NON-OPERATING REEFER CONTAINERS

In most trade lanes, countries that import refrigerated cargo, like meats and fruits, often do not export the same amount of refrigerated cargo. This leaves the ocean carriers in a conundrum – how to get the refrigerated containers (reefers) back to where they are needed. The cost of re-positioning empty containers is significant cost without any offsetting revenues.

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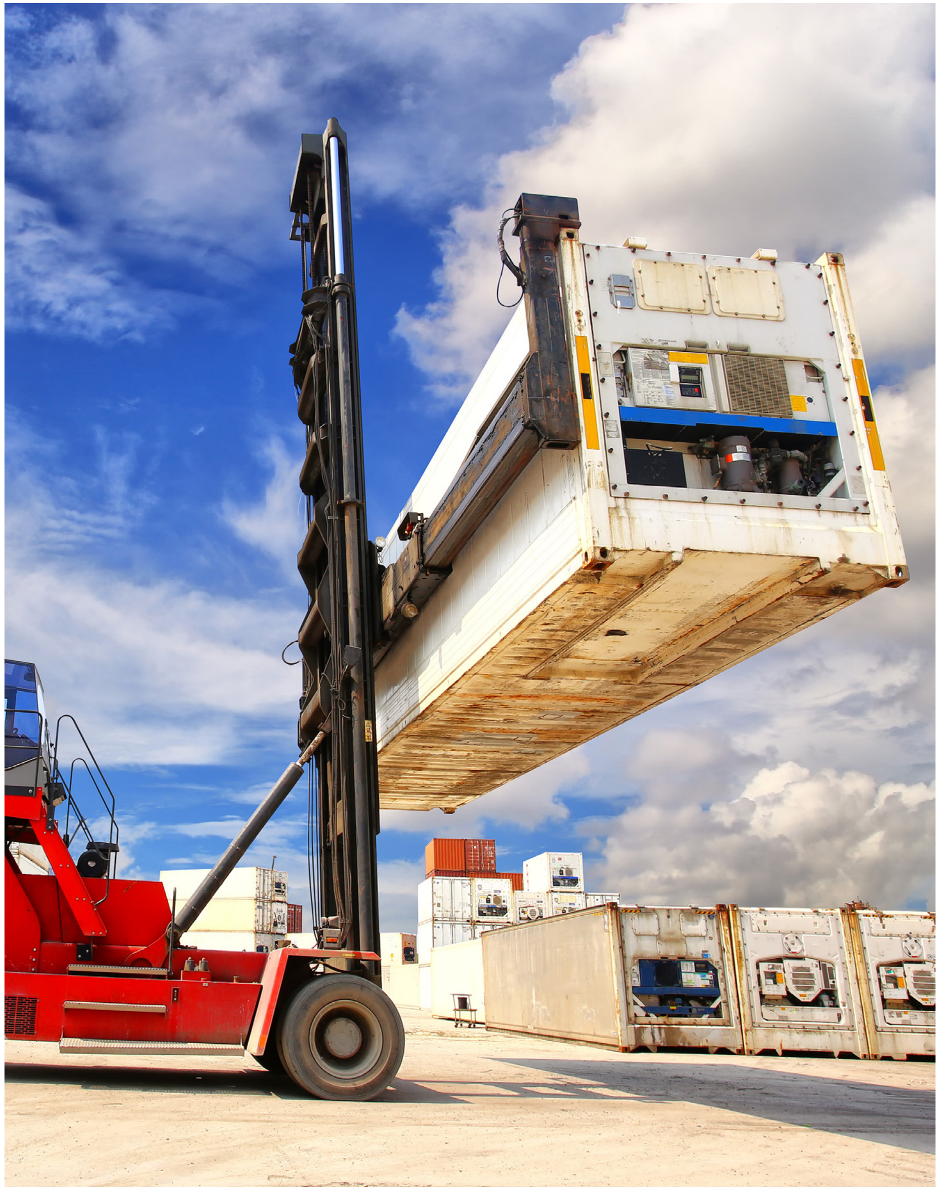


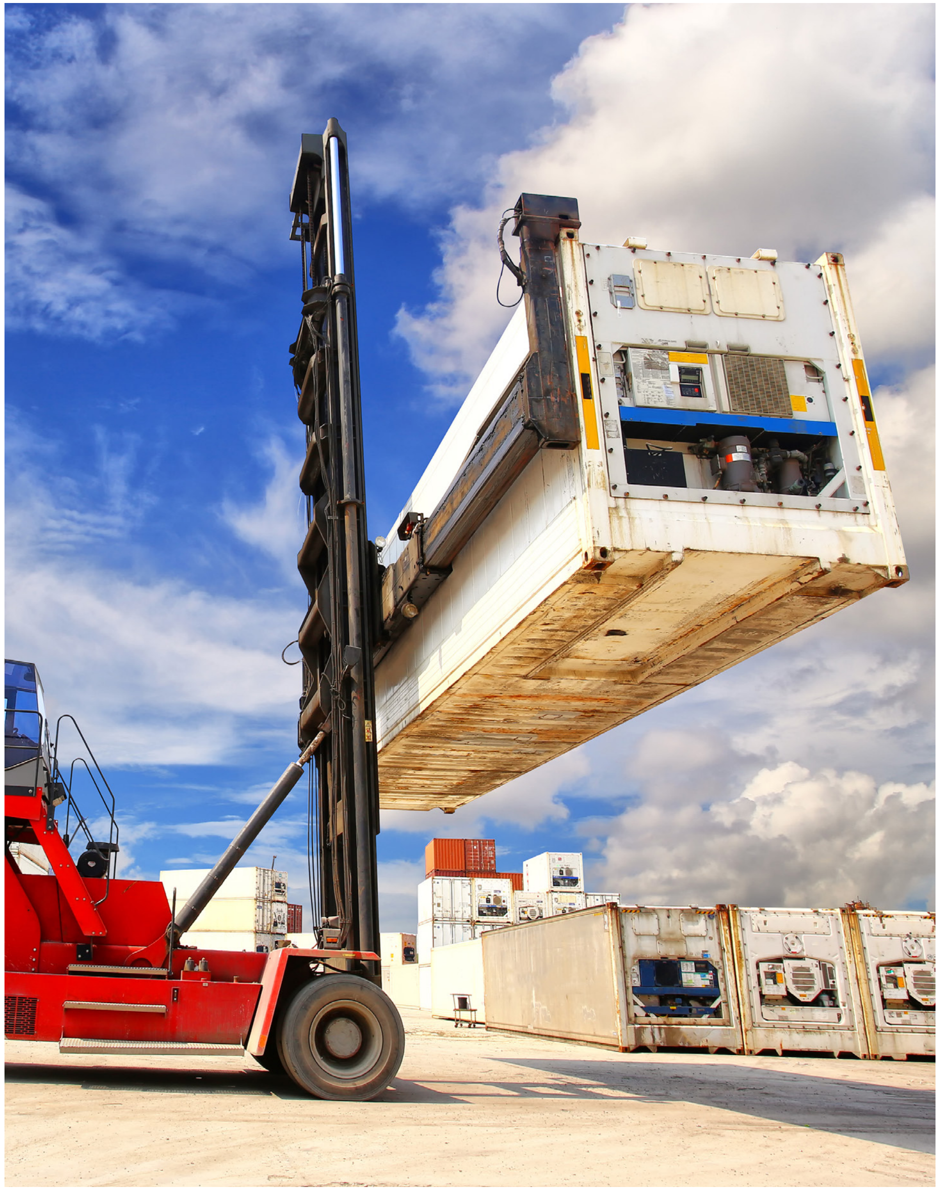
China is a net importer of reefer cargo from the Americas, leaving thousands of reefers that need to find their way back. There is already an imbalance in trade with China, meaning carriers certainly do not want to load their ships with empty reefer containers rather than full revenue-generating containers. The solution is the non-operating reefer (NOR). The carriers sell these containers at a discounted rate, as compared to a standard dry container, to importers already shipping in these lanes. Thus, the repositioning generates revenue.

However, there are four important points to consider before jumping into NOR imports.

1. **Opportunities for savings:** The first, and most important thing to know is that reefers hold less cargo than dry containers. In order to maintain refrigerated temperatures, these containers have extra thick insulated walls and a cooling unit. Both components reduce the amount of available space in the container by approximately 10-15% of a standard container, depending on the model. The discount from the standard container rate should be sufficient to account for this reduction in space.

2. **Space versus rate:** The second thing to consider is that most reefer containers are 40' standard, while the most dollar efficient container is a 40' high cube (40H). The spend efficiency of a fully utilized 40H can be 10% more than that of a 40' standard container. So do not compare 40 NOR rates to your 40 standard rates if you are utilizing 40H containers primarily. Your company needs to take spend efficiency into account as well.

3. **Understanding total cost:** Even at break-even pricing, this program may not be worth pursuing. There are additional cost factors in handling NOR containers – designated pickup areas outside of normal pickup areas, more risk if the container is damaged, etc. Additionally, someone is paying to load the container, likely at the same rate as loading a dry container. Therefore, freight is not the only cost involved. Drayage of the container at origin and destination are also not discounted, and you are only moving 85% as much for the same dray cost.



4. **Correct measurement:** How would you measure this program? It will become quickly evident that container utilization has decreased. The first thing that will pop up on the monthly logistics metrics is that container utilization just decreased. Make sure this is an expectation at the start and that you have metrics to account for it. It can also look like it is affecting the landed cost per unit if all freight spend is averaged out in Accounting.

There are importers who implement NOR programs at the right rates to make it worthwhile, and they see enough containers through their import network to positively impact spend efficiency. To do this, it just requires understanding the mechanics of a NOR program and working with a partner who understands them as well.

Are the additional costs and headaches worth the savings?

If the rate is right

YES

If the availability of the containers is steady

YES

If you go through all the steps to implement and only get a few NORs per month

MAYBE NOT