Written Testimony of
National Pork Producers Council
President Jen Sorenson

On
"Impacts of Shipping Container Shortages, Delays, and Increased Demand on the North American Supply Chain"

Before the
House Committee on Transportation and Infrastructure
Subcommittee on Coast Guard and Maritime Transportation

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Introduction

Chairman Carbajal, Ranking Member Gibbs, and members of the committee, I appreciate the opportunity to discuss an issue of critical importance that impacts U.S. pork producers and all of U.S. agriculture.

My name is Jen Sorenson. I am the communications director for Iowa Select Farms in West Des Moines, Iowa, and president of the National Pork Producers Council (NPPC), a national association representing the interests of more than 60,000 U.S. pork producers.

The U.S. pork production system, the most advanced in the world, is characterized by robust competition, innovation and efficiency. Last year, our producers marketed more than 131 million hogs despite significant disruptions caused by the coronavirus pandemic. Those animals provided more than $22 million in farm-level income. Expansion of export markets is crucial to the continued success of the U.S. pork industry. As the world's top exporter, U.S. pork annually ships more than $7 billion to foreign destinations.

The past few years have been incredibly difficult for hog farmers. After more than three years of the trade retaliation that limited pork producers' ability to compete effectively around the globe, the COVID pandemic unleashed unprecedented challenges for the entire food supply chain. Now, just as producers are returning to normalcy, shipping delays at our international ports are causing serious issues for U.S. hog farmers and other agriculture exporters. If not addressed soon, the delays have the potential to cause significant backups from our processing plants to hog farms, once again placing producers in a tenuous situation.

The Situation

On an annual basis, U.S. pork producers have historically exported more than one quarter of production to more than 100 countries. Key export markets include countries in Latin America and the Asia-Pacific region. Countries around the world have come to trust the supply of our affordable, safe and reliable pork.

Like other sectors of the U.S. economy, U.S. pork relies on vessel-operating common carriers (VOCCs) to ship product overseas. The COVID-19 pandemic has exacerbated shipping issues, as the United States imported higher amounts of consumer goods, causing a backlog at the ports. This backlog at U.S. ports, overwhelming marine terminals, delaying ship arrivals and loading/unloading, is due to a variety of factors including:

- Congestion in and around the terminals;
- Limited hours of operation. The lack of 24/7 operation is unique to U.S. terminals;
- Terminals that are too full to handle the containers;
- Lack of sufficient labor and automation to allow the marine terminals to load/unload efficiently;
- Lack of information as to locations of containers or the times when they are available; and
- Lack of capacity of near-port distribution centers to accept/process massive volumes of import cargo.

While East Coast ports are experiencing similar issues, the impact has been more severely felt on the West Coast.

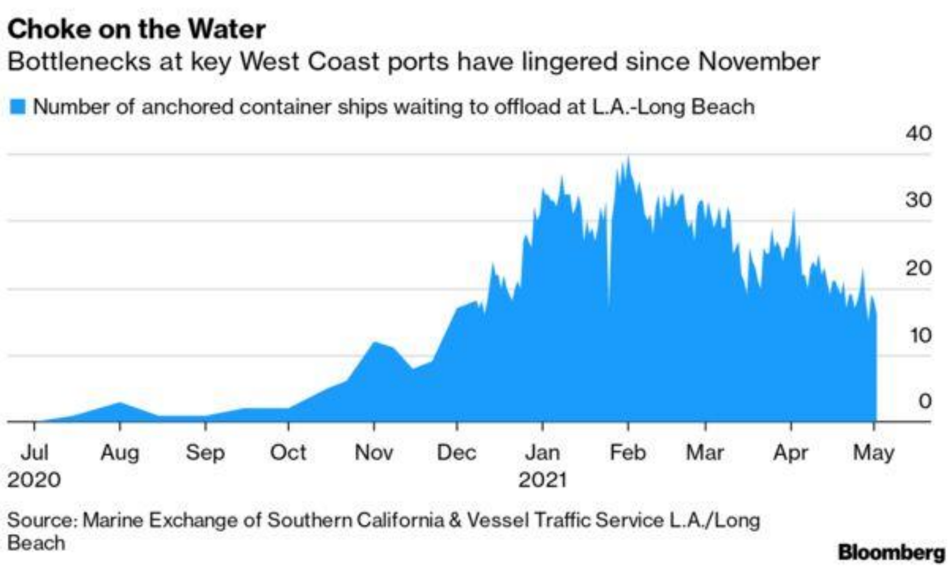
Previously, shipping containers loaded with imported goods were unloaded, sent to rural areas, filled with U.S. pork and other agricultural commodities, and then shipped abroad. However, due to the above-mentioned factors, in addition to lucrative freight rates paid by the import cargo, many VOCCs are immediately returning empty containers to their overseas ports of origin, stranding U.S. agriculture commodities and making it impossible to deliver timely product to foreign customers.

Compounding the situation, carriers are failing to provide accurate notice to exporters of arrival/departure and cargo loading times, and then imposing financial penalties on exporters for "missing" those loading windows. These financial penalties—which are paid to the very carriers that are cancelling the orders—have been deemed unreasonable by the Federal Maritime Commission. Exporters have hundreds of documented instances of ocean carriers declining or cancelling export bookings, often at the last minute, when the cargo is loaded in a container, already on train to the ports. Ultimately, these additional costs are passed down the supply chain to farmers.

The main problem is carriers are not shipping back as many fully loaded containers as they are receiving. At the Port of Long Beach alone, the number of empty containers departing outnumbers loaded containers by more than two to one.[1] Unfortunately, this is causing a cascading effect on the entire transportation system. Since containers are not loaded onto a vessel and instead sit at terminals, they incur significant detention and demurrage fees at the port. The domino effect continues, tying up equipment at the ports, signaling packing plants that they need to adjust harvest capacity, and backing up supply all the way to the farm. This same scenario is being replicated throughout all of agriculture.

It is not just Asian markets seeing these delays. Hapag-Lloyd, the world's fifth-largest container line, recently halted all bookings coming from Latin America. The situation seems to be worsening as bottlenecks continue.

As seen in the chart below, the problem has only grown worse in the last year. At first glance, while it can appear the situation has improved the past few months at the Los Angeles/Long Beach port, in truth there were fewer ships there in May due to carriers being diverted to less congested ports. Of course, that does not resolve the issue; it just expands the bottlenecks to other ports throughout the country.



[1] https://polb.com/port-info/wave-weekly-advance-volume-estimate/

Pork Impacts

As mentioned, the U.S. pork industry has historically exported more than one-quarter of annual production. The Asia-Pacific region is among our top markets due to its cultural preference for pork. Thanks to recent trade agreements with China and Japan—spearheaded by NPPC—U.S. pork exports to those countries saw a significant uptick in 2020 by 75 percent and 6.7 percent respectively, compared to 2019.

In 2020, U.S. pork sent 52 percent of all exports—worth $3 billion—through West Coast ports in Long Beach, Los Angeles and Oakland, Calif., as well as Seattle and Tacoma, Wash. These shipping delays to the Asia-Pacific region are increasing costs to U.S. pork and positioning the United States as an unreliable trading partner. Frequent, last-minute cancellations of U.S. pork shipments have undermined shipment certainty and eroded trust with buyers our industry has invested heavily to earn. We have already heard of large international retailers and restaurant chains looking at sourcing pork from other countries rather than waiting for U.S. product. If these shipping delays continue, more retailers are likely to follow suit.

If left unaddressed, this may also negatively impact future trade agreements with Southeast Asian trading partners, as we seek better market access for U.S. pork.

High domestic demand for U.S. pork over the past year—due to COVID restrictions and more consumers eating at home—has helped offset some of the harmful impacts of these international shipping delays. However, now that the United States is lifting its COVID restrictions and pork is in higher demand in more countries, we may soon find ourselves in a situation where we are not able to fill orders on time.

The Solutions

As I have outlined, the shipping delays at our nation's ports are caused by myriad factors. Addressing them requires urgent attention, as this impacts all of U.S. agriculture, a significant source of revenue for our nation's economy.

Because these shipping delays affect a wide variety of agricultural commodities, the Agriculture Transportation Coalition (AgTC) has helped coalesce likeminded associations to address concerns and develop suggested solutions. AgTC, of which NPPC is a member, has sent correspondence to the administration over the past few months, urging for a quick resolution to this matter.

Among solutions, AgTC and NPPC recommend the following:

- Expand hours for U.S. ports: The U.S. marine terminal gates typically are open and operating between 8 and 16 hours a day, five or six days per week, compared to Asian terminals that work 24/7. To relieve congestion, U.S. ports must expand their operating hours.
- Mandate ocean carriers carry export cargo at safe capacity levels: Typically, about 100% of the containers on an eastbound (e.g., Asian imports to North America) ship are loaded with cargo, while approximately 70-75% of the westbound (e.g., U.S. exports) containers are loaded, with the remainder left empty; and
- Support and expedite the Federal Maritime Commission (FMC) enforcement of its detention and demurrage rule: FMC has found that carriers and terminal operators were issuing unreasonable penalties for leaving a container or maintaining possession of a container in a marine terminal for longer than allowed. Despite FMC ruling the penalties were unreasonable, the carriers and

terminals have failed to follow this guidance, continuing to cumulatively issue hundreds of millions of dollars of demurrage and detention invoices to U.S. exporters/importers.

We urge congress and the administration to remain engaged, working with all parties to find a solution to ensure the continued, uninterrupted supply of U.S. pork and other agricultural products to our overseas customers.

Conclusion

Expanding market access is critical to the success and future growth of U.S. pork producers. Over the last decade, the United States has been the top exporter of pork in the world. In any given year, the U.S. pork industry ships product to more than 100 countries.

U.S. pork producers need Congress and the administration to work together to quickly engage and address these shipping delays, enabling hog farmers to continue to lead the way as a vibrant American farm sector that is critical to the rural and overall U.S. economy.

Appendix

Previous correspondence to administration officials on shipping delays:

- Feb. 24, 2021 letter to President Biden from 70+ agriculture organizations;[2]
- Feb. 25, 2021 letter to Federal Maritime Commission (FMC) Chairman Khouri from Sens. Boozman and Wicker;[3]
- March 2, 2021 letter to FMC Chairman Khouri from 24 senators[4];
- March 2, 2021 letter from Rep. Schrier to FMC[5];
- March 8, 2021 letter to FMC Chairman Khouri from senior members of the House Transportation & Infrastructure Committee and the Coast Guard & Maritime Subcommittee[6];
- March 9, 2021 letter to Federal Maritime Commission Chairman Khouri by 111 House members[7]; and
- April 27, 2021 letter to Department of Transportation Secretary Pete Buttigieg from nearly 300 U.S. agriculture and forest products companies[8].

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[2] https://agtrans.org/wp-content/uploads/2021/03/Ag-Association-Letter-to-President-Biden-02-24-21_Final.pdf
[3] https://www.commerce.senate.gov/services/files/82EFDBA7-CFFF-424F-968A-8DE9F31F3ED9
[4] https://agtrans.org/wp-content/uploads/2021/03/03.02.21_Thune_Klobuchar_Final_with_signatures.pdf
[5] https://agtrans.org/wp-content/uploads/2021/03/Schrier-Letter-to-FMC-For-IMMEDIATE-Release.pdf
[6] https://agtrans.org/wp-content/uploads/2021/03/2021-03-08-Big-4-Letter-to-FMC-on-Container-Shortages-and-Agriculture-Exports-003.pdf
[7] https://agtrans.org/wp-content/uploads/2021/03/FMC-VOCC-final-letter-3.9.21-003.pdf
[8] https://agtrans.org/wp-content/uploads/2021/06/Ag_Export_Letter_to_Secretary_Buttigieg_04_28_2021.2.pdf