Import double witching

During a period in the mid-1990s, triple-witching hours — the triple congruence of stock option, index option and index futures expirations at the stock close on the third Friday of March, June, September and December — led to brief flurries of extraordinary trading activity and, occasionally, extreme volatility.

The import shipping community will experience a double-witching hour next year in spring. On May 1, major changes should occur as the Ocean Shipping Reform Act takes effect, and trans-Pacific import service contracts expire.

The import shipping community has been very active this year. Let's take a quick review to see if any trends can be predicted for the coming year.

First, in a rare display of group unanimity, the Transpacific Stabilization Agreement managed a $300 rate increase on all cargo. Although TSA includes conference and non-conference lines, the independent lines managed to stand back and let the Asia North America Eastbound Rate Agreement lines absorb the brunt of shippers' complaints.

This rate increase was accompanied by Panama Canal surcharges and peak season surcharges. Shortly after TSA reached its decision, it became obvious that it could have asked for — and received — an even higher increase.

Lines reacted in various fashions. Some took steps consistent with commercial judgment while maintaining their common-carriage obligations. However, to believe the complaints submitted to the Federal Maritime Commission, some lines took action ranging from unethical to illegal. The FM C investigation report is due in the near future.

Additionally, TSA carriers have recently announced their plans for next year. The increases will be $500 to $1,000 a box depending on destination, plus a $300 peak season surcharge — applying to all cargo. (Service contracts signed by June 1, 1998, had been exempted from last season's surcharge.)

What will next year bring? The major variable is the state of the U.S. economy. Consumer debt continues to rise and consumer confidence is sketchy.

Most recently, retailers, the major drivers of import demand, reported only modest sales gains for November. This would indicate that the coming Christmas season may not be as strong as last year's. Any sales gain is mostly the result of store expansion. Same-store sales were close to flat — even negative.

Regardless, any retail weakness will seriously affect rate-increase possibilities. If the major retailers falter in their shipping requirements, non-vessel operating common carriers — NVOCs — will be in great demand by shipping lines to fill the inevitable open spaces.

Furthermore, since NVOCs can offer large amounts of cargo shipped during the slack season, (and they increasingly offer export cargo), these shippers will be in a strong position to mitigate any possible rate increase.

Last year, the lines were accused of taking a "one-size-fits-all" approach. The increase was proportionately tilted against West Coast importers over East Coast and intermodal customers. But simplicity was an essential part of maintaining TSA unity.

Steamship-line profitability has unquestionably eroded, yet none of the lines are publicly discussing one of the largest problems. Over the past several years, import origins shifted from Hong Kong to interior China for the same rate levels.

The store-door cost in China, absorbed in large part by the lines, is immense. Will the lines increase the China surcharges?

And the most intriguing issue is confidentiality. It is hard to imagine a conference surviving the development of lines signing individual service contracts. While some terms of the contract will be public, the financial details will not.

For that reason, I believe conference enforcement will disappear. Lines can make all kinds of solemn promises to adhere to group increase intentions, but, without common knowledge of agreed-upon rates, it will be impossible to ensure adherence by all. (The same problem will exist for the TSA.)

Last year, Anerra and TSA did an excellent job refuting any rumors of less-than-full rate increases. They will have a much harder time next year.

Lord Darlington, in Oscar Wilde's play "Lady Windermere's Fan," said, "I can resist everything except temptation." This may describe the case next year in our industry.

Financially desperate lines may decide to remain in TSA yet hide behind confidentiality and sign agreements with increases — but less than the full amount — for fear that their competitors will do the same in their stead.

One scenario has not been discussed. One way for TSA to maintain pricing discipline — and achieve its 1999 goals — is to withhold confidential contracts from the market. Perhaps it would claim insufficient time to implement the shipping reform act.

Regardless, this market will receive heavy scrutiny between now and the end of April.

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