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At any price?

Analysis (Second in a series)

Potential impacts of the Los Angeles-Long Beach port truck plan.

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A \$1.8 billion port trucking re-regulation plan, envisioned by the cities of Long Beach and Los Angeles to clean the air and empower local drivers, would decimate the ranks of those it promises to uplift, eliminating the jobs of nearly 6,150 drivers and more than 1,500 other trucking industry workers within the space of two years.

In addition, if enacted as currently drafted, the ports' so-called "Clean Truck Plan" could also result in an additional \$6.6 billion in costs being passed along directly to consumers over the plan's first year and upwards of \$50 billion over the plan's five-year life.

Even the plan's original clean air goals are quickly sliding out of reach of the ports, with the plan's current version likely to generate significantly more smog- and ozone-creating pollution than it predicts.

To top the ports' problems off, the ultimate result may be the one thing that port officials do not want to see, longer lines of trucks at port facilities and more congestion throughout the system.

Greensters gone Teamsters

The ports' truck plan began life as a simple effort to funnel money from the ports into a truck replacement pilot program started by a local quasi-governmental group in 2002. Based on the lessons learned from that plan -- namely that more funding was needed -- the ports included the idea of a complete port-administered truck replacement plan in their omnibus environmental manifesto approved last November, called the Clean Air Action Plan.

CAAP's truck plan section detailed numerous funding and goal scenarios for a truck plan -- in fact 14 were mentioned -- and some broad ideas about how to accomplish the emissions reduction goals. Meetings with state regulators and industry on how best to implement a plan were already underway, but abandoned once a Teamsters-promoted plan appeared late last year. Forcefully promoted as the only viable option by Los Angeles Mayor Antonio Villaraigosa, Los Angeles Port Commission President S. David Freeman and other Los Angeles port staff, the Teamsters plan eventually became the basis for the two ports' plan as it exist today.

The current Teamsters-inspired plan would offer port-access licenses to trucking companies willing to meet port-defined criteria on fleet emissions, labor, finances and security. Trucks operated by port-licensed truck companies would have exclusive rights to operate in the ports while all others would be banned. Fees would be collected each time a pre-2007 model port-licensed truck entered a port terminal. The fees would be used to replace and retrofit older licensed trucks serving the ports. The ports would also provide money and are seeking \$400 million in state bond money to reach the \$1.8 billion cost of the plan.

Statistics are not people

Since the ports approved CAAP in November, port staffs have spent thousands of man-hours

on the truck plan. They have spent nearly \$700,000 on legal analysts to vet the plan and an undisclosed amount to hire one of the leading local economists to perform an economic impact study of the plan.

When the final version of the plan finally appears before each port's governing board, most likely in October, it will no doubt list a number of detailed statistics to prove the ports' case for the plan.

However, one thing to keep in mind reading this, or any analysis, is that statistics are not people. To consider them so is to invalidate the very reason that the data is collected -- to protect and improve the lives of people.

A cautionary tale

A word of caution about statistics regarding port trucking, whether they exist now or are created in the immediate future: port trucking has been the subject of very little direct research.

There is no single, comprehensive source of information available on port truck drivers. In fact, a Department of Transportation trucking study described the lack of research into intermodal trucking as "a significant research gap."

A main reason for this is the difficulty in tracking a highly fragmented workforce. In Southern California upwards of 17,000 short-haul port truck drivers regularly service the area's two ports. These drivers work, either directly or indirectly, for more than 1,300 area trucking companies. Studies suggest that most of these are small firms each representing only a handful of trucks. Compounding the problem is the lack of any single centralized organization representing the drivers and companies.

In what follows, numerous available sources -- driver surveys, federal labor statistics, industry estimates and port-sponsored studies -- are utilized, but none covers quite the same population or uses a similar methodology to arrive at their conclusions. **This creates a certain imprecision in trying to paint a real-world picture based on the available information. Even experts that have studied the local port trucking industry have expressed frustration in the lack of detailed information available.**

However, this analysis draws on much of the same information the ports used to design their truck plan. *American Shipper* has spoken to many, if not all, of the experts that generated it. **Due to the highly controversial and political attention facing the truck plan however, most of these experts would only agree to talk to *American Shipper* if their names were withheld.** As all of the scant data generated and most of the resultant research is publicly available, we have agreed to this.

Where's the data?

There is no doubt that the ports' plan would have certain negative impacts beyond its positive goals.

Proponents believe that the environmental and social goals of the plan are so important that any negative impacts must be borne to achieve the greater good.

Opponents of the plan universally support the clean air goals of the plan, but believe that minimizing the negative non-environmental impacts of any plan is an equally important goal.

To support their positions, both sides routinely cite statistics. A logical assumption would be to check each citation of these against the statistics in the ports' plan.

Unfortunately, the ports have yet to publish any complete statistics of the plan nor, if they exist, to present them outside of the ports in any way. The ports contend that the plan is a work in progress and that certain aspects will evolve. However, basic and key supporting documentation for the main claims of the plan are either obfuscated or simply not available.

Consider one of the main contentions of this analysis -- that the plan would eliminate thousands of trucker positions. While one may assume that any possible impacts to the drivers would be presented up front in the

plan, this is not the case.

Despite the ports' intention to bar certain model year trucks at the start of each year of the plan, the simple documentation of exactly how many would be barred is not readily available, and one is left to calculate the impacts from what information is available.

In this example, only three pieces of information are needed:

- Number of each model year trucks working in the port fleet.
- When each group of model years would be banned.
- How many trucks would be replaced each year.

However, a survey of all the port documents available on the plan show that each of these three bits of information are either marginally detailed or not at all.

If we look to the reference documents the ports used to create the plan, some of the information is available, but is often markedly contradictory.

Two studies list the number of model year trucks that exist in the truck plan's reference data, and neither reaches a consensus. In one list, 1996 and newer trucks account for nearly 45 percent of the fleet, while in the other study, the same group accounts for about 25 percent. For the purposes of this analysis, we have leaned toward a more conservative calculation for each model year group -- leading to smaller losses -- instead of the more extreme.

A schedule showing when each model year is going to be banned has been published in the ports' fact sheet on the plan; however, the dates have suffered from revision by the ports without explanation.

The number of trucks to be replaced each year is also detailed in the ports' CAAP technical documents, but the numbers are severely out of date. The documents show the ports planned to have more than 1,000 trucks replaced or retrofitted by the end of this year. As the plan will not start before 2008 even if approved, this already places the plan -- and its schedules -- more than a year behind schedule.

Adding to the confusion, the CAAP funding schedule for replacements and retrofits does not sync with the plan's overall schedule. **The CAAP technical documents lists these funding statistics as September-to-August fiscal years while the truck plan's banning schedule is set to work on a standard calendar year.** There is no explanation offered on how the two schedules will be reconciled.

These may all seem minor trivialities, and perhaps other information is available to port staff. Indeed, the CAAP references highly detailed truck statistics contained in the Long Beach port's 2005 Emissions Inventory report. Overdue by nearly two years, the report has yet to be released, despite port insiders claiming the report is essentially completed. The Port of Long Beach rejected a Freedom of Information Act request for the document by *American Shipper*, claiming the report was still a "draft."

The overall point of this example is that the ports have not released basic information relating to the plan and what they have released is convoluted, even under scrutiny. **This lack of detail is particularly worrisome when considering the ramifications of this inattention: thousands of workers losing their jobs.**

Faces behind the numbers

Economic experts have said it is fair to assume that each of the trucks in the 16,800-strong port-trucking fleet represents a single driver, and for every four drivers there is typically one non-driver support person.

Yet, as we have said, statistics are not people.

And despite what some proponents of the plan claim, port truck drivers are not an unskilled, unsafe and underpaid workforce.

Unless someone has driven a fully loaded 80,000-pound big rig, one can not fully understand the skill

required to control such a powerful piece of machinery. Moreover, driving ability is not the complete skill set required to be a truck driver. **The job, above all, requires an enormous capacity for restraint, attention to details and a serious level of professional responsibility.**

In an average day, a port trucker is asked to take a valuable tool (which typically costs more than \$110,000 when new and can run a driver more than \$1,000 a month in payments), drive it many miles from any direct supervision and haul a cargo of often very valuable goods (container loads worth \$1 million are not uncommon).

To compound matters, a driver must move this load over crumbling public highways side-by-side with automobile drivers who don't like trucks, who disregard trucks, or who don't have driving skills commensurate with the collision risks at hand. Add to this the pressure of remaining in daily compliance with all regulated safety and legal requirements and the skill set grows to encompass diligence and patience as well.

It is no wonder the trucking industry has growing worries about finding enough skilled workers to fill estimated demand for truckers over the next decade.

But, how do we get past the statistics? We can try, using those same statistics, to paint a reasonable portrait of a port truck driver.

According to several academic and industry-sponsored studies, the average port driver is a Hispanic male, about 40 years old with a high school diploma. There is an almost 90 percent chance that he is a first-generation American and a 50-50 chance he is a U.S. citizen. However, anecdotal evidence suggests there is a less than a 20 percent chance he is an undocumented worker.

Our average driver is an independent owner-operator that has been a professional truck driver for more than eight years. He works about 12 hours a day, five days a week, driving a truck -- which he owns -- that is just over 12 years old and for which he paid about \$24,000. He is married, has two children, and brings home a little under \$35,000 a year on a gross pay of \$75,000. He pays \$475 a week for fuel, \$600 a month for insurance, and about \$6,000 a year for truck maintenance. He has no pension or retirement plan and does not carry health insurance.

This is also the sketchbook picture of the person most likely to be put out of work by the ports' truck plan.

Jobs at risk

The main job killer in the ports' proposal is the scheduled ban on certain trucks the plan would introduce. As mentioned, this progressive ban would be staggered over the five-year life of the truck plan and eliminate a port-defined group of model year trucks from the port trucking fleet on each Jan. 1 from 2008 to 2012.

The current version of the plan's schedule would bar entry to all of the nearly 2,300 pre-1989 model year trucks at the start of 2008. Each of the more than 4,800 pre-1994 trucks

would be banned at the start of 2009, followed in January 2010 by a ban of nearly 5,100 pre-1997 model year trucks in the fleet.

At the same time however, the ports' plan would fund the replacement of a set amount of trucks each year. The only details of this schedule, from the ports' CAAP technical documents, lists 853 trucks replaced through Jan. 1, 2008, 2,605 by the start of 2009, and another 2,605 by the start of 2010. The final two years of the plan become exceedingly difficult to analyze due to the lack of certain statistical details in parts of the ports' documents.

The conclusion, however, is simple: The ports' plan would ban trucks much faster than it would replace them.

Total losses to the fleet after calculating those banned and those replaced would result in nearly 1,450 trucks being taken out of the fleet as of Jan. 1, 2008. The start of 2009 would see another 2,200 trucks disappear from the working fleet, and nearly 2,500 trucks lost at the start of 2010.

Subtracting the plan's first 24 months of calculated cumulative losses would top 6,100. This would leave a fleet of just under 10,700 trucks, or 36 percent less than the 16,800 trucks in the fleet today.

As noted earlier, economic experts have said it is fair to assume that each truck represents one job for a truck driver. This means that on Jan. 1, 2010 the plan would have eliminated just over 6,144 driver positions.

This scenario also assumes the ports would stick to their banning schedule and be able to fund and obtain all replacement vehicles set out in the plan.

In addition to the direct impact to drivers, these losses would also take a toll on the truckers' support staffs. At an estimate of one support person for every four trucks on the road, the nearly 6,100 trucks lost to the fleet under the first 24 months of the ports' plan would eliminate some 1,500 support jobs. These would include, according to the California Trucking Association, positions such as dispatchers, clerical support, payroll, customer service, scheduling, safety compliance, accounting, security, human resources and recruiting.

Wages up ...

One of the key aspects of the ports' social engineering component of their truck plan is to raise the standard of living of the port truck drivers. The ports' plan attempts to do this by mandating that all drivers of port-licensed truck companies be hourly employees.

According to surveys of port drivers, take-home pay for independent per-load drivers calculates out to about \$12.20 an hour, while employee drivers make an average of \$16.30 per hour.

Assume for a moment that all the ports' remaining drivers are moved to employee status. Under today's going wages for employee drivers, that is \$4.10 per hour per driver that would be added to the employers' costs to move a container. Include the cost of benefits, which proponents of the ports' plan say is a necessary goal for the plan, and the added costs to employers jumps more than two-fold.

U.S. Labor Department statistics from earlier this year showed that the average cost of benefits for U.S. employees at private firms average \$7.58 per hour. This brings the total cost per driver per hour to \$23.88, nearly double the \$12.20 an independent driver now makes if calculated as an hourly rate.

Federal statistics also show that, on average, wages represent 25 percent of a trucking company's expenses. Already experiencing some of the slimmest margins of any part of the transportation industry, many trucking firms would likely find these costs pushing their books into the red.

Based on the number of estimated drivers, these added wages would add an extra \$338 million to the trucking companies' costs of moving cargo in the first year of the plan. The second year of the plan would cost truck companies another \$294 million in wages and benefits, and the third year an extra \$243 million. This \$875 million would likely be passed

along to the beneficial cargo owner, or BCO -- the industry vernacular for the end user that winds up with the cargo.

... Wages down ...

However, this assumes that trucking companies would pay the drivers -- forced to work for a company under the ports' plan -- the same wages these firms now pay employees. Since independent truck drivers are forbidden to unionize under antitrust laws, only a change in the state law would allow them to do so.

Recent Teamsters-introduced legislation to allow independent driver to unionize has been vetoed twice by California Gov. Arnold Schwarzenegger. Moreover, without a union, there could be no collective bargaining and thus no way to force truck companies to pay higher hourly wages for drivers.

It is no secret in the industry that trucking companies are always on the lookout for ways to cut costs to compensate for industry slim margins on hauling rates. Given that the drivers would have no organized power, there is nothing to stop port-licensed trucking companies from setting employee driver hourly rates at what the estimated average hourly rate is today for independent drivers -- \$12.20 per hour. After all, since independent operators make up 87 percent of the local industry, the \$12.20 per hour estimate is the going rate for port trucking.

Perhaps the ports' plan would set wages for these new employees it is creating?

Officials at the ports have repeated several times that they would not get involved in setting wages for drivers -- that is something the ports want negotiated between the drivers and the companies under the plan. This seems rather counterproductive considering the ports are willing to mandate that the trucking companies pay added employee costs, such as workers' compensation, and yet not set the one thing that will guarantee the betterment of the driver's lives -- wages. **Without set wages or a form of collective bargaining, drivers would be forced to accept whatever the surviving trucking companies are willing to pay in wages.**

... and down

An equally unpleasant scenario for the drivers, however, is the one economic experts think would most likely play out. They believe driver wages under the port plan would creep up to the current hourly employee rate of \$16.30. Despite the seeming \$4.10 per hour raise, drivers would actually lose about \$2,150 a year under this scenario.

As employees, drivers would be limited to a normal 40-hour week compared to the average 60-hour week worked now by most independent per-load drivers. Calculated out, \$16.30 an hour for 40 hours for 50 weeks would allow a driver to bring home about \$32,600, compared to the average \$34,750 brought home now.

The real irony here is that an average independent driver today actually makes more than double what an average employee driver does. However, after the independent driver adds in the extra 20 hours a week and subtracts fuel, insurance and truck maintenance, he ends up with less per hour than his average employee brethren does. In fact, if current independent port drivers did not have these added expenses, their calculated hourly rate would jump to \$37.05 an hour. This equals a take-home pay of more than \$74,000 per year based on a 40-hour week.

Passing the buck

Proponents of the plan have vehemently argued that the multibillion-dollar-a-year retailers and manufacturers who ultimately use the cargo can easily afford these added costs to uplift the driver, who they maintain are the "lower rung" of the transportation industry.

While this may be true, the reality is that retailers do not simply absorb such added costs. They pass them

along to their customers. Ironically, the same people demanding that end users "pay" the added costs are some of the same group -- namely all consumers -- that will be footing the bill by paying higher prices for goods. And the costs that consumers may be forced to pay are not meager.

The ports' Truck Impact Fee, charged to each port-licensed pre-2007 model year truck, would need to account for more than \$106 million a year in revenue to generate the fee's \$534 million portion of the plan's funding model. The ports have said that they would "allow" trucking companies to pass this along to the cargo end users.

Add to this the myriad of potential added labor costs, as detailed earlier, and other industry-incurred costs such as absorbing the employee drivers' fuel, insurance and truck maintenance, and the total amount potentially passed along to consumers rises dramatically.

Private industry analysts predict that, all told, the plan would add \$250 to \$500 per container in additional costs. Assuming only a moderate 6 percent growth rate at the two ports -- which together moved 15.7 million TEUs last year -- and you arrive at steadily increasing yearly volume estimates of 17.6 million TEUs in 2008 and 22.2 million in 2012. Multiplied out by the industry estimate of added costs per container and you have \$25 billion to \$50 billion passed onto consumers.

The green bill

The ultimate goal behind the original truck plan was simple -- cleaner air. It seems to be the one goal of the truck plan that proponents and opponents both readily agree upon.

Despite the clean air goals, one major component of the ports' plan threatens to actually increase at least one component of diesel pollution and thus increase the health impacts of the plan.

The ports' plan evenly splits the planned replacement of trucks between new cleaner-burning diesel trucks and those burning liquefied natural gas. The plan budgets \$1 billion for the purchase of more than 5,300 LNG-fueled trucks. With 2006 price tags of about \$188,000 each, the LNG trucks represent the largest expenditure under the plan.

According to leading emissions experts, however, LNG trucks produce more oxides of nitrogen, or NOx, than clean diesel trucks. NOx is generated during combustion in an engine, and is a main component in the formation of smog and creation of ground ozone, a suspected culprit in respiratory illness.

Recent pioneering studies at the University of California-Riverside found that when compared to on-road diesel trucks, LNG-powered trucks produced none of the particulate matter -- which we see as smokestack soot -- that diesel trucks do, but 46 percent more NOx. Even after researchers modified the LNG engines to run cleaner, the LNG trucks' NOx emissions were still well above diesel trucks.

Despite the fact that the UCR tests were conducted in low-speed yard trucks, the tests are the closest research to date on the emissions of actual on-road LNG vehicles.

In fact, experts at UCR and the ports know of no other studies done regarding on-road LNG trucks for emissions, despite the ports being ready to commit \$1 billion to their purchase.

In other words, there is no research, study or data to show that LNG-powered trucks would meet the emission goals set down by the plan.

It is important to note that there is a large difference between emissions test conducted by the manufacturer and those conducted on working trucks.

The UCR researchers performed their tests on actual vehicles under load.

Manufacturers of heavy-duty truck motors, including those burning LNG, test their motors outside of vehicles on test stands before installing them in a vehicle.

This has led to two sets of data -- manufacturer emission data that supports the

conventional wisdom that LNG vehicles are less polluting, and data from real-world tests of the LNG vehicles, which show a much higher NOx output. Environmental experts hypothesized that the LNG engine manufacturers have not released emission data from “roaded” vehicles over fear of results similar to what UCR found.

Despite this, the ports relied on manufacturer data showing the lower test-bench emissions of NOx for LNG engines when crafting the truck plan.

Even if LNG trucks could be modified to produce the same level of NOx as a current diesel truck, experts said, the tremendous cost of developing a fueling infrastructure where it does not currently exist eliminates LNG trucks as a cost-efficient solution.

Consider that the ports’ plan intends to put 5,113 LNG trucks on the road, or about one-third of the fleet. Just to supply these trucks with fuel would require an adequate number of fueling locations.

A 2005 environmental group study showed California had just over 1,600 LNG vehicles with 35 fueling stations. This suggests that an additional 5,100 LNG vehicles would require more than 100 additional fueling stations. While each station costs an estimated \$1 million, the ports’ plan does not address these costs or the length of time to develop the infrastructure.

In fact, a recent Port of Long Beach effort to build an LNG fueling station at a port terminal for a test project wound up taking more than a year to permit through the city fire department.

Simply put, while LNG may be considered by some to be an alternative, cleaner diesel trucks are cheaper, more reliable, better suited to the workloads and have a fueling and repair infrastructure already in place.

A vicious cycle

Another potential green impact relates back to the drivers.

Under the employee-only model, workers would most likely be limited to eight-hour days. **Current trucking companies that hire drivers as hourly employees discourage overtime, as do most private firms.**

Since port truck drivers currently average about 12 hours per day, this leaves nearly four work hours that will have to be made up for under the employee-only model.

The result is likely to be more trucks. Certainly, some companies under the ports’ plan would no doubt double up drivers so that as one driver's shift ends another driver's is beginning in the same truck. However, this relies on the work being available for the second shift, though. Currently about 35 percent of all port truck moves occur during the night shifts. This means that 65 percent of those lost four hours would require an additional truck. Based on port statistics of fleet size and academic studies of drivers’ hours, this could result in more than 5,000 additional trucks being needed just to handle today's level of staffing. This would result in 25 percent more total pollution than the plan predicted.

It also starts a vicious circle of cause and effect.

More trucks mean more traffic. As traffic increases in and around the ports, congestion ensues. Port congestion leads, through higher wait times and longer lines of idling trucks, to less efficient truck service. It requires more trucks to make the same number of moves per day and more trucks mean more pollution and even further congestion. And so on.

A deep breath

Certainly most of what has been presented here is hypothetical, some might even say worse-case scenarios. However, all of these scenarios and resultant impacts are based on the information available to the designers of the ports’ plan.

With the final version of the plan expected to be released to the public in late-September or early-October, it remains to be seen if each of the impacts highlighted here would be thoroughly explored before the port commissioners approve the plan. For a \$1.8 billion plan that has the potential to exact irrevocable damage on the transportation industry, we should all take a deep breath and hope so.