, and are now poised to take advantage of the reduced capacity in the market place.

Mark Rourke, president of transportation for Schneider National, the No. 2 truckload (TL) carrier on the *LM* list, says it tightened up capacity by 10 percent, taking as many as 1,400 power units off the road.

"Like most large truckload companies, Schneider's capacity peaked in 2008. We tightened up about 10 percent of capacity, and as we come out of this we're keeping our numbers there and will focus on returns. We're not building the church for Easter Sunday any more."

—Mark Rourke, Schneider National

Schneider was not alone. J.B. Hunt, No. 5 on the TL list, reduced its over-the-road truck capacity by more than 1,400 units, or 27 percent, during the nadir of the downturn. Werner Enterprises, our No. 3 TL carrier, took out 950 trucks, or 10 percent of its capacity. Swift Transportation, the largest TL carrier, reduced its fleet by 2,750 trucks, or 15 percent, in order to cope with declining freight demand, according to figures compiled by analyst John G. Larkin of Stifel Nicolaus.

"Like most large truckload companies, Schneider's capacity peaked in 2008," says Rourke. "We tightened up about 10 percent of capacity, and as we come out of this we're keeping our numbers there and will focus on returns. We're not building the church for Easter Sunday any more."

LTL carriers had a tougher time reducing their overhead, and that explains the unprecedented quarterly losses at carriers such as FedEx Freight and Con-way. That's because, unlike TL carriers that operate largely point to point, LTL carriers operate and maintain intricate hub-and-spoke networks of terminals and breakbulk facilities.

But even so, the LTL industry was shrunk from a $32 billion industry in 2007 to about a $28.5 billion sector today—a $3.5 billion reduction. Or, as Con-way's Stotlar says: "A company the size of Roadway has come out of the market as far as capacity is concerned."

There were significant capacity reductions by major carriers. In November 2008, Con-way shut 40 locations to match volume levels. Recently, FedEx took out 100 locations in its recent network redesign. "LTL capacity is probably closer to equilibrium now than it has been in a long, long time," adds Stotlar.

It's nearly impossible to close a low-volume terminal without affecting service, so LTL carriers were more vulnerable to reduced profitability during the downturn. So they reduced head counts where they could, and went lean in hiring in order to stay in business.

"The downturn in the economy meant that many service providers did not need to hire, thus we did not bring new blood into the business," says Steve O'Kane, president of A. Duie Pyle, No. 20 on our LTL rankings. "For example, for an 18-month period, for all 2009 and the first half of 2010, we did not put anyone through our own driving academy. That was simply because we did not have driving jobs for them."

According to Myron "Mike" Shevell, chairman of the Shevell Group, which includes top Northeast regional carrier New England Motor Freight (NEMF): "LTL carriers are at the mercy of so many things that we have no control over. We have no control over tolls, fuel, no control over driver supply or whom we can put to work. We're running four driver schools. It costs a fortune to do that; but without them, there would be nobody to haul the freight."

2011: Time to recapitalize, reorganize

This year is a time for change, top carrier executives agree. Having ridden out the storm, leading trucking executives say it's now time to focus on profits. Fleets need money to recaptitalize after three lean years and shippers should be bracing for higher freight rates across the board, they say.

"Customers understand it," says FedEx Freight's Logue. "Yield improvement is very important right now. It's been three or four tough years, and we need to rebound in terms of profitability in order to reinvest in our businesses."

That's already starting to happen. Last year, sales of new Class-8 trucks rose nearly 15 percent year over year, while medium-duty truck sales zoomed 24.7 percent to 271,992 units, according to WardsAuto.com.

Carriers are adjusting their networks to meet customers' needs. Often, that has meant reinventing long-haul truckload networks into a series of regional networks in order to place trucking equipment and drivers closer to their customers as shippers have increasingly created a series of five or six regional distribution networks to cover the country.

"We've been a long-haul trucker for 75 years, but now we have 50 percent of our business in regional configuration," says Schneider's Rourke. "We have reinvented ourselves."

That's because that's where shipping is going.

> "LTL capacity is probably closer to equilibrium now than it has been in a long, long time."
>
> *—Douglas Stotlar, Con-way*

Because more long-haul freight is moving on the railroads, Rourke says the over-the-road emphasis is on short-haul (under 750 miles) going by truck.

"Previously, in our long-haul network, we might have dispatched a truck once a day," Rourke says. "In our new regional model, we dispatch that truck on average one and a-half times a day. The intensity has picked up the entire pace

across our operation."

This has occurred in response to changing shipper demands. "They've deployed inventory closer and closer to the end user, whether it's industrial or retail freight," Rourke says. "We've studied the demands of the market and that's why we've made the change."

Similarly, LTL carriers have tweaked their operations. Pitt Ohio recent expanded its service offerings, adding a small package service, heat-track service, temperature control, truckload, and logistics capabilities.

Averitt Express, No. 13 on the LTL list, has historically been a Southeast regional carrier. But it has changed with the times, joining Pitt Ohio and four other regional LTL carriers to form the Reliance Network. That consortium, launched in 2009, has grown to be the eighth-largest LTL network nationally, according to a recent Raymond James analysis.

> "Customers understand it…Yield improvement is very important right now. It's been three or four tough years, and we need to rebound in terms of profitability in order to reinvest in our businesses."
>
> *—Bill Logue, FedEx Freight*

"Regionalized distribution networks are popular in the industry because they offer quick and flexible services," says Phil Pierce, Averitt's executive vice president of sales and marketing. "However, many shippers have long-haul LTL needs. The challenge with regionalized networks has been shipping outside of the network; so, in response to this, Averitt participated in forming the Reliance Network."

Similarly, FedEx Freight recently transformed its operations from separate long-haul and regional operations into one network handling both types

of freight. It also changed the nomenclature from "regional" and "long haul" to "expedited" and "economy" and pricing that freight accordingly.

More and more, freight is being priced according to its distinct characteristics and its cost within a carrier's network. Shippers who tend "driver-friendly" freight (on pallets with no waiting time for drivers on pickups and deliveries) will be getting spared the higher increases that other customers might face.

> "For an 18-month period, for all 2009 and the first half of 2010, we did not put anyone through our own driving academy. That was simply because we didn't have driving jobs for them."
>
> *—Steve O'Kane, A. Duie Pyle*

"If a shipper is making it as easy as possible for freight to be picked up, that allows us to be much more flexible on rates," adds FedEx Freight's Logue.

Road ahead

The coming capacity crunch and carriers' new-found emphasis on profits means only one thing for shippers: higher freight rates.

On the TL side, analysts and executives say privately that shippers can expect rate increases of perhaps as much as 7 percent to 8 percent, net of fuel surcharges. On the LTL side, which has slightly more excess capacity currently, rate increases of 3 percent to 5 percent are more likely.

"As our volumes grow, we're working on the yield side," says FedEx Freight's Logue. "Increasingly, we are looking at every account and asking ourselves: 'Is this a good long-term decision for this shipper?' I would say everybody is in that same situation."

Con-way's Stotlar couldn't agree more. "Everybody is committed to getting margins back to recapitalize their fleets," he says. "The industry seems to be in lock step that we have to improve margins. We were successful in getting rate increases last year and that continues into 2011."

NEMF's Shevell says rate increases are essential for carrier survival in an era when a new Class-8 truck costs about $125,000, diesel is threatening to break the $4 plateau, and increased wages for qualified drivers are necessary as government programs such as CSA 2010 threaten to eliminate as many as 150,000 unsafe long-haul drivers.

The days of shippers beating up their carriers over rates and then dropping them in favor of a cheaper-priced carrier are ending, Shevell predicts. "There are shippers who laugh and say we'll give it to the next carrier, but it's coming to a point where the next carrier will be gone too," adds Shevell.

In fact, there's only a few regional carriers left in the Northeast and Midwest. Shevell is warning shippers that the same mega-consolidation that has happened to airlines and railroads could be happening to trucking, which would be a disadvantage to shippers.

"When that happens, capacity is going to be tight," Shevell warned. "The shippers who gets capacity will be the ones who have taken care of their carriers. The days of running roughshod on rates are over."

That's because capacity is tightening. Although it's difficult to gauge precise trucking capacity at any time, most carriers say they are approaching the "sweet spot" when tight capacity enables them to raise rates year over year in the mid-single-digit range. This last occurred during the period from 2002-2006 when carriers say they enjoyed the best pricing power since deregulation in 1980.

"Our view is that capacity is at its equilibrium," says Schneider's Rourke. "The spot market is indicative of what's available in terms of capacity. What we're seeing is that the truckload industry appears to be at or slightly short of capacity; so there's little doubt that rates are certainly going up."

Schneider is predicting overall rate increases of 5 percent to 7 percent, net of any increase in fuel surcharges. Analysts agree. "It's a positive environment for carriers," says analyst Ross. "Pricing (discounting) got a little too aggressive the last two years. Most of those guys at the top are unprofitable, and we think there will be capacity constraints. That's good for the carriers."

And probably not so good for shippers—at least those shippers who have enjoyed rock-bottom freight rates the past three years. □

ATA February tonnage data is down sequentially, up annually

TRUCK TONNAGE SAW ITS FIRST decline in three months, according to data released recently by the American Trucking Associations (ATA).

The ATA's advance seasonally-adjusted (SA) For-Hire Truck Tonnage index dropped 2.9 percent in February following 3.8 percent and 2.5 percent gains in January and December, respectively. Prior to those sequential gains, November was up 0.6 percent and September and October were up a cumulative 2.8 percent.

The current SA index is 113.3 (2000=100) in February, following January's 117.1, which was its highest level since January 2008. December's SA index of 112.7 was the highest it had been since September 2008 at that time. The cumulative December and January SA was up 6.1 percent.

The SA index was up 4.2 percent compared to February 2010, which was short of January's 7.6 percent annual gain. On a year-to-date basis, the SA is up 5.9 percent compared to 2010.

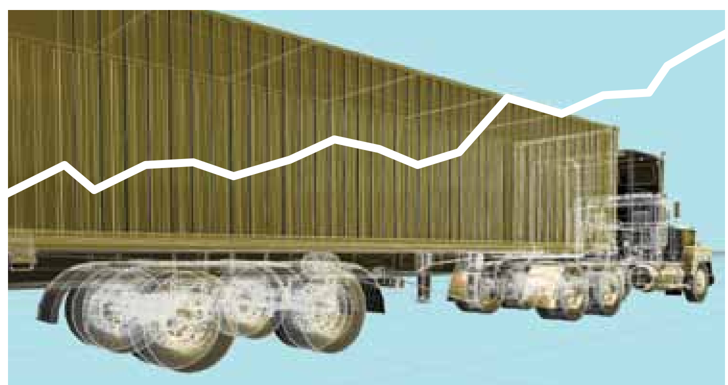
The ATA's not seasonally-adjusted (NSA) index, which represents the change in tonnage actually hauled by fleets before any seasonal adjustment, was 102 in February, down 2.8 percent from January's 105.4.

As *LM* has reported, some industry analysts maintain that the not seasonally-adjusted index is more useful, because it is comprised of what truckers haul. As defined by the ATA, the not seasonally-adjusted index is assembled by adding up all the monthly tonnage data reported by the survey respondents (ATA member carriers) for the latest two months. Then a monthly percent change is calculated and then applied to the index number for the first month.

"Tonnage is not going to increase every month, and in general I'm very pleased with freight volumes early this year," said ATA Chief Economist Bob Costello in a statement. "I'm hearing a significant amount of positive news from fleets and that the largest concern continues to be the price of diesel fuel, not freight levels."

Costello added that harsh weather throughout much of the country in February likely contributed to the sequential decline.

And as Costello pointed out, the prevailing mood in the market is one of optimism in terms of demand and volume, according to carriers and shippers. This is notable considering the myriad challenges occurring, such as high unemployment levels, increasing fuel prices, and various regulatory efforts that are likely to impact the trucking industry to a degree.



Carriers have repeatedly told *LM* that the current market outlook is "slow but steady" and is likely to remain that way for the foreseeable future.

"We are seeing the same things that the ATA data is showing," a trucking executive recently told *LM*. "February was relatively firm, but just like January it was somewhat negatively impacted by the severe winter weather affecting many parts of the country."

The carrier executive also pointed out that with the supply and demand of capacity much more closely balanced this year, a continued uptick in tonnage will create greater challenges for shippers needing trucks. He said that other items that will further squeeze capacity include CSA 2010 and the proposed changes to the Hours of Service (HOS) rules.

—*Jeff Berman, Group News Editor*

Much ado about oil

A blog by ***Jeff Berman****, Group News Editor*

While looking at mainstream media news sites, an item in *The New York Times* recently caught my attention.

Maybe it caught your attention, too. Here is the headline:"Obama to Set Goal of One-Third Cut in Oil Imports."

Given the current situation, with oil barrel prices hovering around $100 and diesel approaching $4 per gallon, that headline, again, is really an attention-grabber as far as I can tell.

In short, the article explains how in a speech Obama will be giving at Georgetown University, he will discuss how the "United States needs, for geopolitical and economic reasons, to reduce its reliance on imported oil," with more than half of the oil burned in the country today coming from overseas and Mexico and Canada.

It also notes that when prices go up we all panic, and when they go down, we resume our previous habits.

Of course, there is more to it than that. This current run up in prices, coupled with carriers focused on yield improvement does not help shippers run cost-efficient supply chains. But those are the cards currently being dealt at the table.

And as *LM* has reported in its coverage of weekly diesel prices, shippers are clearly concerned about the pace of these increases, as they are largely on the hook for them, financially-speaking, with fuel surcharges passed along to them by carriers on top of freight rates. Should prices continue to head north, it could likely limit future growth as well increase the cost of doing business, as it likely it already.

In recent weeks, there has been talk of the White House opening up the country's Strategic Petroleum Reserve to alleviate pain at the pump for shippers, carriers, and consumers alike. And there has been a buzz of late about natural gas and how that could off-set our expenses and reliance on fossil fuels. There also are many companies making tremendous progress on alternative fuel vehicles for freight operations, too.

These things are very promising and could make a legitimate difference down the road. But with no defined deadline in site for when they could be fully applicable and depended on, it is the same old story for now—a story that is getting tired and repetitive.

Oh, yeah, there is also that little issue of zero meaningful forward progress on energy legislation in our country. Given the divided political party lines that are the new normal in the U.S., that is hardly surprising.

It seems like Obama's speech will bring to light the things that need and should be done for the most part. The hard part is actually getting there. ☐

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BTS says surface trade with NAFTA partners up 24.3 percent annually in 2010

TRADE USING SURFACE TRANSPORTATION between the United States and its North American Free Trade Agreement (NAFTA) partners Canada and Mexico was up 24.3 percent in 2010 compared to 2009, increasing to $791 billion, according to data released by the United States Department of Transportation's Bureau of Transportation Statistics (BTS). BTS officials said the 24.3 percent annual increase is the largest annual increase for the time it has been collecting this data.

Surface transportation, according to the BTS, is comprised mainly of freight movements by truck, trail, and pipeline, and nearly 90 percent of U.S. trade by value with Canada and Mexico moves by land. According to the BTS, 86.2 percent of U.S. trade by value with Canada and Mexico moved on land in 2010, and total North American surface transportation trade value in 2010 was up 13.4 percent compared to 2005 and up 37.5 percent compared to 2000.

But despite the increase, the value of North American surface trade in 2010 is below 2007 and 2008 levels, according to the BTS. And it added that total North American surface transportation exports in 2010 were up 25.1 percent over 2009, with exports up 23.3 percent annually.

BTS said the value of U.S. surface transportation trade with Canada was up 22.1 percent year-over-year in 2010 at $471 billion. Imports carried by truck were valued 17.3 percent higher in 2010 compared to December 2009, said the BTS, and the value of exports carried by truck was up 21.8 percent.

The value of U.S. surface transportation trade with Mexico was up 27.6 percent year over year in 2010 at $320.3 billion. Imports carried by truck were valued 26.5 percent higher in annually, said the BTS, and the value of exports carried by truck was up 24.3 percent.

—Staff

Uproar over proposed HOS regulations not abating anytime soon

*A blog by **Jeff Berman**, Group News Editor*

As you probably already know, not too long ago the Federal Motor Carrier Safety Administration (FMCSA) floated the idea of reducing available daily driving time for truck drivers by one hour from 11 to 10 hours per day.

Needless to say, this was not well received, and not surprisingly, it seems to have become even less popular than it was when first introduced.

The reasons for this vary. But in most cases it comes back to the fact that the current regulations are safe and reasonable, with an ample amount of data available to back that up.

The new FMCSA proposal released perhaps as an early Christmas present (more likely a lump of coal) on December 23 is comprised of the following:

- Dropping available driving time from 11 to 10 hours per day.
- Retaining a portion of the "34-hour restart" provision by allowing drivers to restart their weekly clock by taking at least 34 consecutive hours off-duty. However, the restart provision would be revised by requiring that it include two.
- Decreasing daily "on-duty" time from a maximum 14 to 13 hours. Drivers would continue to be allowed to drive either 10 or 11 hours within a 14-hour "window".
- Requiring a minimum 30-minute break after a maximum of 7 hours driving or working in order for a driver to continue driving.
- Permitting the standard 14-hour window to be extended to 16 hours twice a week.

These are, in sum, pretty major changes. And to get an idea as to the potential negative impact they could have on supply chain management operations for shippers across the nation, look no further than what my colleague John D. Schulz wrote in a January *LM* article.

"The Federal Motor Carrier Safety Administration's (FMCSA) trial balloon to reduce by one hour (from 11 to 10) the actual time a truck driver can be driving is a horrific idea, unbased in science or data, that would conservatively cost the U.S. economy $2 billion in lost productivity, and probably much more in inefficiency and additional infrastructure requirements."

Starting to get the picture here?

Try this one from Stifel Nicolaus Managing Director John Larkin on for size. This is from a recent FMCSA listening session on the impacts associated with the FMCSA's proposed changes to HOS rules.

"We believe the proposed HOS rules would make driving a truck, already a difficult profession with more than its fair share of irritations, less appealing to many workers (due both to lifestyle factors and possibly less pay). Therefore, we believe that tightened HOS rules, combined with other safety regulations, could exacerbate an upcoming driver shortage driven by volume growth and unfavorable driver demographics. Some carriers may experience near-term cost increases associated with hiring/training/retaining drivers and rerouting freight through alternate terminals. Longer-term, tightening HOS rules will likely serve as one of several regulatory actions that will constrain driver and capacity availability. We believe that in the presence of tight driver and capacity availability, trucking rates should increase at faster trajectory than trucking costs despite expected increases to certain expense line items."

Well, here is one more opinion from Rick Gaetz, president and CEO of Vitran Corporation.

"These changes would tighten a tight market even further," Gaetz told me. "I think no one will ever know when the perfect regulation is drafted. Much time and effort and great expense goes into the study of driver hours, driver fatigue, and safety, and I think we are pretty close to having it right—where things stand now. The key measurement is safety, and statistically it appears and feels safe under the current format. The industry has to operate efficiently and safely, and those two lines are crossing very close right now in terms of working properly."

At the end of the day, we can only hope that the powers that be in the federal government truly take into account the potential backlash these changes could produce. Until then, we can only speculate on what may happen, but if the proposed changes become official, then we can all expect to see supply chains become shorter and more costly.

Let's hope for a better outcome than that. □

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Trucking rates poised to continue upwards, according to Transport Capital Partners' survey

EVEN THOUGH THE TRUCKING industry appears to be benefitting from relatively healthy volume growth, there are enough obstacles in the way to make its future outlook somewhat cloudy. That is the consensus of a recent survey from Transport Capital Partners (TCP).

TCP's Fourth Quarter Business Expectations Survey typically polls about 200 trucking executives on various industry-related topics to gain insight into what the market is thinking on different issues, including demand, government regulations, capacity, and, especially of late, oil and gas prices.

Some of the survey's chief findings included two-thirds of executives indicating they are optimistic about growth in 2011 when it comes to volume and rate increases, and 45 percent of carriers stating they are interested in making an acquisition in the next 18 months–coupled with about 1 in 5 carriers showing interest in selling their business.

Another main theme was how capacity has been tightening due to things like bankruptcies, exporting of used equipment, and fewer new truck purchases, according to TCP.

"Carriers are optimistic, because the economy is going to improve, but that depends on Congress and Wall Street not doing things that are not smart," said TCP Partner Lana Batts.

"Barring factors that nobody can control, carriers are feeling pretty good. The other side of that is capacity is so constrained, with carrier not buying replacement vehicles over the last three years and not expanding their fleets,"added Batts. "As a result, the old law of supply and demand is going to play out. When capacity does expand, rates do go up."

These rate increases, said Batts, are already occurring and are very apparent on the spot market, too. What this means for shippers is that motor carriers have no interest in adding capacity at this point.

Instead, she explained, they need to replace old trucks, because replacement costs for older vehicles are very high, and the actual amount of capacity carriers truly want to increase is miniscule. This is due to the fact that truck buying activity was quelled in 2008 to 2010, with the majority of truck buying activity occurring being allocated for replacement trucks only to a large degree.

"What the motor carrier industry is saying is 'I have to take care of my balance sheet first,'" explained Batts. "And the fastest way to do that is by increasing rates, not by adding trucks. The reality is trucks today cost $120,000, whereas in 2006 it would have costs $70,000 to $80,000. Today we are still seeing 2006 rates, which defeats the purpose of adding trucks if 2006 rates are still in effect."

What's more, the impact of CSA on truck buying activity and capacity is also significant. Batts said that a portion of carriers that received CSA-related warning letters from the Department of Transportation will shut down, resulting in lost capacity, coupled with low driver ratings, too.

> "What the motor carrier industry is saying is 'I have to take care of my balance sheet first.' And the fastest way to do that is by increasing rates, not by adding trucks."
>
> *—Lana Batts, TCP Partner*

And the heavily-contested DOT proposal to cut back on available driving time from 11 hours per day to 10 will also remove capacity. This capacity will not simply be replaced by adding more trucks, according to Batts. Instead, rates will be raised.

"All of these things coming together for the trucking industry are creating a perfect storm in a positive sense, with the only way for rates to go being up," said Batts.

—Jeff Berman, Group News Editor

Lynden subsidiary acquires Port Side Trucking

IN MARCH, Pacific Northwest-based refrigerated motor carrier Brown Line, LLC, a subsidiary of Lynden Transport, acquired the operations of Port Side Trucking, a Kent, Wash.-based refrigerated trucking company. Financial terms were not disclosed.

Lynden Director of Marketing and Media David Rosenzweig told *LM* that the primary reason for this deal was that Port Side was a good fit for Brown Line and presented a market opportunity to increase volume, and add several lanes to its existing business.

Brown Line provides shippers with temperature-controlled, less-than-truckload (LTL) specialized service along the West Coast, as well as scheduled service to San Francisco, Los Angeles, Phoenix, San Diego, Chicago, Boston, and Minneapolis from the Puget Sound and Southern British Columbia. Port Side offers service from the Pacific Northwest to Boise, Salt Lake City, Denver, and Portland, Ore.

Company officials said the routes the company is gaining from Port Side will benefit shippers served by both Brown and Port Side and provides a seamless, high-quality refrigerated delivery network.

Rosenzweig added that Port Side was an attractive acquisition because it also carries refrigerated food commodities but to different markets not previously served by Brown Line. "There are a large number of customers who did business with both companies," he said. Now those customers can reach all the market locations from a single source. One call for all of the customers' needs."

"Port Side serves markets that complement our existing services and allows us to offer customers a true one-stop-shop for shipping all temperature-controlled commodities," says Jason Jansen, Brown Line President, in a statement. "Brown Line's specialty is shipping seafood and other delicate freight. Now we can offer customers additional delivery areas and a variety of choices in shipping fresh, frozen, and non-refrigerated freight. We are now positioned to serve the West Coast, Midwest, Northeast, and British Columbia with the fastest door-to-door service available."

—Jeff Berman, Group News Editor