

US truck drivers squeezed by soaring diesel prices

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The cost of diesel gasoline in the US soared to historic highs over the past several weeks, threatening independent truck drivers with financial ruin and forcing a sharp hike in transportation costs, which reverberates throughout the economy.

According to the most recent reports, the national average cost of diesel—used mainly in trucks, farm equipment, and other machinery—is now a record \$4 a gallon. Last year, the average price was only \$2.75 a gallon.

The cost of gasoline, used in most automobiles in the US, has also risen substantially and now averages \$3.28 a gallon. With the spring and summer seasons coming, a period when fuel prices generally rise, some analysts predict that gasoline prices will go up to \$3.50 or \$4 a gallon by the July 4 holiday period.

The entire transportation industry relies on diesel fuel, including trains and cargo ships, but the impact on trucking is particularly severe. The economic slowdown has already led to a decline in freight shipments and a glut of available trucks, which has driven rates paid to independent drivers below the cutthroat levels of 2002. At the same time, the ripple effect of high fuel prices on manufacturing, production, and consumption is booting inflationary pressures everywhere.

Diesel fuel currently accounts for nearly 28 percent of the total fuel used in the US and nearly 63 percent of fuel used in Europe. As oil companies closed refineries to boost profits in the past period, reduced refinery capacity has been unable to keep up with demand. In the short term, diesel prices have risen with the rise in the price of oil, driven in large part by a flood of investors into the commodity markets.

The dramatic diesel price increases threaten to ruin many independent truck drivers, including the author of this article, who is also an independent owner/operator. During the past six years, I have seen my monthly fuel

price average jump from a base of \$1.37 a gallon in 2002 to the present \$4 a gallon—that is, nearly 300 percent.

The rapid rise in fuel prices means that independent truck owner-operators, or those who run a small fleet of trucks, are being driven to bankruptcy. Fuel surcharges, which are added on to freight rates, are not always guaranteed and never keep up with these rapidly rising costs. The only recourse for many is to shut down their trucks or fall further behind their other fixed costs.

A flat tire in the course of one week can mean the difference between a profit and a loss.

In real terms, at least 50 percent of truck-generated income is going right back into the fuel tanks. Factor in maintenance, and that bill can approach 75 percent. Thousands of operators have been forced to look for shortcuts, put off critical maintenance procedures, or park their rigs altogether because they cannot earn a living.

There has been a sharp increase in truck repossession as well. Repossessor Nassau Management reported a 110 percent increase in 2007 over 2006. In an indication that truckers are parking their rigs rather than being on the road and out of reach, repossession companies are finding it easier to repossess driver's trucks. "It used to take weeks, now it takes days or hours," stated Edward Castagna, president of Nassau Management.

Rumors are already spreading of a nationwide truck strike, as thousands of drivers have been forced into bankruptcy or had their trucks repossessed.

Between 1974 and 1983, when oil prices quadrupled during the oil embargo, there were at least three major national trucking strikes in the US. The largest and most violent was in 1979, lasting for over two weeks. The Carter administration responded to the oil crisis by deregulating the oil industry. Carter also pushed for the mandatory fuel surcharge legislation that exists to this day.

At that time, it was estimated that 20 percent of the

nation's 500,000 truckers were independents. Today, approximately 9 percent of 3.4 million truckers are independents according to the US Labor Department. Deregulation has resulted in depressed freight rates and a bonanza for large trucking companies that now dominate the industry. The largest companies pay for fuel in bulk, and purchase thousands of tractors at a time. They can weather a fuel crisis by raising transportation rates when forced to.

In contrast, many independents drivers are dependent on freight brokers. These are middlemen who match a driver with a shipper one load at a time, and take a sizeable cut for themselves. Landstar System, one of the largest freight brokers in the country, brokered loads totaling \$881.57 million in 2007, more than double the revenue four years earlier.

A recent article in the Associated Press noted, "Truckers complain that the brokerage system is unregulated and lacks transparency: They know what they're getting paid, but they don't know what the shippers are paying the brokers." For example, the AP wrote, "A load traveling 800 miles that cost a shipper nearly \$3,000 to send may pay the trucker \$1,000, out of which the trucker would pay all expenses including fuel and insurance."

In the same article, a driver was reported to have seen his take home pay drop from \$50,000 a year to \$11,000 in 2007. The reason: his fuel costs skyrocketed. During the previous eight months he spent \$64,000 on fuel.

Recent oil and gas price increases have been driven primarily by speculation and the fall of the US dollar. Crude oil futures are now well above \$100 a barrel, once considered an extremely unlikely circumstance.

Many analysts have attributed the rising oil prices to the weakness of the dollar, as international investors are buying oil shares to hedge against dollar depreciation. Interest rate cuts by the Federal Reserve have further weakened the dollar and helped fuel the rise in the cost of oil.



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