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Transpacific Eastbound Update: Supply Chains Remain in Focus

After Volume Surge and Future Challenges Seen on the Horizon

After a series of General Rate Increases and Peak Season Surcharges the past few months, the Transpacific Eastbound market has finally seen some relief from rising ocean carrier costs that had seen their highest levels since the pandemic. Roll pools caused by major congestion in several Asia origin ports have improved and the surge in volumes has tailed off and opening up some space, at least temporarily. Analysts and observers cite several reasons for the recent surge that can be tracked back to late March and April. Most viewpoints include several supported scenarios, such as early shipping and front loading, higher than normal inventory replenishment, increased purchase orders, void sailings, maneuvering through announced rate increases, and avoiding potential obstacles, some that still remain in the weeks ahead. Two significant challenges to come, include the potential of a Canadian Rail strike that has been pushed out to August and a potential strike by the ILA along the U.S. East and Gulf Coasts after expiration of the current contract on September 30th. While ocean carriers appear to be reducing their void sailings, having benefited from new ship builds being delivered in the global market, and some carriers provided extra loaders to the U.S. West Coast at a crucial time to avoid prolonged impact and rising delays, vessel schedules are improving again. While some origins still have congestion or are still facing full vessel capacity, there is hope for continued improvement. Several analysts have called the recent surge an early peaks season, while others are predicting a traditional peak season between August and October to still take place. Whether early loading of Q3 and Q4 products or a surge of Summer and Back to School merchandise, there is belief that the Holiday Season goods are starting to pick up and that volumes could remain high and last until the end of Q3, right before Golden Week in China. There is now believe

that East and Gulf Coast importers are starting to implement contingency plans to bring in their containers through the U.S. West Coast ports. That could support another surge of volumes into ports such as Los Angeles and Long Beach and will contribute to increased congestion and delays on the U.S. side.

In a series we have been reporting on with regards to the negotiations between the Teamsters Canada Rail Conference (TCRC) with both the Canadian Pacific Kansas City (CPKC) and the Canadian National Railway (CN), August 9th has been set as an updated date for conclusion of a review conducted by the Canada Industrial Relations Board (CIRB) and now final determination by the Canadian government.

The initial threat to strike on May 22nd has been pushed out, as the Canadian Minister of Labor requested that they do an assessment to determine if a strike could impact public health and safety. Analysts have cited that any work stoppage by over 9300 railroad workers could have an impact of \$1 billion in goods being transported by rail per day and that the workers are deemed essential. It is believed the TCRC will follow its original plan to strike 72 hours after the government makes their official announcement, as TCRC membership overwhelmingly voted to do so and has been held up since, even in a revote situation. In the meantime, ocean carriers using the CN and CPKC to manage inland freight to final destinations within the U.S., continue to manage contingency plans for U.S. bound cargo moving through the Canada rail system. This includes plans to route any U.S. bound cargo moving Eastbound from Asia through Seattle and Tacoma, avoiding Vancouver or Prince Rupert, until a final resolution. However, as the timing of a potential strike gets closer, Seattle and Tacoma are reporting increased dwell times waiting for containers to be loaded to rail.

With the potential strikes looming, in both Canada and U.S. East and Gulf Coast ports as well as the recent surge in cargo recently experienced, rail transits delays continue from the U.S. West Coast ports.

The ports of Los Angeles and Long Beach have estimated delays of 10 to 14 days, while Seattle and Tacoma have quickly increased from what was 5 to 7 days to now 10 to 14 days as well.

Congestion and rail delays will remain a key focus in the coming weeks and can be a source of inland delays. We recommend padding your supply chain accordingly.

As a follow up to our other series on the International Longshoreman's Association (ILA) contract negotiations with the United States Maritime Alliance (USMX), the ILA has made a strong stance and have announced their plans to strike if a master

contract cannot be agreed to before the current contract expiration on September 30th. Harold J. Daggett, President of the ILA, has noted that negotiations have failed with the United States Maritime Alliance (USMX) and the window is shrinking fast to avoid a strike, which would be on or after October 1, 2024. He noted in his remarks, “we will not entertain any discussions about extending the current contract, nor are we interested in any help from outside agencies to interfere in our negotiations with USMX. “This includes the Biden Administration and the Department of Labor.” Many shoppers have already started mitigating any risk and have continued front loading their Q3 and Q4 shipments already. Within the next couple of weeks, decision must be made by importers as to whether they will continue to book on all water services that would arrive at final destination ports in the range of a potential strike. The fear of a labor actions is prompting many importers to move volume via the U.S. West Coast routings. This is including the higher use of importers distribution centers on the US West Coast to at least get inventories into the USA safely; use transload and truck and/or rail scenarios to expedite containers; and take advantage of any ocean carrier that is offering service under mini-land-bridge services by rail to final destination rail ramps along the East and Gulf Coast destinations. In speaking with several Trans Pacific Eastbound Ocean Carriers, many are sitting on the sidelines as to what they will do at this stage with their all-water services and whether they will offer rail service using U.S. West Coast ports of discharge and rail across the country. Concerns of higher rail volumes, rail car shortages, longer transits due to congestion at both load port and final destination rail ramps, and the potential for significant demurrage scenarios at final rail ramp destinations, if the volumes are overwhelming, are creating the hesitation. One carrier we discussed contingency plans with is going to proceed with their normal all water schedules, whether via the Panama Canal or Cape of Good Hope routings. Should there be a strike, they will simply idle outside the port and wait for the conclusion and return to normal operations once allowed. With many of the noted concerns above, there may not be too much of an advantage to rail directly through the ocean carriers and their rail contracts and unless the cargo is very urgent or time sensitive, to transload and truck will come at a higher cost. With the window to decide on using All Water services direct to the US East and Gulf Coast ports shrinking and bookings needed to be made in the next two weeks for advance planning and securing space, **we want our client base to know that we do have a transload program in place at both Los Angeles/Long Beach and Seattle/ Tacoma ports to inland destinations across the USA for our clients should they opt for this service. Please do not hesitate to contact us or your account manager for further details.**

The Panama Canal has seen great improvement in recent weeks as water levels have risen again in Gatún Lake after higher rain falls. It is been announced that if water levels remain at current levels or above, that there will be an increase to 35 slots per day in August, a double-digit gain from previous levels and impacted by serious drought conditions over the past few months. There is also be less restrictions on weight, which has reduced total volumes allowed to be carried per vessel. This will help to offer more services on this route vs. routings around the Cape of Good Hope that are longer and still impacted by capacity issues from Asia.

Wildfires are raging across the western provinces of Albert and British Colombia forcing evacuations in many areas and spreading quickly. As a result, delays are being reported out of Vancouver and Prince Rupert ports with advisories of rail closures near impacted areas. Cargo delays are expected.

India is now experiencing similar constraints experienced in other key markets over recent months, as volumes increase and the entire country faces many challenges to support increase demand. The Mumbai port area, also known as Jawaharlal Nehru Port and Nhava Sheva Port, continues to represent a level of reliability when it comes to regular vessel schedules and strong supply of equipment locally to the port complex. The same is true for the largest port in India, Mundra. The impact of delays, equipment shortages, and reduced space have spread to smaller ports throughout the country, as carriers void sailings and omit ports as challenges increase. Further impacted are the many ICD (inland container depot) locations throughout India, serviced by rail connections, where empty equipment is not being repositioned by ocean carriers, and forcing many shippers to use other alternatives, such as trucking the product to the ports and having the containers loaded in surrounding CFS (container freight stations) to maintain shipping schedules and avoid long delays, or having to wait for empty containers to be supplied closer to their factories by the carriers they support. The impact has started to have an impact on ocean freight rates, which had previously been in line and stable. Some ocean carriers had voided a few weeks of their India service to use vessels on an emergency basis, to rescue backlog in surrounding ISC region countries as well as Southeast Asia ports. Ports such as Singapore, Colombo and Port Klang have needed more vessels to relieve mounting congestion and impacting vessel schedules where these ports are used for transshipment points and crucial to global routings. We encourage you to reach out to your suppliers within India and

review contingency plans for what could be several more weeks of constraints and challenges.

With market volatility and developments that impact the Transpacific Eastbound services, we remind our community to plan and book in advance, anticipate delays, and be prepared for disruption. Should you have any further questions or concerns, please contact your account manager or local handling office for assistance.

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