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"News Flash"

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Critical Weeks Ahead as Potential Disruptions Could Impact U.S. Supply Chains

As we reported several days ago, unexpected disruptions took place at several U.S. West Coast ports last Friday and through the weekend, as contract negotiations hit a snag, raising concern as to the forward direction between the ILWU and PMA. It appears that labor actions continued at various ports terminals and gates this past week contributing to delays, but has been cited as returning to normal just yesterday. This included the major ports of Los Angeles, Long Beach, Oakland, Seattle, and Tacoma as both parties returned back to the negotiation table. There are ongoing efforts by many industry groups and associations, including the U.S. Chamber of Commerce, to write letters to the Biden Administration, urging their engagement and assistance to nominate a mediator and reach an agreement. It is also not out of question that job actions could continue and impact the flow of cargo across the ports as the negotiations continue to be prolonged, which has already been over a year.

Aside from ILWU labor actions, some of the port terminals and gates already have preplanned closures during different shifts, including some for this weekend as we investigated and reviewed some of the terminal websites. This has certainly added more concern and confusion, with many believing that these scheduled closures are part of the labor actions, but are actually part of the normal labor pool scheduling. The timing is unfortunate and between the two scenarios, is putting a strain on vessel unloading, reduced terminal activity, and as a domino effect, impacting the drayage carriers recovering containers, returning empties, delivering export containers, and overall causing delays in delivering inbound goods.

While traditionally, western Canadian ports such as Vancouver and Prince Rupert are also alternatives to U.S. West Coast ports, particularly for cargo routed to the U.S. interior such as the Midwest region, this week brought about new developments. The ILWU in Canada, is currently in a voting process for two days to determine whether they agree to formally strike in the near future. Today is the second day of that voting. This comes as the ILWU in Canada is also seeking significant wage increases, after their five-year contract expired back at the end of March and where they have had little progress in their negotiations with the British Columbia Maritime Employers Association. The timing certainly looks to many as a display of solidarity with the ILWU in the USA, also focusing on wage demands, however this is in fact a legitimate situation that has been ongoing for many weeks in Canada. The ILWU Canada and BCMEA negotiations have already involved the Canadian federal government, mediators, and cooling off periods. Unfortunately, that oversite expired the end of May and has now resulted in the potential strike action, causing the higher exposure to the industry and a raised concern. Based on their formal process, it has been cited that the earliest the ILWU Canada can take action to implement a lockout or strike is June 24th. It will be very problematic for the U.S. Supply Chain should either or both ILWU factions (USA and/or Canada) take aggressive actions in their unrelated negotiations and potentially shut down critical ports.

Shipper's concerns surrounding the noted labor negotiations and job actions are prompting many to trigger their contingency plans of utilizing the U.S. East and Gulf Coast ports as they attempted to slowly support the U.S. West Coast ports again. Some never changed or only moved a small percentage back. Such a transition away from the U.S. West Coast ports (and even West Canada ports based on their developments) will likely create a supply and demand scenario again on the East and Gulf coast routings. Fortunately, these port terminals are better prepared than the last couple of years and should be able to manage the flow very well, especially as overall volumes out of Asia remain lower and with no significant surges expected anytime soon.

Routings through the Panama Canal could potentially see a surcharge implemented by ocean carriers very soon after recent draught restrictions have impacted the locks. As some carriers have sent out advisories noting this potential surcharge, some postponing it for now, it is quite certain that at a minimum, ocean carriers will begin to reduce their load factors to lower the weight and may replace the larger vessels they normally operate on their strings via the Panama Canal with smaller vessel sizes to cope with this development. Other carriers are focusing on routings via the Suez Canal, which do come with a longer transit time to the U.S. East and Gulf Coasts out of Asia, but allow the carriers to use the larger vessels and maximize larger capacity. Should concerns and disruptions continue with regards to the West Coast ports, both the Panama Canal and Suez Canal routings will be heavily utilized.

We highly recommend that you review your supply chain and make any adjustments needed to ensure timely management and delivery of your cargo. We highly recommend booking in advance and mitigating any unforeseen delays that could take place in the coming weeks and months ahead.

Please do not hesitate reaching out to your account representative or local handling office should you have any questions or need further guidance.

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