

Clean Air Program Revs Up Truck Sales

By FRANCISCO VARA-ORTA - 5/25/2009

Think auto sales are tough? Try selling a \$100,000 new big rig in this economy.

Yet if you ask Tracey Craik how business is at TEC of California Inc., a La Mirada truck dealership, she'll give you a surprising answer.

"We're doing much better than last year," said Craik, fleet sales manager of the dealership, owned by a Portland, Ore., company. "The hottest market in all of North America is here near the ports." In fact, with business up by one-third versus last year, the lot has 200 brand-new diesel trucks on site ready to roll, four times the normal inventory.

The ports' Clean Truck Program, which seeks to sharply reduce diesel pollution by junking thousands of old rigs, has generated all sorts of controversy. But there's one place where it's considered an unmitigated godsend: local commercial truck dealers.

Truck sales are down as much as 60 percent nationwide – even worse than the dramatic falloff in car sales that bankrupted Chrysler and is closing thousands of auto dealers.

Yet since October, when the ports of Los Angeles and Long Beach began phasing in the pollution program, Craik said that her dealership has sold 700 new rigs to local trucking firms and independent owner-operators that move cargo short distances in and out of the port -- more than making up for a shortage of sales to buyers such as interstate truckers.

"The ports were a place where trucks were pushed to the limit because they were short haul only. And companies held on to them because many of the truck owners couldn't see spending the money for a new one as opposed to fixing an old one when it broke down," she said. "But now, within just the last year, 75 percent of our business has become port drayage companies." Although commercial truck sales are a far smaller market than the region's huge auto market, there are nearly a dozen dealerships in and around Los Angeles. Five of them, including TEC, account for the vast majority of sales, but the market is getting smaller, making the port-related business so important.

Commercial truck sales peaked nationwide in 2006, when dealers sold 284,008 trucks, known in industry lingo as Class 8 vehicles. Last year, that number shrank to 133,473, and projections are that only 87,600 will be sold this year, according to FTR Associates, a Nashville, Ind. freight transportation research firm.

By and large, the commercial truck industry is doing very, very badly, said Eric Starks, president of FTR. "But if there is one place where trucks are selling well, it's in places like California and the ports specifically because of environmental mandates that have a lot of support. Businesses either have to buy them or be forced out."

Accepting change

And the dealer business is only expected to get better.

The ports of Los Angeles and Long Beach report that only about one-quarter to one-third of the roughly 12,000 to 15,000 trucks at the harbor have been replaced, implying that potentially an additional 10,000 trucks could be sold.

The truck replacement program started Oct. 1 and banned all trucks manufactured before 1989 from servicing the ports. An estimated 2,000 rigs were affected by the ban, but it gets progressively tougher. Ultimately, in 2012, the ban will expand to all trucks manufactured prior to 2007. Alternatively, truckers can buy rigs powered by natural gas.

Meanwhile, truck sales managers like Craik are preparing for the next phase of the ban, which kicks in Jan. 1 and will phase out all trucks made before 1993 or are equipped with engines manufactured before 2004.

Mike Fox, owner of Fox Transportation, a Rancho Cucamonga trucking firm, is among the businesses that have purchased new rigs recently. He recently bought 70 trucks from Craik's dealership and plans to buy an additional 30 over the next few months.

"I think commercial truck dealers that sell these trucks will have plenty of business in the next few years from the port drayage community," Fox said.

Indeed, commercial truck dealers are targeting the market, setting up sales offices at or near the ports, signing up for booths at trucking trade events, and working directly with the ports on deals with trucking companies that employ drivers and independent drivers who have their own rigs.

"We are seeing about half of the clients being trucking firms and the other half independent owner-operators," said Brad Fauvre, president of Whittier-based Velocity Vehicle Group, which owns 12 dealerships along the West Coast including four locations in Los Angeles.

Fauvre's company is a leading dealer of liquefied natural gas (LNG) trucks with sales of 250 since last summer. The trucks are expensive – about \$160,000 after fees and taxes – but they have become hot sellers since the ports exempt cargo carried by the trucks from a \$35 fee. The fee is assessed for every 20-foot container.

Sales up and down

While Fauvre said that the port business has jumped and he's sold almost 1,000 trucks within the last 12 months, his total sales are still down about 30 percent from the previous year.

A big problem, as in the housing and automobile industries, is that tightened credit standards have made financing trucks difficult, especially for small trucking firms with limited financial resources and owner-operators, many of whom are immigrants who don't have much money or credit.

"The (port) truck market is a segment that is growing and brings some optimism at a dark time," said Fauvre, who estimated only 15 percent of his sales go to port drayage companies. But for most dealers right now, it's not enough to offset losing the business in other sectors of the market. Down the road, though, some additional help may be on the way from the California Air Resources Board. The agency will require all trucks statewide to meet 2007 emission standards by 2014, a regulation considered the strictest in the United States aside from the ports' program.

In the meantime, however, pressure to stay in business has forced the hands of many truckers, such as independent operator Luis Cervantes, to buy new rigs. Cervantes works seven days a week and up to 14 hours a day hauling containers to and from the port in a 1995 truck, something he's done for the last five years.

"I didn't want to leave the industry because it provides well for my family," said Cervantes, who spoke in Spanish, and has a wife and four kids. "But the company I contract with told me that if I wanted to stay on I had to buy a new truck fast." So, last week, Cervantes financed a 2010 Mack clean diesel truck from TEC at a total cost with insurance and warranty at \$160,000. He had to put \$11,000 down for the truck, something he's been saving frantically the last few months.

"I think I'm going to make the money back on it," said Cervantes. "I tell my friends here they better do it soon or they'll be out of work."