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U.S. Transportation Industry Update

U.S. West Coast Ports Recent Labor Dispute Settlement

As part of an ongoing series, this report provides a brief overview of updates within the U.S. Transportation Industry. Quotes are included from established industry analysts and researchers to ensure comprehensive coverage of current and expected conditions.

The Pacific Maritime Association (PMA) and the International Longshore and Warehouse Union (ILWU) reached a tentative agreement on a new five-year contract in late February. The new contract affects dockworkers at 29 U.S. West Coast ports. The general industry consensus is that it will take close to three months to clear the backlog of ships and containers and return the ports to near "normal" operations.

In a report issued by Drewry Maritime Research, the estimated aggregate losses incurred (due to related labor slow down causing congestion) by the container lines serving these ports amounted to $150 million in the 4th quarter of 2014. These losses were driven primarily by extended vessel turnaround times experienced during the labor dispute. Analysts are projecting additional related costs for these carriers throughout the first half of 2015 as the backlog of vessels is decreased.

To help facilitate a return to normal operations, the Federal Maritime Commission (FMC) has authorized the Ports of Los Angeles and Long Beach to work collaboratively to accelerate clearing the backlog of vessels and to "work together to find new ways to prevent congestion and cargo delays, improve the transportation network and enhance air quality," according to a statement issued by the ports. This authorization was required in order to grant the ports an antitrust exemption allowing them to exchange information on projects, programs, rates, charges, operating costs, practices and regulations related to their marine terminal, trucking, rail and vessel operations.

In addition to the California ports facilitating improved operations, Direct ChassisLink (DCL), Flexi-Van Leasing (FVL) and TRAC Intermodal (TRAC) recently announced their collaboration on the expansion of a container chassis supply model that began in early March at the Ports of Los Angeles and Long Beach. The chassis pools managed by these companies are operating under terms that allow improved chassis interoperability. This approach will improve chassis supply for transportation of containers between the California ports, rail yards and cargo destinations in the surrounding the area.

Ultimately, this "pool of pools" is expected to provide access to chassis for up to 12 major port terminals along with the network of rail and container yards adjacent to the involved ports. The new agreement will allow chassis users to interchange over 80,000 chassis amongst the involved chassis pools. This is expected to reduce chassis pick-up and return times and subsequently improve truck productivity, which will facilitate faster congestion clean up.

Cargo volumes at the Los Angeles and Long Beach ports had been significantly reduced prior to the labor agreement as shippers and importers tried to ensure the flow of their goods. These diversions were still evident in February with the Port of Los Angeles volume down 10.2 % YOY (imports -10.7 % and exports -10.3 %) and the Port of Long Beach volume down 20.1 % YOY (imports -24.7 % and exports – 22.9 %). Industry analysts report that the ports involved in this dispute will need to re-establish their reputation and trust with shippers before they can expect to see volume return, especially in light of previous labor disruptions (in 2002 and 2012). Reports suggest that approximately half of the imports into these two ports are destined for local markets, and regional volume is not expected to be at risk of diversion.

During two recent transportation industry conferences (BB&T Capital Partners and Stifel Equity Research Group), there was considerable concern expressed by domestic shippers that they had started to see truck capacity off of the West Coast tighten in response to the increased flow of imports, which was leading to higher rates. FTR Transportation Intelligence affirmed this perspective during a recent commentary, indicating that spot truck rates are expected to spike as receivers expedite delayed inbound inventory in order to replenish store shelves and keep assembly plants running. FTR also suggested that inbound spot markets to the West Coast may also drop slightly in order to reposition equipment to take advantage of the spot eastbound market situation. With the resurgence of port volume, the West Coast container transload operations are expected to accelerate their throughput, which will place additional near-term demand on eastbound domestic transportation capacity. The general consensus from several analysts is that over the next 90 to 120 days, the capacity situation will be very tight and higher eastbound spot market rates will result for most West Coast freight originations.

Armada has contracted transportation for the vast majority of West Coast freight originations and does not expect to see a major impact on this portion of business as a result of the West Coast port recovery situation. However, to the extent that spot market capacity is required, we do expect that there will be related market premiums associated with such moves. The best way to avoid exposure to such premiums is to plan on at least three to five days in advance notice for your shipments.

For more information regarding Armada's Transportation Solutions or ReDistribution operations, contact:
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Sources:
BB&T Capital Partners
Drewry Maritime Research
FTR Transportation Intelligence
Stifel Equity Research Group