The Bottom Line

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DOUBLE BROKERING, BROKEN DOWN

Summary

Double Brokering is when a carrier accepts a load for a specific motor carrier number but runs the load under a different one instead. Or a double broker takes loads from a freight broker/3PL and resells them at a lower price on the market to a carrier, who will end up hauling the load. While this is a common practice in the transportation industry and can often be referred to as freight interlining or co-brokering, it carries risks for brokers and shippers.

Background

The Federal Motor Carrier Safety Administration (FMCSA) monitors and ensures compliance with motor carrier safety and commercial regulations. Companies may be subject to registration requirements for either safety or commercial regulations or both.

Commercial registration is also referred to as operating authority registration. The FMCSA registration process requires companies to define their type of business operation as a Motor Carrier, Broker, Cargo Tank Facility, Freight Forwarder, or Intermodal Equipment Provider (IEP). This determination is based on self-classification using criteria such as cargo, operation, and company type.

In general, companies that transport (or arrange transport) interstate passengers or federally regulated commodities owned by others must have an interstate Operating Authority in addition to a Department of Transportation (DOT) registration number. FMCSA operating authority is often identified as an "MC," "FF," or "MX" number, depending on the type of authority that is granted. Unlike the USDOT Number application process, a company may need to obtain multiple operating authorities to support its planned business operations. Operating Authority dictates the type of operation a company may run and the cargo it may carry.

When double brokering is done legally, it is called co-brokering. The most critical difference is that all parties know what is happening, and all legal matters are addressed. Problems can arise when a freight broker unknowingly gives a double broker a load. As a result, the consignment may not get covered, it may be consolidated with various other shipments, or the carrier's insurance fails to provide adequate coverage.

Current Status

Frustrated with brokers and carriers being cheated by a sophisticated network of load-board scammers posing as legitimate companies, Joe Howard created a spreadsheet to track suspect companies. Unfortunately, he found a network of companies working in concert to perpetrate widespread fraud.

Howard says this elaborate network has created hundreds of fake MC numbers, pretending to have trucks to get the loads from other brokers. Then, another entity involved in the alleged scheme re-brokers the freight to

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legitimate carriers that often have no idea the cargo has been illegally double-brokered. Once the legitimate carrier picks up the load, Howard said the scammers often seek payment from the first broker for the transportation services or request fuel advances before their unauthorized re-brokering scheme is discovered. Frequently, the legitimate trucking companies that transport the freight have no direct communication with the actual shippers and sometimes must fight to be paid.

Impact

Double freight brokering is an act where a carrier accepts a load for a higher rate and pays less, thus pocketing the difference or disappearing with the entire payment. Carrier411 CEO Darren Brewer told FreightWaves that he estimates double-brokering scams, including fraudulent fuel advances, cost the transportation industry more than $100 million annually.

When a motor carrier agrees to transport freight for a broker and then re-brokers it to another carrier, the cargo has now been double-brokered.

When that happens, the original broker is now in a compromising situation:

- It does not know who is handling the freight;
- It does not know whether the actual carrier has the required permits;
- It does now know id the carrier's insurance is adequate to protect the parties;
- It does not know what due diligence was performed to qualify the carrier; and
- Tracing the freight sometimes becomes difficult, leaving the original broker with incorrect information to transmit to its customer.

When carriers do not get authorization to sell a load to a secondary broker, it's illegal. Sometimes, the shipment delivers according to schedule, and the double brokering situation is never revealed. Unfortunately, it's more common for someone not to get paid, for a load to go missing or be damaged, or for a carrier or broker's reputation to suffer. Double-brokered loads can be hard to recognize; most come to light only when it is too late.

RESOURCES:

+ What is Double Brokering? (Chariot Logistics)
+ What is Operating Authority and Who Needs It? (DOT)
+ Freight Fraud: Burgeoning Double-Brokering Scheme Like 'Whack-a-Mole' (FreightWaves)
+ Former Employees Shed Light on Sophisticated Double-Brokering Network (FreightWaves)
+ What is Double Brokering, Who Are the Double Brokers? (Back the Truck Up)
+ Co-Brokering vs. Double Brokering (Carrier411)