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Costco exits ship chartering with \$93 million charge



Costco had chartered up to seven ships, some for three-year terms. Photo credit: Tada Images / Shutterstock.com.

Forwarding

Michael Angell, Associate Editor | Dec 9, 2022, 5:54 PM EST



US big-box retailer Costco is getting out of the ship chartering business as rates fall and vessel capacity returns to the market. But in doing so, the company said it will have to take a massive charge against earnings for paying charter rates at the peak of shipping demand.

On its fiscal first-quarter 2023 earnings call late Thursday, Costco CFO Richard Galanti said the company would take a \$93 million charge for the period “mostly related to

downsizing our charter shipping activities.”

Galanti announced in September 2021 that Costco initially chartered three ships and leased “several thousand containers” due to supply chain congestion. He said Costco chartered another four ships for a three-year term.

Along with Costco, other major retailers such as Walmart, Home Depot, and IKEA were chartering container and breakbulk ships, using their own containers, and contracting with trucking companies for drayage to deal with record freight rates and historically tight shipping capacity. Having those assets also enabled shippers to avoid bottlenecks at West Coast ports.

Galanti on Thursday said Costco undertook chartering to “increase the ability for more timely shipping and arrival of overseas merchandise,” and reduce its shipping costs. Over about 18 months, Galanti said chartering provided savings of \$1,000 to \$2,000 on each of the 50,000 containers it moved since it began chartering.

Galanti said having products on hand was needed to drive sales, and that many of the containers moved would have been severely delayed without chartering the ships. But those conditions have now reversed, he added.

“Now with a dramatic improvement in shipping times and much lower shipping and container costs, it made sense to downside our commitment and lower prices for our members,” Galanti said.

A major North American importer told JOC.com this week it is considering exiting a multiyear charter agreement even if that means paying more in contract rates for the same equivalent capacity.

Contact Michael Angell at michael.angell@ihsmarkit.com and follow him on Twitter at [@michael_angell](https://twitter.com/michael_angell).

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