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De-risking the contract season

Port of Hamburg Marketing

Volatile markets and loose contracts mean that shippers and forwarders are having to negotiate contracts more carefully, as higher rates and surcharges push up the price of logistics transport to prolonged high levels.

Nick Savvides | Aug 28, 2024

Taking into account the unpredictability of the container shipping market, certainly during this decade, Drewry Shipping Consultants is advising shippers to start planning contract negotiations early, remain as flexible as possible, and wait for a period of stability to read the market in order to avoid the "cost inflation" endured by smaller shippers on the spot market.

Drewry's bid expert Chantal McRoberts warns shippers should, "expect more disruptions and capacity bottlenecks in 2025." Whether through drought at the Panama Canal, labour disruptions, higher tariffs, or the prolonged Red Sea diversions, there will be the need to make contingencies on a trade-by-trade basis.

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Such disruptions have led to bunching of ships, congestion at ports, and congestion on inland connections and warehousing, pushing up transport costs, including in the ocean spot market. Traditionally, ocean contracts have been loose documents that either side can walk away from, noted the Global Shippers' Forum (GSF) director James Hookham.

He now suggests that the time could be right for change: "Do we need different types of contracts? Do we need more rigorous and more enforceable contracts?" Asked Hookham.

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It is a theme that Hookham will broach at the FIATA World Congress in Panama next month, where he will pose the question: does the logistics industry want to continue with business as usual, or should there be new contracts "with mechanisms that hold people to contracts, but are flexible enough to allow for market changes?"

Tighter contracts already exist in other industries, or as Hookham says "in more mature markets", notably the road transport sector, which has contracts with clauses on what happens if there are delivery delays, or other unforeseen changes that could increase costs for both contracting partners. In such situations, quarterly reviews of contracts can help to even out costs for both sides.

Discussing such contracts could allow shippers and ocean carriers to develop closer relationships with positive outcomes for both. Another tip from Drewry is to get closer to your service provider.

An emerging, but critical, element to contract negotiations is to make certain that carbon charges are transparent and that shippers know what they are paying for.

Drewry cautions that EU ETS charges will increase in 2025 and 2026, and the introduction of the FuelEU regulation next year will increase shipping costs generally, along with shippers' and forwarders' scope 3 costs as a result.

For Hookham, these charges are already questionable. Shipping lines are already levying ETS charges, even though they have nothing to pay until next year, and Maersk has been levying an ETS charge since December 2023, said Hookham. "So why are they taking the money now?" He asks.

The IMO's Marine Environment Protection Committee is due to meet from 30 September and Hookham believes it is imperative for the industry to come up with a shortlist of possible market-based measures for consideration. One of the options will need to be agreed next year, in order to be enforced by the IMO's self-imposed deadline of 2027.

Nevertheless, shippers still see these charges as a tax on trade. "Any levy or Bunker Adjustment Factor (BAF) charge will just be passed on to shippers, as has happened with the EU ETS," Hookham pointed out, "It is just the mother of all BAFs."

Shippers would prefer hard and fast rules to be put in place that will drive change, rather than the situation now where vessel operators have no idea which fuel will be used in the future and are finding it difficult to build new tonnage for the modern age.
