



# Supply Chain **FOCUS**

*News and information for shippers, consignees and 3PLs about trends in today's trucking industry.*

**A** PUBLICATION PREPARED BY THE ONTARIO TRUCKING ASSOCIATION. *Supply Chain Focus is produced to keep Ontario manufacturers, shippers and other users of trucking services apprised of trends in today's trucking industry.*

## **Industry Outlook: Are the Cutthroat Days Over?**

Ontario Trucking Association chairman, Scott Smith, sees a series of challenges contributing to his industry's "perfect storm." There's a shortage of drivers, insurance rates and equipment costs continue to rise, and regulators have further limited the hours truckers can work and are mandating tighter emission controls on equipment and requiring additional checks at the border.

But the challenges have been balanced by opportunity, he hastens to add.

"It would now seem even truckers have their limit," said Smith in a recent address to association members. "And, with a capacity crunch brought about in large part by a worsening driver shortage, the pendulum has swung... to a more balanced economic relationship between carriers and shippers."

A softening in some key freight markets since the first quarter (in part reflecting the lag effect of the increased value of the Canadian dollar), combined with a year-over-year increase in the cost of diesel fuel of over 60 per cent (diesel is

the second largest component of operating cost after labour), have taken some of the lustre off of last year's improvement in freight rates. Fuel surcharges presently take centre stage.

"They're not too interested in discussing freight-rate increases," says Kriska president and CEO, Mark Seymour. "We have a 27-to-30 per cent fuel surcharge just to [keep pace with] fuel."

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“The impact could reach further than individual contracts,” adds Allan Robison, president and CEO of Reimer Express Lines. “At some point, the price of fuel starts to affect other parts of the economy.”

Other factors will also continue to add pressure to freight rates.

“Some in the auto sector have asked suppliers of every sort to slash costs by as much as 30 per cent, and they will no doubt try to get some of that through transportation contracts,” says George Ledson of Cavalier Transportation.

Despite these challenges, however, long-term economic indicators suggest that the trucking industry is in a better economic position than it has enjoyed in years.

According to OTA president David Bradley, “Despite the softening of economic activity, it is only a matter of time before the reality of continued cost increases for trucking labour, fuel and equipment set in and are fully passed on. We are experiencing a bit of ‘two steps forward, one step back.’ But, the capacity situation which precipitated the long-awaited, broad-based upward momentum in freight rates and accessorial charges in 2003-04, is not going to dissipate just because the economy takes a breather; in fact, the driver shortage is only going to get worse and barring a complete collapse in the North American economy, this will absorb any capacity that might be freed up.”

“Shippers who want to maintain a high level of transportation service know that it is unrealistic to expect carriers who know their costs to be able to eat the kinds of operating cost increases we are presently experiencing. Those who don’t know their costs might try to undercut the market in an attempt to stay afloat, but they will not be around for long.



It’s in no one’s interest to see those carriers drag the good companies down with them,” he says.

According to industry analyst Thom Albrecht, managing director of Stephens Inc. Investment Bankers, about 13 to 15 per cent of the truckload industry’s capacity disappeared in a shakeout that occurred between 2000 and 2003. Tighter capacities traditionally offer a better environment in which to establish rates.

“Since the end of 2000, the stocks of publicly traded trucking companies have even outperformed the Standard and Poor’s 500,” Albrecht adds. “Even a recent 15 per cent drop in the average truckload stock – linked to such things as rising interest rates and a slowing economy – is hardly an indication that the long-term gains will stop,” he says.

“Public investors have recognized there’s a much more profitable approach to running a trucking company. There’s a greater focus on profitability – with favourable returns on assets, equity and capital – rather than market share gains.”

“It’s welcome news considering that the first 20 years of deregulation in the United States were marked by 14 years of lower prices, and the others linked to flat or single-digit gains,” he says. And capacity among the 100 largest carriers is growing at a more regulated pace, swelling by three to five per cent per year rather than the 14 per cent annual growth seen in the 1990s.

The shake-out shouldn’t be that surprising, according to Albrecht.

“Deregulation is typically followed by a period of wide-open growth, a massive market share run. It was an opportunity for entrepreneurs to grow, to gain share.” ■



## Do Shippers Need their Own Surcharge?

The volatility of diesel fuel prices over recent years has forced the trucking industry to adopt fuel surcharge programs. As fuel costs continue to rise, shippers may find they need to implement their own surcharge. The carriers needed prompt relief as fuel prices increased, because fuel was their second largest cost component. As the price of fuel became more volatile, carriers could no longer enter into yearly contracts with fixed rates. Contracts became subject to a fuel surcharge program that would account for changes in the price of fuel. The two alternatives to adopting a fuel surcharge program were just impossible for the industry to cope with.

The first alternative was to treat fuel cost changes as they do any other cost component by absorbing the cost increase until an annual increase is taken and negotiating at that time with their customers. With a net operating margin of 2–3 cents per dollar of revenue and fuel prices varying dramatically and peaking at over a 130 per cent increase, this was no longer an alternative – it was simply the road to insolvency.

The second alternative to a fuel surcharge program was to negotiate new prices with thousands of customers each time fuel prices varied significantly. This cumbersome process would continually be repeated as fuel prices changed, demanding far too many resources from both carriers and shippers to be feasible.

The only practical and equitable method, for shippers and carriers alike, is a fuel surcharge program that reflects carriers' cost structures and varies with the price of diesel. As the fuel surcharges have increased, shippers find themselves with the same dilemma as the carriers. Transportation costs are too volatile for the shippers to enter into fixed price contracts with their customers that don't take into account changes in transportation costs due to the fuel surcharge. Shippers should have a mechanism that adjusts their prices accordingly.

Just as with most other industries, trucking is fiercely competitive. If there were any way that fuel price increases could be absorbed, you can rest assured they would be. The trucking industry simply found itself with no viable alternatives to a fuel surcharge program. For shippers that sell products where transportation is a major cost component, their own transportation surcharge program may be the next step. ■ David J. Sirgey is president of the Freight Carriers Association, [www.fca-natc.org](http://www.fca-natc.org)

## Fuel Surcharges a Necessity for All Carriers: CTA

### Cold weather means upward pressure on record high diesel costs will continue

Diesel fuel is the second largest component of operating cost for a trucking company, and recent escalations have motor carriers wondering how long before fuel becomes their largest cost component.

"It is imperative that trucking companies recoup these cost increases, or they won't be around for very long," says Canadian Trucking Alliance (CTA) CEO David Bradley. "Fuel surcharges are as much a fact of life in trucking now as they are in the airline industry, for example," he says. "The industry has worked hard to get to this stage and unless a company is being compensated for higher fuel costs through increases in general rates, it cannot afford not to be paid a fuel surcharge.

"With demand for diesel up on a worldwide basis, with new profit strategies in the oil producing sector and with cooler temperatures heralding the increased demand for home heating oil, which comes from the same barrel as diesel, truckers' fuel costs will continue to come under upward pressure."

According to CTA, the average commercial price of diesel fuel in Canada (based on the rack price) set a new record earlier this week when it jumped over 73 cents before federal and provincial taxes. In the last three months, the trucking industry has had to cope with an increase of a whopping 40 per cent.

"No company can, or should be expected to, absorb those sorts of increases," says Bradley. "Carriers who think they can are deluding themselves and shippers who think their carriers can had better think again if they want to sustain the service levels from the industry to which they have become accustomed."

According to the Freight Carriers Association of Canada, current fuel surcharges in the LTL sector should be in the range of 12.5 per cent. FCA recommends about 30 per cent or higher in the truckload sector, depending on whether the shipment is domestic or transborder, and the weight.

Most provincial trucking associations publish fuel surcharge information on their web sites, or provide training sessions for carriers. Additional information is available from FCA at [www.fca-natc.org](http://www.fca-natc.org). ■

### New Load Securement Regulations Require More Shipper/Carrier Cooperation

Ontario's Ministry of Transportation has introduced new regulations to address the issue of shifting cargo while in transit. That means carriers and shippers are yet again in danger of being penalized if they don't comply. And as every good shipping professional knows, when it comes to compliance, cooperation is key.

The following explains what you need to know and how your carrier can help you achieve compliance:

First things first – the new regulations are performance-based, which means freight has to be able, when secured, to withstand a specific degree of force (for details see the actual rules). More specifically, freight must be secured so as not to move forward, sideways, or to the rear of the trailer. Enforcement of the new regulations has already started for loads on flat beds and similar type trailers as well as specific commodities (e.g. logs, lumber, paper rolls, metal coils, etc.) covered in Part 2 of National Safety Code Standard 10 – and these regardless of trailer type. Enforcement for dry van and refrigerated trailers has been delayed and is expected to start early in the new year.

**What happens if you don't comply:** The MTO will issue tickets to carriers who don't comply. And that's where shipper cooperation comes in. It is important for shippers to work with their carriers to ensure freight is loaded in accordance with the new regulations, not only to avoid penalties at roadside but also to ensure highway safety is not compromised and to ensure freight arrives at its destination free of damage. Although shippers are not currently held liable for improper loading of vehicles under the Ontario Highway Traffic Act, shippers have been named in civil suits resulting from highway accidents. Shippers who work with their carriers in ensuring proper loading of freight are taking an active role in promoting highway safety and clearly performing due diligence. Those shippers who do not will be exposing themselves to civil liabilities while presenting a corporate image that does not promote highway safety.

**What you need to do:** It's important to allow drivers to inspect how loads they are driving are secured, before they leave the dock. And shippers can also reduce their liability by providing training to the employees loading freight onto trailers.

**How OTA can help:** To help simplify how freight needs to be secured, the Ontario Trucking Association is currently developing a best practices guide for loading dry vans and

### Are You Willing to Pay the Price for Safety?

Safety comes at a price, and it's being paid by Canada's leading trucking companies – who look at safety not as a cost, but as an investment.

While the Ontario Ministry of Transportation's annual Road Safety Report shows that tractor-trailers account for less than two per cent of the vehicles involved in collisions, each safe action can be linked to an investment in training, equipment or compliance efforts.

That's why the Ontario Trucking Association is calling on the industry's customers to avoid truck fleets that artificially cut rates at the expense of investing in safe equipment and business practices.

"The shipper has a responsibility in ensuring their freight is moved in a safe manner," explains Ontario Trucking Association vice-president, Stephen Laskowski. "It is their dollars that are allowing those trucks to move down the road. They need to go beyond the rate sheet, asking carriers how they manage safety, understanding how safety factors into that rate."

"They should be asking for their safety plans, their risk

management strategies," agrees Gord Grant, the president of Grant Transport. "I can name five corporations that have never been in here to do a safety audit. They should be looking at driver convictions, out-of-service rates, logbooks; they should be looking at their maintenance practices."

Solid advice on the heels of a recent US court case in which a broker/3PL was held liable when a family sued for damages following an accident that left a man permanently disabled. The court ruling described the broker/3PL as having a "turnkey role" in procuring transportation services.

Risk management strategies can involve everything from the state of equipment to the way drivers are compensated. Grant's company, for example, makes a direct link between driver wages and their actions at the wheel. Each quarter, 3.5 per cent of their wages are paid in the form of a safety bonus that's forfeited in the event of an accident, and the practice is becoming increasingly common. A safe record can be linked to investments in all forms of compliance.

However, leading fleets say that many customers are placing an increasing focus on safety, recognizing practices that protect the

refrigerated trailers. The guide should be available to carriers and shippers in the very near future. For further information on the availability of the best practices guide and National Safety Code Standard 10, please contact the Ontario Trucking Association at 416-249-7401 ext 223. ■

## US Adopts New Wood Packaging Material Rules for Import

### Customs will phase in compliance

If the t-shirts you're exporting to the US from Canada originally come from Hong Kong, and are packed in wood from that country, there's something you need to know: carriers and shippers will soon have to comply with new wood packaging material regulations when crossing into the US.

That's because US Customs will soon be phasing in the US Department of Agriculture Animal and Plant Health Inspection Service's new import regulation requiring that wood packing materials used in international trade be treated to kill harmful insects that may be present.

Thanks to reciprocal regulations, wood packing materials made from Canadian or US wood (or a combination of both) will be exempt from treatment and marking when used in

trade between these two countries, but it's strongly suggested that documentary proof of the wood's origins be provided and available to inspectors. And if the t-shirts you're hauling are made in Hong Kong, you will definitely have to either provide a shipper's document that says the WPM is made of Canadian/US wood or another document saying it's foreign wood that's been properly treated.

Fortunately, the three phase enforcement schedule recently published by US Customs and Border Protection (CBP) in the Federal Register gives you plenty of time to learn how to comply.

Phase 1 started Sept. 16, 2005, with no stoppage or re-export of shipments for non-compliant WPM. Inspectors are, however, looking for non-compliant WPM during their visual exams, and informing shippers and carriers of non-compliance.

Phase II, beginning Feb. 1, 2006, will continue informed compliance measures on all regulated WPM except pallets and crates. Beginning with Phase II, re-export of all shipments containing pallets or crates that are not in compliance will be ordered if the port director determines it is not feasible to separate merchandise from them. (IT and T&E shipments found to contain banned WPM will not be

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general public and their freight on the trailers.

"Before, all they wanted to know was what their price was," Reimer Express Lines president and CEO Allan Robison says, referring to contract negotiations. Now they're looking at everything from insurance coverage to maintenance practices and safety records. "This tells me that they're concerned about who's hauling their freight."

But the Ontario Trucking Association wants the focus on safety to intensify, creating a "level playing field" for fleets that refuse to cut costs in the name of safety.

"Because we share our workplace with the public, we accept an added responsibility to ensure that we operate in accordance with the highest standards of safety and environmental stewardship," the association adds in recently drafted Guiding Principles.

It's gone so far as to ask the province to mandate the use of devices that limit a truck's top speed.

"One thing we do not tolerate is speed," says Reimer Express Lines president and CEO Allan Robison, referring to the electronic controls that his trucks already have in place.

The Canadian Trucking Alliance, meanwhile, has called for all trucks to be equipped with Electronic On-Board Recorders, similar to the black box technology found on modern aircraft.

Indeed, the industry has a vested interest in reducing collisions, even though trucks are among the safest vehicles on the road.

"Managing insurance costs is about managing risk," says John Walters, president of the Hallmark Group insurance brokerage, which serves the industry. Premiums have jumped between 30 and 100 per cent for a number of fleets in the past year. And a risk management strategy to control such costs involves everything from establishing driver discipline to mandating that equipment be kept in a specific condition.

Customers, meanwhile, need to focus on their own roles in the safety of a shipment, says the OTA's Laskowski, referring to the need to set schedules that comply with hours-of-service rules, and to ensure loads are secured to meet recently introduced North American standards.

After all, it's in the name of safety. ■

permitted to enter.) All expenses incurred for the services of CBP Officers and Agriculture Specialists involved in the separation of cargo will be billed to the importer or “other party of interest”. And WPM and associated merchandise will be exported at the expense of the importer or “other party of interest”.

Full enforcement (Phase III) of the WPM ban is slated to kick in July 5, 2006. At that time CBP will no longer conduct informed compliance at the shipment level. And as of then, re-export of all shipments containing banned WPM will be refused entry if the port director determines that it is not feasible to separate merchandise from them. Of course, all expenses incurred for the services of CBP Officers and Agriculture Specialists involved in the separation of cargo will be billed to the importer or “other party of interest,” as will the cost of re-exporting WPM and goods.

CBP has indicated that the inspection of wood packaging material will only be conducted in conjunction with an offload inspection triggered by their Automated Targeting Systems. For more detailed information please refer to the CBP website at: [http://www.cbp.gov/xp/cgov/import/commercial\\_enforcement/wpm/wpm\\_faq.xml](http://www.cbp.gov/xp/cgov/import/commercial_enforcement/wpm/wpm_faq.xml)

So what about Canadian imports? Although Canada has adopted similar regulations, it has yet to make public its own enforcement policy, but Ontario Trucking Association staff is in talks with the Canadian Food Inspection Agency to that end. Look for further information in our next edition, or visit [www.ontruck.org](http://www.ontruck.org) for updates. ■



## CTA applauds Canada-US Freight Partnership to Save Fuel, Reduce Air Pollutants

### Marries benefits of FleetSmart with shipper involvement of SmartWay

The recent agreement between Natural Resources Canada (NRCan) and the United States Environmental Protection Agency (EPA) to partner on two of their key, respective programs aimed at improving fuel efficiency and reducing emissions in the trucking industry, is good news for Canadian truckers and shippers.

That’s because the two organizations have unique but complementary approaches. NRCan’s FleetSmart program is an educational and training-based initiative that focuses on fuel-efficient driver behaviour and EPA’s SmartWay Transport Partnership emphasizes the use of innovative technology and shipper involvement.

The announcement was welcomed by both the Canadian Trucking Alliance and the Ontario Trucking Association, which have long encouraged more cooperation between the federal governments of both countries when it comes to fuel efficiency and air quality initiatives.

Alliance CEO David Bradley says: “Many of our members have received benefit from FleetSmart, but we also encouraged our members to become involved in SmartWay because of the involvement of shippers and a number have. Now we will have the best of both approaches.” Under SmartWay, IKEA became designated as a “Green” shipper when in 2004 it rolled out a four step plan that will increasingly see the company tender freight only to carriers who meet certain environmental criteria.

More than 10 per cent of SmartWay carrier participants are already CTA members with Canada-based operations, thanks to the promotional efforts of the CTA and OTA.

NRCan and the EPA will initially coordinate numerous cross-border emissions projects, including engine-idling reduction from trucks crossing the Canada – US border, joint clean-technology promotions and demonstrations, and truck driver training and awareness programs. Additional information on the FleetSmart Program is available at <http://oee.nrcan.gc.ca/transportation/fleetsmart.cfm> and on the SmartWay Transport Partnership at <http://www.epa.gov/smartway> ■

## Ontario Carrier Drives Food Safety

### Erb First to Adopt Shipper Friendly Program

The Erb Group of Companies understands food safety – after all, the international LTL carrier with headquarters in New Hamburg, Ont. not only specializes in hauling food, but recently became the second carrier in Canada, and the first in Ontario, to earn a Certificate of HACCP Compliance. The certificate and the certification process is the result of a food safety program recently developed by the Canadian Trucking Alliance, with funding from the federal government and in cooperation with trucking companies (Erb was one) and Kasar Canada Ltd., a company that specializes in developing food safety programs.

HACCP stands for Hazard Analysis Critical Control Points, a program endorsed by the Canadian Food Inspection Agency (CFIA), the US National Advisory Committee on Microbiological Criteria for Food (NACMCF) and the World Trade Organization (WTO), among others. It can be implemented by all parties in the supply chain, literally covering “field to fork.” Its purpose is preventative – to identify potential hazards that are most likely to cause illness and look to control or prevent those hazards.

To achieve HACCP certification under CTA’s Trucking Food Safety program, a carrier must conduct a detailed analysis of its operations, put in place the necessary controls and monitoring procedures, and undergo an annual audit by Kasar Canada Ltd.. It means the carrier knows, and keeps a written account of, when, how, by whom and with what the trailer carrying your product was washed and what temperature it was kept at for every minute of the haul. And it means that you, as a shipper, have a way to control the quality of your product upon arrival, as well as to extend its shelf life.



Never mind that, in a world where food-borne illnesses (think e-coli and avian flu) are increasingly in the media spotlight, liability is also a growing concern. “Undertaking the rigorous audit process to receive HACCP certification is not required for transport companies yet,” says Wendell Erb, general manager of the Erb Group of Companies. “But it is a further service to our customers, assuring them of the finest possible protection for their food shipments. Erb’s customers include household names within the food manufacturing industry, whose reputations rely on the expertise of our refrigerated transport to maintain the integrity of their products. Being able to deliver above and beyond our customers’ expectations is something we always strive for at the Erb Group and having this level of strict quality assurance is just good business.”

Indeed, good business practices are what makes trucking food both safe and reliable, and just one more reason to underline the trucking industry’s commitment to maintaining the very highest standard: “HACCP is the wave of the future,” says Ron Lennox, CTA’s vice president of regulatory affairs. “We wanted to ensure that the trucking industry was ready to meet the increasing demands of our clients. We believe the program developed by the food safety experts at Kasar Canada Ltd, which has been pilot tested by carriers under the guidance of federal officials, will meet or exceed any food shippers’ expectations.”

For more information on the Trucking Food Safety Program contact Kasar Canada Ltd. at [www.kasarcanada.com](http://www.kasarcanada.com) or 1-800-316-7313 or CTA’s Ron Lennox at 1-613-236-9426 (ext. 2). ■



## News Briefs

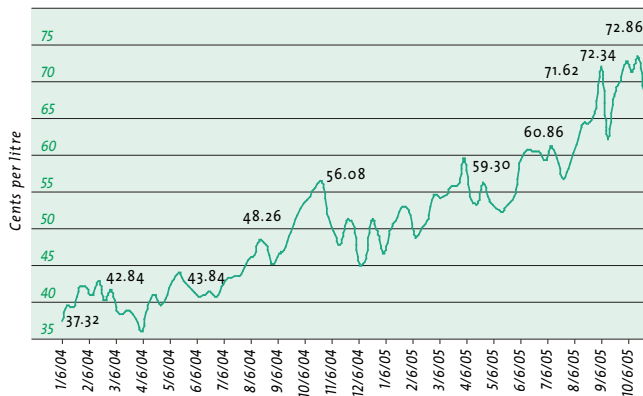
### Transport Canada Study Points to Cost, Impacts of New Border Requirements

#### Confirms Difficult Transition: Canadian Trucking Alliance

A study just released by Transport Canada points to the significant cost implications of post 9/11 border security measures on the trucking industry. The study, entitled “The Cumulative Impact of US Import Compliance Programs at the Canada/US Land Border on the Canadian Trucking Industry”, developed a mid-range estimate of \$290 million per year on Canadian trucking companies to comply with new US import compliance programs.

“It comes as no surprise to anyone in the trucking industry,” says Canadian Trucking Alliance CEO, David Bradley. “The industry has worked hard and made significant adjustments to comply with requirements under US laws such as the Patriot Act, Trade Act and Bioterrorism Act. But there is a cost to higher security, and this study, in which CTA participated as a member of the steering committee, validates much of what industry leaders have been saying over the past couple of years.”

Ontario Average Diesel Rack Price  
January 6, 2004 to October 25, 2005



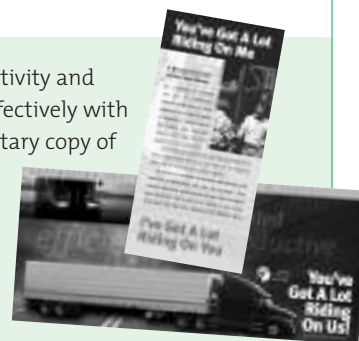
The study, prepared for Transport Canada by DAMF Consultants and L-P Tardif and Associates, suggests cost increases are being driven by various factors, including:

- Border wait and processing time
- Compliance costs for driver participation in the FAST program
- Physical security measures adopted in order to qualify for the Customs – Trade Partnership Against Terrorism
- Driver training and border crossing bonuses
- Administrative costs, particularly those associated with advance reporting requirements

In response to increased border security costs, it is becoming increasingly common for carriers to impose security surcharges for US bound shipments. While some shippers have resisted payments of this type, Bradley believes the shipping community is beginning to accept that security costs are real, and that surcharges to pay for them are a necessary cost of doing business.

“When carriers first began to request security surcharges, shippers quite rightly demanded that carriers prove their costs had actually increased. One could not have expected anything less. This study provides a good overview of the reasons why carriers are adopting this course,” says Bradley. ■

**Shippers...** enhance your productivity and profitability by working more effectively with carriers. Ask for your complimentary copy of *You've Got a Lot Riding on Us, We've Got a Lot Riding on You!* when you contact OTA's Communications Department at **416-249-7401 Ext. 224/237**.



*Supply Chain Focus* is produced by the Ontario Trucking Association as part of its outreach to the shipping community, and is aimed at enhancing the general level of communication between all those with a role in the distribution process. Direct your comments to: Rebecka Torn, Manager of Communications, OTA, [rebecka.torn@ontruck.org](mailto:rebecka.torn@ontruck.org)



ONTARIO TRUCKING ASSOCIATION  
555 DIXON ROAD  
TORONTO, ON M9W 1H8  
TEL: (416) 249-7401  
FAX: (416) 245-6152  
[info@ontruck.org](mailto:info@ontruck.org)  
[www.ontruck.org](http://www.ontruck.org)