Mid-Year

STATE OF THE INDUSTRY

Supply chain improving, but issues persist

By

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June 21, 2022

While the supply chain issues that plagued the nation and the produce industry since the beginning of COVID-19 are not gone, the situation has improved with produce truck rates backing off their highs and far fewer ocean freighters stacked up in West Coast ports waiting to be unloaded.

Several different statistics can be used to assess the U.S. trucking situation but the most relevant and immediate for the produce community is the cost of freight. The cost of shipping a load of produce in a refrigerated truck has been well above the traditional levels for most of the past two years. It seems to have reached its peak in January of this year. “In January and into February, a team load (two drivers meaning faster delivery time) was getting $15,000 to $16,000 from the West Coast to the Northeast,” said Ben Batten, Des Moines branch manager for the Los Angeles-based Allen Lund Co. “I’ve never seen anything like that before.”

Currently, he said that same load would command about $10,000, with most loads below that formerly stratospheric five-digit number. “We are seeing lower rates, but it remains to be seen if they are going to hold,” he said.

Batten reasoned that fuel rates are much higher than they were six months ago and it’s anybody’s guess how high they will climb. He noted that truck rates are more of a function of supply and demand than fuel costs, but rising diesel prices — currently more than $7 a gallon in some parts of the country — have to be factored in somehow.

Batten said there have also been a fair number of new players entering the trucking industry, “chasing high spot rates.” These companies and individuals have secured funding for leased trucks based on the crazy rates. He suspects there will be a thinning out process as rates fall. Batten said the driver shortage is a real thing, but he did observe that it is plaguing the fleet operators more directly than the independent owner-opertors that tend to service fresh produce. “It is the small carriers that operate in the produce industry,” he said, revealing that about 95 percent of produce carriers have five trucks or fewer.

Looking down the road a bit, Batten said he does not expect truck rates to return to the pre-COVID-19 price structure. High cost of fuel and the tight equipment situation should prevent a decline. Speaking in early June, he noted that fresh produce rates tend to peak around the Fourth of July as fruits and vegetable are hitting their peak in volume. What rates do then, he said, will be a great indicator of what could happen for the rest of 2022. If there isn’t significant upward pressure on the rates around that holiday, longer rate stability would be a good bet.

Mark Petersen, vice president of temperature-controlled services for C.H. Robinson Worldwide Inc., used a number of data points, including U.S. Department of Transportation statistics, to bolster the view that the trucking situation is better today than it was a year ago. DOT uses a load to truck ratio, which he said is about 20 percent lower than it was a year ago. In early June, that measurement was at 6.77 compared to about 10 a year ago. The metric measures available loads per truck. This indicates that the situation has improved though still tight. When trucks are plentiful, he said the ratio number would be around 1.8. “We are in a better place than we have been,” Petersen said.

He agreed that truck rates in January “hit an all-time” and, while they are lower now, there are other issues that will factor in as volume increases. For example, Petersen said the rising cost of fuel is creating pressure on rates, especially in the produce sector. He explained that for a produce industry haul, truckers typically have to reposition themselves. For example, a trucker dropping a westbound load in Los Angeles might need to deadhead to Salinas to pick up an eastbound load to get back home. He called fuel a “lead cost.” Typically, truckers would incur that repositioning expense before booking a load back east. “It’s likely we will see fewer truckers repositioning without a commitment,” he said.

Ed Treacy, vice president of supply chain and sustainability for the International Fresh Produce Association, did not paint an optimistic picture of the produce trucking situation moving forward. “The labor situation is no better — if anything it’s getting worse. Overnight, we didn’t find the 82,000 truckers we are missing. The forecast is that the driver shortage is going to get worse every year.”

He noted that driving a truck cross-country is not a preferred job, and hauling produce is the least preferrable load for most truckers. He reasoned that truckers are asked to arrive within a 30-minute window to pick up the load or they are subject to fine and then drive cross country and drop off that load within 30-minute window or they are subject to another fine. “We are a non-preferable load, which is why we have to pay more,” he said.

He worries that as the trucker shortage gets worse the produce industry will see its rates rise again. “You can always get a truck (in the produce industry) to get your product moved if you are willing to pay for it, but the question is can you still sell it at that increased cost.”

He added: “We (the produce community) are resilient. We always seem to be able to figure out a way, but things are changing. It’s going to be a challenge.”

Add out-of-control fuel costs to the mix, and it points to a chronic problem of truck shortages. Doing the math, Treacy said a truck driver must now pay about $2,500 for fuel for a cross-country trip compared to $1,100 a year ago. That expense has to make it into the rate in some form, he said.

Switching the focus to cargo ships and the supply chain issues that reached their zenith last year, the trio of transportation experts agreed that the situation appears to be getting better.

Discussing international shipments and the persistent supply chain problems at the ports, Petersen noted that the number of ships waiting to be unloaded in the combined ports of Los Angeles and Long Beach, which are adjacent to each other, has dropped significantly. He said that in 2021, the number of cargo ships idling in the surrounding waters was 109. “Today there are 29,” he said. “There has been slow steady improvement.”

He credited several different factors including infrastructure upgrades, fewer ships coming into the harbors, more efficient unloading and a redistribution of port landings with East Coast ports taking a bigger slice of the pie.

While port operations appear to be improving, Petersen did say that looming on the horizon is the expiration of the West Coast's International Longshore and Warehouse Union labor contract on July 1. The two sides have publicly expressed some confidence that a contract can be agreed upon without disruption. Petersen would not speculate on whether that would happen. Each of the three previous negotiations, dating back to 2002, have resulted in at least some form of work stoppage or slowdown.

Speaking of the limited backlog of cargo ships, Treacy sang a cautionary note. "Port authorities have told me not to get lulled into seeing backlog decrease and think the problem is over," he said.

He explained that several factors — including COVID-19 and the Chinese New Year — decreased the number of shipments from Asia this spring, which decreased the backup at the West Coast ports. "But there is an armada of ships on the ocean heading this way," he said.

Tim Linden

About Tim Linden |

Tim Linden grew up in a produce family as both his father and grandfather spent their business careers on the wholesale terminal markets in San Francisco and Los Angeles.

Tim graduated from San Diego State University in 1974 with a degree in journalism. Shortly thereafter he began his career at The Packer where he stayed for eight years, leaving in 1983 to join Western Growers as editor of its monthly magazine. In 1986, Tim launched Champ Publishing as an agricultural publishing specialty company.

Today he is a contract publisher for several trade associations and writes extensively on all aspects of the produce business. He began writing for The Produce News in 1997, and currently wears the title of Editor at Large.

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