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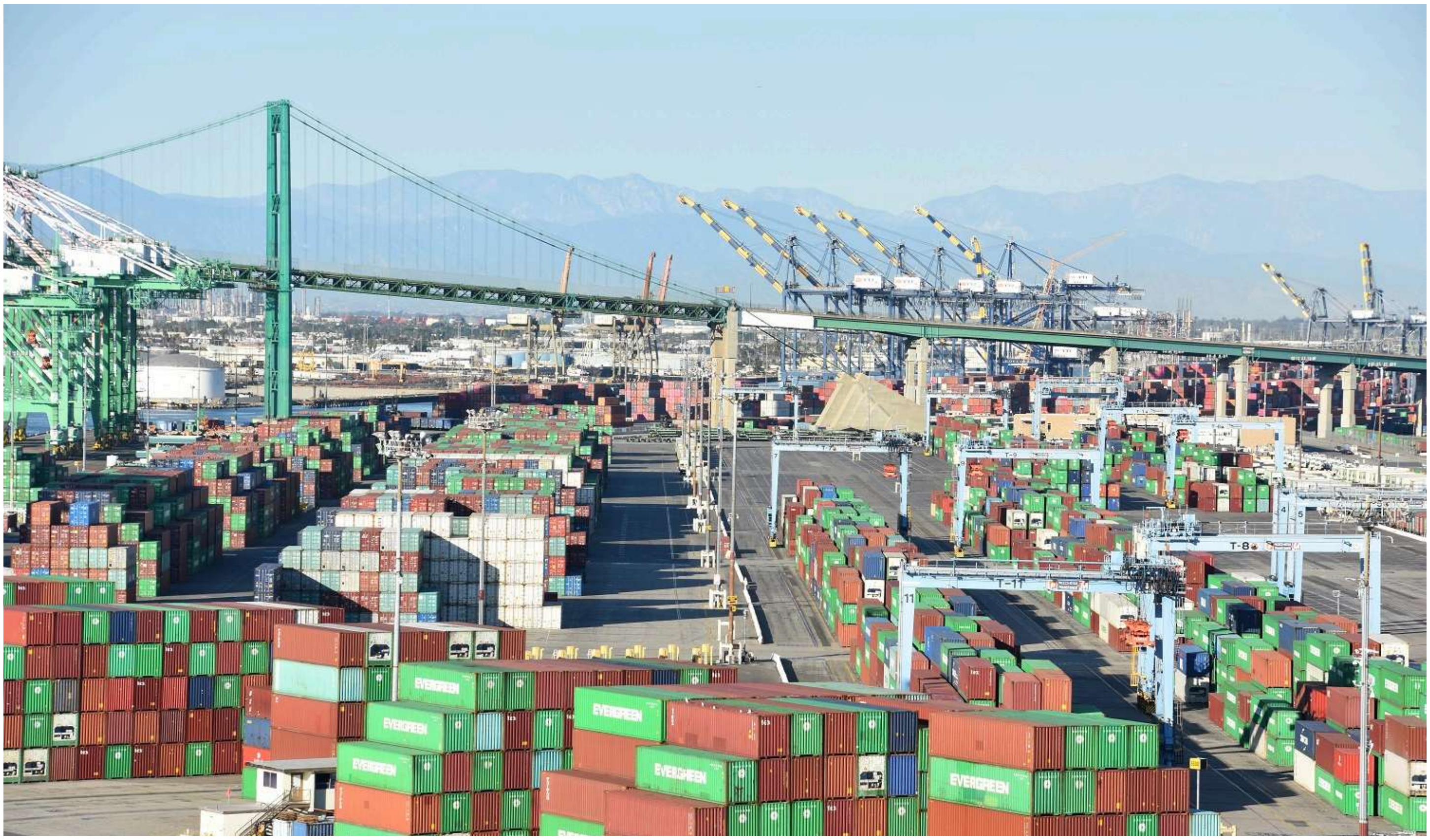
Lack of terminal handling charges emerges as a factor in ILA talks



Carriers and ports assess THCs, which reflect the cost of terminal operations, in virtually every port in the world outside of the US. Photo credit: Ritu Manoj Jethani / Shutterstock.com.

Peter Tirschwell | Sep 24, 2024, 8:41 AM EDT

If there is one issue that reminds carriers of the cost of capitulating to the International Longshoremen's Association (ILA) in the showdown over a new contract covering dockworkers on the East and Gulf coasts, it's the lack of a terminal handling charges (THCs) in the US market.

Virtually everywhere else in the world, carriers or port authorities charge shippers a THC — a fee that reflects the cost of terminal operations, including labor — usually with no argument from the shipper. It's a cost that is generally taken for granted.

Due to longstanding business practices, however, THCs are not collected in the US. As a result, any wage increase maritime employers agree to in contract negotiations will come directly out of the carriers' pockets. The ILA suspended talks in June and no formal talks have been held or scheduled since.

Elsewhere in the world, THCs are assessed by carriers. Or in certain ports, such as those on the Black Sea and in Africa, they are assessed directly by the port authority, meaning the ocean carrier only pays for services such as pilotage and tugs, not fees to the terminal to lift containers on and off ships and process them for shippers.

The lack of THCs in the US is one reason carrier members of the United States Maritime Alliance (USMX), which represents employers in negotiations with the ILA, are resisting capitulating to union demands for a 78% pay increase over the life of a new six-year contract. Employers have reportedly offered a 30% hike, similar to what West Coast dockworkers represented by the International Longshore and Warehouse Union (ILWU) received in their new contract last year.

THCs are a particular motivator because they have a direct economic impact. The lack thereof is just one example of the idiosyncratic nature of the US market. Another is that carriers historically owned their own chassis, later selling them to leasing companies, whereas in most other countries, truckers supply the chassis.

US terminal costs among highest in the world

There are a few markets globally where the trade imbalance is so great, and consequently export rates are so low, that THCs are not assessed at origin. But those are the exception; at most ports, the THC is paid without question. When carriers assess THCs at multiple ports, the fee and the cost assumptions behind it are vetted and authorized by the local government.

Making matters worse for the carriers, US terminal costs are among the highest in the world, primarily due to higher wages for labor. If carriers were to assess THCs in the US, they could be as high as $400 per container, compared with as low as half of that depending on the port outside the US.

The fact they aren't assessed, some carriers say, means the high terminal costs, relatively speaking, are not experienced by shippers, and thus they have no transparency to the true underlying costs of moving cargo through US ports.

Shippers would counter that it's the carriers that, through cutthroat commercial behavior often induced by over-ordering of ships, have created the circumstances in the US that prevent them from assessing THCs, a status quo that prevailed even when the market was in the carriers' favor at the height of the pandemic.

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