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“The Future of Trucking in Virginia: Interstate and Intermodal Strategies”

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Con-way Today – who we are

- \$5 Billion Industry Leader in Freight Transportation, Logistics
 - Con-way Freight
 - Con-way Truckload
 - Menlo Worldwide Logistics
- 30,000 employees worldwide
 - Over 500 operating locations
- 11,500 trucks, 35,000 trailers, 20 million sq ft warehouse space globally
 - 150,000 customer pickups and deliveries daily in N. America
 - Nearly one billion miles annually moving freight on USA highways
- Consume 150 million gallons of diesel fuel annually



Trucking / Intermodal Statistics

- Over 500,000 trucking companies in the US
 - 97% have fewer than 20 trucks
 - Pay 40% of HTF total and drive 13% of the miles
- 70% of all goods (by weight) in the US move by truck
 - 83% by value
 - 97% of consumer goods
- Why future modal shares are expected to stay fairly constant
 - 80% of US communities are served only by truck
 - Freight movements over 500 miles are only 13.4% of the market
 - If rail intermodal doubled by 2020, market share will be only 1.8% vs. the 1.5% market share expected if capacity is constant



Trucking in Virginia

- In 2010, the trucking industry provided 154,302 jobs in VA (1 in 20 jobs)
- Total trucking industry wages paid in Virginia in 2010 exceeded \$6.8 billion, with an avg. annual trucking industry salary of \$44,480 per worker.
- There are more than 10,000 trucking companies located in Virginia, most of them small, locally-owned businesses.
- 86 % of Virginia's communities rely exclusively on trucks.
- In 2009 the trucking industry in Virginia paid over \$614 million in federal and state highway user taxes and fees, or 31%, of all state and federal highway user taxes collected for Virginia, but accounted for only 8% of total miles traveled in Virginia.



Trucking in Virginia 2008

- In 2008, the trucking industry provided 184,278 jobs in VA (1 in 16 jobs)
- Total trucking industry wages paid in Virginia in 2008 exceeded \$9 billion, with an average annual trucking industry salary of \$45,951 per worker.
- There are more than 10,537 trucking companies located in Virginia, most of them small, locally-owned businesses.
- 86 % of Virginia's communities rely exclusively on trucks.
- The trucking industry in Virginia paid approximately \$693.5 million in federal and state highway user taxes and fees, or 35%, of all state and federal highway user taxes collected for Virginia, but accounted for only 8% of total miles traveled in Virginia.



Intermodal – A System of Systems

- Water, Rail, and Truck systems connect to maximize efficiency while meeting supply chain requirements for velocity and service.
- Integrity of the intermodal system is dependent on the integrity of the individual modal systems
 - Weakness in one causes modal shift and decreases efficiency of the entire US freight transportation system
 - Constraints (Infrastructure, Regulation, Security, Labor) have similar effects
- New Externalities - Sustainability, Energy Usage, Climate Change



The Chickens are Coming Home to Roost

- You can't get something for nothing.
- You can't put 10 lbs into a 5 lb sack.
- You can't decouple economic growth from transport growth.
 - A function of population and consumption.
- The US has underinvested in transportation infrastructure.
 - ISTEA puts intermodalism on the national stage
 - PPP'S are going to save us by using someone else's money
 - Slow growth of highway traffic by forcing a modal shift.
 - Call it anything but a tax.



A Framework to Remember

- Economic growth cannot be decoupled from the growth of transport.
- There is a direct relationship between transport and population.
- Transport capacity constraints will result in economic constraints.
- Freight is expected to increase 19% by 2022.
- Truck tonnage is expect to increase 28% by 2020



Major Trucking Capacity Constraints

- **Physical infrastructure constraints**
 - Congestion and other bottlenecks
- **Workforce constraints**
 - Driver availability
 - Changing demographics
- **Security Constraints**
 - Borders, ports, airports
 - Credentialing
 - HazMat regulations
- **Policy Constraints**
 - Truck size and weight
 - Hours of Service
 - Route restrictions / Speed
 - Environmental / Air quality regulations



Why does it matter?

- Freight in all modes will increase (19% by 2022) with resulting capacity constraints
- Energy prices and sustainability concerns will increase.
- Rates will increase. Delays will occur. Economy will be affected.
- Supply chain disruptions will result in “near sourcing”
- Governments at all levels are rediscovering that freight and freight infrastructure are the underpinnings of economic development.



Trucking Pricing and Cost Drivers

- Pricing
 - Mileage rate
 - Rate per hundred lbs (LTL class structure)
 - Flat rate
- Cost Drivers
 - Wages (hourly or by the mile)
 - Fuel (taxes)
 - Equipment (capital)
 - Maintenance, Overhead, etc
- Metrics
 - Rate / Mile and Cost / Mile
 - Rate / cwt and Wages / cwt
 - Dock and P&D Productivity
 - Empty miles



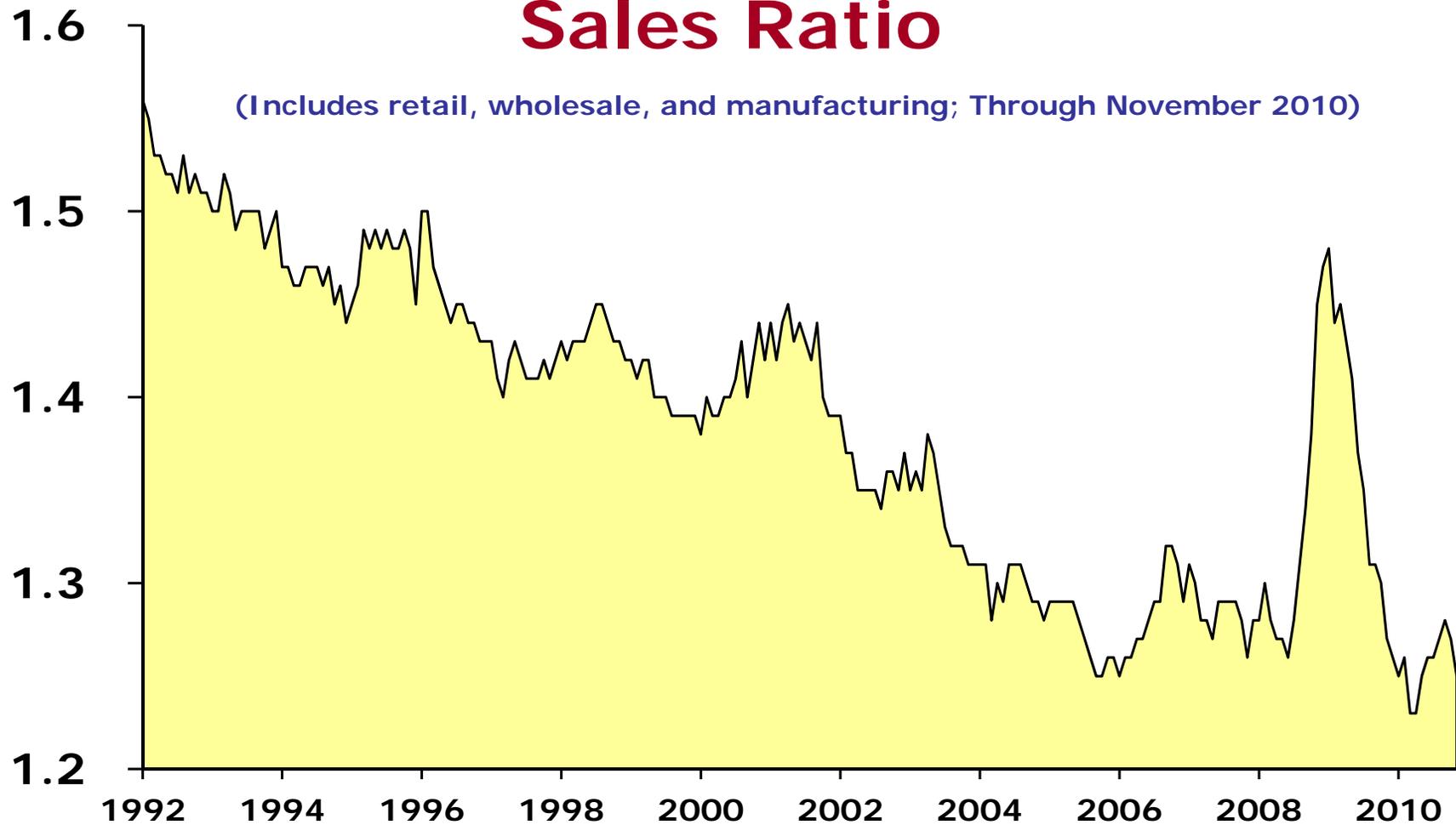
New Models and New Factors

- Models
 - Sub-service line haul including rail intermodal
 - Regional
 - 3pl, 4pl, LEAN methodologies
 - Brokerage
- New Factors
 - Tolls / Taxes
 - GHG emissions
- New Understanding
 - Behavioral economics
 - Demand modeling



Total Business Inventories-to-Sales Ratio

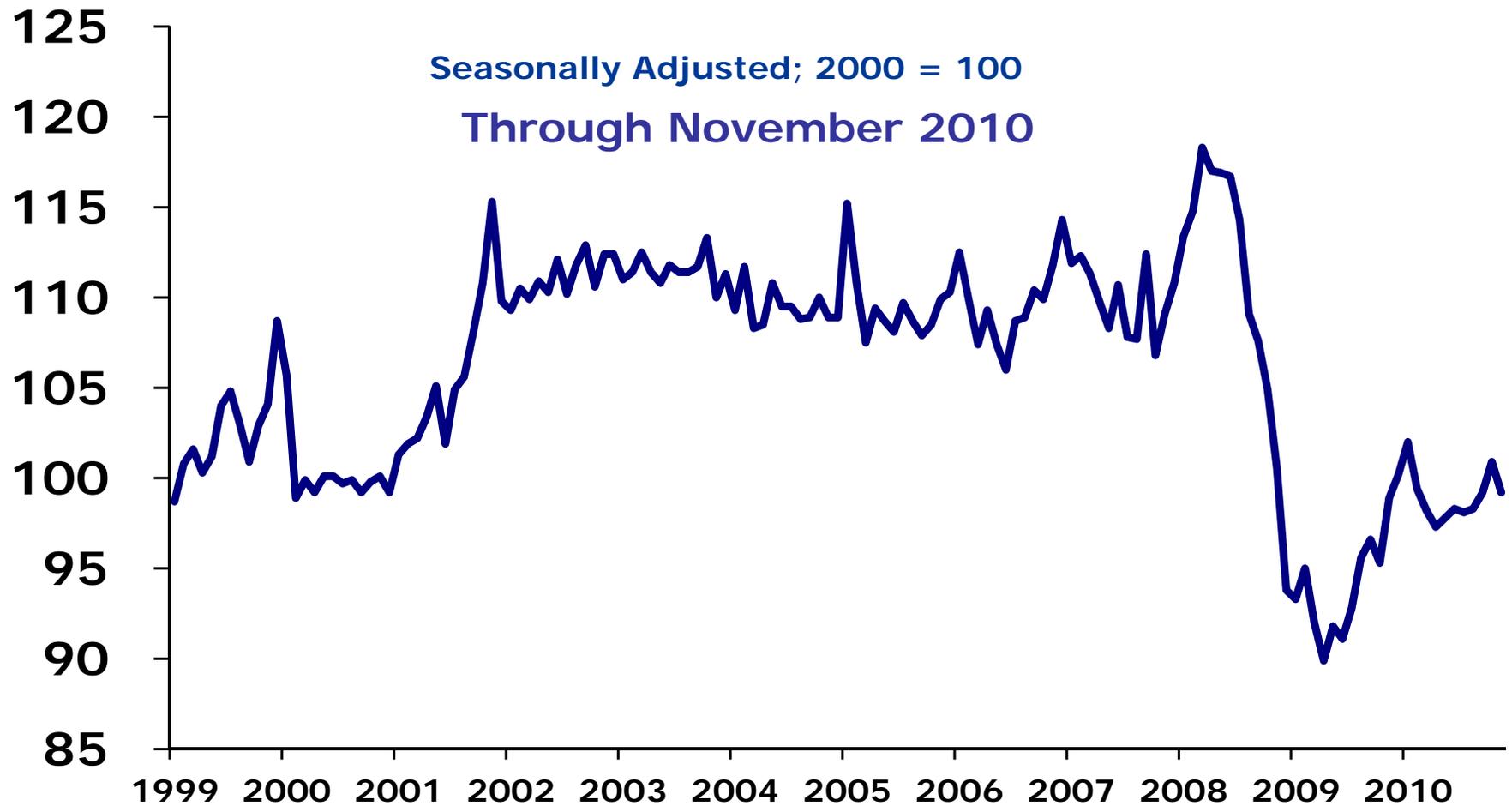
(Includes retail, wholesale, and manufacturing; Through November 2010)



Sources: Department of Commerce and ATA



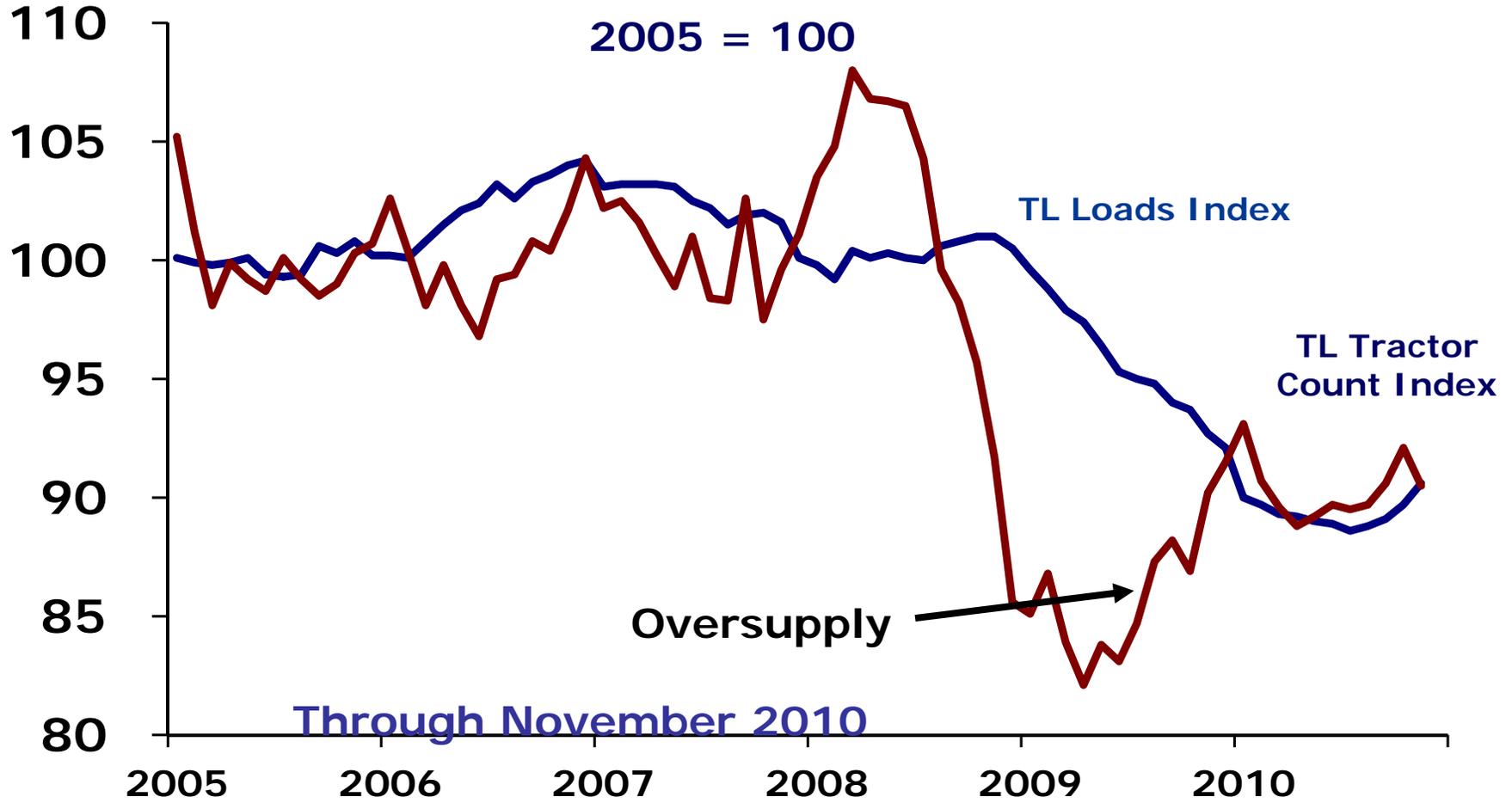
ATA's For-Hire TL Loads Index



Source: ATA



For-Hire TL Supply vs Demand



Source: ATA

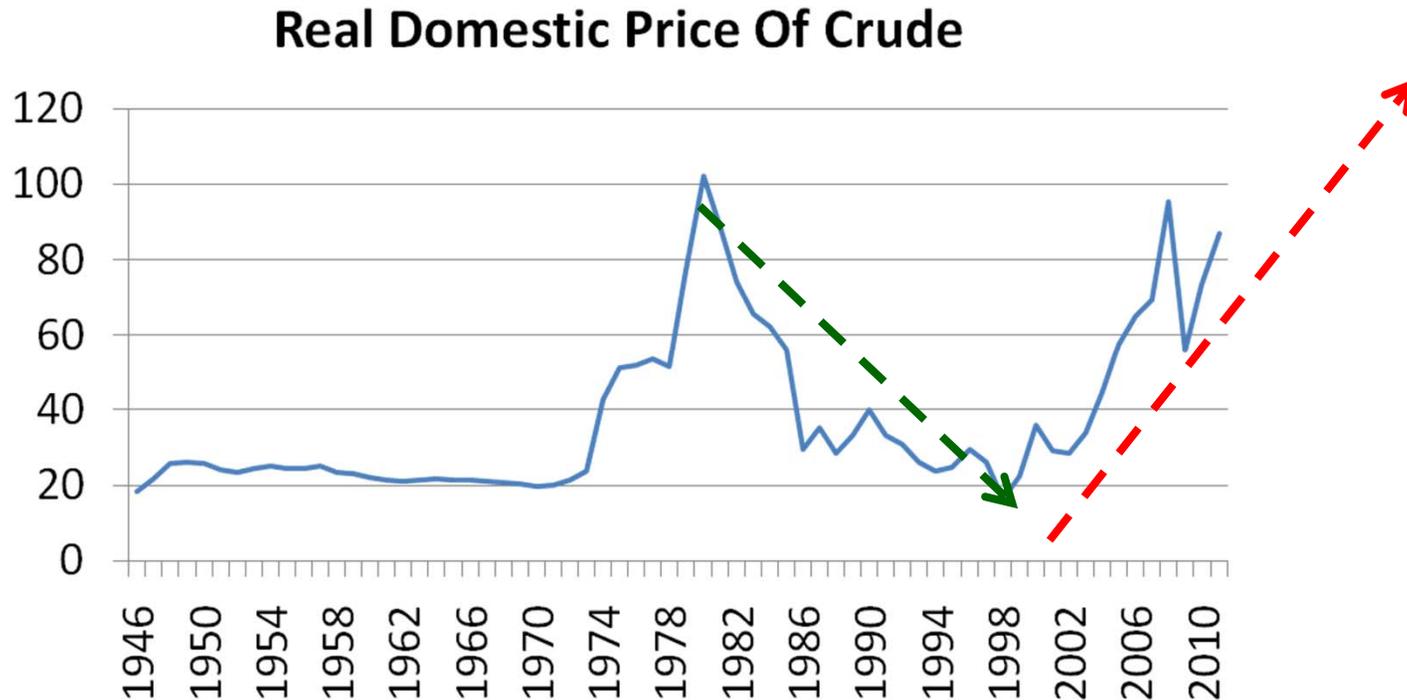


What Happened Last Time?

- Deregulation cut prices for trucking inputs
 - Effective cost of capital (competition reduced “rents”)
 - Drivers’ earnings fell
- Secular decline in fuel prices in same period
- Results:
 - major price declines for trucking services
 - Competition caused cost reductions to be substantially passed through to shippers
 - So, a lot more trucking services were purchased



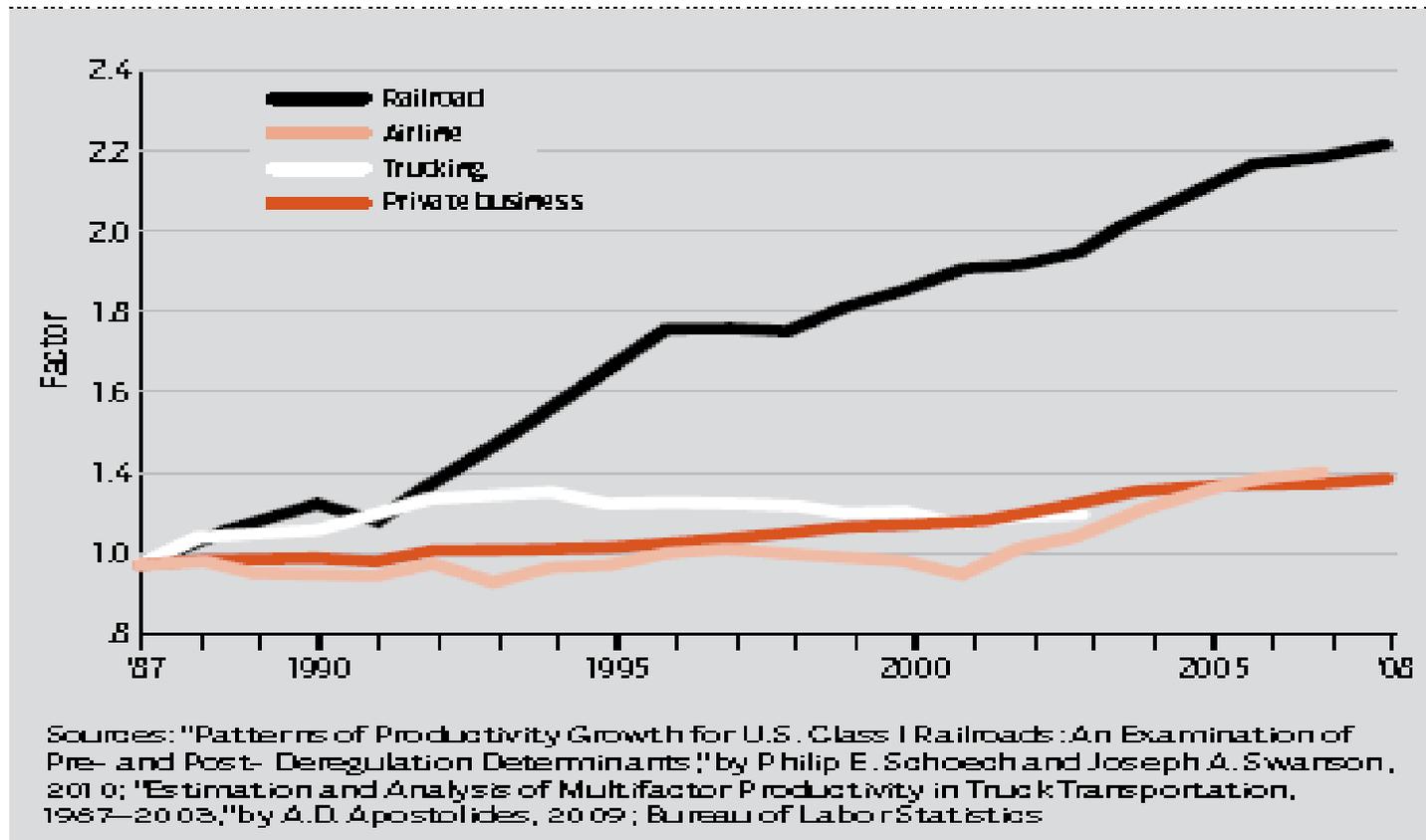
The Reagan - Bush, Sr. - Clinton era benefited from falling energy prices.



Sources: EIA

Railroad, Airline, Trucking, and Private Business Total Factor Productivity 1987–2008

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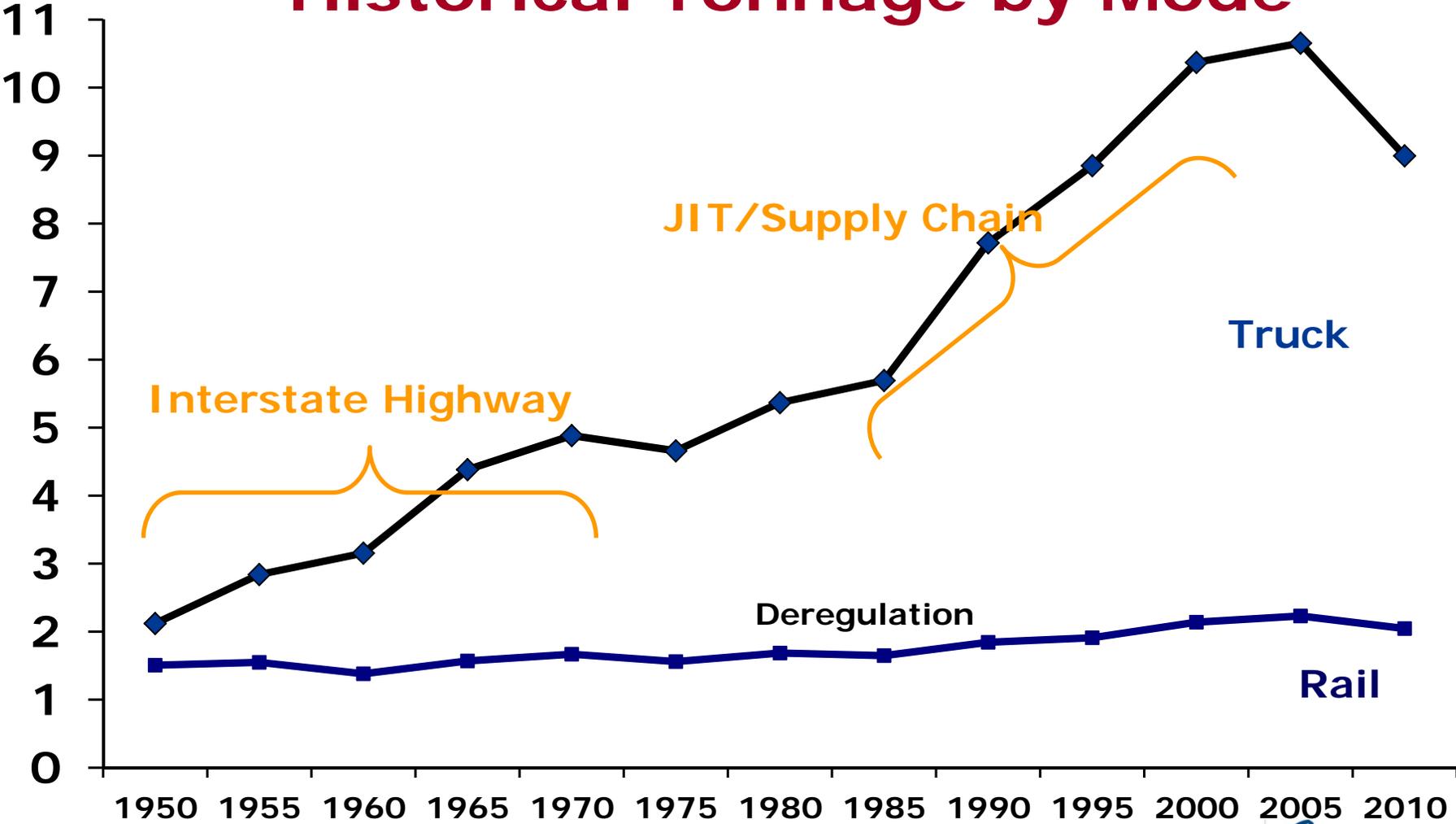


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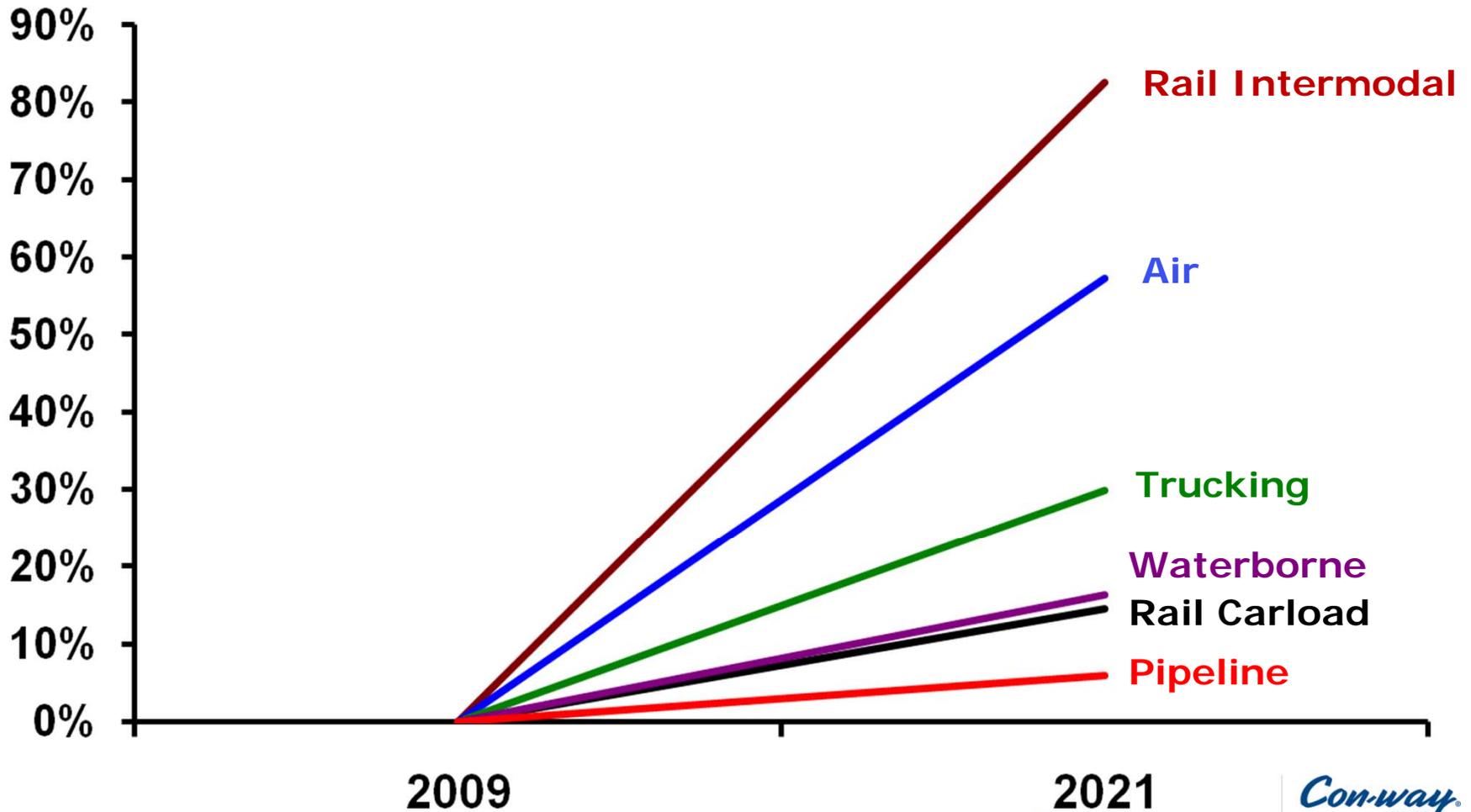
Historical Tonnage by Mode

Billions of Tons



Growth in Tonnage

Total Increase from 2009 to 2021

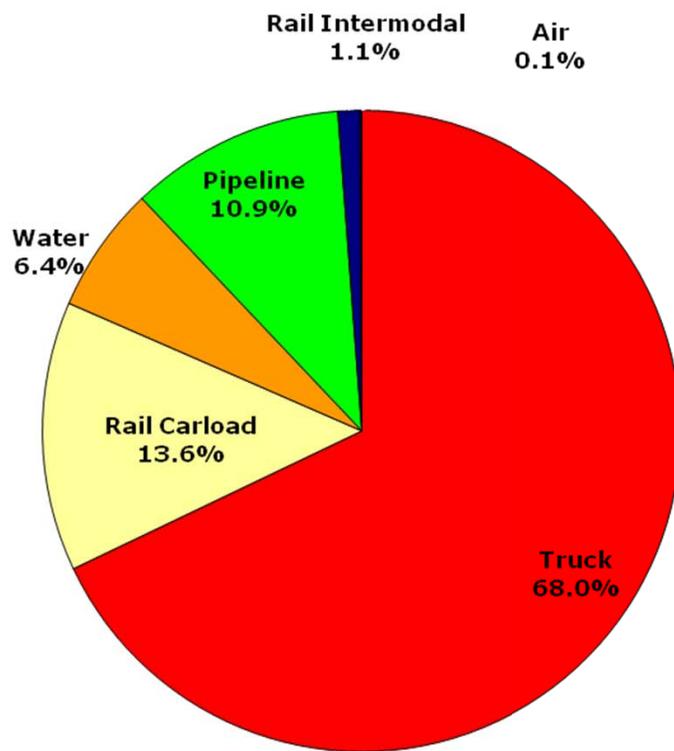


Source: U.S. Freight Transportation Forecast to 2021

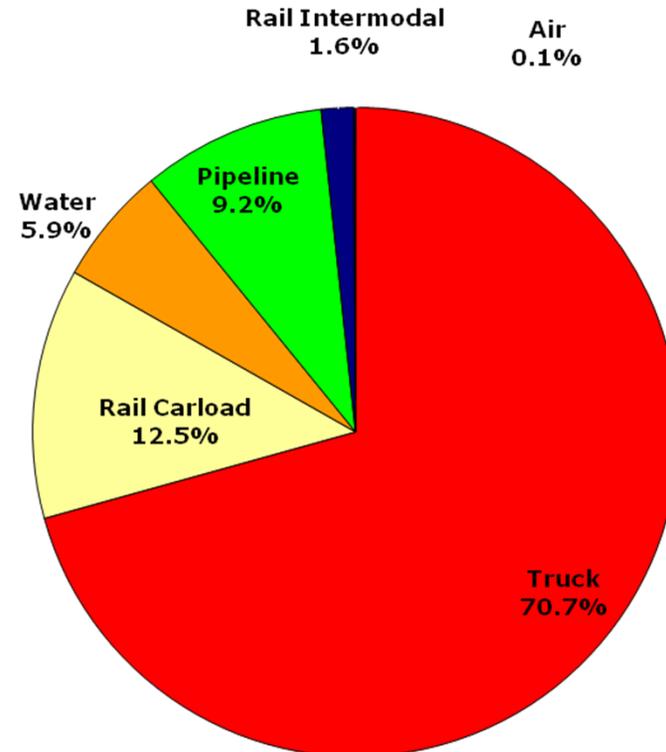
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Distribution of Tonnage by Mode: 2009 vs 2021



2009



2021

Source: U.S. Freight Transportation Forecast to 2021



What does the future hold?

- Continued pressure to maximize supply chain efficiency combined with more freight than the current system can handle and sustainability concerns will result in:
 - Redesigned supply chains and distribution systems
 - Modal shifts to accommodate supply chain adaptations
 - Near sourcing
 - Pressure to increase US truck size and weight
 - Increased energy and environmental regulation
 - Technology innovations
 - Higher shipping costs
- Without significant investment, US transportation inefficiencies will result in a competitive disadvantage relative to other world markets



DC Transportation Update – Funding / Infrastructure

- Surface Transportation Reauthorization
- Status of the Highway Trust Fund – It is broken!
 - Transit split
 - Funding / User Fees
 - Earmark Ban
- DOT Policy
 - National Freight Policy (Transportation “Livability”)
 - Tiger Grants (Fascination with all things non-highway)
- Harbor Channel Dredging



DC Update – Sustainability, Labor, Security

- Climate Change
 - Fine particles
- Truckers' Hours of Service Rules
- Authorization of ports to regulate trucking
- Mexican Trucking Issue
- 100% Container Inspection
- Credentialing (TWIC)



Virginia Specific Topics

- All of the above plus –
- I-95 Tolls
- Right-to-Work / Labor issues
- VA Ports advantage
- Increasing Federal workforce / changing demographics
- Southwest VA – Coal, Uranium, lost industries



**Economic growth
cannot be separated from
transport growth.**



Questions?

- My Contact Information

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