

## September 13 Industry Update

*I have not sent out my usual weekly industry update for the last couple of weeks because there really has not been that much new information in the industry. However, a few developments are highlighted below. As always, my comments are in **blue**.*

### **Diesel Rises 4.8¢ to \$3.868; Gasoline Gains 4.7¢ in Second Straight Increase**

*Transport Topics*

9/7/11

Diesel's national average price rose for a second week, up 4.8 cents to \$3.868 a gallon, while gasoline gained 4.7 cents to \$3.674, the Department of Energy said Tuesday.

Diesel's upturn over the last two weeks - it rose a penny past week - followed five consecutive declines.

The price two weeks ago was the lowest since the \$3.716 per-gallon price on Feb. 28. This week's increase was the highest since a 4.9-cent rise in mid-July.

Gasoline's increase, also the second straight, followed a 4.6-cent upturn, putting the two-week rise at 9.3 cents.

**Diesel is now 93.7 cents higher than the same week a year ago**, while gasoline is 99.2 cents higher, DOE said following its weekly survey of filling stations.

Diesel is 25.6 cents below the year's high of \$4.124 set May 2, which was the highest national average price since August 2008.

Gas is 29.1 cents below the price on May 9, which was also the highest since 2008.

Each week, DOE surveys about 350 diesel filling stations to compile a national snapshot average price. This week's prices were released Tuesday because of the Labor Day federal holiday on Monday.

*While we (Shippers and Carriers) have all been very happy to see diesel prices decline slightly over the past few weeks, it is important to keep in mind that diesel prices are still almost a dollar per gallon higher than the same time last year! As most carriers are focusing on replacing existing equipment that has aged during the recession, carriers have to factor the higher cost of fuel into their financials. It appears that diesel will not regress to pricing levels of previous years; therefore this projected ongoing higher fuel price will impact the number of replacement trucks purchased as well as any fleet growth that might have been contemplated. Some industry experts believe that sustained higher diesel prices will have a disproportionately negative effect on small carriers, independents, and owner operators that secure most of their freight from load boards with "all-in" rates - often with no fuel surcharge.*

### **DOE Boosts Diesel Price Forecast 2¢ to \$3.85**

*Transport Topics*

9/8/11

The Department of Energy boosted its 2011 diesel price forecast by 2 cents, to \$3.85 a gallon, and raised its gasoline price projection 3 cents, to \$3.56, but lowered its projections for 2012.

Trucking's main fuel will average \$3.87 at the pump next year, a drop of 9 cents from last month's forecast, DOE said in its monthly short-term energy outlook.

Gasoline will average \$3.54 in 2012, down a dime from last month's outlook, DOE said. Diesel averaged \$2.99 a gallon and gasoline averaged \$2.78 last year.

This year's higher fuel prices reflect not only the higher cost of crude oil but also higher U.S. refinery margins, or the difference between refinery wholesale prices and the average cost of crude oil.

Projected diesel refinery fuel margins rose from an average 38 cents per gallon last year to 65 cents this year, but are projected to fall to 58 cents next year.

Gasoline refinery margins were 34 cents per gallon in 2010, will be about 50 cents this year and will fall to 43 cents in 2012, DOE projected.

DOE's monthly outlook often lags its weekly price survey. Diesel and gasoline both rose close to a nickel in this week's pump-price survey, to \$3.868 and \$3.674 per gallon, respectively.

*Frankly, I find it more and more difficult to reconcile the correlation between the cost of crude oil and the pump price! Historically, pump price trends closely followed crude prices; however, it seems that speculation is the primary driver of pump prices these days. Nonetheless, as fuel prices continue to hover at very high levels, fuel surcharges will be a key decision criteria for financially well managed carriers. Although the focus has been taken off of fuel for the last few weeks, look for FSCs to become a bigger player in carrier capacity allocation decisions as it creeps back up in the winter months.*

## **Teamsters Sue to Block Mexican Cross-Border Trucking Plan Inspector General Report Calls for Several Changes to Program**

*Transport Topics*

9/6/11

The Teamsters union and Public Citizen have filed a lawsuit against the Department of Transportation seeking to block the government's plan to allow Mexican trucks back into the United States, the Wall Street Journal reported.

Meanwhile Tuesday, DOT's Inspector General released an audit concluding that the pilot program generally complies with an array of congressionally mandated program requirements, but said the Federal Motor Carrier Safety Administration must take several actions prior to initiation.

Those corrective actions range from issuing specific plans for checking drivers and trucks at the border to establishing an implementation plan for acquiring electronic monitoring devices for use in the pilot program, the audit said.

FMCSA said it will complete the recommended the IG's suggestions and issue a report to Congress on the agency's actions taken prior to the end of this month.

The Teamsters suit, filed Friday, challenges the U.S.-Mexico trucking deal signed in July by the two countries, in part to end Mexican tariffs on U.S. goods.

The suit was filed in the U.S. Court of Appeals for the Ninth Circuit in San Francisco by the Teamsters and Public Citizen against the U.S. Department of Transportation and FMCSA, which is part of DOT, the Journal reported.

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The complaint alleges that the pilot program sets standards that are not stringent enough for Mexican trucks and drivers, the paper said, citing a plaintiff lawyer who said the program waives a law requiring trucks to display proof of meeting federal safety standards.

*As one of the largest US flatbed carriers operating in and out of Mexico, Melton Truck Lines is closely watching developments in the Mexican Cross-Border Trucking Plan as promoted by the FMCSA. Who knows when the FMCSA cross-border initiatives will be fully implemented given all the lawsuits and political uncertainty of a new federal administration next year. One consideration that I have not seen contemplated in the news is the U.S. carriers' response to those MX carriers that do elect to operate cross border. Most of the MX carriers provide interline service to US carriers who in many cases control the Northbound and/or Southbound freight with the majority of shippers. If a MX carrier that provides interline services elects to also transport freight beyond the U.S. border, then that MX carrier becomes a direct competitor to the U.S carrier that is/was using the MX carrier in Mexico. Some, if not many, U.S. carriers will decide not to use these "new competitors" in Mexico; thereby significantly reducing the MX carrier revenues and access to shippers. Shippers contemplating using cross-border MX carriers should carefully weigh this factor in their decision analysis.*



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