TESTIMONY OF

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PRESIDENT OF MANAGED SERVICES
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BEFORE THE

U.S. SENATE

SUBCOMMITTEE ON SURFACE TRANSPORTATION AND MERCHANT MARINE INFRASTRUCTURE,

SAFETY, AND SECURITY

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Rebuilding Infrastructure in America: State and Local Transportation Needs

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Chairman Fischer, Ranking Member Peters, and members of the Senate Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety, and Security, thank you for the opportunity to testify at today's hearing. As one of the nation's largest third party logistics providers, C. H. Robinson has a unique view of how goods and commerce flow through our nation's infrastructure from manufacturer to consumer. Our customers represent the entire cross section of freight transportation stake holders and I hope to provide you insights into what supply chain vice presidents and directors need Congress to accomplish in this next infrastructure bill to support their competitiveness.

Introduction of Jordan Kass

I serve as the President of Managed Services for C. H. Robinson. I joined C. H. Robinson in 1999 via the way of an acquisition. At that time I created a startup within the framework of C. H. Robinson. That business was focused on bringing the internet into the world of logistics and supply chain. Today, C. H. Robinson's TMC division manages over $3.6 billion dollars of logistics spend in 170 different countries on behalf of our customers. Our mission is to develop innovative technology platforms paired with managed services that help our customers connect, automate, and optimize their supply chains.

Introduction of C.H. Robinson

C. H. Robinson was founded in 1905 and has grown to over 15,000 employees globally. We are the 10th largest publicly held company headquartered in Minnesota, and we have offices across the United States. Chairman Fischer, our employees in Omaha specifically asked me to say hello to you.

In 2016, I addressed this committee as you considered the impact of the internet of things on supply chains with recommendations regarding funding for U.S. Customs, increasing resources for law enforcement to combat cargo theft, corporate tax rates and land use planning around mega cities and urbanization. We believe many of the items addressed in that testimony are relevant to today's infrastructure discussion. Today it is our intent to provide insight into issues that keep supply chain executives up at night and their thoughts on freight funding mechanisms.

Supply chain professionals see the world through a different lens. Their sole focus is to create a cost effective, predictable, and repeatable supply chain ensuring the right product, get to the right place at the right time. The average supply chain professional today oversees a regional, national or global logistics network. In terms of surface transportation, truck is still by far the dominant mode. Intermodal is important, but today it is mostly used when the service parameters are a good fit. Primary concerns for our customers are consistency of service levels and cost. They want to keep inventory lean and as close as possible to their customers. The balance here is fragile. It is challenged every day by weather, the imbalance of truck supply and demand and increased congestion through our highways, rail hubs and ports.

Since the Great Recession, private sector investment in freight technology and equipment have allowed supply chains to move more product with fewer trucks. Yield management software has allowed motor carriers to focus on establishing profitable networks of freight while data has provided supply chain planners detailed visibility of their operations across the globe. There is little to no underutilized capacity in the current marketplace. Our success, however, places tremendous pressure on infrastructure to remain reliable. There simply is not slack in motor carrier capacity like there was 10 or 20 years ago. While the private sector has continued to invest in order to improve efficiency, public sector investment has not kept pace to match the needed reliability of the modern supply chain.

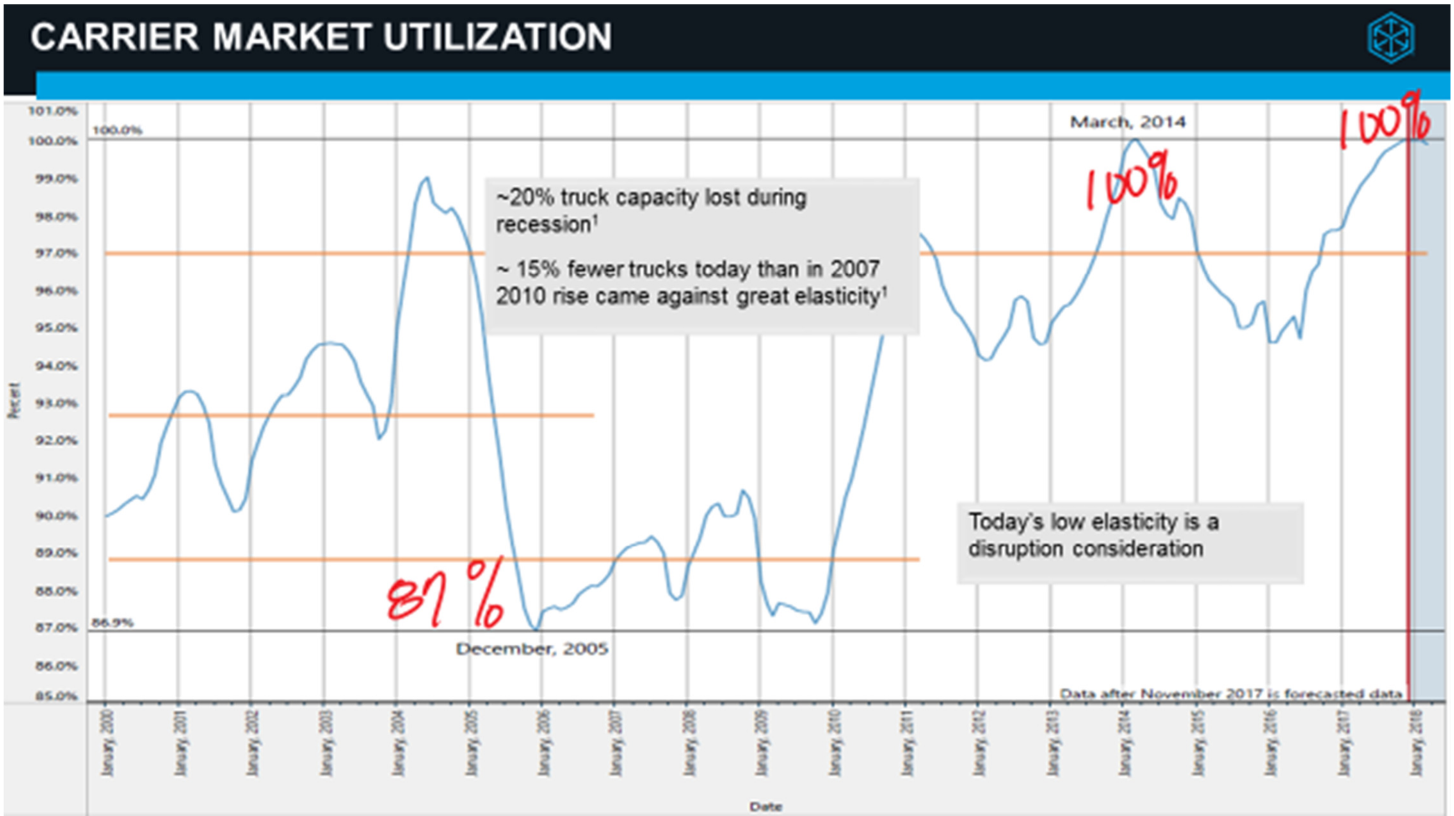

Figure 1: Data from monthly "Trucking Update" as part of the Freight Focus series by Freight Transportation Research Associates dba FTR. Chart and commentary created by C.H. Robinson

<u>Congestion</u>

While funding and project delivery rules for infrastructure projects are critically important for local, state, and federal officials, often these discussions are missed by supply chain practitioners until it affects the network they oversee. What does register is the steady decline in the quality of our roads and bridges. While supply chain professionals may not notice an additional 2 or 5 minutes loss of transit time in a year because of increased congestion, they do notice an additional 20 or 50 minute loss of transit over the course of a decade due to incremental degradation of infrastructure. Unpredictable or increasing traffic delays lead to slower velocity of throughput of inventory, far greater exception management, poor and inconsistent service levels and increased costs. We are members of the American Transportation Research Institute's Research Advisory Committee and can confirm that ATRI's "Top 100 Truck Bottlenecks" report is a great place to start when identifying the best opportunities to invest in freight focused infrastructure. In addition, the principles outlined in the "Building to Win" proposal by the National Association of Manufacturers are based on solid supply chain fundamentals. Supply chain professionals recognize that we are falling behind our overseas competitors. Other countries are investing in infrastructure in a manner that is commensurate with their economic growth goals. Currently, China is investing more than the US and Europe combined. Shippers and manufacturers are ready to seize this opportunity to transform our nation's supply chains for the better.

Truck Parking

The current availability of truck parking in our country is insufficient. In fact, when weather events challenge truck drivers, some of our customers have begun opening their yards not just to drivers on loads for their own freight, but for all truck drivers. They recognize that there is simply no place for these drivers to go. Washington, D.C. is a great example. As you leave today's hearing take a look around. I'd challenge you to find a place where a driver, let alone thousands, can safely park their vehicle. We are encouraged by provisions included in MAP-21 and the FAST Act to address truck parking and we look forward to additional solutions to this issue that will make America's supply chain more competitive.

Freight Advisory Committees

This committee should also be aware that many supply chain professionals feel very disconnected from the policy making process. If they do have a local need or issue, they have trouble connecting in a timely manner with the right agency or official who can address the issue. Sometimes a supply chain professional may have a need in Missouri, but controls the freight from their office in Atlanta. We see the same frustration from state and local officials who try to engage the freight community. The establishment of state Freight Advisory Committees as part of the FAST Act has provided shippers an opportunity to more directly connect with state infrastructure planners. We see tremendous potential for these committees to be incubators of policy and expertise for both state, regional, and national freight transportation planners. One example of how this structure is working successfully is how a proposal by U.S. Customs to adjust hours at a border crossing in northern Minnesota was vetted through the Minnesota Freight Advisory Committee and stakeholders were quickly identified to provide input and execute a solution that worked for all public and private stakeholders. Congress should continue to bolster this program and provide more opportunities for these Freight Advisory Committees to add their voices to the freight infrastructure planning process.

National Hiring Standard for Motor Carriers

Supply chain professionals know that improving efficiencies means paying attention to the details and communicating well with all stakeholders. One area that could increase supply chain efficiencies is resolving the confusion regarding the use of publicly available data from the Federal Motor Carrier Safety Administration. Currently, there are no requirements for shippers or brokers to check carrier credentials issued by FMCSA. In fact, in April 2017, the Commercial Vehicle Safety Alliance (CVSA) updated their administrative out-of-service criteria to include lapsed U.S. DOT numbers. Neither CVSA nor FMCSA announced this change broadly to those who hire motor carriers and they have not consolidated all the information that allows a motor carrier to operate on the nation's roads into one single website. This confusion over data has resulted in many shippers not checking any carrier qualifications which leads to inefficiencies in enforcement for FMCSA when industry could be acting as a force multiplier. Other shippers may be using unrelated or less important data than they should which leads to a smaller pool of carriers for them to choose from when they really could or should have access to a wider range of carriers. We encourage this committee to include a National Hiring Standard for Motor Carriers in this infrastructure bill that allows shippers and brokers to be on the same page with FMCSA, thereby increasing efficiencies of both supply chain professionals and law enforcement.

Freight Infrastructure Funding Mechanisms

While supply chain professionals may not discuss funding formulas, we do talk about federal infrastructure funding mechanisms quite a bit. Supply chain experts know that the freight side of infrastructure funding has very different dynamics than the automobile side. We encourage this committee to de-couple freight funding in your thinking. In other words, separate the historic links of the gas tax and the diesel tax. For the freight portion of infrastructure funding, supply chain professionals have reached as clear a consensus as I have ever seen. We wholeheartedly prefer vehicle miles travelled (VMT) or the federal diesel tax compared to other widely discussed proposals.

A VMT for freight would be easily absorbed by the supply chain based on current operating and pricing structures. Miles travelled is widely used and reported in supply chain measurements and ultimately would be very easy to incorporate into a wide range of pricing structures all along the supply chain, however, we understand there are issues that may prevent timely adoption of this method for this current infrastructure bill.

A bridge to buy time to get to a VMT is the current diesel tax. While many talk about the erosion in purchasing power of the gas tax due to more fuel efficient hybrid cars and a decrease in overall driving habits, those scenarios have not played out to the same degree in freight. If diesel prices change due to an increase in state taxes or market increases, the freight industry has an efficient system to accommodate and incorporate those changes into weekly operations. This committee may not be aware that the average national diesel price published every Monday by the Energy Information Agency is a highly regarding and universally referenced index within transportation contracts. From a freight perspective, an increase in the diesel tax would be efficiently absorbed across the supply chain, just like state level diesel tax changes are incorporated today.

While tolls may work well for autos, they present problematic administrative burdens within the supply chain. Administratively, toll receipts can be challenging for motor carriers and brokers to incorporate into pricing and included with invoicing in a timely manner. Very simply, tolls that vary state to state can have unintended consequences to business and commerce within the United States.

Finally, a proposed highway services tax or waybill tax based on the value of freight transportation costs would be exceedingly complicated and worrisome to our nation's businesses. Surface transportation rates, in particular truckload, fluctuate widely. Not only would this create a challenge to predicting revenue but U.S. businesses could be impacted in a very negative way relative to their overseas competition. More tax from shippers when freight rates rise would further stress transportation budgets, regardless of whether more infrastructure was being used or not. We understand that on the surface it appears it would be easy to replicate the airfreight services tax for truck transportation, but based on our experience with both modes, we remain deeply skeptical that a highway services tax would be as efficient to implement in freight as an increase in the diesel or VMT funding mechanism. One major difference is that there are hundreds of thousands of more motor carriers than airfreight carriers and most motor carriers are small businesses. Freight bills routinely change from first time of invoice and we fear that a proposal to tax freight value could harm small carriers and lead to a shift toward the use of private fleets as manufacturers and retailers try to minimize the amount of tax paid. Furthermore, short, minimum shipments of under 150 miles would also be taxed disproportionately to their use of infrastructure. Establishing truckload market rates for purposes of tax compliance would require details such as average loading time, length of notice of shipment and other qualities of the freight that are complex and tedious to document for every shipment. For these and many other reasons, we do not see a Highway Services Tax being feasible or predictable enough to pay for freight's portion of infrastructure.

Thank you for the opportunity to provide insight into the needs of supply chain professionals as users of our nation's infrastructure. Supply chain professionals are ready to see significant new investment in infrastructure because unpredictable traffic delays for freight result in poor service levels and wasted money. We look forward to working with the committee to identify solutions that will allow U.S. supply chains to continue to lead the world.