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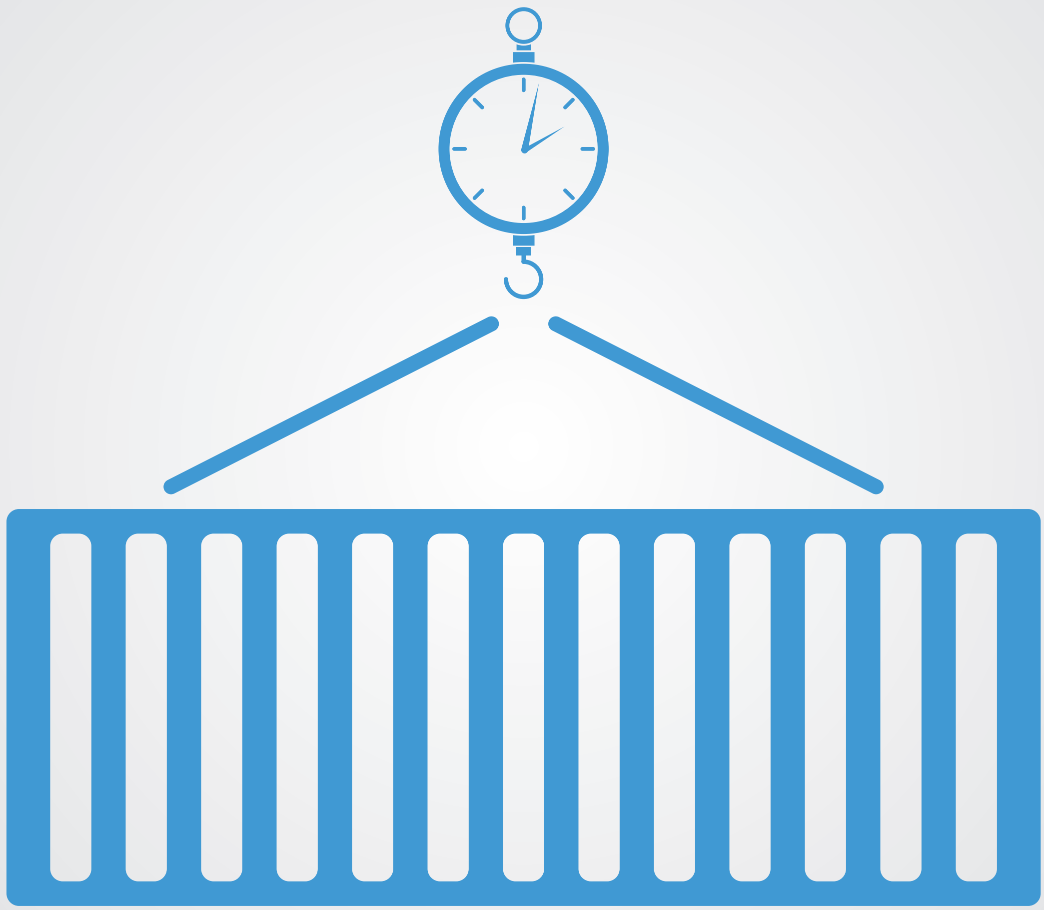

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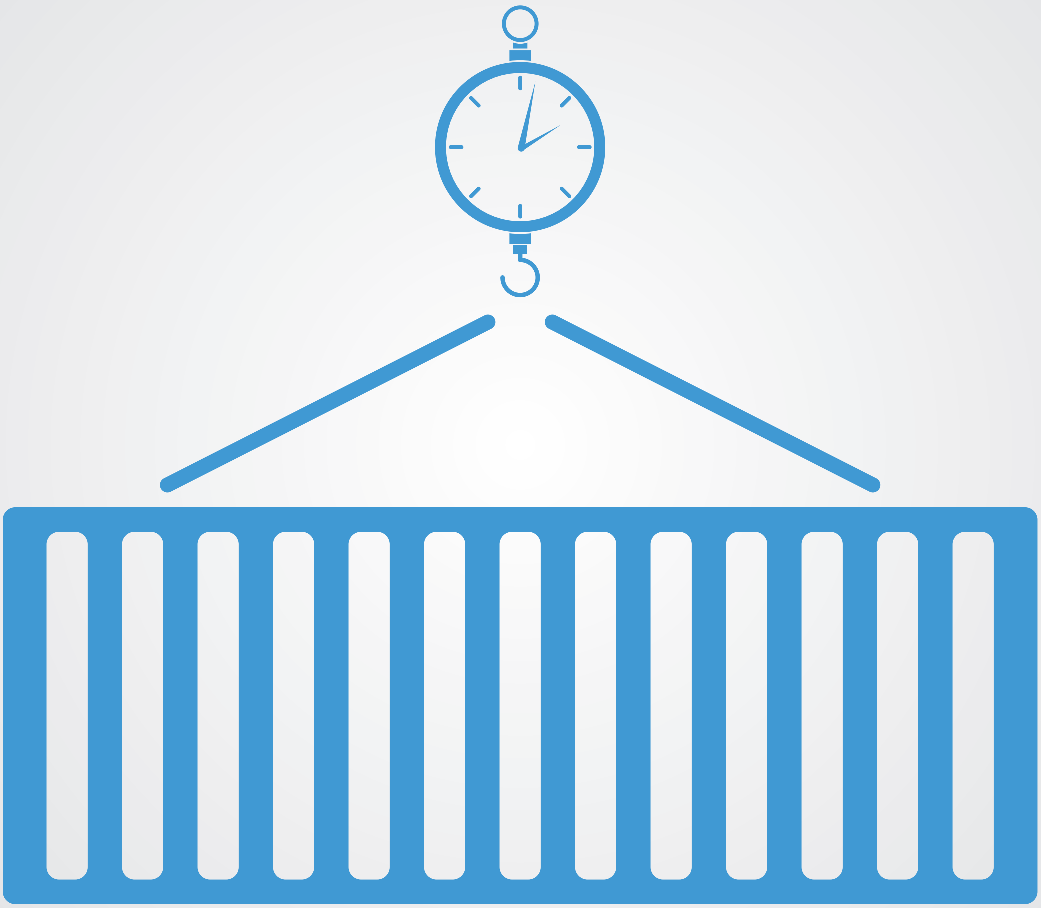
New tools help shippers take control of chaotic detention and demurrage process.

By Eric Johnson



There's hardly a more grating aspect of the commercial relationship between shippers and ocean carriers than that of detention and demurrage.

Also known as "free time," detention and demurrage refer to the contracted amount of time a shipper can keep a container in a marine terminal, and how long that same box can be kept outside the terminal after having been unloaded.

But managing detention and demurrage is rarely as simple as it seems for either party. Dynamics outside the direct control of either the shipper or carrier invariably impact container free time considerations.

If a vessel is held up by weather or delayed at port, for example, that affects a shipper's ability to access its containers, and thus has the potential to throw off the entire downstream calculus. On the shipper side, road congestion, delayed operations at a multi-tenant distribution center, or even a holiday could affect the cargo owner's ability to return the box to a terminal on time.

But free time is about more than just supply chain efficiency; it has financial implications as well.

Carriers assess fees to shippers for exceeding allotted detention and demurrage windows, with those charges ranging from a few dollars to hundreds of dollars per day. And rancor over whether carriers were assessing these fees as a way to drive revenue—and not as a punitive measure to encourage prompt pickup and delivery of containers—came to a head during a threatened West Coast port shutdown in 2015.

At the root of this uncomfortable contractual issue lies a simple reality: most shippers and their logistics services providers had never thought to use technology to manage detention and demurrage effectively. That is to say, most companies weren't viewing detention and demurrage as a strategic asset to be electronically leveraged. Rather, they were dealing with the fees in an ad hoc way, and not fully maximizing what essentially amounts to free inventory storage at terminals and free use of assets outside of terminals.

More recently, however, a cluster of tools to better manage detention and demurrage has emerged. These tools allow shippers and freight forwarders to:

- Keep track of contracted free time in a more systemic way, often via online dashboards;
- Manage detention and demurrage by exception, providing, for instance, alerts when free time is due to expire;
- And strategize around more effective use of free time, so cargo owners aren't missing out on the chance to leverage free storage space for their goods in container terminals.

On a more basic level, these tools aim to prevent users from paying a single cent toward detention and demurrage fees that could have been avoided through smarter asset management. But there has been undeniable momentum in recent years to arm shippers—and, for that matter, carriers and logistics services providers—with better tools to help them manage what have traditionally been seen as pesky ad hoc fees.

Catalyst: Congestion. The defining moment in this evolution may well have come in early 2015, when congestion at U.S. West Coast ports reached a nearly untenable level for many shippers. As they wrestled with rejiggering their supply chains to account for delayed delivery of their shipments, they also started getting hit with invoices from carriers that included what many considered eye-gouging amounts of detention and demurrage fees.

It was the proverbial salt in the wound.

Not only was their cargo being delayed for reasons completely outside of their control, potentially costing them significant revenue on missed sales opportunities, they were then being assessed fees for failure to collect their containers or return empties for those same reasons.

Shippers and industry groups took their concerns to the Federal Maritime Commission (FMC) that year in the hopes the government regulatory agency could compel carriers and terminal operators to forgo the assessment of detention and demurrage fees in light of the crippling port congestion.

For their part, carriers argued at the time that because it was primarily the product of contentious contract negotiations between dockworkers and their terminal operator employers, the port congestion was largely out of their control as well, and that they shouldn't have been adversely impacted by the situation either.

It's important to note here that while the assessment of demurrage is seen as an often dysfunctional aspect of the shipper-carrier relationship, in reality it is terminal operators or port authorities that are ultimately collecting the fees for demurrage.

"It's billed by the carrier, but paid to the terminal," said Andrew Wigdahl, senior product manager at global trade management software provider Amber Road.

Most in the industry acknowledge that carriers often "put a little extra on top" of those fees. Indeed, there has long been a sense that detention and demurrage fees were a source of incremental revenue for carriers, not the punitive measures designed to improve cargo flow and asset utilization they are often advertised to be.

In theory, demurrage fees are intended to compel shippers and their service providers to pick up their discharged containers from terminals in a timely manner. Likewise, detention fees are intended to motivate shippers and their designated partners to return empty assets back to the carriers to be used again.

The 2015 port congestion situation crystalized the belief in the shipper community that these fees were more about revenue collection than behavioral correction. But where cargo owners saw unfair and excessive fees, technology providers in the industry saw an opportunity.

Hiding In Plain Sight. While shipment management systems have long helped shippers and forwarders keep track of detention and demurrage fees, software providers in early 2016 began to roll out separate modules designed to help companies better manage their free time.

In a sense, the real difference was that shippers and forwarders could get distinct visibility into their free time and detention/demurrage fees, apart from the range of other fees carriers assess. In other words, whereas demurrage and detention were once seen as simple line items on a carrier invoice, they could now be managed much more closely.

Freight rate and management software provider Catapult International released a free time management tool in mid-2016 to help its customers better document and strategize around the issue. Jeff Ferguson, vice president of global solutions for Catapult, said the company had been developing the product from the end of 2015, and confirmed that the port congestion in early 2015 was a major driver.

Catapult looked to its own database to see what the most searched lanes and associated terminals were, with the initial product based on nine carriers that covered around three-quarters of those trade lanes. The tool now covers 49 carriers, most global trade lanes and a growing number of sub-lanes.

Ferguson estimates 40 percent of Catapult's customers—mostly forwarders and NVOs—are using it.

To put the issue in context, Catapult's research into its own internal freight rate data last year found the average ocean shipment invoice was $1,722, and a single day of detention could increase a shipment's cost by more than 11 percent.

"Free time is a contract line item just like any other fee or surcharge, yet it is rarely considered when making routing decisions," the firm noted in a 2016 white paper on detention and demurrage. "The reason is that it's hidden in contracts and typically overlooked thanks to all the other everyday complexities of ocean freight rate management—like tracking updates to carrier surcharges and GRIs (general rate increases). Free time is seldom front of mind when ocean rates get calculated and shipments are booked. Yet few of the industry's 1,300-plus ocean surcharges that garner most of the attention can add 11 percent to a shipment's cost each day."

Catapult also noted in the paper that each shipping line has its own set number of free days it offers to shippers, with an average free time of roughly five days. But that free time allotment can vary from country to country and even port to port. Equally importantly, it can also be negotiated within a contract between a carrier and its BCO or NVO customers.

"Adding to the challenge is chassis availability," the white paper said. "This market has changed, and the chassis is no longer supplied by the operators."

If, for example, a chassis-leasing company runs out of equipment during busy periods, making it impossible for a shipper or LSP to move a container, that doesn't affect the free time calculation.

"It is also important to note the daily rate typically increases over time, often starting at $50 per day and increasing to over $300 per day soon after," Catapult said. "Costs also vary by import or export, as well as by port. These are the important details hidden within contracts."

Amber Road, which provides ocean freight rate management alongside its trade compliance and shipment execution tools for importers and exporters, went live with its own detention and demurrage management module in February 2016, Wigdahl said.

Portrix Logistics Software, a Hamburg-based provider of rate management software, launched its tool in May, with the product widely available in the second half of 2017. Portrix primarily supplies software to the freight forwarding industry (five of the 10 largest forwarders are customers), but also to carriers and shippers.

"The complexity of [detention and demurrage] costs and management is a huge issue for everyone within this industry, but often falls somewhat under the radar as it exists outside the spectrum of the normal transportation movement and associated costs," said Portrix CEO Henning Voss.

"The carriers find it difficult to keep track of the correct fees to invoice," he added. "Freight forwarders, who both buy and sell these services, aren't always aware of what they will be invoiced and many struggle to invoice their customers correctly. Shippers share the freight forwarders' challenge in regards to the carrier invoices.

"It's a twisted web of interactions, fees and movements, which, until now, the industry has really struggled to untangle."

Free Time Regulation? Since the 2015 port congestion situation, the FMC has taken a broader role in the detention and demurrage issue. A group of shippers and forwarders called the Coalition for Fair Port Practices filed a petition in December asking the U.S. maritime regulator to address fees imposed on shippers when they can't pick up and return cargo, containers or chassis for reasons beyond their control.

That came a year after the FMC issued a report on free time practices at U.S. ports, which gave a glimpse into the complexity inherent in managing different free time regimes at different terminals and ports just in the United States.

"Demurrage practices, such as the exact time when free time begins to run, vary between ports and sometimes even between terminals at the same port," the FMC report found. "With the exception of ports in California, where state law does not allow for the accrual of demurrage charges on non-working days, demurrage charges generally accrue on a calendar day basis."

According to the Port of Long Beach's tariff, for example, free time begins "at the first midnight after the vessel, from which the merchandise was discharged, finishes discharging or leaves the wharf, whichever occurs first; provided, that when a vessel, which has been only partially discharged, moves to another wharf to complete discharging because of lack of space at first wharf, such vessel shall not be considered as having left the first wharf."

At the Port of New York/New Jersey, the free time calculation starts at a different point.

"Free time on import cargo/containers shall commence at 8 a.m. on the first business day following completion of discharge of the vessel and will expire on the last day of free time," the port's tariff says.

While Long Beach, as well as neighboring Los Angeles, and New York/New Jersey allow four free days of import container storage, the Port of Savannah offers seven days, and the penalties for exceeding that free time are a fraction of those charged in the larger ports.

The free time management tools, among other things, are designed to automatically account for these differing tariffs, while also factoring in any free time terms a shipper or NVO may have negotiated separately with its carriers.

The FMC report also noted some scenarios where delays in picking up or dropping off a container may be out of the shipper's control.

"Demurrage commonly may accrue due to failure by the importer to obtain a steamship release prior to the expiration of free time," the commission said. "This can sometimes be caused by a delay in timely processing of documentation from the shippers' overseas office. Other causes for demurrage relate to an importer's warehouse or distribution center's inability to

Most shippers and LSPs previously dealt with the fees in an ad hoc way, instead of using technology to maximize the value of inventory storage at terminals and use of assets outside of terminals.

timely process containers.

"Additionally, when vessels bunch at the terminal, and free time for many shipments expires on the same day, there is incredible urgency for BCOs and their truckers to pick those containers up on the last free day (LFD), and as a result, there may be congestion at the terminal gates or, for terminals that require appointments, an inadequate number of available appointments on the LFD."

Despite its efforts to educate the industry on free time practices and differences among U.S. terminals, the FMC has limited power to effect change in terminal and carrier billing practices. Then-Chairman Mario Cordero, who has since been named the executive director at the Port of Long Beach, said the agency needed someone to file a petition about unfair detention and demurrage practices before it could even examine the issue more closely.

In the meantime, technology providers have stepped in to fill that gap.

Invoicing Efficiency. What these tools are attempting to do is help parties better manage their operations. Setting up a process where free time is categorized helps a company manage these potential fees in a more systematic way.

Shippers can set up highly tailored alerts based on their parameters. That might mean an alert when free time is about to expire. Or it might mean sending out alerts to drayage providers and downstream receiving facilities when free time begins to allow them to better manage capacity and labor needs.

It might mean a dashboard that logistics planners can use to focus on specific containers where free time will soon expire. Or it could take the form of data reporting, giving a shipper or forwarder concrete insight into where it is being hit most often and most heavily with demurrage and detention fees.

Free time management tools also let service providers, more specifically forwarders and NVOs, differentiate themselves through cost management.

"There are two sets of data," Ferguson said. "The first set is the carrier tariff data set. On top of that, you have the contract-negotiated free time. By comparing those two, they have the ability to compare multiple carriers' data. So they can see the tariff is 10 days but they negotiated 12. It's about the value of how many days are free and not free."

For instance, an NVO could see that its first five days with a container are free, the next five days of detention are charged at $50 a day, and the next five days are significantly higher. That visibility into potential costs, at a particular contract level, allows the NVO to more accurately price its service to shippers.

> **"Free time is a contract line item just like any other fee or surcharge, yet it is rarely considered when making routing decisions because it's hidden in contracts and ocean freight rate management is already so complex."**
>
> *Catapult white paper on detention and demurrage*

And allowing shippers, forwarders, NVOs, and carriers to get ahead of discrepancies in detention and demurrage fee assessment makes invoicing and payment more straightforward and efficient for everyone involved.

In the past, shippers and NVOs would often be left to squabble with carriers over what they deemed incorrect or inappropriately assessed fees after the invoice had been issued. A free time management system gives them an automated audit trail to provide evidence that a detention or demurrage fee is potentially inaccurate.

The picture becomes clearer when both parties use such systems, especially since carriers have to manage different free time allowances across their global network of terminals.

"The value of auditing is you're avoiding discrepancies immediately," Ferguson said. "They're able to audit those quickly and efficiently. Before, they're a forwarder with 30 different ocean contracts, trying to determine whether what the carrier billed me for this was correct or not."

Use It If You Got It. The other, more supply chain-oriented aspect of detention and demurrage management is that it can help a shipper or NVO more effectively use the free time it has negotiated with its carriers.

This goes beyond avoiding penalties and scrutinizing where costs lie, and more toward utilizing what is, in effect, free container storage or use of the container itself. Without a centralized view into actual free time on a specific box, a company is unlikely to have the capability to maximize the use of that free time.

As former shipper and current supply chain consultant Jack Oney once told *American Shipper,* "There's no such thing as 'free' time. You pay for that time in the rate. So it behooves the contracted party to use that time effectively."

"A less obvious upside to better free time visibility is that when you have additional time, you can use it," Catapult said in its white paper. "Extra free time makes it possible to avoid expenses such as storage, handling costs, or other accessorials at the point of pick up or delivery. But you have to know your free time to take advantage."

As an example, Wigdahl said that having an exact view into free time might even allow a shipper to reuse a container before returning it to a terminal.

To be frank, most shippers and forwarders aren't yet employing the technologies now available to maximize the use of free time, leaving plenty of opportunity for software vendors and freight forwarders to more clearly spell out the benefits of these management tools.

The freight forwarder Damco has a detention and demurrage management system for customers it says "allows the planning team to determine cargo delivery to a distribution center and return to the depot, starting from containers which are still on the water. That reduces the email traffic between the planning team and Damco. [The system] provides full insight into proactive planning dates, actual cargo status, option to forecast and, where applicable, current cost."

INTTRA, the ocean freight marketplace that handles roughly a quarter of all ocean bookings globally, offers a dwell time decision support dashboard, which lets a shipper or forwarder measure individual port dwell activity between empty pickup, gate in or out, vessel load or unload, and returned; analyze the potential cost impact; and avoid high risk ports with historically lengthy dwell periods.

It's not hard to envision these tools—or the data created by them—being integrated into more end-to-end transportation, supply chain management, or supply chain design systems.

For instance, a shipper could hypothetically view its own negotiated free time across all the global terminals it uses, measure that against which of those terminals tend to create the most detention and demurrage costs, and input that information into a supply chain design tool to optimize its network against other cost factors, like overall freight rates or manufacturing costs.

In others words, the management of detention and demurrage could soon come to be seen as another essential data element in the growing digital supply chain management picture. ■