

Statement of Federal Maritime Commissioner Rebecca Dye

Before the Surface Transportation Board

Oversight Hearing on Demurrage and Accessorial Charges

Docket No. EP 754

May 22, 2019

Good morning, Chairman Begeman, Vice Chairman Fuchs, and Member Oberman.

Thank you for the opportunity to appear before you today to discuss the recommendations of the Memphis Supply Chain Innovation Team.

The Federal Maritime Commission recently has employed a new approach, Innovation Teams, to develop commercial solutions to freight delivery system operational problems. In 2016-2017, our Innovation Teams focused on supply chain visibility. More recently, the team approach was adapted for use in the Commission's current investigation into ocean carrier and marine terminal demurrage and detention charges.

The Memphis Supply Chain Innovation Team also arose out of the Commission's demurrage and detention investigation. The Memphis Team's conclusions are relevant to our investigation because ocean carrier detention charges for use of containers may accrue when containers are detained at a rail ramp.

The members of the Memphis Team are an impressive group, with extensive experience in delivering international ocean freight. The Team includes shipper, international logistics, ocean carrier, motor carrier, and railroad representatives.

In our first meeting last May, the Team agreed that the most critical need for improvement in freight velocity and fluidity in and out of the rail ramps in Memphis is for a "single interoperable gray pool" of chassis.

As you know, chassis are the essential metal frame and wheels upon which a container is mounted for movement over the road. How chassis are made available is a pivotal element of American international supply chain productivity.

The Memphis Team concluded that the essential qualities of a high performing gray chassis pool are:

- (1) Adequate supply of interoperable chassis;
- (2) Safe and good quality chassis;
- (3) Reasonable access to chassis: “choice on merchant haulage;” and
- (4) Most critical, a pool manager, with authority and accountability for chassis supply.

I am pleased to say that there is wide support for a gray chassis pool in Memphis. There was strong support for this initiative in the Memphis Team meeting last December where 4 Class I railroads (BNSF, UP, CN, and CSX) shared supporting statements for a gray chassis pool in Memphis. OCEMA (Ocean Carrier Equipment Management Association) members and executive leadership were present at the meeting and also supported the gray chassis pool initiative. The two major chassis providers were also represented at the December meeting.

At that meeting, major U.S. importers and exporters shared their stories of millions of dollars in inventory held up in congestion in Memphis, resulting from a lack of chassis. American cotton and paper exporters shared the loss of export sales and millions of dollars of additional airfreight costs to prevent mills from shutting down overseas, because of chassis shortages in Memphis and the Mid-South. The impact of these service disruptions for the past two years has drastically affected U.S. cotton competitiveness and reputation in the global market. U.S. agricultural shippers believe that they cannot afford another season with current chassis issues.

The Memphis Team conveyed a sense of urgency that a gray chassis pool must be implemented before the beginning of 2019, in anticipation of growing challenges. Those challenges proved to be true, with surging rail volumes moving into Memphis throughout the month of January, resulting in “grounding” of containers for lack of chassis.

In summary, the Memphis Team concluded that current chassis provisioning models are not keeping up with growing intermodal container demand and that change is necessary. The Memphis Team developed the essential qualities of a gray chassis pool, including chassis supply and quality, in response to current chassis provisioning shortcomings. Most important for the performance of the American freight delivery system is the need for a pool manager, accountable for having quality chassis in the right place at the right time.

In the first FMC Supply Chain Innovation Teams project in 2016 and 2017, we observed that where there are direct customer relationships in our international freight delivery system, there are ways to resolve problems, resulting in better operational results. But when no customer relationship exists between a provider of equipment or service and the user of the equipment or service, operational problems are magnified.

In our inland rail locations where most containers are mounted on chassis, there is no customer relationship between truckers and chassis providers or involvement in chassis provisioning decisions made by others. Moreover, since over 50% of the freight movement in the mid-south is merchant haulage, meaning that the shipper or designated trucker bears responsibility for the freight delivery, this lack of ability to resolve problems is systemic. For this reason, I support greater chassis “choice” for motor carriers and shippers on merchant haulage moves.

From the beginning of containerization in the late 1950s through the recession of 2007-2008, the model for chassis provision in the United States was unique. Ocean carriers owned the chassis, stored them on marine terminals and provided them to their shipper customers.

In the rest of the world, truckers, forwarders or shippers owned the chassis, and equipment availability was connected with drayage service not ocean carrier services.

In the US, starting in 2009, ocean carriers began withdrawing from the chassis business. Most transferred their equipment to a few major intermodal equipment providers (IEPs) that now own, maintain and provide chassis in a variety of ways in what has been called “a convoluted patchwork of arrangements.”

For example, although carriers have transferred ownership of chassis to IEPs, they still exert significant control over chassis provision – and thus availability -- through their contracts with IEPs. That control not only applies to *carrier haulage* moves, but also can limit provider choice under *merchant haulage* – even though shippers are billed for chassis use.

Today, shipping lines, cargo owners or trucking companies rent the equipment – often obtaining it through *chassis pools* of various types – including, for example, “interoperable” or *gray* pools that offer chassis from multiple providers.

The Memphis Team has prepared a white paper on their efforts to improve supply chain velocity and fluidity at the rail ramps in Memphis and the Mid-South. They believe that the gray chassis pool initiative would alleviate much of the underlying problem of congestion and grounding of international shipments there. I ask that the white paper be included in your hearing record.

Thank you again. I look forward to greater collaboration with you in the future on our common concerns.