

AUGUST 2021 



Full Container Load (FCL) Surcharges

Demurrage & Per Diem

WHITE PAPER 

TRANCO GLOBAL

CURRENT MARKET CONDITIONS

Steamship Lines (SSLs) are aggressively tightening the rules for demurrage and per diem fees. This has resulted in a surge of annoying surcharges for customers already reeling from inflated ocean rates. Carriers are limiting service to inland intermodal ports beyond the US base ports while reducing the number of free days allowed both at the port and once the FCL is out-gated. Critics can argue that the surcharges amount to a cynical method for SSLs to garner even more revenue. On the other side of the coin, SSLs counter that the changes are a necessary tool in improving FCL turnaround.





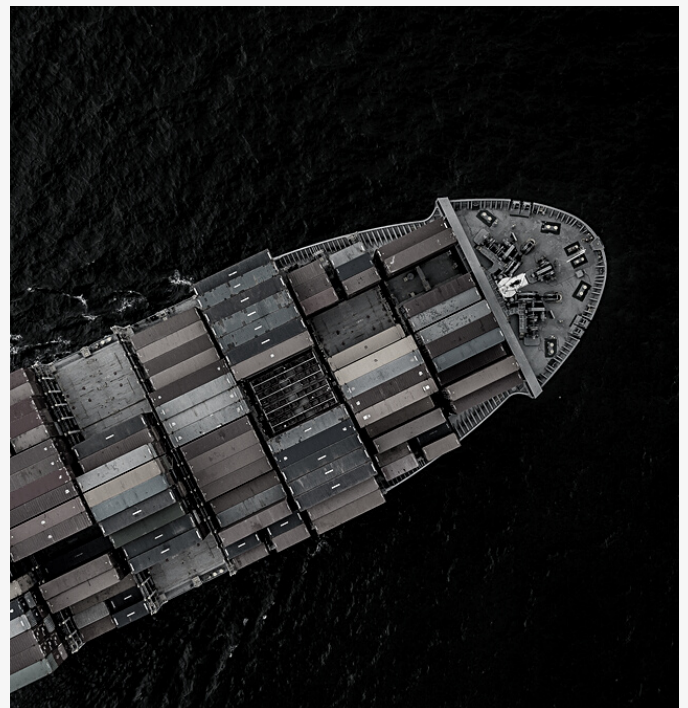
UNDERSTANDING DEMURRAGE & PER DIEM

Demurrage and per diem are accessorial services charged by the SSLs for FCL usage greater than that allowed under the customer's standard service conditions. The SSLs allow a certain number of "free days" both on the port property at arrival and off the port property once the FCL is out-gated.

Demurrage: A charge by the carrier if the FCL remains on the port premises after the Last Free Day (LFD). Historically, SSLs allowed 4 free days at port. Typically, weekends and holidays were not included in these calculations. Some large customers were allowed additional free time based on the carrier's discretion.

Per Diem: Per diem is a fee that the SSLs charge for each day past the LFD the FCL was out-of-port. Historically, customers were allowed a standard of 4 free days out-of-port. Some of the largest customers were allowed additional free days.

The rates for both demurrage and per diem are specified in the tariff published by the SSL. In most circumstances, the rate progressively increases the longer the amount of time past the LFD the FCL remains out of compliance. For instance, 1-3 days of demurrage might be rated at \$250/day per FCL, with 4-10 days of demurrage assessed charges at \$350/day and all days of demurrage past 10 at \$500/day per FCL.



AN EVER-TIGHTENING GRIP

As SSLs increase their ocean rates, they have also dramatically tightened their demurrage and per diem rules. Here are some recent examples of how the SSLs are tightening their grip:

- One SSL now starts the free day clock based on the first day the FCL is unloaded from a vessel. In one example, an FCL was unloaded at 11:57 PM. Though unloaded just 3 minutes before midnight, this was counted as the first free day
- A railyard in Chicago now allows just 1 free day. Many times, the train arrives late in the afternoon, meaning all FCLs on the train are in demurrage the next morning
- Some SSL customer service bottleneck delays make it virtually impossible to determine and pay demurrage charges in a manner that allows for same-day payment
- An SSL on the west coast cannot provide any available "appointments" for returning empty FCLs
- The CEO of a large SSL is quoted as envisioning a future where an SSL might allow no free time, either at the port or once out gated. Instead, the ocean freight rate paid to the SSL would only cover the port-to-port transport charges. Demurrage and per diem surcharges would be immediate for all FCLs



IS IT LEGAL?

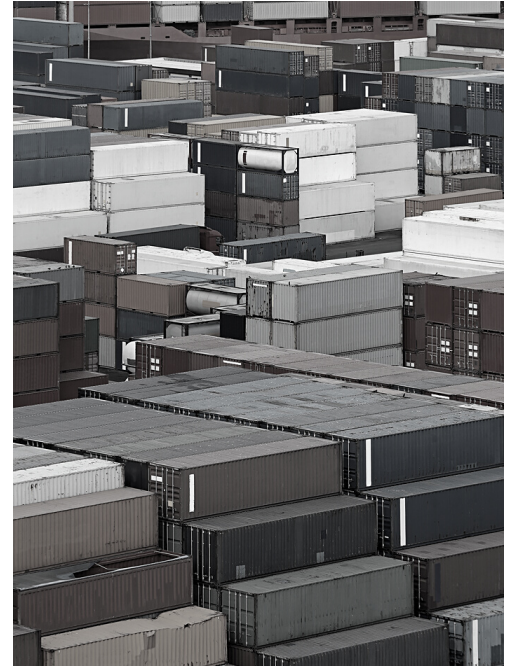
Many observers question if these trade practices are legal? In a word, "Yes." The number of allowable free days is a commercial decision made by the SSL. The SSL's responsibility is to accurately publish a tariff that reflects the rules and rates by which per diem and demurrage are applied.

The current assessment of per diem and demurrage charges is widely unpopular and is coming under more scrutiny. On a broad basis, the Federal Maritime Commission (FMC) has gone on record indicating they would prefer that market forces address rates through traditional supply and demand mechanisms. Still, the unfavorable view of per diem and demurrage surcharges may bring in Federal intervention. The FMC has received such a large volume of complaints, they have opened an investigation into SSL trade practices regarding these specific accessorial charges. Regardless, SSLs are currently allowed to charge per diem and demurrage in an aggressive manner.



PORT CONGESTION

The recent uptick in port traffic, along with the increase in congestion merely exacerbates the opportunity to accrue demurrage or per diem. Many ports have a dire shortage of FCL drayage drivers. SSLs are reducing the number of FCL's they allow progressing to inland ports from the ocean base port. These and other factors all contribute to additional delays as companies scramble to find drayage capacity at these base ports.



THE WORST MAY BE YET TO COME FUTURE TRADE RISK

Tranco Global provides services based on market conditions. Those market conditions have created a tightening in FCL surcharges over the past 12 months. Tranco Global foresees a future where SSLs continue to tighten surcharge rules, applying demurrage and per diem to almost all FCL moves. Put another way, there was a time when FCL surcharges could be avoided through advanced planning and scheduling. In the current market, all FCL shipments are potentially subject to surprise surcharges.



The Tranco team is committed to minimizing your costs while providing the best service solutions. We work with customers on a daily basis to engineer solutions specific to their needs.

Please reach out to your Tranco solutions specialist or contact inland@trancoglobal.com for more information.

