Slot frenzy

Shippers, NVOs hunting for space amid early trans-Pacific peak

By Bill Mongelluzzo

Each North American peak season seemingly has its own dominant force that shapes the trans-Pacific container trade during the summer rush ahead of winter holiday season, and this season is one of panic.

"Nobody is unscathed in this market."

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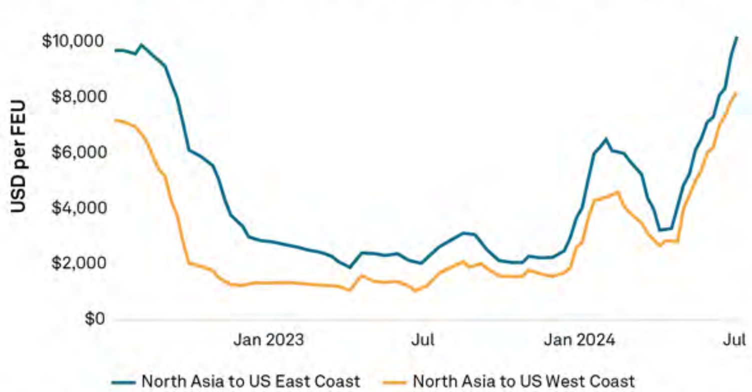
How else could one describe importers' scramble for slot capacity and equipment that began in May and now is sending container spot rates on an arc not seen since spring 2021, when prices hit record levels amid record demand and rampant US port congestion?

Spot rates from North Asia to the US West Coast averaged $7,900 per FEU in the last week of June, as measured by Platts, a sister company of the *Journal of Commerce* within S&P Global, up from $7,350 per FEU the prior week and just $1,050 per FEU in the same week last year. Average Asia–US East Coast pricing reached $9,520 per FEU, up from $8,350 per FEU a week prior and $2,050 per FEU at the end of June 2023.

Trans-Pacific spot rates soaring as vessel capacity tightens
Container spot rates from North Asia to US West and East coasts, in USD per FEU



Source: Platts, S&P Global

US-based importers who had planned to ship their merchandise during the traditional August–October peak season are rushing to book early and gritting their teeth at what it costs.

But 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."

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.

"We're getting less and less."

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.

Chasing the spot market

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

The year-over-year growth in trans-Pacific demand that began in October has continued through May, with year-to-date containerized US imports from Asia surging 18.5% compared with the first five months of 2023, according to PIERS, a sister product of the *Journal of Commerce* within S&P Global.

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

US imports from Asia grow for eighth consecutive month in May
Containerized US imports from Asia, in laden TEUs, with year-over-year change

Source: S&P Global

attempt to honor the named account allocations, but in a tight market, with FAK rates four times the fixed rates, carriers will seek to book as much spot cargo as possible.

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

> "How in the world do the carriers think shippers can absorb these costs?"

With vessel capacity getting even tighter in June, 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 the firm's 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 wrote.

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Forwarders and shippers say carriers are cutting space commitments they made in 2024-25 service contracts.
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