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Importers try to push cargo to contract rates as trans-Pac spot market surges

Some carriers and forwarders say tight vessel space and elevated spot rates could last into October. Photo credit: Mariusz Bugno / Shutterstock.com.

Bill Mongelluzzo, Senior Editor | Jun 6, 2024, 8:00 AM EDT

Carrier-direct bookings in the eastbound trans-Pacific are surging as importers rush to take advantage of rates that were inked in new annual service contracts and now are about one-fourth the level of current spot rates, with demand expected to remain strong as imports from Asia show no signs of letting up.

An ocean carrier executive who did not want to be identified said importers are booking as much cargo as possible under the allotments in their freshly signed service contracts, many of which just went into effect on May 1.

"For sure, they are booking as much fixed rate as they can, if they can get the space," the source said.

In April, 56.3% of imports from Asia were booked directly with carriers, with 43.7% booked through non-vessel operating common carriers (NVOs), according to PIERS, a sister product of the *Journal of Commerce* within S&P Global. That's up from 50.3% carrier-direct bookings in January and 48.2% in April 2023.

While direct bookings rise, so too do spot rates.

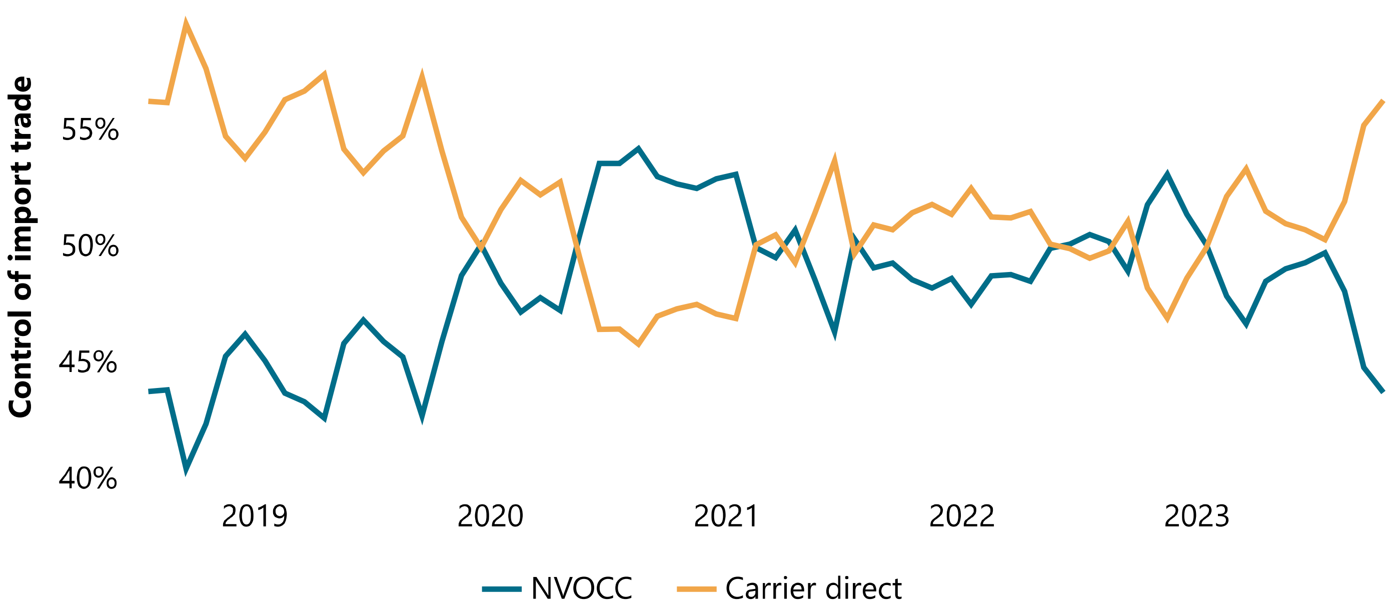
Rates from Asia to the US West Coast were $6,200 per FEU on Tuesday, according to Platts, a sister company of the *Journal of Commerce* within S&P Global. That's up from $2,800 per FEU on April 5. The East Coast spot rate of $7,300 per FEU is more than double the rate of $3,240 per FEU from two months ago, helped by $1,000-per-FEU general rate increases (GRIs) on May 1, May 15 and June 1.

By contrast, fixed rates for mid-sized importers in the 2024–25 service contracts range from $1,500 to $1,700 per FEU. The major problem many importers are encountering is that they cannot secure enough vessel space or empty equipment at congested Asian load ports, conditions that are expected to last for several months, according to carriers and NVOs.

"There is no room [on the vessel]. There's no end in sight to this," a second carrier source told the *Journal of Commerce.*

Trans-Pacific carriers slashing NVO allocations as spot rates spike

Carrier direct vs NVO bookings of US imports from Asia



Notes: The PIERS analysis doesn't include less-than-containerload shipments

Source: PIERS, S&P Global

6M 1Y 2Y 30M 4Y YTD MAX

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Carriers say they are honoring MQCs

Importers should get accustomed to the current market fundamentals, Alan Murphy, CEO of Sea-Intelligence Maritime Analysis, said in his Sunday Spotlight report.

“As the market is developing presently, there is no short-term solution to be seen for these shippers, apart from having to pay higher freight rates to get their cargo moved,” Murphy said.

In the current environment, it is prudent for importers to book as much cargo as possible directly with carriers at the fixed rates in their service contracts, a third carrier source said. “Why pay a premium [spot rate] if you don’t have to?” said the source.

The *Journal of Commerce* spoke with four carrier executives, all of whom said their lines are honoring the minimum quantity commitments (MQCs) written into their contracts with importers.

"We'll honor our fixed-rate commitments," one executive said, although adding that any bookings above the weekly MQC will most likely move at the spot rate in effect at the time of the booking.

Given the space and equipment shortages in Asia, David Bennett, chief commercial officer at the forwarder Farrow, is advising his clients to book their shipments as far in advance as possible — at least four weeks out — and to be prepared to ship whatever can't move under contract on spot or freight-all-kinds (FAK) rates.

"Customers must take on a blended mentality," Bennett said.

A retail importer told the *Journal of Commerce* he's now having to convey to his management that container rates are 120% higher than what he budgeted for as recently as March.

Peak season surcharges being levied

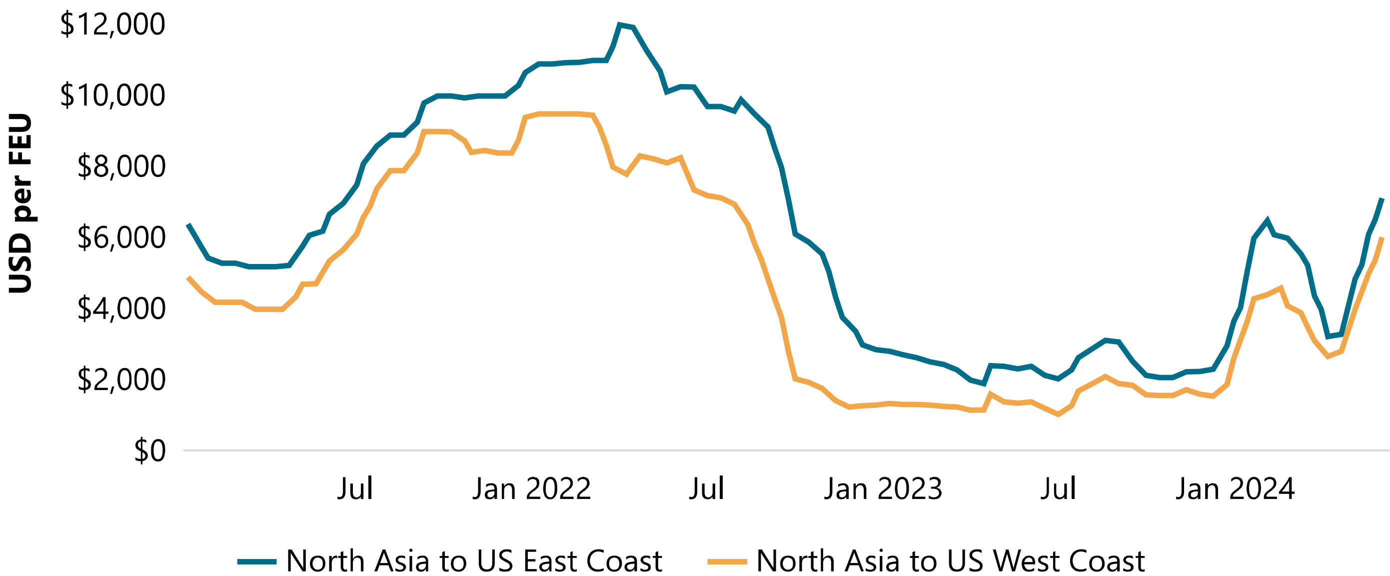
In addition to implementing three GRIs since May 1, which were applied to spot and FAK rates, a number of carriers are levying peak season surcharges (PSSs) that are added to the contract rates paid by importers and the named account rates booked through NVOs, said Chris Sur, executive vice president of ocean freight contract logistics at the forwarder Unique Logistics International.

Carriers announced a PSS of $600 effective June 1 and have announced an additional PSS of $400 for June 15, meaning $1,000 in new charges in just two weeks, Sur noted.

The retail importer said he is taking the lesser of two evils: accepting PSS over going into the spot market.

Asia-US spot rates jump sharply over the past four weeks

Container rate from North Asia to US East and West coasts in USD per FEU



Source: Platts, S&P Global

3M 6M 2Y YTD MAX

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Some importers, especially larger ones, have “no PSS” clauses in their contracts, which carriers generally honor. But other, normally smaller importers, usually have no such clauses in their contracts.

At best, some contracts specify that a PSS will be charged only by mutual consent of the shipper and carrier, said Bob Fredman, principal at the consulting firm SF Global Insights. But in this market, where carriers have the leverage, shippers usually end up paying the PSS, he said.

“In this case, it disadvantages the smaller shippers,” Fredman said.

Strong demand into October?

There is no consensus among carriers, shippers and industry consultants about how long the current environment of strong demand, capacity and equipment shortages driven largely by Red Sea diversions and escalating freight rates will last.

Barring any quick resumption of regular transits through the Suez Canal, the current market environment is expected to last at least through August. Some sources say the strong demand and elevated freight rates could easily last through the Golden Week holidays in Asia, which occur in the first week of October.

Carriers and their customers were caught off guard by the surge in demand over the past four or five weeks, Rolf Habben Jansen, CEO of Hapag-Lloyd, said in a May 30 interview with the *Journal of Commerce.* He added, though: “I would be surprised if this lasts until the end of the year.”

Jon Monroe, who serves as an adviser to NVOs, said the surprisingly strong demand for imports is being driven largely by China, which is flooding the US market with e-commerce merchandise and solar panels ahead of anticipated tariffs later this year.

“This is forced demand because of China,” Monroe said.

With a large number of new vessels coming into the global fleet in the second half of the year and the likely return of normal seasonal demand fluctuations, it is possible that pricing in the eastbound trans-Pacific will give way to extensive price competition next year, he said.

“In 2025, it will be time [for carriers] to pay the piper,” Monroe said.

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