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THE INDUSTRY'S BIGGEST QUESTION

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As contract negotiations with carriers sprint towards a close, the shipping industry is beset on all sides by uncertainty; a product of geopolitical conflicts, weather-related problems, human error, and severe overcapacity presented by a record number of deliveries during the last six months. In spite of all this industry chaos, rates continue to remain extremely volatile as capacity is moved from market to market, making the decision to sign a year-long contract with a carrier a difficult one for shippers. At this time last year, rates were at historic lows. However, the recent and continuous wave of unpredictable global crises is causing rates to fluctuate.

Even relatively minor events, such as Denmark closing the Great Belt shipping lane due to a misfired missile, are making shippers jittery over the state of the world and the effect these seemingly “rare” events have on the market. As a result, shippers are left with a difficult decision: to sign a contract directly with a carrier who has shown little historic evidence of honoring contracts when geopolitical and critical global issues arise, or pay variable rates in an unstable market.

“The volatile climate surrounding contract season this year due to geopolitical factors and uncertain alliance futures means shippers shouldn’t hold their noses, sign on the dotted line without knowing what they are buying, and commit to one carrier for an entire year,” said Anthony Fulbrook, president of OEC Group’s North American Region. “Instead, shippers would be better served to keep open and play the spot market for a good portion of their freight.”

One upcoming event that is giving shippers and carriers pause is the possible ILA strike that will affect all ports on the U.S. East and Gulf coasts. Part of the fear is that this labor issue could result in significant slowdowns or a full-blown strike that could force cargo to be imported through U.S. west coast ports and then trans-loaded and shipped by ground to its final destination. Based off of the recent rhetoric from union leaders, it seems likely that some labor action will occur if their demands are not met. If any action occurs it will most likely make shipments arrive slower and cost more.

However, even if labor action were to occur, experts cannot definitively say that rates will in fact increase and that contracting with a carrier is a better overall option in the long run. In fact, many believe that importers who choose the variable rate option will still come out ahead.

“Shippers should think long and hard before signing a contract with a carrier in this climate, because while it’s easy to say, ‘those terms look fine, let’s put it in the budget and move on,’ the reality is there is money to be saved by keeping your options open as alliance uncertainty and geopolitical instability still have a huge role to play in this year’s market,” said Frank Costa, Vice President of Sales for OEC Group. “Importers should be looking for a partner with industry knowledge who has a track record of making accurate pricing predictions and identifying industry rate trends that could allow shippers to keep moving their cargo even during a very challenging and geopolitically restrictive market.”



ASK AHAB

Welcome to Ask Ahab, where supply chain professionals from around the world bring their white whale questions to OEC's resident captain in the storm. This month, the questions facing Ahab are focused on the upcoming labor negotiations between the International Longshoremen's Association (ILA) and the employers at ports right now.

Q: Dear Ahab, what do ports and the ILA disagree on right now? Why might a strike take place? – P. Dombrowski, Chicago, IL

A: Hi P., thanks for stopping by! The main disagreement is the one we see in virtually every labor dispute: money. The ILA has made it known that it is looking to at least duplicate if not surpass what the west coast dock workers secured last year, which included an 8% pay bump in year one, and a 32% jump over the six-year life of the contract. Right now, based on a local ILA negotiation it looks like they might be able to surpass that agreement because the Great Lakes District of the ILA have already agreed to a contract with a 40% increase in their pay over the life of a six-year deal.

In addition to pay, there are concerns about automation, similar to what we saw during the actors and writers' strikes last year. People see all of the incredible things you can do with technology and, no matter how impressive it is, they're bound to worry about that technology taking their job someday. In turn, the union is going to want some assurance that jobs won't be lost to tech.

Q: Dear Ahab, what will these labor negotiations mean for me and shippers like me? – H. Marinovic, New York, NY

A: Well, T., if we look at last year's west coast negotiations as an example, we'll see it's likely to slow down operations. Work slowdowns in Los Angeles-Long Beach precipitated a 40% YoY drop in cargo processing in February of last year, and a strike in Canada caused

a multi-month backlog of shipments coming through the port of Vancouver (the strike lasted 13 days). So, even if this situation doesn't devolve into work stoppages across the eastern seaboard and gulf coast, it's likely to result in delays. This means shippers need to anticipate these slowdowns now and plan their supply chains accordingly.

Q: Dear Ahab, the ports of Charleston, Houston and Savannah have grown a lot in recent years. How will growth in those ports impact the negotiations that take place between ILA and employers? – S. Bacall, Conway, S.C.

A: Great question, S.! The argument that port workers across the East Coast and the Gulf Coast will make is essentially, we've been here, we've weathered the storms, we've kept things moving, this is where we get rewarded for not just our loyalty, but also helping spur regional growth. The unique thing about those three ports is that over the past two, three years, when everyone was swamped, everyone was putting out fires, they took on more cargo, saw an opportunity and grew.

So, when the workers at those ports come to the negotiating table, the discussion won't start from a place of "we've been good soldiers," it'll start from a place of, "we've made you money," and that's a much stronger negotiating position.

Q: Dear Ahab, could I just re-route my shipments to the West Coast in the event of a strike? – P. Nguyen, Ho Chi Minh City, VNM.

A: Here's the thing, P.: The short answer is yes, and I am sure the west coast dock workers would be happy to take on more cargo. However, that brings a few other familiar problems into focus, namely congestion at west coast ports will become an issue, as will the fragile U.S. infrastructure problems, which was not addressed in the way it should have been in the past four years. This will lead to familiar rail and trucking problems, and issues with container stacking. It will be pandemic era problems all over again, just on a slightly smaller scale.

Q: Dear Ahab, what can I do ahead of a potential strike to make sure it doesn't disrupt my business? – J. Giroud, Nice, FR

A: The first thing I would recommend, J., is getting products shipped early. The reason is the contract expires at the end of September, at the height of "Peak Season." This means that if the ILA declares a strike or slowdown around that time, a shipper would risk not having their cargo in time for the holiday season. We know from COVID that this would be catastrophic for businesses. Therefore, the only way to not be affected by a potential labor issue is to reach out to your logistics advisor, plan ahead, and get your cargo delivered well before the expiration of the labor contract.



Fun Facts About April Fools' Day



The Roman festival of Hilaria is one of the precursors to April Fools' Day



In Scotland, April Fools' Day was traditionally called Huntigowk Day



In one April Fools' prank, the BBC once broadcasted Swiss farmers picking freshly grown spaghetti. They were later flooded with requests to purchase a spaghetti plant.



The only day the Korean royal family is allowed to lie and play pranks is on April first.



Google launched Gmail on the eve of April Fool's Day, and everyone thought that it was a prank because it worked so well.



In some countries, people throw flour at each other as the part of the April Fools' Day festivities.



1985, Sports Illustrated writer George Plimpton tricked many readers when he ran a made-up article about a rookie pitcher named Sidd Finch who could throw a fastball over 168 miles per hour.



One of the more unique April Fools pranks was created by Burger King when it advertised the "Left-Handed Whopper".



ABOUT OEC GROUP

As an industry pioneer, OEC Group has become one of the world's leading logistics companies. We leverage in-house expertise, carrier partnerships, connections with ports and transportation hubs, and our network of offices in North America, Europe, Asia, India, South America, Australia, and the Middle East, to provide freight transportation, logistics, information, customs and brokerage, insurance, and technical services to over 50,000 customers of various sizes and industries.

We are also highly sought after for the advice we give shippers on how to optimally manage their supply chains. The guidance we provide is based on data analytics, best practices, and decades of industry knowledge.

We believe that relationships matter and treat your cargo as our own. Our experts are always investing in efficient, cost-effective, and cutting-edge services to evolve with the ever-changing market, address the complexities of any client's supply chain, and consistently perform at the highest level for our customers.

Our business is making our logistics expertise, your competitive advantage.