

FAQ REGARDING SUPPLY CHAIN CONGESTION



How did the backlog happen?

The primary reason for the backlog is the pandemic and the problems that resulted in consumer demand, manufacturing, transportation, and retail sales.

California's ports perform the critical function of processing incoming and outgoing containers filled with the goods and materials that fuel our economy. In a normal year, the peak import season begins as early as July as retailers replenish their stock in advance of the upcoming holiday season. But this year the pandemic delayed ordering and manufacturing of goods, and the normal flow of goods to California ports. Consequently, container ships began arriving in higher numbers later in the season causing problems unloading vessels and a shortage of empty containers for exports. This shortened, concentrated resupply period, more than any other factor, has caused problems throughout the goods movement system.

What are the principal causes for the continued backlog?

Following a crash in import volumes in the spring of 2020, U.S. imports rose dramatically in the second half of the year resulting in a shortened, concentrated resupply period.

- **Shortages of key equipment** needed to meet the unprecedented cargo demand.
- **Lack of railcar availability** is contributing to the inability to clear out containers.
- **Equipment sanitization** between shifts and operators is necessary to protect employees throughout the supply chain during the pandemic, but this critical activity is limiting the rate of equipment turnover.
- **Covid-19 cases** are affecting workers throughout the supply chain and mandatory quarantines are impacting the ability to handle the influx of goods at the ports, railroads, trucking companies, warehouses, and retail facilities.

What steps are the marine terminals taking to reduce the congestion?

Marine terminals are taking extraordinary actions to keep cargo flowing amid the pandemic surge. The steps the marine terminals are as follows:

- **Opened additional gates** to allow more trucks inside terminals.
- **Increased hours of operation** to allow trucking companies greater nighttime and weekend access to terminals.
- Terminals have **leased hundreds of acres of land** outside the ports to create more room to ease congestion on dockside terminals.
- **Launched new software and revised processes** at several marine terminals to manage truck appointments and expedite the pick up and drop off of containers.

What long-term steps are the ports doing to ensure the stable flow of cargo?

In recent years, the ports have invested in technology, harnessing the power of data to reduce congestion and increase predictability. This has included the launch of the Port Optimizer, a digital platform that provides real-time conditions at the terminals, allowing carriers to make smart cargo recovery decisions. Recently, the Port of Los Angeles implemented a Return Signal platform, which provides truckers insight into where and when they can return their empty containers. In addition, the ports have utilized Medical Optimizer, an offshoot of the Port Optimizer, which tracks the delivery of health care supplies and PPE.

How do 2020 import volumes compare to 2019 import volumes?

In the early stages of the pandemic, factories in China were among the first industries impacted by lockdown protocols. During this time, West Coast ports experienced months of cancelled sailings, resulting in an unprecedented drop in port throughput and an overall cargo imbalance at ports worldwide. Beginning in the Summer, ports began to report increased activity as backlogged orders were fulfilled, warehouses replenished stocks, a general shift in U.S. consumer spending habits from services to goods took place, and the peak holiday season shipping rush commenced later than usual. The confluence of these factors resulted in an influx of cargo over a very short period of time. The table below illustrates the culmination of these factors in the month of December, resulting in a 22.2% year-over-year increase in inbound cargo at US West Coast Ports.

Exhibit 1 December 2020 - Inbound Loaded TEUs at Selected Ports

	Dec 2020	Dec 2019	% Change	Dec 2020 YTD	Dec 2019 YTD	% Change
Los Angeles	460,865	373,511	23.4%	4,827,040	4,714,266	2.4%
Long Beach	406,072	323,231	25.6%	3,998,340	3,758,438	6.4%
San Pedro Bay Totals	866,937	696,742	24.4%	8,825,380	8,472,704	4.2%
Oakland	90,220	81,281	11.0%	995,976	975,210	2.1%
NWSA	122,469	105,823	15.7%	1,253,818	1,369,251	-8.4%
USWC Totals	1,079,626	883,846	22.2%	11,075,174	10,817,165	2.4%

Has the cargo congestion impacted exporters?

While improvement can always be made, the backlog has not impacted exporters to the degree that has been portrayed in the media. Regarding agricultural exports, we note the following statistics that indicate a significant year-over-year (2019/2020) increase in product shipped in the month of December.

Product	Amount Exported, Dec. 2019	Amount Exported, Dec. 2020	Percentage Change
Almonds	148,466,577 pounds	196,138,005 pounds	+32.1% increase
Walnuts	70,995 tons	87,029 tons	+22.6% increase
Pistachios	9,127 tons	10,773 tons	+18.0% increase
Food, Feeds, and Beverages	\$10,905 million	\$14,248 million	+30.7% increase

Are detention and demurrage fees unfair to importers and exporters?

No, detention and demurrage fees are necessary national policies that all container ports have instituted to keep cargo flowing. Detention fees are designed to ensure that equipment is returned to the marine terminals in a timely manner. A demurrage fee is applied to customers leaving a full container at the port beyond an agreed upon time. If detention and demurrage fees are suspended, there will be no incentive for full containers to leave the terminals and no incentive for empty containers to be returned.



Does this mean that the West Coast is no longer experiencing a market share decline problem?

No. This is simply a snapshot in time amid unprecedented circumstances. West Coast ports have precipitously lost a growing proportion of its market share in recent decades as a result of the rising cost to do business in California. The lack of state support to offset the investments made at East and Gulf Coast ports has further weakened the states competitiveness. The current surge highlights the essential function our ports play in providing the goods and materials our economy demands, from basic necessities such as toiletries to critical items such as medical supplies and PPE.

How long is the congestion projected to continue?

The congestion will last through the first quarter of 2021. Depending on availability of labor and transportation resources, marine terminals will continue to make progress in reducing the backlog and unloading vessels.