US Department of Agriculture helps fund "pop-up" port

Market Report

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Summary

- US Department of Agriculture is helping to fund a "pop-up" empty container yard at the Port of Oakland in California to support US agricultural exports overcome supply chain issues, including paying US$125 per container to cover additional logistics costs.
- Port of Oakland representatives have highlighted how the investment will also provide benefits for importers, by facilitating improved operations at the port and lowering associated costs.
- The initiative has the potential to be replicated elsewhere in the US with global shipping congestion expected to drive squeezed capacity and higher costs into 2023.
- With legislation working through Congress and reviews of critical supply chains due to be delivered in the coming months, we expect to see further announcements of US government investment across the food supply chain.

Report

- With supply chain challenges continuing to frustrate US economic recovery, the US Department of Agriculture (USDA) announced in late January a partnership with the Port of Oakland to set up a "pop-up" site to allow exporters of agricultural products to avoid congestion at the main port by having access to a dedicated space to procure empty containers for loading. The Port received some US$500 million of New Zealand exports in 2021, with wine, beef and lamb the key products.

- From 1 March, the new site will provide space for some 8,000 empty containers, making it easier for agricultural companies and cooperatives to access containers for packing out commodities for export, and reducing congestion on the Port itself. USDA will meet 60% of set up costs of the site as well as providing US$125 per container to cover the exporters' additional movement logistics costs. Funding for the site will draw on US$500 million of funding allocated in September 2021 to provide relief from agricultural market disruption.

- Port representatives remain conscious of the challenges facing New Zealand exporters trying to get goods into the US. While the "pop-up" port was intended in the first instance to improve US exporters' access to increasingly constrained shipping opportunities, importers may also gain from the spill-over benefits of increased capacity and "fluidity" on the port reducing gridlock.

- Representatives of the Port made a request to keep ships coming to Oakland and also made a series of suggestions to help negotiate the current operating environment, including:
  - Negotiating with importers on terms of trade, particularly in relation to flexibility in nominating shipping lines.
  - Encouraging those exporting US product to make use of the new facility to load Californian product.
  - Rethinking logistics strategies to move away from a cheapest is best option to one which recognises the value of relationships.

- There is potential for the Port of Oakland approach to be replicated elsewhere in the US to meet wider supply chain challenges. Response to the initiative has been positive, with both the Port of Oakland and USDA acknowledging significant interest from other ports. The port is focusing current efforts on outreach to the community to bring awareness to the initiative and to push for truckers and exporters to use the facility, noting that their support will be critical to its success and inform any decision on establishing a permanent yard.

- Shipping companies have come under increasing criticism from the Administration and US industry for their focus on clearing empty containers, at the expense of shipping capacity for exports. In launching the initiative, Transport Secretary Pete Buttigieg urged global shipping companies to “help mitigate disruptions to agricultural shippers by restoring reciprocal treatment of imports and exports and improving service”.

- Industry players are taking action to reduce congestion. In one recent example, the International Dairy Foods Association (IDFA), Port of Los Angeles and shipping and logistics company CMA CGM formed a Dairy Exports Working Group to assess and tackle supply chain challenges from the factory to the port.

- The federal government has made US$14 billion available under the Bipartisan Infrastructure Act to strengthen port and waterway supply chains and bolster climate resilience. In addition, the Governor of California is proposing US$1.2 billion in spending on port infrastructure and goods movement in the state. A forthcoming report on the Administration’s review of the food and agriculture supply chain is also expected to result in further funds being made available.

- Congress also continues to advance legislative changes aimed at alleviating supply chain challenges for exporters. The Ocean Shipping Reform Bill has been passed by the House of Representatives, while the Senate has introduced their own version of the Bill.

- Despite the widespread attention, current supply chain challenges on the West Coast are widely expected to persist into 2023. With no ships larger than 3,000 TEU capacity currently available globally, and no new ships known to be scheduled to enter service until 2023, there is little hope of a circuit-breaker to balance the market. To that end, export freight rates are expected to remain high, with little prospect of a drop to pre-pandemic rates.

- Labour availability is also expected to remain an issue, noting that the last COVID surge caused significant staffing shortages in US ports’ workforces. Should COVID become an endemic illness with seasonal spikes (especially around holidays or family gatherings), this will continue to place pressure on staffing across all sectors.

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