

Statement by Darrell Conner, K&L Gates LLP
On behalf of the
Institute of International Container Lessors
Before
The House Natural Resources GOP Forum on Supply Chain Congestion
“How Joe Biden Stole Christmas: Addressing America’s Ongoing
Supply Chain Crisis”

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Good morning. I appreciate the opportunity to be with you today to talk about the challenges currently facing our nation’s supply chain. I am Darrell Conner, a government affairs counselor with K&L Gates LLP and co-chair of the firm’s Public Policy & Law practice group. I previously worked for the Ranking Republican Member on the now-defunct House Merchant Marine and Fisheries Committee. My practice is predominantly transportation, and the firm has been involved in logistics since its founding in 1973.

I am going to discuss an important issue relating to equipment constraints that is affecting the fluidity of the supply chain. We represent the Institute of International Container Lessors (IICL), which represents chassis providers in the United States. Chassis are a key cog in the nation’s supply chains, and current disruptions to the supply chain are affecting the availability of equipment in the U.S., including chassis.

I have been working on supply chain and logistics matters for more than 30 years. I have seen many challenges over those 30 years. I worked on matters relating to the supply chain disruptions during the Hanjin shipping line bankruptcy. I have been involved in multiple West Coast port labor negotiations that have halted or slowed port operations. And to date my self, I

worked on the Ocean Shipping Reform Act in the late 1990s. But nothing compares to the shipping issues we are experiencing today.

Many people have said it, but I want to reiterate that COVID-19 created shock waves throughout the ocean and inland supply chains. This is largely due to the unprecedented amount of import cargo that our ports are trying to move. At the same time, people were not spending on services like eating out and traveling, and instead were spending their money on goods. The overwhelming demand for import cargoes, and the resultant strain it has placed on our delivery system, is not a problem that can be solved by focusing on any one part of the supply chain. It will take the whole of the supply chain, working together, to sort through these issues.

From an equipment provider perspective, the strains on the system have been compounded by government action, which I will talk about in a minute. For those of you that are not familiar with chassis, they are key parts of the supply chain and the Administration's actions constrained their availability at a critical time. Chassis are the wheels that go under containers and deliver the containers from the ship, through the port, and onto their final destination. Put differently, the efficiencies gained by using ocean shipping containers are lost without chassis.

Given the historic level of demand for imports, there was more demand than supply for equipment. And despite this situation, in July of this year, the Biden Administration decided to impose significant tariffs on the importation of chassis. The U.S. Department of Commerce imposed significant duties (over 220%) on chassis imported from China, to levels that effectively eliminated a critical sourcing option for U.S.-based chassis providers. The problem with the tariff decision was that domestic chassis producers were not in a position to fulfill the increased demand for chassis.

Compounding the problem further were constraints on transportation space, storage space, labor and other services across the supply chain. These issues led to longer “dwell time” for equipment. Dwell time is the amount of time that a chassis is used between different container moves. Instead of being used to move containers, chassis are now often being used to “store” the container at various points along the chain until the container and its cargo are ultimately offloaded at their destination point. “Street dwell”, or the time that a container/chassis combination is out on the street without returning to the port, has more than doubled in key markets. In the Port of Los Angeles-Long Beach, for example, street dwell for 40’ containers is up to 9.3 days; pre-pandemic it would have been on the street for an average of 3 days.

Thus, there has been an inability to meet increased demand using existing assets because dwell time is up so significantly. And the imposition of tariffs on imported chassis, without domestic production capabilities in place to handle the increased demand, has created a chassis availability problem. For example, at a facility in Joliet, Illinois this summer, the normal 3.5-day cycle for a chassis to exit with a container and then return for another pickup stretched to 17 days. That delay in return means that the facility would need 6,000 chassis just to fulfill customary operations, when normally only 1,000 were needed.

Chassis lessors would buy chassis produced in America despite the increased cost, but the manufacturing capacity in America is not developed enough right now to meet all the demand. So while there are many factors affecting the supply chain, chassis providers have responded to the best of their ability by (1) injecting more chassis into key markets around the country that needed assets, (2) paying overtime for additional labor during the week and weekends to speed up the repair turnaround times for chassis before they are put back on the road, resulting in a huge drop in out-of-service rates, (3) refurbishing and modernizing select out of service older chassis to

increase the number and create safer chassis ; and (4) moving chassis in from other markets where possible.

Despite these efforts, chassis providers still do not have access to a critical source of chassis imports and domestic producers are not yet in the position to meet domestic demand. Thus, with the increased dwell times, equipment availability continues to be strained.

There are some short-term things that would help streamline the supply chain, but this is not a situation that will be quickly and easily fixed. For the chassis side specifically, with domestic production limited and tariffs being imposed by the Biden Administration, the focus is on maximizing existing assets. Thus, focusing on efforts to increase equipment turn times, which requires more manpower, will encourage the free flow of empty containers and increase equipment availability. Improving data flow from “cradle to grave” to allow for better planning and fluidity is also key. Moving operations closer to 24/7 at ports would also be helpful, but only if we can find the labor to drive the trucks and staff the warehouses that would be necessary to make that a streamlined, effective supply chain solution.

What is not needed is more Congressional or Administration interference with private markets that are investing billions of dollars to meet customer demands. We do not believe the government is the best party to determine how industries should be run. Finally, removing impediments to the labor market to improve efforts to attract young people to the industry would also be helpful.

Let me close by thanking you again for the opportunity to discuss these important issues. I look forward to any questions you may have.