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"News Flash"

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Disruptions Remain for U.S. Supply Chain as Holiday Goods Arrive

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. Many sources believe a deal will be reached within weeks and very likely within the month of September. We emphasize that this is still a negotiation process and should be monitored closely.

The Presidential Emergency Board (PEB) that was implemented July 18th to commence mediation and outlaw a strike by over 115, 000 railroad workers and force a 30-day cooling off period, is due to make a ruling this week. After the National Mediation Board was unsuccessful in helping to establish a new agreement between the railroad workers and several railroads such as Union Pacific, BNSF, CSX, Norfolk Southern, to name a few, President Biden signed an executive order and appointed the PEB which then prohibited any legal strike under the terms of the Railway Labor Act (RLA). The PEB is going to announce their recommendation for a potential settlement that would be followed by another 30-day cooling-off period. This action continues the plan set forth by the Biden administration of a 60-day period from the initial railroad workers initial intent to strike back in July, that should provide ample time for a final agreement while under the mediation of the PEB and divert a supply chain crisis. However, if after completion of the second 30-day cooling off period (mid-September) an agreement or compromise is not in place, then there is a legitimate threat that a formal and legal strike will be eminent.

California law, AB5, remains challenging for independent drivers and trucking companies within the state, as it would require reclassification of more than 70,000 independent owner operators. Protests and organized disruptions took place at the ports of Los Angeles, Long Beach and Oakland to challenge the decision to uphold the law after an injunction was overturned 2-1 by the U.S. Court of Appeals for the 9th district. This came after the Supreme Court denied hearing the case from the California Trucking Association. The case will now go back to the district court level to hear arguments by the California Trucking Association that AB5 violates the Commerce Clause of the U.S. Constitution. In the meantime, the state of California has provided little guidance as it relates to how the law will be enforced while various models are being reviewed between the motor carriers and independent contractors to work within the law.

The ports of Los Angeles and Long Beach have both confirmed that July was another strong month of throughput. Long Beach had their busiest July on record and both ports will continue to see arrivals of back to school and holiday goods that had been front loaded a bit earlier than normal as inventories were advanced to get in timely and avoid unforeseen supply chain delays that were experienced last year. What is problematic is the significant dwell time waiting to move inland-bound containers. The port of Los Angeles has cited within the last three weeks that over 31,000 containers were waiting to move by rail, as the port of Long Beach reported over 12,000 waiting. This is taking place as the queues of vessels in route are increasing steadily out of Asia. Such large volumes sitting and waiting to move by rail are consuming valuable space at the terminals and a new push has been resurrected to penalize the ocean carriers for those containers sitting 9 days or longer. With no first in - first out process as containers are loaded to rail, containers are again getting stuck at the bottom of container stacks and as seen before in large surges of arriving containers, taking weeks to be moved. Contributing to this includes highly congested inland rail ramps that continue to suffer major chassis and driver shortages as well as rail car shortages. This is forcing the railroads to again meter the traffic of trains and intentionally slow down volumes that are going to heavily impacted rail ramps.

US East Coast and Gulf Coast ports remain highly congested as vessels continue to arrive at key ports such as New York - New Jersey, Charleston, Savannah, Norfolk and Houston where during many surges in volume, vessels have experienced long berth and anchorage times. Combined with chassis and driver shortages, such 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. The impact is creating congestion and significant costs for importers left paying demurrage, extra chassis fees and detention charges as a result. The Port of New York and New Jersey recently announced their plan to charge ocean carriers a fee for long-dwelling containers beginning September 1st, in order to penalize ocean carriers that are allowing empty containers to consume critical space at their terminals. US East Coast ports remain in demand and account for vessel utilization that is nearly 100% out of China, as shippers continue to avoid the U.S. West Coast ports. Houston is also benefiting from the avoidance of West Coast ports while importers continue to use other port alternatives due to their concerns regarding the ongoing ILWU labor negotiations, ocean port terminal congestion that is now impacting inland rail moves, and even the potential impact of California state law AB5.

Inland US rail ramps are progressively getting worse and continue the challenge of terminals and drayage operators to manage through ongoing challenges that have not improved for months. Chassis shortages are critical in many of the larger rail ramp locations like Chicago and are further impacted by full containers still sitting at distribution centers or warehouses waiting to be offloaded and returned to circulation. Labor shortages have also been cited in key markets. This is keeping rail ramps at critical congestion levels and obstacles that prevent 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. Like the ports, space is being reduced as empty containers are returned. Recognizing that full containers are again mounting at US and Canadian ports destined for the U.S. inland market, importers will continue to see delays in deliveries, and left paying demurrage, extra chassis fees and detention charges.

Ocean carriers are starting to schedule void sailings and increase port omissions where needed as they look to balance their capacity with volumes, maintain reliable transit times (by avoiding long anchorage and berthing scenarios), and maintain their profitability. As we see a likely reduction in container volumes for the balance of 2022, whether due to earlier front loading of inventory, inflationary challenges, or any other unforeseen market events, we can certainly anticipate void sailings to be utilized as a tool by the ocean carriers.

Felixstowe, the United Kingdom's largest container port, is preparing for a strike after mediation between the port workers union and Port of Felixstowe fell apart. The strike is set to be actioned on August 21st and is believed to be for a set time period of around 8 days with an outcome that is predicted to cause severe disruptions in the UK supply chain. Sources have also reported that Liverpool dock workers have recently taken a vote that favors a strike and are close to announcing their intended action.

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.

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