Red Sea cargo diversions could affect 2024 holiday shipping

Government needs to step up to avoid fall peak congestion at US ports, retailers tell lawmakers

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Retailers want to avoid the West Coast backups caused by the pandemic. (Photo: Port of L.A.)

The current spike in shipping costs caused by ocean carriers routing away from the conflict in the Middle East could seep into longer-term rates if the federal government waits too long to help mitigate potential backups at U.S. ports, according to retailers.

"While many are focusing on the current situation, more challenges will be created the longer these disruptions continue," said Jonathan Gold, vice president of supply chain and customs policy at the National Retail Federation, testifying on Capitol Hill on Tuesday.

“The federal government needs to start paying attention to these issues now to help avoid significant congestion in the coming months.”

NRF’s Jonathan Gold testifying on Tuesday. Credit: House T&I Committee.

Gold told lawmakers at the hearing — called by the U.S. House Transportation & Infrastructure’s maritime subcommittee and titled, “Securing Shipping Against Threats in the Red Sea” — that he is concerned about the effect that long-term disruptions in the region will have on annual contract negotiations his members will soon be entering into with the ocean carriers.

“We do not want to see rates similar to the pandemic, which could impact inflation,” he said.

At the same time, Gold said his members are making decisions now regarding back-to-school and holiday import shipments, and are looking to shift those containers back to the West Coast ports after having shifted them away from the West Coast congestion and backups that occurred during the pandemic.

“We need to make sure that our ports, terminals, railroads, harbor truck drayage providers and warehouses are ready for the increased cargoes. We are already hearing that the dwell times are starting to tick up on the rail side.”

More congestion buildup could begin in the next four to six weeks, Gold warned. “Efforts need to be made now to convene the right stakeholders to plan accordingly.”

The congestion on the West Coast sparked by the pandemic that occurred in 2020 and 2021 led to several efforts by the Biden administration to help improve goods movement into and out of the U.S., including the Freight Logistics Optimization Works (FLOW) initiative.

MSC’s Bud Darr testifying on Tuesday. Credit House T&I Committee.
Headed up by the U.S. Department of Transportation, FLOW coordinates and processes container shipping data from ocean carriers, railroads, trucking companies, shippers and others to allow transportation companies to better anticipate potential congestion issues.

The effort, Budd Darr, executive vice president of maritime policy and government affairs at container ship operator Mediterranean Shipping Co., testified at the hearing, “is a pretty good attempt to try and open up some more visibility with the hope that we can project forward patterns much better. It’s an example of a genuine public-private partnership that I think deserves some recognition.”

Addressing the rising costs that shippers have experienced as result of ship diversions away from the Red Sea, Darr noted that containerized goods are “not all affected equally. The higher value goods are, relative to their volume, that goes into a container, the much less affected they are” by potential price increases. “We’re not seeing anywhere near the price excursions in the open market that we did during the pandemic.”

But Darr conceded during the hearing that long-term shipping strategies — and their cost implications — could be upended by the current geopolitical crisis.

“We will adapt. We will make it work. We will meet the world’s commerce needs. That’s what we do,” Darr said. “But it may not look like it does today. And what we’re learning through the initial six weeks of adaptation of our networks is, maybe we’re going to call different places than we called before. Maybe we’re going to shift volumes for transshipment to different hubs than we did before. Maybe we’re going to avoid the Suez Canal altogether, and all that may come from that as far as stability in the region goes.

“All of those things are possible — I can’t paint exactly the picture. I can assure you we’ll meet the need, but it will be more expensive. There will be costs associated with that.”