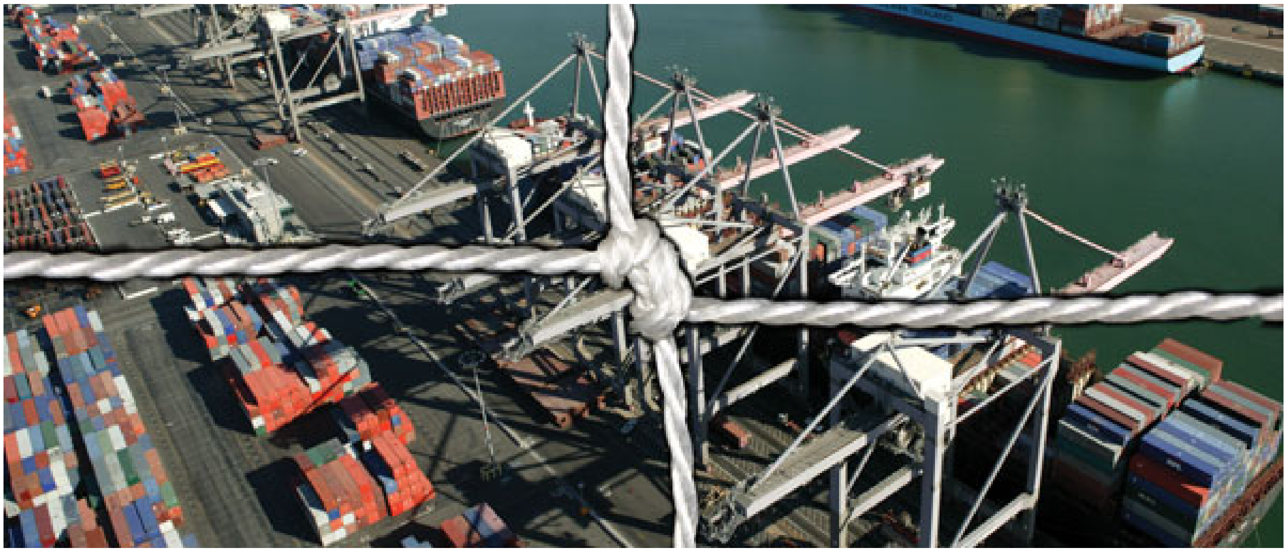
American Shipper





# Tied in a knot

## Apparel, footwear shippers struggle with West Coast port issues.

By Chris Dupin |Saturday, February 21, 2015

The U.S. economy has become ever more dependent on imports, and hence the smooth functioning of its ports.

Nowhere is that more apparent than in the apparel and footwear business and the congestion and labor problems at West Coast ports have impacted them greatly.

The share of apparel imported into the United States has climbed from 43.8 percent in 1991 to 97.5 percent in 2013, while the share of imported footwear has increased from 74 percent in 1985 to 98.5 percent in 2013, according to estimates by the federal government and American Apparel and Footwear Association.

With the majority of garments and footwear manufactured in China or Southeast Asia, most of these products move through West Coast ports.

Congestion at those ports is not just the result of the contentious contract talks during the past year between the International Longshore and Warehouse Union and Pacific Maritime Association.

“The system is fundamentally broken,” Phil Connors, executive vice president of Flexi-Van Leasing, told members of the AAFA who gathered for a logistics conference in Long Beach, Calif., on Jan. 28.

He pointed to systemic issues contributing to congestion, including the deployment of much larger ships and the large “dumps” of containers that result when they call terminals, new alliances among carriers, and the lack of truck capacity.

Nearly all the liner carriers have decided to divest themselves of their chassis fleets and, while Connors believes chassis have been an issue in contributing to port congestion, he said, “in my opinion there are enough chassis, but they were misplaced.” He said in the fourth quarter of 2014 large numbers of chassis —5,800 of the 35,000 in the Los Angeles Basin Pool—were inside terminals "and had not seen the light of day for 15 days or more,” including 2,759 that hadn’t moved in two months. There was also a 25 percent increase in the number of chassis "on the street" in October 2014 compared to 2013.

He believes a gray pool of chassis implemented by his company, TRAC Intermodal and Direct ChassisLink in the ports Los Angeles and Long Beach will help relieve congestion in the region.

"The near halt of port activity on the West Coast is our No. 1 trade barrier right now. Almost 50 percent of all clothing and shoes sold in the United States are imported through the ports of Los Angeles and Long Beach," said Juanita D. Duggan, president and chief executive officer of AAFA, on Feb. 12.

Statistics from information firm Datamyne showed 53 percent of apparel and 76 percent of footwear move through the five big ports on the West Coast—Los Angeles, Long Beach, Oakland, Seattle and Tacoma.

"Slowdowns at these ports have resulted in loss in sales for our companies and increased costs for the industry and the economy as a whole," Duggan said. "The inability for the parties to come to a labor agreement has created massive backlogs of containers at the West Coast ports. As a result, apparel and footwear companies have missed product delivery timelines, and have been forced to implement costly contingency plans to reroute the delivery of products through non-U.S. ports and by air."

At an AAFA panel discussion in January, Brian Moore, director of apparel sales at Maersk, said PMA had reported that productivity was down 50 percent at terminals and terminals were "overstuffed" with cargo—more than 90 percent full—and railroads were slowing down because of terminal congestion.

PMA began limiting the number of gangs discharging and loading vessels to reduce congestion in terminals. In February, the employer group ended weekend and holiday vessel operations, stating it no longer wanted to pay overtime for ILWU workers that it said were providing subpar productivity.

It was unclear as this issue of *American Shipper* was being prepared in mid-February if President Obama's decision for Labor Secretary Thomas Perez to get directly involved in the ILWU-PMA would break a deadlock in the negotiations.

But the situation at the West Coast ports has been "a continuing nightmare, and it's changing, every scenario, every single part of it is a total disaster and it is for every commodity—and certainly fashion is dramatically affected by it," said Sara Mayes, president of the Gemini Shippers Association, which counts AAFA members as clients.

Jessica Dankert, senior director of retail operations for the Retail Industry Leaders Association, said in anticipation of the need by the ILWU and PMA to negotiate a new contract this past year, many retailers had made contingency plans for early shipments of back-to-school or holiday merchandise. As congestion issues and the ILWU-PMA confrontation continued, there has been more diversion of cargo from the West Coast, and increased use of air shipments.

"Apparel retailers, particularly with fast fashion, are looking to increase their proportion of air cargo, which is extraordinarily expensive and just adding to the costs that the port issues have piling on for retailers," she said. Unplanned use of air cargo, she noted, is particularly costly.

Congestion and uncertainty about the ILWU-PMA negotiations has gone so bad that she said some retailers are drawing up contingencies to move up shipments of 2015 back-to-school merchandise, normally shipped in late spring or early summer.

"One of the saddest things I see are members who have promotional goods that can include garments or accessories that are specifically targeted to an event. They think they have timed everything perfectly and then the ship is sitting in L.A. harbor for an extra three weeks," Mayes said.

"And then when it comes into the terminal it is in the UTL—a new phrase I learned this year—which means 'unable to locate.' And then when they do locate it they can't find a truck.

"Because the ships are sitting in the harbor for weeks, they can't unload the containers. The containers get lost, so they can't go back to China. There is no equipment in China. Because of the delays, the shipping schedules are impacted overseas," she said.

"Folks are beyond frustrated," said Jonathan Gold, vice president of supply chain and customs policy at the National Retail Federation.

"They are trying to avoid the West Coast at all costs," he said. "I know that's what I'm hearing from some of my members. They're saying they're done. They can't afford to bring product through the West

Coast. It's too unreliable."

The reputation of West Coast ports is suffering not just from the protracted 2014-15 negotiations, but also the 2002 PMA lockout. There were strikes and port disruptions in 2008, and a 2012 strike by an ILWU clerical union that shut down half the terminals in the ports of Los Angeles and Long Beach.

One logistics professional, who didn't want to be identified by name, said there are some shippers who want to "punish the ILWU," because they view the union as causing their companies problems and may move business to the East Coast for the foreseeable future.

Hudson Warren, a principal at the Pasadena, Calif.-based international trade and logistics consulting firm China West Global, said, "Personally, I think the fault lies with the employers. Over the years, the ILWU has made outlandish demands and the employers simply caved in. Now high costs and poor productivity have reached a critical mass.

"Add to this that the 'employers' are terminal operators, many of which are owned or controlled by steamship lines that are generally foreign owned. This gives the employers, and their hierarchy, the ability to clearly compare costs and productivity on the U.S. West Coast vs. other major ports around the world. The conclusion is obvious; the West Coast is overpriced with poor productivity," Warren said.

"Everybody keeps looking at the same contingencies and alternatives—whether it's shifting to the East Coast, Gulf Coast, Canada, Mexico, or air freight. Everybody's trying to do whatever they can. Unfortunately, you've got a lot of folks whose stuff is stuck on the boats," Gold said.

"Folks have options now they didn't have back in '02," Gold noted, adding that East Coast ports "have already taken a lot of that cargo" previously moved through the West Coast.

East Coast ports are able to handle larger ships because of channel and terminal improvements. There are more trans-Suez services with large ships from the Far East and the economic competitiveness of East Coast services via the Panama Canal will be improved when its new enlarged locks go into operation next year. More warehousing and distribution centers have also been built in the eastern United States.

Mayes said some warehouses and distribution centers are located inland in places like Memphis and Chicago, and more shippers may seek to move their cargo to these locations via rail from East Coast ports.

Mayes, however, said there is just so much intermediaries can do to assist shippers, especially when cargo is in transit or sitting in a harbor. "We can reach out to senior management and try to put additional pressure on, but everybody is doing the same thing. What we are trying to do for members is find alternative routes, but even that is not possible anymore," because ships to the East Coast, Gulf and Canadian ports are full, she said.

She said if shippers had alternatives they have already tried them. "Anything that could have been done has been done," she added.

The service problems that shippers have experienced over the past year are likely to affect their contract negotiations with transpacific container carriers this year.

"The carriers come in here all the time talking about how much money they have lost. Our members are losing money hand over fist, too. They are paying additional money for demurrage… lost orders, charge backs," Mayes said. She explained while retailers are aware of the port problems, their sympathy only goes so far and some view chargebacks as a "profit center."

Eric Wiseman, chief executive officer of VF Corp., told securities analysts in February as he reported the company's annual results that his logistics team had navigated through the port congestion problems in Southern California "incredibly effectively."

While VF has had some misdeliveries and incremental costs, it has not been material enough that the company has had to call anyone's attention to them, Wiseman said.

Whether a "full-on strike" on the West Coast would be material to the company's results would depend largely on how long a stoppage lasted. "If it is one weekend, we'll get through it. If it's three months—well, I don't think that's even possible for it to be three months—it would be really important," he said.

“Most of the cost associated with that sit with us,” he explained. “If our orders are late getting to customers, customers don’t have to take them, so we bear the risk. But I would tell you we've had that risk now for eight months and we have managed it really, really well.”

While Wiseman said there were some diversions, Sean Gallagher, VF’s director of logistics and transportation, noted at the AAFA logistics conference that the company imports about 15,000-17,000 containers through the ports of Los Angeles and Long Beach and after looking at the possibility of moving them through Mexico, Canada or the East Coast made the decision to continue to move its containers through the two Southern California ports.

“We do have a significant DC-bypass strategy that we used and we do go wholesale with a lot of our customers, particularly going into the holiday season when we were flowing a portion of those containers to the Gulf and the East Coast,” Gallagher said. “But we felt if we were going to make any real change we had to do it back in May.”

Some of the strategies VF used to mitigate congestion included:

- Measuring various milestones such as transport time port to port, discharge time, terminal dwell-time, and delivery time to its facility by trade lane and then making adjustments to the carrier allocation.
- Diversifying its business across several terminals.
- Expanding drayage capacity. The company worked with some drayage companies so that they would give it dedicated drivers to pick up VF containers—“three or four drivers we could call on for critical situations.”
- VF registered 20-25 trucks in its over-the-road fleet and trained 50 drivers so it could use them as drayage drivers. (Gallagher said the company was “throwing more power basically at the same number of containers recognizing that we were in a downward trend.” He said this was not very productive, as the drivers might only get one turn per shift, “but it enabled us to be very surgical” in targeting containers it thought were most critical to its business.)
- Leasing 15-20 chassis.
- The company has used air freight transport for critical shipments.

VF logistics staff made daily telephone joint calls with carriers, terminals operators and drayage drivers. “That was a key lever that we continue to use today,” Gallagher told AAFA members.

He said VF has considered “buying a gate,” where it would pay a terminal to open a facility to allow its trucks to evacuate large numbers of containers within a short period of time. However, that proved impossible because of VF’s decision to diversify its business across several terminals.

Gallagher said the company has thought about creating alliances with competitors or other shippers to jointly arrange to “buy a gate.” “It’s a lever that we didn’t pull, but I think we’ve done enough homework and basically we’ve got a plan outlined and ready to do, should we need it,” he said.