Transpacific Carriers Announce August 1 GRI

by Rich Roche - Tuesday, July 29, 2014

Ocean carriers on the Transpacific trade are adding more cost to the pain they are already seeming to inflict on importers this summer. They have announced a General Rate Increase (GRI) for August 1 at:

20’- $480
40’ – $600
40’HC – $ 675

While this kind of announcement has been made with regularity in the last year or more, our early indications are that carriers will not back down from a hard stance on this increase. They will try to follow up with an additional Peak Season Surcharge (PSS) on August 15 and are scheduling another GRI for September 1.

What is driving these increases?

With memories of the winter congestion issues still fresh, analysts have looked at the total supply chain and concluded that the weather was perhaps only the straw that broke the back of an otherwise delicate balance of interconnected service providers. All facets of the industry are struggling—intermodal truckers, railroads, ocean terminals, and ocean carriers.

Intermodal Truckers

We can start by understanding that there is a national shortage of truck drivers. This shortage is particularly acute for intermodal truck drivers with less certified draymen (TWIC cardholders) available month over month. There are a variety of reasons for this, from higher scrutiny for driver certification and a shrinking driver pool to pier-savvy drivers unwilling to wait in long lines to access containers at the piers (where they aren’t paid for their time and cannot make multiple turns each day). Federally mandated limits on truck drivers’ hours—many of which are wasted in line—and the slower turn time within the terminals are causing owner operators to seek employment elsewhere in the domestic market. Some are leaving the industry altogether. The shortage of drivers continues to grow, resulting in many trucking companies idling at least part of their fleet or closing up shop altogether.

Railroads

Rail efficiency is measured as velocity though the system. As more containers are moved through the system, many influences have bogged down the efficiencies once achieved. We’ve been witnessing a gradual reduction in velocity over the last few years, with quarterly averages that recently hit below 20
MPH for one of the Class 1 railroads. Surges in freight volume contribute to the problem of equipment imbalance, sometimes taking weeks or even months to restore. This is compounded with the additional stresses put on the rail system now transporting more domestically-sourced crude oil than ever before. Even more volume is being fueled by a conversion of long-haul cargo—traditionally handled by truck—moving intermodal rail due to the national driver shortage. Chicago still remains a bottleneck with eastern and western railroads interchanging there by trucking “across town” from one terminal to another. Finally, as marine terminals handle the ever larger container ships capable of discharging as many containers in one visit as were once delivered by two or three vessels over a week, the concentration of freight causes miles-long trains to wait on precious little available track to service the terminals, further skewing the balance once enjoyed in the system.

**Ocean Terminals**

Heavily congested ocean terminals contribute to delays, as dwell times increase for loading to rail, and lines for truckers get longer. The recent combination of two carrier alliances to form the G6 mega-alliance has caused a shift of cargo away from duplicate (now extraneous) terminals used by some of the alliance members. Instead, they now concentrate their combined vessels in a single terminal at some ports. This has caused an equipment shortage, for chassis and trucks in particular, to service these larger vessels with a single terminal call. We are seeing this more on the West Coast as the largest ships are deployed there, but also increasingly on the East Coast too, as larger vessels are being cascaded into these ports; a trend that will continue with the widening of the Panama Canal. The chassis issue is felt the hardest at ocean terminals that used to store chassis in large numbers for their ocean carrier tenants. Once the carriers divested themselves of their chassis pools a couple years ago, the source of equipment moved to third party pools, which are not always able to meet the demand. Combine all of this with labor issues, and ocean terminals are sure to remain a tenuous part of the equation.

**Ocean Carriers**

Industry trends of rollercoaster rates, mostly running downhill over the long-haul, have caused ocean carriers to reevaluate and change their tactics. The G6 and P3 alliances were put together to wring out the greatest efficiencies possible through better economies of scale, without rate increases. Some of this logic may be flawed, but regardless, when the Chinese government issued their recent declination to approve the P3 alliance, all hope was lost. The carriers have now come together to assess uniform rate increases that capitalize on the early routings to U.S. West Coast and re-routings to U.S. East Coast ports to avoid any impact of possible ILWU action. Both scenarios caused volume to spike in June and July on their respective coasts.

**ILWU Labor Issue**

There is still no resolution to the longshoreman (ILWU) labor contract negotiation that expired July 1 for all U.S. West Coast ports. The Teamsters action to jump on the ILWU negotiation in attempts to have them honor picket lines for an unrelated organizing effort has come and gone; although it added to the disruption and uncertainty at the beginning of July. While we are told the ILWU contract will be resolved amicably, this is a potential problem that could erupt at any time and has already impacted routing, as well as trucker and chassis availability. History shows us that the last ILWU contract renewal (in July 2002) did not come to a head until a lockout was announced in September 2002. The 10-day shutdown resulted in an 8-week clean-up of the mass of containers that could not be handled while containerships rested at anchor offshore.
Two other factors contributing to the current state of affairs are the chassis and equipment shortage.

**Chassis Shortage**

Ocean carriers no longer supply chassis for containers. Instead, trucker-owned chassis or leased equipment pool chassis are now the norm. They usually come with a daily charge. Some larger importers are beginning to supply their own chassis pools on long-term leases to keep daily costs low, but still need quick and regular turns to make it affordable. As more congestion occurs at the terminals, chassis turns become more limited. If a chassis used to make 3 turns in a single day, we are now seeing 1 to 2 turns a day. This means it now takes 50 – 100% more chassis and trucks to move the same amount of containers in a single day. If importers booked Christmas inventory ahead of the ILWU labor deadline of July 1 and are now using the container and chassis for additional warehousing space in their parking lots, that also further reduces chassis availability.

**Equipment Shortage**

June shipments increased for U.S. East and West Coasts, primarily due to the ILWU labor issue. Importers moved cargo early to the West Coast to beat the July 1 deadline. Other importers shifted their routings to U.S. East Coast ports to avoid issues on the West Coast. Both scenarios increased the time it takes to get containers back to Asia for reloading. Many West Coast importers are unable to take the additional stock they moved early into inventory and are holding containers longer. Importers who moved cargo to East Coast ports have built in additional time to account for the longer voyage in both directions before returning to Asia. We are now seeing a severe shortage of 45’ equipment in Asia, with other containers sizes following suit in certain ports. This, combined with a glut of bookings still trying to get out of Asia, is resulting in overbooked vessels and limited equipment to move cargo in subsequent weeks.

**How will this impact my shipments in the next few months, and what can be done about it?**

- **Higher freight costs.** Carriers will likely be able to hold onto much of their announced GRI and Peak Season Surcharge (PSS) initiatives. Mohawk will do all that we can to mitigate the new charges.
- **Cargo rolls.** Many ports in Asia have several hundred containers rolling each week to the next vessel. This number is currently growing week to week. We recommend that you book and deliver cargo as early as possible.
- **Delays.** Likely to see slowdown of vessels getting to berth, so longer than intended transit times and later ETA’s. Plan ahead for delays and book cargo early (2-6 weeks out).
- **Dwell.** Cargo arriving at U.S. West Coast ports, and then connecting to rail, will wait up to 7 days (on average), with 3-weeks dwell time in the most severe cases.
- **Demurrage.** As ports become congested in peak season, there is a low likelihood that terminals and truckers will able to handle all cargo within the provided free time. Cargo picked up after the last free day will be assessed demurrage. We recommend that you make delivery appointments closer to vessel arrival date and avoid scheduling delivery after the last free day.

As we all work through this together, remember that we have seen this cycle back in 2002 and 2010. Some of the parameters may have changed but the outcome of falling rates is usually turned around by a single event or series of events that reverses the downward trend. Carriers feel they have a strong hand to play, and are exercising that with their rate announcements. History also shows us that their solidarity is
usually short-lived.

Please work contact your Mohawk customer service representative if you any questions or concerns about this alert.
