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Port Terminals Lose Demurrage

Port congestion is now a thing of the past and terminal operators face both a decline in imports and a substantial loss in revenue from ongoing container detention and demurrage charges they became used to collecting during the service crisis.

Before you start searching for the world's smallest violin to help accompany the news, consider that terminal operators must deal with serious financial constraints resulting from no longer being able to collect these fees.

AlixPartners' Luiz Gosling, Marc Iampieri and Brian Nemeth, recently wrote, "As COVID-related restrictions began to expire, we have observed softer cargo volumes across several marine trade lanes, as the National Retail Federation forecasts declining United States imports at least for the next several months as the current inflationary market has slowed down overall consumer discretionary spending."

In addition, the amount of imports from Asia have plunged in recent months, and experts believe this decline will continue from the peaks of earlier record-setting and near record levels. Ocean imports have dried up just as the economy has declined as well in the face of economic headwinds.

Port traffic is likely to continue to slow to a stop if the International Longshore and Warehouse Union and West Coast terminal operators fail to reach a multi-year contract collective bargaining agreement before March is over, following eight months of negotiations. Participants in the talks have been characteristically tight-lipped about what issues are being discussed, but if the past is prologue, the negotiations most likely revolve around the union's opposition to port automation and its reluctance to see crew sizes diminished in any way.

U.S. port traffic, as well as domestic freight traffic numbers are usually depressed in the early months of the new year. However, in this case the numbers have been nothing less than abysmal.

At recent industry meetings, ocean freight customers revealed just how difficult the current situation is and how it is creating a complicated immediate future for the industry, said the AlixPartners executives. This sentiment appears to be anchored on the continuing downward pressure on global seaborne trade volumes coupled with push back on accessorial costs.

The firm recently surveyed a sample of its clients to look at this side of the value chain, seeking to understand how these companies managed their container volumes and accessorial costs, delving into the inner workings of terminal financial processes.

They also point out that Container Storage Time – a key metric for demurrage and detention revenue – has shown sequential erosion between 2021 and 2022. In fact, 38% of the firm's clients revealed that

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containers spent shorter times at the port in 2022 compared to the previous year, and 56% indicated that they spent shorter time spent outside the ports as well.

The amount of spend with Container Demurrage and Detention Cost decreased between 2021 and 2022 for 63% of the survey respondents, with expectations of an accelerated decline of ocean traffic to the U.S. as measured by 2023 National Retail Federation Port Tracker monthly reports.

Terminal Operators Stymied

While many factors drive the terminal operators to rely on demurrage and accessorial fees as revenue generators, the reasons for the decline identified in the AlixPartners survey commentary can be categorized in three areas, according to Gosling, Iampieri and Nemeth:

- Efforts to renegotiate base freight rates and accessorial rates and terms (i.e., free days) with container operators, third-party logistics providers, multimodal providers and freight forwarders,

- Improving operational efficiency through better load consolidation, better freight planning (thus mitigating the effect of expedited shipments and urgent loads), or change in trade lanes and lane mix, ultimately resulting in less overall volume in the network.

- Improved operational agility coming from enhancing internal processes. These efforts include leveraging data to improve visibility and implementing stronger diligence to take containers out of the ports faster and – upon reaching its destination – unloading and reverting the container as quickly as possible, thus potentially avoiding unnecessary detention and demurrage fees.

They believe that terminal operators can adopt several basic strategies to help insulate their financials from these ongoing trends. One way is to improve operational efficiency after leaving behind the overwhelming congestion observed at North American ports, which did not operate as efficiently under an unexpected volume surge.

They observed, "Terminals in the West Coast were particularly affected by low yard and gate productivity in face of extreme utilization (i.e., above 85%), which either generated or catalyzed crew overtime, low equipment availability, limited planning visibility, longer wait times, and even operational issues such as shrinkage and maintenance overload."

Of courses, the terminal operators' current and past collective bargaining agreements with the ILWU workers are believed to be major contributors to depressing the terminals' operational productivity, and at this point there are no indications that any new agreement will produce any significant improvement in this area.

"Moreover, while container yards and gates effectively act as lungs to the operational body, we also see opportunity for container terminals to invest time and effort on marine, rail and maintenance operations, ensuring they are well planned and as productive as possible since those are large drivers of labor cost," they added.

They also point out that while the expected decrease in volume might have an impact in the overall operation of terminals and 3PLs, these companies must use this opportunity as a window to boost operating metrics back up to pre-Covid levels and unlock cost opportunities, which should mitigate some of the earnings erosion in the horizon.

Certain kinds of financial legerdemain also could alleviate some of this, the AlixPartners executives argue. A potential hedge against rate fluctuation and ancillary revenue erosion might lie in service specialization, as these operations tend to be more reliant on additional charges such as transloading, demurrage and detention, they suggest.

"However, as evidenced by our survey, large shippers might have ongoing initiatives to mitigate such operational constraints through their own internal decisions and process improvements, which makes this not a long-term solution.

"All in all, developing value-added services such as express gate lanes and improved yard visibility for pick-ups can be profitable avenues for operators looking to differentiate themselves from peers on the same coast or region in 2023."

AlixPartners also stressed that it is crucial for terminal investors and owners "to know specifically where their competitive strength lies, and to determine whether their challenge is to begin making initial efforts and investments or to double down on previous moves so they can fully exploit the opportunity to improve the business."

Workers Are Still Falling in Love

Love continues to spring eternal in the workplace, according to the most recent annual survey on the subject conducted by the Society for Human Resource Management.

Of the workers who are currently in a workplace romance or were in one before, 57% said their primary motivation for beginning the romance was love, while only 1% said it was "job-related."

Because more than two in five workers say they aware of co-workers currently in a workplace romance or who has been in one before, these love-driven motivations may be reassuring, SHRM says.

In fact, 75% of workers report they are comfortable with people at their workplace being involved in a romantic relationship, and 83% say they respect or would respect someone who is in one. However, 75% of workers are not open to being involved in a workplace romance themselves and 40% still believe workplace romances are unprofessional.

Employers need to be prepared to deal with these kinds of situations when they arise, said SHRM President Johnny C. Taylor, Jr.

"If workers are finding romance in their workplace setting, whether hybrid, remote or in person, it's key that employers have a workplace romance policy in place to protect employees in these situations, be it from favoritism, retaliation or sexual harassment, and to ensure working relationships -- and workplaces -- continue to run smoothly."

SHRM also found 87% of workers who have been in a workplace romance say that work-related issues didn't contribute much or at all to their breakup, but 13% said work-related issues contributed somewhat or a great deal. In addition, nearly one in five workers who have been in a workplace romance (18%) say it negatively impacted their careers.

Roadblocks Are Persistent Issue

For the fifth year in a row, the intersection of I-95 and SR 4 in Fort Lee, NJ, is once again the No. 1 freight bottleneck in the country, according to the American Transportation Research Institute.

The remaining Top 10 bottlenecks include:

2. Chicago: I-294 at I-290/I-88
3. Houston: I-45 at I-69/US 59
4. Atlanta: I-285 at I-85 (North)
5. Atlanta: I-20 at I-285 (West)
6. Chicago: I-290 at I-90/I-94
7. Los Angeles: SR 60 at SR 57
8. Los Angeles: I-710 at I-105
9. Nashville: I-24/I-40 at I-440 (East)
10. San Bernardino, California: I-10 at I-15

ATRI's analysis, which uses data from 2022, found traffic conditions continue to deteriorate from recent years as more Americans returned to work after the Covid 19 pandemic wound down.

This trend also has created supply chain bottlenecks throughout the country. Average rush hour truck speeds were 36.3 mph, down more than 6% from 2021. Among the top 10 locations, average rush hour truck speeds were less than 30 mph.

"The past year-plus has shone a spotlight on our supply chains, and how congestion and other pressures can hurt the American economy and consumers," said American Trucking Associations President Chris Spear.

"ATRI's bottleneck report highlights the areas of our transportation network in need of investment so we can get goods and people moving. The cost of doing nothing is felt in needless delays, wasted fuel and time."

Utilizing an extensive database of freight truck GPS data, ATRI develops and monitors a series of key performance measures on the nation's freight transportation system. Among its many GPS analyses, ATRI converts the truck GPS dataset into an ongoing truck bottleneck analysis that is used to quantify the impact of traffic congestion on truck-borne freight at more than 300 specific locations.

OSHA Allowed To Back Visas

The Department of Labor announced that OSHA mow has legal authority to issue certifications in support of applications for U Nonimmigrant Status and T Nonimmigrant Status visas.

"U Visas" and "T Visas" allow victims of specific crimes to help law enforcement detect, investigate and prosecute crimes without fear of retaliation based on their immigration status, DOL explains.

These visas provide immigration status to non-citizen victims and allow them to remain in the United States to assist authorities in combatting human trafficking and other crimes.

For the first time, OSHA will be able to issue these visa certifications – during its workplace safety investigations – when the agency identifies qualifying criminal activities, including such crimes as manslaughter, trafficking, extortion, felonious assault, forced labor and obstruction of justice.

"Expanding OSHA's U and T visa certification authority helps the agency better fulfill its mission to make U.S. workplaces as safe and healthy as possible," states OSHA Chief Doug Parker.

"Workers in the U.S. need to feel empowered and able to trust OSHA and the DOL enough to voice their concerns about workplace safety regardless of their immigration status and fears of retaliation."

Parker adds, "By enabling OSHA to issue U and T visa certifications, we will be empowering some of our economy's most vulnerable workers to tell us if their jobs are jeopardizing their safety and health, and that of their co-workers, and to support our enforcement efforts."

OSHA's new authority goes into effect on March 30. DOL also says the change will strengthen OSHA's ability to protect all workers, including those whose immigration status or other social and cultural inequities that discourage them from sharing information with investigators or reporting workplace safety and health issues, regardless of their lack of immigration status or temporary employment authorization.

CSX Unions Get New Sick Leave

CSX Transportation has entered into agreements with four of its unions to provide additional sick leave for the employees they represent.

The issue of additional paid sick leave was the main point of contention that almost spurred union members to go on strike against the Class 1 freight railroad employers last December.

On Feb. 8, CSX announced that new agreements were reached with the Brotherhood of Maintenance of Way (BMWED), which represents almost 4,000 engineering employees, and the Brotherhood of Railway Carmen, which represents more than 1,000 mechanical workers.

Two days later the railroad said similar agreements were entered into with the International Association of Machinists and Aerospace Workers, and the National Conference of Firemen and Oilers. IAM represents about 700 CSX employees and NCFO represents the company's utility workers (the total number is not known).

CSX President Joe Hinrichs commented, "We have a great respect for the work they do in service to our customers and the nation, and we will continue to partner with them and their representatives to ensure they have the best possible employment experience with our railroad."

During last year's labor contract negotiations, several unions' members voted down a tentative agreement reached with the freight rail companies, over precisely this issue of sick leave, which almost led to a nationwide strike before Christmas that would have dealt a serious blow to the economy.

A compromise finally led to the eventual adoption of a new contract, but the rail union members remained angry over sick leave terms they believed continued to be inadequate to their needs.

Railroad Safety Dominates News

The nation's freight railroads were barely out of the headlines following December's threatened labor strike when they exploded into prominence once again in mid-February after a Norfolk Southern train carrying hazardous materials derailed in the small town of East Palestine, Ohio.

Although no one was killed, the Biden administration got a black eye for its slow response and the public was suddenly shocked to learn that train derailments are a daily occurrence in the United States, including trains that routinely haul hazmats through populated areas.

The railroad's decision to blow up the wrecked train in what it euphemistically termed "a controlled burn" created an even worse public relations nightmare for NS and the government agencies that okayed setting the fire when a thick plume of black smoke filled Americans' television screens, sickened local residents, and appears to have killed hundreds of local animals and fish.

Secretary of Transportation Pete Buttigieg did himself – and his ambition for running for president – no credit when in interviews conducted at the same time he joked around and seemed to dismiss the incident by pointing out that there are more than 1,000 train derailments that occur each year After Buttigieg's failure to say or do anything useful, the local mayor said he shouldn't visit the town.

In addition, NS has come under particular scrutiny for the operational changes to its system that were wrought by Precision Scheduled Railroading, the operations model that swept through the industry throughout the past five years.

PSR imposes an overwhelming emphasis on cost cutting to boost shareholder returns, including lengthening trains, sidelining equipment and slashing large numbers of personnel.

The Brotherhood of Railroad Signalmen reported that that until three years ago, NS had electronic leaders in the part of its system where East Palestine is located. This equipment helps maintain devices like hot-box detectors, which some believe may have prevented the accident from every happening.

Reports say the National Transportation Safety Board believes the derailment may have started with an overheated wheel bearing. However, the board has yet to conclude its investigation.

The union put the blame squarely on the railroad for cutting of staff to the point where even the hotbox leaders in place could not be properly maintained.

We will need to see the NTSB's final report before we can make an unbiased opinion in that regard, but in the meantime it's not surprising railroad management and PSR have fallen under suspicion.

But so far, suspicion is all that we have. The Government Accountability Office recently announced that its studies of any connection between PSR and a negative impact on safety have been inconclusive about such a link.

The Federal Railroad Administration also is continuing a number of studies into whether such a connection exists. The railroads themselves say there is no connection. Longer trains and rail traffic congestion due to fewer operating personnel actually has led to lower train speeds on average.

What we learned last fall during the tumultuous rail labor contract negotiations is that train crews at Class 1 railroads routinely suffer from exhaustion and burnout, causing some to leave long-time careers and the rest to rebel against draconian sick leave policies (see related article above).

The Republicans who now control the House of Representatives have already announced that they will be holding hearings look into the Biden administration's handling of rail safety, which after East Palestine also has drawn criticism from Democrat members.