

## Global Supply Chain Meltdown - Ports of Long Beach / Los Angeles

### Part 2 - Stakeholder Solutions

#### Introduction

Our previous blog post discussed some of the causes leading to the global supply chain meltdown, exemplified by images of dozens of Containerships anchored off the Southern California Ports with hundreds of thousands of import containers waiting weeks before they could off-load their goods for further transport inland - resulting in goods shortages and higher prices for consumers (see previous blog post [Global Supply Chain Meltdown - Understanding the Bottleneck Causes & Solutions](#)). This blog post describes some of the immediate actions taken by various stakeholders to respond to the crisis.

#### Stakeholder Solutions

- Importers Increased Inventory Order Quantities. Many **Importers**, which considered themselves too lean based on shortages experienced from the COVID-19 disruptions, **increased safety stock levels and order quantities**.<sup>1</sup> Through Oct. 2021, Southern California (SoCal) Ports cumulative annual loaded container **imports** were the **highest on record** (8.6 million TEU's).<sup>2</sup>
- Importers Ordered Greater Quantities, Earlier for the Holiday Season. To assure adequate inventories for the **holiday season** amidst an expected supply chain crunch, **large Importers**, such as **Lowes**, ordered products in greater quantities and much earlier than usual, contributing, as a consequence, to **record import volume surges** and supply chain capacity strains.<sup>3</sup>
- Importers Spend Higher Amounts for Transportation to Overcome Supply Chain Snags. Many **large retailers** spent significantly **higher** amounts for transportation & logistics this year to assure adequate inventory for the holiday season during the supply chain crisis, such as **Amazon** (\$4 billion)<sup>4</sup>, **IKEA** (250 million Euros)<sup>5</sup>, **Adidas** (200 million Euros)<sup>6</sup>, including paying transportation premiums, chartering vessels to alternative Ports, utilizing air freight, etc.. This had **negatively** affected **earnings** and stock prices (e.g., Nordstrom and GAP double digit drops in premarket share prices)<sup>7</sup> and caused **increased prices** (e.g., Dollar Stores to increase prices to \$1.25)<sup>8</sup>
- Walmart Strengthens its Supply Operations for the Holiday Season. **Retailer, Walmart**, took significant **steps** to address the holiday season **supply chain crisis**, including chartering ships and diverting shipments through less congested ports; rerouting inland shipments, using alternative transportation methods to avoid train delays; hiring more than 3,000 drivers this year, with more in the pipeline; hiring 20,000 new permanent supply chain positions and promoting and training thousands of supply chain associates.<sup>3</sup>
- SoCal Ports Introduced a New Vessel Queuing Process to Reduce Port Pile-Up. The **Ports of Los Angeles (LA)/Long Beach (LB)** introduced a **new queuing process** for inbound Container Vessels (PacMMS), which assigns a place in the arrival queue based on their departure time from their last port of call (as opposed to the old system when they actually arrived at the Ports) - thereby enabling vessels to slow their speed (saving fuel and reducing emissions) and spread out rather than crowd near the Ports. The new system requires eastbound vessels wait for an available berth at least 150

miles off the coast.<sup>9</sup> With an average **anchorage wait time** to berth of **18.6 days**, it may take months to clear the **94 vessels** currently at anchor or drifting off the coast (as of 11-23-21).<sup>10</sup>

- SoCal Port Marine Terminals Commit to Extend Hours to 24/7 Operations to Clear Containers. **Marine Terminals** at SoCal Ports committed to **extending hours of operation** to increase throughput and reduce the record number of containers at the Ports waiting to be transported, as part of a White House call to action towards 24/7 Port Operations.<sup>11</sup> However, realization of 24/7 operations has been achieved at only **one** of the thirteen Port Terminals (TTI) and the **average dwell time** for containers waiting transport by trucks rose to a **record level** in October (7.64 days).<sup>12,13</sup>
- Top Importers Commit to Increase Port Night Time Operations. Top **Importers** committed to increase the use of **off-peak night time hours** to move ocean containers from SoCal Ports, as part of a White House initiative to speed cargo flow, including **Walmart, Target, Home Depot, and Samsung**.<sup>14</sup>
- SoCal Ports Impose New Congestion Dwell Fee to Incentivize Port Container Removal. **SoCal Ports** enacted a new **Congestion Dwell Fee** to incentivize the removal of containers remaining on Ports for excessive periods in order to **free-up space** for imports waiting to be off-loaded. The fee, to be charged to Ocean Carriers (and likely passed-on to Importers and consumers), begins at \$100 per day and will escalate by \$100 each successive day for each container dwelling 9 days or more to be moved by truck or 6 days or more to be moved by rail. Originally scheduled to begin Nov. 15th, the fee implementation has been **postponed** to at least Dec. 6th, based on positive progress since the announcement on Oct. 25th with a 37% combined decline in aging cargo on the dock.<sup>15</sup>
- SoCal Ports Increase PierPass Fees to Incentivize Night Time Container Movement. **SoCal Ports** have temporarily **increased** the **PierPass Traffic Mitigation Fee** from \$32.12 to \$78.23 per TEU beginning 12-1-21 through 1-31-22 for all non-exempt international container moves through the terminals during peak hours (7am-6pm M-F) in order incentivize trucker and warehouse night time movement and clear the docks of containers awaiting transport.<sup>16</sup>
- California State to Assist SoCal Ports Establish Temporary Off-Dock Container Storage Sites. **California Governor** issued an Executive Order to direct State agencies to find State, Federal, and private land for **short-term container storage**, in order to free-up space on docks at the SoCal Ports.<sup>17</sup> The same issue is also being addressed by Federal Rep's at other U.S. Ports which are also overwhelmed by the surge of Imports, ships waiting to off-load containers, and containers piling up on docks, by utilizing inland "**pop-up**" sites for temporary container storage.<sup>18</sup> The **Port of Savannah** announced the completion of a new rail system and a \$8-million plan to open temporary container yards around the region to address 80,000 Containers at the Port.<sup>19</sup>
- SoCal Industrial Real Estate Developers Building Warehousing & Distribution Facilities to Meet Soaring SoCal Port-Related Demand. **Industrial Real Estate Developers** are in the process of **constructing** 20 million sq. ft. of **new warehousing and distribution space** in the SoCal Inland Empire in an effort to meet the 50 million sq. ft. demand for space processing SoCal Port cargo according to CBRE.<sup>20</sup> New construction efforts have been hampered by supply chain shipment delays in construction materials and material handling equipment. The Inland Empire, the country's largest warehousing & distribution center region with 720 big box facilities, has limited space available, with 0.7% vacancy in Q3 2021 according CBRE.<sup>21</sup>
- US Reps Request CA Declare State of Emergency to Suspend Regulations Affecting Supply Chain Crisis. Eight CA US House of Representatives (R) issued a letter to the Governor of California to **declare a State of Emergency** at the Ports and across the goods transportation & storage distribution chain to suspend or eliminate **regulations** affecting the supply chain crisis, including California **AB**, which is creating a chilling effect on Independent Contractor Drivers, which could otherwise help move cargo from the Ports, and suspension of the "**Warehouse Indirect Source**

**Rule"**, which imposes potential mitigation fees and restricts the number of truck trips to and from warehouse facilities, that could cost CA warehouse operators up to \$1 billion per year.<sup>22</sup>

- Expanded CA CDL Testing & Fed Infrastructure Investments Aim to Increase Driver Availability. **California Governor** directed the Dept of Motor Vehicles to add Saturday testing hours at three locations to enable the Agency to **process more Commercial Driver's Licenses** (CDL's).<sup>23</sup> The new **US Infrastructure Investment and Jobs Act** signed into law, includes **provisions aimed at Truckers** such as an apprenticeship pilot program that opens the door to Drivers aged 18 to 20 for CDL's, which may contribute to the **reduction** of the U.S. **Driver shortage**, estimated by the American Trucking Associations to be 80,000 Drivers.<sup>24</sup>
- SoCal Port Railroads Increase 24/7 Gate Access and Incentivize weekend in-gates at Near-Dock Terminals. **UP** recently increased its gate access to **24/7** operation at its near-dock Intermodal Container Transfer Facility in Long Beach, adding 20 weekend hours. Both **BNSF** and **UP** began offering Ocean Carrier customers a **financial incentive** of \$50-\$60 per Container refund to encourage weekend in-gates at near-dock intermodal facilities to help reduce Port backlogs.<sup>25</sup>
- UP Railroad Adds Train Length Capacity to Utah to Relieve SoCal Port Congestion. **Union Pacific Railroad** (UP) added intermodal rail train length **capacity** to its daily service from **Long Beach** to **Salt Lake City Inland Port** to help relieve Port congestion of Import Containers, which would otherwise traditionally move by truck to Utah, Colorado, Nevada and Idaho. The Utah Inland Port Authority will handle further distribution to nearby States via rail or truck.<sup>26</sup>
- SoCal Port Railroads Expand Inland Hub Capacity to Ease Port Congestion. **Class 1 Railroads** serving the SoCal Ports **expanded capacity** at **inland hubs** to handle increased volume and ease supply chain congestion. **UP** reopened its Chicago Global III Terminal and Houston Englewood Terminal and **BNSF** reopened its Arkansas Harvard Intermodal Facility in the Memphis market.<sup>25</sup>
- Third-Party Logistics Companies (3PL's) Invest in Technology for Real-Time Visibility to Mitigate Supply Chain Disruption. **3PL's** are investing in **technology** to provide real-time data which enables **visibility** and **exception management** to mitigate supply chain disruptions. A recent **3PL survey** found that 53% of 3PL's could provide real-time data to clients in 50% or more of their supply chain service.<sup>1</sup> The same Survey indicated that 86% of 3PL's had completed, or were in the process of, enhancing their **Readiness and Continuity Planning** based on the effects of COVID-19 on their supply chain. Further information on this subject is available in a WCL Consulting Research Paper posted on the website (see [3PL Industry - Post-COVID Response](#)).
- Ocean Carrier Maersk Supplements Service with Air Freight. Ocean Carrier **Maersk**, expanded its multi-logistics offering with **air freight** by its acquisition of Germany's Senator International.<sup>27</sup>
- Maersk Opens new Container Transloading Facility at Port of Vancouver Canada to Improve Delivery Reliability. **Ocean Carrier Maersk**, has opened a **new Container transloading facility** in Vancouver to improve the delivery reliability of Container imports through the Asia-Pacific Northwest Gateway. The 117,000 sq. ft, 103 door Pacific Transload Express facility, located next to the Vancouver Intermodal Terminal, receives 20/40 ft Ocean Containers shuttled by the Canadian Pacific Railway from 3 **Port Metro Vancouver** Container Terminals, which are then transloaded into domestic 53 ft containers/trailers for further transport inland. The process is claimed to reduce factory to destination transit time variability from 35-75 days to 35-40 days, thereby reducing Importer safety stock inventory carrying costs and storage costs related to port demurrage and inland detention.<sup>28</sup>
- J.B. Hunt, Launches New Container Transloading Service in New York Metro Area to Improve Container Fluidity. **Third-Party Logistics** provider, **JB Hunt**, launched a **new transloading service** in the **New York metro area** to accelerate freight movement and improve container fluidity. The

25,000 sq. ft. facility in Jersey City located near major Port and Railroad Terminals, provides 24/7 Port drayage and transloading services between Ocean Containers and domestic trailers and intermodal rail containers and provides rail intermodal and line-haul service throughout the U.S. with its access to one of the largest company-owned fleets in North America and its access to nearly one million trucks of qualified 3PL's with its digital freight matching platform.<sup>29</sup>

- Pitney Bowes Increases In-House Trucking Capacity to Address High Spot Market Costs. **Pitney Bowes**, the Postal Service's largest workshare partner, **increased its in-house trucking capacity** by 42% to address spot market Driver shortages and spot market costs 4-5 times higher per lane.<sup>30</sup>
- Amazon Offers In-Store Pick-up Option to Customers. **Amazon** expanded its omnichannel distribution service offerings to assure timely and economic holiday fulfillment amid the supply chain crisis and higher parcel delivery company surcharges by offering consumers an **in-store pick-up** option for its third-party sellers, which account for over half of all products purchased on Amazon.<sup>31</sup>

## WCL Consulting Solutions

WCL Consulting has partnered with many global supply chain stakeholders to provide actionable improvements to supply chain performance, examples of which address many of the issues of today:

- Evaluate and Adjust Global Supply Chain and Distribution Strategies. Stakeholders evaluate **alternative Port of Entry capabilities** and **distribution routes** to reduce transit time and logistics costs, improve reliability, and mitigate supply chain risk
  - Clients: Ports, Inland Ports, Importers/Exporters, Economic Development Agencies, & Commercial Real Estate.
- Improve Port Terminal-Inland Operational Efficiency. Stakeholders evaluate lessons learned to improve **Port Terminal-Inland operational efficiency**, including Terminal appointments, Port Drayage, warehousing & distribution, transloading, container and chassis management
  - Clients: Marine Container Terminals, Importers/Exporters, & 3PL's
- Improve Facility Yard Management Processes. Optimize **yard management** processes for efficient flow of drayage trucks, containers, trailers, and chassis
  - Clients: Ports, Marine Container Terminals, 3PL's & Importers/Exporters
- Expand Port Cargo-Related Equipment Interim Storage Capacity
  - Clients: Commercial Real Estate
- Improve Port Stakeholder Interfaces. Optimize Port Terminal stakeholder **interface processes** to improve cargo flow efficiency
  - Clients: Ports, Marine Container Terminals, Public Agencies, & 3PL's
- Establish Stakeholder Outreach and Operational Partnerships. Enlist **stakeholder** participation in **collaborative solutions** of mutual interest
  - Clients/Stakeholders: Ports, Marine Container Terminals, Public Agencies, Ocean Carriers, Railroads, Importers/Exporters, Intermediaries, 3PL's/Motor Carriers, & Commercial Real Estate
- Develop Container Transloading. Develop **container transloading** capabilities at Port Gateways and Inland Ports to increase equipment availability and real-time distribution response and flexibility
  - Clients: Ports, Railroads, 3PL's & Importers & Commercial Real Estate

## References:

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WCL Consulting is a supply chain solutions advisory firm whose clients include ports, marine terminals, third-party logistics providers, beneficial cargo owners, drayage operators, railroads, industrial real estate developers, and private equity firms.

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