

**TESTIMONY OF CHRIS O'BRIEN
CHIEF COMMERCIAL OFFICER
C. H. ROBINSON**

**BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON OVERSIGHT, INVESTIGATIONS, AND REGULATIONS**

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GLOBAL SUPPLY CHAINS AND SMALL BUSINESS TRADE CHALLENGES



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Chairman Phillips, Ranking Member Van Duyne, and members of the Small Business Committee, thank you for the invitation and the opportunity to testify at today's hearing. As one of the nation's largest third-party logistics providers, C. H. Robinson has a unique view of how goods and commerce flow from manufacturer to consumer. I will provide you an overview of our role in the marketplace, the current state of the freight markets, and our insights into the root causes of the current global supply chain congestion.

Introduction of Chris O'Brien

My name is Chris O'Brien and I am the Chief Commercial Officer for C. H. Robinson. I joined C.H. Robinson 29 years ago and have been the CCO since 2015. I am responsible for overseeing our customer strategy, and I lead our marketing and external communications functions which include our popular Market Insights and Trade and Tariff updates.

Introduction of C.H. Robinson

C.H. Robinson was founded in 1905 and has grown to over 15,000 employees globally. We are Minnesota's 8th largest publicly held company and are headquartered in Eden Prairie, Minnesota. While we provide freight services to many Fortune 500 and other large customers, small business services are a core focus of ours as well. We provide critical freight transportation services to over 60,000 small businesses and assign their freight to a network of carriers that includes over 50,000 active small business trucking companies. In total, we manage nearly \$850 million worth of small business freight spend, including nearly 200,000 truck load shipments and over 600,000 LTL shipments annually. We provide a full array of small business services through our Freight Quote by C.H. Robinson team, headquartered in Kansas City. This includes a digital self-service tool that was built

by listening to the challenges of small businesses. Together we created a technology service that makes it quicker, easier and more cost effective for infrequent shippers to book shipments and secure market competitive rates just like larger shippers.

We do not own any commercial trucks or container ships ourselves, but rather build technology platforms and logistics services that allow us to streamline complex transportation management on behalf of our customers.

In the global trade area we operate similarly. We help simplify a complex international trade landscape for our customers by connecting them to the world's ocean and air freight capacity. We are also trusted advisors to small businesses for their customs and global trade regulation and compliance needs. We provide our customers a global network of experts and technology, facilitated by our multi-modal Navisphere IT platform. Our small business customers find this especially beneficial since for many of them, it is impractical or overly expensive to invest in their own global trade experts and technology.

Current State of Freight Markets

The struggles and congestion in the supply chain have been well documented by pictures of ships at anchor off the coast of California and by consumers own experience with out-of-stock items at stores and online.

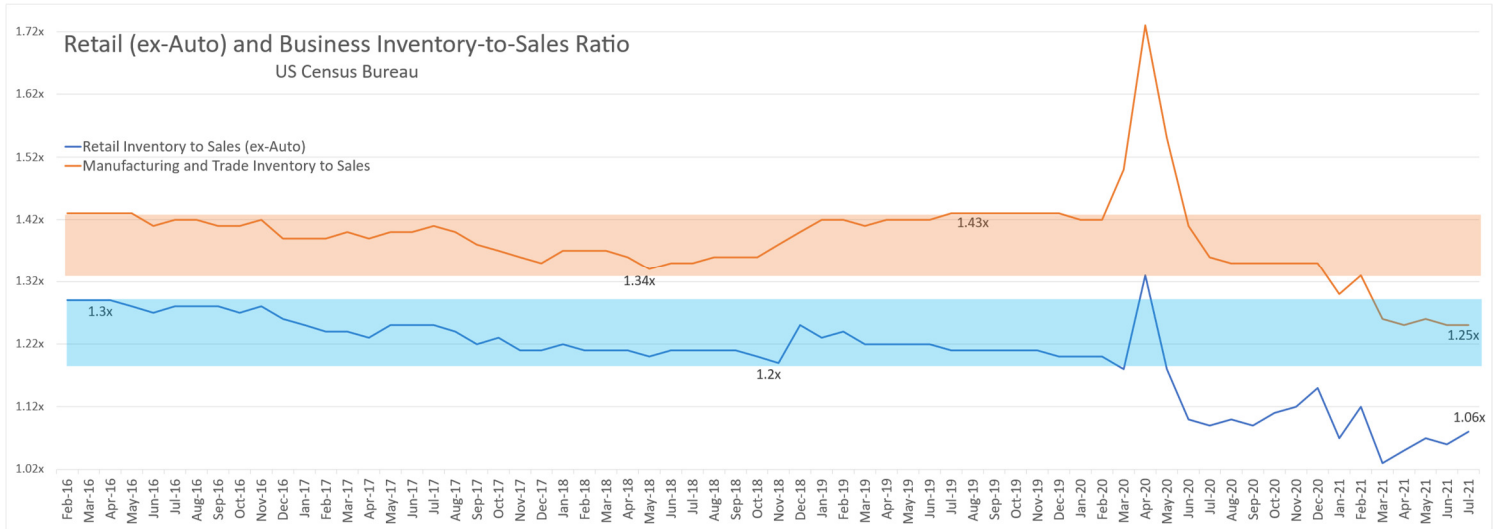
I want to describe the factors that influence these outcomes. Over the course of my 29 year career in freight transportation the fundamentals have not changed. Supply of capacity and demand for goods ebb and flow to create conditions either favorable to the flow of goods and lower freight costs or conditions that challenge the flow of goods and

increase freight costs. Economic growth, weather, labor availability, regulation, infrastructure and other factors push and pull on the demands of our available capacity. Capacity in the form of trucks, drivers, ships, and ports adjust over time to these market signals. For example, in the current environment we are seeing a surge in the formation of new small trucking companies, as market rates in trucking are favorable and drivers leave other fields or start their own trucking companies instead of driving for larger truckers.



What makes 2021 unique are the orders of magnitude and speed with which the system has gone from one extreme to another. Many parts of the supply chain were literally shutdown (some still are) and not producing any freight. The world's supply chains and transportation structure has never seen, and wasn't built to handle the near shut down of the early months of covid, followed by the very rapid restart as many industries came back online. The U.S. just recorded the second largest month on record for imports by value in July. Robust consumer demand persists today and we are seeing record volumes of freight in the system overall. There is some resiliency in global supply chains, but this was a very

unnatural series of events that the industry simply has not caught up from. The below chart shows the swift changes in inventory to sales ratios over the last few years.



Impact of current market on small business

The current supply chain congestion is creating challenges for our large customers, but the impacts cause magnified personal stress for small business owners. For example, what used to take 21-22 days from a Chinese port to a warehouse in Los Angeles now routinely takes 33-35 days. Many of our small business customers have experienced:

- Significant and rapid freight cost increases across all modes of transit
- Shipment delays resulting in increased wait times for raw materials and missed deliveries to their customers
- Port detention charges
- Difficulty accessing available capacity

- Tariff increases due to expiring Section 301 exclusions
- Increasing administrative complexity in the customs clearance process

Supply chain challenges have forced all business to make painful choices regarding passing on increased costs to their customers. In addition, many small businesses are trying to decide when the right time will be to explore new sourcing relationships in other countries, including outside China. This process can be very costly because identifying and working with new suppliers in countries they may not have done business in previously is costly and complex.

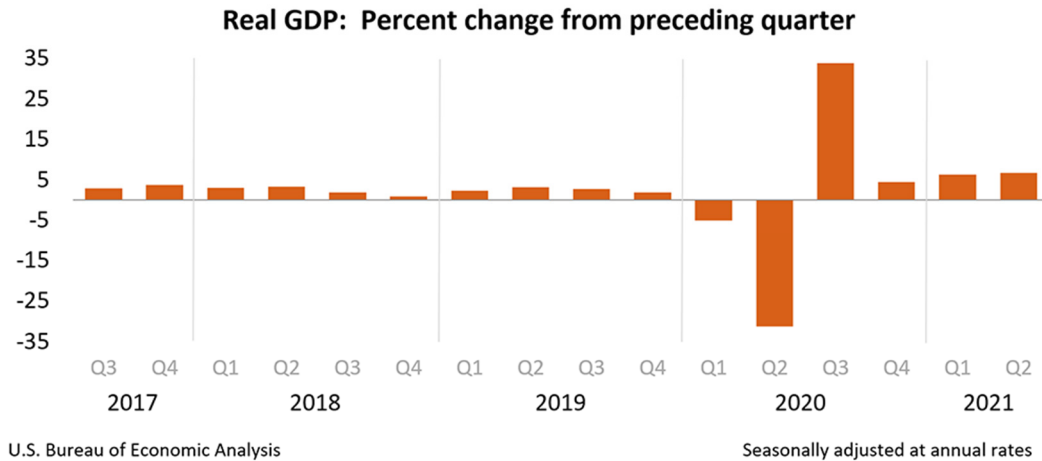
Root Causes

As many have said, the current supply chain challenges are complex with few easy fixes. We would encourage the committee to focus on four primary areas we feel are at the root of the current situation:

Stimulative Economic Policy and Covid Reopening Driven Demand

Stimulative economic policy and covid reopening has driven surging demand across the economy. U.S. GDP growth has exceeded 6% for two quarters in a row. Freight congestion and cost increases have naturally followed. U.S. trucking capacity and ocean container ships have been trying to meet the demands of current high growth. We feel that if economic growth continues at higher than historic levels, trucking, ocean, air, warehousing and port capacity will be challenged to keep up.

C.H. Robinson will always be in favor of a strong, robust economy anchored by a healthy manufacturing base, but policymakers should understand that higher than historic economic growth for long periods of time may stress supply chains by nature.



Truck Driver Shortage

We are seeing labor shortages across the transportation landscape including warehouses, crossdocks, rail ramps, ports and air port cargo facilities. Policymakers can help the truck driver shortage by focusing on driver quality of life investments like truck parking and driver recruitment and training support. Many new truck drivers and warehouse workers are recent immigrants and there are opportunities to increase participation within that workforce. Even if truck manufacturers can meet the physical demand for trucks, seating them is an increasingly difficult task. This shortage is not new and has stressed our economy in many periods of high demand.

Two provisions in the Senate infrastructure bill that will help long term driver recruitment are the DRIVE SAFE Act to create apprenticeship programs for younger drivers

and the Promoting Women in Trucking Workforce Act which would establish a committee to promote more women in trucking. We are supportive of both these bipartisan efforts.

Recent trends toward truck parking bans in cities also have a negative impact on driver recruitment. By banning truck parking, cities are unknowingly creating challenges for urban residents to become truck drivers if they have to travel long distances to get to their truck and begin their workday.

This committee should also consider ways to support driver training, including tuition assistance and truck driver specific education grants as well as targeted small business loan support for those wanting to start new trucking companies.

In our view, we need an “all of the above” approach to help get new drivers into the industry and keep existing drivers supported and on the road. Of the many choke points at today’s ports, the shortage of truck drivers may be the biggest impact that would extend current congestion.

China Trade Policy Uncertainty

The China trade war has increased costs in the form of tariffs and higher priced inputs for many small businesses. Uncertainty in trade policy is creating difficult sourcing decisions for small businesses. Small businesses are asking themselves tough questions. Are tariffs likely to continue or expire? Will administrative requirements like the forced labor documentation from Western China increase or change? Will the customs process continue to be more difficult for infrequent and first-time importers when compared to large and frequent importers?

Congress and the administration could provide more concrete signals to small businesses regarding the direction of the trade war so they can make long term decisions.

Our small business exporters also need help establishing and growing foreign markets. The more success our exporters have, the more balanced our ocean freight volumes will be. We would certainly support increased export trade assistance for small business exporters. During Covid, it has been especially hard to form new trading relationships overseas.

Another area of immediate trade relief for small businesses was included in the bipartisan Senate passed US Innovation and Competition Act (USICA). The re-instatement of expired Section 301 exclusions (commonly referred to as the Crapo-Wyden amendment or the Trade Act of 2021), would also be retroactive to December 2020 and could mean refunds of tens of thousands of dollars in duties for some small businesses. This may be the most immediate supply chain relief this committee could provide small businesses in our opinion.

Foreign factory and freight shutdowns

Covid related shutdowns at facilities here, and especially abroad, continue to adversely impact supply chains. We need to keep employees healthy and consistently in the workforce. Domestically, manufacturing and freight transportation workers were classified as essential and prioritized for vaccine access. However, foreign workers in the same category who supply US markets have not been classified similarly and have lagged in access to vaccines and in many cases PPE. Many of our small business customers have

experienced lengthy supplier shutdowns from covid related lockdowns or quarantines. Recently this has affected Vietnam and Malaysia, for example.

Truck parts sourced from overseas have also seen shortages from foreign factory shutdowns. As a result, we are increasingly hearing from small business truckers that vehicle maintenance is taking much longer than it previously did. This increased downtime essentially reduces the available fleet to move freight overall.

Motor Carrier Selection Standard (HR 3042)

Finally, many small businesses who hire motor carriers are unaware of the risks they take when selecting motor carriers. Increasingly, when trucking accidents occur, shipper's decisions in selecting the motor carrier are challenged, even if that motor carrier has been fully authorized by the Federal Motor Carrier Safety Administration. One result of this trend has been for some shippers to exclude small trucking companies from business opportunities. We would encourage members of this committee to support HR 3042 to establish a motor carrier selection standard to increase safety and protect small business shippers and small business truckers.

Conclusion

The whole team here at C.H. Robinson is working hard to support our small and medium customers in what has been one of the most challenging supply chain environments any of us have seen.

Thank you for the opportunity to share our views on the roots of the current supply chain challenges. We look forward to the discussion and questions.