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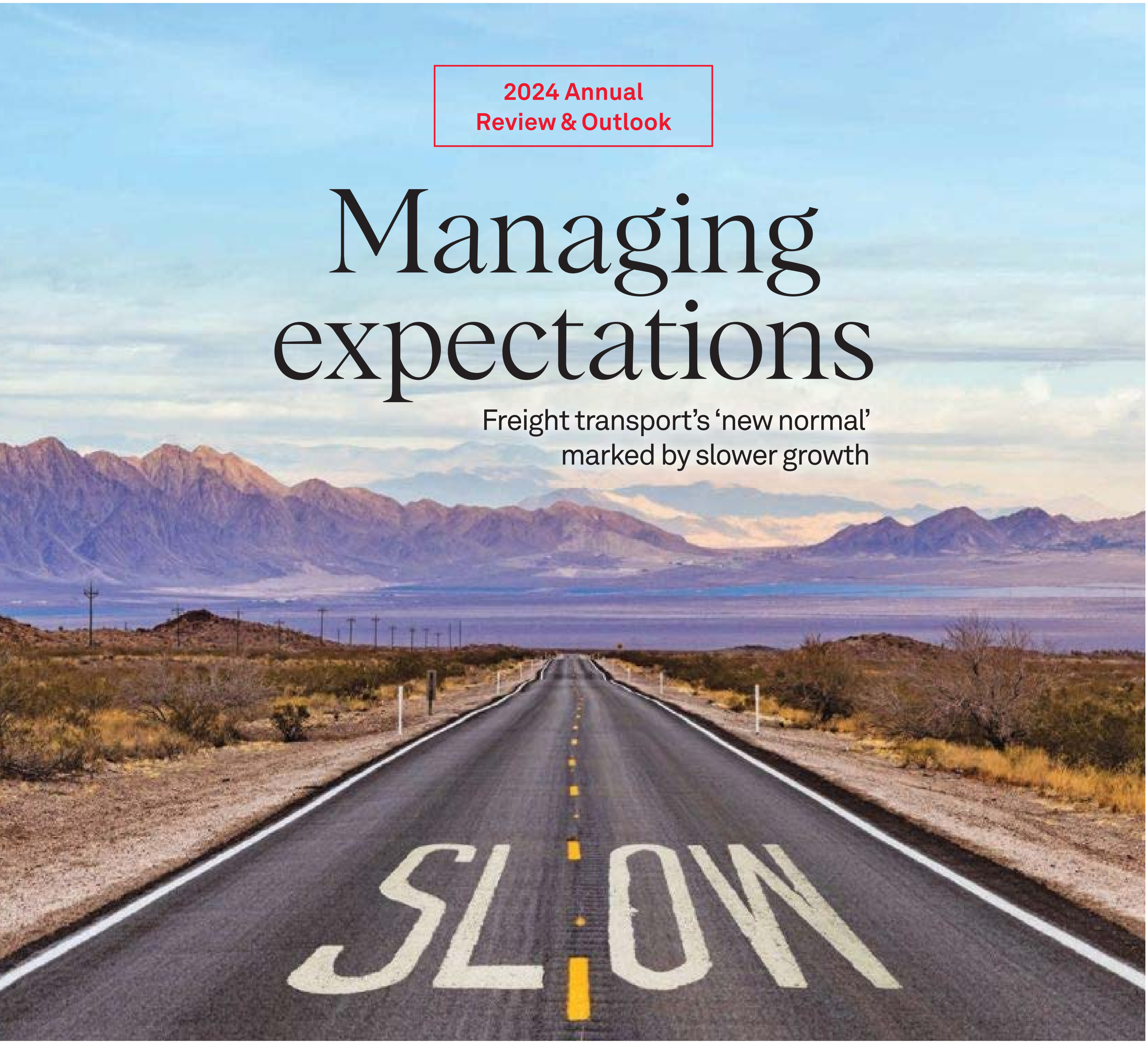
2024 Annual Review & Outlook

Managing expectations

Freight transport's 'new normal' marked by slower growth



Executive Commentary

Sandler, Travis & Rosenberg, P.A.

Beth Ring

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Two major geopolitical factors in the past five years jolted businesses all over the world, especially US companies, into diversifying their supply chains to minimize previous reliance on one single-source — i.e., China — for their manufacturing operations: the pandemic and its follow-on disruptions caused by the cascading lockdowns throughout the entire supply chain; and the trade war started by the Trump Administration that has resulted in an additional 25% tariffs on most goods imported from China, which have continued in the Biden administration because there is no political constituency in an election year for appearing to "go easy" on China.

Most importantly, however, diversification out of China was driven not just by the financial benefit of avoiding the dreaded "Section 301" China tariffs, but because Congress enacted the Uyghur Forced Labor Prevention Act in 2021 to combat the massive human rights violations the Chinese government has been promoting in the Xinjiang region, but also spreading to other manufacturing centers in China. US Customs and Border Protection has been rigorously enforcing this law with opaque policies and targeting measures that have challenged even the most compliance-oriented companies that have not been able to completely disengage from China-based sourcing.

This trend began in 2020 with the pandemic but has escalated dramatically since. Sourcing is no longer driven so much by "just-in-time" inventory management to reduce costs as the need for "resilience," 2023's word of the year, defined by the World Economic Forum as "the ability of a global supply chain to reorganize and deliver its core function continually, despite the impact of external or internal shocks to the system." Whether it be diversifying parts suppliers among several in a region, leveraging new technologies like AI and data analytics, revisiting shipping contracts or shifting production to regions closer to where companies expect to sell their goods, we can expect this focus on "resilience" and adaptability to continue to shape trade flows in 2024 and beyond.

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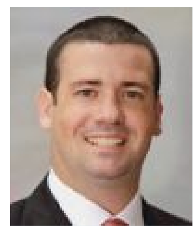
one item is guaranteed to keep your chief trade compliance officer in fits. A corporate culture that begins with top-down support is absolutely essential. Lack of internal cooperation to stay compliant can shut down your supply chain, cost millions in fines and create a public relations nightmare. Best in class trade compliance programs will be discussed in every meeting, in every board room across America. Keeping compliant is not new. Its importance in today's hostilities cannot be understated.

The second issue in the board room getting a lot of attention and press coverage is the cultural and professional tsunami change occurring in the work week. Working hybrid or remote? Arguably this is the biggest change in the American labor force since Henry Ford popularized the 40-hour work week in the 1920s, and women entered the workforce by the millions during WWII. It seems companies have settled into a 3/2 hybrid, but not really for everyone. This change is in the white-collar world of workers that pound laptops all day and not the community of people who actually make and build stuff. Many companies are attempting to renege on remote employment agreements made during the COVID-19 lockdown. Fully remote is rare for new hires. Be careful with the hybrid employment agreements that include opt-out clauses at a company's discretion. Buffett, Musk and now even Zuckerberg say it's not good for business. Yet their companies provide that option. It's not changing; hybrid is here forever, fully remote for some.

Waterways Council, Inc. (WCI)

Tracy Zea

President & CEO
waterwayscouncil.org



The biennial Water Resources Development Act (WRDA) is underway for 2024. It is expected to be considered by the House of Representatives in the May–June time frame, with the hope of enacting a final law by September.

The Senate's process is already underway, considering Members' WRDA 2024 requests. As stakeholders worked to identify their priorities, Waterways Council, Inc. (WCI) focused specifically on an issue that is presenting significant challenges to the future of the inland waterways' construction program.

The Infrastructure Investment and Jobs Act (IIJA) allocated $2.5 billion to inland waterways lock and dam priority navigation projects across the system, funding seven projects to completion. However, given the challenges of inflation, supply chain delays and a lagging workforce, those navigation projects now require additional funds to be considered on the path to completion.

WCI's WRDA 2024 request is to adhere to Congress's intent in IIJA to complete those construction and major rehabilitation projects and that they be funded 100% by the federal treasury and not cost-shared as the rest of navigation projects currently are via a fuel tax on towboat operators.

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Executive Commentary

chain's environmental footprint and address uncertainty in global agriculture and energy markets.

America's inland waterways remain critical to the nation's supply chain. They are a competitive conduit to American farmers who help feed the world, shippers, manufacturers, steel and energy producers, agribusinesses, constructors, towboat operators and consumers.

The nation must continue to invest in inland waterways' locks and dams and channel maintenance to create and sustain jobs, strengthen the US balance of trade in the agriculture sector, keep the lights on with US energy products and modernize our inland waterways transportation system to remain world-class.

World Customs Organization (WCO)

Ian Saunders

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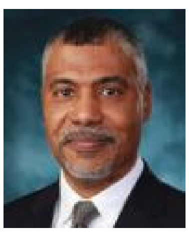

Governments play a central role in advancing digitalization and information sharing across supply chains, which is crucial for enhancing trade facilitation and global economic growth.

Digital processes are fundamental for modernizing border management, optimizing risk assessment, streamlining clearance and reinforcing controls. By making optimal use of digital information, customs can continue to provide effective facilitation and security in the context of growing trade volumes and supply chain complexity.

The World Customs Organization (WCO) sets international standards for customs, and its work has demonstrated a focus on guiding and enabling digitalization and information sharing.

The WCO's Revised Kyoto Convention provides guidance to customs administrations to promote interoperability, eliminate redundancies, enhance data quality and enable data reuse throughout supply chains.

Other WCO tools and concepts, like the WCO Data Model and Coordinated Border Management, promote global interoperability between various IT systems and facilitate cooperation among all stakeholders, ensuring effective data sharing.

However, as digital data proliferate, governments must address privacy concerns with robust cybersecurity measures and clear legal frameworks. The WCO Single Window Compendium guides governments on issues of data ownership, intellectual property, privacy rights and liability.

To gain and maintain the trust of supply chain actors, governments must prioritize data protection, balancing operational efficiency with privacy rights. Implementing and upholding privacy laws is essential for the digital transformation of supply chains, respecting both individual and corporate data security.

The potential of digitalization and information sharing to support global supply chains is clear, as is the important role of customs in this context.

The WCO is working to help customs administrations realize this potential through standards and guidance that give practical focus and affirm the importance of interoperability, cooperation and data protection. ■

World Shipping Council (WSC)

John W. Butler

President and CEO
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In July, the International Maritime Organization (IMO) agreed that the shipping industry needs to reach net-zero greenhouse gas (GHG) emissions by 2050. The IMO member states also agreed to finalize a legally binding set of regulations by the end of 2025 and to implement the regulations by the end of 2027. In short, it is time to stop talking about what our ambitions are and to lay out a concrete roadmap for making decarbonization a reality.

Liner shipping companies' order books already include a high percentage of vessels that will be capable of running on low-GHG fuels. Far less advanced is the progress in creating the fuel supply to meet that demand. In order for energy companies to make the investments necessary to produce large volumes of fuel that are net-zero on a well-to-wake lifecycle basis, those fuel producers have to know that the demand will materialize. That in turn means that the regulations that the IMO adopts must describe at the outset all of the steps in the energy transition.

The energy transition for shipping will likely take two decades once the new regulations are implemented. In order to be effective in decarbonizing the industry, the regulations that the IMO adopts have to do two things: price GHG emissions in such a way that vessels using low or no-GHG fuels can compete commercially with vessels still burning fossil fuels as the energy transition plays out, and include a progressively stricter low-GHG fuel standard that requires a migration to clean fuels. Both regulatory elements must be strong enough that energy suppliers see a clear commercial opportunity in supplying these new fuels.

The IMO is the first global regulator to announce that it will decarbonize the sector it regulates through legally binding regulations. Now the hard work starts.

We will all need to be flexible and creative in finding agreement on the best way to meet that goal, and at the same time we must be firm in insisting that the task is not simply to agree, but to agree on regulations that actually solve the problem.

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