



Testimony of

Jonathan Gold
National Retail Federation

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For its hearing

Menace on the Red Sea: Securing Shipping Against Threats in the Red Sea

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Thank you, Chairman Webster, Ranking Member Carbajal, and Members of the Subcommittee for inviting me to testify on behalf of the National Retail Federation (NRF) and the retail industry on the impacts of the supply chain disruptions impacting the Red Sea and Suez Canal.

NRF passionately advocates for the people, brands, policies and ideas that help retail succeed. From its headquarters in Washington, D.C., NRF empowers the industry that powers the economy. Retail is the nation's largest private-sector employer, contributing \$3.9 trillion to annual GDP and supporting one in four U.S. jobs — 52 million working Americans. For over a century, NRF has been a voice for every retailer and every retail job, educating, inspiring and communicating the powerful impact retail has on local communities and global economies.

Having a safe, efficient, predictable and timely supply chain is critical to the success of any retailer. The ability to ensure that products are available for the consumer, whether they shop in-store or online, is key to the retail supply chain. We all saw firsthand the disruption caused when supply chains were completely overwhelmed from beginning to end during the pandemic. Through significant efforts on behalf of the private sector and governments, supply chains were returning to normal as trade flows returned to pre-pandemic growth levels and congestion issues were resolved. Unfortunately, we are now faced with another significant supply chain disruption with the attacks impacting commercial shipping through the Red Sea and Suez Canal. This is on top of disruptions already impacting the flow of commerce through the Panama Canal due to restrictions from low water volumes.

While the overall volume of U.S. trade that transits the Suez Canal is only about 12%, the impacts of the disruptions are being felt far and wide. The biggest challenge for retailers posed by the ongoing disruptions is the additional volatility, cost, uncertainty and overall risk to the supply chain. Once again, retailers and other shippers are being forced to readjust their supply chains to ensure product delivery.

NATIONAL RETAIL FEDERATION
1101 New York Avenue, NW, Suite 1200
Washington, DC 20005
www.nrf.com

Current Supply Chain Challenges

To date, our members have experienced the following supply chain challenges because of the issues in the Red Sea:

- **Increased shipping timelines.** As a result of the attacks, ocean carriers have decided to shift their sailings away from the Red Sea to go around the Cape of Good Hope. Because of this change, NRF members have indicated that they have had to add an additional 10-14 days to their supply chains to compensate for the longer vessel times.
- **Increased shipping costs.** Tied to the longer transit times, retailers are seeing an increase in transportation costs. We have seen a significant increase in freight costs on the spot market. While rates are not as high as we saw during the pandemic, there are concerns about what this means for future rate discussions. In addition to the increase in freight rates, ocean carriers are also seeking to pass along a number of different surcharges and fees to their customers. While we certainly understand that the longer vessel times impact fuel, labor costs and insurance costs, NRF members want to make sure the new fees and surcharges actually cover real costs and are not intended for profit. We also know that maritime insurance rates are skyrocketing as well.

These new surcharges include Peak Season Surcharges, Transit Diversion Surcharges, War Risk Surcharges, Contingency Adjustment Surcharges, Emergency Contingency Surcharges and others. The Federal Maritime Commission recently issued an advisory regarding the surcharges and rate increases and will be holding a hearing on Feb. 7 to further explore this issue.

I've had one member tell me they have had carriers ask for an increase of \$1,500-\$3,000 per container, which represents a 38%-73% cost increase for directly affected cargo. We are hearing that the rates and surcharges are not just being applied to directly impacted cargo, but to other routes such as Europe to the U.S. because of equipment availability.

- **Material and Component Availability.** We have heard from some members that their overseas vendors are starting to see some challenges with their ability to source raw materials in a timely manner. They are also indicating increased costs for these components as well. There have been recent reports of European manufacturers shutting down because of their inability to get materials.

Risk Mitigation Efforts

NRF members are working closely with their supply chain partners to address the disruptions and are implementing mitigation strategies to ensure products arrive in time. It is important to note that retailers are making decisions now regarding back-to-school and holiday shipments.

Some of these mitigation strategies include:

- **Transit via the Cape of Good Hope.** For cargo on vessels that have been waiting to transit the Red Sea/Suez Canal, the carriers have made the decision to make the shift to take the longer route around the Cape of Good Hope. NRF members have to rely on the decision of the carrier, but then address the delayed transportation issues when the cargo arrives in the U.S.
- **Shift cargo to West Coast ports.** Many NRF members have indicated that they have shifted their supply chains back to utilizing West Coast ports to avoid the disruptions and additional time because of the Red Sea issues. They have decided to bring cargo into the West Coast ports and then use intermodal rail to get the cargo back to the East Coast, where it was intended. Unfortunately, because of the current restrictions impacting the Panama Canal, that route is not a viable option.
- **Use air cargo.** Some retailers are shifting to using air cargo for more sensitive and timely shipments.
- **Encourage earlier shipments.** Retailers have been working with their overseas vendors to encourage them to ship earlier as they expect disruptions to increase.

Future Challenges

While many are focusing on the current impacts of the disruptions, the longer the attacks and disruptions continue, the more challenges that will be created. We believe the federal government needs to start paying attention to these issues now to help avoid significant congestion in the coming months.

- **Freight rates.** While many retailers and other shippers are still under their yearly ocean contract and are able to work with the carriers on rate increases and surcharges, we are now entering the cycle for new contract negotiations. Many NRF members are concerned about the impact of long-term disruption on the next ocean freight contract. We witnessed significant cost increases during the pandemic. We certainly hope we do not see those kinds of rates again, which could impact inflation, currently trending downward.
- **Port congestion.** As noted earlier, many shippers are looking to shift back to the West Coast ports. Unfortunately, this shift may cause congestion at those ports if they are not properly planning for the surge in cargo. We know a significant amount of cargo shifted away from the West Coast during the most recent labor negotiations. That cargo may shift back, so we need to make sure our ports, terminals, railroads, drayage providers and warehouses are ready for the increased volumes. We are already hearing that rail dwell times are starting to tick up. Rail car imbalances and increased demand could result in more congestion and increases in dwell. We need to make sure there is chassis availability as well. One of the biggest drivers of congestion during the pandemic was the lack of available chassis. We are also hearing of terminal appointment challenges.

Efforts need to be made now to convene the right stakeholders to plan accordingly to address these issues to ensure we don't see a significant congestion challenge in the coming weeks. Some believe this congestion could begin within the next 4-6 weeks, after Lunar New Year when trade volumes start to pick up again.

- **Vessel and Equipment Issues.** Because of the longer transit times for routing around the Cape of Good Hope, there are concerns that vessels and equipment will be out of position. There is growing concern about the impact on empty container availability overseas. We have heard from some members that vessel space is becoming increasingly constrained, which may impact replenishment for spring and summer merchandise. We have also seen reports of some carriers canceling certain services, which will create additional capacity constraints in the market.

While the focus of today's hearing is on the impacts of the attacks and disruptions in the Red Sea, it is important to note that other supply chain challenges will further complicate the global supply chain. The ripple effects from these disruptions will impact other ongoing issues as well. I noted earlier the current restrictions on using the Panama Canal. Unfortunately, these restrictions are going to continue and further impact the choices that shippers and carriers have for an alternate route.

In addition, as retailers are addressing the Red Sea issues, they are also planning for potential labor disruptions at East Coast and Gulf Coast ports because of the ongoing labor negotiations between the International Longshoremen's Association and the United States Maritime Alliance. The contract is set to expire at the end of September, during the peak shipping season when retailers are bringing in their holiday merchandise. Again, retailers are making their shipping decisions now and many are again looking to shift to the West Coast to avoid any potential issues. NRF recently called for the ILA and USMX to return to the bargaining table in the hopes of reaching a new deal before the current one expires.

Conclusion

As we discussed, the challenges stemming from the ongoing attacks in the Red Sea are significant and will get worse the longer this goes. We appreciate the attention and actions that the administration has taken with Operation Prosperity Guardian and building an international coalition. We know that more work needs to go into the effort to ensure safe passage for vessels and mariners through the Red Sea. Their safety is of the utmost importance.

We know the future impacts that will result from ongoing disruptions. While we are addressing the immediate issues impacting transit through the Red Sea and Suez Canal, we need to make sure we are preparing for the congestion issues that will impact U.S. ports in the coming months.

Thank you again for the opportunity to testify on this important issue.