PORT of vancouver | Vancouver Fraser Port Authority

April 06, 2023

Glen MacInnes
Office of the British Columbia Container Trucking Commissioner
1085 Cambie Street
Vancouver, BC V6B 5L7

Re: OBCCTC Drayage Compensation Proposal and Fuel Surcharge

Dear Glen:

I am writing to follow up with some additional comments after our brief discussion last Thursday, March 30, regarding the drayage rate compensation proposal and industry fuel surcharge model.

Compensation Proposal

Generally speaking, the Vancouver Fraser Port Authority (VFPA) is supportive of the wage and trip rate increases that have been proposed, as well as your intention to address systemic non-compliance of overtime provisions within the sector.

As I mentioned in our earlier telephone conversation, my only suggestion was to provide annual cost-of-living increases between industry compensation studies (proposed every 3-4 years) versus a cost-of-living increase clause in perpetuity. This methodology would provide the same cost-of-living allowance assurances while maintaining the flexibility to address and respond to unique industry or financial circumstances as necessary.

Fuel Surcharge

As I have mentioned on several occasions, the port authority remains concerned with the existing fuel surcharge model within the local drayage sector for several reasons. Firstly, the existing fuel surcharge model has been functionally flawed since negotiated in 2014. For background purposes, the general trucking industry has maintained a diesel fuel surcharge ever since fuel prices increased above the base rate of $1.05 per litre. Prior to the introduction of fuel surcharges, industry competition often resulted in carriers discounting their rates to non-compensatory levels because of the unpredictable and often volatile diesel prices.

Today within the marketplace, there are several fuel surcharge rates published by specialist transportation associations, however, actual fuel surcharge rates between carriers and their customers are generally always market driven through competition and negotiation. Carriers do their best to explain and justify the percentage of their operating costs specific to the rising costs of diesel prices and the shipping community challenges such arguments to keep their carriers honest, so to speak. Generally, larger sophisticated shippers have become very knowledgeable and effective in managing fuel surcharges, often making the difference between loss and profitability where tight margins exist.

Unfortunately, since the drayage sector disruption in 2014, the fuel surcharge within this sector has become regulated, eliminating industry accountability, and the fuel surcharge equation with its existing multiplier is fundamentally skewed well beyond the actual increase in diesel prices. This results in a significant net revenue stream to Independent Operators and drayage carriers that employ company drivers. What's worse, is the regulated nature of the existing fuel surcharge model prevents the ability or incentive for self-correction through market driven factors which is in no one's best long-term interests. A real vulnerability exists within our supply chain if the fuel surcharge rate doesn't consider global or international competitive factors. This is especially acute for B.C.'s and Canada's export industries where their commodities are particularly price sensitive in the global marketplace.

On the other hand, and in the interests of ensuring industry stability, the drayage sector must maintain the ability to respond to volatile diesel pricing fluctuations. The future outlook is that the price of diesel fuel will continue to fluctuate and increase to new highs. While the port authority may have some suggestions, we don't want to suggest there is an easy solution to this challenge, but it's clear there will always exist an interdependency between driver compensation and fuel surcharge, and neither can be addressed independently. To overlook this interdependency risks being highly disruptive to industry stability.

In the summer of 2022, the fuel surcharge rose to a high of 56%, meaning an additional $56.00 per $100.00 in freight charges for Beneficial Cargo Owners (BCOs). Economic forecasts suggest the possibility of gas rising to $3.00 per litre this summer in the local market. If such a scenario was to occur, the price of diesel could result in a fuel surcharge of 75%-85%. In this event, it is clear that BCO's would be seriously impacted within an already competitive marketplace with many unintended consequences within the industry and economy.

Fuel Surcharge as a Disincentive

It is also important to understand the existing fuel surcharge model will continue to act as a significant disincentive for industry conversion to alternative fuel trucks, especially electric vehicle (EV) trucks. The initial capital cost of EV trucks remains significant, but these costs are expected to become more reasonable, with lower operating costs offsetting higher purchase prices. However, even if lower operating costs come close to leveling the total cost of ownership between diesel and EV trucks, carriers and independent operators will have little incentive to convert to lower-emission EV trucks and lose the significant revenue stream currently provided by the existing fuel surcharge model.

The drayage sector already, or shortly, will include a percentage of alternative fuel vehicles such as CNG, LNG, propane, hydrogen or EV trucks. It is conceivable the operators of these alternative fuel trucks continue to assess customers with the fuel surcharge. If such a practice currently exists it's likely the result of a lack of awareness. The Commissioner's office should begin to consider a plan or process to monitor and address such activities going forward.

In closing, I urge the Commissioner's office, when making a final decision regarding total driver compensation, to simultaneously consider and begin to thoughtfully address the impacts of the existing fuel surcharge model upon the competitiveness of the Vancouver supply chain, in conjunction with global market conditions faced by BCO's and, in particular, B.C.'s and Canada's export Industries.

Sincerely,

Greg Rogge
Director, Land Operations
Vancouver Fraser Port Authority

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