AMERICAN SHIPPING COMPANY

"News Flash"

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Transpacific Market Sees Upward Trend of Volumes, Unsettled Developments, and Continued Volatility

Last Tuesday, it was learned that the Maersk chartered vessel under the 2M Alliance, Dali, collided with the Francis Scott Key Bridge in Baltimore. Our prayers go out to the families and friends of those that lost their lives during this tragic event. The unfortunate incident will create yet another challenge to U.S. East Coast ports, as the regular volumes destined to and from the Port of Baltimore will be impacted for what is likely to be several months. The Port of Baltimore handles over one million TEU (Twenty Foot Equivalent Units) per year as well as a significant amount of Ro-Ro (roll-on, roll-off) cargo that includes automobiles for several auto makers, making the Port of Baltimore the largest car port in the U.S. The monthly volumes will now require rerouting containers for inbound and outbound shipping through other ports up and down the coast with increased utilization of truck and rail modes, until repairs and other solutions can be implemented. It has been reported that U.S. Army Corps of Engineers together with the U.S. Coast Guard are working on alternatives that could open up smaller channels and potentially allow smaller vessels to operate as a first step.

While the Red Sea conflicts have settled down and carriers have implemented more capacity and frequency to manage the routings around the Cape of Good Hope, resulting in longer transit times, the Port of Baltimore situation will add to the constraints of vessels and volumes moving to the U.S. East and Gulf Coast ports. With the Suez Canal routings currently being diverted around the Cape of Good Hope and the Panama Canal still at a serious disadvantage, due to the low water volumes and weight restrictions by vessel that are transiting through this key waterway, shippers will continue to evaluate their supply chains against inventory needs and will have to hedge against continued uncertainty. Many shippers have resorted to using the U.S. West Coast routings from Asia and using the rail mode across the U.S. to their final destinations as the most reliable option. Add in the expiration of the International Longshoreman's Association (ILA) contract with the United States Maritime Alliance (USMX) on September 31st and warnings of a potential labor disruption, there is more concern regarding space, equipment and rate volatility in the coming months.

As a reminder from our previous reporting on the International Longshoreman's Association (ILA) contract negotiations with the United States Maritime Alliance (USMX), the ILA chapters remain in control of working on local port matters with a deadline of mid-May to negotiate a positive outcome. This includes larger contract issues, such as wages, which is said to be the catalyst in trying to agree to a new six-year contract, and where both sides remain far apart. Should the negotiations take a similar course as the International Longshore and Warehouse Union (ILWU) and Pacific Maritime Association (PMA) contract dispute, which took over 15 months before ratification last August, it is very possible that major disruptions could take place and at a very critical time of the shipping season. Shippers will have no choice but to plan well ahead and potentially divert cargo through West Coast ports as a precaution to ensure reliable and timely delivery of goods. The impact could be significant, as the throughput of volume will pressure West Coast ports in the U.S. and Canada, in order to accommodate the increase in volumes. Furthermore, added volume through the West Coast could strain the U.S. railroad system with more cargo moving to U.S. East and Gulf Coast final destinations, in addition to the normal flow of cargo that moves into the interior, predominantly the Midwest region. Everything from port and rail ramp congestion, rail car shortages, and overall delays, could be experienced. Ocean freight rates could very likely be driven up as well, especially if there are more signs of a labor disruption as the window shrinks before the contract expiration.

After the run up of volumes leading into the Chinese New Year holiday this past January and February, a short term fall back was experienced in March, but is now reversing with recent weeks of increased bookings and volumes from Asia. This includes increased volumes to and through, U.S. and Canada West Coast Ports. We are again experiencing notice from ocean carriers of fully utilized vessels on several strings; new activity of container rolling; and continued use of transshipment routings. While the timing is unusual in comparison to past "slack season" periods, many analysts are predicting an early peak season as inventory levels are in need of replenishment; spot market rates have been dropping in recent weeks which is promoting more shippers to ship now after the significant rate increases in January and February; and many shippers are getting ahead of potential obstacles in the market as outlined within this News Flash.

Evidence of the increased activity as we enter into April, includes congestion and longer rail time transits at key U.S. and Canadian west coast ports. Vancouver has experienced rising delays due to increased volumes on the Pacific Northwest (PNW) vessel strings destined for U.S. interior destinations, particularly the Midwest region. The delay has been cited as approximately 10 days, and in some cases, even longer. The ports of Los Angeles and Long Beach continue to manage through a backlog since volumes began rising there in January driven by a combination of the Chinese New Year volumes, but also avoidance of all water services to the U.S. East and Gulf Coast ports due to the Red Sea conflicts. We have experienced delays of about 5 to 7 days for cargo moving inland through this gateway in recent weeks and worsening. The ports of Seattle and Tacoma are also starting to be impacted where we are experiencing about 5 days delay. Reports of rail car shortages are increasing at all of these ports and ocean carriers are regularly adjusting their estimated arrival times to final destination rail ramp locations. This is causing frustration for many that seek timely arrivals and especially after inflated transit times due to container rolling at various origins due to lack of space and diversions to transshipment ports during the Chinese New Year surge as well as continued cleanup of the backlog afterwards.

A less covered story in the market that we have been monitoring closely, involves the negotiations between the Teamsters Canada Rail Conference (TCRC), which represents railroad workers of Canadian Pacific Kansas City (CKPC) and the Canadian National Railway (CN). Wage increases and working conditions have been cited as primary issues for this negotiation between TCRC and the two Canadian railroads. The TCRC took official measures on February 16th, to file a formal dispute and requested Federal Mediation which has been actioned and now under a conciliation period that both sides are participating under since March 1st. This came after the dispute notice triggered an 81-day timeline that can allow a work stoppage as early as May, after talks had stalled since the December 31, 2023 collective bargaining agreement expired. However, this past Thursday, leadership of the Teamsters Canada Rail Conference told their membership that they will proceed with a strike vote. This process will begin April 8th. Without a positive outcome to the continued negotiations, an authorization to strike could be immanent and could be enforced on or after May 22nd. This would create a serious disruption to the supply chain via Canadian ports and railways and impact approximately $1 billion worth of goods in Canada per day. Canadian ports are critical to ocean container traffic that moves to inland points in the U.S., such as the Midwest region and transported by these two railroads. A work stoppage would put more pressure on U.S. West Coast ports and the U.S. rail system.

Ocean Carrier Contracts are under negotiations at this time and with hopes of conclusion to start the new shipping season, May 1, 2024. During this time, we always warn our supporters of bad actors in the industry that are offering lower than contracted level rates for the short term. Many of these forwarders use this time to unload unused volumes they are contracted for in the current season so that they can negotiate similar or improved container commitments for the new season without penalty or further volume agreement restrictions by the ocean carriers. They may also use the limited time period to aggressively secure clients, understanding that their rate exposure (most at a loss) is limited. When the new contract seasons starts, rates will rise back up to normal levels. We always challenge the community to ask where these great rates and opportunities are during the normal course of the season or when there are space constraints and many challenges in the market.

With several developments unsettled and container volumes currently trending upward on the Transpacific Eastbound services, we remind our community to plan and book in advance, anticipate delays, and be prepared for volatility. Should you have any further questions or concerns, please contact your account manager or local handling office for assistance.