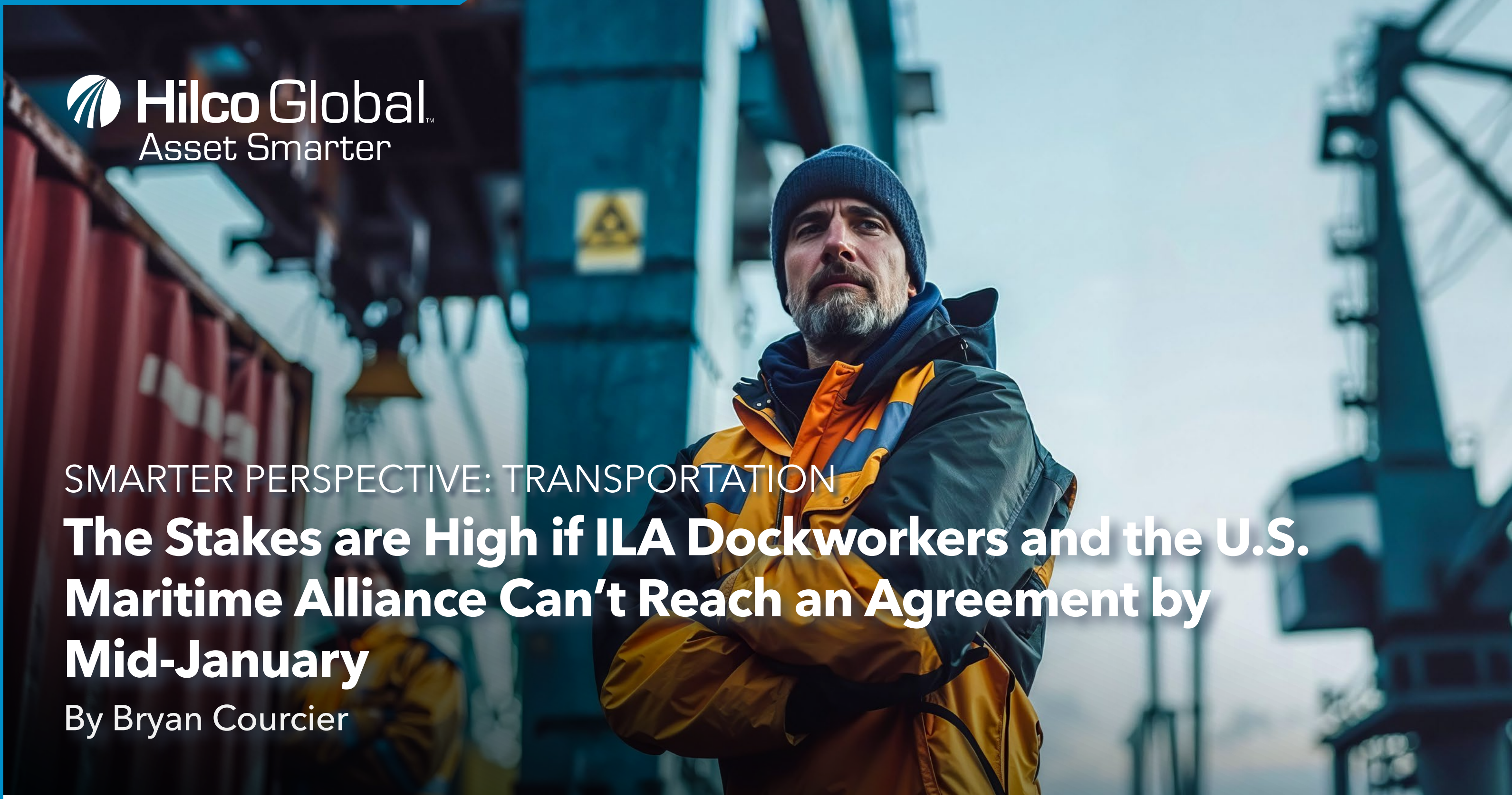

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SMARTER PERSPECTIVE: TRANSPORTATION

The Stakes are High if ILA Dockworkers and the U.S. Maritime Alliance Can't Reach an Agreement by Mid-January

By Bryan Courcier

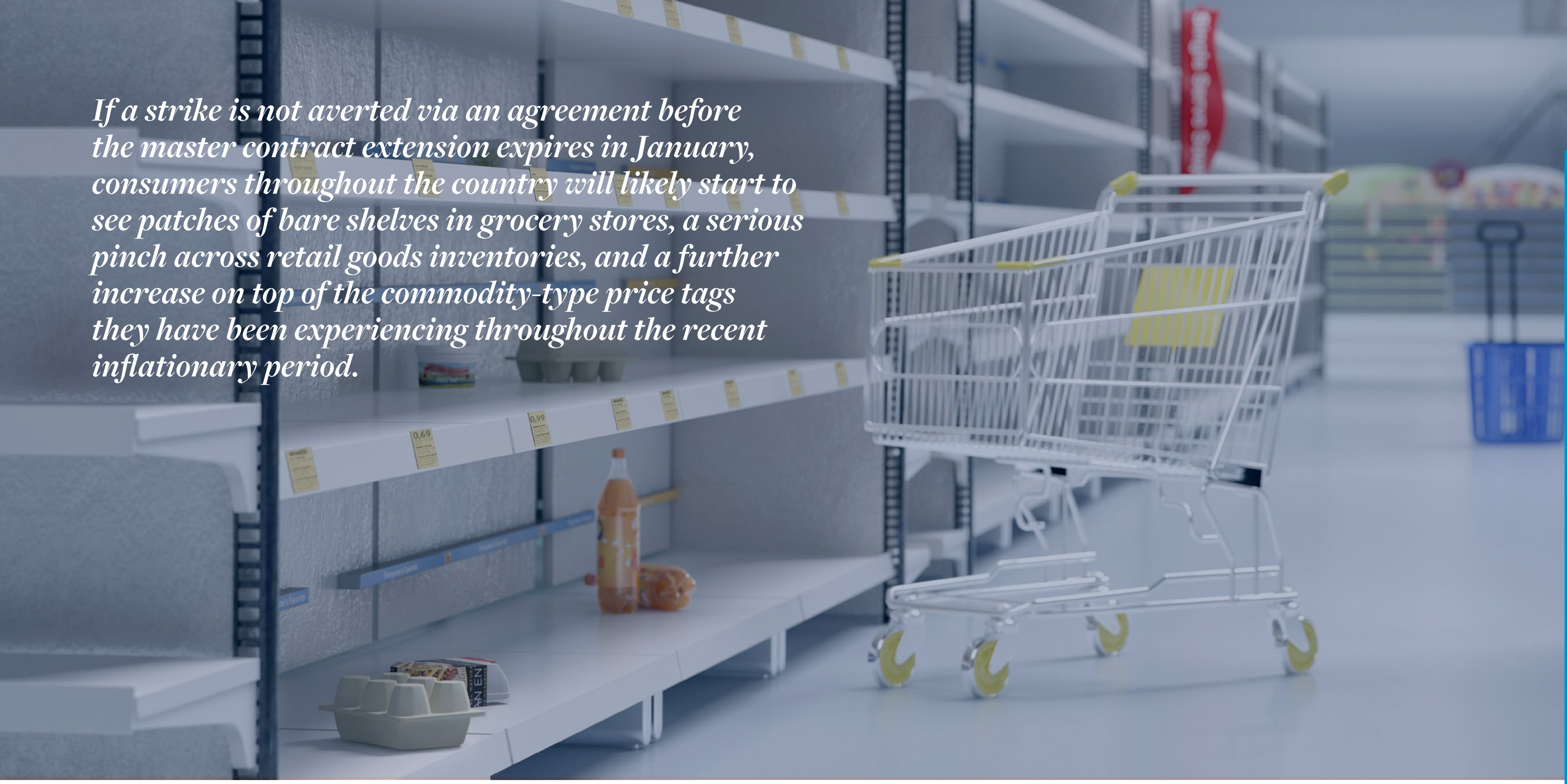
A huge swath of the American population could still experience something they have never encountered in their lives. For the first time in almost 30 years, the International Longshoremen's Association (ILA) went on strike earlier this month. The action resulted in some 45,000 dock workers not reporting to work across 36 ports located primarily along the U.S. eastern seaboard and Gulf Coast. After the Biden Administration intervened in the wake of Hurricane Helene's devastating impact across the Southeastern U.S., a tentative agreement on wages was reached and the ILA Master Contract was extended until January 15, 2025.

The decision to strike, itself, stemmed from a years-long, somewhat standoffish history of unproductive negotiations between the ILA and the United States Maritime Alliance (USMX). The ILA typically attempts to begin negotiations two years out from the expiration of current agreements and claims that there has been little to no back and forth between the two groups in order to avoid a stoppage of regular operations. An October 1 statement issued by the ILA expressed it this way, "Let's be clear: the ILA has been fully prepared to negotiate a fair contract since two years before its expiration. USMX's claim that they are ready to bargain rings hollow when they waited until the eve of a potential strike to present this offer. The last offer from USMX was back in February 2023, and the ILA has been listening to our members' concerns ever since."

By all accounts, it appears that the Longshoremen are still prepared to hold out for as long as is required to reach the terms they are seeking. A few of the primary aspects of the ILA's demands are a \$5/hour increase in wages year over year for the next six years and an increase in hourly wages from \$39/hour to \$69/hour by 2030. The union is also seeking protections against automation replacing skilled workers' jobs. Thus far, the USMX has only come part of the way toward those numbers, with little or no accommodations offered to counteract automation concerns.

If this is sounding like kind of a big deal, it is. The initial strike came at a time that could not have been worse for a bevy of reasons. For starters, it placed President Biden and the democrats in a tough spot five weeks out from the upcoming election. While Biden had been asked by many to use his presidential powers to force union workers back to their posts to keep the ports open, doing so would likely have been a bad look from the perspective of middle-class voters – many of whom are union members themselves or sympathize with laborers within the ILA. Conversely, a stoppage of vital goods coming into the eastern ports could not have be worse timing for local populations that have been adversely affected by hurricane Helene. Ultimately, the temporary solution has been to get the parties back to the negotiation table with a mutual commitment to continue a productive dialogue aimed at resolving the matter fully by January 15, 2025. This is fortunate given that another Hurricane is currently spinning its way toward the coast of Florida even as this article is being written.

The strike's implications, however, extend well beyond the immediate emergency goods needed in those areas that have been, or could soon be, hit hardest by extreme weather events. If a strike is not averted via an agreement before the master contract extension expires in January, consumers throughout the country will likely start to see patches of bare shelves in grocery stores, a serious pinch across retail goods inventories, and a further increase on top of the commodity-type price tags they have



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been experiencing throughout the recent inflationary period¬. And all of this just as the Fed's planned rate cuts stand to finally ease pressure on consumers.

This situation comes on the back of several years of record profits for shipping and logistics companies that peaked from shortages as a result of the COVID 19 pandemic. During that timeframe dockworkers have been working heavier workloads with longer hours, but without any pay adjustments for inflation. ILA's counterparts, the dock workers of the International Longshore and Warehouse Union (ILWU) on the West Coast achieved an improved and more generous contract just last year. As this article is written, negotiations have reportedly not been held since talks broke off this past June but it would appear that the ILA has a fair amount of leverage in this situation.

If negotiations are not resolved before the contract extension period expires, we are likely to see supply chain disruptions reminiscent of the pandemic period with delays in the import and export of goods quickly leading to significant port backlogs and added labor costs both there and among transportation companies as they ultimately try to play catch up on delayed shipments. If this occurs, contract penalties for late deliveries or unmet obligations may further reduce profitability among not only those transporting the goods but among suppliers as well. Ultimately those squeezed margins will manifest themselves as added costs to already overburdened consumers.

We advise lenders to remain in close and frequent contact with borrowers across their transportation portfolios and to regularly and objectively assess the need for interim valuations. Our Asset Smarter Transportation and Valuation teams at Hilco Global are continuing to closely monitor this evolving situation for any potential developments that have implications for the domestic logistics community at large– with a focus on fleet values that are sensitive to the consumer goods supply and demand equilibrium.

BRYAN COURCIER IS A SENIOR VICE PRESIDENT AT HILCO VALUATION SERVICES

He is responsible for business development, sourcing and relationship management within Hilco's expanding transportation, energy services and heavy equipment sectors in both the valuation and asset acquisition/liquidation practices. He also serves as Chief Operating Officer at two of Hilco's operating companies within the commercial transportation space: H19 Capital headquartered in Indianapolis, IN and H19 Sutton Leasing in Detroit, MI with roughly $400,000,000 in combined transportation lease portfolio currently under management.
Contact Bryan at 720.829.4288 or bcourcier@hilcoglobal.com.