# Agriculture Transportation Coalition (AgTC)

"The principal voice of agriculture exporters in U.S. transportation policy." — The Journal of Commerce



**PRESS RELEASE**
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Agriculture Transportation Coalition
www.agtrans.org

## US Agriculture and Forest Products Exports Threatened by Disruption of Seaport Operations

**An explanation of impacts generally and specifically, and an appeal to the parties and to the Administration**

As the International Longshoreman's Association and the US Maritime Alliance (marine terminal operators at the ports) prepare to resume negotiations, the prospect of a strike that would cripple international commerce, and thus the US economy, has US exporters extremely worried of massive economic loss, to their individual companies and all others in the supply chain. The impact is already being felt in locations far from the coastal seaports.

The Agriculture Transportation Coalition has been cited in the press as "The principle voice of agriculture exporters in US transportation policy". Our members have provided specific testimonials of the impact of port disruption on their ability to export, which are contained in this Release, below.

Exports have been keeping our economy afloat in these difficult economic times, and agriculture and forest products constitute the largest exports from the US. Yet we have to compete for the foreign markets, every day, every shipment. If the transportation costs increase, if ports are not operational and the cargo just sits, the foreign customers will look elsewhere for their almonds, cotton, rice, hay, pork, beef, poultry, fruit, dairy, soybeans, grain, citrus, lumber, plywood, paper, potatoes, french fries, wine, and the myriad other food, farm and fiber we grow and process here in the US. "While we produce the best of many of these products, the fact is, there is nothing that we export in agriculture and forest products, that cannot be sourced somewhere else in the world", said Peter Friedmann, Executive Director of the Agriculture Transportation Coalition.

Already, ocean carriers who carry our agriculture and forest products exports to global markets, have announced dramatic freight rate surcharges, contingent on port disruption at any North American port. Such surcharges increase the cost of transportation to the extent that foreign customers could not afford US agriculture products, and will turn to sources in other countries. [A compilation of these surcharges, some of which would double the total freight rate, can be found at the Ports tab of the AgTC website, www.agtrans.org.] The prospect that these surcharges will be imposed, are already causing agriculture producers to slow production if they can, to hold back on export commitments. So the economic injury has already begun, even before the current east and gulf coast longshore labor contract expires on September 30.

Agriculture and forest products exporters remember all too well the closure of the west coast US ports when the longhore union and terminal operators could not negotiate a new contract, ten years ago. Billions of dollars of economic loss, cargoes destroyed as refrigerated ocean containers sat at the docks unplugged, as perishable food rotted, as foreign customers exercised their rights to cancel purchases of products that could not be delivered by the committed deadlines, as financing instruments expired before the cargo could begin transit, as supply chains for ag exports backed up all the way to heartland states, where dairy, beef, pork, even sunflower seed and grain production and delivery were disrupted and shut down.

Ultimately, President George W. Bush had to invoke Taft-Hartley, to get the parties back to the negotiating table and back to work at the ports. Even then it took several months to get the export production and supply chain fully restored. Yet the injury from that west coast port shutdown has been felt for years since. For instance, when confectioners in Japan could not get the superior California nuts and raisins, they were forced to substitute from Turkey and elsewhere. And once the customer finds another source, it can be very reluctant to return to the source which could not deliver. The fact that the US ag producer was not at fault, that it was a port labor dispute, doesn't always convince the foreign customer to return to us. So, once a port shuts down, the economic injury to the US producer lingers long after the ports get back to work.

"In a sense, this is deja vu. We recall the massive economic injury of port closures ten years ago, and now ask the Administration and its Federal Mediation and Conciliation Service to do all in its authority to bring the parties together, to either resolve differences quickly so the prospect of a strike or port closure is eliminated, or to gain an agreement to continue working, while negotiations continue. This is harvest season for much of our agriculture destined for foreign markets. Failure to keep the ports operating at full capacity this fall will have devastating impact on agriculture and thus the entire economy. The uncertainty is already slowing production and deliveries," said Mr. Friedmann.

Following are testimonials of agriculture and forest products exporters:

"For starters, we have 600 metric tons (30 containers) of grain loading the end of Sept for Korea and it would all likely fall into the after Oct 1 bill of lading dates - this surcharge would take out all our profit and actually give us a loss on the business. I doubt that we can delay the shipment due to customer needing product. We also have a lot of imports on the water coming in during this timeframe that would result in the same - direct loss. In total we stand to lose over $60K. We can't stop vessels or ask end users to shut down operations. This is reality for many!"

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"The impact from the Port labor strike would have irreparable consequences on our business. The $1000/container fee added to our west coast shipments is something we simply cannot absorb when shipping 800 containers per month...or, $800,000 in added fees. Customers will expect shipments on a normal schedule and most shipments are pre-booked through November-December. The timing of this news could not be worse as Australia will be ready to harvest and ship new crop products in October. Even if we could pass on the fees to our customers (we can't), we would no longer be competitive on our hay/straw shipments as it easily add $40/ton to our cost structure. Either way, the impact from the above would be devastating on many fronts. This needs to get resolved soon."

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"We ship short shelf life, refrigerated liquid product from our facility in NJ via port of NY to Germany - we average 2-3 containers per week. There is no option- Canadian or USWC- that will allow us to continue to ship this product even if the capacity was available because of longer transit times- the impact would be about $110,000 in lost revenue / week."

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"We export our frozen foodstuffs and agricultural products exclusively from the USWC ports; therefore, the potential impact of an ILA strike and subsequent implementation of the USWC Congestion Surcharge by the ocean carriers would cause us serious financial implications. In reviewing our October export shipping forecast, and taking into account the Congestion Surcharge of $1000/40' container and $800/20' container, our ocean shipping costs would increase $145,000/week. This represents a 55% increase in freight costs. We could not pass this surcharge along to our customers and we could not afford to absorb it either. Obviously, we would no longer be market competitive and our customers would need to source products from other suppliers. During the course of the strike and application of the Congestion Surcharge we would most likely cease exporting all shipments."

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"Our company employs 300 union and non-union workers. We ship from 90 to 110 marine containers weekly through the Port of Oakland. Our cargo is California rice and our competition for sales comes from Australia and Europe. A new $1000 per container surcharge would bring our export business to an immediate halt and cause the loss of employment for many of our rank and file workers."

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"As a smaller shipper (broker/trader) based in California, the impact of the congestion surcharges would be brutal. We export almonds, walnuts and pistachios through the Ports of Oakland, Los Angeles, Long Beach and, occasionally, Houston. We have worked diligently with on ocean carrier over the past few years to set realistic volume goals and meet or exceed them. As a result, through hard work we have achieved a very competitive freight rate for 40' containers from California to Hong Kong. In a business where we often make only the two percent commission on the purchase of goods that invoice at an average of $125,000 per 40' container (or, $2,500), a $1,000 surcharge would represent fully 40% of the net profit we earn per shipment. Adding the surcharge to the negotiated freight rate (total: $1,549 per 40' container) constitutes 60% of the net profit per shipment. As I said, brutal. We understand that the viability of the supply chain centers on the ability of participants at each stage to gain reward. We would ask that both the ILA and USMX consider all the stakeholders, not just those at the bargaining table, as they negotiate."

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"If the carriers choose to take the congestion surcharge our ocean freight costs would increase 500,000 per week. Landed cost to the consignee would increase $48 per ton, not including the 10/1 announced rate increase. Ag exports traditionally have biggest volumes Oct through February. The surcharge will force buyers to other countries, and US exports will grind to a halt. Even announcing surcharges of this magnitude puts buyers on edge and they start shopping elsewhere. They will delay scheduled shipments in October to avoid a potential surcharge and place orders from other markets."

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"Fresh produce in reefers that is currently moving in to Miami and several east coast ports would cease and the loads would be diverted to Freeport, Texas, a non union port. The additional costs would include the surcharges ($1000.00) plus added expense to devan to trucks and move via truck from Freeport ($2500.00). It would increase the risk of length of time in transit and loss of business entirely. Risk is also in obtaining bookings as other importers divert their cargoes in a similar fashion. In percentages the additional costs are over 100% in freight alone. There is no figure available for complete loss of business. As a broker for this large account we stand to lose all revenue due to lack of business."

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"The cost of the 1000 container surcharge which could add up to over

$10,000,00 in one month. The penalties we would incur for mis-deliveries of goods: $10,000.00 on initial orders not shipped per order, plus $2,000.00 on replenishment orders. This alone could equal $75K-$100K. in a couple of weeks. Lost sales could potentially hit $500K- $1M in a 4 weeks time frame. Airfreight costs could hit 100K- 200K. Our projections could be a total estimated cost of over $1 M in a 4 week time frame. Because you figure even the strike last a few days to week our estimation is the back log in Asia with equipment shortages and lack of space will take 3- 4 weeks to recover."

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"Currently we export about 1500 40' containers of value-added forest products, such as lumber, panel products, etc., monthly, almost all of this is via USWC. The 1000.00 surcharge would add 50,000.00 per day cost to our shipping. This would make us uncompetitive in the market, causing loss of sales. Further we are concerned about the impact on equipment being available for shipment, along with vessel space and the capacity of ports and carriers to deal with this situation in an efficient manner. Past experience (in 2002) shows us that neither factions, carrier or port, were able to perform."

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"The obvious factor for us would be the new $1000/container fee. If we were to ship as per our normal schedule, this would increase our costs of shipment $55,000/WEEK. This would be a 63% increase of freight costs. This would put us completely out of the market as we will no longer be competitive in our destination markets for hay/straw shipments. We will most likely shut down all shipments in this case. The increased congestion the Pacific Northwest ports could increase our trucking costs at least 100% if not more - this would include added wait time at the ports, increased congestion (especially at Port of Portland) at ports where they will begin turning away trucks as the truck wait area is not very large. Containers/equipment would be harder to get and our customers' schedules WILL be affected."

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"The impact of the fee is, in most cases, a 100% or more freight increase from cargo moving from on certain lanes in the Midwest. Margins are so thin in this environment that a $1,000 surcharge would basically be a $1,000 loss per container on any trade. The potential delay of shipments could result in late shipment penalties and additional losses. We would not ship a single container should a strike occur and the fee implemented. We ship, on average 1,500 containers weekly during harvest. Nobody is going to ship at $1M + loss per week. We are coming off a 75-year drought. Exports will be down anyway, this situation just exacerbates everything."

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"A Strike Surcharge on commodity exports will more than double ocean freight cost for exports! This will bring commodity exports to a grinding halt, or, if shippers must ship to maintain buyer relationships/markets, exporters will take a SUBSTANTIAL hit on quarterly and annual financial results, resulting is belt-tightening in every phase of their business to recover from the strike hit."

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"Many years ago when the West Coast ports were shut down, I believe for 6 weeks, our industry came to a stand still for exporting. First, we could load containers and ship them to the West Coast ports. However, these exports were consequently and literally buried under all other cargo arriving at the port. Effectively they were the last to be loaded on a vessel, weeks after the ports reopened. Second, we were able to load containers but then we could not send them to the West Coast as the rail terminals became congested. Third, we were able to load containers but then they had to stay at the truckers' yard waiting for permission to deliver to the rail yards. Fourth, we were not allowed to load any containers and the shipping companies stopped accepting bookings from shippers. I feel that this time could be much worse than the last time."

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"Fresh produce in reefers that is currently moving in to Miami and several east coast ports would cease and the loads would be diverted to Freeport, Texas, a non union port. The additional costs would include the surcharges ($1000.00) plus added expense to devan to trucks and move via truck from Freeport ($2500.00). It would increase the risk of length of time in transit and loss of business entirely. Risk is also in obtaining bookings as other importers divert their cargoes in a similar fashion. In percentages the additional costs are over 100% in freight alone. There is no figure available for complete loss of business. As a broker for this large account, we stand to lose all revenue due to lack of business."

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"We have already incurred some additional costs by routing some cargo via the west coast that would normally move via the east coast to ensure that we are able to satisfy contracts with specific delivery requirements. A prolonged work stoppage on the east coast and Gulf ports could make it difficult to obtain sufficient space and equipment on the west coast to fulfill other contracts with similar delivery requirements. This could open the door for some customers to void the contracts resulting in lost sales and potential market losses. We are also concerned that this could prevent us from taking advantage of other year end demand opportunities which we anticipate will arise for raw material shipments to Asia. With regards to the announced congestion surcharge, any surcharge levied would come straight off the bottom line as we cannot recover this cost from our customers."

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This potential ILA strike and possible $1000/40' container congestion surcharge will have a devastating impact on the US Pulp & Paper Mill industry, imperiling thousands of US manufacturing jobs and damaging an important US industry sector.

**<u>A $1000/container fee equates to over $40/MT (Metric Tonne) additional tax on export trades for US Export trade commodities such as pulp & paper.</u>**

These trades typically only make significantly less than $40/MT in profit so this container fee creates trades with LOSSES. In other words, US mill production will suffer as mills will not produce export tonnes either: 1) due to unprofitable mill nets that this $40/MT tax adds, or 2) if this cost tries to get passed on to a foreign customer, that customer will change its sourcing decisions and buy from producers in Europe, South America and Asia. Even the mere announcement of this usurious $1000/container congestion fee has sent foreign buyers in a panic who will seek alternative, non-US sources to ensure a functioning supply chain.

The American Forest & Paper Association states that the forest products industry accounts for approximately 5% of the total U.S. manufacturing GDP. Industry companies produce about $175 billion in products annually, and employ nearly 900,000 men and women, exceeding employment levels in the automotive, chemicals and plastics industries. The industry meets a payroll of approximately $50 billion and is among the top 10 manufacturing sector employers in 48 states. The economic impact at the state level can be accessed on AF&PA website: http://www.afandpa.org/ourindustry.aspx?id=35

The US pulp & paper industry relies on export trades for 15-20% of its capacity. Without this export channel, rampant overcapacity looms creating an untenable market glut where mills have to take "market related" downtime. Many of these mills are located in small towns throughout the US and serve as the economic engines of local economies. Paper mills have some of the largest jobs multipliers with some studies showing over 5 indirect jobs in goods and services for every paper mill job.

The US pulp & paper industry historically runs a large trade surplus. According to the US Census Bureau data compiled by AF&PA through the first half of 2012, the US total pulp & paper trade surplus reached 12.65 million tonnes and $3.49 BN. Exports accounted for 21.14 million tonnes during this period but 2012 was off 5.9% compared to first half of 2011. 21.14 million tonnes equates to approximately 1.8 million 20' ocean containers (TEU). The forest products sector accounts for up to 40% of total container export volume according to Journal of Commerce/PIERS statistics. So this $1000 container fee will have an equally self-inflicted injurious effect on ocean carriers as the freight rate sensitivity of pulp

& paper export trades will see a dramatic decrease in container export volumes if this container fee does get enacted.

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