



Owner-Operator's Business
Association of Canada
Association professionnelle des
routiers autonomes du Canada

...from the
director's chair

Will owner-operators survive the \$200,000 truck?

I'm not the first to ponder the fate of the owner-operator and I won't be the last. Every time there's a significant shift in trucking's modis operandi, the pundits start ringing the death knell for the small operator – owner-operators and smaller fleets, too.

We are at an interesting juncture today; spot market freight rates are as high as they have ever been and capacity is as tight as a drum, yet there are rumblings of a looming recession brought on by an ever-more-likely trade war between the U.S. and its "allies." The fate of Canada's trucking industry is inextricably tied to a healthy trading relationship with our American neighbors and other global trading partners. If those partnerships unravel, so too will a good chunk of our trucking industry.

But enough of the immediate doom and gloom; there are other dark clouds on a more distant horizon that concern me: GHG Phase 2, scheduled to take effect in 2021, just two-and-a-half years from now.

Phase 2 of the GHG emissions and fuel efficiency standards for medium and heavy vehicles is a set of requirements adopted jointly by the U.S. EPA and the U.S. National Highway Traffic Safety Administration to reduce greenhouse gas emissions and improve fuel efficiency. Canada's environmental defender, Environment and Climate Change Canada, adopted the standards essentially unchanged from the American version, but with some concessions to our heavier and more productive trucks.

In a number of steps between 2021 and 2027, these new truck manufacturing requirements will improve fuel efficiency and reduce carbon dioxide emissions by up to 25% for highway tractors compared to GHG Phase 1.

While it's hard to argue with those goals from an environmental perspective, I'm apprehensive about the cost and technical complexity of the trucks that will emerge as a result of the demands for greater fuel efficiency.

I often hear from our members proudly announcing the purchase of a new truck, and based on our conversations, the average price seems to be around \$185,000. For those spec'ing heavier or more specialized vehicles, the price can be significantly higher. At \$185,000 before GHG Phase 2 and the new steel and aluminum tariffs, I can just imagine what that figure will be a year from now, or in 2020 when the first of the 2021 model year trucks start hitting dealer lots. It's not much of a stretch to believe the price of an average highway tractor will be north of \$200,000.

There's a risk that folks feeling flush will be buying new iron at higher prices than a recessionary economy can sustain. In other words, you buy at \$185,000-plus today, but have to continue paying for another year or two down the road when times are a little leaner.

Fast forward to 2021 and beyond, and we'll see further price increases for trucks, as fuel-saving technologies hit the market. Nobody is sounding any alarm bells just yet, and in fact, most believe the price increases will be offset by the improved fuel economy. That really depends on the price of fuel and how much of a contribution the advanced technologies make to your bottom line.

The larger problem, as I see it, is financing these truck purchases. Financing such a truck over five years will result in a payment of at least \$4,000 a month. Over seven years, you're looking at \$3,000 or more, but after that time, the



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truck will be worth little on trade-in. For owner-operators, that compromises the traditional business model for financing new truck purchases. In addition to being way upside down on the residual value of the truck, seven-year-old technology will be a) very obsolete, and b) worn out to the point where reliability has to be questioned. So, what will that truck really be worth after 84 months?

Truck owners who don't upgrade to some of this fuel-saving technology also stand to get pinched as fleets with the latest, most fuel-efficient vehicles set fuel economy baselines in their bidding processes that are much higher than some of the older trucks can manage, say 8-9 mpg for newer trucks versus 6-7 mpg for older ones.

I think it's fair to say that most owner-operators working with bigger carriers or on their own are doing okay these days, but I worry about the ones working in certain sectors for sub-standard rates with ancient trucks. These people are hard-pressed even today to keep up with advancing technology, and I somehow doubt they'll survive. Regardless, it's going to be tough for anyone to dodge the consequences of a sizable shift in the economy resulting from a trade impasse. Be careful out there.

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