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Trans-Pacific peak season chaos set to accelerate NVOs' share gain

Bill Mongelluzzo, Senior Editor ([users/bill-mongelluzzo](#)) | Sep 13, 2018 1:35PM EDT

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The message for ocean carriers is that they will not lose loyal customers if they treat them fairly. (Above: The Port of Los Angeles.) Photo credit: Shutterstock.com.

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Having further increased their share of Asian imports to the United States, forwarders stand to gain an even larger share owing to cargo rolling (https://www.joc.com/maritime-news/trade-lanes/trans-pacific/amid-trans-pac-spot-rate-uptick-october-blank-sailings-emerge_20180907.html) in Asia, volatile pricing this peak season, and a broader lack of schedule integrity (https://www.joc.com/port-news/terminal-operators/ocean-reliability-woes-fluster-us-import-pick-predictability_20180815.html), all of which are factors forwarders are experts at addressing.

"Complexity, risk, uncertainty. These have always present, but they are seemingly a bigger element this year," said Bill Rooney, vice president of trade management North America at Kuehne + Nagel. "We deal with that all of the time," he said.

Freight forwarders, also known as non-vessel operating common carriers (<https://www.joc.com/special-topics/top-50-3pls>) (NVOCCs), in the first half increased their share of US imports from Asia by 1.7 percentage points from calendar year 2017, according to PIERS, a JOC.com sister product. NVOCCs now control 44.6 percent of containerized imports on the largest US trade lane, up from 36.8 percent in 2013.

With capacity tight, parties look to NVOCCs

Tight capacity on vessels leaving Asia has driven importers, even some large retailers, to look to NVOCCs to help them get their time-sensitive shipments loaded on vessels that have been overbooked in Asia. This has been an unorthodox year in the trans-Pacific. Carriers early this peak season eliminated three vessel strings to the West Coast, reducing overall capacity nearly 7 percent, and one string to the East Coast, eliminating capacity about 1.3 percent.

As a result, even steady customers are being shut out on some of their shipments. "BCOs [beneficial cargo owners] now cannot get their allocated space out of China. I've been locked out of sailing two weeks in a row because I negotiated a contract in good faith," said David Pearlman, vice president logistics and inventory management at Welmed, on LinkedIn.

The summer began with the carrier alliances reducing capacity because they feared there would be excess capacity in the trade. However, there was an unexpected early spike in merchandise exports from Asia as US importers moved shipments up to get ahead of Trump administration tariffs on China. As space tightened, and importers exceeded their weekly allotments, they turned to NVOCCs for relief.

As pressure to add value increases, carriers have responded by introducing expedited services from Asia, such as APL's [Eagle Express](https://www.joc.com/maritime-news/trade-lanes/trans-pacific/minor-trans-pac-capacity-relief-arrives-amid) (<https://www.joc.com/maritime-news/trade-lanes/trans-pacific/minor-trans-pac-capacity-relief-arrives-amid>

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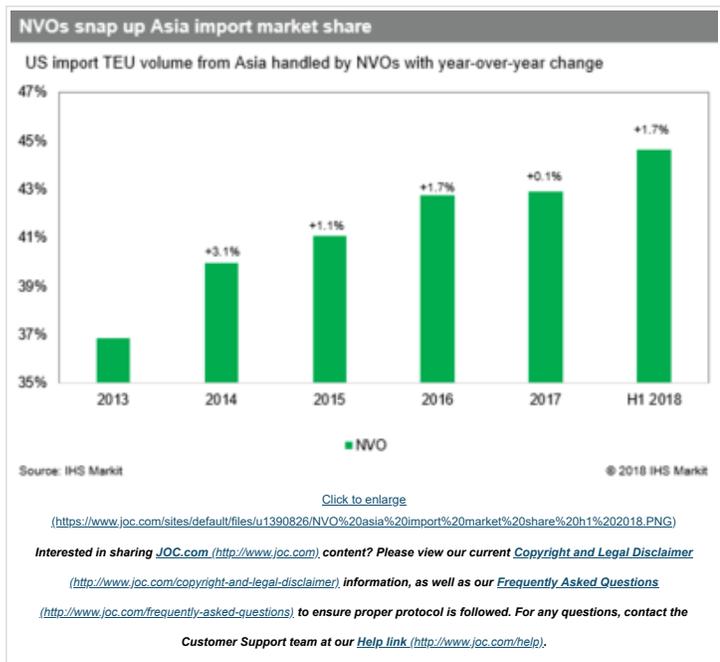
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[peak-season_20180822.html](#)) Service to Los Angeles, while others added single-voyage "extra loaders" (https://www.joc.com/maritime-news/trade-lanes/trans-pacific/trans-pac-carriers-inject-more-eastbound-capacity_20180905.html) to meet the unexpected surge in demand. Maersk Line and Hapag-Lloyd are offering BCOs the option of getting [instant quotes](https://www.joc.com/technology/container-shipping%20%80%99s-heavy-instant-quote-lift_20180904.html) (https://www.joc.com/technology/container-shipping%20%80%99s-heavy-instant-quote-lift_20180904.html) online. Carriers are not necessarily trying to cut out the middleman, though, because they work closely with NVOCCs to help fill their vessels, especially with cargo that NVOCCs book from small-size and mid-size shippers with whom the carriers may not have direct relationships.

NVOCCs' market penetration

NVOCCs' market penetration of the US import trade is the deepest in Asia, and weakest in Oceania, where NVOCCs controlled 9.2 percent of US imports in the region. NVOCCs' control of the Asian import market is 3.4 points higher than their share from the Indian subcontinent, which was at 41.2 percent in the first half. NVOCCs controlled 38 percent of the trans-Atlantic US import market.

BCOs more than ever require timely delivery of shipments to satisfy consumer demand in this era of e-commerce, so the rolling of shipments in Asia because of vessel overbooking is working at cross-purposes to their needs. "BCOs are very frustrated about the rolling of freight in Asia, particularly China," said Jon Slangerup, CEO of American Global Logistics.

NVOCCs generally contract for space with multiple carriers and vessel-sharing alliances (VSAs), so BCOs who are getting shut out of vessel departures in Asia are seeking relief that even their core carriers cannot provide. "We aren't tied to a fix set of assets," Rooney said.

"We have our primary, secondary, and tertiary levels of carrier support," Slangerup said. "We specify a certain carrier, but we have to go to our secondary or tertiary carrier if there is rolling," he said. Today's level of uncertainty is unmatched in recent years because of the BCOs rushing to get ahead of the [tariffs](https://www.joc.com/maritime-news/trade-lanes/trans-pacific/trans-pac-carriers-inject-more-eastbound-capacity_20180905.html) (https://www.joc.com/maritime-news/trade-lanes/trans-pacific/trans-pac-carriers-inject-more-eastbound-capacity_20180905.html) on imports from China. "The tariffs are having an impact. BCOs are trying to beat the clock," he added.

NVOCCs are offering capacity for desperate importers who face the uncertainty of tariffs, but the BCOs may end up paying more for the ocean transportation because of escalating spot-market prices and general rate increases (GRIs) carriers have been successful in implementing for the past two months. NVOCCs that are able to provide competitive rates and transit times should have an advantage in this market, said Zvi Schreiber, CEO of Freightos, but he added, "unfortunately, NVOCCs are more often giving rates that are subject to GRI and non-committal transit times, and offline service, which is not what shippers want," he said.

Impact on carriers

The message for [ocean carriers](https://www.joc.com/maritime-news/container-lines) (<https://www.joc.com/maritime-news/container-lines>) is that they will not lose loyal customers if they treat them fairly. "Shippers don't fundamentally care if they work with a carrier or NVOCC. They want their containers moved from A to B. They want good prices, committed slots and transit times, and smooth service," Schreiber said. Whoever provides the services that BCOs demand at a competitive price gets the business, he said.

Although BCOs are reacting to today's market disruptions with an eye on what is happening in the next month or two, the forces at work today will drive the transportation decisions they will make over the coming decade, Rooney said. Product sourcing will drive some of those decisions as wages in China continue to rise and retailers source more products in Southeast Asia and the Indian subcontinent, trends that are already playing out in areas such as [footwear](https://www.joc.com/regulation-policy/economy-watch/world-economy-news/faster-us-southeast-asia-transits-) (<https://www.joc.com/regulation-policy/economy-watch/world-economy-news/faster-us-southeast-asia-transits->



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When the shipments arrive at US ports, importers face the additional challenge of securing trucking services at a competitive price in today's [tight trucking market](#) (https://www.joc.com/trucking-logistics/early-trans-pac-peak-set-propel-us-spot-truck-rates_20180814.html). "The trucking market has changed. Now it's the trucker who chooses the customers," Rooney said. NVOCCs that understand this trend are treating drayage and trucking companies the way they should be treated. "We do that all the time. We're good at it," Rooney said.

On the other hand, ocean carriers control the vessel assets, so it has become a market in which cooperation between the two parties is needed. "Smaller shippers often want door-to-door service, insurance, and customs clearance. Often NVOCCs are better set up to provide door-to-door service, but carriers are better able to provide guaranteed capacity," Schreiber said.

Carriers this past year came together through the formation of three large VSAs (https://www.joc.com/port-news/us-ports/alliances-cause-us-west-coast-port-delays_20170509.html), with one of their chief objectives being to offer sufficient capacity linking port pairs in Asia and North America. BCOs are not necessarily pleased with the service the alliances are offering because customers have no control over which carrier's vessel will carry their cargo on any particular voyage, and equipment availability problems have resulted as vessels call at different terminals in the same port complex. Slangerup cited similar problems associated with the airline mergers two decades ago and suggested that, "The carriers will improve in fits and starts as they grow up and learn how to play together. That will happen," Slangerup said.

Carriers such as Maersk Line and Hapag-Lloyd are attempting to bridge the gap that has developed between shipping lines and small and mid-size customers by using [digitalization](#) (https://www.joc.com/technology/container-shipping%E2%80%99s-heavy-instant-quote-lift_20180904.html) to allow customers to book online. Schreiber said this movement is still in its infancy. "Like everything in logistics, it will take a few years to fully play out, but the forward-thinking carriers and NVOCCs are preparing for that future right now by enhancing their digital offerings," he said.

Slangerup said an important element needed to bring order to the market is for carriers to figure out how to be profitable. They will then offer quality service at a price that customers will support, rather than engaging in "punitive" measures such as [removing capacity](#) (https://www.joc.com/maritime-news/container-lines/zim-integrated-shipping-services/zim-partnership-2m-trim-two-strings-us-east-coast-trade_20180719.html) from the trade and then raising their rates as demand exceeds capacity. "This is a highly chaotic, reactive environment. This is a business that has to reprice itself," he said.

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