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Soaring trans-Pacific spot rates add twist to last-minute service contract talks

Unusually high spot rates are motivating mid-size importers to finalize their 2024–25 service contracts. Photo credit: Panksvatouny / Shutterstock.com.

Bill Mongelluzzo, Senior Editor | May 1, 2024, 1:20 PM EDT

A big spike in trans-Pacific spot rates that may take hold starting Wednesday is pushing mid-size US importers who have yet to finalize their 2024–25 service contracts to sign those deals quickly, sources say. Importers who don't move soon risk shipping at spot rates that are about two and one-half times the prevailing contract rates that are under negotiation.

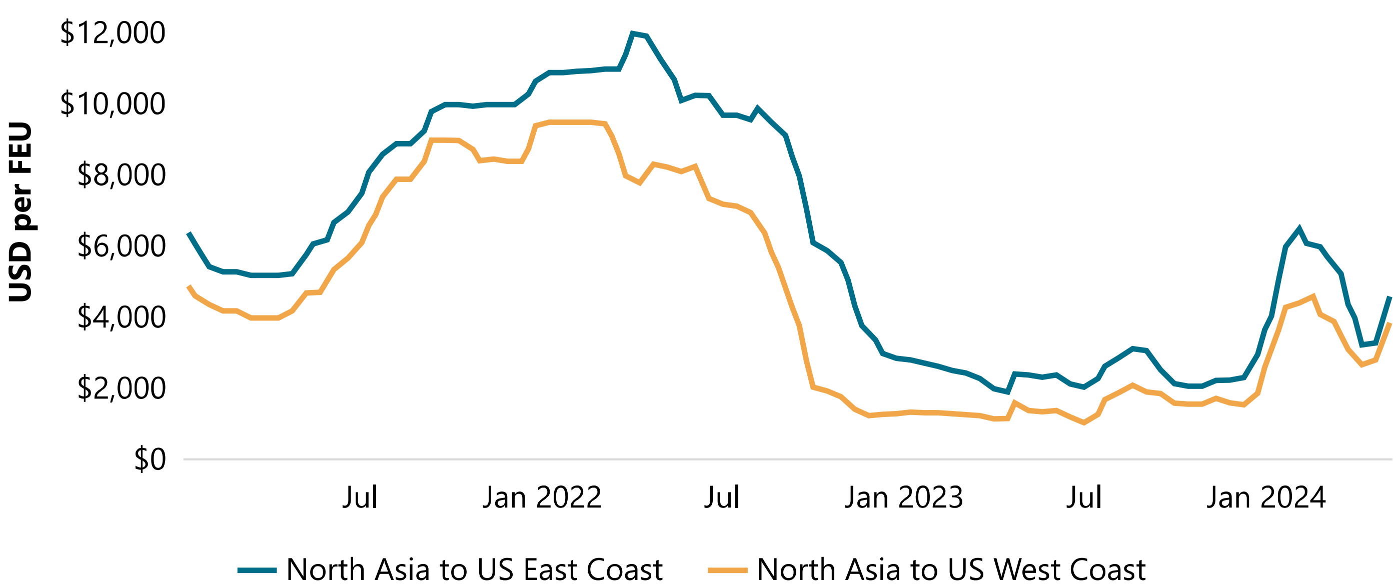
Spot rates sought by carriers are set to increase more than $1,000 per FEU based on May 1 general rate increases (GRIs) filed last month by most of the liners in the eastbound trans-Pacific. Carriers and non-vessel-operating common carriers (NVOs) expect the rate hikes to stick in the short term as vessels leaving Asia are forecast to be full well into May.

The GRIs seek to boost spot rates by just over 30% to approximately $4,200 to the West Coast, $5,400 to the East Coast and $5,600 to the Gulf Coast, according to carriers and NVOs. The West Coast spot rates on Tuesday were about $3,700 per FEU to the West Coast and $4,400 per FEU to the East Coast, according to Platts, a *Journal of Commerce* sister company within S&P Global.

The jump in spot rates comes as factories in China saw an increase in purchase orders in April while strong US imports are expected to continue into May, according to Jon Monroe, who serves as an advisor to NVOs. Having cleared the inventory overhang that had congested their warehouses over the past two years, retailers are returning to normal seasonal restocking.

Asia-US spot rates jump 30% over the past week

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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Importers are likely fast-forwarding summer imports due to the ongoing security situation in the Red Sea and the uncertainties around the International Longshoremen's Association (ILA) contract negotiations on the East Coast.

"Importers are moving their shipping schedules up to get ahead of a potentially tough peak season," Monroe said in his newsletter to clients on Tuesday.

The unexpected success of the GRIs has caught carrier and shipper sources by surprise as they are occurring at the time when importers are finalizing their annual service contracts in the Asia-North America trade. Normally, spot rates stabilize as the contracting season ends.

"Outside of the COVID years, this is totally unheard of. It's quite surprising," a carrier executive who spoke on the condition of anonymity told the *Journal of Commerce* this week.

Most but not all of the annual service contracts will run from May 1 to April 30, 2025.

Some mid-tier importers have been resisting finalizing their service contracts in the hope of securing lower rates. The prevailing 2024–25 contract rate already agreed to by a number of importers ranges from the high $1,500s to about $1,700 per FEU to the West Coast, said Kurt McElroy, executive vice president of the NVO Kerry Apex.

"They realize they better sign [the service contracts] for $1,600 to $1,700," McElroy said.

A second carrier executive who did not want to be identified said there's a game of "chicken" going on between some importers and their core carriers. He warned that those importers who continue to hold out in their contract negotiations may be disappointed because the rates that were available three weeks ago "aren't there anymore."

Space on vessels leaving Asia has become tight in recent weeks and reports of containers being rolled to subsequent voyages have surfaced.

"There is definitely demand not being met," said Christian Sur, executive vice president/ocean freight contract logistics at NVO Unique Logistics International.

So while the remaining mid-size importers and NVOs finalize their contracts in the coming few weeks, they will likely do so in an environment of unusually high spot rates. "This is not normal," Sur said.

Two weeks needed to process contracts

Meanwhile, so many importers and NVOs have already signed service contracts that a backlog of unprocessed contracts has developed. Carriers must process and file the signed contracts with the US Federal Maritime Commission, a procedure that can take a couple of weeks, Monroe said.

“The filing process is backed up,” he said. “It will take up the first half of May.”

“I’m sitting in that backlog,” said Rachel Shames, vice president/pricing and procurement at the forwarder CV International. “It has really dragged on this year.”

McElroy said that while importers wait for their new contracts to be processed, most carriers will extend the 2023–24 contracts for a week or two so their customers, especially their most loyal, aren’t forced to pay the high spot rates now in effect. That means importers will continue to pay last year’s contract rates of about $1,350 to $1,500 per FEU to the West Coast until their 2024–25 contracts actually take effect, he said.

Another option that some carriers may use while waiting for the new contracts to take effect is to extend the prior deals for a week or two, but at the new 2024–25 rates of about $1,600 to $1,700 per FEU, McElroy said.

A home furnishings importer whose contract runs from June 1 to May 31, 2025, said he has completed two rounds of negotiations with his core carriers and expects to complete the process in the coming weeks.

In round one, the carriers offered about $1,750 per FEU to the West Coast, with the price dropping to about $1,600 after the second round of talks. The importer said he expects to conclude the negotiations near $1,580 to $1,590. The East Coast price started at about $2,860 per FEU, dropped to the low $2,700s in round two and will likely drop a bit more in the final round of talks, he said.

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