



Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington DC 20515

Peter A. DeFazio
Chairman

Katherine W. Dedrick
Staff Director

Sam Graves
Ranking Member

Paul J. Sass
Republican Staff Director

June 11, 2021

SUMMARY OF SUBJECT MATTER

TO: Members of Congress, Subcommittee on Coast Guard and Maritime Transportation
FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation
RE: Hearing on “Impacts of Shipping Container Shortages, Delays, and Increased Demand on the North American Supply Chain.”

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will hold a hearing on Tuesday, June 15, 2021, at 11:00 a.m. EDT to examine shipping container shortages and impacts on the North American supply chain. The hearing will take place in 2167 Rayburn House Office Building and via Zoom. The Subcommittee will hear testimony from two panels which include the Federal Maritime Commission (FMC), the World Shipping Council, the U.S. Forage Export Council, the International Longshore & Warehouse Union, the Port of Los Angeles, and the National Pork Producers Council.

BACKGROUND

COVID-19 and the Maritime Supply Chain

In 2016, containerization of goods via maritime transportation comprised seventy-six percent of all U.S. trade, and foreign trade at American ports and was valued at \$1.5 trillion.¹ Since the onset of the coronavirus pandemic, however, the global rotation of shipping containers has been severely disrupted. American demand for imported consumer goods, manufacturing parts, and commodities produced in Asia has fueled massive backlogs and delays.² In addition, China’s export capabilities have recovered more quickly than the United States’ capabilities, resulting in a shortage of containers and

¹ National Oceanic and Atmospheric Administration: Office for Coastal Management. “Fast Facts: Ports.” <https://coast.noaa.gov/states/fast-facts/ports.html>. Accessed on June 3, 2021.

² CNBC. “Suez Canal blockage is delaying an estimated \$400 million an hour in goods.” <https://www.cnbc.com/2021/03/25/suez-canal-blockage-is-delaying-an-estimated-400-million-an-hour-in-goods.html>. Accessed June 9, 2021.

increased global competition for scarce freight capacity, which is expected to continue beyond the first half of 2021.³

During the COVID-19 pandemic, peloton exercise bikes, refrigerators, lawn chairs, and home gym equipment are a few examples of the thousands of consumer products Americans ordered from manufacturers in China and low-cost producers in Vietnam, Indonesia, and Bangladesh.⁴ The overwhelming flow of goods has been from China to the United States, and this heightened demand coupled with labor shortages has resulted in significant port congestion beyond what is normally seen, especially on the West Coast of the United States. Additionally, carriers have chosen to ship empty containers back to Asia rather than carry U.S. exports when it is more profitable to do so.

As a result, traffic volumes from the U.S. to China are historically low.⁵ According to Maersk, the world's largest container shipping corporation, its East (Asia)-West (North America) trade has been the most impacted route in the market.⁶ Currently, for every three containers that China exports to the U.S. West Coast, only one is imported back, exacerbating the trade imbalance.⁷ This uneven recovery has caused container shortages where they are needed most, and exporters across Asia are responding to these shortages by bidding high on freight rates. As a result, global container rates jumped nearly 195 percent, from an average of \$1,377 per 40-foot container in March 2020 to \$4,045 in March 2021.⁸ For comparison, as of June 3, 2021, container rates from Los Angeles to Shanghai were at only \$779 compared to \$5,952 from Shanghai to Los Angeles, corresponding to a 72 percent and 255 percent annual change respectively (Table 1).⁹ U.S. seaborne imports had increased 20 percent by the beginning of the first quarter of 2020, with the growth in household appliances increasing 80.9 percent, while consumer electronics and home furnishings grew by 17.2 percent and 34.4 percent correspondingly.¹⁰

³ Forbes. "How the Shipping Container Crisis Demonstrates the Risk of Imbalance In Global Trade."

<https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2021/05/25/how-the-shipping-container-crisis-demonstrates-the-risk-of-imbalance-in-global-trade/?sh=372c0d941090>. Accessed June 3, 2021.

⁴ Quartz. "Cheap Chinese exercise bikes are beating US tariffs." <https://qz.com/1899691/cheap-chinese-exercise-bikes-are-beating-us-tariffs/>. Accessed June 9, 2021.

⁵ Reuters. "Boxed out: China's exports pinched by global run on shipping containers."

<https://www.reuters.com/article/us-global-shipping-container/boxed-out-chinas-exports-pinched-by-global-run-on-shipping-containers-idUSKBN28K0UA>. Accessed June 3, 2021.

⁶ Financial Times. "How coronavirus is changing global shipping routes."

<https://www.youtube.com/watch?v=MvG8c8v5Nfw> Accessed June 3, 2021.

⁷ Reuters. "Boxed out: China's exports pinched by global run on shipping containers."

<https://www.reuters.com/article/us-global-shipping-container/boxed-out-chinas-exports-pinched-by-global-run-on-shipping-containers-idUSKBN28K0UA>. Accessed June 3, 2021.

⁸ Forbes. "Container Ship Operators Are On A Tear As Freight Rates Skyrocket."

<https://www.forbes.com/sites/greatspeculations/2021/03/25/container-ship-operators-are-on-a-tear-as-freight-rates-skyrocket/?sh=2b9c31b439a6>. Accessed June 3, 2021.

⁹ Drewry Supply Chain Advisors. "World Container Index – 03 Jun." <https://www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry>. Accessed June 9, 2021.

¹⁰ Panjiva Market Intelligence. "The \$10 billion shipping inflation problem and corporate cost concerns."

<https://panjiva.com/research/the-10-billion-shipping-inflation-problem-and-corporate-cost-concerns/39259>, Accessed June 3, 2021.

Route	20-May-21	27-May-21	03-Jun-21	Weekly change (%)	Annual change (%)
Composite Index	\$6,135	\$6,257	\$6,464	3% ▲	310% ▲
Shanghai - Rotterdam	\$9,865	\$10,174	\$10,462	3% ▲	518% ▲
Rotterdam - Shanghai	\$1,546	\$1,546	\$1,629	5% ▲	60% ▲
Shanghai - Genoa	\$9,477	\$9,662	\$9,900	2% ▲	418% ▲
Shanghai - Los Angeles	\$5,605	\$5,742	\$5,952	4% ▲	255% ▲
Los Angeles - Shanghai	\$738	\$744	\$779	5% ▲	72% ▲
Shanghai - New York	\$7,366	\$7,147	\$7,559	6% ▲	188% ▲
New York - Rotterdam	\$888	\$946	\$991	5% ▲	95% ▲
Rotterdam - New York	\$3,553	\$3,670	\$3,720	1% ▲	48% ▲

Table 1. Spot freight rates across eight major East-West trade routes. Source: Drewry Supply Chain Advisors.¹¹

While COVID-19 restrictions triggered a shift in consumer spending that carriers could not have predicted, this disruption has exposed the gaps in port productivity across the country.¹² As of February 20, 2021, nearly a year into the pandemic, 35 container ships sat idle awaiting cargo discharge outside the Ports of Los Angeles and Long Beach.¹³ And during this surge, West Coast ports' productivity has increased 50 percent.¹⁴ Almost every ship and container has been deployed into the market since the Fall of 2020.¹⁵ In the race to build containers, logistics companies are finding that orders for many new containers were canceled or delayed in the first half of 2020 during the global lockdown, resulting from a depleted supply of steel and lumber needed for container construction.¹⁶

¹¹ Drewry Supply Chain Advisors. "World Container Index – 03 Jun." <https://www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry>. Accessed June 9, 2021.

¹² The Journal of Commerce. "ONE's Nixon says US port productivity gaps mean congestion for months." https://www.joc.com/port-news/us-ports/tpm21-one%E2%80%99s-nixon-says-us-port-productivity-gaps-mean-congestion-months_20210302.html. Accessed June 3, 2021.

¹³ The Seattle Times. "Seattle and Tacoma are a rarity among U.S. ports right now, with room for more ships." <https://www.seattletimes.com/business/international-trade/seattle-and-tacoma-are-a-rarity-among-u-s-ports-right-now-with-room-for-more-ships/>. Accessed June 9, 2021.

¹⁴ Vice News. "What an Ocean Traffic Jam Looks Like." <https://www.youtube.com/watch?v=y48LHkGX0hg>. Accessed June 3, 2021.

¹⁵ The New York Times. "I've Never Seen Anything Like This: Chaos Strikes Global Shipping." <https://www.nytimes.com/2021/03/06/business/global-shipping.html>. Accessed June 7, 2021.

¹⁶ CNBC. "An aggressive fight over containers is causing shipping costs to rocket by 300%." <https://www.cnbc.com/2021/01/22/shipping-container-shortage-is-causing-shipping-costs-to-rise.html>. Accessed June 7, 2021.

Earlier in 2021, West Coast ports saw a rise in COVID-19 cases amongst its longshore workers.¹⁷ This month, an entire terminal at the world's fourth-busiest container port in Shenzhen, China was closed for multiple days following high COVID-19 positivity rates among its dock workers.¹⁸ Additionally, the limited availability of truck drivers and dock workers means more extended wait periods in unloading and packing ships.

Accessibility continues to be a significant issue for truckers and other transporters in the supply chain. For example, the lack of appointments to enter terminal gates to repossess import containers for U.S.-based exporters has severely affected how port distribution centers are accepting containers.¹⁹ Containers are filling terminals and storage locations, making it difficult for truckers to return containers to a terminal, or move them geographically out of a given zone.²⁰ Currently, some containers have been sitting idle for up to 30 days, representing a significant opportunity cost.²¹

U.S. Agriculture Exporters

As the average container turnaround time has increased from 60 to 100 days, no sector has felt the pain of overstretched supply chains more than American agricultural exporters.²² The perishable commodities are not only delayed in their Asian market arrivals, but spot rates have caused carriers to prefer shipping back empty containers as quickly as they can. Deferring the return of their containers over low-value exports to Asia has made it more difficult for American exports to secure the needed equipment, particularly for inland shipments.²³

The current state of affairs may be circumstantial due to the COVID-19 pandemic, but U.S. agriculture exporters view the crisis as a designed effect of the foreign ownership of ocean carriers who face minimal regulation.²⁴ Further, the industry has gone from over 20 Pacific-route ocean carriers 25 years ago; several of whom were U.S. owned, managed, crewed and operated, to only nine shipping companies today.²⁵ For U.S. agriculture exporters who need refrigerated containers, there is only one foreign carrier servicing the Pacific route, rendering them wholly reliant upon foreign carriers.²⁶ Beginning in October 2020, German container transportation company Hapag-

¹⁷CNBC. "An aggressive fight over containers is causing shipping costs to rocket by 300%." <https://www.cnbc.com/2021/01/22/shipping-container-shortage-is-causing-shipping-costs-to-rise.html>. Accessed June 7, 2021.

¹⁸ Bloomberg. "China Port Delays Threaten New Disruptions in Global Trade." <https://www.bloomberg.com/news/newsletters/2021-06-07/supply-chains-latest-china-port-delays-add-disruptions-to-trade>. Accessed June 7, 2021.

¹⁹ Agriculture Transportation Coalition. "Overview: The Current Export Crisis." https://soyagrainsalliance.org/wp-content/uploads/2021/02/AgTC-The-Current-Export-Crisis_02-12-21.pdf. Accessed June 2, 2021.

²⁰ The Journal of Commerce. "Import deluge fills LA-LB terminals to capacity." https://www.joc.com/port-news/us-ports/import-deluge-fills-la-lb-terminals-capacity_20201209.html. Accessed June 7, 2021.

²¹ The Journal of Commerce. "FMC reviewing whether ag export booking rejections violate Shipping Act." <https://www.joc.com/print/3647481>. Accessed June 7, 2021.

²² Reuters. "Boxed out: China's exports pinched by global run on shipping containers." <https://www.reuters.com/article/us-global-shipping-container/boxed-out-chinas-exports-pinched-by-global-run-on-shipping-containers-idUSKBN28K0UA>. Accessed June 3, 2021.

²³ Cargo-Link International. "Carriers file rate increases on US agriculture exports to Asia." <https://www.cargolink.com/carriers-file-rate-increases-on-us-ag-exports-to-asia/>. Accessed June 3, 2021.

²⁴ Agriculture Transportation Coalition. "Overview: The Current Export Crisis." https://soyagrainsalliance.org/wp-content/uploads/2021/02/AgTC-The-Current-Export-Crisis_02-12-21.pdf. Accessed June 2, 2021.

²⁵ *Id.*

²⁶ *Id.*

Lloyd informed soybean exporters that it would not be receiving their export loads from the Midwest.²⁷ Like most ocean carriers, it opted instead to maximize the volume of imports to the United States. This is because freight rates for U.S. agriculture and forest product exports earn \$400 to \$1,800 per container, compared to \$10,000 to \$12,000 per container on goods from China to the United States.²⁸

The previous U.S. peak farming season saw agriculture exporters face significant barriers to deliver on time to foreign customers in Asia, the bulk of their clientele. Moreover, thousand-dollar general rate increases (GRI) in Forty-Foot Equivalent Units (FEUs) have created transportation costs so high that exporters cannot compete in the foreign marketplace.²⁹ And in situations in which agriculture exporters could pay the increased fees, shipping carriers have often rejected the product. In October and November of 2020, ocean carriers rejected 177,930 Twenty-Foot Equivalent Units (TEU), totaling \$632 million in export trade losses.³⁰ In response, agriculture exporters under the Agriculture Transportation Coalition called on the FMC to address these carriers who were refusing their bookings through February 2021.³¹ According to Hayden Swofford a representative of the independent Pacific Northwest Asia Shippers Association, ocean carriers are increasing westbound rates through “peak-season surcharges (PSS),” despite exporters having contracts for specific weekly exports.³² Carriers refuse to load agriculture and forest exports unless a PSS is paid, which exporters characterize as “extortion.”³³

The FMC did not address the surcharges and heightened rates as extortion, but a ruling they issued in April 2020 set guidelines for reasonable practices for ocean carriers, which ultimately was never adopted by the industry.³⁴ In response, over seventy agriculture trade associations and exporters sent a letter in February 2021 to the Biden Administration, urging the President to apply subtitle IV of title 46, United States Code, popularly known as the Shipping Act.³⁵ By November 2020, the FMC initiated an expanded investigation, and in March 2021, 24 senators sent a letter to the FMC’s then Chairman, Michael Khouri, expressing support for the Commission’s efforts to investigate the potential violations of the Shipping Act.³⁶ In a similar letter, Committee on Transportation and Infrastructure Chair Peter DeFazio (D-OR), Ranking Member Sam Graves (R-MO), Subcommittee on Coast Guard and Maritime Transportation Chair Salud Carbajal (D-CA), and Subcommittee Ranking Member Bob Gibbs (R-OH) called on the FMC to ensure that ocean

²⁷ The Journal of Commerce. “Ag shippers slam carriers for refusing some export loads.” https://www.joc.com/maritime-news/container-lines/ag-shippers-slam-carriers-refusing-some-export-loads_20201023.html. Accessed June 6, 2021.

²⁸ See Footnote 13.

²⁹ The Journal of Commerce. “Trans-Pacific carriers push third GRI in a month.” https://www.joc.com/maritime-news/container-lines/trans-pacific-carriers-push-third-gri-month_20200630.html. Accessed June 6, 2021.

³⁰ CNBC. “Shipping carriers rejected tons of U.S. agricultural exports, opting to send empty containers to China.” <https://www.cnbc.com/2021/01/26/shipping-carriers-rejected-us-agricultural-exports-sent-empty-containers-to-china.html>. Accessed June 7, 2021.

³¹ The Journal of Commerce. “FMC reviewing whether ag export booking rejections violate Shipping Act.” <https://www.joc.com/print/3647481>. Accessed June 7, 2021.

³² *Id.*

³³ *Id.*

³⁴ Federal Maritime Commission. “Commission Issues New Guidance on Detention & Demurrage.” <https://www.fmc.gov/new-guidance-detention-demurrage/>. Accessed June 7, 2021.

³⁵ Agriculture Transportation Coalition et al. “Letter to President Biden from 70+ Ag Organizations.” Accessed June 3, 2021.

³⁶ United States Senate to Federal Maritime Commission. “Letter from 24 Senators to FMC Chair.” Accessed June 3, 2021.

carriers are abiding by U.S. law and are not engaging in unjust and unreasonable shipping practices resulting from the COVID-19 pandemic.³⁷

However, prior to the expansion of the investigation, FMC Commissioners Carl Bentzel and Daniel Maffei sent a letter to the World Shipping Council (WSC) expressing apprehension of the ocean carrier's practices. While the WSC cannot legally enforce the Shipping Act on its members, the Commissioners stated that it was necessary to inform them since the "carriers [were] providing 1 percent to 5 percent of the containers originally agreed upon in contracts."³⁸ Through the FMC, exporters have the right to file a formal complaint if their contracts are not being honored, yet according to the Commissioners, no shippers came forward. According to then-Commissioner and now Chairman Maffei, exporters, "they have a relationship with these carriers, and are very concerned that...if they make any sort of formal complaints, that they will be harmed in terms of their future relationship with the carrier."³⁹

Nevertheless, U.S. shipping groups are pushing the FMC to act against unreasonable detention and demurrage fees, charges in which are imposed by the shipper the use of the container within the terminal beyond the free time period (demurrage) or for the use of the container outside of the terminal or depot, beyond the free time period (detention). These groups state that a lack of clarity from operators and the FMC alike on such charges has created a situation in which detention and demurrage are utilized as revenue generators, rather than assuring the pickup of import containers and a quicker return of empty ones.⁴⁰ In response, the FMC is examining whether these fees are reasonable in their Fact Finding 29 investigation.⁴¹

Conclusion

According to an April 2021 letter from the Agriculture Transportation Coalition to the Department of Transportation Secretary, Pete Buttigieg, foreign markets are the destination of twenty percent of the U.S. agriculture industry.⁴² And while most trade economists forecast that container and capacity shortages will diminish once the pandemic-related cargo surge subsides, there are also concerns that these markets may not come back for U.S. agriculture exporters.⁴³ American almonds, walnuts, timber, citrus, and hay that are traditionally exported to Asian markets are now facing competition from Australia, South Africa, and Chile.⁴⁴ U.S. agricultural exporters to China

³⁷ Committee on Transportation and Infrastructure. "Committee Leaders Urge Protection of American Shippers from Unjust Shipping Practices Resulting from COVID-19 Pandemic." <https://transportation.house.gov/news/press-releases/committee-leaders-urge-protection-of-american-shippers-from-unjust-shipping-practices-resulting-from-covid-19-pandemic>. Accessed June 9, 2021.

³⁸ Supply Chain Dive. "Refusing US export cargo may violate Shipping Act; FMC warns in letter to carrier association." Accessed June 6, 2021.

³⁹*Id.*

⁴⁰ The Journal of Commerce. "Top US maritime regulator wants to strengthen enforcement." https://www.joc.com/regulation-policy/top-us-maritime-regulator-wants-strengthen-enforcement_20210512.html. Accessed June 9, 2021.

⁴¹ Federal Maritime Commission. "Fact Finding 29." <https://www.fmc.gov/fact-finding-29/>. Accessed June 9, 2021.

⁴² Agriculture Transportation Coalition et al. "Agriculture Transportation Coalition to Secretary Buttigieg." Accessed June 3, 2021.

⁴³ The Seattle Times. "COVID-19 affects even apples – Washington farm exports crimped by cargo-container shortages." Accessed June 3, 2021.

⁴⁴ West Coast Nut. "California's Ag and Food Industry has borne the brunt of the trade war." <http://www.wcngg.com/2021/04/01/californias-ag-and-food-industry-has-borne-the-brunt-of-the-trade-war/>. Accessed June 10, 2021.

have worked hard to develop their market, outliving a previous tariff war and trade-related tensions to sustain a trade relationship between the world's two largest economies.⁴⁵ However, if exporters continue to face challenges in securing equipment or freight rates, they may ultimately lose their customers. U.S. agricultural exporters are imploring the Administration and Congress to level this imbalanced trade relationship.

While the pandemic has shed a light on the monopolization of the shipping industry and the delicate balance this supply chain must preserve to remain competitive with Asia, it also raises the issue of U.S. port productivity. According to the World Bank, not a single U.S. port is listed in the international top 50 container ports for productivity.⁴⁶ It takes 24 seconds to move a container at Chinese ports compared to 48 seconds at West Coast ports. Moreover, shocks to the supply chain system are becoming more common, as evidenced by the Suez Canal blockage in March 2021. These episodes illustrate the need for ocean carriers and logistics companies to adopt more resilient measures, along with digital solutions such as mobile apps and real-time container tracking for truckers and exporters.⁴⁷

⁴⁵ Office of the United States Trade Representative. "Foreign Trade Barriers." Accessed June 8, 2021.

⁴⁶ Wall Street Journal. "Behind Your Long Wait for Packages." <https://www.wsj.com/articles/behind-your-long-wait-for-packages-11622653994>. Accessed June 7, 2021.

⁴⁷ Freight Waves. "The causes of port congestion – and tactics to improve efficiency." <https://www.freightwaves.com/news/viewpoint-the-causes-of-port-congestion-and-tactics-to-improve-efficiency>. Accessed June 8, 2021.

WITNESS LIST

Panel 1:

The Honorable Daniel B. Maffei
Chairman
Federal Maritime Commission

Ms. Rebecca Dye
Commissioner
Federal Maritime Commission

Panel 2:

Mr. John Butler
President and Chief Executive Officer
World Shipping Council

Ms. Alexis Jacobson
International Accounts Manager
BOSSCO Trading LLC
On behalf of U.S. Forage Export Council

Mr. Frank Ponce De León
Coast Committeeman
International Longshore & Warehouse Union

Mr. Eugene D. Seroka
Executive Director
Port of Los Angeles

Ms. Jen Sorenson
President
National Pork Producers Council