

# THE STATE OF DETENTION & DEMURRAGE

■ 2024 UPDATE








In 2024, businesses throughout the global shipping industry are focused on strategically incorporating flexibility and resilience into logistics and supply chain planning in response to ongoing market and infrastructure volatility and changing global trade factors.

Parties to container shipments continue to deal with a range of challenges that are disrupting the smooth flow of container freight which, in turn, impacts the reliable movement of container equipment throughout the world.

Moreover, major global economic fluctuations in supply and demand are resulting in considerable freight rate swings and variable surcharges which add significant complexity to managing and tracking freight rates, as well as the associated surcharges, GRIs (general rate increases), and tariffs that are tacked on to base freight rates.

This report will focus on one well-known category of surcharges, detention and demurrage (D&D), that came to the forefront during the pandemic when the movement of container equipment stalled at distribution centers, ports, and marine terminals which racked up enormous D&D charges for global shippers.



**Demurrage** is a fee that is applied to loaded containers if they're not removed from marine terminals or port facilities within a predetermined period of time.

**Detention** charges occur when containers, that are outside of a port or other facility, such as a warehouse, are not returned empty within the allotted "free time".

**Free time** is the specified amount of time that a shipper has for the pick-up or return of a container without being charged detention or demurrage costs.

### Why are detention and demurrage charges necessary?

In short, these charges are an incentive for shippers to keep the flow of container equipment moving. It is critically important for equipment to be freed up so ocean carriers and shipper customers have the resources they need for the smooth and reliable flow of import and export cargo. Plus, carriers must have containers available to generate revenue.

Container equipment must be managed in a timely manner since it's indispensable for container shipping.

In the coming months, global shipping industry participants will need to monitor these ongoing issues and events that may have an impact on container shipping, container equipment availability, and, in turn, associated D&D costs:

- The war in the Middle East which has brought about attacks on vessels in the Red Sea
- A drought in Panama causing low Panama Canal water levels
- U.S. East and Gulf Coast ILA (International Longshoremen's Association) labor relation issues
- Changing global trade flows
- Rapidly fluctuating macroeconomic issues



# THE FMC TAKES ON DETENTION AND DEMURRAGE

A U.S. FMC (Federal Maritime Commission) Report states that between 2020 and 2022, nine of the largest ocean carriers serving U.S. liner trades - CMA CGM, COSCO, Evergreen, Hapag-Lloyd, Hyundai Merchant Marine, Maersk, MSC, ONE, and Yang Ming - charged a total of approximately \$8.9 billion in demurrage and detention charges and collected roughly \$6.9 billion.

These exorbitant costs were so egregious that the U.S. FMC renewed its interest in ocean carrier detention and demurrage practices and their impact.

In 2022, The FMC established the Ocean Shipping Reform Act (OSRA) to overhaul U.S. container shipping regulations. The goal of OSRA is to reduce shipping costs and address concerns related to supply-chain challenges. Unjustified detention and demurrage fees from ocean carriers and marine terminal operators were the stimulus for OSRA.

## FMC DETENTION AND DEMURRAGE FINAL RULE

In February 2024, the FMC continued its contribution to supply chain fluidity by clarifying D&D processes through the issuance of a Final Rule that adds clarity to detention and demurrage billing, as well as enhances transparency and fairness. The rule ensures a clear connection between the failure to pick up cargo or return equipment in a timely manner and the appropriate fee.

Clear D&D billing charges and dispute guidelines from the FMC provide a new level of accountability and fairness. Invoices must be issued within a specified timeframe, and the dispute resolution process also provides a specific number of days for seeking fee mitigation, refunds, or waivers.

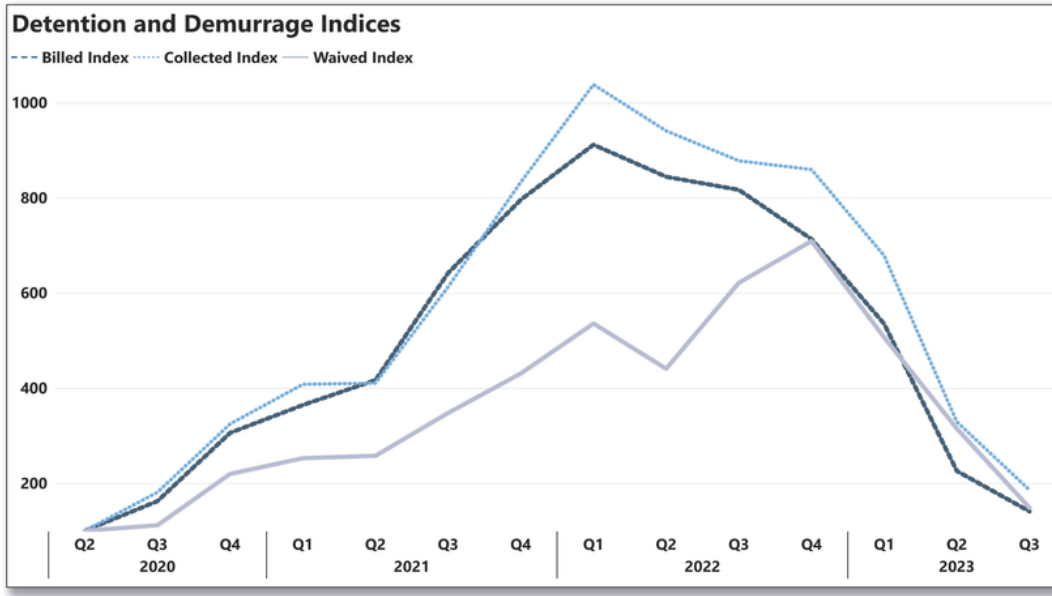
The result, invoices will be more transparent, outlining specific, identifiable information so that those businesses billed fully understand the charges levied against them. This will reduce the potential for unjust penalties due to invoicing errors. In addition, D&D bills cannot be issued to multiple parties simultaneously.

Overall, these regulatory developments are designed to deliver greater clarity and fairness to maritime billing practices, as well as greater accountability, ultimately enhancing supply chain fluidity.

The Final Rule will go into effect once the U.S. government Office of Management and Budget provides approval.

Furthermore, in 2024, the FMC will likely have additional guidelines that address the assessment of equipment usage and storage fees, as well as what establishes unreasonable denial of service by ocean carriers.



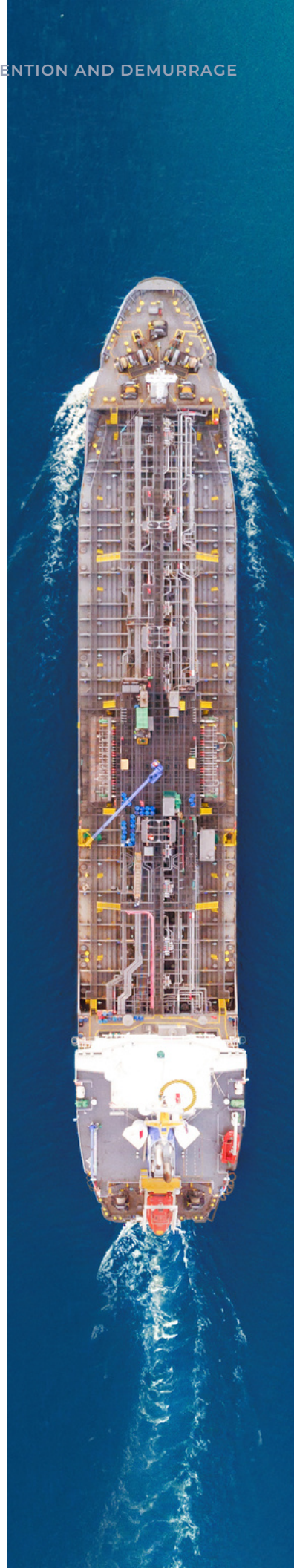


## FIATA REACTS TO THE FMC FINAL RULE

A statement from FIATA (International Federation of Freight Forwarders Association) encouraged its global members to embrace FMC's final rule as a benchmark for best practices, promoting transparency and a level playing field across the supply chain.

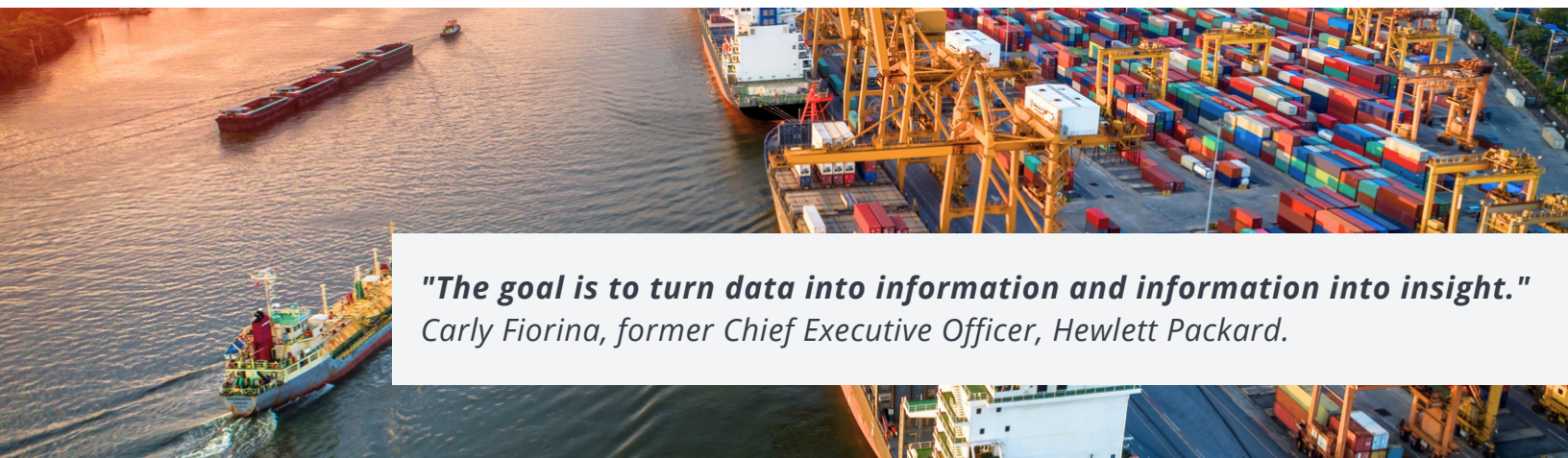
The rules established by the FMC were formulated in collaboration with industry stakeholders. FIATA, leveraging its working group, significantly contributed to this process by providing expertise and insights gathered from its worldwide network of freight forwarding members.

FIATA encourages its worldwide membership to embrace the FMC Final Rule as a benchmark for best practices, promoting greater certainty and a level playing field across the supply chain.



# AVOIDING DETENTION AND DEMURRAGE CHARGES

Detention and demurrage (D&D) charges can pile up if they aren't carefully tracked for each and every container. As a high-value partner, forwarders can support their clients by working collaboratively, managing the shippers contracted freight rates and the corresponding container free times. Backed by accurate data, you and your client will be able to effectively hold ocean carrier partners accountable for billing accuracy.



***"The goal is to turn data into information and information into insight."***  
*Carly Fiorina, former Chief Executive Officer, Hewlett Packard.*

## FOCUS ON SHIPMENT PLANNING

Adoption of a logistics technology solution with rate management and container equipment tracking data is an effective way to access freight rates and contract data quickly and efficiently for better container and cost management.

Knowing where containers are throughout the full origin to destination container journey allows a forwarder, and its clients, to access container milestone data and the associated container free times for each, as well as potential D&D charges, all in real time.

Reducing D&D costs is achievable with access to cloud-based, systematized visibility data, in combination with rate management solutions, allowing a user to act when equipment free time is ending.

Logistics technology offers a clear view of ever-changing rates and charges involved with a shipment and the status of container equipment free time, providing the key data necessary to efficiently manage rates, surcharges, and containers.



# COLLABORATIVE SUPPLY CHAIN AND LOGISTICS PLANNING

Logistics providers with cloud-based freight technology solutions have an opportunity to strengthen their relationships with shipper customers by providing collaborative solutions that improve timely access to logistics costs, surcharges, and tracking that supports optimal supply chain performance, greater productivity, and efficiency.

Forwarders that use Magaya Rate Management, with detention and demurrage tracking, are equipped with digital solutions that enable them to reduce and eliminate charges, backed by data insights. This data can be used to improve supply chain planning, achieve advanced cost management, and add significant value to a shipper's supply chain operations.

## MAGAYA RATE MANAGEMENT

Magaya offers a comprehensive database of over 54,000 surcharges, including detention, demurrage, and free time guidelines from the world's top ocean carriers and hundreds of major global ports. Visibility to these costs and defined free time provides an array of key data points that can serve as a potential pathway to avoiding unnecessary charges.

Visibility to detention and demurrage charges, along with the associated free time, provides important data for forwarders' quotes to shippers, and planning information that equips shippers with the insights needed to determine whether free time negotiations are necessary during rate and contract discussions.

Data-driven decision-making enables shippers to proactively manage their freight logistics spend, supporting optimal operational efficiency. Also, the systematization of rate and tariff data further enhances the ability to better forecast freight costs accurately. By taking steps to monitor and review detention and demurrage charges and free time, forwarders and their shipper customers can take action to reduce the impact of these escalating costs.

Magaya quotations offer detailed detention, demurrage, and free time data for ocean carrier services across the world's ports. It's important to note that detention and demurrage charges escalate over time, as this example indicates.

# CONSIDER THE FOLLOWING BENEFITS TO TIMELY DIGITAL FREIGHT RATE DATA:

- Visibility to detention and demurrage charges and the associated free time is important shipment planning information
- With an analysis of detention and demurrage costs, shippers can determine if they need to negotiate free time parameters with their rate negotiations
- Access to tariff data curtails the unknown
- Data-driven decision-making helps shippers proactively manage freight logistics spend
- Systematized rate and tariff data enables better forecasting of freight costs
- Digitized, web-based rate data is accessible 24/7, allowing logistics providers to share this data with customers quickly and efficiently, and data quality also improves

***"Cloud-based, systematized rate management provides our forwarder and logistics service provider customers with a way to deliver fast, accurate freight rate quotes to their shipper customers. Visibility to operational freight data and surcharges adds value and boosts customer satisfaction. Shippers are equipped with information that enables them to make smarter carrier service selections based on cost efficiencies and supply chain requirements," said Gary Nemmers, CEO at Magaya.***





# ADDITIONAL STRATEGIES FOR AVOIDING EXCESSIVE DEMURRAGE AND DETENTION CHARGES

In addition to using systematized freight rate management solutions for better decision-making, there are other shipment management steps that can be taken to reduce demurrage and detention charges.

**Negotiate with carriers and ports** - Request more free time days to extend equipment usage at no cost. In general, large shippers can often negotiate favorable free time parameters as part of their contracted freight rates due to their volumes. However, free time is most often fixed based on the ocean carriers' terms.

**Pursue accurate, complete container data** - Container status reporting and communication from the various industry parties involved with a container, may not be accurate or complete. Additionally, container status data is not standardized across the industry which means that the data coming into your visibility system needs to be verified and cleaned to be consistent and meaningful.

Inaccurate data may be the cause of higher costs and fees. For example, a lack of data quality may make coordination difficult when planning timely container drayage pickups. Accurate status information is necessary when coordinating container availability and pickups at ports, marine terminals, or warehouses. The absence of clear, accurate data and visibility may result in disruptions and delays in container supply chain links, resulting in costly charges.

Keep abreast of congestion at global gateways to determine if alternative origins or destinations would be beneficial to container velocity

**Ensure timely customs clearance** - Set and agree upon a timeframe for receipt of documentation with your exporter to arrange clearance. Arrange the customs and port clearances and secure the release from all relevant authorities before the ship arrives, so that the container can be discharged without delay.

**Ensure document accuracy** - Make sure documents such as Commercial Invoice, Packing List, Certificate of Origin, Analysis Certificate, and Bill of Entry are all accurate, so customs or port authorities won't reject them.

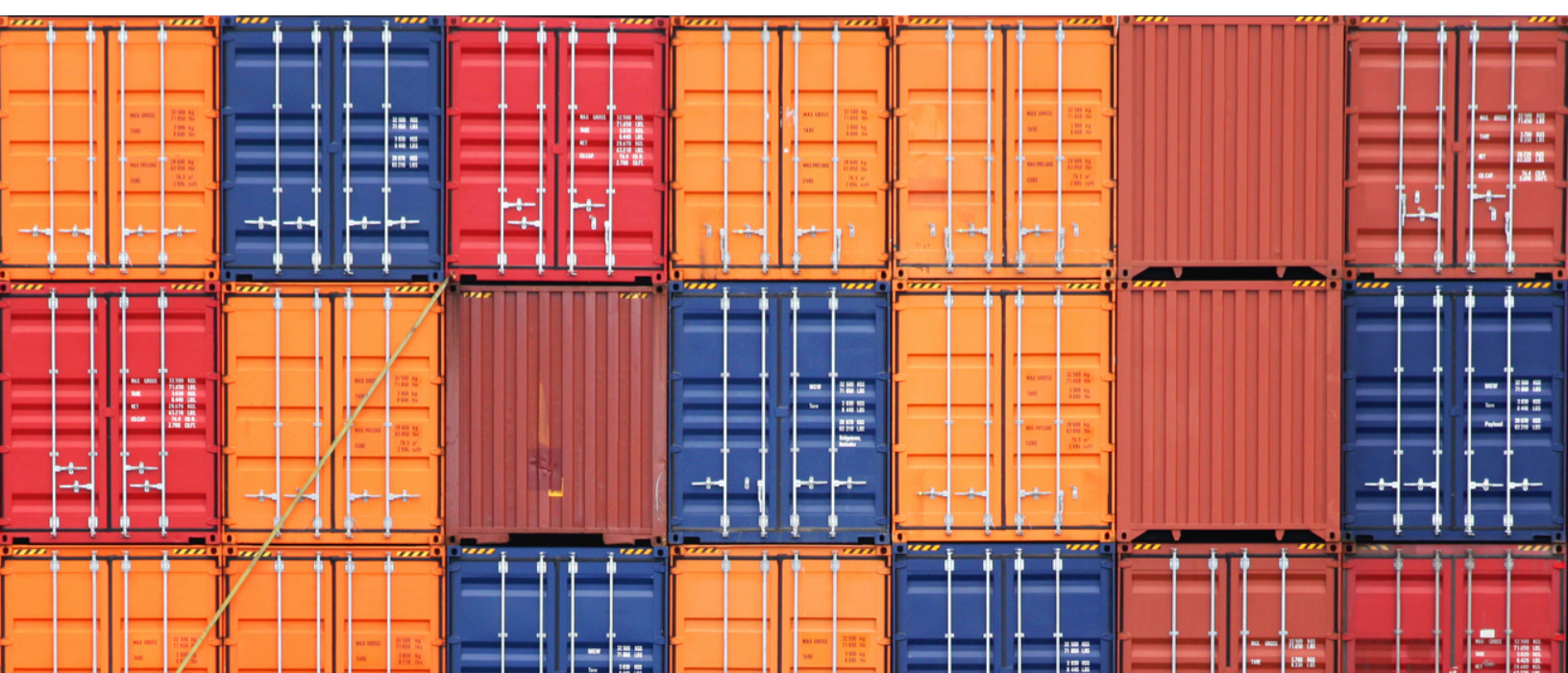
Place special importance on Bill of Lading accuracy. It's the most common cause of container release delays.

If you receive cargo from the same exporter regularly, consider switching to a Seaway Bill of Lading instead of a Negotiable Bill of Lading. You may have the option of additional free time and can ask the shipper to surrender it at origin and secure a Telex Release.

Request an Original Bill of Lading only if you must, as this original document is not required in most countries by customs or port authorities at origin or destination for clearance.

**Keep tabs on shipments** - Monitor your shipment closely, especially the arrival details of the vessel and the commencement and expiry of free days. If your container is detained for inspection and free time will be exceeded, request a leniency extension from the ocean carrier to accommodate the inspection.

The courses of action outlined in this white paper are intended to provide logistics providers and shippers with tactics for improving supply chain planning and managing freight costs. Fast, effective online access to systematized freight rate charges provides the ability to evaluate and access freight rates and contract data quickly and efficiently act on data-based information.





## APPENDIX

### **FMC, Federal Maritime Commission – Detention and Demurrage**

<https://www.fmc.gov/detention-and-demurrage/>

### **FMC Publishes Final Rule on Detention and Demurrage Billing Practices News**

<https://www.fmc.gov/fmc-publishes-final-rule-on-detention-and-demurrage-billing-practices/>

<https://www.federalregister.gov/documents/2024/02/26/2024-02926/demurrage-and-detention-billing-requirements>

### **FIATA Statement**

<https://fiata.org/n/us-fmc-brings-transparency-and-fairness-in-the-sup/>

## ABOUT MAGAYA

Magaya delivers a Digital Freight Platform that accelerates growth with flexible, interoperable, and modular cloud-based solutions designed to optimize and digitize end-to-end logistics operations and customer experience. Whether used together as an integrated digital freight platform or independently, Magaya solutions enable businesses of all sizes to streamline complex and redundant processes, enhance the customer experience, optimize productivity, reduce costs, and grow revenue. At Magaya, we are passionately devoted to ensuring our customers' success through our innovative technology and comprehensive array of related professional services. We take great pride in our people, experts in the field of logistics automation, who are always willing to go the extra mile for our customers. There are no limits to your growth with Magaya. Visit [magaya.com](https://magaya.com) to learn more.