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Supply Chain Resiliency: Alleviating Backlogs and Strengthening Reliability

Chairman Carper, Ranking Member Cornyn, and members of the Finance Subcommittee on International Trade, Customs, and Global Competitiveness and other members of the Finance Committee, thank you for the opportunity to speak with you today regarding how policymakers and business leaders are addressing the existing backlogs in our supply chain in the short term and build more resilient supply chains in the long-term. I appreciate the invitation and opportunity to share Trinity Logistics' perspective on these significant issues facing international and domestic logistical supply chain issues.

My name is Doug Potvin; I am the Chief Financial Officer of Trinity Logistics, Inc., a 3rd Party Logistics company, headquartered in Seaford, DE and with Regional Services Centers located in Florida, Minnesota, Iowa, Missouri, Texas and Arizona, and with agent offices located throughout the United States, Canada and Mexico. I am privileged, honored, and humbled to be here today representing Trinity Logistics, our association, the Transportation Intermediaries Association (TIA) and the entire 3rd Party Logistics industry that we serve.

Trinity Logistics is a Burris Logistics Company, offering people-centric freight solutions ®. Our mission is to deliver creative logistics solutions through a mix of human ingenuity and innovative technology, enriching the lives of those we serve.

For more than 40 years, Trinity Logistics has been arranging freight for businesses of all sizes, offering truckload, less-than-truckload (LTL), warehousing, intermodal, drayage, expedited, international, and technology solutions. We serve as the intermediary solving the logistical needs of our shipper customers by sourcing capacity from our motor carrier and vendor partners. We are proud to report today that this past year, we generated over $1B in revenue, arranged over

500,000 shipments nationwide, and offered over 350 individuals full and part time jobs. We are truly a proud Delaware company.

Trinity is currently recognized in the Top 25 freight brokerages on Transport Topics' Top 100 Freight Brokerage List, in the Top 100 3PLs list by Inbound Logistics, and is named a Top Company for Women to Work for~~,~~ in Transportation, by Women in Trucking.

From Charles Dickens, novel a Tale of Two Cities, "It was the best of times, it was the worst of times, it was a season of Light, it was the season of Darkness, it was the spring of hope, it was winter of despair…". Over the last two years, the same can be said for the international's supply chain, and from our perspective and closer to home, the domestic transportation industry. In March of 2020, as both domestic and international countries shuttered businesses (with varying coordination for closings or determination of essential businesses – including the shuttering of port cities and operations in China) and the fact that most consumers were at home facing an uncertain future, freight volumes plummeted. Motor carrier capacity increased dramatically due to the steep drop of goods moving and the transportation market saw prices to motor carriers fall. In fact, Trinity Logistics was mentioned on a Facebook post that we were earning an average gross margin over 60%, which was simply wrong. In addition, a small number of motor carriers came to Washington DC and demanded rate transparency, wanting to know the rates of what all 3PLs charge shippers. Interestingly, after businesses, ports, and countries opened up, freight volumes began to skyrocket, available motor carrier capacity became scarce, rates paid to the motor carriers increased to reflect the change in the market conditions, the demand for rate transparency went silent. We believe if rate transparency is granted to motor carriers, it would cause even more disruption in the supply chain. Pricing would no longer be based on the free market. The pricing in our industry is driven by market conditions, supply and demand on a large scale. No entity, on either side of the equation, has enough market share to drive rates. In addition, each shipment has its own variables and considerations to take into account, including everything from available capacity in the various regional markets, lead time for products, dwell time at the shippers and consignees, commodities needing moved, and the type of equipment needed. All of this happens real time to ensure goods get to market, keeping our economy moving forward.

Unfortunately, due to the closing of businesses, trade ports, a surge in consumer spending on goods versus services, a lack of motor carrier drivers, and several other reasons, the regular and consistent movement of equipment has become largely imbalanced, hindering the transport of goods globally and domestically. Due primarily to the massive lockdowns in China including the closing of port operations, we have heard that talk of near shoring some of those manufacturing activities here in the United States, Canada and Mexico and reducing our customer's reliance on activities an ocean away. Trinity Logistics stands ready to assist in sourcing available capacity to ensure those new investments will have the necessary equipment to meet their logistical needs.

Now more than ever, the role of the 3rd party logistics professionals has become more valuable. Companies like Trinity and the other 28,000 licensed property brokers are working overtime to ensure that essential goods continue to be delivered in an efficient manner to meet our customers and consumer's needs. Our industry, along with motor carriers, are a main component of why during this crisis and disruption, the supply chain bent but never broke.

Trinity Logistics applauds the US Senate and House of Representatives' bi-partisan passage of the Infrastructure Investment and Jobs Act (IIJA) and the historic investment in transportation and infrastructure. We were very pleased to hear how quickly the Federal Motor Carrier Safety Administration (FMCSA) established the Safe Driver Apprenticeship Pilot Program. Trinity hopes this three-year pilot program will be successful, and made permanent, so that individuals ages 18- 20 will explore interstate transport careers. This will go a long way in helping trucking companies hire and train drivers through the program and help to alleviate driver shortages in the future. Trinity also believes that as spending under the IIJA ramps up in the near future, it will provide enough support in the economy to keep the motor carriers employed as we are starting to see freight volumes begin to pull back over the last 30 to 60 days.

Trinity would also like to thank, Chairman Carper, Ranking Member Cornyn, Senator Menendez and Senator Tim Scott for their support in offering legislation to initiate the pilot program for brokers to become a part of the Customs-Trade Partnership Against Terrorism Program (CTPAT). We believe by allowing freight brokers to become CTPAT certified, this will add another valuable layer in assisting with providing a safe and smooth customs clearance process for shippers moving cargo cross-border. Today we urge S.2322 to be quickly sent to President Biden's desk for signature. We believe, the 3rd Party Logistics industry does play a role in the safety and national security. In that, the industry selects motor carriers who enter the country through our borders and plays an integral role in assuring the carriers are legitimate and understand the cargo transported.

Currently, the vaccine mandate for truck drivers coming into the country to deliver freight from Mexico and Canada continues. These professional drivers spend most of their professional time alone in a truck cab, presenting 0% risk of spreading COVID-19. This should be lifted immediately to open up capacity and shorten the amount of time to cover a load.

Another issue that greatly impacts not only the efficient movement of goods, but also highway safety is the lack of a federal Motor Carrier Safety Selection Standard. Currently, because of a broken safety rating system from the Federal Motor Carrier Safety Administration (FMCSA) almost 90% of trucking companies are considered "unrated", due to the fact they have not received the in-person compliance review that promulgates a safety rating. This confusion logjams the carrier selection process and adds to the time it takes to vet a trucking company to the extent we are able to without a standard. Further exacerbate the situation with the fact that there are no requirements in place before selecting a trucking company drastically impacts the overall safety on our nation's highways. The latest report from the National Highway Traffic Safety Administration (NHTSA) noted that the number of accidents involving commercial motor vehicles increased 13% in 2021, the status quo is not working, and highway safety needs to be improved. Trinity Logistics and our trade association, TIA fully support legislation to create a Motor Carrier Safety Selection and amend the safety rating process by shifting to a system built on data not physical audits.

I started my testimony with the opening sentence from A Tale of Two Cities. I wanted to turn our attention to the actual impact on the domestic transportation industry during the last 2 years, specifically from the various activities that took place during the COVID disruption. The activities, as I have mentioned, included the closing/opening of business, but those did not happen in a coordinated way globally or domestically. The disruption of manufacturing due to a lack of raw materials or goods to be utilized, the tremendous amount of stimulus injected into economies that drove consumer spending in magnitudes and ways that we had not seen before, the lack of workers and productivity in some areas, and others as well, which caused the supply chain to experiences level of swings of such magnitudes between high and lows over a very short period . We are just now seeing some return to normalcy (as best as it can be defined). With that said, let me interject some metrics to give a perspective of what has happened in the freight markets.

Metrics to review:

The outbound tender rejection rate index - which is an indication of the percentage of loads being rejected by contract carriers on their contracted rates with shippers.

The Transactional Spot Market Rate for Dry Van Loads In $/Mile – these are negotiated rates as mentioned earlier that occur daily between shipper/broker and motor carrier.

The % of Freight Volume Increase/Decrease from a 2018 baseline

Index – Number Approximates	2019	Mar- June 2020	July 2020-Dec 2021	2022
Outbound Tender Rejection Rate	5 to 6%	1 to 2%	20%-25% approaching 30% in some instances	Steadily Declining to 8.4% (Cur)
Van Spot Rate	<$2.25/mile	<$1.50/mile	Climbed steadily to a high $3.75/mile	Steadily declining to $2.80/mile (diesel price keep elevated)
Freight Volumes	Slightly Lower	75% to 90%	Climbing more than 50%	Steadily Declining to now 26% over 2018

As these numbers indicate, simply the decrease in freight volumes and excess capacity drove the pricing significantly lower at the beginning pandemic. Carriers were competing against one another to secure freight to keep their truck operational, including asset-based carriers who contracted freight was not available during this time and added their excess capacity into the spot market. Once the businesses began to open up (though unevenly thus causing down chain issues), pricing begin to soar as trucking capacity got tight, and asset-based carriers were moving away from contracted freight to the spot market, forcing their customer to post more freight out into the spot market, driving up prices. Finally, as trucking volumes begin to retreat, the market forces depressed pricing, though it is still elevated by diesel prices and port operational challenges.

Another measure of freight capacity that Trinity utilizes is the Truckstop Market Demand Index (MDI) which measures the number of shipping loads posted by shipper/brokers in comparison to motor carriers posting their available equipment – a higher number indicates trucking capacity has gotten tighter as motor carriers no longer need to post available equipment as they are receiving enough inbound traffic from shippers and 3rd party logistics to get their equipment on a load. Here are the numbers for the same period.

Index – Number Approximates	2019	Mar- June 2020	July 2020-Dec 2021	2022
MID	35 to 45 Shipper Loads Per One Truck Posting	Less than 25 Shipper Loads Per One Truck Posting (Higher truck postings)	On average over 150 with some periods exceeding 200 Shipper Loads per One Truck Posting	Steadily Declining to approximately 100 Shipper Loads per One Truck Posting (Cur)

And finally, I would like to share with you, comments from Transportation Intermediaries (TIA) Association Chief Economist Noël Perry from the latest TIA Quarterly Market Report (1Q22).

The latest data released by the U.S. Bureau of Economics (BEA) show a declining economy in the first quarter of 2022, creating a second consecutive quarter of slow growth in freight. This negative news is consistent with an unusual convergence of negative signals headlined by inflation, energy uncertainty, the war in Ukraine, and COVID lockdowns in China. Unless those situations change for the better soon, the U.S. economy is headed for recession. Fortunately, economists tell us that a timely resolution of the Ukrainian war could ease inflation and consumer fears. Also, the growing availability of computer chips should allow the auto market to recover from its supply-constrained lethargy. Nonetheless, inflation, lockdowns in China, and the Ukraine situation have proven surprisingly resistant to improvement, giving weight to the pessimist's fears. Deutsche Bank's economists are forecasting a global recession in 2023, perhaps a bad one. Finally, you will see that the U.S. trucking spot market conditions have inflected towards weaker conditions. Whatever the result, conditions in the second half of 2022 and all of 2023 will not continue the historically favorable conditions of the last two years.

As earlier metrics have indicated, the US trucking spot market conditions have inflected towards weaker and more normal conditions – though we will see what the future holds and how that trend continues. Hopefully, as the result of this meeting and coordinated actions taken by the U.S., our trading partners, manufacturers, and supply chain vendors, our nation will become resilient when facing similar conditions or uncertainties in the future.

Again, I want to thank you for your time today and the opportunity to speak before you and present Trinity Logistics' perspective on the state of the supply chain. I would be happy to answer any questions.