

Catapult Whitepaper:

**Use Free Time to Reduce Detention  
and Demurrage Costs**

Free time is the most important cost factor in ocean shipping that most companies ignore. How so? Not considering free time contributes to unnecessary detention and demurrage costs on up to 25% of ocean freight shipments, according to one of the world's largest NVOCCs.

This growing issue affects logistics services providers and shippers alike, and is exasperated by the current state of the ocean cargo markets – specifically with regards to the ongoing problem of port congestion.

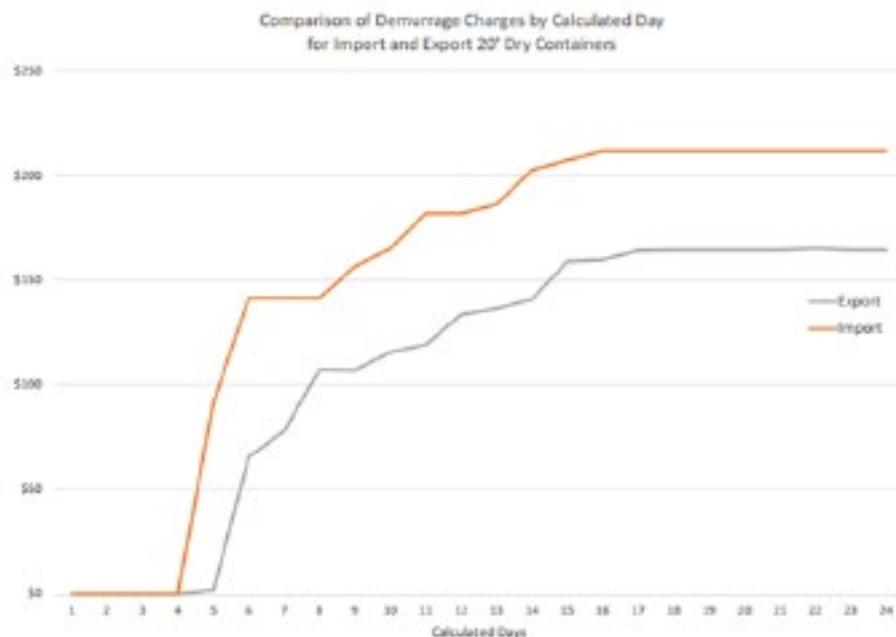
**“One shipper has paid over \$100,000 in demurrage charges in the last year, as compared to paying approximately \$10,000 for the previous year,”** states a 2015 Federal Maritime Commission report<sup>1</sup>.

The same report details how average detention and demurrage costs at key US ports can easily exceed \$200 per day, making it clear that these costs are more than just carriers looking to “nickel and dime” customers. Catapult's own freight rate data shows the average ocean shipment invoice is \$1,722 - meaning just one day of detention can increase a shipment's cost by over 11%.

Before feeling too much sympathy for shippers, it's a mistake to blame growing detention and demurrage costs solely on port congestion.

Free time is a contract line item just like any other fee or surcharge, yet it is rarely considered when making routing decisions. 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. Free time is seldom front of mind when ocean rates get calculated and shipments are booked. Yet few of the industry's 1,300+ ocean surcharges that garner most of the attention can add 11% to a shipment's cost each day.

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## A Brief Primer on Free Time

In the world of ocean cargo shipping, free time refers to the number of days an ocean line grants the shipper to:

- Pick up a container from the port
- Unload or load the cargo to the container
- Deliver a container to the nominated depot

Each shipping line has its own set number of free days it offers to the importer/exporter, which can vary from country to country and even port to port, or can be negotiated within a contract.

If the conditions above are not met, then the shipping line will charge either detention or demurrage.

So, what is the difference between demurrage and detention?

Demurrage relates to cargo (while the cargo is in the container).  
Detention relates to equipment (while the container is empty after unpacking or before packing).

## Contributing Factors to Increased Detention and Demurrage

The average free time is about five days, providing precious little time to pick up, unload or load, and return a container to the depot. Despite our stance that shippers must take accountability for better understanding and using free time, there are legitimate market conditions that make this difficult.

Among the biggest is that vessels are getting larger and taking longer to discharge. At the same time ocean carriers, ports, and terminal operators are not providing additional free time willingly. Ports will continue to get more congested, and, unfortunately, there are no free passes when a container is late.

Adding to the challenge is chassis availability. This market has changed, and the chassis is no longer supplied by the operators. Again, no sympathy if

the chassis leasing companies run out during busy periods making it impossible to move a container.

There will always be situations where shippers simply cannot access cargo or return a container, and as a result exceed free time. Still that's no excuse for failing to take steps to address the problem.

While the issue itself is simple enough, the solution is not. Without a new approach, demurrage and detention charges will only increase.

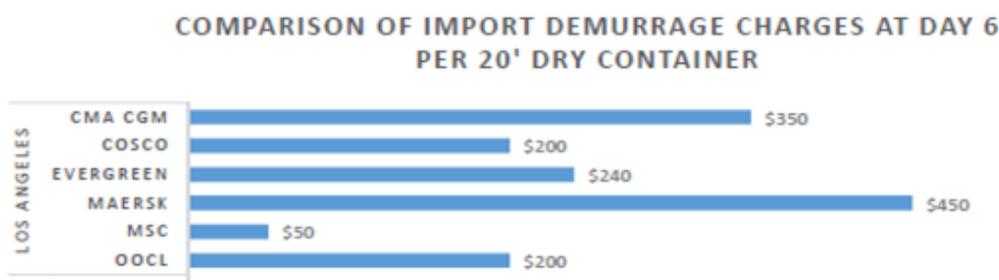
## Solutions for Preventing Unnecessary Free Time Violations

Market forces aside there are tactics for managing free time to minimize costs. Two solutions with the greatest impact include using data for better decision making, and improving communication within your operation and with carriers.

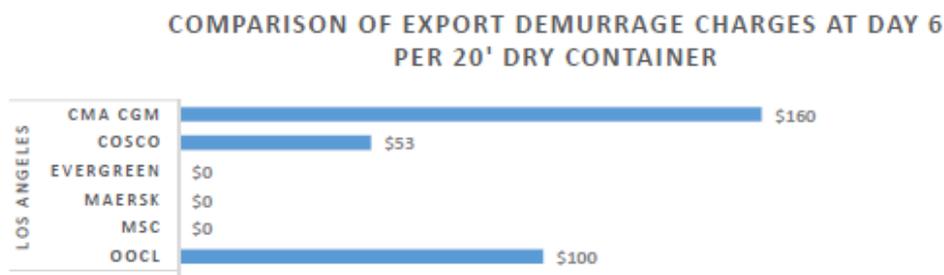
It sounds obvious, but better data facilitates smarter decision making – and addressing these challenges starts by knowing your free time.

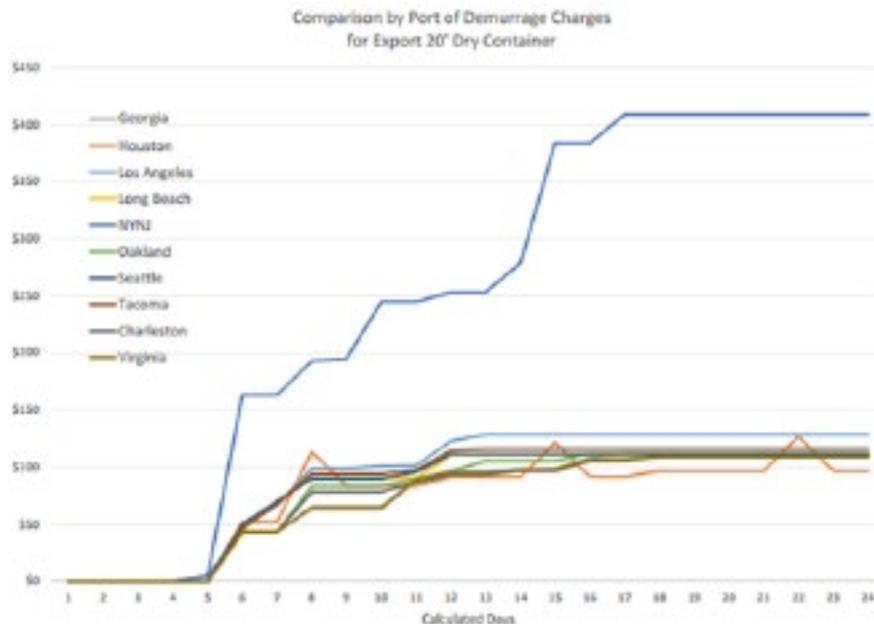
As the three charts below illustrate, carrier free time rates can vary greatly. It is also important to note the daily rate typically increases over time, often starting at \$50 per day and increasing to over \$300 per day soon after. Costs also vary by import or export, as well as by port. These are the important details hidden within contracts.

### Import Demurrage Charges



### Export Demurrage Charges





Using this information is required for good decision making, but the challenge remains in how to go about accessing it. With most shippers having multiple carrier contracts and no good way to find and compare free time, how realistic is it to expect it will be used on a consistent basis? You need to find a way. The solution starts with an organized approach to freight rate and contract management, and continues with technology that supports your current workflows for calculating rates and quotes accurately including free time.

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

In addition to using free time for better decision making, there are many steps your operations can take to reduce demurrage and detention charges. Here are eight.

1. Set and agree upon a timeframe for receipt of documentation with your exporter in order to arrange clearance.
2. Arrange the customs/port clearances and secure the release from all relevant authorities BEFORE THE SHIP ARRIVES so that as soon as the ship arrives the container is discharged.
3. Make sure documents such as Commercial Invoice, Packing List, Certificate of Origin, Analysis Certificate, and Bill of Entry are all accurate so that there is no scope for customs or port authorities to reject them.
4. Place special importance on the Bill of Lading. It's the most common cause of delays with container release.
5. 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.

6. Request an Original Bill of Lading **only if you have to** as this original document is not required in most countries by customs or port authorities at origin or destination for clearance.
7. Monitor your shipment closely, especially the arrival details of the vessel and the commencement and expiry of free days.
8. If your container is detained for inspection and you will exceed free time, request the shipping line to be lenient and give an extension in order to accommodate the inspection.

It is important to note that application of the terms demurrage, detention, and combined demurrage/detention varies from country to country, but the concept and workings mostly remains the same.

With up to 25% of all ocean shipments incurring detention or demurrage, free time should be considered with every routing decision. Don't allow market conditions and outside factors like port congestion be an excuse for not addressing the problem.

Knowing free time and the potential for additional charges helps shippers make the best routing decisions. It requires diligence on the part of shippers and freight forwarders to understand their free time tariffs and consider those constraints with every routing decision.

**Note:**

<sup>1</sup> Report: Rules, Rates, and Practices Relating to Detention, Demurrage, and Free Time for Containerized Imports and Exports Moving Through Selected United States Ports April 3, 2015 <http://www.fmc.gov/assets/1/Page/reportdemurrage.pdf>



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