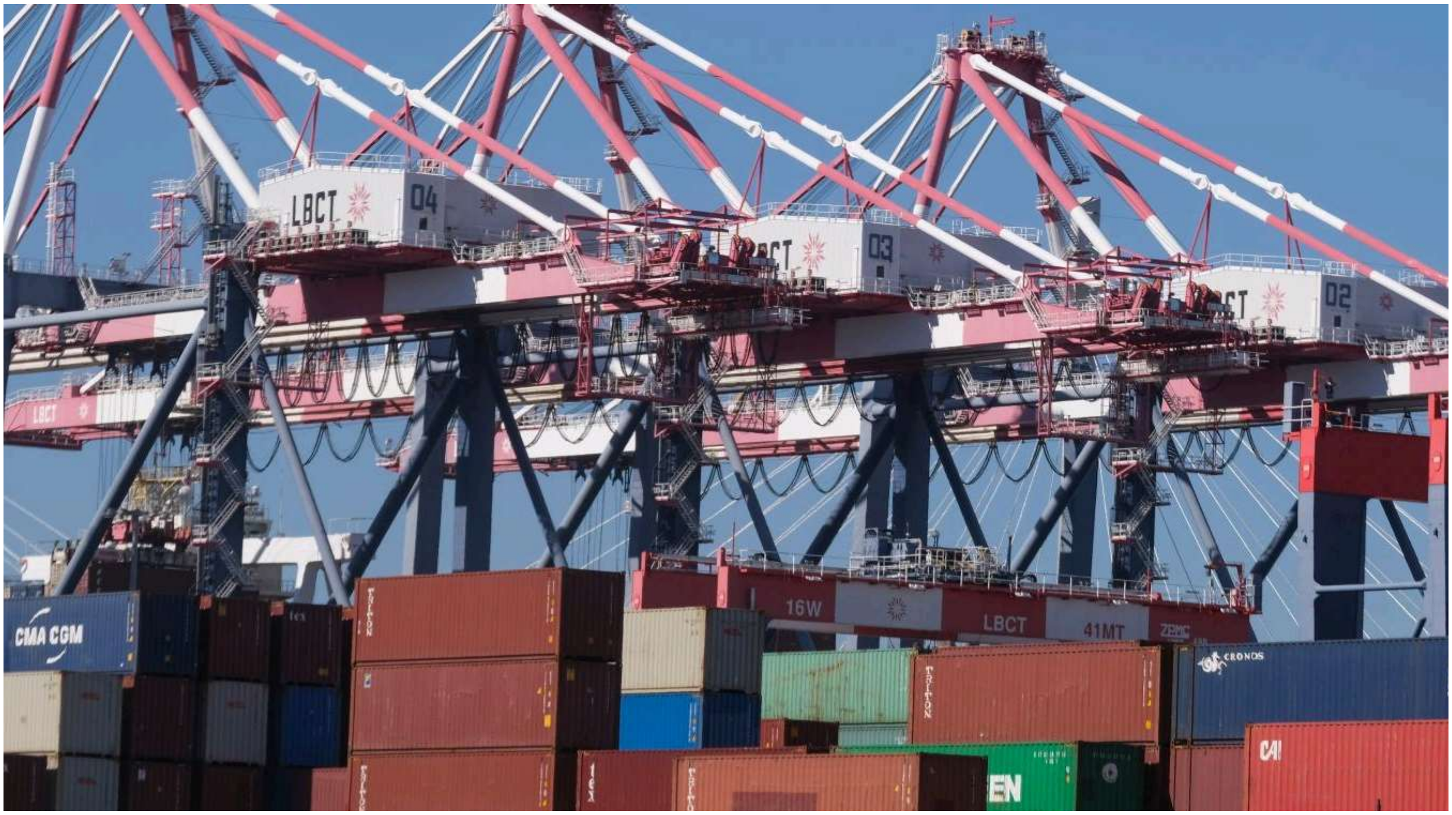
S&P Journal of Commerce

Carriers cutting back on vessel space allotments for NVOs, retailers: sources



One NVO tells the Journal of Commerce they are getting "less and less" of the fixed-rate capacity allocations agreed to in their annual service contracts with carriers. Photo credit: Ringo Chiu / Shutterstock.com.

Bill Mongelluzzo, Senior Editor | Jun 24, 2024, 3:49 PM EDT

Rapidly thinning vessel capacity in the eastbound trans-Pacific is prompting ocean carriers in some cases to not meet the space allotments they granted in their 2024–25 service contracts with non-vessel-operating common carriers (NVOs) and retailers who book directly with liners, trade sources say.

Sources told the *Journal of Commerce* that carriers are not honoring all the space commitments they made this spring to NVOs for fixed-rate, or named account, bookings. And now mid-size and smaller shippers who book directly with carriers are experiencing similar reductions in the capacity commitments agreed to in May in their annual service contracts.

"Nobody is unscathed in this market," said Kurt McElroy, executive vice president of the NVO Kerry Apex.

NVOs say carriers in recent weeks have been cutting back the fixed-rate allotments they were promised in their service contracts.

"We're getting less and less," said Christian Sur, executive vice president of ocean freight contract logistics at the NVO Unique Logistics International.

Added David Bennett, chief commercial officer at the NVO Farrow: "NVOs' fixed-rate allocations have been drastically reduced."

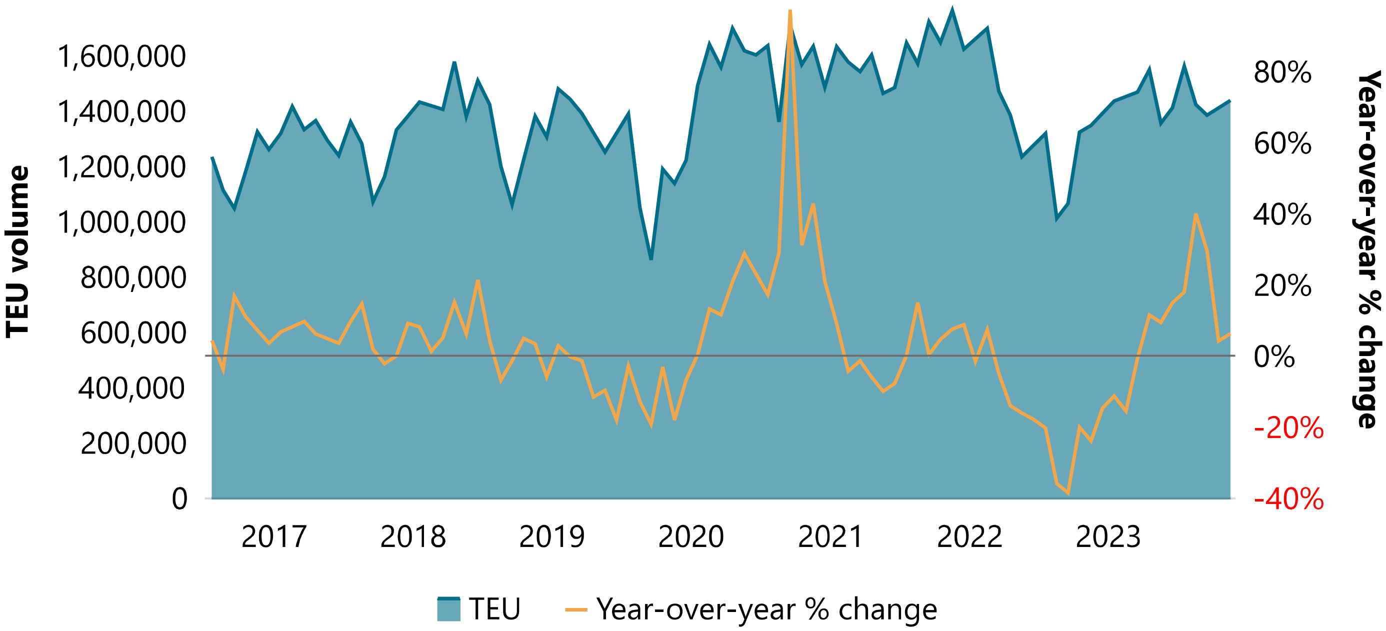
Those cuts come as ocean bookings in the eastbound trans-Pacific are climbing sharply because US-based importers who had planned to ship their merchandise during the traditional August-through-October peak season are scrambling to book space early.

The early bookings are being prompted by several factors, most notably the ongoing diversions — and much longer transits — around southern Africa as vessels look to avoid militant attacks in the Red Sea and Gulf of Aden. Congestion at key load ports in Asia and the possibility of labor strife this fall along the East and Gulf coasts and the knock-on effects for the West Coast supply chain are also pushing importers to jump sooner than they normally would.

That, in turn, is quickly thinning available capacity and giving carriers the pricing power to attempt the twice-monthly implementation of peak season surcharges (PSSs) and general rate increases (GRIs) rather than the normal cadence of once per month, sources say.

US imports from Asia up year on year since October

Total monthly TEU volume of US containerized imports from Asia, with year-over-year change



Source: S&P Global

3M 6M 1Y 2Y YTD MAX

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Carriers, sources said, are using current market fundamentals to attempt to secure spot rates as high as $8,200 per FEU to the West Coast and $10,000-plus to the East Coast from July 1.

US imports from Asia in May were 1.44 million TEUs, up from 1.39 million TEUs in April, according to PIERs, a sister product of the *Journal of Commerce* within S&P Global.

Carriers chase higher-paying spot market

One carrier executive said every NVO has a mix of named account allocations and spot rate — or freight-all-kinds (FAK) allocations — in its contracts. Most carriers attempt to honor the named account allocations, but in a tight market where FAK rates are four times the fixed rates, carriers will seek to book as much high-paying spot cargo as possible.

"Is it possible that NVOs are not getting all of the space they want? Yes," the carrier executive said.

The spot rate from Asia to the West Coast was $7,300 per FEU as of June 23, up from $2,820 just two months ago, according to Platts, a sister company of the *Journal of Commerce* within S&P Global. The current East Coast spot rate of $8,300 per FEU is up from $3,340 on April 26.

With vessel capacity getting even tighter over the past two weeks, some beneficial cargo owners (BCOs) who book directly with carriers and have minimum quantity commitments in their annual service contracts are now finding even their space allotments are being cut. "I'm sure it is happening," a second carrier executive said.

Each carrier has its own strategy for allocating vessel space. One common practice is to honor the allocated space at the contracted rate, which in the 2024–25 service contracts is about $1,500 to $1,700 per FEU, if the importer pays a PSS, said Bob Fredman, principal at the consulting firm SF Global Insights. Carriers in June announced PSSs totaling $1,000 per FEU, and some liners have announced additional surcharges of $1,000 to $2,000 per FEU to take effect in July, NVOs told the *Journal of Commerce.*

"It's pay a PSS or there's no space," Fredman said.

A transportation consultant who formerly served as the logistics manager at large retailers said he doesn't see carriers pulling back from their stepped-up schedule of GRIs and PSSs anytime soon, although it could result in downward pressure on demand later this year.

"How in the world do the carriers think shippers can absorb these costs?" the source said.

New data from the US Census Bureau detailing sales and inventory changes through April showed no signs of the sudden boom in demand that took place in early May, Alan Murphy, CEO of Sea-Intelligence Maritime Analysis, said in his Sunday Spotlight newsletter.

"This would have made it virtually impossible for carriers to proactively deploy more capacity in order to prevent capacity shortages and rate spikes, partially dispelling the myth that the spike is simply the carriers manipulating the market," Murphy said.

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