

Future Trends and Challenges within Logistics

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IMO 2020



IMO 2020 Sulphur Cap Regulations

- Major transformation for shipping industry
– Should not be underestimated
- 3 Primary options for compliance
 - Continued use of HFO with scrubbers
 - Switch to Low Sulfur Fuels
 - Switch to LNG fuel
- Operational options to reduce cost impact
– slow steaming, recycling of less efficient ships, etc.

IMO 2020 Forecasted Impact

- Improved air quality - significant reduction in SOx and associated particulate matter
 - Port cities worldwide will benefit
 - No additional US port benefit – existing rules more stringent
- Estimated \$50 to \$60 billion annual fuel cost increase for shipping
- Globally, container lines facing \$12 billion annual increased fuel cost
- Diesel price impact: 20-30% may be seen
- Slow steaming and vessel rationalization may impact service level

IMO 2020 Shipper Impact

- \$200 TEU/\$400 FEU (Asia/West Coast)
- Increased costs could drive sourcing shifts
- Costs will be a major factor in 2019 negotiations
- Some alliances calling for January 1, implementation

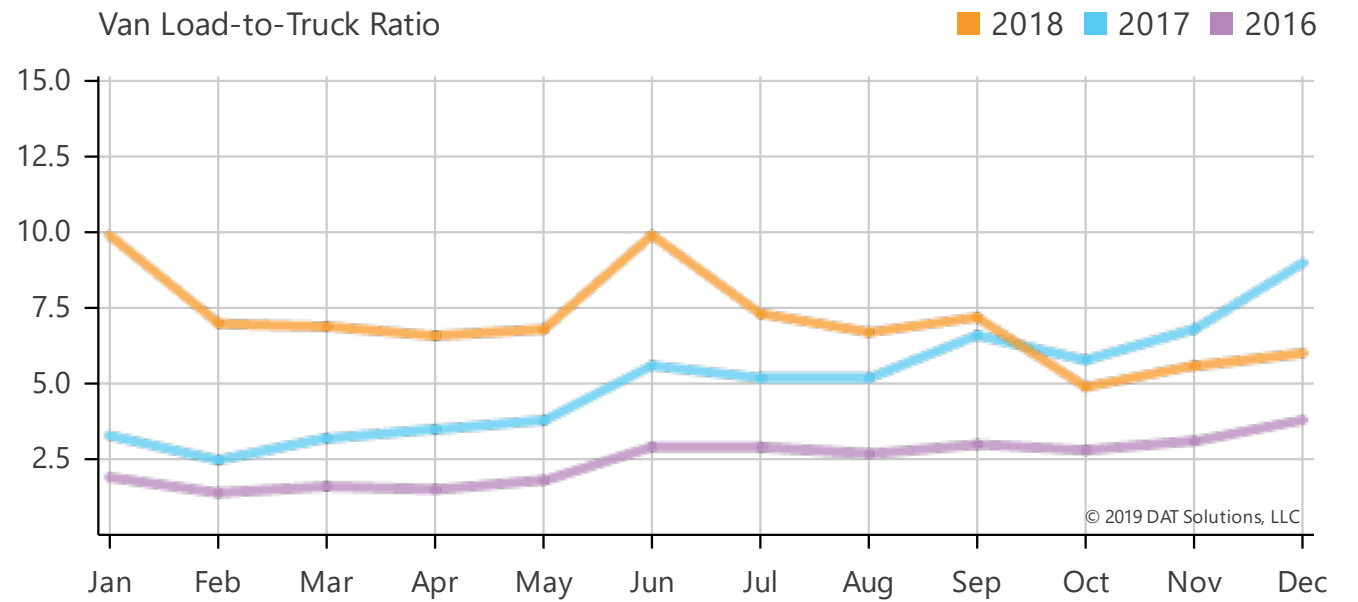
IMO 2020 Shipper Approach

- Prepare leadership for increased costs beginning Q4
- Challenge carriers to explore cost effective methods; LNG
- Resist all in pricing, develop separate fuel assessorial
- Explore bunker surcharge based on operating markets
- Examine potential monthly vs. quarterly surcharge approach

Domestic
Driver
Shortage



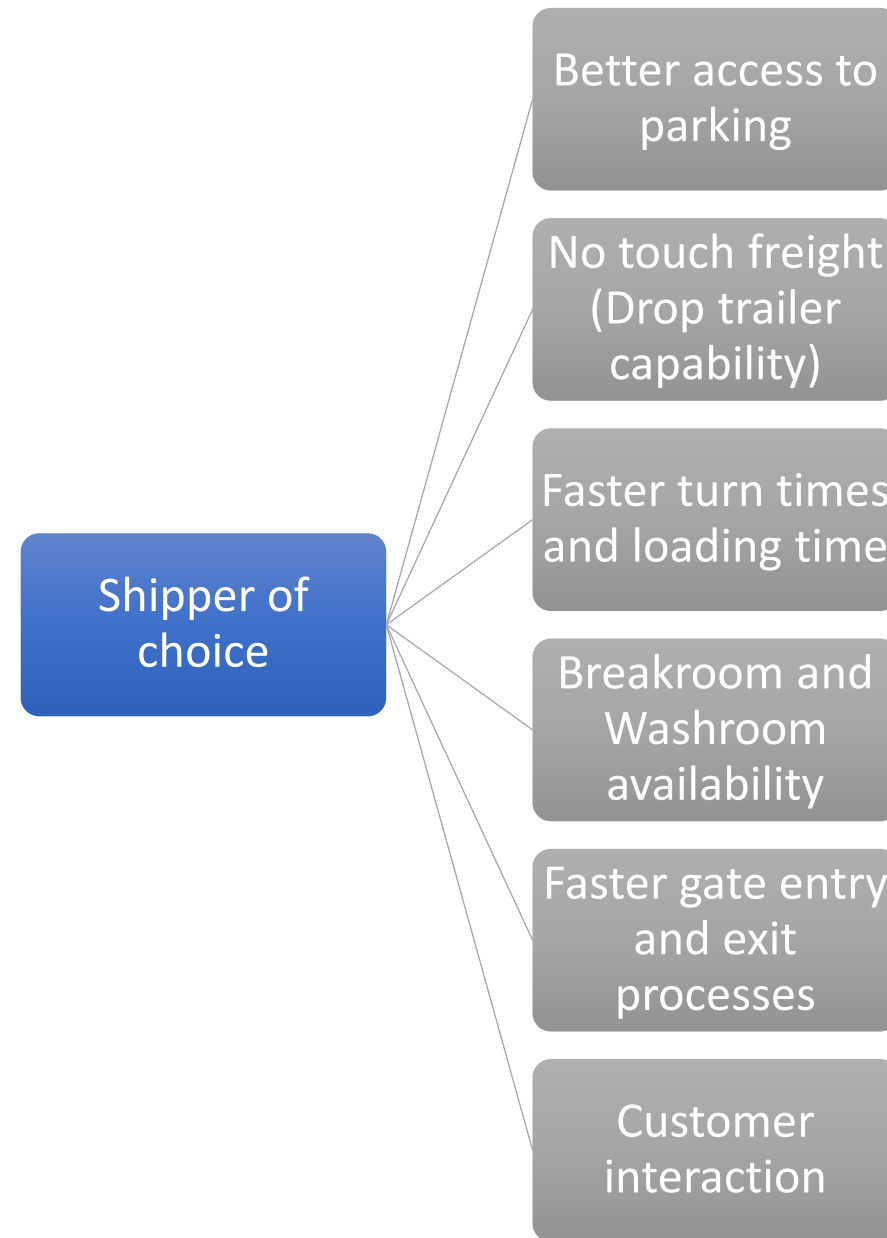
Domestic Driver Shortage



Domestic Driver Shortage

- Load to driver ratio improving, largely driven by demand
- Wages are improving but still not attracting large numbers
- Drivers want more home time
- More selective with work environment
- Sharing experiences on social media

Shipper of Choice - ETDBW



FMCSA Military CDL Program

- Equate military training/experience to civilian licensing req.
- Military CDL 1 – skills test waiver (2 yrs. Safe military driving)
- Military CDL 11 – Even Exchange (States agree to driving experience)
 - (Illinois, North Carolina, Wisconsin, up and running)
(CO,CT,FL,IA,ID,MO,MT,OH,VA moving)
- Under 21 Military CDL Pilot – Directed by Congress FAST ACT
 - Requires carrier (Employer) sponsorship
 - Agree to provide regular data
 - Eligibility limited to certain rank levels with the branches
- Timeline spring of 2019
- Contact: Selden Fritschner FMCSA 202-366-0677
Selden.Fritschner@dot.gov

Source: Federal Motor Carrier Safety Administration

Emerging Trends



Continued Market Consolidation

- Global ocean carriers creating broad end to end capabilities i.e. Maersk and CMA
 - Increased Warehousing (Dry and Ref), Distribution, Transportation capabilities
- Increased Acquisition activity i.e. DSV, XPO, and others
 - Creating gap between large scale providers and others
 - Implementing newer technologies to drive visibility and productivity
- Larger firms taking more control, i.e. Amazon/Walmart
 - Driving changes in equipment procurement, availability
 - Driving others to take similar actions or examine their processes

Street Turns

- Announcement by ocean carriers to charge for street turns
- Practice of street turns supports sustainability
- More efficient for terminal operators, carriers and drivers
- Attempt by carriers to shore up revenue
- Look to place focus on real areas to drive revenue



Emergence of Short Sea Shipping

- Trans gulf activity
- Mexico into Gulf and Southeastern gateways
- Texas inland water ways
- Tug initially but longer term use of powered vessels

Shipper Trends

- Increase Transload Activity
 - More carriers no longer want to move containers inland
 - Opportunity for shippers to delay allocation of product
 - Increases inventory accuracy
 - Promotes greater turns on product, *right product at the right place, right time*
- Increase visibility
 - Looking for end to end or complete visibility through all aspects of the supply chain
 - Blockchain opportunities for carriers, terminal operators and ports to partner with shippers
- Use of Predictive Analytics
 - Companies learning how to take variability and costs out of their networks



Thank You