

**July 18, 2022****Labor Negotiations and California Law AB5 Highlight Potential Disruptions for U.S. Supply Chain**

The International Longshore & Warehouse Union (ILWU) and the Pacific Maritime Association (PMA), continue their labor negotiations. With the last contract having expired on July 1, 2022, both sides have advised that they plan to maintain their discussions until an agreement is settled and ratified. We emphasize that this is still a negotiation process and should be monitored closely.

Over 115, 000 railroad workers, represented by 12 unions, had planned to strike today (July 18th), in effort to secure higher wages. This came as a result of significant employee eliminations over a six-year period, which has now caused a nationwide worker shortage in the railroad industry, all while the major railroads (Union Pacific, BNSF, CSX, Norfolk Southern and others) are posting record earnings. President Joe Biden blocked this potential railroad strike on July 15th, that would have compounded the current supply chain struggles. A board of arbitrators has been created to have hearings, and find common ground between the unions and railroads to further assist in moving the negotiations forward. It is hopeful that a new agreement can be worked out and implemented in the next 60 day, which serves as a timeline that should there continue to be major differences and no compromise, would give the railroad workers another opportunity to formally strike.

A California law, imposed January 1, 2020, named AB5, has taken center stage in the California trucking industry after the U.S. Supreme Court rejected to review a lawsuit from the California Trucking Association, challenging its impact on the trucking sector and classification of an independent contractor. While the lawsuit was waiting to be heard, independent truck contractors (owner-operators) and the motor carriers that utilized their services, continued to work under an injunction from a lower court. Last Wednesday, the injunction was overturned 2-1 by the U.S. Court of Appeals for the 9th Circuit. In protest, independent truckers immediately organized disruptions at the ports of Los Angeles and Long Beach terminals late last week, with plans to do the same today at the Port of Oakland. The situation is causing a scramble between motor carriers and independent truckers that are now faced with difficult decisions, relative costs, and timing to comply with the law. With over 70,000 independent truckers in California, the new law will challenge motor carriers to sign independent drivers as employees to maintain their services, while independent truckers will need to decide between becoming an employee of a motor carrier or registering as independent business and limiting their role to handling loads from truck brokers only. This could come at a worse time while driver shortages already exist and California is home to three large gateway ports critical to the nation's supply chain, including the Port of Los Angeles, the Port of Long Beach and the Port of Oakland. Motor carriers, unions, and independent truck contractors will all participate in this challenge against the AB5 law and could end up contributing to and enhancing supply chain disruptions.

The ports of Los Angeles and Long Beach have both confirmed that June continued their individual string of strong or record-breaking monthly volumes in 2022. Both ports recorded their highest throughput ever for the month of June. While the surge in vessels has dropped significantly since Q4 of 2021, and the port operations have been more seamless in recent months, there are patterns forming that could see delays again as activity increases. As Shanghai and other outlying cities within China had been slow to rebound from COVID lockdowns, volumes are building back up to a full freight recovery and should contribute to volumes in the months ahead. Furthermore, there is concern about the increased volumes that have already arrived and are waiting to be loaded on the rail for inland destinations. The dwell times for those containers are peaking again and sources note that the older containers are once again, sitting for 9 days or longer, prompting immediate action to avoid a bigger impact to the overall congestion and space at various terminals. It has been suggested that the continued driver and chassis shortages at inland rail ramps is contributing to significant congestion levels at the discharge ports and therefore forcing railroad carriers to delay transits and avoid further backups on the rail. Rail Car shortages are also being cited as part of the cause.

It is accurate that the inland US rail ramps continue to experience ongoing challenges that have not improved since the 2021 surges in volumes. Understaffed railroads and major chassis shortages driven by full containers still sitting at distribution centers waiting to be offloaded, are leaving rail ramps at critical congestion levels and obstacles for the larger markets to maintain a seamless flow. Wait times to pick up or return containers are growing as a result and there are simply less turns being made in a day for drayage companies to efficiently operate and keep up with the demand. Recognizing that full containers are again mounting at US and Canadian ports destined for the U.S. inland market, there is little belief that there will be any significant improvement for the balance of this year and an expectation that importers will continue to be left paying detention charges and extra chassis fees.

US East Coast ports remain highly congested as waves of vessels continue to arrive at key ports such as New York - New Jersey, Charleston, and Savannah. Vessels at anchor remain at higher-than-normal up to record levels. Combined with chassis and driver shortages, conditions will remain problematic for timely delivery of containers. Contributing to the situation is the inability for drayage providers to return empty containers back to the port terminals due to a lack of space at the terminals or empty container yards to handle overflow. This is the same situation that has been an ongoing hinderance at West Coast ports like Los Angeles and Long Beach. The impact is creating congestion and significant costs for importers left paying detention charges and extra chassis fees as a result. Asia to US East Coast ports remain in demand as shippers continue to avoid the U.S. West Coast ports while the ILWU labor negotiations remain ongoing and with little feedback as to the progress of any agreement.

Ocean carriers are starting to schedule void sailings and increase port omissions as they look to manage their capacity, maintain reliable transit times (by avoiding long anchorage and berthing scenarios), and maintain their profitability. The India Subcontinent region, in particular the West India ports have already started to endure space issues as carriers omit key India ports to the USA as volumes remain steady. Ocean carriers are now working on plans that impact Asia to USA strings as well.

As usual, we must continue to advise that there is still a great deal of uncertainty ahead and major challenges to endure, some that are unforeseen at this time and which has been proven between each of our News Flashes and guidance to our clients. We do highly recommend that you continuously review your supply chain and keep preparing for continued disruptions, volatility in costs, increased congestion, and long delays. Please continue to book your shipments weeks in advance as we have guided. Providing forecasts of your shipments is ideal. Due to volatility around the globe, this advice can be applied to all modes at this time. Please do your best to plan well in advance and communicate with all parties involved in your transactions. Do not hesitate to contact us should you have questions or need further guidance.

OFFICE LOCATIONS

**Moonachie, NJ (201-478-4600) * Long Beach, CA (562-435-2327) * Schaumburg, IL (630-860-0782)
Hong Kong • Shenzhen • Guangzhou • Shanghai • Ningbo • Nanjing • Dalian • Tianjin • Qingdao • Xiamen • Taiwan • Vietnam,
Cambodia, Indonesia, India**

www.shipamerican.com