ACL has transported amusement rides all over Europe and North America. In this case, we moved a real spine-tingler - one of the newest thrill seekers from Germany to Virginia. The 10-ton cylinders were driven directly onto ACL’s RORO/Containership for the ocean voyage. Nothing terrifying about it - just a routine ACL pick-up and delivery. We handled all of the inland transit details including over-the-road permits, and delivered the roller coaster to its final destination. Call ACL for your next container or RORO shipment, we’re the experts in "extreme" cargo.

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American Shipper’s annual survey of container shipping lines’ results and industry trends found that carriers suffered heavy losses in 2002, with some reporting their worst-ever results. Freight rates and carriers’ average operating margins fell to their lowest levels in years, but cargo volumes remained strong. But carriers are expected to recoup some of their losses in 2003.

Chris Koch: Astute Washington insider

A 26-year career spent predominantly in Washington, Koch has been counsel for the Senate Committee on Commerce, a top staffer for prominent senators in both political parties, chairman of the Federal Maritime Commission, as well as senior vice president for Sea-Land Service Inc. As the World Shipping Council’s president and chief executive officer, he keeps security issues on realistic, reliable track.

SSA seizes opportunities

The port business isn’t only about handling thousands of container moves in a main port like Long Beach or Los Angeles. At Stevedoring Services of America, the company’s executives are also on the lookout for port business opportunities, wherever they may be around the world. The result: the Seattle-based privately held company has developed and runs terminals in major port gateways and far-flung overseas ports.

Open letter

Excuse the buzzword, but Carlos Rodriguez, general counsel for the NVOCC-Government Affairs Council, says ocean carriers, non-vessel-operating common carriers and logistics companies are facing another paradigm shift in the shipping industry. Frequently fractured by disparate issues, these three sides have a shared interest in modifying laws and regulations that impede their common business objectives, he said.
Kyoto Convention needs U.S. attention

The U.S. government needs to take the lead on ratifying the World Customs Organization’s revised International Convention on the Simplification and Harmonization of Customs Procedures, or Kyoto Convention.

Even the Bush administration supports the revised Kyoto Convention’s ratification. “I recommend that the Senate give early and favorable consideration to the Protocol and give its advance and consent to accession,” said President Bush in an April 30 memo to Congress.

The revised Kyoto Convention would replace the much outdated 1974 convention. The revised convention, however, will only come into force when 41 of the 61 contracting parties to the original 1974 convention have ratified it. So far, 12 countries have ratified the convention. (March American Shipper, pages 52-53)

The revised Kyoto Convention promotes the use of modern cross-border trade facilitation and control practices by the world’s customs administration. The United States would have no trouble meeting the provisions of the revised convention, but most importantly it should lead by example. (Chris Gillis)

More e-commerce consolidation

Four years on since the “dot-com revolution,” the number of surviving providers of logistics software keeps getting whittled down.

In June, Global Exchange Services, a provider of connectivity and document exchange services, acquired Celarix, a provider of logistics software and services, for an undisclosed sum. GXS, based in Gaithersburg, Md., will retain some employees at Celarix’s office in Cambridge, Mass. Celarix’s software will now be marketed as GXS products.

Before Celarix was acquired, the founders of Management Dynamics, a shipping tariff and contract IT management firm, had bought their activities (Management Dynamics was until then part of Celarix).

The purchase of Celarix follows the acquisition by TradeBeam Inc., based in San Mateo, Calif., of assets of Qiva Inc., of San Francisco, another logistics software firm. Manhattan Associates Inc., the big Atlanta-based supply chain execution software provider, has also acquired assets of Logistics.com.

You may also recall the earlier disappearance or absorption of companies such as Neomodal, GoCargo.com, From2.com and CapStan Systems.

Analysts and the industry had predicted a consolidation among what was previously a new and fragmented industry sector — logistics e-commerce software. One expected event that has not happened yet is the merger of the shipping internet portals GT Nexus, CargoSmart and Intrra.

Having seen this consolidation trend, surely, the remaining logistics e-commerce companies are sufficiently well-established to keep trading on their own? (Philip Damas)

Where have all the reefers gone?

U.S. agricultural exporters in the westbound transpacific are asking liner carriers: “Where have all the refrigerated containers gone?”

Maersk Sealnd, one of the largest reefer container carriers
EXPERTISE>
Finding the right transport solution requires people with the knowledge to understand your particular problem and the experience to evaluate alternatives. People you can rely on are Intermarine’s most important asset. Our people identify the right ship. Our people determine the safest and most efficient handling techniques. And our people supervise all operations. Don’t just look for a vessel to move your cargo, look for the people that make your cargo move.
in the transpacific, admits that it’s had some difficulty meeting this year’s market demands on the U.S. West Coast, and points to economics of the trade as the reason.

“We cannot afford to maintain stock levels at 100 percent during the peak season,” said Henning Nielsen, director of reefer services for Maersk Sealand, during the recent Agricultural Ocean Transportation Coalition meeting in San Francisco. “We prioritize based on return to profitability.”

The peak reefer season generally runs from March to May. Maersk Sealand divides its reefer fleet among 12 international regions. “North America’s profitability unfortunately is 12 out of 12,” Nielsen said.

Empty reefers are routinely kept off liner carrier ships that are filled with loaded containers from Asia bound to the United States.

Nielsen said the U.S. war in Iraq contributed to the problems for this year’s global reefer management. “We had a substantial commitment to the U.S. government we had to meet,” he said. “We provide containers when and where, and at the numbers, the U.S. military asks for.”

The answer to U.S. agricultural product exporters’ reefer availability woes will depend on the carriers’ ability to obtain higher rates for these high-maintenance boxes. Otherwise, carriers, such as Maersk Sealand, will continue to shift more reefers to higher-paying agricultural product markets. (Chris Gillis)

**NVOs needed on the nightshift**

The Waterfront Coalition, a shipper group seeking more efficient terminal operations in the United States, wants non-vessel-operating common carriers to become involved in its effort to promote the use of night gates.

Robin Lanier, executive director of the coalition, told shippers at the June 6 Agriculture Ocean Transportation Coalition meeting in San Francisco that large container shippers and the dock unions are warming up to night gate use.

“There are many small cargo shippers that use NVOs and forwarders that we haven’t been able to touch and bring them into this effort,” Lanier said.

“Everyone is going to have to change the way they do business,” she warned. “If we continue to have resistance from shippers, drayage operators and freight consolidators I think it’s inevitable that you’re going to have local politicians calling the shots.” (Chris Gillis)

**Zaninelli’s sound advice for liner carriers**

In the liner carrier industry, making money should be more important than counting TEUs.

“You can’t just chase volume,” said Edward Zaninelli, vice president of the transpacific westbound trade for OOCL, at a recent Agricultural Ocean Transportation Coalition meeting in San Francisco. “You have to watch that bottom line.”

“We’ve allowed ourselves to get into the pattern of volume, volume, volume,” Zaninelli said.

TEU counts, indeed, should no longer be the measure of a carrier’s success. If liner carriers continue to lose money on their loads, large TEU volumes are meaningless.

Zaninelli said liner carriers should base more load decisions on what’s makes them money.

“We’re walking away from some (unprofitable) container business,” he said. “No deal is better than a bad deal.” (Chris Gillis)

**Book your court seats now**

An admiralty case pending in federal court in the Southern District of New York appears likely to attract global interest. The Kingdom of Spain has filed a billion-dollar lawsuit against the American Bureau of Shipping, a Houston-based vessel classification society that inspected the tanker Prestige before it went down off the Spanish coast.

Spain alleged that ABS acted “with malice and with reckless disregard for the truth in its attempt to cover up the errors and omissions in its inspection and certification of the Prestige.” ABS was expected to assert that Spain was principally to blame for the circumstances of the Prestige’s sinking.

“We will be responding shortly,” said Stewart Wade, an American Bureau of Shipping vice president.

Spain had denied the tanker a safe refuge in protected waters and ordered it out to sea, where it subsequently sank after a storm, polluting Spanish and French beaches with oil and causing a world scandal.

An attorney for Spain, asserting that ABS should pay for environmental damage resulting from the wreck of the tanker, told American Shipper that Spain would seek damages “of no less than $700 million and probably much more.” The British maritime press reported that the sum sought was $5 billion.

In New York, Spain has hired Holland and Knight to handle its case; principal attorneys are Juan Anduiza and Brian Starer.

Six months ago, ABS asked Burke & Partners to handle its side. The principal attorney is Raymond Burke, who has hired Hughes, Hubbard & Reed to assist with litigation. Starer has requested a jury trial, unusual in admiralty cases. U.S. District Judge Laura Swain will preside.

Spain is not pleased that its Basque province has also sued ABS for $50 million in a Texas state court, as well as in federal court in Texas, fearing those tangential actions could dilute the main event in New York.

A sampling of reaction thus far from shipowners and marine surveyors suggests that the sting here will probably not come from draconian fines as much as from changing the way classification societies presently do their business. (Robert Mottley)

**FedEx to rollout hybrid vehicles**

The competition between parcel delivery companies FedEx Corp. and United Parcel Service Inc. carried over to the environment in May when UPS said it would begin operating some vehicles powered by zero emission fuel cells late this year and FedEx unveiled a diesel-electric truck it plans to start fleet testing within five months.

FedEx Express officials said May 21 they have agreed to purchase 20 trucks with Eaton Corp.’s hybrid power train and will begin operating them in four undisclosed U.S. cities. Company officials said they expect to convert their entire U.S. and Canadian fleet of 30,000 medium-duty delivery trucks as part of normal replacement cycles during the next 10 years.

An pilot test under actual operating conditions will enable engineers to optimize the engine for full production in 2004, but FedEx and Eaton officials stressed the hybrid truck is not a demonstration project.

“This will be the first large scale production implementation of hybrid vehicles in the truck market,” said David Bronczek, FedEx Express president.

FedEx Express, the overnight delivery subsidiary of FedEx,
Shippers say we’re way out in front.
claims the new hybrid vehicle will improve fuel efficiency by 50 percent, reduce soot emissions by 90 percent and nitrogen oxides by 70 percent.

The vehicles are more expensive to manufacture and FedEx officials said they hope to spur market demand that can bring unit costs down. FedEx officials said they are looking to potential new federal tax incentives, lower operating costs from reduced fuel consumption and brake wear, and volume production to cover the difference in cost from conventional trucks.

The trucks look like the standard FedEx delivery vehicle, but are powered by an electric motor that draws energy from batteries that recapture energy lost during braking. FedEx officials said customers would not see any change in service levels. Urban delivery vehicles are best suited for this type of technology because the stop-and-go nature of the operation provides the source for energy. A diesel engine provides auxiliary power.

UPS said it will introduce hydrogen fuel cell vehicles from DaimlerChrysler in the Ann Arbor, Mich., area late this year and in 2004, marking the first use of fuel cell vehicles in a commercial delivery operation. Fuel cells convert the hydrogen’s reaction with oxygen into electricity without combustion. The Environmental Protection Agency will provide compressed hydrogen fuel to the UPS vehicles at its National Vehicle and Fuel Emissions Laboratory. The first fuel cell vehicle to be tested by UPS will be a DaimlerChrysler “F-Cell,” which will be used for early-morning deliveries. In 2004, UPS will add one or more fuel-cell powered Springer delivery vans to the fleet.

FedEx and UPS operate huge truck fleets and are trying to develop alternative fuel technology before 2007, when federal clean air regulations mandating extremely low-emission diesel engines go into effect. Both companies have been testing alternative fuel technology before 2007, when federal clean air regulations mandating extremely low-emission diesel engines go into effect. Both companies have been testing alternative fuel technology before 2007, when federal clean air regulations mandating extremely low-emission diesel engines go into effect. Both companies have been testing different types of alternative fuel to meet the performance requirements of small, medium and large trucks.

As in the security arena, companies are more willing to invest in technology to meet regulatory requirements if the systems also provide a business payback in better efficiency. (Eric Kulisch)

**Controlling supply chains**

Thomas C. Lieb, a member of the board of the German forwarding group Schenker, sees a link between quality of international logistics services and control of a logistics network.

Lieb told the Transport Logistics conference in Munich that “integrated logistics service providers” have to shape, steer and check supply chains.

To do this, service providers must have their own global network of locations in the principal business centers to control supply chains effectively, he said.

Having its own network enables a logistics service provider to “implement identical quality standards at all locations, to ensure the necessary high traffic frequency and to reduce costs by combining transport volumes,” Schenker said.

Like DHL-Danzas, GeoLogistics, Panalpina, Expeditors and Kuehne & Nagel, Schenker has several hundred offices staffed with its employees, worldwide. (Philip Damas)

**A memorable wrong turn**

The collision of two passenger liners, the *Andrea Doria* and the *Stockholm*, off Nantucket on the night of July 25, 1956, has slipped out of public memory, which is strange considering the attention perpetually accorded the Titanic. Although 51 people died on the *Andrea Doria* and five on the *Stockholm*, 1,170 passengers and 570 crewmembers were rescued from the *Andrea Doria* before it sank. The *Stockholm* made it to New York with its 534 passengers and 208 surviving crew, plus 742 survivors from the *Andrea Doria*. Other ships, including the famed *Ile de France*, picked up the remaining *Andrea Doria* passengers.

The events of that traumatic night have been recounted in nonsensical fashion in a new book, *Out of the Fog, The Sinking of the Andrea Doria*, by Algot Mattsson, published by the Cornell Maritime Press. Mattsson, former information officer for the Swedish Line, which then owned the *Stockholm*, wrote in Swedish. The Cornell edition, translated by Richard E. Fisher of the University of Lund, has been edited and annotated by two admiralty attorneys, Gordon W. Paulsen, a lawyer for Swedish Line at the time of the collision, and Bruce G. Paulsen. The result is a lean and lucid account of a puzzling disaster.

Although Mattsson draws liberally from the recollections of the *Stockholm*’s third mate, Johan-Ernst Carstens-Johannsen, he has taken pains to quote at length professional sources aboard the *Andrea Doria*, which was owned by the Italian Line.

The core facts are these: the *Andrea Doria*, inbound to New York about 11:00 p.m. in moderate fog, suddenly turned left, to port, and steamed directly into the path of the outbound *Stockholm*. The Italian liner came up diagonally behind the Swedish vessel, said to be the smallest passenger ship on the Atlantic. Unable to turn away, the *Stockholm* rammed the passing *Andrea Doria* on the liner’s starboard (right) side, towards the bow.

Most of the deaths on both ships occurred among passengers in cabins on the *Andrea Doria* sliced open by the *Stockholm*’s bow, and among crewmen berthed in the Swedish’s vessel’s bow. Mattsson is refreshingly circumspect about the loss of life.

Why Capt. Piero Calamai, master of the *Andrea Doria*, made his turn to port has never been adequately explained. Misinterpreted radar images and even a failure of the *Andrea Doria*’s steering gear has long been suspect. Both ships were unstable — the *Andrea Doria* more so — as a Congressional investigative committee subsequently determined: “it is impossible to explain why the *Andrea Doria* sank … other than to accept that, on that occasion, she was not properly ballasted in accordance with the [1948 Safety of Life at Sea Convention (SOLAS)] convention, and that there were errors in her design and construction.”

After a sequestered hearing at the Seamen’s Church Institute in New York, the Italian Line accepted liability and settled out of court with the Swedish Line, which kept embarrassing details from the media. In lieu of full-dress public disclosure, Mattsson and his able editors, who contribute legal interpretations of aspects of the collision, dispassionately describe the likely causes for it and let the reader decide.

Particularly unsettling after the collision was the refusal of the *Ile de France* to escort the *Stockholm* back to New York. The Europe-bound French liner wanted to disembark its load of the rescued and resume its schedule. That left the shaken *Stockholm*, minus much of its bow, to head to New York with 1,319 people on board and lifeboats for only 846. Ironically, the *Stockholm* survived to sail today with an Italian crew as the *Valtur Prima* (ex-*Italia Prima*), operating in the German tourist trade.

*Out of the Fog* makes reflective reading, and even leaves one itching for another mega-movie. (Robert Mottley)
A Rising Star in Technology

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Hit by deep reductions in freight rate levels container-shipping companies suffered heavy losses in 2002. But they will recoup some of their losses this year.

By Philip Damas
Main findings of survey:

- 2002 produced even worse financial results than 2001 for container carriers, with some reporting their worst results ever.
- Freight rates and carriers’ average operating margins fell to lowest levels for years, but cargo volumes remained strong.
- Good years don’t make up for bad years in liner shipping. Over an entire industry cycle, major container shipping companies made a meager return on equity of 3 percent a year.
- 2003 will be a year of recovery for carriers, and virtually all operators will have survived the latest downturn.

No matter how you look at it, 2002 was a truly dismal one for ocean carriers.

Virtually all carriers that publish information on their financial results ended up either sinking into heavier losses, or reporting lower profits.

The chief executive officers of container shipping lines were the first to admit that it was a tough year financially. The hard numbers on their companies’ 2002 results did not contradict them.

“2002 has been described as a terrible year for P&O Nedlloyd.” Robert Woods, group managing director of P&O Nedlloyd, said earlier this year. The container shipping side of the group posted a pre-tax loss of $292 million in 2002, the worst since the Anglo-Dutch carrier was founded at the end of 1996. After tax and including the results of its forwarding and other activities, P&O Nedlloyd lost $304 million last year.

Neptune Orient Lines, the Singapore-based parent company of APL Liner and APL Logistics, reported a record deficit of $330 million for 2002, also the worst in its history.

Ray Miles, CEO of CP Ships, described 2002 as being characterized by “one of the worst industry downturns ever” in the industry, while Olav Rakkenes, former president and CEO, said 2002 was “one of the toughest years in liner shipping history.”

American Shipper’s annual survey of financial results of carriers found their operating margins before financial costs shrank to just 3.5 percent of revenue — the slimmest operating margins for years (see Table No. 1, page 10). This compares with an operating margin of 7 percent in the boom year of 2000. The decrease in carriers’ operating margins meant that many carriers operated in the red once financial costs, extraordinary items and taxes were included.

In 2002, P&O Nedlloyd, Neptune Orient Lines, Zim Israel Navigation Co., and Trailer Bridge reported net losses. The container-related activities of the A.P. Moller/Maersk Sealant group, the Hanjin Shipping group, United Arab Shipping Co. and International Shiplgolding — the parent company of Waterman and Forest Lines — barely broke even last year (see Table No. 2, page 12).

Several container-shipping lines publish their operating profits, but not their net results.

Maersk Sealand, China Shipping Container Lines and the container shipping arms of NYK Line, “K” Line, Mitsui O.S.K. Lines and Malaysia International Shipping Corp. are also believed to have lost money on container shipping in 2002. These companies do not report the results for their container operations.

Few liner shipping companies earned solid profits in 2002, and even those were generally lower than in 2001.

The Japanese groups Mitsui O.S.K. Lines and NYK Line, which have substantial non-container shipping activities, maintained relatively high operating margins in 2002.

However, MOL admitted it did not meet its profit targets for its fiscal year 2002-2003, and said the most significant reason was “the stagnation of the liner business.”

“Nearly all liner shipping companies face profitability problems,” Kunio Suzuki, president of MOL, said in April.

Industry Environment. Judging from these converging, negative trends, it is surprising that more shipping companies did not exit the container shipping business or go under in 2002 — a scenario that many shippers feared. Only a few carriers — such as Trans-Pacific Lines and Tecmarine — stopped trading last year.

But several Asian container carriers were propped up by other group activities or by the sale of group assets aimed at generating much-needed cash. Hyundai Merchant Marine and Neptune Orient Lines, two companies with high debt-to-equity ratios, have recently sold assets to raise cash. Hyundai sold its car-carrying activities, while Neptune Orient Lines announced in April the sale of its profitable tanker arm American Eagle Tankers for $445 million in cash plus the assumption of the company’s debts.

“I think everybody lost money (in 2002) in the container shipping business — “K” Line was not an exception,” Takashi Sueki, general manager of the containership division of “K” Line, told American Shipper. He cited Maersk Sealand, Hyundai Merchant Marine, APL and P&O Nedlloyd.

The main culprit for this state of affairs, according to carriers, was low freight rates (see related story, page 10).

American Shipper estimates the average revenue per TEU last year, across all trade routes, was $1,160 — about 8 percent less...
Sliding freight rates in 2001 and 2002 have eaten into carriers’ profits. C. C. Tung, chairman and chief executive officer of Orient Overseas (International) Ltd., the parent company of OOCL, said last year’s contract rates for the industry in general were “set at unsustainably low levels.”

In its annual report, A.P. Moller said container volumes increased in 2002, “but the average freight rates were considerably lower than in 2001, and the overall result for container services was lower than in 2001.” A.P. Moller is the parent company of Maersk Sealand, Safmarine Container Lines and also controls a large port, logistics, airline, gas, retailing and other interests.

A.P. Moller reported its container shipping and related activities — defined as container shipping, inland transport, agencies, terminals and logistics — had DKK82.6 billion ($11.6 billion) of revenue in 2002, accounting for 54 percent of group revenues. Container shipping and related activities suffered a 67-percent drop in net profit in 2002 to DKK419 million ($59 million) from DKK1.3 billion in 2001. A spokesman for A.P. Moller would not disclose whether Maersk Sealand made a profit last year, although he confirmed it lost money in the first half of 2002.

Revenues from container shipping and related activities decreased 4 percent in 2002 to DKK82.6 billion ($11.6 billion). Profit before financial items declined 25 percent to DKK3 billion ($426 million). A sharp fall in container freight rates last year also forced profits and revenues to fall at Hapag-Lloyd Container Line, the liner-shipping arm of the Hapag-Lloyd AG group. Revenue from this unit declined to 2.1 billion euros ($2.2 billion) last year from 2.2 billion euros in the previous year, despite a 12 percent rise in traffic.

“Sales were affected by the dramatic slump in rates — which fell again, tumbling by 15 to 20 percent compared with 2001,” Hapag-Lloyd said.

“In 2002, we have seen freight rates so ridiculous that they barely paid for variable costs,” said Farid Salem, group chief executive of CMA CGM. However, CMA CGM was one of the few ocean carriers that increased its operating profit in 2002. Its operating income rose from 41 million euros in 2001 to 105 million euros ($109 million) last year.

But the impact of Freight rate swings on profits works both ways. While low rates were the main feature of 2002, prices are strengthening in all three east/west trades this year.

In the eastbound transpacific trade, freight rates have soared about 20 percent since May 1. In the transatlantic westbound trade, rates went up in April, when shipping lines of the Trans-Atlantic Conference Agreement were seeking a hefty increase of $400 per 20-foot container. In the Asia/Europe trade, rates have gradually increased for several quarters. APL reported its average freight rate for the first quarter of 2003 was $2,223 per forty-foot equivalent unit, 10 percent or $199 more than a year before.

Analysts expect these increases of several hundred dollars per container will allow ocean carriers to bounce back into better profit results this year.

**Table No. 1**

<table>
<thead>
<tr>
<th>Shipping cycle</th>
<th>Container volumes, rates, carrier profits over a shipping cycle from the industry recovery in 1999 to end of downturn in 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1999</strong></td>
<td><strong>% chg</strong></td>
</tr>
<tr>
<td>World container traffic (million TEUs carried)</td>
<td>55</td>
</tr>
<tr>
<td>Average revenue per TEU ($ per TEU)</td>
<td>$1,300</td>
</tr>
<tr>
<td>Estimated container revenue of carriers ($million)</td>
<td>$71,500</td>
</tr>
<tr>
<td>Estimated container operating income of carriers ($million)</td>
<td>$3,900</td>
</tr>
<tr>
<td>Average operating margin of carriers (% of revenue)</td>
<td>5.5%</td>
</tr>
<tr>
<td>Average operating margin per TEU ($/TEU)</td>
<td>$71</td>
</tr>
<tr>
<td>Average return on equity of carriers</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Note: Average return on equity is calculated using a sample of 6 major liner shipping carriers (see details in separate table Carriers’ financial indicators over a shipping cycle).*

**Sources:** ComPairData and research by American Shipper.
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Headquarters: 1-888-PORT-NYNJ
lion euros ($141 million) — representing 6.4 percent of revenue.

Hapag-Lloyd said that it has considerably boosted its productivity (see related article, page 78).

Cost cuts and improved vessel utilization at CMA CGM resulted in a 67-percent rise in its net profit for 2002, to 47 million euros ($50 million), from 28 million euros in 2001.

Alain Wils, chief executive vice president of the French carrier, said a move to larger containerships and the replacement of chartered vessels by owned ones resulted in lower fleet costs last year. Terminal costs were also reduced and the company further increased its efficiency, he said.

Meanwhile, in 2002, the Canadian-based CP Ships group cut its cost per TEU 5 percent to $1.206 per TEU in 2002 from $1.271 in 2001. “Throughout the year, we

### Table No. 2

**Shipping lines ranked by 2002 operating profit**

All figures are in million U.S. dollars / million local currency when specified.

<table>
<thead>
<tr>
<th>Rank/Carrier</th>
<th>TOTAL REVENUES</th>
<th>OPERATING PROFIT</th>
<th>NET PROFIT / LOSS</th>
<th>2001 rank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>as % of revenues</td>
<td>as % of revenues</td>
<td>as % of revenues</td>
<td></td>
</tr>
<tr>
<td>1. Wan Hai</td>
<td>$905</td>
<td>$86 (9.5%)</td>
<td>$98 (10.8%)</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>NT$ 31,597</td>
<td>3,011 (9.5%)</td>
<td>3,428</td>
<td></td>
</tr>
<tr>
<td>2. Tropical Shipping</td>
<td>$266</td>
<td>$21 (7.9%)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>3. International Shipholding/Waterman/Forest Lines (1)</td>
<td>$227</td>
<td>$15 (6.6%)</td>
<td>$0 (0.0%)</td>
<td>—</td>
</tr>
<tr>
<td>4. Hapag-Lloyd Container Line</td>
<td>$2,188</td>
<td>$141 (6.4%)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td></td>
<td>euro 2,100</td>
<td>135</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. NYK group (2)</td>
<td>$10,393</td>
<td>$575 (5.5%)</td>
<td>$119 (1.1%)</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Yen 1,249,242</td>
<td>69,122 (5.5%)</td>
<td>14,292</td>
<td></td>
</tr>
<tr>
<td>6. Matson Navigation</td>
<td>$882</td>
<td>$46 (5.2%)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>7. CSX Lines (3)</td>
<td>$758</td>
<td>$38 (5.0%)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>8. Mitsui O.S.K. Lines group (2)</td>
<td>$7,573</td>
<td>$377 (5.0%)</td>
<td>$122 (1.6%)</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Yen 910,288</td>
<td>45,356 (5.0%)</td>
<td>14,709</td>
<td></td>
</tr>
<tr>
<td>9. “K” Line group (2)</td>
<td>$5,264</td>
<td>$244 (4.6%)</td>
<td>$86 (1.6%)</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Yen 632,725</td>
<td>29,282 (4.6%)</td>
<td>10,373</td>
<td></td>
</tr>
<tr>
<td>10. Atlantic Container Line</td>
<td>$307</td>
<td>$14 (4.5%)</td>
<td>$9 (3.1%)</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Skr 2,709</td>
<td>121</td>
<td>83</td>
<td></td>
</tr>
<tr>
<td>11. Seaboard Marine</td>
<td>$383</td>
<td>$17 (4.3%)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>12. CMA CGM</td>
<td>$2,617</td>
<td>$109 (4.2%)</td>
<td>$49 (1.9%)</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>euro 2,512</td>
<td>105</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>13. A.P. Moller/Maersk Sealand (4)</td>
<td>$11,567</td>
<td>$426 (3.7%)</td>
<td>$59 (0.5%)</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>DKr 82,588</td>
<td>3,045 (3.7%)</td>
<td>419</td>
<td></td>
</tr>
<tr>
<td>14. OOIL (parent of OOCL)</td>
<td>$2,458</td>
<td>$91 (3.7%)</td>
<td>$52 (2.1%)</td>
<td>13</td>
</tr>
<tr>
<td>15. Evergreen Marine Corp. (5)</td>
<td>$1,962</td>
<td>$65 (3.3%)</td>
<td>$31 (1.6%)</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>NT$ 68,472</td>
<td>2,281 (3.3%)</td>
<td>1,083</td>
<td></td>
</tr>
<tr>
<td>16. CP Ships</td>
<td>$2,667</td>
<td>$85 (3.2%)</td>
<td>$52 (1.9%)</td>
<td>15</td>
</tr>
<tr>
<td>17. Cia. Sud Americana de Vapores</td>
<td>$1,675</td>
<td>$35 (2.1%)</td>
<td>$37 (2.2%)</td>
<td>23</td>
</tr>
<tr>
<td>18. Sinotrans' shipping arm (6)</td>
<td>$216</td>
<td>$4 (2.0%)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>19. Zim Israel Navigation</td>
<td>$1,639</td>
<td>$28 (1.7%)</td>
<td>(§9) (0.6%)</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Shekel 7,851</td>
<td>135</td>
<td>(44)</td>
<td></td>
</tr>
<tr>
<td>20. Yang Ming Marine Transport</td>
<td>$1,304</td>
<td>$5 (0.4%)</td>
<td>$33 (2.5%)</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>NT$ 45,612</td>
<td>160</td>
<td>1,135</td>
<td></td>
</tr>
<tr>
<td>21. Hanjin Shipping group</td>
<td>$3,775</td>
<td>$10 (0.3%)</td>
<td>$16 (0.4%)</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Won 4,522,000</td>
<td>11,700 (0.3%)</td>
<td>18,600</td>
<td></td>
</tr>
<tr>
<td>22. United Arab Shipping Co.</td>
<td>$701</td>
<td>$0 (0.0%)</td>
<td>$4 (0.6%)</td>
<td>10</td>
</tr>
<tr>
<td>23. Eimeskip</td>
<td>$298</td>
<td>($1) (0.4%)</td>
<td>$55 (18.4%)</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>ISK 24,243</td>
<td>(96)</td>
<td>4,456</td>
<td></td>
</tr>
<tr>
<td>24. Hyundai Merchant Marine group</td>
<td>$3,857</td>
<td>($29) (0.7%)</td>
<td>$119 (3.1%)</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Won 4,620,910</td>
<td>(34,321) (1.7%)</td>
<td>142,218</td>
<td></td>
</tr>
<tr>
<td>25. Neptune Orient Lines/APL (7)</td>
<td>$4,642</td>
<td>($79) (1.7%)</td>
<td>($350) (7.1%)</td>
<td>21</td>
</tr>
<tr>
<td>26. P&amp;O Nedlloyd group (8)</td>
<td>$4,659</td>
<td>($235) (5.0%)</td>
<td>($304) (6.5%)</td>
<td>19</td>
</tr>
<tr>
<td>27. Trailer Bridge</td>
<td>$74</td>
<td>($4) (5.4%)</td>
<td>($7) (0.5%)</td>
<td>26</td>
</tr>
</tbody>
</table>

Notes: The operating profit is defined as profit from normal activities before finance (earnings before interest and tax).

(1) International Shipholding Corp. is the parent company of Forest Lines and Waterman.
(2) The results for K Line, MOL and NYK are for their financial year ended March 31, 2003.
(3) These are the results for CSX Lines prior to the buyout by the Carlyle Group in March 2003 and subsequent renaming to Horizon Lines.
(4) These are the combined results for the container shipping, agencies, terminals and logistics activities of the A.P. Moller group.
(5) Evergreen Marine Corp. (Taiwan) is the listed arm of the Evergreen group.
(6) These are the results for the shipping segment of the Sinotrans forwarding and shipping group.
(7) Neptune Orient Lines is the parent company of APL Liner and APL Logistics.
(8) These are the results for the P&O Nedlloyd group, including its container shipping, forwarding and port activities.

Source: ComPairData, the global liner shipping database at www.compairdata.com, and carriers.

12 AMERICAN SHIPPER: JULY 2003
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took steps to reduce operating costs and counter the effects of strong competition and excess capacity in key trade lanes,” said Miles, of CP Ships.

The Japanese group “K” Line said its container-shipping arm had the same operating income in fiscal year ended on March 31, as in the previous year despite adverse factors. The group said it “could prevail over them by carrying out maximum efforts for reduction in ship costs through injection of the newbuildings, curtailment of operational costs and expenses and rationalization of less profitable routes.”

“K” Line cited several adverse factors in container shipping, such as the “huge fall in freight rates” mainly in the North American trade, the hike in bunker price and the U.S. West Coast ports lockdown fall last.

While making widespread efforts to cut their costs, container-shipping lines enjoyed a return to relatively rapid cargo growth.

“K” Line said it was forced to accept “a huge drop of ocean freight rates” in early 2002, but container cargo volumes grew strongly, particularly from China. Overall, operational revenues “stood much better than last year,” it said.

Worldwide container traffic increased about 5 percent in 2002, according to industry sources, but with the transpacific eastbound trade expanding an unexpected 20 percent to about 8.5 million TEUs. Other sources estimate that global container growth was higher.

NYK said its revenues from liner shipping were flat in local currency, remaining at Yen281 billion ($2.4 billion) for the fiscal year ended on March 31. While cargo volumes increased faster than expected, by 19 percent, freight rates “failed to achieve a full recovery” and results were below targets.

But while major carriers were chasing larger container volumes, some of the most profitable liner shipping companies last year were, once again, smaller niche carriers and U.S. Jones Act carriers (see Table No. 2).

Intra-Asian specialist Wan Hai Lines, Caribbean specialist Tropical Shipping, multipurpose operator International Shiplholding and Jones Act carriers CSX Lines and Matson featured among the top seven carriers in American Shipper’s latest annual profitability ranking. Atlantic Container Line placed 10th in the ranking of 27 carriers. As a group, the specialist and niche liner carriers continue to earn higher profit margins than their bigger competitors, with the exception of U.S. mainland/Puerto Rico specialist Trailer Bridge.

As mentioned in previous annual reviews, there is little evidence in container shipping that a larger scale of operation leads to higher returns for carriers. For example, Tropical Shipping is about 18 times smaller in terms of revenue than a mega-carrier like P&O Nedloyd, but its operating income last year was $256 million higher.

Yet, among the mainstream, high-volume east/west carriers, some shipping lines clearly perform far better than others. The table shows that Hapag-Lloyd Container Line, CMA CGM and OO(I)L-OOCL were placed among the most profitable mainstream carriers. CMA CGM and OO(I)L-OOCL also earned relatively high returns on equity between 1999 and 2002 (see Table No. 3).

As usual, it is not possible to analyze the liner shipping results of diversified shipping groups such as NYK, MOL, NYK and A.P. Moller, because these are not disclosed. However, for the first time, A.P. Moller revealed the scope and results of its combined container and logistics-related activities, when it announced its 2002 results. Its combined container shipping and related activities business covers not only container shipping, but also inland transport,

### Table No. 3

<table>
<thead>
<tr>
<th>Carriers’ financial indicators over a shipping cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Figures in $million, % as indicated)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Major container shipping carriers</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMA CGM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>$68</td>
<td>$63</td>
<td>$109</td>
<td>$36</td>
<td>$109</td>
<td>$79</td>
</tr>
<tr>
<td>Net income</td>
<td>$48</td>
<td>$34</td>
<td>$100</td>
<td>$25</td>
<td>$49</td>
<td>$52</td>
</tr>
<tr>
<td>Long term debts (end-year)</td>
<td>$211</td>
<td>$253</td>
<td>$282</td>
<td>$448</td>
<td>$600</td>
<td></td>
</tr>
<tr>
<td>Shareholders’ funds (end-year)</td>
<td>$65</td>
<td>$91</td>
<td>$252</td>
<td>$308</td>
<td>$472</td>
<td></td>
</tr>
<tr>
<td>Long term debts (average)</td>
<td>$232</td>
<td>$258</td>
<td>$355</td>
<td>$524</td>
<td>$355</td>
<td></td>
</tr>
<tr>
<td>Shareholders’ funds (average)</td>
<td>$78</td>
<td>$172</td>
<td>$280</td>
<td>$390</td>
<td>$238</td>
<td></td>
</tr>
<tr>
<td>Total shareholders’ funds, long-term debts (avg)</td>
<td>$310</td>
<td>$430</td>
<td>$635</td>
<td>$914</td>
<td>$593</td>
<td></td>
</tr>
<tr>
<td>Long-term debt to equity ratio</td>
<td>297%</td>
<td>150%</td>
<td>127%</td>
<td>134%</td>
<td>149%</td>
<td></td>
</tr>
<tr>
<td>Return on long term capital employed (2)</td>
<td>20%</td>
<td>25%</td>
<td>6%</td>
<td>12%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Return on equity (1)</td>
<td>44%</td>
<td>58%</td>
<td>9%</td>
<td>13%</td>
<td>22%</td>
<td></td>
</tr>
</tbody>
</table>

| CP Ships                          |      |      |      |      |      |     |
| Operating income                  | $127 | $89  | $164 | $139 | $83  | $119|
| Net income                        | $109 | $60  | $135 | $76  | $52  | $81 |
| Long term debts (end-year)        | $38  | $30  | $21  | $215 | $582 |     |
| Shareholders’ funds (end-year)    | $540 | $649 | $1,099 | $1,225 |     |
| Long term debts (average)         | $34  | $26  | $118 | $399 | $177 |     |
| Shareholders’ funds (average)     | $595 | $874 | $1,100 | $1,163 | $923 |
| Total shareholders’ funds, long-term debts (avg) | $629 | $900 | $1,218 | $1,562 | $1,100 |
| Long-term debt to equity ratio    | 6%   | 3%   | 11%  | 34%  | 19%  |     |
| Return on long term capital employed (2) | 14%  | 18%  | 11%  | 5%   | 11%  |     |
| Return on equity (1)              | 10%  | 15%  | 7%   | 4%   | 9%   |     |

| OO(I)L-OOCL                       |      |      |      |      |      |     |
| Operating income                  | $48  | $111 | $166 | $107 | $91  | $119|
| Net income                        | $0   | $62  | $112 | $60  | $52  | $72 |
| Long term debts (end-year)        | $587 | $560 | $754 | $760 | $683 |     |
| Shareholders’ funds (end-year)    | $656 | $702 | $786 | $813 | $860 |     |
| Long term debts (average)         | $574 | $657 | $757 | $722 | $669 |     |
| Shareholders’ funds (average)     | $679 | $750 | $806 | $837 | $766 |     |
| Total shareholders’ funds, long-term debts (avg) | $1,253 | $1,407 | $1,563 | $1,559 | $1,435 |
| Long-term debt to equity ratio    | 85%  | 88%  | 94%  | 86%  | 87%  |     |
| Return on long term capital employed (2) | 9%   | 12%  | 7%   | 6%   | 8%   |     |
| Return on equity (1)              | 9%   | 15%  | 7%   | 6%   | 9%   |     |

Notes: (1) Return on equity is net profit divided by shareholders’ funds, including reserves.
(2) Return on long term capital employed is operating profit before interest divided by the total of shareholders’ funds and long term debts.

Sources: ComPairData and research by American Shipper.
agencies, terminals and logistics. “The figures presented by A.P. Moller do not reveal the operational performance of Maersk Sealand,” said the Danish bank Handesbanken in a recent report. “Using the industry as a reference point, we believe the terminal activities make a positive contribution, suggesting that Maersk Sealand might be in the red,” the bank added.

Much has been said in container shipping about “unsustainably low rates.” But the fact is freight rates fall rapidly in periods of industry overcapacity, and rise again when capacity is tight.

Rates rarely stay at the same level from year to year. This is reflected in the annual service contract renegotiations, a common feature in U.S. trades.

Shippers and forwarders are well aware of this cyclical pattern. They have recently seen rate increases, space shortages and delays in the transatlantic trade this year. Shippers have agreed to rate increases in the Asian trades, as space has also become scarce on these routes. The overcapacity glut has disappeared, and rates have increased.

To get a complete picture of the profitability of ocean carriers, relevant figures of six major carriers are shown over a complete industry cycle (see Table No. 3). The cycle was defined from the end of the previous downturn (1999) until 2002, which is regarded as the end of the latest downturn.

The table highlights the pronounced profitability swings from one phase of the industry cycle to the next. In the good year of 2000, the six major carriers amassed combined net profits of nearly $700 million — representing a return on equity of 13 percent.

In the depressed year of 2002, they had combined losses of $450 million — for a negative return on equity of 8 percent. Over the four-year cycle, the average return on equity was a paltry 3 percent.

The six companies included in this analysis over the four-year industry cycle carry about a quarter of the world’s containers. This suggests that the container shipping industry lost more than $1 billion last year. As all six companies reviewed are primarily involved in container shipping, their average rate and profit ratios provide a representative picture of returns in international container shipping.

But some carriers are better at riding the industry’s cyclical roller coaster than others. CMA CGM, Orient Overseas (International) Ltd. — the parent company of OOCL, and CP Ships performed relatively well, compared to their industry peers.

Carriers also vary in how they finance their business. For example, CMA CGM, Neptune Orient Lines and Hyundai Merchant Marine have very high debt-to-equity ratios, when compared to companies like CP Ships and P&O Nedlloyd. At the end of 2002, Hyundai had a long-term debt-to-equity ratio of 230 percent.

The shipping cycles appear to be getting shorter. The Asian crisis of 1997-1998 was the cause of the previous financial downturn among ocean carriers. The slower economy and the resulting vessel overcapacity of 2001 occurred about three years later, and severely impacted carrier results until well into 2002.

Charles de Trenck, head of regional transport at Smith Barney Citigroup in Hong Kong, considers the container shipping industry to be unstable. An increase in cargo volume does not necessarily lead to a commensurate increase in freight rates, de Trenck observed (see Table No. 4).

“Although there is a relatively weak link over the long-term between demand and revenue per TEU — reflected in a correlation of about 0.4 between rates and demand
JULY 2003

tion,” de Trenck told — supply is the main culprit in keeping

Source:

lent of the year 1999 in the previous indus-

ger volumes and higher freight rates.

Going Forward.

Most market indica-

tors strongly suggest that a phase of profit

recovery, for ocean carriers, started in late

2002 and early 2003, on the back of stronger

volumes and higher freight rates.

De Trenck believes 2003 is the equiva-

lent of the year 1999 in the previous industry
cycle, although he cautioned it remains to

be seen whether the peak season this year

will be as strong as four years ago.

“In 2003 cost structures are lower, so rate

rebounds do not have to be as high as in

1999-2000,” he said. “Over the long term

we still average rates ... moving down. The

key will continue to be cost controls and a

good balance in economies of scale. OOCL

is a good example of growing liftings by

nearly 80 percent between 1997 and 2003

(estimated), but of keeping resources/firm

size relatively stable.”

In the first quarter of this year, APL’s liner

revenue increased 11 percent to $957 mil-

lion, as average freight rates rose 10 percent.

This was APL’s third consecutive quarter of

increasing average freight rates — a reversal

from the downward trend that lasted from the

third quarter of 2000 to the second quarter of

2002. But APL warned that despite some

recovery in freight rates, overall they were

still below average 1999 levels.

The instability in the container shipping

market over the years “has in fact been

exacerbated” by so-called innovation and

scale, de Trenck added.

He agrees that many of the deep-sea con-
tainer-shipping companies have not covered

their cost of capital over the last decade.

But he noted exceptions. “Ones that have

made their cost of capital would be Wan

Hai, CP Ships and, if we could have a look

at the books, no doubt companies such as

Pacific International Lines,” de Trenck said.

“Over the last few years, Orient Overseas
(International) Ltd. has been making its

cost of capital over a cycle.”

Going Forward.

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2002. But APL warned that despite some

recovery in freight rates, overall they were

still below average 1999 levels.

“APL Liner is on track to achieve signifi-

cant profits in 2003,” a spokesman for Nep-

tune Orient Lines said.

After years of losses, Trailer Bridge said

in May it expects to return to profitability in

the second quarter, if current revenue levels

continue. In the Puerto Rico trade, vessel

utilization levels have increased following

the withdrawal of ships and the closure of the

former Navieras services.

Jeffrey Sterling, chairman of Peninsular

and Oriental Steam Navigation Co., the

U.K.-based port-to-shipping group, told

shareholders the group faces improved prof-
nability prospects this year and next.

“The group should make substantial pro-

gress in 2003 and move further ahead in

2004,” Sterling said. He cited strong

growth in volumes at P&O Ports and the

11-percent volume gain experienced by

P&O Nedloyd, its 50-percent-owned joint

venture, in the first quarter. P&O Nedloyd

reported a smaller pre-tax deficit

of $69 million in the first quarter, as

revenue rates were 4 percent higher than

the same quarter last year.

“They are continuing to strengthen,” Ster-

ling said, commenting on rates. “With an

improving balance of supply and demand,

the outlook for the rest of this year and 2004

is more positive than for some time.”

NOL even predicted that supply and de-

mand market forces would favor container

carriers in the next two years, with demand

outstripping supply both this year and next

year.

C.C. Tung, chairman and CEO of Orient

Overseas (International) Ltd., warned in April that cargo volumes may exceed avail-

able ship capacity during this year’s peak

season. Tung said the return to a better equi-

librium was such “that there now exists the

potential for an excess of demand over sup-

ply during the critical peak season.”

But ocean carriers have ordered a large

number of new ships when the market down-
turn pushed vessel prices down. These new

vessel will be delivered this year and in 2004.

Looking at the medium term, Tung

warned that uncertainties about demand

growth and continued orders for new

ships may affect the balance between

supply and demand. “Any further in-

crease in this rate of ordering (of ships)

will have the potential to return us to-

together with the rest of the industry to the

situation in which freight rates are

unsustainably low,” he said.

Like it or not, the cyclical pattern of liner

shipping is not going away.
In this game, where ships are positioned is of the utmost importance

At the Port of Montreal, ships load and unload closer to North America’s industrial heartland.

Montreal is on the shortest, most direct two-way route to Europe and the Mediterranean, which means more cost-effective shipping. A strategic geographic location, modern facilities equipped to handle all types of cargo, faster transit times, super-efficient services and frequent year-round arrivals and departures are the name of the game in Montreal, a long-established leader in the North Atlantic container trade.

So go ahead, give it your best shot and make it Montreal.
Chris Koch:
Astute Washington insider

_World Shipping Council head keeps security issues on realistic, reliable track._

By Robert Mottley

For observers of a world changed forever, “the future is upon us every day. We must guarantee the security of our industry and trade,” said Christopher L. Koch, president and chief executive officer of the World Shipping Council, based in Washington, D.C.

Koch, who has had a 26-year career spent predominantly in Washington, is as far from being an alarmist as one can find.

He has been counsel for the Senate Committee on Commerce, a top staffer for prominent Senators in both political parties, chairman of the Federal Maritime Commission, as well as senior vice president and general counsel for Sea-Land Service Inc.

Koch’s career has been a mosaic of accruals: enough experience acquired here to go there, the confidence of one Senator justifying the trust of another, an occasional breath of luck, and the wit to maneuver nimbly around hurdles.

As head of the World Shipping Council, he is an advocate in Washington for 29 companies in the liner shipping industry that control 90 percent of vessel tonnage serving U.S. foreign commerce.

Prior to recently being inducted at the United Nations into the International Maritime Hall of Fame, Koch spoke freely and easily, without notes, during an interview in New York.
Resolving security problems

For the last several months, under newly promulgated security rules, there have been operational problems that involve non- vessel-operating common carriers’ cargo.

“What has happened, in a nutshell, is that the NVOs became responsible for filing their own bill of lading documentation. So, their bills of lading are given to Customs, which does a security clearance on them,” Chris Koch explained.

“We were all worried about the port of loading when these rules were proposed, asking questions such as ‘is this going to screw up Hong Kong, or Rotterdam?’”

“Well, the problems didn’t occur at the port of loading. The problem became the U.S. port of discharge for NVO cargo, because at all of a sudden, at the port of discharge, it was the NVO bill that was in Customs’ system,” he said.

“But who’s moving the box? NVOs call themselves ‘carriers,’ but ocean carriers are the ones who transport the containers. Who is going to get the release of containers from the marine terminal operator to take the boxes out of the gate? The Customs release is going to the NVO, but the NVO has no relationship with the marine terminal operator. In the closing of that loop, all of a sudden the former business practice of operating off the ocean carrier’s bill of lading became screwed up, because there was no ocean carrier bill of lading in the system anymore,” Koch explained.

The World Shipping Council, in the last six weeks, has participated in meetings with its member lines, Customs and NVOs.

“It isn’t finalized yet, but what Customs is going to do is to go back and create a special bill in the AMS system,” Koch explained.

“The NVO will still have to file, 24 hours before loading, and the security clearance will be done on the NVO’s information. However, the ocean carrier will now file in AMS its own bill of lading issued to the NVO. When the container reaches the U.S., the release and the in-bond movements will all go off the ocean carrier’s bill of lading, which we’re confident will help clear up that situation,” he said.

“The ocean carrier is an integral partner of all this,” Koch said. Reminded that someone has to guide a partnership, he replied, “sometimes we have to steer, sometimes the government has to steer. You can’t have higher security by just relying on the industry’s initiative.

“There comes a point when you need regulations, and that’s the government’s job. If carriers start competing on this — if one carrier disadvantages or inconveniences a customer by asking something extra for security and that carrier’s competitors aren’t doing the same — it won’t work,” he said.

Mitigating Security Costs. The World Shipping Council itself did not participate — although some of its members did — in a recent ‘marine initiative’ of 25 carriers and terminal operators filed with the Federal Maritime Commission, a coalition intended to persuade the government either to mitigate or allow a communal passing on of rising security costs.

“You don’t need antitrust immunity to lobby in Washington,” Koch said. “That initiative was formed to see if the participants have the ability to agree as to what should be done ultimately to charge their customers for security. Will it succeed? I have no idea.”

“We have to get past the stage of simply saying ‘who’s going to pay for security?’

WCO, U.S. Customs

Asked about the future of the World Customs Organization in dealing with security issues, Chris Koch replied that “the jury’s out. The WCO is being put under a set of expectations it never had before — namely, to do something about security. WCO has always been a customs entity. Some of its members are national governments that could give a rip about security. That’s not their issue, and they don’t want it to be their issue. They are interested in collecting revenues, and that’s it.

“The WCO is trying to see if it can transition into an organization that can effectively address this issue. Right now, in their task force efforts that will be concluded in June, they will come up with fairly high-level principles. But the WCO isn’t a mature regulatory institution, like the IMO, which has a legacy of international instruments that are binding on its members,” he explained.

“The WCO, by contrast, comes up with standards, and then it’s up to national governments to decide whether to implement laws consistent with those standards,” Koch said.

Customs organizations in developed countries are still going through “a thinking process on security,” he explained. “Some countries ‘get it,’ such as the U.K., Dutch, Japanese, Singaporean, Belgian and German customs. Those entities appear to be fairly well along in terms of their capabilities, as well their willingness to cooperate with the U.S., for example, in the Container Security Initiative,” Koch said.

“Who’s paying for the 24-hour rule? Carriers are. Who’s paying for the reprogramming of IT systems and software? Who is paying for the extra people? Who’s paying for transponder devices going on ships? Carriers are. We’re trying to pass those costs on to shippers.

“If you ask, ‘at the marine terminals, who’s paying for better lighting and fencing?’ the answer is, they are. The feds aren’t going to pay for guards or extra lights or fences. The marine terminals are going to have to pay for that,” he explained.

“We have to be realistic about what the proper role of the government is in this situation. Marine terminal operators, carriers and ports shouldn’t be cast in the role of policemen. They can’t send divers down to check for mines in the port. They can’t provide armed guards to arrest suspicious people on the waterways. They can’t determine which containers should be inspected. Those are law enforcement functions that the government has to pay for,” Koch said.
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pre-screening of cargoes, obtain non-intrusive inspection equipment for containers, and allowing U.S. Customs to conduct risk assessments and interface with local customs administrations.

“Bonner’s a bulldog. He’ll keep pressurizing them to build a solid security infrastructure,” Koch said.

**Mystery Boxes.** When asked how committed the World Shipping Council’s own membership was to augmenting security, Koch said, “I suspect that there may be a couple of members who really wish the subject would go away, although they know it won’t. But the industry is absolutely committed. It’s our business. We all recognize how vulnerable we are. We don’t know what our customers are putting in boxes.”

Has the industry ever known that? “No. We’re given a sealed container,” Koch said. “Customs clearly has a role in the documentation and cargo security process. They are doing a better job, getting better information earlier, and devising more sophisticated screening software.

“It’s not just cargo description. It’s asking who’s the shipper? Who’s the consignee? What are their shipping records? Have we ever seen this guy before? Has he moved this stuff through New York before?”

“The query process is more sophisticated than it has ever been. It’s not so simple as expecting Al Qaeda to list ‘bomb in box’ on shipping documents, and that’s how you’re going to catch it,” Koch said.

**Rarely a wrong step**

When the interview turned to past events in Washington, D.C., Chris Koch discussed his career with characteristic dispassion.

Others might have highlighted their footwork in a town where shifting political sands are an accepted hazard and survival is a matter of lucky or adroit hopscotch, but Koch gave credit at every turn to mentors and benefactors.

To appreciate the tenacity and determination in his imperturbable nature, one must go back to Berkeley, Calif., where he was born in 1953.

His father, Dr. Charles William Koch, taught chemistry at the University of California at Berkeley and worked on the Manhattan Project. “He was on the chemistry part of it, not the physics side,” his son recalled.

“I do remember him telling how, before he and others involved with the project were convinced that they could actually build an atomic bomb, they were working in a laboratory when a report came in over the radio of a massive, unexplained explosion in Europe, near Germany.

“My father said his colleagues all looked at each other and said, ‘Oh, my God, did they get it first?’

“I’ve always believed that was an interesting characterization of where their thinking was at that time,” Koch said.

His father shared no further details, and Koch didn’t pursue the subject. “I was not a chip off the old block when it came to the sciences,” Koch said. “Actually, when I went to college, I started in the sciences and didn’t switch out of them until my junior year. I was a slow learner. It took a while to realize that chemistry and physics weren’t going to be for me.”

Koch’s mother, Tess, was a homemaker. He was the second of four children.

Koch graduated from the University of California at Santa Barbara, majoring in political science.

“When you graduate with a political science degree, there are not a lot of things you’re going to do with it. Your career options are politics or law, or both,” Koch said.

**Route to Washington.** Koch wasn’t thinking of Washington, D.C., or California’s state capital at Sacramento, as possible venues for an eventual career. “I was concentrating on law school,” he recalled. He attended the University of Miami for one year, and then transferred to the University of Washington in Seattle for his second and final year of law school.

“Ironically, both of those schools were and remain very strong in marine law,” Koch said. “That’s why I was interested in them.”

The marine law Koch studied was more oriented toward law of the sea, marine resources and management of the oceans, than it was admiralty-related. He earned his degree in 1977.

As fortune would have it, Sen. Warren G. Magnuson, a chairman of the Senate Commerce Committee, sponsored a program that would hire one graduate each year out of the University of Washington’s law school to come to Washington, D.C., and work for a year as an intern for the Commerce committee. The law school’s faculty selected Koch.

**Senate Committee Intern.** While on the University of Washington law review, Koch had edited a symposium on the 200-mile fishery act, which Magnuson had introduced. Magnuson wrote an article for the law review, bringing Koch into contact with the Senator’s staff.

A month after starting to work as an intern for the Commerce Committee, Koch traveled as a Congressional observer to negotiations on tanker standards held in London under the auspices of the Inter-Governmental Maritime Consultative Organization (IMCO), which changed its name in 1982 to the International Maritime Organization (IMO), the United Nations agency concerned with the safety of shipping and cleaner oceans.

“I was thrown right into those kinds of issues,” Koch said.

**Ocean Issues.** When the general counsel for the Senate Commerce Committee left, three months later, Koch was given the counsel’s ocean and marine responsibilities. “I learned a lot very quickly,” he said.

Koch wasn’t there long before his boss, Koch replied, “yes. It was always apparent when you screwed up, but Sen. Magnuson was very understanding. He was the kind of guy who never raised his voice. There were constant demands on him, especially when he became chairman of the Senate Appropriations Committee. Yet Magnuson always had time for ocean issues, a topic he loved.”

“We did a lot of fish work, deep-sea mining, tanker legislation, support for Antarctic marine resources, and oil spill liability legislation,” Koch recalled.

Meantime Koch, a member of the bar in Washington State, became a member by extension — with the bar examination waived — of the District of Columbia’s bar association.

“You learn pieces of Washington when you’re first starting out. On the Commerce Committee staff, I learned a narrow slice of the picture pretty deeply. When I transferred from the Committee staff to Magnuson’s personal staff, I had a broader sense of the process,” or the functional infrastructure of politics.

After Magnuson’s defeat in the election of 1980, Koch left the government briefly to practice law with the firm of Bogle & Gates in Washington, where he worked with Robert Blackwell, a well-known former Maritime Administrator.

**Changing Parties.** Until that time, Koch had been a Democrat. “I remember questioning how committed I was to the Democratic Party when, as Magnuson’s chief legislative assistant, I was working on trucking deregulation with the Commerce Committee.

“I kept asking myself, ‘why is the government regulating and limiting trucking like this? Why must the government decide if there’s a need for truckers’ services?’

“Ocean and marine issues really aren’t partisan. In fact, they don’t have any partisan distinctions. Yet as I saw the bigger transporation picture, I began to question some positions held by Democrats,” Koch said.

“The Democratic constituency in the Senate was for regulation. Republicans were for deregulation. As a Democrat, I had to admit honestly that the ‘other side’ had a
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“The more I saw of the role of government, how it functions and the effects it has, I came to feel that federal power should be used with limits, and judiciously so. Philosopically, I found myself being drawn inexorably toward Republican positions.”

In 1980, Koch became a Republican. “I got the ‘chameleon of the year’ award for that transition from my friends,” he said. “On the outside, it seemed – and was – unusual, because I had been counsel for the Senate Commerce Committee and for Maggie.”

“My head, it was a reasonable crossover. I’ve never felt any kind of reverse tide,” he added.

Politics, then and now

Chris Koch spoke gently of the now-defunct House Merchant Marine and Fisheries Committee, much-lamented in some quarters — the members of which, even those from landlocked states, received steady and lucrative political donations from lobbyists representing maritime unions and ocean carriers.

“That committee had 107 staffers. There were six of us in the Senate,” Koch said. “We held our own with them in terms of substance,” he chuckled.

“Every part of the American merchant marine was pretty effective in making its views known with the MM&F panel,” he said. “I wouldn’t characterize it as an open trough.”

Asked why the U.S. merchant marine disappeared, Koch said that “I remain a big supporter of having one. The reason we don’t have a policy choice that we’ve made as a country.”

Did unions kill the merchant marine, negotiating sweet-to-exorbitant deals for themselves until the golden goose finally choked?

“I don’t think it was one sector,” Koch said. “It’s been a whole combination of things. Should you be able to run U.S.-flag vessels for less than it costs to do so today? Yes.

“Yet no matter what the unions do, U.S.-flag vessels are going to cost more to operate, dollar for dollar, than foreign-flag vessels.”

“To be fair, you have to look beyond just the cost of labor, to issues like taxation. Our trade partners have much a more favorable tax treatment of their shipping companies,” he said.

During their first five years in Washington, Koch and his wife had been consistently a two-income family. Lynn Koch worked for various senators until their first child, Owen, was born in 1982. She and Koch have two other children, Marshall and Julianne.

Back in Seattle, Koch bought a house overlooking Puget Sound. Four months later, he and his family moved back to Washington, D.C. to be chief of staff for Sen. Slade Gorton III.

Koch asked himself, upon returning to Washington, where his career was heading.

“My game plan was to go back to Seattle after Gorton’s first term. Yet I never end up having a rigid long-term plan. You never know what will come along. A doesn’t always lead to B.”

Gorton lost his seat in the 1986 election (he would be re-elected to the Senate from Washington State in 1988 and remained in office until 2001).

After Gorton’s defeat, Koch planned to move once again to Seattle, this time to stay, until “out of the blue, I heard that Sen. John McCain wanted to talk with me,” Koch recalled.

McCain, who had been elected to the Senate in 1986, wanted someone on his staff who knew how the Senate worked. He got the ‘chameleon of the year’ award for that transition from my friends,” he said. “On the outside, it seemed – and was – unusual, because I had been counsel for the Senate Commerce Committee and for Maggie.”

“In my head, it was a reasonable crossover. I’ve never felt any kind of reverse tide,” he added.

Writing policy, literally

In 1990, Chris Koch sought out a position on the Federal Trade Commission. President Bush indicated he would prefer for Koch to be chairman of the Federal Maritime Commission instead. That posting would be for three years of a five-year term.

Koch, who was then 37, understood the message: his first choice, the FTC, would not be an option, then or later.

When Koch asked why, the White House replied that “they had some issues concerning the FMC, and they wanted a chairman who would make sure things stayed on track,” he recalled.

Koch’s colleagues-in-harness on the Federal Maritime Commission included Frank Ivancie, Bill Hathaway, Ming Hsu and Rob Quartel.

“They were always very professional and considerate to me,” Koch said. “Privately, more than one probably thought I was a punk.”

Speaking of his fellow commissioners, Koch said, “I never asked to see any of their statements or speeches in advance. How could I have? Bill Hathaway had been a U.S. Senator. I tried to persuade them of what I thought was the right thing to do, and get their vote.”

Asked how he got along with the controversial quartet, Koch replied that “we had a good understanding of each other. Let’s say no more.”

Cleansing Rules. During Koch’s tenure on the commission, “we took all of the regulations that the FMC administered and scrubbed them top to bottom, through 15 different rulemakings,” he said. “We eliminated material that was old and didn’t make sense, and provided as much regulatory flexibility under the terms of the 1984 Shipping Act as we could. We also handled a lot of trade cases with Taiwan, South Korea, and other nations.”

“After the 1992 presidential election, things changed. The Democrats had gone along with what we had done, but really didn’t have their heart in it. Now that they were in power, it would be very hard to do more regulatory changes. By that time, though, most of the changes had been made.”

For example, the FMC used to prohibit shippers and carriers from amending their service contracts.

“After signing a contract, the government said a carrier and shipper couldn’t agree to go back and amend their contract. We changed that. It was good for the industry, because it took some of the pressure off the 1984 Act and allowed contracting parties a much higher degree of commercial flexibility than they had up to that point,” he explained.

For the commission, “it always has to be a consensus,” he said. “You need three votes to change anything.”

Koch got his three votes, over and over. He personally checked “every word” of the resulting FMC rules, “making changes that were necessary in my own hand.” Writing the opinions “was the fun part,” Koch recalled.

There were disagreements with the
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FMC’s staff. “Some of them questioned my policy judgment, but rarely my legal grounding for what we did. That was their role, and their opinions were expressed in a context of mutual respect.”

**Corporate Counsel.** After the first President Bush lost the 1992 election, “it was clear that I wasn’t going to have much more effect at the commission,” Koch said.

In 1993, he resigned from the commission and accepted a position as senior vice president and general counsel for Sea-Land Service Inc. Koch and his family moved briefly to New Jersey, and then to Charlotte, N.C., for five years.

“I wouldn’t say it was shock to go into a corporate setting. It was very interesting. I had gotten to know John Clancey, Sea-Land’s president, and John Snow, the chairman, president and chief executive officer of CSX Corp., pretty well when we were working on FMC and maritime security issues,” Koch said.

“Although the FMC is not a U.S.-flag promotional entity, I had worked with Andy Card, who was then Secretary of Transportation, to help put together the Maritime Security Program, which the first President Bush sent to Congress and which was passed during his administration, to help put together the Maritime Security Program, which the first President Bush sent to Congress and which was passed during President Clinton’s first term,” Koch said.

Card is now President George W. Bush’s chief of staff. John Snow is Bush’s Secretary of the Treasury.

“APL and Sea-Land were always in feuds,” Koch said. “Their ‘feud of the day’ was more important than the MSP outcome. That tense competition was mind-boggling and stupid, because it always got in the way of structuring a new subsidy program that could keep the U.S. flag on the merchant fleet,” Koch said.

“It became apparent to me that was going to be a big obstacle to getting anything done, so I helped bring John Lillie, the president of APL, and John Snow together. I told them they had one heck of a lot more in common than they did apart from each other,” he said.

### Reforming the Shipping Act

While at Sea-Land, Chris Koch participated in a number of debates about the regulatory system under the Shipping Act of 1984. “I was always a proponent of deregulating it. Intellectually, there was a fair amount of support for doing that,” he recalled.

“When I was chairman of the FMC, I would meet with shippers all of the time who were frustrated with the regulatory structure. ‘Why can’t I cut a deal with the carrier of my choice and not have the government interfere?’ They would ask, a perfectly reasonable question to which there was no good answer,” Koch said.

After the Republicans took control of the House, the Merchant Marine and Fisheries Committee’s transportation jurisdiction was transferred to the House Transportation and Infrastructure Committee.

Rep. “Bud” Schuster, R-Pa., chairman of the Transportation and Infrastructure panel, had a different perspective on maritime regulation. “He basically said, ‘this doesn’t make sense to me,’” Koch recalled.

“We had discussions within Sea-Land of what might be done. Sea-Land, APL, and Crowley subsequently agreed with Ed Emmett, head of the National Industrial Transportation League, that it was time to update the Shipping Act. We came up with a compromise deal. I spent a lot of time as an advocate, but it was John Clancey and John Snow who had the guts as the company’s leaders to publicly go out and do it,” Koch said.

“We made a logical case for what needed doing. We probably should have handled it better with the other carriers,” he explained.

A combination of forces came together late in the political process to deny NVOs the right to negotiate confidential service agreements.

### Koch among inductees of Maritime Hall of Fame

**NEW YORK**

Two prominent industry spokesmen, Christopher L. Koch, former chairman of the Federal Maritime Commission and now president and chief executive officer of the World Shipping Council, and Paul F. Richardson, former president of Sea-Land Service, Inc., and now principal of Paul F. Richardson & Associates, were among recipients of the 10th Annual International Maritime Hall of Fame awards.

Sponsored by the Maritime Association of the Port of New York and New Jersey, the awards were presented May 14 at the United Nations.

Other 2003 inductees to the Maritime Hall of Fame who received their awards at the UN included Nicola Arena, president of Mediterranean Shipping Company (USA), Inc.; Olav K. Rakkenes, president and chief executive officer, Atlantic Container Line; Charles G. Raymond, chief executive officer and president of Horizon Lines; Henk van Hemmen, president emeritus of Martin, Ottaway van Hemmen & Dolan; and John Arnold Witte, Sr., chief executive officer and president of Donjon Marine Co., Inc.

Past recipients of the Maritime Hall of Fame awards who were in attendance included R. Ken Johns, chairman and chief operating officer of Hampshire Management Group, and David A. Howard, editor of *American Shipper.*

**PHOTO:** Fran Dickson/ Maritime Association of the Port of New York and New Jersey

Koch talks to James E. Butcher, president of HUAL NA Inc., at the 10th annual Maritime Hall of Fame awards in New York.
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contracts. That happened, Koch inferred, because enough members of Congress made a substantive distinction between carriers with assets and NVOs.

“One factor was that labor and the NVOs didn’t have quite the same view of the world,” Koch said.

When asked to assess the Ocean Shipping Reform Act that emerged, Koch said “I think OSRA has been a success. Shippers and carriers are negotiating confidential, individual contracts with each other.”

That is only what exists on the surface. Asked if it had been foreseen that confidential service contracts would be freighted with concessions to major shippers that carriers would never have given in days gone by, Koch replied, “it was certainly anticipated that you had to run your business more intelligently. It was certainly foreseen that when you get into a contracting process, you have to control what you’re going to contract for.

“The difference is that the government shouldn’t bail you out from your stupidity. The former regulatory system cushioned carriers from having to think through these issues. ‘We can’t do this, - the conference or the government won’t let us do that,’” carriers used to say. That’s gone now. A carrier should be responsible for the decisions it makes. If it wants to contract to provide a service or pay claims a certain way, it’s free to do that,” he said.

“At Sea-Land, we designed our internal process ahead of time for how we would manage contracts. Who has sign off authority for what issues at what level?” he said.

“We didn’t give away the store. Different types of contractual issues required different levels of corporate approval. On some issues, if you wanted certain matters included in a contract, you had to get John Clancy’s approval,” he explained.

When a carrier delegates the negotiating for its service contracts on all issues “to a salesperson or someone in marketing, of course you’re going to end up with nightmares,” Koch said.

Confidential contracts of more than a hundred pages, “when a carrier and a so-called trade lane with different service parameters, are not necessarily bad,” he said.

Carrier Advocacy. In his time as Sea-Land’s general counsel, Koch wondered whether Sea-Land was really on the market if the right bidder came along, as Snow often hinted to Wall Street analysts. What made a sale inevitable, in Koch’s view, was “the acquisition of Conrail, which put enormous pressure on CSX Corp. That was a lot of debt to serve,” he said.

After Maersk bought Sea-Land, “I stayed on with the residual CSX pieces,” he said.

Visiting Washington over Christmas 1999, Koch received a call from McCain’s presidential campaign, “asking me to hop aboard for a while,” he recalled. “I took a leave of absence from CSX and worked for John.”

“It was a skinny campaign, lacking money and resources, but full of excitement. They wanted someone to come in and help look at policy issues, to be sure that McCain’s positions were well-structured and defensible.”

When Gov. George W. Bush of Texas received the Republican nomination for president, Koch returned to CSX Corp. as general counsel for CSX Lines and CSX World Terminals. “It was clear that those two entities were not long-term parts of CSX,” he said.

World Shipping Council

The World Shipping Council made overtures to Chris Koch through a hiring committee of ocean carrier executives.

“The idea for the council came out of discussions at the Box Club that I wasn’t part of,” he said.

“In essence, it was born out of the fact that government plays an important part in the industry’s business. For years, ocean carriers in the liner trade had relied generally on the offices of Sea-Land and APL in Washington to carry their government policy workload.

“After the sale of Sea-Land to Maersk and APL to NOL, they decided it was time to put together a coherent trade association.”

Most of the council’s members are foreign-based. “Let’s face it: 97.6 percent of everything that moves in our international commerce is on a foreign-flag ship,” he said.

“The World Shipping Council deals with the U.S. government and other international organizations,” Koch explained, “particularly where the U.S. government is involved.”

For example, the council and the NIT League have been working closely with members of the U.S. delegation to the United Nations Commission on International Trade Law (UNCITRAL)’s Working Group III, which is drafting an international cargo liability convention.

“We’re having an impact on the U.S. delegation, which is convincing other governments that the concerns of our membership make sense,” Koch said.

“There’s the question, also, of what is our industry? Does it have to be U.S.-flag to be ‘the industry?’” What about U.S.-owned international shipping companies? There are not many of those left: Tropical, Crowley — the list is not long.


“If foreign-owned companies want to put capital into our international shipping business and fly the U.S.-flag, I would encourage them.” Should they receive U.S. subsidies for doing that? “Well, one has to be a realist,” Koch said.

The liner shipping industry carries about 202,000 American businesses. That adds up to $500 billion worth of goods, or more than $4.1 billion worth of goods per day, passing through U.S. ports.

“It is undeniable that the industry moves this commerce very efficiently and inexpensively,” Koch said.

World Shipping Council members

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A.P. Moller-Maersk Sealand (includes Safmarine and Torm Lines)
Atlantic Container Line
CP Ships (includes Canada Maritime, CAST, Lykes Lines, Italia Lines, Contship Containerlines, TMM Lines and ANZDL)
China Ocean Shipping Co.
China Shipping Group
CMACGM Group
Compania Sud-Americana de Vapores
Crowley Maritime Corp.
Dole Ocean Cargo Express
Evergreen Marine Corp. (includes Lloyd Triestino)
Great White Fleet
Hanjin Shipping Co.
Hamburg Sud (includes Columbus Line and Alianca)
Hapag-Lloyd Container Line
HUAL
Hyundai Merchant Marine Co.
Kawasaki Kisen Kaisha
Malaysia International Shipping Corp.
Mediterranean Shipping Co.
Mitsui O.S.K. Lines
NYK Line
Orient Overseas Container Line Ltd.
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Entrepreneurial U.S. port company develops and runs terminals in major port gateways, far-flung overseas ports.

By Chris Gillis and Philip Damas

The port business isn’t only about handling thousands of container moves in a main port like Long Beach or Los Angeles.

At Stevedoring Services of America, the company’s executives are also on the lookout for port business opportunities, wherever they may be around the world.

The result: the Seattle-based privately held company has developed and built sizable international port activities in areas as far apart as Panama, Vietnam, Indonesia, New Zealand, South Africa, Mexico and Chile. The company is also involved in diverse stevedoring and terminal leasing and operating businesses throughout the United States.

SSA was originally a major provider of container and other handling services at mainstream, major ports on the U.S. West Coast. But the company has taken calculated risks in the last few years, and committed to develop two “green field” sites in South Carolina and Texas. There, it will build new terminals competing against the established local ports. SSA has signed a 99-year lease with Jasper County to develop a terminal near the port of Savannah, and a 90-year lease with Texas City to set up a container terminal that would compete against the nearby port of Houston.
The "new" port warehouse complex at the port of Umm Qasr in Iraq.

In March, while the war in Iraq was still continuing, SSA was also awarded a $4.8-million contract by the U.S. Agency for International Development to assess and manage activities at the Iraqi port of Umm Qasr.

Going International. Jon Hemingway, president and chief executive officer of SSA Marine, recalls the start of the international expansion of his company.

The company’s first big moves outside the United States were in the 1990s. In 1995 SSA made a significant investment in setting up a transshipment hub in Panama Canal.

“When we looked at international operations, there wasn’t a grand strategic vision,” Hemingway said. “Our operation was simply getting much bigger in the United States. As we became more efficient, we needed to move our employees into new areas.”

The Manzanillo International Terminals operation in Panama, located at the Atlantic end of the Panama Canal, is now the largest container terminal in Latin America, with a throughput of more than one million TEUs.

“Panama was an ideal overseas location,” Hemingway said. “We built it from the ground up.” The green field terminal was erected on a former U.S. seaplane base. SSA trained 700 Panamanian workers before the terminal opened in 1995.

“We thought that Colon was a terrific site because there was both significant amounts of local cargo in the Colon Free Trade Zone and, with all the ships that pass through the canal, there were good opportunities to manage transshipment cargo. This combination was important for us to go forward,” he added.

“Today, in Panama, we’re aggressively pushing our costs down,” Hemingway said. SSA’s Panama terminal handles more than 40 container moves an hour per crane. “I don’t know of any operator that exceeds that number as a transshipment facility with all sizes and shapes of feeder vessels.”

Hemingway said the Panama terminal’s high container-handling productivity is not due to technology. “I think it’s the fact that we have the best crane operators,” he said. According to Hemingway, the privately run Panama terminal’s productivity is four times that of the neighboring state-controlled port of Cristobal.

Before the move to Panama, SSA had already looked overseas for opportunities to expand. In 1993, it acquired New Zealand Stevedoring Co. Ltd., the largest stevedoring company in New Zealand. In the same year, it formed a joint venture with Greystones Cargo Systems (Propriety) Ltd. to handle cargo in southern Africa. In 1992, SSA was awarded a five-year contract by the state railway of Thailand to construct, operate and manage a rail ramp facility in Bangkok.

Reconstruction In Iraq. Under the terms of its recent contract in Iraq with the U.S. Agency for International Development, SSA will be responsible for the operation of the port of Umm Qasr. USAID said the company will provide an initial port assessment, develop improvement plans to overcome port-imposed constraints, and supply technical expertise to ensure an adequate flow of through shipment.

SSA will also facilitate cargo-handling services such as warehousing, shipment tracking, refrigerated and other cargo storage and the onward transport of shipments.

“Our experience, while unique, is not much different than a lot of things we’ve already done,” said Hemingway, commenting on the Iraq contract.

“We handle a variety of cargo in the developing world,” he said. SSA was involved in port operations during the political upheaval in Indonesia. “It felt like a war zone to us. We were very engaged in handling food-aid cargo.”

SSA has also provided port operations services in other developing countries, such as India and South Africa (after apartheid), and the company has had good experience with Islamic cultures, he said.

When USAID awarded the contract to SSA to manage operations at the port of Umm Qasr, some industry officials said Hemingway must have been a big Republican supporter. Hemingway, who laughs about the assertion, said, “it’s just not true.” He noted his company actually has stronger relationships with Democratic lawmakers in Washington State.

Several terminal operators bid for the Umm Qasr contract within a three-week proposal time frame. With a team of senior managers and engineers, SSA completed its technical and economic proposal within two weeks and came up 60 percent less expensive than the other bidders. SSA also had the benefit of working with the Kuwaiti ports after the first Gulf War in the early 1990s. In addition, SSA works closely with the port of Dubai in the United Arab Emirates.

Hemingway complimented the British 17th Infantry Regiment for preventing wide-scale damage to the port.

Three aspects SSA will engage in at Umm Qasr are:

• Physical: SSA will direct redevelopment work to get most return for the U.S. government’s dollar, and ensure food-aid from bulk ships moves through.

• Human: Before the war, Umm Qasr was dependent on many Iraqi workers. SSA needs to encourage Iraqi employees and cargo firms to get back to work.

• Commercial: SSA needs to ensure that commerce moves across the docks for the benefit of the Iraqi people.

Hemingway doesn’t fault the Iraqi people for their frustration with the lack of food aid. “We live relatively comfortable lives,” he said. “Regardless of whom is to blame, when people can’t feed their families, they’re upset for a good reason.”

SSA has placed 13 managers on the ground in Umm Qasr. The company will work closely with USAID officials. The contract covers SSA for a year. “If they want to extend our stay, it will be their call,” Hemingway said.

He said the overall port infrastructure at Umm Qasr is in relatively good shape, considering the 10-year post-war embargo. “Much more profound is the lack of main-
Green Field Ventures. In April, the U.S. Corp of Engineers approved the construction of a two-million-TEU capacity container terminal in Texas City to be operated by SSA and CP Ships.

Construction of the Texas City terminal is due to start this summer, with operations scheduled to start in mid-2006. Phase one of the project will be 2,000 feet of berth, 125 acres of container yard, four cranes and a dedicated three-mile access road. The International Longshoremen’s Association will represent the dock labor.

On completion of the third phase of development of the project, the terminal will feature 6,000 feet of berth, 400 acres of yard area, a 45-foot draft and a capacity of approximately 2 million TEUs a year.

In 2000, SSA signed a lease with Jasper County to develop and operate a 1,776-acre, 12,000-foot river front site in South Carolina. However, the State of Georgia is appealing the development in the South Carolina Supreme Court. “A decision should be forthcoming by September of this year, at which time SSA will begin the permitting process,” said Laurel Hart, spokesman for SSA. Jasper County’s condemnation of the area in question has already been upheld by state and federal courts, she said. Assuming a September decision, the facility should be operational within four years.

Significantly, the green field project of SSA near Houston was allowed to go ahead while the port of Houston was still waiting for the authorities to approve its own expansion plan, called Bayport. Container port capacity at the port of Houston is fully utilized.

SSA’s port ventures aim to fill the need for additional container port capacity on the U.S. Gulf and eastern seaboard, where most ports are suffering congestion (June American Shipper, page 8).

Commenting on his company’s U.S. green field facilities, Hemingway said: “These are all terrific locations for future facilities.”

With new port facilities located outside established ports, SSA will take on existing

Different Approach. SSA has kept a low public profile in the industry, and the scale of its activities is not well known.

But it has more than 150 port operations and container handling facilities worldwide, especially in North America, Africa, Asia and Latin America. The Seattle-based group handles more than 15 million TEUs and trailers annually through its marine and rail terminals, of which about 6.6 million TEUs are through marine terminals.

SSA is also a family-controlled, privately owned company. This is in contrast with international port companies, such as APM Terminals, P&O Ports, NYK/Ceres and Hutchison Port Holdings, that are controlled by large conglomerates. SSA also competes against many terminal operators that are affiliated with large container shipping lines.

Hemingway is the grandson of SSA founder Fred R. Smith. Smith started the company in 1949 after a stint with the U.S. Army Transportation Corp. in New Guinea during World War II. Hemingway, meanwhile, became a CPA and lawyer. He took over SSA in 1985 after the death of Smith.

“I really enjoyed practicing law, but since the person who paid for my education was my grandfather, I thought I’d give running SSA a try,” Hemingway said.

SSA continues to operate as a family business. The management of SSA does not fall for the trappings and symbols that often go with corporate power. Hemingway and other senior executives have their desks in a common area among rank-and-file employees.

“We don’t get bogged down in board meetings,” Hemingway. “We think it’s an asset to be a privately held company.”

As a group, SSA has become heavily involved in moving cargoes between modes, such as ship to rail and ship to truck. In 2000, Rail Management Services was awarded the Burlington Northern Santa Fe ramp contract at Corwith, the largest rail facility owned by the railroad. The terminal management business of the group has also become far different than its origin, which was largely to provide dock labor brokerage services. Hemingway said SSA is the
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SSA still provides traditional stevedoring services to vessel operators in more than 100 ports worldwide. “There’s a wide range of operations,” Hemingway said. “Our mission in life is to add value to gateways of all types.”

**Partnerships.** The Texas City terminal with CP Ships is only one of the partnerships between SSA and ocean carriers. Since 1997, SSA has developed a partnership with Matson Navigation and similarly with COSCO on the U.S. West Coast. “There was a time when a lot of carriers were quick to say they wanted their own terminals,” Hemingway said. “I think that bloom is a little off the rose now. Problems emerged with the rise of carrier alliances. Single-purpose facilities don’t meet their needs anymore.”

SSA also has a partnership in Mexico with Grupo TMM, the Mexican rail, port and logistics company. Grupo TMM recently agreed to sell another stake in TMM Ports and Terminals, its port subsidiary, to SSA. Grupo TMM is struggling to meet the repayment of debts.

The activities of the TMM Ports and Terminals company partly sold to Stevedoring Services of America include the operations at the Mexican ports of Manzanillo, Cozumel, Veracruz and Progreso. “We’ve taken on a bigger role where we used to be more of a passive investor,” Hemingway said, commented on SSA’s increased share in the TMM port company.

About a year and half ago, Customs approached SSA’s partner in Mexico alleging that 17 of the top 18 managers at the terminal were involved in counterfeit goods smuggling. “We flew in a new management team, and eventually a Panamanian staffer took it over,” Hemingway said. “In a relatively short time, we substantially reduced processes and overhead.”

**Security.** Like other terminal operators, SSA is closely following the security requirements of governments and other security-related developments.

SSA is one of the founding members of the new Marine Terminal Discussion Agreement, a specially created group that plans to discuss security issues and liaise with U.S. authorities. The group was set up in early May.

Hemingway believes the current difficult market environment makes it difficult to pass on additional security costs to ocean carriers and truckers.

In April, SSA joined the “smart and secure tradelanes” security initiative already backed by global port groups Hutchison Port Holdings, P&O Ports and PSA Corp. Launched last year, the initiative aims to place electronic seals on containers to track them and to keep anyone from tampering with them. Hemingway said at the time that this security initiative will be rolled out at the group’s marine terminal operations in the U.S. ports of Seattle and Long Beach, and at its Manzanillo terminal in Panama.

But security isn’t just about preventing the use of containers by terrorists.

With a terminal in Panama, SSA is mindful that Panama has long been used for a transshipment region for illegal narcotics. It maintains a 150-member security force in Panama.

“We want to make it so that smugglers do not use our facility,” Hemingway said. “If we have breaches in our security processes or systems, we put people’s lives at risk. Tight security is an employee initiative.”

In Panama, the company recently added a network of video surveillance that is available to the security force and to the terminal managers for operational purposes.

Tideworks, an in-house SSA systems developer, has also installed a hand-reader for employees checking in and out of the terminal. “You may forget to bring your identification card with you to work but you don’t forget your hand,” Hemingway quipped.
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TO: Ocean carriers, NVOCCs and logistics companies

RE: Another paradigm shift in the shipping industry?

BY CARLOS RODRIGUEZ
An interesting event happened when Sea-Land recently found itself in a regulatory bind at the U.S. Federal Maritime Commission over tariff issues. *Amicus Curiae* briefs filed by organizations of ocean transportation intermediaries and shippers on Sea-Land’s behalf at the FMC signaled a definite paradigm shift in the industry.

The National Industrial Transportation League and the major OTI organizations, including the NVOCC-Government Affairs Conference (NVOCC-GAC), teamed up with Sea-Land attorneys in pointing out to the FMC that the agency was assessing outrageously excessive penalties on tariff matters. In the Sea-Land case the administrative law judge had assessed a $4-million sanction, which, yes, paled to the $20-million dollar sanction that the FMC enforcement bureau had recommended, but which in any case was clearly hefty.

What a major ocean carrier, an organization of well-known importers and exporters, and OTIs are saying is there is a serious disconnect between their business activities and regulatory reality. It has now become a well understood fact to NVOCCs and ocean carriers that ocean tariff issues can result in major disruptions to their businesses, and in some cases can result in their demise. More importantly, it has become clear there are issues on which shippers, ocean carriers and OTIs can form common policy.

From my perspective as an attorney for OTIs for nearly 30 years, it is not only the message, but the message coupled with the messengers, which speaks volumes. At the risk of utilizing a term that has become a cliche in record time, this development underscores the “paradigm shift” in which the shipping industry finds itself. What is this paradigm shift? Why are carriers, OTIs, and shippers speaking in unison? It is because their interests have merged significantly at the marketplace. This merging of what previously have been disparate interests, portends to joint efforts in the future to obtain a regulatory structure that does not unreasonably impede normal and lawful business objectives.

**Ocean Carrier Shift.** Ocean carriers with a view to the future, and as partners with shippers in supply chain management solutions, are making serious long-term investments in logistics structures that include personnel with specialized skills, distribution facilities in the United States and overseas, and sophisticated software with global applications. None of these are cheap. The logistics approach necessitates multimodal as well as multicarrier dimensions. Therefore, ocean carrier-owned logistics companies must provide services, not only by ocean but also by air and surface modes. These ocean carrier-owned companies, in order to meet shipper demands on ocean scheduling and pricing, must also have access to pricing and scheduling alternatives offered by their competitors’ ocean services. The regulatory mechanism to offer these services on the ocean side has been

The non-vessel operating common carrier. These ocean carrier logistics companies, at least with regard to offering ocean solutions, have become NVOCCs or have related companies that are NVOCCs. As such, they have squarely come against the legally imposed hindrances, and regulatory risks of ocean regulation that are very well known to NVOCCs. These logistic companies, in their NVOCC function, are facing the following regulatory shortcomings:

- As NVOCCs, they are statutorily prohibited from entering service contracts with their shipper customers who insist on comprehensive contracts that include ocean carriage commitments.
- As NVOCCs, they are required to expend serious sums in electronically publishing tariffs in a timely manner for every ocean transaction that is entered into by them globally in the U.S. trades.
- As NVOCCs, even considering the best of intentions in complying with tariff publishing requirements, it is impossible to fully control such timely tariff publishing on a global basis for hundreds or thousands of daily transactions. Therefore, under current regulations, there is always going to be serious penalty exposure of up to $27,500 per violation (shipment). Additionally, this risk exposure has no corresponding benefit in that it is well known and documented that the tariff has no commercial usage in practice *vis a vis* the NVOCC and its customers.

The Sea-Land risk cloud will always hang on the ocean carrier-owned logistics/NVOCC company on tariff issues until tariff regulations are eliminated or modified. In short, the ocean carriers who evidently are serious about
their logistics companies, should be looking for ways to safeguard these substantial investments by creating normal business environments, and removing artificial regulatory barriers and risks that currently envelop them. The fact that some of these reforms have been sought by NVOCCs in the past, should not dictate what is beneficial to ocean carriers and their subsidiaries now. The old paradigm of NVOs on one side of the line and ocean carriers on the other is no longer tenable on these issues. Ocean carriers cannot ignore this paradigm shift, and demands from their shipper customers.

**OTI Shift.** The most salient shift in the OTI environment is marked by the identity of the players themselves. The old knee jerk characterization that NVOCCs are one-man shops working out of a phone booth with a typewriter is no longer effective as a political argument, and belies commercial truths. As noted above, just about every major ocean carrier has a corresponding NVOCC logistics company. Additionally, large corporate players have come into the NVOCC scene. The changes, generally through acquisitions, have come about even since OSRA days. When speaking of NVOCCs today, one has to also consider companies such as FedEx, UPS, Airborne and DHL, Deutsche Post, Deutsche Bahn, Yellow Freight, Emery, OWL (a Pacer International Inc. company), as well as large consolidators such as Shipco, NACA Logistics, and CaroTrans. These OTIs, like their ocean carrier-owned logistics company competitors, are also acting as partners with shippers in structuring supply chain management solutions. They are also making serious long-term investments in logistics solutions. This is not to intimate that the smaller niche OTIs have disappeared, or that they will disappear. However, it is clear that in this AMS/AES/Logistics era, small, lesser-financed companies are almost barred entry into the OTI environment.

While the financial make-up of the OTI community has changed, so has their political clout. One only needs to quickly add up offices and employees, and political know-how of just a handful of the U.S. companies noted above to know that the political equation from the OSRA days to now are night and day. However, these OTI companies, like their ocean carrier logistics company colleagues, are equally hindered in providing their shipper customer base the ability to enter comprehensive contracts, which include the ocean component. It is clear that the interests of NVOCCs and the ocean carrier logistics/NVOCC subsidiaries have substantially merged in these important areas. Therefore, it has become imperative that they jointly seek administrative and legislative relief in those areas where it means better service for their customers. In fact, importers and exporters are demanding it.

**Shipper Factor.** One only has to read the industry journals to note that large and medium-sized importers and exporters are relying more and more on logistics/NVOCC companies. As noted above, these logistics companies must provide ocean scheduling and price alternatives on a basis that requires the logistics/NVO firms to have relationships with various ocean carriers. Surface distribution, and warehousing, both in the United States and overseas, have also become important components of the “logistics” agreement with shippers. It is imperative, from a customer perspective, that a logistics/NVO company have the ability to lawfully enter total package contracts that include the ocean components.

**It has become clear there are issues on which shippers, ocean carriers and OTIs can form common policy.**

Shippers are clamoring more and more for the “right to contract” in the transportation context. This became extremely evident at recent Organization for Economic Co-Operation and Development hearings in Paris, and at other forums where shippers are voicing changes to the Carriage of Goods by Sea Act (COGSA) to allow shippers the right to contract on bill of lading terms.

Under the present regulatory regime, exporters and importers are being denied contractual arrangements with logistics companies who are also NVOs so as to lawfully include the ocean components. Logistics agreements with ocean components have to conform to shipping statutes that deny the right to NVOs to enter service contracts as carriers. Therefore, shippers who fought hard for confidential service contracts in OSRA have their ocean rates relegated to publicly available electronic tariffs. There is no transportation reason for this, and the paradigm shift we are discussing also extinguishes any possible business and political reasons for not allowing freedom of contract to the NVO community and its shippers. It seems almost un-American to prevent any business entity to contract. Not only are NVOs denied the right to enter shipping contracts, but so are their customers, U.S. importers and exporters. These are laws, regulations, and policies that have to change for everyone’s benefit in much the same way the petitioners in the Sea-Land case envisioned.

**Suggested Steps.** The time is right to commence the process of having the regulatory infrastructure match the reality of the commercial environment. In this regard, we are suggesting that ocean carriers who have invested seriously in logistics solutions and NVOCCs, who are similarly committed, jointly explore modifications with their shipper customers, to laws and regulations that will result in more efficient and reasonable structures in which to operate, and which will reduce risk to the substantial investments made by the companies.

In view of the above, we suggest that NVOCCs ocean carrier-owned logistics companies, and their shipper customers undertake the following:

1) Jointly develop an immediate strategy to modify the current tariff publishing regulations, and meet with FMC commissioners to persuade them to agree to a rulemaking procedure to establish “minimum/maximum” rates that would still maintain the tariff, including accessorial charges, but would remove (at least significantly lessen) enforcement risk, as in the Sea-Land case, and the expense of having to electronically publish rates for every single NVO transaction. It is undoubtedly in the interest of all parties to attempt this immediately. We suggest a rulemaking approach, as opposed to a legislative one, since this would significantly lessen the time involved to accomplish the objective.

2) Jointly explore the desirability and viability of legislative amendments that would allow NVOs the ability to enter service contracts as carriers. We recognize that this would take a greater effort on the part of all parties, and, therefore, suggest that the parties meet immediately to commence discussing alternative objectives, as well as strategies.

3) Jointly explore the desirability of continuing with antitrust immunity for ocean carriers as current law provides, or in the alternative, to decide what changes should be sought, if any. We recognize that ocean carriers may have positions on this issue that are long-held and highly valued. However, it should not be lost on ocean carriers that NVOs are ambivalent on this issue, and discussions would be helpful to clarify the global interests of all parties.

With a view of moving the above agenda, we have already communicated these thoughts and objectives to certain NVOCCs, logistics companies, and ocean carriers. For those with whom we have not yet exchanged ideas, please communicate your thoughts. In any case, it is my intention to follow-up on these suggestions through various means in an attempt to further the objectives outlined in this letter, which we believe are overdue.
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Danet lends hand to developing countries

WCO secretary general believes inefficient customs is a security soft spot.

By Chris Gillis

In the global war against terrorism, the efficiency gap between the customs administrations of the industrialized and developing countries appears to be widening.

This is an unsettling trend for Michel Danet, secretary general of the Brussels-based World Customs Organization, an intergovernmental group responsible for helping shape international cross-border operations and procedures.

“For many developing countries the priority today is not about fighting against terrorism but against poverty,” Danet said in a recent interview. “But if customs administrations are corrupt and not efficient or fail to adopt to the new environment, these economies are going to be marginalized.”

Since the early 1990s, customs administrations of the industrialized countries have invested heavily in computer systems to replace paperwork, improve targeting, and speed up the movement of legitimate cross-border trade.

Many developing countries, which represent at least two-thirds of the WCO’s 159 customs administration members, are still nowhere near this level of efficiency, and the urgency to modernize has intensified in recent years.

Information technology has increased its place in customs operations since the Sept. 11, 2001 terrorist attacks on the United States. Security experts have warned that terrorists could use legitimate cargo transportation conveyances, such as ocean containers, to move weapons of mass destruction and related materials.

The U.S. Bureau of Customs and Border Protection took the lead on cargo security in January 2002 by creating the Container Security Initiative. The program promotes pushing container security away from U.S. ports of entry to ports and load centers overseas, and calls for advance manifest information to be filed to the agency before loading cargo on vessels overseas.

In June 2002, the Group of Eight nations identified the WCO, along with the International Maritime Organization and International Civil Aviation Organization, as the bodies to develop global initiatives to improve ocean container, vessel and aviation security. The WCO responded by creating a task force to develop the supply chain security guidelines by June 2003.

Last year, the WCO began a study to ensure that developing countries aren’t left out of the supply chain security initiative. This study received impetus in the World Trade Organization’s Doha Declaration, which said cargo security must not impede legitimate trade.

Danet has made numerous visits to developing countries to emphasize the need for customs reform and open markets to attract foreign investment. Both initiatives go hand in hand, he said.

At the same time, Danet realizes it’s impossible, if unnecessary, for developing countries to reach the level of border management sophistication of industrialized countries, such as the United States, European Union and Japan. He believes low-tech risk management-based process and integrity improvements could go a long way to help these countries raise their level of participation in global trade.

The WCO’s effort to include the developing countries in border control modernization has become known in customs circles as “capacity building.”

To create its customs capacity building strategy, the WCO asked for help from representatives of the WTO, World Bank, Organization for Economic Cooperation and Development, United Nations Conference on Trade and Development, and other donors, as well as the private sector.

The OECD estimated that post-Sept. 11, 2001 security initiatives have already added $75 billion to the cost of trade, and each day that cargo is delayed adds 0.5 percent to the value of the goods — extra costs which developing countries cannot afford.

The WCO won crucial support for its capacity building initiative in February when the World Bank agreed to prepare an “orientation document” with the organization on security and trade facilitation in developing countries.

Improving the economic well being of developing countries has long been a goal of the WCO. The organization has developed various guidelines to improve customs operations. The most notable are:

- The Harmonized Commodity Description and Coding System.
- Valuation and rules of origin uniformity with the WTO.
- The revised International Convention on the Simplified and Harmonization of Customs Procedures, also known as the revised Kyoto Convention.

Michel Danet
secretary general, World Customs Organization
The Arusha Declaration and Model Code of Conduct to fight customs corruption. While these guidelines benefit both industrialized and developing countries, many governments have failed to embrace them.

For example, the revised Kyoto Convention will come into force when 41 of the 61 contracting parties to the original 1974 convention have ratified it. The WCO had hoped to meet that goal by the end of 2001, but policy drivers, such as the United States and the European Union, have yet to ratify it. About a dozen countries have ratified the revised convention.

The revised convention comprises a general annex and 10 specific annexes. Countries that ratify the revised convention must accept and apply all the principles listed in the general annex. The key aspects of the general annex are:

• Maximum use of computer systems.
• Development of risk management procedures, including risk assessments and selectivity of controls.
• Use of pre-arrival information to drive selectivity programs.
• Use of electronic funds transfer.
• Better coordination of activities with other government agencies.
• Improving how customs requirements, laws, rules and regulations are disseminated to the industry and others.
• Creation of a system of appeals on customs issues.
• Development of working relationships with industry.

The 10 specific annexes contain a number of chapters, each of which deals with a specific customs procedure, such as transshipments, transit cargo, warehouses and free zones, and temporary admissions. Countries have the option to accept the chapters of the specific annexes.

The WCO has asked the World Bank, International Monetary Fund and Inter-American Development Bank to encourage ratification when making trade-facilitation improvement loans to developing countries.

The Brussels-based WCO was created in 1952 and included 17 European country customs members. In the early years, the organization, formerly the Customs Cooperation Council, was considered more like an exclusive club where European customs director generals met to discuss their issues and concerns.

The membership expanded to non-European countries in the 1960s and early 1970s. In 1994, the council adopted the World Customs Organization name to “more clearly reflect its transition to a truly global intergovernmental institution.” The WCO has become more sensitive to the concerns of developing country customs administrations.

Each member of the WCO, no matter how economically powerful, has one vote, which gives the developing countries some leverage to weigh in on the development and adoption of measures.

Danet, born and raised in Oran, Algeria, has long understood the plight of developing countries. He joined French Customs in 1962 as a way to earn an education. Danet, who climbed the ranks in French Customs, was picked in the mid-1970s to represent the agency at the WCO.

He also excelled at the WCO and served in numerous roles and committees. In June 1998, Danet was elected to the WCO’s top post. He replaced former U.S. Customs official James W. Shaver.

One of his first tasks was to start breaking down the mistrust that had ruffled relations among customs administrations and the shipping industry. Danet instituted an annual “Open Day to Trade” in 1999 in Brussels, and the industry’s attendance at the meetings has increased ever since.

Through these meetings, industry leaders gain a better understanding of the struggles of developing country customs administrations. Since the WCO is a non-political technical organization, Danet believes that industry will play a key role in modernizing customs worldwide.

Danet, who is seeking to continue as WCO secretary general for another five years, wants to increase the organization’s influence in the developing world. That means getting WCO senior officials, including Danet himself, more engaged with these countries at the regional level.

Over the years, the WCO officials have provided training to customs administrations in developing countries. The WCO has also engaged in a number of customs improvement projects with other intergovernmental organizations.

Several years ago, the United Nations Office on Drugs and Crime and the WCO set up a series of cargo-container control programs in a half-dozen southern and East African nations to target drug smuggling (April American Shipper, pages 34-37).

On the customs policy development side, Danet has studied the regional structures of groups, such as the Common Market for Eastern and Southern Africa, Mercosur, and the Asia-Pacific Economic Cooperation. He plans to share his views on regional activities with the WCO’s members in the coming months.

“These groupings have a structure and political will that’s shown some progress,” he said. “I want to see if we can work more at this level.”

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LOGISTICS

Iraq, then and now

In latest war in Iraq, MTMC put to use lessons learned from ‘iron mountains’ of Operation Desert Storm.

BY ROBERT MOTTLEY

logistics support for Operation Iraqi Freedom have borne little resemblance to endeavors that bolstered American troops during Operation Desert Storm in the Persian Gulf war of 1991.

The learning curve between 1991 and 2003 has been steep, reflecting more than a decade of developments in technology and ample hindsight to improve supply chain efficiencies.

In today’s Army, 470,000 soldiers work in support positions for 60,000 combat-trained soldiers. Almost two-thirds of that support involves supply chain operations.

During Iraqi Freedom, “there was huge difference in the amount of cargo that’s been containerized, whether it was deployment cargo, ammunition, or sustainment cargo,” said Brig. Gen. Barbara Doornink, deputy commanding general, director of operations, for the U.S. Military Traffic Management Command.

“In turn, that’s had an impact on how the containers were shipped, and on our ability to track them, and on having total asset visibility,” Doornink said.

“Ammunition, in particular, used to be sent breakbulk. That meant you had a lengthy loading process. Now, ammunition containers are loaded primarily at depots, after which the containers flow through by highway or rail into the ammunition port and onto ships much more easily and quickly,” Doornink said.

In Iraqi Freedom, “minimizing breakbulk ammunition loading actually reduced loading times from eight-to-14 days to five-to-eight days, so that ammunition arrived in Iraq on 50 percent fewer ships in 15 percent less time,” said Major Gen. Ann E. Dunwoody, commander of MTMC, at a recent transportation conference in Washington.

Shift To Rail. In Desert Storm, MTMC used considerable domestic trucking, “mainly because the railheads at strategic ports had fallen on hard times. The Army put an awful lot of money into developing rail infrastructure,” Doornink explained.

“We took advantage of what we learned from the last time, and used advances in technology made during the decade between conflicts.”

In 1991, for example, cargo traveled almost entirely by truck convoys from Fort Campbell, Ky., to Jacksonville, Fla. In Iraqi Freedom, over that same route “33 trains carried the preponderance of equipment,” she said.

“That lowered the truck profile, which gave us better control and made the operation more efficient” in 2003, she said.

“The trains went over CSX tracks. CSX did a great job. The cost was reasonable, and there were strong gains in terms of security. Those 60-car trains were given the status of military trains with a sense of priority, and they moved very smartly,” she said.

In Iraqi Freedom, cargo was shipped from the East Coast primarily through Jacksonville and Charleston, where “the port infrastructure had improved substantially over 10 years, she noted.

“It used to be that the ports had a greater capacity than we did. Today, with our improved rail infrastructure linking numerous Army forts across the country, we can overwhelm seaports with capacity,” Doornink said.

“One of the things we’ll probably look at, as an after-action, is the true capacity of the commercial ports,” she noted.

Expanded Tracking. In terms of information technology, MTMC uses an internal program called IRRIS (Intelligent Rail and Road Information Server).

“After 9/11, we rapidly expanded IRRIS’s capabilities in terms of tracking ammunition in the U.S., so we have near real-time ability to know where every ammunition shipment is moving,” Doornink said.

“We also expanded IRRIS to track containers, utilizing EDI (electronic data interchange) transmittals of our commercial partners when they do the actual draying to the port, and then as they transship it.”

Another plus has been improved radio-frequency identification tags. “We also track containers in several others ways, because not every commercial company has a RFID tag. We use all sorts of means,” she said, declining to be more specific because of security concerns.

‘Iron Mountains.’ Tracking equipment in Desert Storm left much to be desired. For example, U.S. soldiers in Dhahran, Saudi Arabia, had to open containers “blind” 40 percent of the time to see what was in them. Many commanders, to cover their needs, placed multiple orders.

“There was a reason for that. Commanders have to look after their own warfighters,” she said. “If you’re a commander and you order a part, if you don’t know where it is, or when you’re going to get it, or even if you’re going to get it, you tend to order that part again.”

After Desert Storm, the term ‘iron mountain’ became an Army logistics metaphor for piled-up containers at delivery points that were “filled with a lot of parts for all sorts of equipment,” Doornink said.

“The more multiple orders, the higher iron mountains grew as more containers full of more parts came in,” she said.

In Iraqi Freedom, deployment of cargo “was more secure and had better content visibility because of the use of Level 6 data, and the ability to move a needed container to the head of the queue,” she said. Level 6 denotes a high rating of the ‘facts at hand’ about a container’s contents.

“We vowed not to have 40,000 containers stacked up with unknown contents. We gave the warfighter confidence that we could tell them not only where their container was, but also what was in it,” Dunwoody said.

Thanks to upgraded identity tags, “you weren’t looking for 60 separate pieces of
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material — you could find them all in one 20-foot container,” Doornink said.

**Ballet At Sea.** In the first six weeks of Desert Storm, the U.S. flew more tonnage into the Middle East than it had into East Germany during the 65-week Berlin airlift.

For Iraqi Freedom, MTMC and the Military Sealift Command closed 166 ship voyages transporting 27,000 containers, equaling 33,000 aerial C-17 full payloads. The two commands used 151 deep-sea ships comprising 55 ‘reserve surge’ vessels, 22 pre-positioned ships, 18 US-flag vessel and 56 foreign flag ships.

“It’s no exaggeration to describe that as a choreographed ballet,” Dunwoody said. “In the early stages, it looked like you could have walked on a steel bridge across the Atlantic.”

The principal difference between Desert Storm and Iraqi Freedom was that “we are shifting our focus from shipping equipment to shipping capability,” Dunwoody explained.

During Desert Storm, “we sacrificed unit integrity for efficiency. Those days are over,” she said.

**Leveraging Technology.** In Iraqi Freedom, “we had no difficulties with Maersk, P&O Nedlloyd, APL, or Lykes, our big guys who carried sustainment cargo, such as general supplies, including foodstuffs,” Doornink said.

Ammunition traveled on chartered vessels and ‘gray ships,’ meaning vessels under direct Navy control.

In Desert Storm, a number of vessels broke down at sea, delaying shipments arriving in port. During Iraqi Freedom, “there were very few major maintenance problems, none of them from the charter side,” Doornink said.

“As far as the MarAd ships were concerned, there were a couple of things that needed to get done, but when you look at the number of ships put into service, there was just a fraction that had trouble. We didn’t have the kind of major breakdowns that occurred before,” Doornink said.

During Iraqi Freedom, “in the first weeks of actual hostilities, missile alerts in Kuwait shut down our ports for off-loads. Other than that, it was a matter of a lot of material trying to get through a few ports. That was challenging, but once the vessels reached their berths, there were no further unloading problems,” Doornink said.

Depending on content, some containerloads were broken down and their contents transshipped to troops. Other containers went intact though entry ports.

Asked her feelings about the MTMC’s performance in Iraqi Freedom, Doornink said, “I feel great about it. We took advantage of what we learned from the last time, and used advances in technology made during the decade between the conflicts.”

She attributed part of the command’s success to having drawn up a plan in advance for any contingency.

“If it was the right plan, people would come to it, and cooperate very early with it. We were very fortunate that way,” Doornink said.

**Civilian Participation.** According to the Brookings Institute, one in every 50 Americans serving in Desert Storm was a privately employed civilian. In Iraqi Freedom, the ratio was one in eight.

Doornink explained how MTMC has used “the infrastructure of our commercial partners, Maersk, APL, etc., to support humanitarian cargoes” being shipped to Afghanistan.

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**We are shifting our focus from shipping equipment to shipping capability.”**

“We capitalized on that infrastructure, which meant that the Department of Defense didn’t have to put additional soldiers, airmen, sailors or Marines on the ground, because our commercial partners took care not only of picking up the cargo in the U.S. and taking it by ship to a port in Pakistan, let’s say, en route to Afghanistan,” Doornink explained.

“Then, when the cargo was called forward to where it was needed, our partners handled that as well,” she said.

“We’ve learned that this is an excellent way to lower the profile of Americans in distant lands. We use professionals who know what they’re doing. It allows us to take advantage of contracts that are beneficial to both the Department of Defense and to our commercial partners, a win-win situation all the way around. ‘We’re going to see more of that,” Doornink said.

Doornink said MTMC uses third-party logistics providers “in some of our contracting. We did do a major test with 3PLs to see if that was the right way to do things in the Southeast, but that project had both benefits and challenges.

“As we very well know at the Department of Defense, it’s very hard to implement a ‘one size fits all’ concept,” she said.

**The Way Ahead.** In the days after the formal end of hostilities in Iraqi Freedom, “we’re finding that upgrading Iraqi ports will take time,” said Peter Schauer, president of Orion Marine Corp., a Chicago-based shipping agent that charters cargoes and manages logistics operations, including the shipment of substantial humanitarian aid to the Middle East.

“At least, we have no longer to contend with an Iraqi bureaucracy, but only with the occupying forces installed by the coalition,” he explained.

After Desert Storm, “there were many ways to get into Iraq,” he said. After Iraqi Freedom, “we’re having difficulties shipping to Iraq primarily from Turkey, Jordan and Kuwait,” Schauer said.

“Jordanian truckers, in particular, are very careful going into Iraq, because the security factor remains an issue,” he noted. Armed robberies and hijackings of vehicles occur frequently along the highway from Amman, Jordan, to Baghdad.

As far as the commercial sector is concerned, “not much of anything is moving right now. There is a lot of humanitarian aid in transit that has not really moved yet. We didn’t see that after Iraq I,” Schauer explained.

“I’m not surprised that the U.S. military logistics operations went as well as they did” in Iraqi Freedom, he said. “I think that if the U.S. and its allies had not learned from the mistakes evidently made in the first conflict with Iraq, they would never have improved their operations.

“But they did, and it all worked smoothly the second time. Being in the logistics business, I marvel at that, because there were more unknown factors affecting the support of troops in the recently concluded hostilities,” Schauer said.

“Those people in charge, who set up the Military Traffic Management Command’s logistical plans from the beginning, should be commended for having done a fine job under the circumstances,” he noted.

While appreciative of such sentiments, Dunwoody and Doornink are not slowing in their resolve to, as Dunwoody put it, transform MTMC into “a surface distribution command that will, with the assistance of the Military Sealift Command, serve as a single point of contact for all customer requirements for surface transportation.”
Making Shipping an Art

Still Life: Oranges and Grapes, William J. McCloskey, 1919, Bowers Museum, Santa Ana

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Turning off the gas

U.S. shippers, fumigators worry about rising cost of methyl bromide treatments.

BY CHRIS GILLS

It’s difficult to kill a worm in a cherry, unless you’re using methyl bromide gas.

But the industrial valve for this fumigation, which many U.S. agriculture exporters consider the “magic bullet” of pest treatments, is being gradually shut off by the U.S. government, causing supply shortages and significant price hikes for those permitted to continue using it. Environmental groups and some federal agencies have slammed methyl bromide for its ozone-depleting qualities.

“It’s a battle that’s become political more than scientific,” said Jim Culbertson, executive manager for the California Cherry Advisory Board. “The environmental community has dug into it and in my opinion they picked the wrong fumigation to attack.”

Shipper of fleshy and dried fruits and vegetables, bulk grains and nuts, and lumber and certain industrial products have used methyl bromide for years to ensure that their products are free from pests. Detection of pests at destination often result in increased transportation and regulatory costs and possibly thousands of dollars in lost business to agricultural shippers.

Methyl bromide, unlike other treatments, penetrates produce completely without altering the appearance or taste. After the fumigation, the gas is drawn out of the shipment.

The U.S. government has grandfathered certain agricultural products shippers to continue their use of methyl bromide while phasing out its use for others.

Before the phaseout in 1999, methyl bromide treatments for export cherries were generally a $1.25 per pound. Today methyl bromide fumigations exceed $5 per pound for this commodity.

“Obviously, it’s another expense to deal with, but it’s not yet an economic hardship for the industry,” Culbertson said. “That could come as the phase out of methyl bromide continues.”

Western Fumigation, one the nation’s largest fumigators of imported perishables, has seen a “three-fold increase” in the cost of methyl bromide fumigant since the beginning of its systematic phaseout.

The three traditional producers of methyl bromide are Great Lakes Chemical and Ethyl/Albermarle in Arkansas, and Dead Sea Bromine in Israel. China has also built a plant to produce the chemical. Methyl bromide is often a byproduct in the production of fire retardant chemicals.

Exemptions. The methyl bromide phase-out plan in the United States originated with the Montreal Protocol, an international treaty developed to protect the earth from ozone depletion.

In 1992, the 183 parties to the Montreal Protocol added methyl bromide to the list of ozone-depleting substances and production was frozen in 1995 to 1997 levels. When the parties met again in 1995, they agreed to completely phase out the gas among industrial countries by 2010.

In 1997, the Montreal Protocol accelerated methyl bromide’s phaseout for industrial countries to 2005. Starting in 1999, the use of the gas was reduced by 25 percent and by 50 percent in 2001. By January 2003, methyl bromide’s use was cut by 70 percent.

The Crop Protection Coalition, a group of about 35 agricultural groups and fumigators, was successful in amending the U.S. government’s Clean Air Act, which includes the Montreal Protocol’s tenets, to provide an exemption for quarantine and pre-shipment uses of methyl bromide.

“In the U.S., the amount of methyl bromide used for quarantine purposes is small, less than 1 percent of total use, but with significant economic linkage to international trade and resource protection,” the U.S. Environmental Protection Agency said.

For example, the United States requires all grapes imported from Chile and all brassware from India to be treated with methyl bromide before entering the country. Japan requires that all U.S. cherries and apples be treated with the fumigant as a condition for import. Hong Kong and China use methyl bromide to treat U.S.-bound wood packing materials against the destructive Asian longhorned beetle.

On Feb. 7, the United States sent its formal nomination for “critical use exemptions” from the methyl bromide phaseout to the Ozone Secretariat of the United Nations. The United States has requested a two-year exemption starting in 2005.

“The U.S. critical use exemption request is consistent with international environmental commitments designed to protect the ozone layer, as well as protective of legitimate needs of methyl bromide users,” the U.S. government said in a statement. “As new alternatives are developed and market tested, the United States fully expects the need for future critical use exemptions to be eliminated.”

The United States submitted about 60 critical use exemption applications to the UN, covering commodities and grower groups such as California strawberry and Florida tomatoes growers and Hawaiian ginger producers, in addition to food processing and commodity storage facility operators. The UN must still approve these critical use exemption applications.

U.S. shippers are skeptical of the UN’s role in methyl bromide regulation. “The user community is dubious about the critical use exemption process working for them,” said David R. Riggs, president of consultancy Qual Run Business Solutions, and former head of the California Strawberry Commission.

“Some industry groups and scientists question the EPA’s conclusions about methyl bromide’s role in ozone depletion, especially since the compound is also naturally produced.”

The Crop Protection Coalition members believe methyl bromide is simply trapped in the clutches of an over-reactive environment.

(continued on page 50)
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Lacking Alternatives. The U.S. Department of Agriculture has spent more than $146 million in research and outreach related to the development of treatment alternatives. Some of these alternatives for commodities are heat treatment for perishables and timber, irradiation, carbonyl sulfide, controlled atmospheres for table grapes, phosphine, and carbon dioxide.

However, most proposed treatment alternatives take much longer than methyl bromide to kill pests, which could result in transportation and distribution delays for agricultural shippers. Treatment alternatives, such as heat, may hasten the decline in quality of fleshy fruit and vegetable shipments.

“Many quarantine requirements require 100-percent efficacy, and not all the alternatives can achieve that level of effectiveness,” Riggs said.

Members of the Crop Protection Coalition continue to work with the USDA to increase spending to find alternatives for methyl bromide. “By cooperating with the USDA and continually developing greater operational efficiencies, Western has been able to minimize the impact of rising costs on our customers,” said the fumigator’s marketing manager Miriam Borja.

The California Cherry Advisory Board has agreed to work with the University of California at Riverside on research into the use of methyl iodine as an alternative treatment, but its practical application, if successful, could be more than five years away, Culbertson said.

“At some point, the international community may well have to change its mind about methyl bromide and reverse the law,” he said.

Fighting bugs in the global woodwork

**APHIS believes international wood packaging treatment guidelines are best bet for protection.**

**BY CHRIS GILLIS**

The battle against the spread of wood-eating pests in cargo transportation is too big for the U.S. government to fight alone.

That’s why the U.S. Department of Agriculture’s Animal and Plant Health Inspection Service wants to adopt wood-packaging treatment standards that have been developed and approved in a global forum.

The United Nations Food and Agriculture Organization’s International Plant Protection Convention (IPPC) Secretariat, of which the United States is a member, adopted a universal standard for solid wood packaging to reduce the movement of pests in March 2002.

“We propose to adopt the IPPC guidelines because they represent the current international standard determined to be necessary and effective for controlling pests in wood packaging material used in global trade, and because current United States requirements for wood packaging material are not fully effective,” said APHIS in a May 20 Federal Register notice.

“Another reason to adopt the IPPC guidelines at this time is that adopting them would simplify and standardize trade requirements,” the agency said. “China, Canada, the European Union, and many other countries are preparing to implement the IPPC guidelines’ requirements.”

This should be good news for shippers, transportation intermediaries and carriers, which have become increasingly frustrated by the proliferation of national and regional regulations to control the movement of untreated wood packaging for cargo.

Without the adoption of a universal wood packaging standard, “companies engaged in both import and export would have particular difficulties in ensuring that their SWPM (solid wood packing material) supply chain is sorted and routed for use for appropriate destinations,” APHIS said.

“If the United States adopts the IPPC guidelines, these companies would be able to use SWPM that complies with the guidelines for both import and export purposes, leveling the trade playing field with regard to SWPM,” the agency said.

**Outbreaks.** Wood packaging for cargo transport comes in a variety of forms: dunnage, crating, pallets, packing blocks, drums, cases and skids.

Prior to the mid-1990s, U.S. regulations required that imported wood packaging be bark free and subject to inspection upon arrival.

Treatment is required for wood packaging containing bark. These treatments include heat, fumigation and chemical preservatives. Shipping documents must certify that wood packaging has been treated by one of these acceptable methods.

Public concern about invasions of foreign wood-eating pests started in 1996 when a link was discovered between the Asian longhorned beetle, a wood boring insect, and tree deaths in New York and Chicago.

APHIS warned that left unchecked, the Asian longhorned beetle could easily destroy more than 100 million acres of maple forests throughout New England, the Midwest and southern Canada, and aspen forests in the Great Lakes region, central Canada and the Rocky Mountains. A recent study cited by APHIS set the price tag of the unchecked beetle’s destruction at $72 million for Jersey City, N.J. and $2.3 billion for New York City.

In 1998, the agency issued regulations mandating treatments for all wood packaging from China. Phytosanitary certificates must be backed by treatments, which include heat, methyl bromide fumigations, or chemical preservatives, from the Chinese government.

So far, APHIS has spent more than $50 million on surveys and removal of infested trees. The beetle, which has been linked to untreated wood packaging from China, has no known predators in the United States.

APHIS considers woodborers one of the most difficult pests to detect. “Pests of these
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types are often well-concealed inside SWPM, in larval forms or dormant states that increase their survival potential," the agency said. "These pests may easily survive the movement to the final destination or to cargo redistribution sites, many of which are vulnerable, heavily forested regions."

Other wood-eating pests found in wood packaging are bark beetles and certain nematodes. These pests accounted for more than 95 percent of infested wood packaging intercepted by APHIS inspectors during 2001 and 2002.

APHIS warned that increasing imports would likely raise the country's exposure to these pests. In July 2002, the agency found the emerald ash borer, a native of China and eastern Russia, in the Detroit-Windsor, Ontario area. That same month, agency inspectors discovered wood-boring moths in wood containers from Spain.

In many cases, determining the origin of pest infestations in wood packaging is a difficult task for regulators. "Because SWPM is very often re-used, recycled or remanufactured, the true origin of any piece of SWPM is difficult to determine and thus its phytosanitary status cannot be ascertained," APHIS said.

International Way. If adopted by the United States, the IPPC guidelines (available online at www.ippc.int) would require imported wood packaging to be heat treated at 56 degrees Celsius for 30 minutes. Methyl bromide fumigation would also be an acceptable treatment. Alternative treatments, such as chemical pressure impregnation, irradiation and controlled atmospheres may be authorized under the IPPC as more scientific data is gathered.

The guidelines require treated wood packaging to be visibly marked. The mark must be approved by the IPPC, and should identify the treatment facilities, country and producer codes. It should also be enough for APHIS to accept the imported wood packaging without additional paperwork.

"The 'unique graphic symbol' portion of this mark is not available at this time, but the IPPC should have approved such a symbol by the time this action reaches the final rule stage," APHIS said.

Without the treatment marks, APHIS inspectors at the first port of arrival could order the immediate re-export of the wood packaging. The importer would cover the cost to separate untreated wood packaging from its cargo. "Untreated SWPM would represent an unacceptable pest risk while it is in storage at a port awaiting treatment," APHIS said.

The proposed APHIS rules would apply differently to wood packaging used for Defense Department cargo. Since the Defense Department generally manages its wood packaging needs internally, "it would be inappropriate to require DOD to use only SWPM that was produced and treated commercially and marked as meeting the IPPC guidelines," the agency said. "Instead, we propose that SWPM used by DOD must meet the heat treatment or fumigation requirements of the IPPC guidelines, but not bear the proposed mark."

The Asian long-horned beetle was linked to tree deaths in New York and Chicago in 1996. The IPPC guidelines would also supersede previous rules for wood packaging materials, such as those currently in place against China's Asian longhorned beetle.

APHIS said shippers who forge, alter or fraudulently use the mark on their wood packaging would be subject to administrative or criminal penalties.

Pallet Business. The shipping industry, including the pallet manufacturers and recyclers, generally support the use of internationally approved treatment guidelines.

"I commend APHIS for not placing any qualifications on the IPPC's work, because it would have been disruptive to business," said Bruce N. Scholnick, president and chief executive officer for the National Wooden Pallet & Container Association. "That's the best we could have hoped for."

Don Black, president of Core Recycling Council, and chairman of the National Wooden Pallet & Container Association's fumigation enforcement committee, is concerned about the efficient "institutionalization" of the IPPC guidelines in the United States.

He also worries about the additional costs per pallet, especially for the pallet recyclers. "It will be tough on the operators that don't deal in large volumes," Black said.

While APHIS has not concluded a cost impact analysis on the pallet business, the agency believes the new treatment guidelines will add some costs to packaging and transporting cargo, and due to the large volume of wooden pallets, the overall treatment costs could be substantial.

There are about 3,000 wooden pallet and container manufacturers in the United States. About 450 million pallets are made or refurbished in the United States each year. A new standard pallet, measuring 48 inches by 40 inches, costs about $8 to $12, while a refurbished pallet costs about $4 to $7.

APHIS believes that foreign pallet manufacturers will be most affected by the new rules. According to the agency, between 1999 and 2001, about 38 million pallets were imported into the United States, more than 80 percent of which came from Canada. Imported wood packaging was valued at $150 million during this time. The price per imported pallet at this time was about $3.95. "Assuming a treatment cost that adds about $2 on average to a pallet, U.S. purchasers of imported pallets could lose an estimated $76 million in higher costs," APHIS said.

APHIS is interested in receiving comments about its proposed rulemaking from the shipping and pallet industries, and recently held a series of public hearings in Seattle; Long Beach, Calif.; and Washington. Written comments are due to the agency by no later than July 21.

The National Wooden Pallet and Container Association plans to remain engaged with APHIS throughout the comment period and keep its members informed about any changes.

APHIS is under no pretense that the guidelines are a "silver bullet" to stop all pests from entering the country, although it says the IPPC guidelines should eliminate 95 percent of the target pests in wood packaging.

"As evident from data reported between 2000 and 2001, two years following the implementation of the China rule, 7 percent of pest interceptions were still associated with China imports," APHIS said. "To the extent that pest interceptions would be reduced, the risk of an outbreak would also be lower than in the absence of the rule."
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Logistics costs down

Report says weak economy, not new logistics strategies, were responsible.

BY ERIC KULISCH

U.S. companies spent $910 billion for their transportation and logistics needs in 2002, a reduction of $47 billion from 2001 and $93 billion from 2000, according to the latest annual “State of Logistics” report by Robert Delaney and Rosalyn Wilson.

The report, by Delaney, a vice president at freight payment services company Cass Information Systems, and Wilson, an independent transportation consultant, attributes the decline in logistics costs to the weak economy, not new strategies to take inefficiency out of the supply chain.

According to the report, released in early June, logistics spending as a percentage of gross domestic product declined in 2002 to 8.7 percent, a record low in the 14 years of the report, largely on the strength of low interest rates that kept inventory carrying costs low. Last year logistics spending was equal to 9.5 percent of GDP. The commercial paper interest rate averaged 5.3 percent during the 1990s, declined to 3.8 percent in 2001 and dropped even more to 1.6 percent in 2002. The nation spent $298 billion on inventory carrying costs last year, or 2.8 percent of GDP, compared with $339 billion, or 3.4 percent, in 2001.

Delaney and Wilson said they revised their estimate of total logistics costs for 2001 to $957 billion, down from $970 billion in last year’s report, due to updated government economic data. The revision, however, did not change the logistics-to-GDP ratio, as GDP also declined.

The explosion in productivity levels, technology and deregulation of transportation industries in the 1980s and 1990s, along with low interest rates now, have helped cut the ratio of logistics costs almost in half since 1981, when the proportion of logistics costs to GDP was 16.2 percent. Transportation costs have dropped 24 percent and inventory carrying costs fell 66 percent in the last 22 years for a total reduction in logistics costs of 54 percent during that period, according to the study.

The report shows that trend continuing, with a decline in transportation costs to $577 billion, or 5.5 percent of GDP, down from 5.8 percent in 2001, or $581 billion, and roughly 6 percent through the 1990s, led by the trucking sector. Trucking costs were $462 billion, or 4.4 percent of GDP last year, accounting for 63 percent of total logistics costs, vs. $468 billion, or 4.6 percent, in 2001.

“Trucking is the engine that drives our business logistics and it has endured three years of a freight recession,” the study said. Huge spikes in insurance and fuel prices, and the introduction of more expensive, government-mandated engines alongside weak demand from customers were noted as reasons for the decline in the nation’s total trucking bill, and why 2,345 more motor carriers went out of business in 2002.

Richard Armstrong, a logistics consultant and report contributor, speculated that the $10 billion decline in truckload costs to $300 billion might be due to increased efficiency made possible by bid optimization software that helps carriers pick the most profitable lanes that keep their trucks full.

“There is a lot more efficiency than there would have been four to five years ago. There is no data, but my hunch is that the top 100 carriers’ costs are down because their empty miles are down,” Armstrong said.

Delaney and Wilson said the pressure on trucking will not ease up next year. They estimate that the new hours-of-service-rules dictating how much time a driver can put behind the wheel before taking a long rest will add $611 million in operating costs and require trucking companies to add 84,300 additional drivers.

Inventories. According to findings by the Ohio State University Supply Chain Management Research Group, cited by Delaney and Wilson, major U.S. industries have done a better job of reducing their inventory of raw materials for production than their finished goods.

“Companies have greater control over their internal process allowing them to control raw materials and work in process through lean manufacturing. But, finished goods inventory are driven at least in part by their marketing departments and customer service commitments,” the report said. The auto industry, for example, has an 80-day supply of finished cars and trucks on hand at any given time.

Although the third-party logistics market has slowed along with the economy, it is in better shape than trucking, with gross revenues up 6.9 percent to $65 billion, according to statistics compiled by Armstrong, head of Stoughton, Wis.-based Armstrong & Associates. Within contract logistics, domestic transportation management grew 11.4 percent as manufacturers and distributors outsourced carrier selection and contract negotiations.

Railroad revenues were flat in 2002, while total air freight revenues were up $1 billion on the strength of cargo diversion to avoid the West Coast port shutdown. Maritime freight declined $1 billion due to less demand for domestic service and freight forwarder revenues rose $1 billion.

Relying on the work of Roger Urban and his Urban Wallace Associates business market consulting firm, the report attributes the decline in durable goods prices since 2001 to the fact that more and more manufacturers are shifting operations to China and lowering prices to stay competitive. Companies are putting pressure on their supply chain operations to recover potential earnings through operating efficiencies, primarily the reduction of finished goods inventories.

“China’s lost-cost manufacturing is exporting deflation throughout the world economy,” Delaney and Wilson wrote.

Afterwards Rob Quartel, chief executive of international trade management software provider FreightDesk, quarreled with the author’s use of the economic term deflation to characterize the drop in the price of manufactured goods, saying it is a function of increasing productivity levels and China’s comparative advantage.

The future of the “State of Logistics” series is in doubt as Delaney’s position at Cass has been eliminated. Cass and co-sponsor ProLogis, a global warehouse property developer and manager, say they are willing to contribute but are not willing to fully underwrite the total cost of producing the report, according to Delaney and company associates.
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LOGISTICS

Mission: Secure space in Pacific

Hong-Kong-based forwarding group U-Freight finds way to obtain space availability despite constraints.

By Philip Damas

TO move their customers’ cargoes, the main mission of international forwarders this year may be to secure capacity for air freight and sea freight in the tight transpacific trade.

It won’t be easy. With drastically reduced belly capacity on passenger flights out of Asia and with ships sailing full across the Pacific, logistics service providers have to juggle additional constraints and higher prices.

One such service provider is U-Freight, the big Hong Kong-based air and ocean freight forwarding group and non-vessel-operating common carrier.

In the wake of the SARS outbreak, “more and more airlines” are canceling passenger flights, said Eugene A. Boyer, managing director of U-Freight America Inc. “The belly capacity is going away.”

He predicts the situation will be “very critical” during the peak season. Anthony Fong, managing director of U-Freight Holdings Ltd. in Hong Kong, estimates that more than 40 percent of passenger flights in Asia and on the transpacific have been canceled. “I don’t know when they will bring these flights back,” he said. He suggested that additional freighters could provide extra capacity, although their potential contribution has not been determined.

Almost 50 percent of air freight in Asia is carried in the belly of passenger flights. “We have to look for cargo space,” Fong said. “There are simply not enough freighters.”

U-Freight’s solution to this problem has been to negotiate transpacific space commitments with several airlines that balance the forwarder’s greater leverage in the westbound U.S.-to-Asia trade and the airlines’ stronger position in the eastbound trade.

Boyer said the eastbound space agreements are “linked to commitments” given by U-Freight in the westbound direction of the trade. The forwarder has also entered into two-directional block-space agreements with airlines in the Asia/Europe trade.

“We think the future will be about space,” Boyer said. “If you can get space, you can get the customer.”

But he also expects that some customers will be reluctant to pay the higher prices in the peak season because of financial pressures. “I think some importers are going to find (initially) that their freight won’t move,” Boyer said. “Then they will wait … and settle for whatever it (the market rate) is.”

U.S. Customs Hurdles. Another problem for forwarders this year is how to comply with the new advance cargo manifest rules of the U.S. Bureau of Customs and Border Protection.

Greg Easterbrook, managing director of U-Freight UK Ltd., said the 24-hour rule for U.S.-bound ocean freight has restricted how his company can load cargo from the United Kingdom.

“Previously, we could load at 4 p.m. on Friday to ship on Sunday,” he said. “Now we have to close the doors of the container on Wednesday afternoon.”

Initially, the restrictions created problems with shippers, but they have become used to the new deadlines, Easterbrook said.

“In ocean, there is a problem in not being able to change the manifest,” Boyer observed. “But there is a bigger problem in air freight. We’re not sure how it’s going to work out.”

While the 24-hour rule for ocean freight has added costs, U-Freight said ocean freight generally isn’t time-sensitive cargo, and is less vulnerable to delays than air freight.

The proposed eight-hour prior cargo manifest transmission for air freight is scheduled to be implemented in October. Air freight forwarders and courier companies are protesting the proposed rule, which has not been finalized.

In the meantime, U-Freight said it has warned air freight customers to expect delays of about one day if the rule is introduced.

“The shippers will have to plan their production accordingly,” Fong said.

Boyer is concerned that the new Customs advance manifest rules for air freight will undermine the speed of air freight.

While forwarders accept that they have to comply with U.S. Customs’ more stringent cargo security rules, many continue to be skeptical about the rules’ effectiveness in preventing terrorist attacks.

“ ‘To some extent, it’s going to be a deterrent,’” Boyer said. “ ‘But if somebody is determined enough, he’s going to do it.’”

Market Trends. Fong expects U-Freight to have a good peak season this year, despite the outbreak of SARS. “The SARS situation in Hong Kong is gradually (getting) under control,” he said.

But there are uncertainties about the potential spread of SARS among Chinese factory workers, on whom the country’s export industries depend. It would be a “disaster” if SARS shut down factories in China, Fong said.

U.S.-based importers may place orders from Hong Kong and China “a little late” this year, Fong said. This year, he expects busy volumes from August.

U-Freight expects airlines and shipping lines to increase their rates from Asia. During the peak season, air freight rates from Hong Kong could amount to $6 to $7 a kilogram, up from $4 to $5, Fong predicted. Shipping lines raised their eastbound Pacific rates by about $700 per 40-foot container to the U.S. West Coast and $900 to Midwest and East Coast destinations.

According to U-Freight, containerized ocean traffic from Hong Kong to the United States “was very quiet” in May, and won’t be busy in June, either. This means that shipping lines may defer their planned $300-per-container “peak season surcharge” until July, Fong said.

About 80 percent of U-Freight’s traffic is air freight, with the remaining 20 percent going by ocean. “Usually, most of the customers will consider ocean freight first,” Fong said. “Then, they go for air freight” for urgent or late shipments.

Boyer noted changes in the structure of transpacific traffic flows. He said electronic components that were once exported from Silicon Valley to assembly factories in Asia are now sourced from Asia. “There isn’t so much transportation,” he said. The role of Silicon Valley has become one of research, not production and export, he added.

Production has shifted to China, where Boyer expects 80 percent of Asian manufacturing to be located in the future. U-Freight has four class-A licenses in China, where it operates through joint ventures. According to U-Freight, one important factor in doing forwarding business in China is to have management control over the local joint ventures.

“We laugh about Deutsche Post investing a huge amount in Sinotrans,” Boyer said. “We ask: ‘Why?’”

The German group has bought a 5-percent stake in the Chinese forwarder for about 52 million euros ($57 million).
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Covering all cargoes, for ‘negotiable’ premiums

New AIMU president James Craig describes an edgy, broad insurance market.

By Robert Mottley

Many shippers are uninformed about the scope and details of the marine insurance they’ve booked to cover their operations and cargo, commitments that can involve parties that may have violated U.S. laws.

Increasingly, “the bouncing ball of accountability can hit anyone who does business in shipping,” said James M. Craig, who became president of the American Institute of Marine Underwriters on May 1, succeeding Walter Kramer, who is retiring.

The AIMU is a New York-based trade association representing marine insurers, reinsurers, and U.S. organizations active in international transportation or trade.

“These days, with the whole world trade situation as edgy as it is regarding security and protection from terrorism, you cannot have a myopic vision of your operation,” Craig said. “You have to become a lot more aware of what’s going on generally, and specifically, about whom you deal with and whom your brokers and agents deal with.”

“If you don’t want that larger vision, the U.S. government is forcing you to acquire it,” he said. “That shoe also falls on the other side. Insurance underwriters have to broaden and sharpen their focus, too.”

Higher P&I Rates. Craig noted several significant industry developments since the beginning of 2003:

• Rate increases for the protection and indemnity sector are expected to match 2002’s 25-percent rise, but rating agency Standard & Poor thinks this will be insufficient and that rates will need to rise again in 2004. Meantime, the reinsurance renewal for the International Group of Protection and Indemnity Clubs has snagged on disputes about excess P&I war clauses and the P&I war risks extension.

• A row has broken out between Lloyd’s of London and six of the world’s ranking reinsurers that have halted payouts on a policy that protects part of Lloyd’s central fund. Leaders of the Lloyd’s market are going to binding arbitration over the dispute.

• Caught in the gun sights of cash-strapped states, commercial insurance buyers and U.S. consumers face increases in insurance premium taxes in 2003 that will push premiums up a further 1 percent to 2 percent on top of any underwriter-driven rate rises.

• The U.S. Supreme Court has overturned a $145-million punitive damages award against State Farm Mutual Automobile Insurance, saying the amount was “excessive.” This ruling may have consequences for insurers and other corporations being sued. In a 6-to-3 vote, the Supreme Court ruled that a punitive damages award 145 times greater than the actual compensatory damages violated constitutional principles of due-process fairness. Although the high court declined to set a rigid formula for calculating the maximum ratio of punitive damages, one justice noted that under guidelines created in 1996, few cases justified setting punitive damages at more than 10 times the compensatory amount.

Given the influence on the insurance industry by the International Maritime Organization, the U.N. specialized agency responsible for safety on ships and the prevention of pollution at sea, Craig said the AIMU is closely tracking the upcoming election of a successor to IMO secretary general William O’Neil, who will retire in January.

Three people have filed applications for the top IMO post. They are Efthimios Mitropoulos of Greece, the IMO’s assistant secretary-general; Monica Mbaneo of Nigeria, the IMO’s conference division director; and Magnus Johannesson, secretary-general of the Icelandic Ministry of Environment. The IMO Council will elect O’Neil’s successor in June.

Means Of Recovery. The boundaries of ocean marine policies broaden each year. “Increasingly, the extensive use of inland warehousing has caused marine insurers to offer shippers more protection beyond the confines of a port,” Craig said.

“The declared value on a bill of lading is what governs the contract between the shipper and the carrier,” Craig said. “There has been a lot of talk about who is the responsible party — the contracting party vs. the responsible party.

“The contracting party could be someone with no assets. We’d rather look to recover from individuals that are responsible for damage to cargo,” he said. “The three usual means of recovery are by litigation, arbitration, or just saying ‘you are responsible — here’s the documentation of proof, please pay us.’ Often, that works.”

Partial Coverage. Not long ago, a German manufacturing multinational shipped two generators worth a combined $6 million, deliberately declining to pay for any ad valorem insurance to protect the generators beyond the $500-per-pallet liability limit guaranteed the ocean carrier under the Carriage of Goods by Sea Act (COGSA).

When the hold of the carrier’s vessel flooded, allegedly ruining both generators, the multinational shipper received two checks for $500 from the ocean carrier. According to court papers, the German shipper reiterated its long-time avowal never to pay higher
rates for insurance covering its shipments to their full value.

Such ad valorem insurance can cost up to 10 percent of a cargo’s value, but lower rates with insurers are often negotiable. Craig understands why a shipper would be reluctant to pay for extra protection when most voyages go smoothly.

Still, for non-routine project cargoes, or for especially valuable goods, he recommends shippers call the AIMU. “I can put them in touch with some of our corporate members who, through brokers and agents, may be able to help them protect the cargo, perhaps to half of its value or more, instead of paying the traditional ad valorem percentages for full coverage,” Craig said.

“Shippers will usually find reputable insurers with empathy for their situation who will insure almost anything, anytime,” he said.

“Brokers become very important to these transactions because they review and analyze the exposures that a shipper’s project manager faces. Working with the project manager, identifying the exposures and risks he has, the broker can work with the insurance underwriter and the underwriter’s loss control department to determine the best way of paying that a project does not have a loss.”

A shipper should not assume that his broker would negotiate special protection for certain cargo unless the shipper instructs the broker to do so ahead of the need.

Higher Prison Sentences.

Marine underwriters are troubled by cargo theft “more than at any prior time that I can remember,” Craig said. “This just hasn’t become a problem. It’s been, and continues to be, our greatest source of loss short of what might be incurred by another 9/11.”

In the recent past, some insurers mostly pursued “buyback” strategies to recover stolen shipments, thereby partially recovering money they had paid in honoring claims after thefts occurred. “Those operations continue, but generally we are becoming much more aggressive today,” he said.

In testimony before a Congressional subcommittee on public crime, Craig urged law enforcement agencies to collect cargo theft data.

“There is no stipulated category of cargo theft,” he explained. “We’ve also advocated increased penalties for thieves. Right now, the penalty for someone caught stealing a truckload of computers is one-to-two years in prison. That’s not an effective deterrent. We’re looking for much higher penalties.”

“We’re also looking to have law enforcement personnel trained to recognize situations that are fraudulent or leading up to a hijacking,” he said.

In California, the AIMU has recently supported Cargo Cats, a group of law enforcement agencies working to eliminate cargo theft, when its funding ended. Cargo Cats, which the insurance industry, shippers, carriers and local port authorities are sustaining in the Los Angeles area.

“The point is that if we are not proactive in reducing cargo theft in the U.S., then every shipper’s insurance premium will go up, especially if high-valued goods such as electronics components are being shipped,” Craig said.

AIMU has also testified regarding the Athens Protocol for passenger liability, and on issues pertaining to an international convention for the carriage of cargo at sea being prepared by the United Nations Commission on International Trade Law (UNCITRAL) and the Comité International Maritime, UNCITRAL’s advisory group).

Two-Tier Membership.

AIMU, a 105-year-old, not-for-profit organization, has 33 corporate members and 60 associate members. The corporate members are insurance companies. Associate members are active in international trade or transportation. There is no crossover between these disparate categories.

“AIMU corporate members can and do issue insurance policies to associate members, but associate members obtain no reductions of premiums, discounts or other considerations from insurers who are corporate members because the associates happen to be part of AIMU,” Craig said.

The corporate members are multi-line underwriters, meaning that in addition to marine policies, they offer property and casualty insurance and “errors and omissions” coverage, the equivalent of malpractice protection for insurance agents.

Some of AIMU’s corporate members, such as Coverium Re, Hartford Re, and Swiss Re, are also reinsurers, who provide the deep pools of funds that back up resources of other insurers.

One way an insurer obtains reinsurance is on a facultative basis. “If I’m told by my stockholders that they don’t want me to write a certain risk greater than $10 million, and I’m offered a very good risk at $30 million, what I will do is write that risk, insure the $10 million, and find facultative reinsurance for the other $20 million,” Craig explained.

Associate members of the AIMU pay a flat fee of $1,200 a year. “It’s easy to become an associate member,” Craig said. “Our only requirement is to be involved in international trade or transportation.”

Instead of flat fees, corporate members...
pay assessments based on the size of their “writings,” the amount of insurance they underwrite.

Each AIMU corporate member is also a member of the organization’s board of directors. The elected chairman of the board is David S. French, president of American Marine Insurance Agency, a subsidiary of American International Group Inc.

Statistics And Courses. The AIMU also collects statistics from its corporate members, made available in calendar-year operating ratios. Contributors come from each category of insurers, including those who offer coverage for cargo, ocean hull (including war strikes), commercial primary, P&I, yachts, marine liabilities and offshore risks.

Members receive the AIMU weekly bulletin, which Craig has personally edited since 1994, that recaps articles regarding marine insurance culled from trades around the world. Members are also eligible for the AIMU’s educational programs, seminars, lecture series, and field trips to visit various “risk exposures.”

AIMU offers a five-day “introduction to ocean marine insurance” course for members. Craig said he’ll ask the organization’s board of directors at an upcoming meeting to open this presentation of fundamentals to non-members.

Another class in 2003, called “Ocean Cargo Claims,” will be taught by practitioners and claims underwriters in the trade.

Craig has two assistants on staff and will soon hire an education coordinator. More than 500 people from the AIMU’s member constituents, comprising claims people, loss control people, underwriters, re-insurers, attend the institute’s annual dinner. “There are probably a thousand more out there in the U.S. who work in the maritime field,” Craig said. The AIMU has no direct U.S. competition among ocean marine underwriters.

Craig has been vice president of the AIMU since 1993. A native of Brooklyn, N.Y., he graduated from St. Francis College in Biddeford, Maine. He holds two professional designations: chartered property and casualty underwriter, and associate in risk management. Before coming to AIMU, he worked in underwriting for Safeco, Reliance, Merchants Mutual, and Greater New York Mutual.

On-Deck Losses. A technical paper, On Deck Stowage of Containers, prepared in 2002 by the AIMU technical services committee and available to anyone through the Institute, lists the AIMU’s own reckoning of vessels from which containers have

OFAC’s widening net

Until recently, the U.S. Office of Foreign Assets Control was mostly concerned with seeing that U.S. companies did not deal with certain countries, such as Cuba. “Now, OFAC is getting teeth it never had before,” said James Craig, incoming president of the American Institute of Marine Underwriters.

“It’s not just insurance companies who have to be aware. There were shippers and ocean carriers named on OFAC’s recent penalty lists (see chart),” Craig said.

An OFAC spokesman told American Shipper that these and other companies listed by OFAC had done business with “Specially Designated Nationals,” or SDNs, as well as “Blocked Persons” who have allegedly supported terrorist causes. The names of approximately 800 SDNs, along those of 263 specially designated terrorist entities, appear on “forbidden lists” drawn up by the U.S. Treasury Department. The list is available at www.treasury.gov/ofac.

“These companies on which we imposed penalties are certainly not the bad guys — many of them were inadvertently involved in transactions with SDNs,” the OFAC spokesman said. “We expect that they will be more careful now.”

Should a shipper who has a container aboard a U.S.-bound vessel that calls at a Cuban port worry unduly if the ocean carrier receives an OFAC penalty? There is normally no cause for concern, according to OFAC, unless that shipper has negotiated a transaction involving the container with a party in Cuba.

If there’s no proactive transaction by the shipper with a SDN, then merely having cargo on a ship fined for making forbidden port calls isn’t any reason to expect a penalty.

That said, being informed is never a bad idea. “Pleading ignorance about details of subsequent penalties. “We do not have a very definite answer yet,” Craig said.

“We are interested in implementing a cooperative insurance industry program with OFAC along the lines of Customs’ C-TPAT initiative, in terms of consideration rendered,” he said.

Source: U.S. Office of Foreign Assets Control.

Snared in OFAC’s net

A sampling of names, offenses and fines from a list of more than 60 organizations that recently received civil penalties from the U.S. Office of Foreign Assets Control for violating U.S. laws in their dealing with proscripted countries and companies.

<table>
<thead>
<tr>
<th>Name</th>
<th>Description of violation</th>
<th>Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon.com</td>
<td>Provision of services</td>
<td>$1,985</td>
</tr>
<tr>
<td>Axon Corp.</td>
<td>Export</td>
<td>$45,000</td>
</tr>
<tr>
<td>Best Check Corp.</td>
<td>Export</td>
<td>$32,000</td>
</tr>
<tr>
<td>Caterpillar</td>
<td>Export</td>
<td>$16,000</td>
</tr>
<tr>
<td>Dow Agrosciences LLC</td>
<td>Contract involving Cuba</td>
<td>$20,000</td>
</tr>
<tr>
<td>Fleet Bank</td>
<td>Funds transfer</td>
<td>$41,050</td>
</tr>
<tr>
<td>New York Yankees</td>
<td>Contract involving Cuba</td>
<td>$75,000</td>
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<tr>
<td>Paul Sims Inc.</td>
<td>Import</td>
<td>$1,880</td>
</tr>
<tr>
<td>Stolt-Nielsen Transportation</td>
<td>Funds transfer</td>
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<td>Triangle Wholesale</td>
<td>Import</td>
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</tr>
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<td>Wal-Mart Stores Inc.</td>
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</tr>
<tr>
<td>Zim American Israel Shipping</td>
<td>Dealing in property</td>
<td>$250,000</td>
</tr>
</tbody>
</table>

Note: Only Caterpillar and Dow Agrosciences voluntarily disclosed activities that provoked OFAC’s penalties.

Source: U.S. Office of Foreign Assets Control.
been lost, more than 50 reported incidents going back to 1989. One of the worst involved the APL China in 1998, when about 800 on-deck containers were lost or damaged for a total cargo loss of approximately $100 million.

Quite apart from storms and issues of seaworthiness, such losses occur because of an inadequate number of wire lashings, high deck loadings, structural weaknesses in containers that may be placed under heavier boxes, and often inadequate blocking and bracing of cargo inside containers, the AIMU report said.

The real number of vessels losing containers overboard, and the number of containers lost, is unknown and likely to remain so. “When these incidents occur, there is usually no press release, and seldom is the loss publicized. There have been no comprehensive statistics kept as to the number of containers lost overboard,” the AIMU’s technical services committee noted said.

If another terrorist incident should occur, equal to or worse than the events of Sept. 11, 2001, what will happen to the re-insurance pools upon which insurers depend? Last Nov. 26, President Bush signed the Terrorism Risk Insurance Act of 2002, which established a temporary Terrorism Risk Insurance Program that expires on Dec. 31, 2005.

“That program acts as reinsurance for the primary insurance companies if another event occurs that is certified by the Congress and the Department of the Treasury as being a terrorist act,” Craig explained.

On April 18, Treasury issued an interim final rule as part of its implementation of Title I of the Terrorism Risk Insurance Act, the second installment in a series of regulations shaping and fine-tuning the act (see related story).

“As to what is happening worldwide, the expression ‘pushing back the borders’ comes to mind,” Craig said.

The various security measures undertaken by U.S. Bureau of Customs and Border Protection and the U.S. Coast Guard, including the 24-hour advance notice rule and unannounced ship inspections, “definitely affect world trade,” Craig said. “They are also sharpening port security practices, as in those foreign ports that now have American customs agents in place to oversee tighter cargo security.”

“We have the same with air cargo, where security research teams are developing air freight containers that will actually be bomb-proof,” Craig said.

“A major international terrorist incident not covered by the re-insurance programs of individual governments would hit our industry very hard. I don’t think that private commercial re-insurers would be wiped out, but it’s the kind of thing you don’t want to see in your crystal ball, that’s for certain,” he explained.

Shippers and carriers are not so much worried about losses after a near-apocalyptic incident as they are about recovering costs from delay in delivery of cargo as new security rules are implemented.

If a vessel is stopped for several days offshore by the Coast Guard, or the ship’s unloading is held up at the dock because Customs is checking certain suspect containers, there is presently no recovery from the federal government for money losses incurred by the carrier, or by shippers who face delays in the arrival of time-definite goods.

Since insurance can be written for almost anything, could insurers come up with a new category of coverage for cargo subjected to security delays? “That’s perfectly plausible,” Craig said. “There is a way of doing that. A shipper should ask his broker to talk to insurers. It’s a new window of opportunity, a vacuum to be filled.”

“Nothing is impossible. Protection can be arranged. My point is that no insurer is going to write plausible, inventive new policies if no one asks for them,” Craig said.
Exposed!

Rocky road to an insurance cover for security-delayed cargo.

BY ROBERT MOTTLEY

Transport providers, such as freight forwarders and non-vessel operating common carriers, have been troubled recently by their exposure to unforeseen liability, derived from delays to containers caused by the enforcement of new security regulations.

"With respect to delay, there are two especially troubling issues," said Scott Wollney, president of Avalon Risk Management Inc. "The first concerns a delay resulting from a seizure for security reasons. The second concerns a delay resulting from missing or inaccurate information provided by an electronic manifest filed under U.S. Customs' 24-hour rule.

NVOs need to be particularly concerned about the second issue, Wollney noted. A shipper and carrier bound by a bill of lading have a mutual contract protecting themselves from liability due to delay, and also consequential loss under the U.S. Carriage of Goods by Sea Act (COGSA). NVOs are also protected from claims against their own shipper on their bill of lading.

Yet there is no contract limiting liability between one shipper and another on a particular vessel, or one NVO and another.

"The very clear issue of this exposure in regard to cargo delayed by security rules is that, without a limitation of liability, the determination of responsibility will be left to arbitration or litigation, an area untested at this point because there's no case law," Wollney said.

"That's yet another reason why an NVO needs to be mindful of deciding whether or not it wants to be an electronic manifest filer, and how liberally it wants to allow its agent to provide the relevant information, or make the electronic filing directly over the NVO's information management system. There's a very real possibility of third-party exposure and very little control," he explained.

"The scenario we feel presents the greatest risk right now, relative to the 24-hour rule, goes as follows: NVO 'A' works with shipper 'A' and NVO 'B' works with shipper 'B'. If NVO 'A' fails to include information or use the correct wording on an electronic manifest it files, and because of that an entire vessel is delayed, shipper 'B' could have a consequential loss," Wollney said.

"In theory, shipper 'B' could then bring a claim against the NVO doing the electronic filing, arguing that the NVO's actions were the proximate cause of the loss.

"If shipper 'B' makes a claim against NVO 'A', NVO 'A' has no contract limiting its liability with shipper 'B'. Therein lies the potential exposure," he explained.

"NVO 'A' is at risk because the delay caused by its error or omission could result in a "loss of market for a shipment that is either time sensitive as a result of the commodity, or perishable, or something else that loses value as a result of the delay," Wollney said.

Nightmare Exposure. In a worst-case scenario, the degree of a transport provider's vulnerability could be draconian.

"Imagine if every shipper with a container on a delayed vessel made a claim for 'loss of market' for the full value of their merchandise against one NVO. You could have 3,500 or 4,000-plus TEUs on a ship. You're talking about tens or hundreds of millions of dollars of potential exposure," Wollney said.

In the case of the 24-hour rule, one short-term solution is for shippers and forwarders or NVOs they use to make sure their logistics partners are certified and approved under the Customs-Trade Partnership Against Terrorism. "If they are, that will streamline the entry process through Customs for imports," said Gerard Dooner, senior vice president, Roanoke Trade Services Inc.

"Our advice is to find out the compliance rate of their logistics partners providing data via AMS to Customs. Shippers should require that they have that information," Dooner said. "If one carrier or NVO has only a 40-percent compliance rate, and another has a 98-percent compliance rate, which one would you pick in the current environment?"

There's also the issue of the accuracy of information provided by the shipper to a freight forwarder or NVO. "Most errors come from the origin of the shipment, not in the keying or entry of details about it," Dooner said.

"Shippers have to encourage their suppliers to see they are providing the correct information. If not, the shippers' goods are going to be held up, and that can cause other goods to be delayed," he said.

"Is insurance to cover such delays available?" "At this point in time, direct insurance remedies are limited, because most "errors and omissions" policies that are purchased by an NVO will limit claims to those made by that NVO's customers," Wollney said.

"Insured parties should review their policies, or contact their insurance broker, to ensure that their coverage is as broad as possible in this regard."

Most "legal liability" policies don't provide coverage for consequential losses, such as loss of market or loss of profit.

"As the need becomes more quantifiable, I think it is likely that underwriters will begin to consider including coverage for those types of losses," he explained.

"I think NVOs are now really re-evaluating whether or not they want agents all over the world issuing their bills of lading, and submitting information over which the NVOs don't have control or oversight," he said. "They also need to look at their bill of lading, to make sure their bill does follow COGSA and does provide them, when they are dealing with their own clients, with the limitations of liability that the carriers are afforded.

"They definitely need to ascertain if their 'errors and omissions' policy is limited to claims made by their clients, or if it is broader, in which case it would respond to claims brought by a third party," Wollney said.

Tough Market. Insurers generally intend for the amount they pay out in claims, plus expenses, to equal the amount they take in through premiums.

It works this way: insurance companies, on average, write to what is called a 'combined ratio,' approximately 100 percent.

"That means the cost of paying out claims, plus the expenses of running the company and the acquisition cost of obtaining the business, works out to be about the same as the premiums they bring in," Wollney said.

Insurers tend to make their profit margin on investment income. Some insurance companies lose a little on a combined basis, some make a little.

"Traditionally, companies with very good underwriting performance tend to have a
combined ratio of 95-96 percent, which tells you that their underwriting margin is only about 4 or 5 percent. Those are the very best-performing companies. Most insurance companies last year wrote to a combined ratio of around 100 or 102 percent, which means they actually lost a couple of points on the underwriting side,” Wollney said. Such losses will adjust in time, but they don’t encourage a mindset of underwriting policies in areas where exposures are unknown.

Dooner said the situation is worse than Wollney depicted. “While underwriters did look to fairly high combined ratios in the past, they are not doing so today, due to the poor returns expected from their overall investments. “Everyone I can think of is underwriting to obtain a profit on a standalone basis, and looking at combined ratios more in the 70 percent range,” Dooner said.

Non-System NVOs. Nonetheless, underwriters have taken tentative steps toward new insurance covers to help transport providers worried about their liability. “The Through Transport Club is addressing the situation where an NVO who is in the 24-hour manifest system receives cargo from an NVO who is not in the system,” said Dr. Negron, president of Thomas Miller (Americas), the TT Club’s management company.

“The NVO within the system usually prepares a contract that contains an indemnification running to it from the non-system NVO. Basically, the system NVO says, ‘you agree to indemnify and hold me harmless for liabilities I may incur as a result of your failure to provide accurate and timely information.’

“The non-system NVOs have come to the TT Club and said, ‘can you insure us for this?’” Negron said. “We have agreed to cover that indemnification on a case-by-case basis, depending on the extent of the indemnification, the operator involved, the relationship between the parties, the type of goods involved, and various other underwriting factors. We will add on that cover by endorsement, as a professional liability or ‘errors and omissions’ cover, if all underwriting criteria are met.”

P&I Queasiness. Another kind of insurance cover is needed for ocean carriers that have created a gap their P&I clubs are increasingly unwilling to fill, because of accommodations affecting cargo made by the carriers to larger shippers as part of confidential service contracts that the P&I clubs view as foolhardy.

The P&I clubs are saying, “here’s the red line. This is where our coverage stops. Go past that point, and you’re on your own.”

While no underwriter approached by American Shipper is writing cargo-related cover to fill this gap for carriers, such insurance is being discussed.

Consequential Loss. If a transport provider’s ‘errors and omissions’ coverage is not broad enough to cover consequential loss, Avalon Risk Management has secured “some coverage, as broad as can be made available, in the event of consequential loss,” Wollney said. “The challenge is, at this point, that nobody really knows what the exposure is.”

“Imagine if every shipper with a container on a delayed vessel made a claim for ‘loss of market’ for the full value of their merchandise against one NVO ... you’re talking tens or hundreds of millions of dollars of potential exposure.”

Scott Wollney
president, Avalon Risk Management Inc.

“You can’t insure against increased costs,” Negron said. “If your rent goes up, you don’t expect an insurance policy to pick up that difference.”

“Underwriters are uncomfortable at this point agreeing absolutely to broad consequential loss coverage, but we are working with them to develop a comfort level,” Wollney said.

Since insurers remain reticent, “we’re trying to provide coverage with a sub-limit, where we’re pursuing some level of protection but where underwriters are still capping their liability. A shipper can buy first-party coverage for a delay in arriving goods. That cover is expensive and is written predominantly through the London market.

“The errors and omissions product offered by Roanoke Trade Services for NVOs would provide for legal defense in the event an NVO was sued by a client in these situations,” Dooner said.

“In most cases, I would imagine that the NVO would not be responsible, as it would be merely forwarding the data it had received. However, if it were held liable, the coverage would respond as well,” he said.

‘Good Faith’ Stonewall. Another problem is that an insurer has little grounds for litigation to recover for claims paid out if the delay was due to a ‘good faith’ intervention by U.S. government entities.

Asked if one answer would be for the federal government to come in with another “TRIA” act for cargo its own agents have delayed, Dooner said, “it’s a little premature for that. I suspect the initial confusion we’ve seen in places will settle out as these new security programs are implemented.”

The National Customs Brokers and Forwarders Association has been very active in trying to get U.S. Customs programs modified so they follow more of the trade patterns of a normal shipper’s business.

Customs seems to be listening, Dooner noted.

Shippers remain “startlingly uniformed” about their liability and insurances,” Dooner said. “The real purpose of insurance is to protect against catastrophic loss, and going out of business because of such loss. Shippers try to resolve a lot of other problems through insurance. That’s not the way to do things. That’s not where you should begin. “You should start to resolve problems from perspectives you have some control over, and let insurance be your last resort. You should not look at insurance as a panacea. “Most people don’t use their insurance properly. They are trying to cover all these smaller claims, which they should be able to deal with internally with their own financial stream. They look for insurance as a way of avoiding having to take loss control measures internally, where they hurt the worst,” Dooner said.

“You can’t insure against increased costs,” Negron said. “If your rent goes up, you don’t expect an insurance policy to pick up that difference.”

“It’s cheaper, in the long run, to resign yourself to the idea that the cost of business is going up, and insurance is not the way to protect yourself against that,” Dooner said.

“When shippers determine what the appropriate sale price of their merchandise is, they consider all of the components of the landed cost. What I think unfortunately happens is that people set price without taking into consideration the cost of risk transfer,” Wollney said.

“When shippers decide they want to transfer the risk, they often find there’s not enough margin in their planning to cover the cost,” he said. “Unfortunately, the cost of risk transfer is what it is. You can’t buy a dollar for 50 cents.”
Calling for quality
Consistent, reliable and predictable results should be transportation industry’s goal.

BY THEODORE PRINCE

Urban legends are frequently fiction. Occasionally, though a true story is handed down.
In November 2001, two weary Web consultants from Seattle, tried to check into a Houston hotel late at night. Despite their “guaranteed for late arrival” reservations, there were no rooms — and no apology from the night clerk. Later, they created a PowerPoint presentation entitled “Yours is a Very Bad Hotel,” and sent it only to the hotel and three friends. With the power of the Internet, the document soon drew national press coverage — and uncomfortable attention from the entire hospitality industry. Once again, the resonating effects of poor service were poignantly driven home.

Manufacturing industries have been focused on “six sigma” (6s) quality for some time. Many companies have tried to extend it to service industries. Six-sigma is a statistical measurement that seeks to establish six standard deviations between the process standard and the upper and lower limits. If it is achieved, it translates into 3.4 defects per 1,000,000 customer opportunities (products or services depending on the business.) Six-sigma is one of the legacies of Jack Welch, former General Electric chairman and chief executive officer.

Quality Pursuit. The quality process has a long — and not so illustrious — history in the transportation industry. In the early 1990s, most carriers established some sort of formal quality process. While some initiatives may have been driven by good intentions, most were the result of either customer requirements or pursuit of the Malcolm Baldridge National Quality Award. Some shippers answered to stringent safety demands. Chemical companies such as Dupont, Dow and Union Carbide often made formal quality programs a prerequisite to contract bids. Japanese auto manufacturers, such as Toyota (which had embraced quality as a way of business) also demanded carrier compliance. When Federal Express won the Baldridge Award in 1990, other transportation companies sought to follow suit.

Although the transportation industry traditionally resists management fads, they generally bought into quality in the early 1990s. Personnel were often transferred full-time into quality-related positions, and unlimited budget money flowed. Unfortunately, management follow through and commitment to change was often absent. Many employees assigned to work on quality-related issues were swept away during the next corporate fad — reengineering (i.e., downsizing.)

Businesses that measure averages will miss the fact that customers very rarely assess satisfaction “on average.”

The implosion of accounting industry icon Arthur Andersen sends a clear message about quality to those of us in service industries. Despite all their procedures, training and publicity, Andersen’s quality control was not applied uniformly. Andersen had a Professional Standards Group (PSG) to review and pass judgment on difficult issues. But unlike other major accounting firms, Andersen allowed its local offices, which were focused on quantitative — not qualitative — goals, to override PSG decisions. The consequences were obviously disastrous.

Measuring Up. Sometimes, it seems the transportation industry is measuring the wrong metrics. Airlines and railroads often measure train and plane performance when the customer measures door-to-door transit. It doesn’t matter if you are on an on-time plane or train when you expected to depart on an earlier one. When transit has more than one segment, connection measurement, critical for accurate measurement, is often lacking. When segments are provided by more than one carrier, lack of in-transit visibility makes measurement almost impossible.

Regardless of the quality program, errors still occur. In such cases, the recovery skills of the provider are key. GE is a self-proclaimed leader in quality, but my personal experience makes it hard for me to believe in their 6s process. When my GE home appliance failed, our scheduled home repair service representative failed to show up twice. For those of you keeping score at home, that should happen 3.93 times out of 1,000,000,000,000,000, or their six-sigma isn’t working.

Customer service support is a function of great debate in most industries, and transportation is no exception. A generation ago, customer service was a local function performed by people who were personally known to shippers. Organizationally, it was often viewed as an adjunct to sales. But this function often came to be considered a cost center. Consolidation began as a means to reduce expenses. Local offices were combined into regional offices, and national centers followed.

Union/Non-union Debate. Consolidation set in motion a sea change in quality. In union operations, employees could follow their work. But in non-union offices, many carriers sought to reduce personnel expense by moving to low cost geographical areas — thereby sacrificing accumulated, or institutional knowledge. (Non-union operations often moved to “right-to-work” states, making union organizing even more difficult.) Customer disruption and/or loss were factored as a cost of doing business.

The union/non-union debate may obscure the more relevant issues. In many cases, transportation workers were legitimate. Other relatives, and often previous generations, worked in the same industry. The employees grew up learning the business. They had industry expertise and awareness, which is not easily acquired.

But, as centralized call centers became more common, employees increasingly were hired off the street. Some carriers considered new employees a hidden bonus, because they could be taught appropriate procedures without having to “unlearn” obsolete or unacceptable past practices. Quality often suffered due to significant employee turnover. Without a union or loyalty to any particular industry, employees treated all call center jobs alike — and they opted for better paying jobs with better conditions.

To remedy the worker problem, many...
LOGISTICS

companies are hoping that voice-recognition programs will assume more of the workload. These systems are becoming increasingly sophisticated. For example, a customer can no longer press 0 to talk to an individual. But instead must know a secret code. Other companies are keeping the human model, but relocating the call centers overseas, where well-educated, industry-aware employees will not leave — and will work for a fraction of the cost of U.S. workers.

Regardless of the process or the employees, customers will experience each transaction with differing results. Businesses that measure averages will miss the fact that customers very rarely assess satisfaction “on average.” Most research indicates that customers feel the variance with each transaction. Consistent, reliable and predictable results are the goal, and those carriers who reach it will prosper. Those who do not will be continuously be compensating with perpetual rate cuts.

Theodore Prince (ted@oax.com) is senior vice president of marketing and sales for Optimization Alternatives Ltd. Inc.

Black on portal’s horizon

After three years of operation INTTRA covers its costs.

By Robert Mottley

INTTRA Inc., an ocean shipping “portal” through which shippers and freight forwarders book cargo via multiple carriers, broke even in May for the first time since it began operations in 2000.

“Over the past 16 months, our volumes have increased on a month-to-month basis by 15 percent,” said Ken Bloom, chief executive officer of INTTRA for two years.

Surveys have shown that only 15 percent of shippers are using portals. Asked why that was so, Bloom replied, “I don’t know how that was reckoned broadly on a percentage basis, but for our part, INTTRA has had double-digit growth.

About 60 percent of INTTRA’s volume is coming out of Asia, 15 percent from Europe, 15 percent from the United States and Canada, and 10 percent out of Latin America.

“Although Asia by far is our largest region, our fastest growing area is Latin America,” Bloom said.

“In mid-May, INTTRA reached the point at which we will be covering all of our operating costs — in other words, breaking even,” he said, noting that INTTRA’s operating costs run approximately $1 million each month.

Tracking transactions that generate revenue “is the most stringent method of measuring progress, and we will be doing more than 10,000 such transactions on an aver-
Bloom said. “The carriers don’t act in the manner of psychological, remain before a shipping ‘portal’ for the customer service, technology and marketing, and are located in Hamburg, London, Paris, Sydney, Shanghai, Singapore, Los Angeles, San Francisco, and Charlotte, N.C. The portal’s has three offices in Copenhagen, Hong Kong, and its headquarters in Parsippany, N.J.

Not An Interloper. INTTRA does only door-to-door moves that have ocean components. “We believe in sticking to our operational knitting,” Bloom said. “We have no desire to become a third-party logistics provider, or to move beyond the portal functions INTTRA currently performs. “We want to weave our way into the supply chain processes of the industry without irritating anyone.”

“Because we work with our carriers to organize how we approach shared customers, we’re not viewed as an interloper cutting in between carriers and their shipper relationships. We work within the fabric of those relations,” he explained.

“We understand how hard it often is to get shippers to change long-standing habits. Certain hurdles, both technical and psychological, remain before a shipping ‘portal’ can become the preferred method for shippers to do business. We can be patient,” Bloom said.

Personnel Changes. Two of INTTRA’s executives recently have been replaced. Jane Biddle, former chief commercial officer, has been succeeded by Michael Schutt-Nielsen, who has the title of senior vice president, commercial. David Pope has been appointed as the successor to Tom Outwin, vice president of global customer service.

“Schutt-Nielsen is responsible for global commercial business, and Pope for commercial in North and South America,” Bloom said.

The company has 90 employees. “Personnel costs are our greatest expense, plus the costs of technology and Web-hosting,” he said. About 40 of INTTRA’s employees are involved in developing the portal’s technology.

INTTRA’s personnel work in sales, customer service, technology and marketing, and are located in Hamburg, London, Paris, Sydney, Shanghai, Singapore, Los Angeles, San Francisco, and Charlotte, N.C. The portal’s has three offices in Copenhagen, Hong Kong, and its headquarters in Parsippany, N.J.

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Export reporting: How low do you go?

U.S. law requires export information to be filed to the U.S. Census Bureau for shipments valued at $2,500 or more.

Now, imagine how many shippers avoid the regulation by purposely undervaluing their exports. Your guess is probably as good as any.

The Census Bureau estimates that exports valued at less than $2,500 account for 3 percent or less of the country’s annual export value. The agency’s 2002 low value estimate was about $11.95 billion, or 2.2 percent of the country’s total non-Canadian exports.

Again, this is just the agency’s best estimate. It says nothing about the shippers, how many there are, their commodities and destinations.

With the increase in automation and an on-going terrorist threat in the international supply chain, why shouldn’t all exports valued at $1,000 or even $500 be reported to Census?

Census raised its export-reporting threshold in 1989 from $1,500 to $2,500 when federal agencies faced budgetary pressures and to match the $2,500 threshold established for imports. Aside from the former Automated Export Reporting Program, most shipper’s export declarations were filed to Census in paper form.

Information from these documents was manually keyed into a system by Census staff in Jeffersonville, Ind., at a cost of about 80 cents per document. The agency received about 500,000 paper export declarations a month, of which half contained errors, requiring countless hours of follow-up telephone calls by Census to correct them.

In the mid-1990s, Census and Customs began developing the Automated Export System to allow exporters and their freight forwarders to electronically file export commodity and transportation information.

Since 1999, many exporters and forwarders have switched from paper filing to AES. To make it even easier and cheaper for the shipping industry to use, Census and contractor Flagship Customs Services developed a free online link to the system, AESDirect.

Census has continued to aggressively market the benefits of AES and AESDirect to the industry through workshops held around the country. The system now accounts for more than 85 percent of exports or about 1.1 million SEDs reported monthly.

Last year, Congress passed the Security Assistance Act, which mandates the filing of all export declaration data through AES. Census and Customs agreed that this action would coincide with the completion of the AES Commodity Redesign, scheduled for April 2004.

The legislation also increased civil fines for delayed filing or failure to file by carriers, exporters (U.S. principal parties in interest), and forwarders. The new penalty for improper filings ranges from $1,000 to $10,000 per violation, up from $100 to $1,000. The law also sets stiff criminal penalties, including jail time, for knowingly failing to comply.

In addition, Census wants to create a licensing program for AES filers. The agency believes that licenses will help it better pinpoint problems with export data transmissions.

However, increased use of automation, stiffer penalties and a licensing program probably won’t stop shippers that undervalue their commodities. “Unfortunately, there are probably a lot of exports that go out at $2,499,” said Charles Woods, assistant chief of Census’ Foreign Trade Division.

In the air-cargo environment, there are cases which exporters will split their high-value shipments into smaller ones to stay below the $2,500 threshold.

Economists, transportation analysts and market researchers believe that undeclared shipments skew the knowledge of emerging export markets and trade volumes generated by small businesses. “There are commodities going to Japan and the United Kingdom by air that are under the ($2,500) minimum,” said Alvis Pauga, an international trade and transportation consultant in New Jersey.

The Bureau of Customs and Border Protection uses the information collected in AES to target high-risk exports before they leave the United States. The agency’s inspectors in the airports know that some cargoes valued at more than $2,500 are leaving the country without export declarations being filed.

“We don’t want to be an impediment to trade, but obviously it would be to our benefit to have access to this information,” said Bill Ferri, Customs and Border Protection’s chief inspector for outbound cargo at New York’s JFK International Airport.

JFK and New York’s other airport, La Guardia, handle about 150 to 200 outbound cargo manifests a day. “Every week we run into shipments that don’t have an SED,” Ferri said.

The agency is especially concerned about undeclared hazardous materials shipments, which could, if mishandled, jeopardize the safety of passenger planes.

Bill Bowe, assistant chief outbound inspector for Customs and Border Protection at JFK, said that knowledge of all shipments, even those valued at less than $2,500, would aid in the country’s war against terrorism and allow the agency to improve its targeting of suspicious shipments.

Ferri added that complete export reporting would even go a long way to help the Transportation Security Agency further develop its known shipper program.

Census acknowledged it would have no problem lowering the export reporting value to less than $2,500, but the agency would probably not act unless the industry pushed for it. “We’d love to see comments in support of a lower threshold value,” Woods said.

Today, Census’ Jeffersonville data center handles about 130,000 paper SEDs a month.

Pauga said in part this gives impetus to revive the International Trade Data Users Group, which went dormant in 1999. “We could show that it’s no longer rational not to reduce the value threshold for exports,” he said.

The international express carriers and couriers would likely voice strong opposition against lowering the value threshold, since most of their shipments today don’t require the filing of SEDs. While this is not a lead issue on the Air Courier Conference of America’s radar, the group said it would likely speak out against such a proposal.

Pauga believes the express carriers and couriers should instead consider the benefits of increasing the export reporting of small shipments.

With better export information, express carriers and couriers could use their equipment and human resources more efficiently.

Pauga described today’s air-cargo industry, with its lack of sufficient export-related data, like “driving beyond your headlights. You can’t change the direction when you need to.”
When NVO boxes reach U.S. shores

Consolidators, Customs clean up nitty-gritty AMS details in manifest filing system.

By Chris Gillis

Non-vessel-operating common carriers have worked with the U.S. Bureau of Customs and Border Protection to devise what they hope will be a more efficient way to electronically manage the movement of containerized cargoes within terminal areas and to inland destinations.

In mid-April, the National Customs Brokers and Forwarders Association of America approached Customs about NVO problems with inbound cargo flows under the agency’s advance manifest rule.

Under this rule, effective Dec. 2, NVOs gained access to the Automated Manifest System, an electronic agency program previously reserved for vessel operators. The shift also required AMS-approved NVOs to take charge of their shipments after they reached the port.

“In the beginning everyone focused on the manifest requirements, but all the requirements associated with the entry processes were not properly addressed,” said Peter Herling, vice president of import development for Hoboken, N.J.-based Shippers Transport. “In hindsight, we should have seen the problems coming.”

To accommodate this aspect of the rule, many NVOs, such as Shippers Transport, made substantial investments in their computer systems to use AMS and become customs-bonded carriers to legally manage inland cargo moves.

NVOs, however, continue to struggle with the in-bond process, causing their cargo to be held at seaports until arrangements are made to move it forward.

Albert W. Saphir, head of ABS Consulting, in Marietta, Ga., agrees that NVOs on AMS suffer from unresolved operational issues when their cargo arrives in U.S. ports. “There’s an incredible amount of additional work for all involved, less automation than before, and just too many individual parties involved in a process that was designed only for a few participants,” said Saphir, who followed the meeting room.

To accommodate this aspect of the rule, many NVOs, such as Shippers Transport, made substantial investments in their computer systems to use AMS and become customs-bonded carriers to legally manage inland cargo moves.

NVOs, however, continue to struggle with the in-bond process, causing their cargo to be held at seaports until arrangements are made to move it forward.

A second special bill proposal was then presented to the agency that would give the NVOs the option to conduct the inland portion of the clearance process or hand it off to the vessel operators. The agency and industry viewed this as workable.

A third “revised special bill,” developed by Shippers Transport and NACA Logistics Group was proposed by the NCBFAA NVOCC committee chairperson Maurine Cecil, who is also regional vice president of American Shipping Co., in consultation with other NVOs to Customs.

This revised special bill, which appears to be acceptable to Customs, enables NVOs to manage their in-bond cargoes through the Paperless Master In-Bond program. Vessel operators will provide arrival information to Customs. Otherwise, the vessel operator can handle the cargo to destination.

The revised special bill also covers NVO inbound movements of full containers (back to back and merchant’s haulage) and less-than-containerloads (groupage and co-loads).

“We are pleased that we could come together with the NVOs and the carriers,” said Brian Goebel, Customs’ counsel and senior policy advisor, during an April 4 meeting of the Treasury Advisory Committee on Commercial Operations, which kicked off the recent AMS-related work between the agency, the NVOs and ocean carriers.

But more impressive was the ability of the NVO firms and representatives of several industry-related groups, such as the NCBFAA and NVOCC-Government Affairs Conference, to leave any philosophical differences outside the meeting room.

“I have never seen so much active communication between Customs and all the parties involved,” said Saphir, who followed the progress of the special bill meetings. “The same also applies to communication between NVOCCs and VOCCs.”

“We are pleased that the NVO community, along with Customs, has produced a collective solution to these issues,” said Norm Schenk, vice president of brokerage services for UPS Supply Chain Solutions.

UPS was an active participant in the technical working group. “We look forward to working with Customs and the ocean industry throughout the remainder of this process and into the future,” Schenk said.

Customs Support. While the technical groundwork for the special bill is finished, Customs’ implementation has yet to be done.

The agency made it clear in a May 29 response to the industry that it “does not support the creation of a master NVOCC bill type.” Customs will support a previous method of requiring co-loading NVOs to indicate the master NVO’s SCAC (Standard Carrier Alpha Code) code in the secondary-notify party field of the electronic manifest.

“It should be noted here that since all arrival and post arrival actions will be against the master VOCC (vessel-operating common carrier) bill, the master NVOCC will not receive any of these status notifica-
possible to jump even further ahead,” Saphir and NACA are actually doing everything to level playing field, and some such as UPS may back-solicit to their customers. Many NVOs that fear cargo hungry carriers are willing to process and file. It’s a big risk for their manifest details, which include valuable customer information, to the vessel operators to conduct physical cargo exams. NVO executives say there should be three or four in the port.

“Because of these setbacks what we’re seeing is the shift in logistics from a just in time to just in case,” Herling said. “Unpredictable delays force companies to increase inventory.” Meanwhile Customs has shifted to the next phase of enforcement of its advance manifest-filing rule, worrying many NVOs that are just getting used to AMS. When the rule was implemented, Customs held off on issuing fines for manifest filing errors until Feb. 2. The agency then focused on significant violations of the cargo description requirement and the use of vague cargo terms, such as “freight all kinds,” “said to contain,” “consolidated cargo,” and “general departamento store merchandise.” Containerized cargo with these descriptions was issued a “do not load” message while it was in an overseas port. If the cargo has already been loaded, the agency would deny it a permit to unload in the United States.

“Some carriers and NVOCCs have already established a communication link to provide and receive this type of information,” the agency said. “Trade partners that have not created this link should do so for it is in the best interest of all commercial parties involved.”

The cost of changes now and in the future for AMS has yet to be determined. Overseas NVOs have already made large investments to acquire the proper customs bonds in order to file their manifests through third-party AMS systems. The average investment for overseas NVOs ranges from about $12,000 to $15,000, whereas most domestic NVOs using similar third-party AMS systems have spent $4,000 to $6,000. Third-party AMS systems providers will make changes to their networks to accommodate the special bill.

“We never rolled out our Import2000 product, we did not have the in-bond module, but we quickly incorporated it,” said Robert Foley, president of Flagship Customs Services, the largest third party AMS systems provider.

“We support the special bill in that it makes the in-bond process easier for some NVOs, but it should be optional,” Foley said.

NVOs that don’t use AMS must hand over their manifest details, which include valuable customer information, to the vessel operators to process and file. It’s a big risk for many NVOs that fear cargo hungry carriers may back-solicit to their customers.

AMS implementation in the long run, experts say, is far more beneficial than not participating. “AMS will provide a more level playing field, and some such as UPS and NACA are actually doing everything possible to jump even further ahead,” Saphir said.

One issue that the AMS system will not solve is the current lack of insufficient agency-approved container freight stations in the major inbound seaports. In the port of Los Angeles, for instance, Customs has one container freight station to conduct physical cargo exams. NVO executives say there should be three or four in the port.

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“We support the special bill in that it makes the in-bond process easier for some NVOs, but it should be optional,” Foley said.

NVOs that don’t use AMS must hand over their manifest details, which include valuable customer information, to the vessel operators to process and file. It’s a big risk for many NVOs that fear cargo hungry carriers may back-solicit to their customers.

AMS implementation in the long run, experts say, is far more beneficial than not participating. “AMS will provide a more level playing field, and some such as UPS and NACA are actually doing everything possible to jump even further ahead,” Saphir said.

One issue that the AMS system will not solve is the current lack of insufficient agency-approved container freight stations in the major inbound seaports. In the port of Los Angeles, for instance, Customs has one container freight station to conduct physical cargo exams. NVO executives say there should be three or four in the port.

“Because of these setbacks what we’re seeing is the shift in logistics from a just in time to just in case,” Herling said. “Unpredictable delays force companies to increase inventory.” Meanwhile Customs has shifted to the next phase of enforcement of its advance manifest-filing rule, worrying many NVOs that are just getting used to AMS.

When the rule was implemented, Customs held off on issuing fines for manifest filing errors until Feb. 2. The agency then focused on significant violations of the cargo description requirement and the use of vague cargo terms, such as “freight all kinds,” “said to contain,” “consolidated cargo,” and “general departamento store merchandise.” Containerized cargo with these descriptions was issued a “do not load” message while it was in an overseas port. If the cargo has already been loaded, the agency would deny it a permit to unload in the United States.

Between Feb. 2 and April 29, Customs reviewed more than 2.4 million bills of lading, of which about 260 containers had inadequate cargo descriptions. The agency said most violations were resolved in time to make their original booked voyages.

“We are taking the next step in our compliance strategy to see that all of the rule’s requirements are complied with,” said Customs Commissioner Robert C. Bonner. “Our goal is to achieve full compliance quickly and efficiently while still maintaining a high rate of trade compliance.

On May 4, the agency started to issue “do not load” messages for containerized cargo that has an invalid or incomplete cargo description. Customs also began issuing monetary penalties for late submissions of cargo declarations.

On May 15, the agency commenced with “do not load” messages for “clear violations” of the consignee name and address requirements. The former practice of using “to order” or “to order of shipper” without corresponding information in the consignee field and notify party field, or a consignee with no address, are not acceptable.

At the same time, the agency started issuing monetary penalties for freight remaining on board (FROB) that has an invalid cargo description, and has been loaded onboard a vessel without providing Customs a 24-hour timeframe for targeting.

The fines are stiff. NVOs may be assessed liquidated damages of $5,000, and $5,000 for every subsequent violation.

“We as an industry are deeply concerned that Customs and Border Protection is entering a fining state of mind when there’s still too many uncertainties in this environment,” Herling said.

Some NVOs are afraid to activate AMS if there’s a chance that they will be penalized for infractions or have their cargo held up in ports for inspection.

“There’s a legitimate concern that some NVOs would be fining out of business,” Herling said. “We’re sticking it out. To be a responsible player in the market, we have to do this.”

Peter Herling
VP of import development, Shipco Transport

“We as an industry are deeply concerned that Customs and Border Protection is entering a fining state of mind when there’s still too many uncertainties in this environment.”
Comprehensive airlift of troops and military equipment played a huge logistics role in the Afghanistan and Iraq wars, and military contracts to support those operations continue to boost charter cargo carriers struggling to survive the massive downturn in the aviation industry.

Operating under the Defense Department’s Civil Reserve Air Fleet (CRAF) program, commercial aircraft hauled 10,836 tons of cargo, about 10 percent of the military’s 107,613-ton airlift total for Operation Iraqi Freedom, according to Air Mobility Command.

Carriers have so much extra capacity they are happy to volunteer as many planes as the Defense Department needs for airlift. The ongoing campaign to combat terrorism around the world could require still more international cargo capacity from the private sector than normal, but as those operations wind down the military’s baseline airlift requirements are expected to return to more normal levels over the next several years.

Couple that with the military’s transformation to a lighter, more mobile force that will require different types of cargo, along with the Air Force’s buildup of its own fleet of heavy-lift freighters, and it is clear that CRAF and the role of participating airlines is likely to change in the next decade.

Defense Department and aviation industry officials emphasize that the military will always need a civil reserve fleet. But the Pentagon is already indicating it may rely less on certain airlift segments, meaning some carriers could lose business. And concern about the viability of many airlines has led defense officials to evaluate the program to ensure adequate commercial capacity in the future.

“It is probable that the amount of pre-planned business we give the charter carriers will tend to diminish over the years,” said Earl Boyanton, assistant deputy undersecretary for defense transportation policy, in an interview. “So, if our peacetime business is going to diminish, then we have to find some sort of way to incentivize those carriers to be available.”

CRAF? Created in 1952, CRAF is a standby arrangement that allows the Defense Department to pull aircraft and crews from commercial duty to help augment military airlift during crises. The Iraq war marked only the second time that U.S. Transportation Command, which coordinates the multimodal movement of troops, equipment and supplies, has activated CRAF. The other time was during Operation Desert Shield/Storm 13 years ago.

In return for committing a portion of their fleets to the military, Defense allows CRAF carriers to bid for some of the military’s peacetime airlift requirements. The amount of business airlines can bid on is related to the size of their CRAF commitment. Passenger airlines that join CRAF must commit at least 30 percent of their fleets and all-cargo airlines 15 percent. FedEx Express commits 30 percent of its fleet to the program to fulfill requirements under a contract managed by the General Services Administration, to provide domestic small package delivery service to government agencies. UPS, by contrast, has allocated less than 5 percent of its fleet to a full call-up.

If a carrier passes on work it is entitled to, the job defaults to whichever airline is next in line and has available capacity. AMC continuously monitors carriers’ safety records, crew qualifications, operational and maintenance procedures, contract performance, financial condition and business plan changes to ensure they are safe and reliable.

Thirty-three carriers and 927 aircraft were enrolled in CRAF as of January, including 253 long-range and 15 short-range cargo aircraft, according to Air Mobility Command, the air component of Transportation Command. Major cargo participants include Atlas Air, Airborne Express, DHL Airways, Federal Express, Evergreen International and UPS Airlines.

The cargo airlines are divided into two
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primary teams: a North American contractor team and a FedEx team. Business arrangements vary, but generally allow scheduled carriers to collect a commission and meet their commitment by allowing their partners to do more of the charter business on their behalf. Passenger airlines also tend not to volunteer too many aircraft, so as not to disrupt regularly scheduled service.

Aircraft are activated for service on an incremental basis depending on the type of military operation. Air Force Gen. John Handy, commander of Transportation Command, ordered a Stage I activation back in February of forty passenger aircraft to ferry troops to the theater. But Handy excluded the thirty-one wide-body cargo aircraft covered under Stage I from the low-level call up because so many were already in service on a voluntary basis.

More aircraft are needed for Stage II, which is used for major regional contingencies such as the first Gulf war. Stage III would be used for a period of national mobilization.

Chartered commercial aircraft are responsible for moving about ninety-three percent of U.S. troops and forty-one percent of long-range military cargo over the last fifty years. Boyanton said the Defense Department requires about twenty-five million ton miles per day to be provided by the private sector.

Changes On Horizon. Military business has been especially good for air cargo charter fleets during the past eighteen months, providing steady income for some carriers struggling to scare up business in a slow economy.

Evergreen and Atlas, which stock analysts believe may soon file for bankruptcy protection, are the largest recipients of Defense Department cargo contracts. Evergreen, Gemini Air Cargo and World Airways requested loan guarantees in 2002 from the Air Transportation Stabilization Board created by Congress after the Sept. 11 terrorist attack.

Air Mobility Command will purchase $165 million of air freight in fiscal year 2003, an amount dwarfed by $740 million in extra spot market business awarded so far to meet additional contingency needs, according to Col. David Jensen, chief of AMC’s civil air division. The total cargo expansion buy for fiscal year 2002 was $775 million, an amount that will be easily exceeded this year.

AMC sets its rates after auditing the combined rates and costs of all the carriers bidding for AMC contract carriage and comparing that average with project costs. Higher priced carriers are not always happy with AMC’s middle-of-the-road rates, but nobody is complaining too much in today’s economic conditions.

“Now it’s considered a very decent rate because the commercial market is in the toilet,” said John Palo, vice president of planning, military and government contracts for charter operator Evergreen International. “When the commercial market gets better, carriers have to make a tough choice whether to take the business. Many will take anything now.”

“Right now (CRAF) is slightly oversubscribed. The more capacity, the more difficult it is for any individual air carrier to amortize its participation,” said Ron Priddy, president of the National Air Carriers Association.

Military contract carriage has always been part of Evergreen’s business plan. In recent months it has pulled freighters from scheduled service to Hong Kong, as the global recession negatively impacted the rates it could charge, and thrown them to AMC, Palo said.

AMC tries to keep the fixed, or dedicated, contract as low as possible because its first priority is to fly cargo on military aircraft. The fixed buy has typically ranged between $60 million to $200 million. In some years prior to Sept. 11, 2001, total passenger and cargo transport purchased was only about $600 million.

“We are probably doubling or tripling what we normally do,” Jensen said.

But Air Mobility Command is already budgeting lower fixed buys to fulfill its transportation mission for the next several years as the military expands its own air cargo capacity.

“Based on the increase in the C-17 fleet and the fact that those crews need constant training, there is already some proposed decrease in the fixed buy” on the order of five percent per year from 2004 through 2009, Jensen said in telephone interview from Scott Air Force Base, Ill. AMC is expected to soon release its fixed buy contract for commercial service base.

Priddy predicted the annual fixed buy could go down next year to a more normal level of approximately $150 million.

C-17. The C-17 and the C-5 are the Air Force’s primary heavy-lift aircraft for long-range, international missions. The Air Force has 126 older C-5s, but is investing heavily in the C-17 as its transport of the future. There are 103 C-17s in service today and Congress last year approved a multi-year budget to increase the fleet to 180 by the fourth quarter of 2008. Handy said AMC ultimately will require at least 222 C-17s, something the Pentagon has yet to sign off on. Meanwhile, the Air Force is considering proposals to modernize its C-5s and make them more reliable, but may face some out depending on how many C-17s eventually are procured.

“The size of the military airlift fleet does have some impact on how much business we do with the commercial sector, but it’s difficult to quantify because it’s very dependent on the world situation,” Jensen said.

“We think (the extra C-17s) will cut back our business in the future,” Palo said. “Eventually, (AMC) is a bit of a competitor.”

But retired Army Lt. Gen. Kenneth
Wykle, president of the National Defense Transportation Association, said the military needs CRAF for the foreseeable future.

“I don’t think it’s DoD’s intent to get enough lift to do it all on their own, but there is a number that they feel is necessary to have, a core capability that they can augment with commercial carriers,” said Wykle, whose educational organization was instrumental in creating CRAF more than 50 years ago.

Palo argues that the taxpayer would be better off if the Defense Department didn’t spend so much money on buying planes that might not be fully utilized during quieter times and let someone else handle the cargo surge.

“Would you rather buy a car for five

DOT seeks to raise foreign stakes

Defense confident airline nationality proposal won’t impact access to commercial airlift.

WASHINGTON

The Defense Department has always used U.S. certificated carriers for its Civil Reserve Air Fleet on the assumption that U.S. airlines will be more dependable in a crisis. A foreign airline, for example, might be pressured by its government or public opinion not to comply with a CRAF call up.

That scenario appeared to move a small step closer to reality in May when the Department of Transportation asked Congress to consider raising the amount of voting shares foreign citizens are allowed to own in a U.S. airline from 25 percent to 49 percent. Current law allows foreign interests up to 49 percent equity in a U.S. carrier, but limits influence by capping voting stock.

The corporate citizenship requirement that U.S. airlines must be 75 percent owned and controlled by U.S. citizens dates back to World War I-era shipping regulations, and more specifically to the Civil Aeronautics Act of 1938, designed to protect domestic-flagged vessel and airline industries deemed vital to national security. The difficulty for airline regulators has always been how to determine if someone else is in control.

Jeffrey Shane, undersecretary for policy at the DOT, emphasized in a telephone interview that the change increases an investor’s say in how an airline runs, but still limits the ability to control the whole company.

“We see no justification for continuing the ceiling at 25 percent. What you want to insure is that there is a minority, that the ceiling on foreign-owned shares is less than 50 percent,” Shane said.

The Defense Department “did not interpose an objection because we are assured that through our contractual methods as well as through the Department of Transportation review process that we are dealing with U.S. controlled business entities,” said Earl Boyanton, assistant deputy undersecretary for defense transportation policy.

The DOT proposal comes in the midst of calls by the European Commission and the International Air Transport Association to liberalize aviation markets and allow more open competition and investment. During the last 15 years the European Union has eliminated controls on traffic rights between and within member states as well as the ability of member state nationals to own and operate an airline in any other member country. Now it is requiring eight states to scrap bilateral air treaties with the United States and renegotiate a collective agreement that essentially creates a free trade zone in air transport. Negotiations are expected to begin in the next several months.

A study conducted by the Brattle Group for the EU said if foreign carriers were permitted cabotage rights to fly anywhere in the United States they would incorporate as a matter of business necessity in the United States, operate under a DOT domestic carrier certificate and comply with all U.S. laws. In fact, incorporation could be required as a condition for foreign acquisition of a U.S. carrier or granting cabotage rights.

A U.S.-based subsidiary “would protect the CRAF program by giving the U.S. government the same legal control over a European-owned airline that it has over a U.S.-owned airline,” Brattle said in its December report.

Shane said the DOT proposal eliminates an unnecessary point of potential friction while still protecting U.S. interests.

“The 49 percent proposal also has the virtue of being the standard around the world and enables us to say that we are not more restrictive than the vast majority of our trading partners,” Shane said.

In its letter to House and Senate transportation committee chairmen, the DOT said the proposal “would allow greater access to foreign capital markets” and thus “expand the resources potentially available to U.S. carriers as they restructure their operations in response to the challenges of today’s domestic and international aviation realities.”

“We don’t know what the impact of raising the ceiling to 49 percent will be,” Shane said, adding that it is a small step that by itself probably won’t produce a groundswell of investing in U.S. airlines.

Meanwhile, the Transportation Department is investigating whether CRAF participant DHL Airways meets U.S. citizenship requirements for ownership and control of an airline. In April lawmakers stuck an amendment in an emergency Iraq war supplemental appropriation barring the Defense Department from using any of the $79 billion allocated by the funding legislation for fiscal 2003 to purchase freight transport from any air carrier “not effectively controlled by citizens of the United States.”

The law, widely viewed as targeting DHL Airways and its ties to German postal conglomerate Deutsche Post, says an air carrier is not effectively controlled by U.S. interests if it got more than 50 percent of its business from a foreign entity during the past three years; that the entity has a direct or indirect voting stake in the airline; and the entity is owned by a foreign government.

DHL Airways, which plans to change its name to Astral Airways as part of a U.S. management buyout of the company expected to close by July, said it flew missions for the Pentagon during the Iraqi conflict and provides service to U.S. bases in Guantanamo Bay, Cuba; Roosevelt Roads, Puerto Rico; Ramstein Air Force Base, Germany; and other locations.

Defense Department lawyers are still reviewing the law, but Air Mobility Command would probably comply by asking all of the applicants who respond to the 2004 fixed buy solicitation to affirm that they meet the requirements of the law, Boyanton said.

“We don’t have the auditing capability to dynamically review their revenue stream,” he said.
years or rent it for 30 days when you only need it for 30 days?” Palo said. “Their take is they need more military planes. Our conclusion is, no, we are there to help and can do it cheaper.”

But Priddy, a former Air Force colonel who directed CRAF during the first Gulf War, said the military is striking the right balance between military and commercial aircraft. His trade association represents 13 scheduled and charter carriers offering passenger and cargo service, including Gemini Air Cargo.

Priddy said the association supports bringing the C-17 fleet up to 180 planes, adding the acquisition of planes is roughly equivalent to the capability the Air Force is losing from retiring C-141s and other aircraft.

“We recognize and support the Defense Department’s need for militarily unique airplanes. There needs to be a significant military cargo and tanker fleet,” Priddy said. “Beyond that we should rely on the CRAF program to the maximum extent possible. I think it is a great program for the American public.”

Air Force and defense officials say they will keep their planes busy and that militarily aircraft have unique capabilities not found in commercial freighters. For one thing, they can carry outsized loads such as an M-1 tank without disassembling them. Even a nose-loading 747 cannot carry a lot of military equipment. Military transports are also designed to take off and land on makeshift dirt runways, at night under blackout conditions and have anti-missile countermeasures. The danger of enemy fire often precludes the use of civilian crews and planes in areas where military operations are ongoing.

“Not all of our commercial partners were thrilled when we started handing them chemical gear” for flights to Kuwaiti and Saudi Arabian bases for the Iraq war, Jensen said.

Commercial planes took a lot of the cargo to Kuwait and Saudi Arabia where it was transloaded to C-17s and other military aircraft to get to hot spots.

Antonov Competitor? An ex-military plane now in commercial service around the world is the huge Antonov-124. AMC has to comply with the Fly America Act, Jensen said, but the command has used the Russian-built plane on limited occasions, including a number of missions with Ukrainian carrier Volga Dnepr during the past couple of years when U.S. military or commercial planes have been unavailable or unable to carry an oversize load.

The advantage of the AN-124, in addition to its sheer size, is a rear-loading ramp that allows vehicles to drive right into the mammoth fuselage. U.S. carriers are not allowed to operate the AN-124 because it does not meet Federal Aviation Administration airworthiness standards.

At one point several years ago, before Congress approved funding to build more C-17s, the Pentagon began developing a plan to help keep Boeing’s C-17 assembly line going by selling commercial versions of the C-17 to all-cargo operators. By stimulating a commercial market for more planes the plan would also help the government bring down the unit cost of planes. Pentagon officials said the Commercial Application of Military Airlift Aircraft (CAMAA) program is now on hold since Boeing has its hands full filling the order for 180 planes.

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UPS Airlines

The commercial feasibility of the C-17 remains a big question, because it has a $160-million price tag, compared to the going rate of $20 million for a used 747-200 freighter, and is expensive to operate. It has a 169,000-pound payload vs. the AN-124’s 230,000-pound payload, and is limited to a 2,600-mile range, but excels in being able to take off and land on short airfields and fly at low levels. Boeing would modify the C-17 for commercial use by removing air refueling, defensive countermeasure and air drop capabilities.

Boeing officials say they almost gave up trying to make a pure commercial C-17 derivative that a commercial operator could afford and still make a reasonable return on investment in the risky outsize market. But the CAMAA program has kept the commercial variant alive, if on the back burner, by working to remove some risk for the commercial operator.

To make the business equation work, the Air Force is considering using federal loan guarantees or direct loans to help subsidize some of the capital cost for the first 10 BC-17X commercial variants, which would be required to serve in CRAF, said CAMAA program director, Air Force Col. Dennis Hunt. Those aircraft would be counted against the Air Force’ requirement of 222 and not be considered additional sales for Boeing.

“Any additional aircraft Boeing might sell would be purely commercial without U.S. Air Force assistance,” he said.

Some U.S. air freight companies interested in capturing some of the outsize market from AN-124 operators considered the commercial C-17 variant because the rear-loading capability allows it to carry extra large loads such as oil drilling and construction equipment.

“We were interested in that (aircraft) because they were going to subsidize it. Anytime the government is willing to put money on the table I’m interested,” Evergreen’s Palo said.

Priddy said some of his members were also interested in the C-17.

“It’s marginally viable as long as there is some support from the government and then they have to be committed for military use too,” he said.

Boeing says the market for the plane is still evolving, but that there are companies that need the capability to ship supplies to small, remote runways. The C-17 could benefit large, global construction and engineering companies, such as Bechtel, by reducing project completion times compared with moving equipment by vessel and truck. Faster turnaround times would translate into project savings or the ability to more quickly begin earning revenue from the project, said Bruce Bunin, director of Boeing’s C-17 Air Force Follow-on and Commercial Programs, and thus could cover the higher cost of booking a C-17.

According to Hunt, recent market studies indicate 30 to 50 commercial BC-17Xs could be supported by oil and gas companies operating in difficult to reach locations.

10-Year Study. At the same time the Defense Department intends to slightly scale back planned airlift purchases it is working to ensure enough commercial capacity to meet any future contingency.

The Office of the Deputy Undersecretary of Defense for Logistics and Materiel Readiness, concerned after Sept. 11 about the health of the aviation industry, commissioned the Institute of Defense Analysis to study the direction of the passenger and air cargo industries, and see what trends could affect the long-term availability of international lift capacity.

The just-completed study, expected to be
made public by the end of June, looked at issues such as the type of aircraft that will make up commercial fleets, the effects of industry consolidation through failures and mergers, and airline route structures. Fleet issues the study covered, for example, include the transition from four-engine to twin-engine jetliners, more conversion of 747s to freighter mode and arrival on the market by 2008 of Airbus’ high-capacity, very-long-range A380, which in cargo configuration has nearly twice the payload of the MD11. FedEx Express has an order for at least 10 A380s.

Boyanton, the DoD’s point man for transportation policy, said the study projected there would be sufficient U.S.-flag, long-range passenger and cargo capability to sustain Craf through 2010.

“There will be plenty of wide-body freighter airlift, although it will be concentrated in integrated carriers,” he said.

But the combination of industry shrinkage and the military’s expansion of its heavy-lift fleet will require the department to rethink how it parcels out peacetime business and compensates carriers for incurring the risk of being activated, something Boyanton said would be addressed soon in a follow-on study.

As the economy picks up and capacity tightens, the military has to be careful it doesn’t cannibalize airlift it uses outside the Craf framework or make Craf participation a burden for airlines. During the first Gulf war some airlines reportedly lost commercial business to foreign and non-Craf carriers, in many cases because they could not switch committed planes to pick up holiday-related passenger and freight surges, according to a December study on aviation liberalization done by the Brattle Group for the European Commission.

Among the questions the next study needs to address is how to balance Craf participation with the Defense Department’s increasing use of integrated logistics companies for day-to-day supply chain service.

“For the integrated carriers we need to make sure what amount of their fleets we are displacing from their commercial work,” said Boyanton. “We are affecting the private sector in general, but ourselves in particular, because we have so many shipments going through their regular network.”

The trend toward using integrators like FedEx and United Parcel Service, along with more reliance on military C-17s, eventually will squeeze the on-call charter companies.

“Because we are using more and more commercial supply chains that tends to dry up the amount of cargo we are moving in our own network” and the need for spot airlift service, Boyanton told American Shipper.

One idea that has surfaced in DoD discussions to address the Craf incentive issue is to offer some sort of retainer, similar to the approach used on the maritime side where vessel operators that sign onto the Maritime Security Program of $2.1 million per vessel.

Meanwhile, in another part of the Pentagon, retired U.S. Navy Vice Adm. Arthur Cebrowski, director of Force Transformation is studying ways to revolutionize the military’s strategic lift capability through the use of dirigibles that can haul up to 1,000 tons at speeds of 100 knots and very-high speed sealift, according to the May 23 issue of Aerospace Daily. Both concepts could further diminish the need for heavy-lift charters.

Boyanton said the study confirmed Transportation Command doesn’t need supplemental lift from foreign carriers as it does for sealift.

And that’s the way the Pentagon prefers it because it would not have maximum leverage — the ability to revoke a carrier’s operating certificate or seize its aircraft — when dealing with a foreign carrier. What if, for example, Air France had owned 49 percent of United Airlines and affected its ability to take troops to Kuwait because the French government objected to the war with Iraq?

U.S. citizenship rules regarding the level of foreign investment in U.S. airlines have always taken national security into account. An overseas investor can own no more than 25 percent of an airline’s voting stock.

But as ocean shipping arrangements show, the military does what it has to do to get the job done.

“Do we stand on principle and come up with millions of short tons not being able to be shipped because the flag on the stern is of another nation?” said Dennis Edwards, director of marketing for the National Defense Transportation Association. “It’s always a tradeoff.”

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2-D cure for hazmat handling?

Air carriers, shippers slow to adopt system for processing dangerous goods.

By Eric Kulisch

A new tool that relies on advanced bar code technology to help shippers and air freight carriers coordinate the proper packaging, handling and transport of dangerous goods has been available for several months. But cargo operators are holding off on purchases until revenues improve, according to those who helped bring the idea to reality.

Dangerous goods — such as flammable liquids, corrosives, and poisons — are highly regulated and place an extra burden on shippers and carriers. In the air environment special precautions have to be taken to account for temperature extremes, pressure and vibration.

Complications and uncertainty regarding the preparation, labeling and documentation of hazardous materials for transport frequently foul up the smooth handoff of materials from shippers to carriers. In many cases the problems boil down to differences in interpretation of hazardous material regulations, resulting in a load being returned to the shipper for verification or correction according to code.

Under U.S. law, carriers and their employees are subject to a $10,000 fine for not properly checking if a dangerous goods shipment is suitable for transport by air. Rather than take a chance, carriers are liable to send back a shipment that includes a questionable item and let the shipper verify if it complies with regulations.

“This is where time and money become a big factor in the transportation of dangerous goods,” said transportation consultant Robert Caton. “The other factor is excessive handling. You are creating a lot of extra movements (and a greater opportunity for mishandling) of goods that are more vulnerable, less stable.”

Training. A major reason shippers and carriers don’t see eye to eye on hazmat regulations is due to different training requirements, according to Caton, who heads Cargo Shipping Transportation Analysts.

Under U.S. Department of Transportation rules, personnel responsible for shipping dangerous goods must be re-certified every three years, while carrier staff must be trained every year or two years on domestic and international hazmat safety
rules, respectively. Every year the rules change some, yet those who actually generate the dangerous goods require the least follow-up training, Caton explained.

“If the carriers are aware of the changes about what constitutes dangerous goods and the shippers aren’t, they are going to continue to reject the dangerous goods,” Caton said. “Everybody should be on the same training schedule.”

The Federal Aviation Administration, which enforces hazmat rules as a DOT agency, only checks during compliance reviews if carriers properly accepted materials from a safety and security standpoint, not what happened to the goods prior to arrival at the carrier’s facility, Caton said. “Nobody is looking at the whole picture” to include efficiency, he said.

The International Air Transport Association, which publishes dangerous goods regulations used by all international air carriers, recommends shipper and international carrier personnel get training every two years. But the FAA does not recognize the IATA dangerous goods guidelines, creating a hodgepodge of expertise in the field.

Solution. Caton said there was a need to automate the transfer of the Dangerous Goods Certificate between shippers and carriers. Many shippers and carriers use dangerous goods compliance software to catch errors that can easily be missed doing manual verifications. But shipper and carrier computer systems do not talk to each other, meaning the carrier had to re-key data from the Dangerous Goods Certificate submitted by the carrier into its own system. In addition to duplicating work, the extra data entry process increases the chances of introducing an error.

Caton hit on the idea of a two-dimensional bar code that could instantly and accurately capture all the data from an entire Dangerous Goods Certificate. He approached Symbol Technologies, a leading maker of bar code printers and scanners, and the Bureau of Dangerous Goods, which does training for transport of dangerous goods by air and develops compliance software, about integrating their two technologies.

Symbol originally developed the concept of the 2-D bar code as an alternative for companies that wanted to share electronic forms, but didn’t want to transfer data via electronic data interchange for fear of contaminating their systems with viruses, according to Russell Bower, president of the Bureau of Dangerous Goods.

The technology has been around for about 10 years and is used in the medical industry, and to store information on drivers’ licenses, passports and immigration documents. But 2-D bar coding is less recognized in the transportation industry, except for a handful of companies such as express delivery and logistics company FedEx and less-than-truckload carrier Roadway Express.

A 2-D bar code captures more information than a one-dimensional bar code. Aviation industry bar code standards, as spelled out in the Cargo 2000 process, are basically limited to one-dimensional bar codes for package tracking, Caton said.

The Bureau of Dangerous Goods has two types of software, one for shippers and one for carriers. The shipper preparation software, Ship hazmat, verifies if a product can be shipped by air and offers packaging instructions. The carrier verification software is called Hazmat.

EC obtains mandate to negotiate U.S. air pact

BRUSSELS

The European Union’s council of transport ministers has given the European Commission a mandate to negotiate a joint air transport agreement with the United States.

The European transport council also gave the EC a general mandate to open negotiations with third countries on replacing certain provisions in existing bilateral agreements by EU-wide agreements.

The decisions mark the EC’s success in asserting its authority in international air transport, where national governments had been in charge of negotiating separate air transport agreements with non-European Union countries.

The European transport council also agreed that the EC should open negotiations with non-EU countries on airline ownership restrictions, but that “member states should be permitted to continue bilateral negotiation subject to a degree of community control.”

“This is an historic decision,” said Loyola de Palacio, EC vice-president in charge of transport and energy. “We aim to launch negotiations with the U.S. within a month on an agreement that will bring together the two largest aviation markets in the world.”

Last year, the European Court of Justice ruled that several aspects of “open skies” agreements concluded between individual European member governments and the U.S. were contrary to European law.
More costs, constraints for U.S. shippers

U.S. shippers of containerized cargoes are facing increased costs, reduced services in certain trades, and additional regulations.

That’s not a particularly desirable situation, but shippers just have to prepare for it.

With tight capacity in the eastbound transpacific trade, ocean carriers have gained the upper hand in recent service contract negotiations, and secured almost all of the $700-to-900 rate increases per 40-foot box that they wanted.

This represented a 25-percent increase in rates when compared to previous levels, a senior Asian carrier executive told American Shipper. Admittedly, because rates have fallen in the last two years, the price hike was only a relative increase from a low base — but it still meant a big year-on-year rise.

In the transpacific westbound trade, agricultural shippers are facing shortages of reefer containers.

In the transatlantic trade, carriers have cut back capacity and services. Maersk Sealand has stopped its direct all-water service from the U.S. West Coast to North Europe and replaced it with a (more expensive) landbridge service by the U.S. Gulf. APL, Hyundai Merchant Marine, MOL and other carriers have also cut back their transatlantic services.

The one trade where shippers seem to benefit from a greater range of services and plenty of new capacity this year is the all-water Asia/U.S. East Coast trade. Vessel capacity has also increased, but by a lesser percentage, between Asia and U.S. West Coast ports.

Carrier surcharges continue to multiply, and U.S. shippers are reportedly finding it increasingly difficult to obtain contracts with fixed “all-in” rates.

As previously reported, the U.S. Bureau of Customs and Border Protection is strengthening its application of the “24-hour rule” for inbound ocean cargoes, and preparing to introduce a similar 24-hour rule for U.S. outbound cargoes.

To top all these operational and documentation constraints, many shippers fear a return of port congestion on the U.S. West Coast during the peak season.

It’s a tough business, but traffic managers and logistics vice presidents cannot complain about the lack of variety in the job.

Rewards for carrier CEOs

Do you know how much the chief executive officers of your carriers earn?

This data isn’t easy to find, as most carriers are not public companies.

But it is interesting to look at the limited CEO remuneration data that is available from certain carriers, and compare it to the performance of the company.

The highest paid director of P&O Nedlloyd — believed to be group managing director Robert Woods — earned about $558,000 in 2002, down from about $589,000 in 2001. P&O Nedlloyd made a record deficit of $304 million last year.

Flemming Jacobs, the former high-profile president and CEO of Neptune Orient Lines, earned between $3.15 million and $3.3 million in 2002, including severance payments related to the termination of his contract. Neptune Orient Lines, the parent company of APL, lost a record $330 million in 2002. Jacobs must have been the highest paid ocean carrier CEO in 2002.

At Orient Overseas (International) Ltd., the parent company of OOCL, the highest paid director — believed to be group CEO C.C. Tung — earned “only” between $897,000 and $962,000 in 2002, despite reporting another year of profits at his company (see “Who’s making money?”, page 8).

You may believe that CEOs of successful companies deserve higher remunerations than those of money-losing companies, and that this doesn’t seem to be the case with Neptune Orient Lines, P&O Nedlloyd and OO(I)/OOCL. But don’t feel too sorry for Tung just yet. In addition to his executive compensation, Tung’s stock in the family-controlled shipping line company will have secured him a good proportion of the $7.8 million of dividends paid to shareholders in 2002.

Maybe managing your own company is the best way to ensure that management remains focused on profitability?

Sluggish U.S./Mideast commercial market

While the war in Iraq has generated a large amount of military shipments to the Middle East, the commercial trade from the United States to the Middle East hasn’t done well.

“The traditional export commodities have shown a declining trend in recent years and this continues unabated,” said Anil Vitharana, president of United Arab Agencies in Cranford, N.J. The sourcing for these products have primarily shifted from the U.S. to China and India, he said.

Yet, he reported a slight increase in eastbound container volume due to large shipments of kraft liner board that formerly moved mostly as breakbulk cargoes. And the Jordan market appears to have benefited marginally from the Free Trade Agreement with the United States.

“We do not expect a surge in commercial cargo bound for Iraq for some time,” Vitharana told American Shipper. “Neither is there imminent project cargo.” At the recent Iraq Reconstruction Conference in Washington, the consensus was that this may be “at least a couple of years away,” he explained.

Maersk Sealand has been carrying most of the containerized military and humanitarian/aid shipments pre- and post-Gulf war, followed by P&O Nedlloyd, UASC reported.

U.S. ports get short-changed

Not only has the U.S. federal government not provided enough money to fund new legislative requirements on port security, but it is also considering raiding the limited funds that had previously been assigned to ports.

The U.S. Congress estimated that port facilities require $4.4 billion over 10 years to comply with the 2002 Maritime Transportation Security Act. American seaports were allocated $105 million for fiscal year 2002. Congress was planning to reprogram a similar funding for fiscal year 2003 for port security, but the Transportation Security Administration recently proposed to shift some of its $75 million seaport security set-aside funds to airport security.

Predictably, port officials protested. “We strongly oppose reprogramming of any funding appropriated for port security,” said William Ellis, director of security for the port of Long Beach on behalf of the American Association of Port Authorities.
Hapag-Lloyd seeks balance

Banks on yield management to balance flows, avoid costly equipment repositioning.

By Philip Damas

The cost of moving a containerload of cargo depends on many variables, but Hapag-Lloyd believes it has a better control of equipment and inland costs than most carriers.

With yield management, Hapag-Lloyd said it has “considerably” reduced costs per TEU on land and sea. “This involved mainly minimizing the number of empty containers that have to be transported,” the German carrier said.

Yield management — or the maximization of profit margins of each operation — is new in liner shipping. But the high profit results of Hapag-Lloyd Container Line in the last two years, compared to other leading containership operators, suggest its yield management focus has paid off.

Hapag-Lloyd Container Line earned an operating profit of 98 million euros ($102 million) in 2002, down from 186 million euros in 2001. The carrier said the decrease was caused by lower freight rates, and implied that its results would have been a lot worse without yield management and productivity efforts.

Gunther Casjens, board member of Hapag-Lloyd and chief executive officer of Hapag-Lloyd Container Line, also pointed at the multimillion-dollar losses of some carrier competitors. For Hapag-Lloyd Container Line, “I’m talking about plus figures,” he said.

Meanwhile, Hapag-Lloyd expects cargo imbalances to widen. “Nobody can get away from this completely, but you can reduce the impact,” he said.

Hapag-Lloyd has used yield management tools to optimize each individual container load for several years.

For a carrier, yield management means forecasting what will happen to the container at destination once the container has been unloaded, and making checks about whether there is return cargo available in the region, to avoid costly equipment repositioning.

Casjens said the company’s policy of yield management has helped maximize profits. The carrier’s staff understand the need to focus on the profit contribution of each shipment, and to turn down unprofitable business if required.

For example, if customers ask “Do you want cargo from Hong Kong to Liverpool?”, the staff generally declines the offer, Casjens said. The reason: there is a wide cargo imbalance in Liverpool and no likely return cargo. This affects the profit contribution of the inbound shipment.

Focusing on profit contribution “is more a mental than an IT issue,” Casjens said. “It’s a philosophy.”

Meanwhile, the introduction of the U.S. Bureau of Customs and Border Protection’s 24-hour rule on advanced cargo manifests is costing Hapag-Lloyd several million euros a year, Casjens said. Specialized staff are working on Saturdays and Sundays to process the required documentation. But Hapag-Lloyd had “very few containers left behind” because of the more stringent Customs requirements.

Widening Imbalances. For carriers, indirect costs like equipment-repositioning and vessel back-haul are notoriously difficult to monitor and apportion to specific shipments.

But Hapag-Lloyd expects the continued, rapid growth in shipments from China will exacerbate trade imbalance problems of the Asian trades. The carrier described the transpacific trade as “the region with the largest structural imbalance.”

In 2002, the total eastbound Pacific traffic increased 19 percent to about 8.6 million TEUs from 7.3 million TEUs. In the weaker westbound direction total cargo volume improved only 3 percent to 3.5 million TEUs. This means the eastbound transpacific trade accounts for about 67 percent of the heavily unbalanced Asia/U.S. container trade.

As a result of its policy of balancing flows whenever possible, Hapag-Lloyd’s transpacific carryings in 2002 showed a better balance than the trade’s average. Its eastbound Pacific volumes accounted for about 60 percent of its two-way traffic. In 2002, the carrier shipped 279,000 TEUs from Asia to North America, and 195,000 TEUs in the other direction.

In the Asia/Europe trade, Hapag-Lloyd carried 387,000 TEUs in the stronger westbound direction, only marginally more than the 358,000 TEUs shipped in the eastbound direction. Again, the carrier attributed its relative cargo balance to its yield management policy.

As for the transatlantic trade, Hapag-Lloyd shipped 276,000 TEUs westbound last year, against 225,000 TEUs in the eastbound direction.

Hapag-Lloyd reported it lost money on the transpacific trade last year, but made profits on the Asia/Europe and transatlantic routes.

Priorities. Besides yield management, Hapag-Lloyd considers...
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productivity gains to be another major objective.

Casjens summed up the main business priorities of container shipping companies as having “a minimum number of people” (employees), good documentation systems, standard working procedures worldwide, integrated IT systems, and a focus on the contribution of shipments.

The changes in the staff and in the traffic volumes of the carrier highlight its productivity gains. In 1992 Hapag-Lloyd employed 4,406 people and shipped 640,000 TEUs. In 1996 it carried 910,000 TEUs, with 3,302 employees. In 2002 traffic totaled 1.9 million TEUs while the staff figure was 3,354.

“Today we handle more than twice as many containership (as in 1996) with the same number of personnel,” Casjens said.

Like several other major carriers, Hapag-Lloyd has opened a documentation center in Shanghai, a low-cost business location.

Casjens noted his company’s statistics on container traffic volumes show different trends from those of general economic statistics on exports and imports. The growth rate of container box volumes is much higher, because of an increasing volume of low-value products, he explained.

For example, Casjens said customers in Germany queue up to buy cheap home furnishing goods from IKEA, whereas expensive department stores nowadays are short of customers.

Hapag-Lloyd invested 79 million euros ($82 million) in its shipping business last year, down from 160 million euros in 2001. In 2002, most of investments were allocated to the logistics activities of the group.

In 2002, Hapag-Lloyd signed a contract to take four 6,750-TEU ships on long-term charter, rather than deciding to own them. The vessels are scheduled to be delivered at the end of this year and in early 2004.

But the German carrier may return to a higher level of investment.

Hapag-Lloyd Container Line has recently ordered three ships of about 8,000-TEU from Hyundai for its own account, for delivery in 2005 and 2006. The 8,000-TEU ships will become the biggest containerships in its fleet. They will be deployed in the Asia/Europe trade.

Casjens expects Hapag-Lloyd to order more 8,000-TEU ships, following its recent order of three vessels of this size.

Beyond 8,000 TEUs, ships need a second engine and a second propeller, which increases costs, Casjens said. “At the moment, it’s the optimum size.”

Organic Growth. Contrary to the companies that became Maersk Sealand, P&O Nedlloyd and Neptune Orient Lines, Hapag-Lloyd has neither acquired other shipping lines, nor merged with another major shipping company in recent years.

“Success is not about size,” said Michael Behrendt, chairman, Hapag-Lloyd. “We have proved a lot of people wrong who said, ‘you need a certain size to be successful,’ ” Casjens said.

However, he disclosed that Hapag-Lloyd did explore acquiring the Ellerman liner-shipping arm of U.K.-based Andrew Weir Shipping. This was a relatively small carrier was eventually bought by Hamburg Sud, which outbid Hapag-Lloyd.

Casjens expects smaller carriers will continue to be acquired by larger operators, but he sees no major takeovers and mergers happening among containership operators.

“People have seen that they are no longer successful,” he argued. He also downplayed the trend towards consolidation among carriers. “I’ve never believed in a handful of carriers remaining, I believe in 20 plus,” Casjens said.

Wider Network. Hapag-Lloyd continues to widen its network of services.

Casjens indicated that the carrier’s activities in the intra-Asia trades are also helping to reduce the effect of trade imbalances.

The Grand Alliance, of which Hapag-Lloyd is a member, plans to launch an additional transpacific service in the next few weeks, probably serving China and the U.S. West Coast.

Last year, Hapag-Lloyd launched several services in north/south and secondary trades. The carrier entered the crowded North America/East Coast of South America container trade, under a joint U.S. Gulf/Mexico/East Coast of South America service with CMA CGM. This followed Hapag-Lloyd’s entry of the Europe/East Coast of South America market a year earlier.

Hapag-Lloyd also started taking slots on the Indian Subcontinent/U.S. East Coast “Indamex” direct service of Contship Containerlines and CMA CGM.

Also last year, Hapag-Lloyd Container Line started additional transatlantic shipping connections between the U.S. Atlantic Coast and ports in Spain in the Algeciras-Cadiz range under a slot-charter agreement with Maersk Sealand.

Hapag-Lloyd Container Line expects to carry 2.1 million TEUs this year.

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mobile units businesses, reported a 2002 operating profit of 202 million euros ($210 million), down from 299 million euros in the previous year.

Hapag-Lloyd said its 2002 result was the third-highest profit in the company’s 155-year history. The group’s operating profit return on equity for tax for 2002 was 15 percent.

**Higher Rates, Profits.** Hapag-Lloyd Container Line expects to report higher profits this year, as freight rates recover in major trade lanes and productivity increases.

“If the recoveries in rates apparent so far continue, and the dollar exchange rate against the euro does not continue to deteriorate rapidly, we expect to increase both our sales and profit,” Casjens said.

Commenting on rates for eastbound transpacific service contracts from May 1, Casjens said his company experienced “a substantial increase, from a very low level.”

Shipping lines of the Transpacific Stabilization Agreement were asking for increases of $700 per 40-foot box port-to-port.

Behrendt said that world trade should grow “considerably faster” in 2003 than in 2002, when it expanded by 2.6 percent.

“We are currently satisfied with both the volume and the rate trend, as transport prices are picking up slowly in most trades,” Behrendt said.

“Rates are slightly higher than they were a year ago,” Casjens said. By contrast, Hapag-Lloyd Container Line said it experienced a “dramatic slump in rates” last year.

Whatever level of freight rates, the carrier will continue to look closely at the expected yield of each shipment.

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**FMC broadens probe of Pacific lines**


**WASHINGTON**

The U.S. Federal Maritime Commission has revised the scope of its high-profile fact-finding investigation of malpractices by transpacific carriers in the 2002/03 year to also cover 2003-2004.

It has also broadened the geographic scope of its competition probe to include the Indian Subcontinent/U.S. trade.

The decision will result in the continuation of the one-year-old competition probe for at last another six months.

The investigation was started last summer after the National Customs Brokers and Forwarders Association of America and the International Association of NVOCCs complained to the FMC about allegation of discriminatory practices in the eastbound transpacific trade in 2002-2003.

The FMC said in late May that evidence produced in connection with the fact-finding investigation, undertaken following the complaint, “suggests that TSA members may have engaged in unjustly discriminatory practices in the matter of rates and charges with respect to NVOCCs as a class, which resulted in or may result in an unreasonable increase in transportation costs for such shippers.”

But instead of announcing a decision, on May 30 the FMC formally ordered carriers to provide more information — this time on sensitive questions such as the protection of shippers’ confidential contracts, capacity agreements and “bridging agreements.”

In effect, the FMC’s fact-finding investigation 25 on “Practices of Transpacific Stabilization Agreement Members Covering the 2002-2003 Service Contract Season” is getting bigger and more serious.

**Related Issues.** The FMC has issued two Section 15 orders to request detailed information and data from carriers.

One order, sent to the 14 carriers of the TSA, concerns the eastbound Asia-to-U.S. trade; the other, sent to TSA carriers, Lloyd Triestino, Hatsu Marine, Contship Containerlines and Shipping Corp. of India and related carrier agreements, concerns the Indian Subcontinent/U.S. trade.


Bryant Vanbrackle, secretary of the FMC, told American Shipper that the fact-finding investigation and the two information request orders concern related issues, but will follow different processes.

TSA carriers have until June 30 to respond to the request for information. The FMC gave itself until Dec. 2 to report the findings of its broader fact-finding investigation.

Commissioner Joseph Brennan had led the agency’s fact-finding investigation. The agency has now named two senior FMC enforcement officials as the new investigative officers: Vern Hill, director, and George Quadrino, attorney, both of the bureau of enforcement.

The FMC is requesting information from all TSA carriers and from the TSA secretariat on issues that include the TSA’s “tonnage rationalization committee,” capacity plans of individual carriers, vessel-sharing agreement and alliances, revenue per TEU by shipper account, and NVOCC customers.

“We intend to comply fully with the commission’s request for additional information,” said Albert A. Pierce, executive director of the TSA. “This inquiry has been in process for nearly a year, there has been no finding that TSA or its members have violated OSRA or the Shipping Act, and we’re confident there will be none in future. We further believe the record will show that transportation costs in the eastbound trade lane are at least as low today as at any time in the past 15 years.”

**Additional Concerns.** The initial phase of the fact-finding investigation focused on discriminatory practices of transpacific carriers against NVOCCs.

The expanded investigation will examine at least the following seven issues:

- The alleged disclosure by TSA carriers of confidential shipper information related to individual service contracts.
- The alleged systematic withdrawal of tonnage from the transpacific trades, individually, or through carrier alliances, following detailed discussions and exchanges of information on capacity reduction within TSA.
- TSA’s alleged failure to file minutes of meetings of senior executives.
- The alleged unjust discriminatory practices in the matter of rates and charges with
respect to NVOCCs as a class.

• Whether and to what extent TSA and/or its members have unduly or unreasonably prejudiced or disadvantaged NVOCCs as a class.

• Whether TSA and/or its members have engaged in practices which actively discourage members from taking independent rate actions.

• Whether and to what extent, the TSA agreement and/or other related agreements to which TSA or its members are parties, have produced, or are likely to produce, by a reduction in competition, an unreasonable decrease in transportation service or an unreasonable increase in transportation cost.

Vanbrackle said the FMC will not revisit the issues addressed by the previous phase of the investigation, which commenced last year.

“The commission will be proactive with regard to enforcing the Shipping Act to assure that market forces prevail in the give and take of carrier/shipper relations in U.S. trades, providing the fairness, stability and balance necessary for trade growth,” said FMC chairman Steven R. Blust.

‘Bridge Agreements.’ The FMC is asking TSA carriers to provide information on so-called “bridging agreements” between them and other, non-TSA carriers in the inbound trades from Asia and the Indian subcontinent to the United States.

The FMC cited the “Indamex/TSA Bridging Agreement” and the “Evergreen/Lloyd Triestino/Hatsu Marine Alliance/TSA Bridging Agreement,” saying the latter agreement further extends the reach of the TSA agreement “beyond its already considerable market share” in the inbound transpacific trade.

Carriers of the Indamex/TSA Bridging Agreement had a combined 95 percent market share of the trade from Sri Lanka to the U.S. East Coast in the fourth quarter of 2002.

“TSA members exchange and discuss information on their individual service contract rate actions and service changes through a regular, structured program of meetings and data exchanges,” the FMC said. “Thus, TSA members have an extraordinary ability to affect supply as well as pricing of ocean liner service in the trade.”

The FMC is mindful that the trade served by the TSA and related bridging agreements is the largest U.S. trade, and has a correspondingly significant impact on the U.S. economy.

The FMC said in the information request order that it is concerned that the activities of ocean common carriers of the TSA “may have reduced competition among the carriers to a degree and in a manner which may affect prices and service in the inbound U.S. foreign trades from Asia and the Indian Subcontinent to an unreasonable extent.”

Additionally, the regulator is “concerned about the degree of TSA’s market power, and long-term potential for abuse, inherent in TSA’s ongoing authority to discuss and agree on matters relating to both pricing and vessel capacity deployed in the agreement trade.”

Once the FMC has completed its non-adjudicatory fact-finding investigation into Pacific carriers, it can choose to move to an adjudicatory proceeding, or seek injunction in court to stop the carrier practices, or drop the matter.

At this stage, the FMC has not mentioned the possibility of fines. But a probe confirming the existence of carrier malpractices would likely lead to fines if injured businesses petition the commission for punitive action.

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Experts say parametric rolling may have been at work on the APL China in 1998, when 400 containers were lost overboard and about 500 remaining containers were damaged or destroyed.

**Going overboard**

Parametric rolling in head seas can cause loss of on-deck containers.

BY ROBERT MOTTLEY

Why do containers go over the side?

Rogue waves whipped up by a violent storm can be one cause. So can faulty lashings of containers, which can bring on disaster in even moderate wind and sea conditions.

Another common explanation is improperly stowed cargo within a container. When a ship encounters bad weather, “improperly stowed cargo breaks loose and starts moving within the container. The cargo will eventually break through the side of the container, which in turn causes a collapse of an entire stack of containers, and can also result in the collapse of other stacks, or cause stacks to go overboard,” Raymond P. Hayden, current president of the Maritime Law Association of the U.S., and a partner in Hill, Rivkins & Hayden LLP, told a recent meeting of insurance underwriters in New York.

There’s also parametric rolling, a phenomenon that’s just now being assessed by naval architects and insurers.

In some ways, parametric rolling is the most worrying of these factors, because it can affect any post-Panamax C10 and C11 containership in head seas.

“When containers were first developed, the first ships to carry them were bulk carriers,” Hayden told American Shipper in an interview. “Containers were lowered into the holds of vessels and secured with chains. That methodology proved to be very costly to insurers. The containers would work free and ultimately grind themselves into scrap during even minor storms,” he said.

After substantial losses, “ships with cells were developed. The containers would be lowered into the cells and would thus be secure in bad weather. As container began to be carried on deck, naval architects studied ways that the boxes could be secured as they were stacked higher and higher,” he said.

“The industry has now gone to stacking containers seven high and 16 across. Imagine the weight of a stack of seven 40-foot containers, and then take that one step further to 16 stacks abreast holding 112 containers. All of that weight sits basically on a moveable hatch cover,” he explained.

A shipowner who adds an additional tier of containers “many times fails to obtain a new cargo securing manual, as required under the Safety of Life at Sea Convention,” he said.

In a stack of seven containers, the only container securing devices go to the top of the second tier and to the bottom of the third tier on the outboard stacks. “That is standard procedure,” he said. Between the tiers on each stack are twist locks that hold the containers together in each stack, but not together as a block.

“In the old days, it was customary to use bridge fittings to lock the containers together at the top to make each row a block, but that is no longer done,” Hayden said.

“It is not uncommon, when containers are lost overboard, to find the ship has stowed the containers in violation of weight requirements. A very heavy box, perhaps one containing steel coils, may have been put at the top of a stack,” he said.

‘House Of Cards.’

Even when the heaviest containers are placed toward the bottom in a stack of seven boxes, “enormous forces are being exerted on the corner post of each container in the lower tiers. If one of those corner posts has sustained serious damage, its ability to sustain or maintain the load required is compromised,” Hayden said.

“As a ship rocks and rolls, first there is tension on the corner post, and then, compression. This happens thousands of times throughout a voyage, which is why the physical condition of the container becomes increasingly significant as weather deteriorates,” he explained.

The contents of general cargo containers and the care taken (or not) to stow cargo within a container, not to mention the age and strength of a box itself if outside signs of deterioration are not apparent, are factors unknown to workers loading ships.

For those reasons, on-deck containers regardless of weather are open to an intrinsic “house of cards” risk. “Since only a small percent of all containerized cargo is actually lost or seriously damaged at sea, a combination of factors would appear to reasonably protect the majority of containers stowed on deck,” Hayden said.

Or so the industry took comfort in believing until one night in October 1998, when a post-Panamax C11 class containership, the APL China, eastbound from Kaohsiung to Seattle, was overtaken by a violent storm in the northern Pacific. The master of the vessel reduced speed and steered into increasingly higher seas off the starboard side of the ship’s bow, a maneuver commonly called “heaving to” and routinely followed by masters in those circumstances.

Officers reported green water at bridge level during the worst of the storm, and observed that container stacks immediately forward of the bridge had collapsed.

“More significant than the violence and
magnitude of the seas were reports by deck and engine room personnel of unexpectedly extreme and violent ship motions,” said William N. France, a naval architect and admiralty attorney with Healy & Baillie LLP in New York.

“At times, yaw angles of 20 degrees port and starboard made course keeping almost impossible. Port and starboard rolls as great as 35 degrees to 40 degrees occurred simultaneously with the extreme pitching of the vessel. The master later described the ship as absolutely out of control during the worst storm conditions,” France said.

**Scene Of Devastation.** When the crew inspected the deck of the APL China the next morning, they found containers and cargo hanging precariously over both sides of the vessel. Out of 1,300 on-deck containers, more than 400 had been lost overboard, and approximately 500 of the remaining containers had been damaged or destroyed. Much of the cargo had been of high value, and insurance underwriters received claims of more than $100 million — “the largest container-overboard casualty in history,” France explained.

When the vessel arrived in Seattle, a veritable army of ship surveyors and maritime attorneys waiting on the pier could see wave-impact damage from bow seas on forward container stacks, and similar damage along the entire starboard side from boarding seas, which had reached as high as the ship’s forecast and the running lights on the bridge.

What had caused such devastation on the deck of a 262-meter-long containership? Experts now believe the responsible factor was parametric rolling, which previously had been “of technical concern for smaller vessels of low or marginal stability in following seas,” France said.

“Auto-parametric rolling has been known for many years. It can occur when a vessel’s natural roll period is approximately twice the wave encounter period, the wavelength is on the order of the vessel’s length, wave height exceeds a certain critical level, and roll damping is low,” France said.

“The sensitivity of containerships to heavy rolling in stern seas has been well studied. The International Maritime Organization has operational guidelines for masters on how to avoid dangerous situations in following and quartering seas. However, no model tests or time-domain motion computations were carried out for head sea parametric rolling for either the post-Panamax C10 or C11 designs. The phenomenon was not considered to be of practical concern in head seas,” France said.

In addition to ‘heaving to,’ model tests have shown that “a group of high waves slows the vessel below a certain threshold speed, allowing parametric rolling to start. At that time, the vessel loses more energy from higher roll amplitudes. This reduces the speed even more, which allows even greater rolling until maximum roll angles are encountered,” he said.

In a paper entitled *An Investigation of Head-Sea Parametric Rolling and Its Influence on Container Lashing Systems*, published in January by the Society of Naval Architects and Marine Engineers (SNAME), William France and other contributors drew the following conclusion in regard to container lashings:

“When parametric rolling in head or near-head seas (occurs), the combined effect of pitch and roll significantly increase loads on containers and securing systems. The large roll motions generate high transverse, or across-the-deck, accelerations. Simultaneously, large pitch motions introduce significant vertical accelerations on the container stacks towards the bow and stern.”

“Parametric roll stops when excitation due to waves falls below a threshold value,” France noted.

**Fact Of Life.** Abetting this problem is the design of present-era post-Panamax C10 and C11 class vessels. “Containerships used to have a V-shaped hull,” Hayden said. “The aft hull shape in newly designed vessels is more like that of a box, with a flat transom stern. The V-shape hull is no longer common, except very far forward in the area of a flare bow.”

New, ever-larger containerships “will have greater flare bows and large flat transoms,” Hayden said. “Given their length, it will not be uncommon to have wave periods approximately one-half the roll period for the vessel, which will result in more cases where a significant amount of containers go overboard,” he explained.

In short, “parametric rolling is a fact of life to be reckoned with,” Hayden said.

“There is a critical need to make ship designers more aware of head seas parametric rolling,” France said. “This must be considered when developing hull forms for future post-Panamax containerships.

Container securing systems should be designed to provide protection against head sea parametric rolling, he noted.

Masters of containerships have options in dealing with bad weather other than the traditional means of a vessel taking rough seas head-on. “Safe and unsafe combinations of heading and vessel speed for various sea state and container loading combinations should be identified and presented to vessel masters,” France explained.

Also, ship classification societies should establish more uniform guidelines and review existing rules “to insure that loadings on ship structure resulting from parametric rolling are properly accounted for,” he said.

Finally, in the view of France and other naval architects, the IMO should augment MSC Circular 707, *Guidance to the Master for Avoiding Dangerous Situations in Following and Quartering Seas*, with guidelines for operating vessels prone to parametric rolling caused by head seas.
A piece of the American maritime dream

GCL, one of the largest transporters of humanitarian aid, wants U.S.-flag vessel.

BY CHRIS GILLIS

Global Container Lines wants a piece of the American maritime dream. That is, the company wants to operate its own U.S.-flag commercial ship, a job, which it believes, it’s well equipped to handle.

“It’s frustrating being a U.S-owned and based company and being still treated like an outsider when it comes to cargo preference,” said Bijan Paksima, vice president of North American services for New York-based Global Container Lines. “Most U.S.-flag vessel owners are ultimately foreign-owned corporations.”

GCL, and its general agent Shiptrade, arrange the movement of hundreds of thousands of tons of U.S. humanitarian cargoes a year on foreign-flag ships. Under U.S. cargo preference rules, the federal government requires that 75 percent of U.S.-financed food-aid shipments be transported on U.S.-flag ships. The Maritime Administration ensures that the food-aid agencies follow the cargo preference rules.

“We have made the point to MarAd: If you want to enhance the maritime presence of America, it’s not enough to create shipboard jobs on U.S.-flag ships. We need to create shore-based jobs for Americans as well,” Paksima said. “We would like to see a new category under cargo preference which would give U.S.-owned carriers operating foreign flag ships more of an edge.”

However, GCL isn’t waiting for Washington to change its long-held policies regarding cargo preference. Late last year, the company laid out a two-year business plan during which it would acquire its first U.S.-flag vessel.

“Although we’re not sure yet which type of U.S.-flag vessels we’ll acquire, the management has made a commitment to do this,” Paksima said.

Maritime Tradition. GCL is managed by the Paksima family. The Paksimas are well acquainted with the intricacies of ocean cargo management and vessel operations. The family traces its maritime roots back 50 years to Iran.

Paksima’s Uncle Ali and father Kazem, the sons of merchants, started an ocean shipping business in Iran during the late 1950s and were ready when Iran embarked on ambitious modernization and restructuring projects, thanks to the oil boom.

In the late 1960s, the brothers started the first breakbulk shipping line operating between the United States and the Far East to Iran, known as South Shipping Lines-Iran Lines. They also backed the service with an in-house ship agency, freight forwarding, and a land transport operation. In addition, they established the first port management company in the Iranian port of Khorramshahr. In all, the Paksimas controlled a shipping empire in Iran that had more than 12,000 employees by the mid-1970s.

The brothers, however, suffered a significant setback in the early 1970s when the then national carrier Arya Shipping Lines engineered the forcible takeover of South Shipping Lines-Iran Lines. Prior to this move, Arya only had ocean transport service from Europe to Iran. The South Shipping Lines-Iran Lines takeover introduced Arya to the U.S. and Far East markets.

Unperturbed, Ali and Kazem Paksima quickly established a replacement carrier to South Shipping Lines-Iran Lines, called Iran Express Lines. The service would compete head on with Arya in the U.S. and Far East markets.

Iran Express Lines was considered the pioneer of containerization in Iran. Since the Paksimas still controlled their own port operations, they could quickly move containers through the congested port of Khorramshahr to various inland destinations using their own in-house trucking fleet.

The Paksima’s work in the Iranian maritime and land transport sector, however, started to come undone at the time of the Iranian revolution and the family had to leave Iran in 1980.

“We were lucky,” said Bijan Paksima, who was 14 years old when they left Iran. “We were able to replant ourselves and start over again.”

He admits that losing everything in Iran was “heartbreaking” for the family, but perhaps they came away with the most important thing intact. “Both my father and uncle had extensive experience in all phases of shipping and impeccable reputations,” he said. “Everyone was willing to do business with them.”

Ali Paksima stayed behind briefly to help clear out Iran-destined shipments that were dropped by the carriers in neighboring ports in the Persian Gulf.

The Paksimas arrived in the United States in 1981 and congregated in New York a year later. The family also immediately began reestablishing itself in the maritime industry by setting up Shiptrade, a vessel agent and ship consulting company.

During their early years in the United States, the Paksimas never lost touch with
their Middle East shipping roots. In 1985, the family along with a group of investors founded GCL, a regional East African container service.

“There was a need for a container service between East Africa and the Indian Subcontinent,” said Bijan Paksima, whose cousin David (Ali’s son) oversees the operation. “It was an area of the world we knew best.”

GCL began with two-chartered multipurpose ships, which could carry a combination of container, roll-on/roll-off and breakbulk cargoes. While a variety of freight was transported on these ships, the backbone of the trade for GCL was the movement of tea in containers from Kenya to Pakistan, returning to East Africa with industrial products, finished goods, steel, electronics, textiles and vehicles.

Today the carrier service includes five vessels, which operate in a 10-day service from Sharjah/Dubai in the United Arab Emirates to Mombasa, Kenya; Dar es Salaam and Zanzibar, Tanzania; and north to Karachi, Pakistan; India’s Mumbai (formerly Bombay) and Muscat; and back to Sharjah/Dubai. Mombasa is GCL’s primary hub in East Africa. The company manages its own freight terminals in this Kenyan port.

Over the years, many carriers have come in and out of the trade. GCL has provided container space on its ships to former U.S. Lines, Maersk and APL, because the carriers lacked direct service in the region. GCL and P&O Nedlloyd are considered the oldest players in the market. GCL controls about 60 percent of the trade, with about five other lines, including P&O Nedlloyd and Maersk Sealand, sharing the rest.

GCL relishes its ability to efficiently operate multipurpose roll-on/lift-off ships in the East Africa/Middle East/Indian Subcontinent trade. The company, for example, has become a large carrier in the Middle East used car business. Many of these cars arrive from the Far East at Sharjah. GCL transports these vehicles to Kenya and Tanzania.

“The beauty of our service is that it lends itself to a mix of cargo,” Bijan Paksima said. “It allows us to sustain the economic ups and downs of the region.”

In 2000, GCL extended its service to Southern Africa. Two dedicated multipurpose ships operate between Dar es Salaam; Durban, South Africa; and Mozambique’s Maputo, Beira, and Nacala.

GCL also recently began to carry Lykes Lines’ cargo from Durban to ports in East Africa, including managing any inland transport. The carrier has a reciprocal arrangement with European liner services Delmas and Nile Dutch, which transport cargoes from Durban on GCL’s behalf to West African ports. This feeder activity accounts for about 10 percent of GCL’s business today.

In addition, GCL operates a small feeder ship every few weeks from Mombasa to Comoros, Madagascar and Mauritius. P&O Nedlloyd and Delmas rely on GCL to move their shipments to these islands.

GCL has made some inroads into the U.S. and Far East ocean freight markets. In the early 1990s, after the devastating Iran/Iraq war, there was an attempt by the United States and Iran to reconcile their political differences. The U.S. government allowed the sale of some goods to Iran, of which GCL handled a large portion. The carrier, for example, moved 5,000 used Navistar and Mack trucks from the United States to Iran between 1990 and 1993, in addition to large shipments of grains, rice, pipes and PVC resin.

Today, the bulk of the U.S./Far East/Middle East market is based on vessel charter with large project shippers. “We tailor-make these voyages based on the cargo requirement,” Bijan Paksima said.

In recent years, GCL has become the largest foreign-flag charter vessel operator by tonnage for transporting U.S. government food-aid.

“We have the experience in Africa and the Mideast, which I believe gives us an edge over anyone else,” Bijan Paksima said. “Intimate knowledge of the African ports helps us to assist our customers with the rapid loading and discharging of their cargoes. If you don’t know what you’re doing, you can experience long delays.”

The company expects to remain heavily involved in food-aid transport to this region for the U.S. Agency for International Development, especially with the ongoing disaster relief efforts in Ethiopia and countries in Southern Africa.

“USAID cargoes fit well with lots of other cargoes that we transport to the Red Sea and India,” Bijan Paksima said. “Bagged rice, for example, serves as a good base cargo. Then we try to load in higher paying cargoes, such as turbines and vehicles in the remaining ship holds.”

GCL is also one of the largest carriers for the United Nations. The company managed the evacuation from Cambodia, Somalia and moved UN freight in and out of Bosnia, Kosovo and East Timor and Sierra Leone.

‘Full Circle.’ For the Paksimas, the recent U.S./British war with Iraq appears to mark a “full circle” in the family’s maritime business in the Persian Gulf. GCL hopes to rapidly become a large player in the management of aid and restructuring project cargoes to Iraq.

With the downfall of Iraqi leader Saddam Hussein, the Bush administration has committed millions of dollars in food-aid and reconstruction assistance. USAID will provide 610,000 metric tons of food, worth more than $300 million, to feed the Iraqi people. This will add to more than 130,000 metric tons that the UN’s World Food Program had pre-positioned in the area when the war broke out.

GCL was one of two carriers to move the first shipments of USAID food aid to Iraq. On March 28, GCL’s Free Atlas dry bulk vessel loaded more than 28,000 metric tons of bulk wheat at the port of Galveston, Texas, and transported it to Iraq’s Umm Qasr seaport for discharge in early May.

The company has also become involved in the movement of Iraq-bound cargoes that were dropped in neighboring ports at the beginning of the war. “All of this has to be moved and we know how to do it,” Bijan Paksima said.

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Mineta: SAFETEA would provide ‘blueprint’

WASHINGTON

The Bush Administration’s proposed six-year, $247-billion surface transportation reauthorization proposal is a “blueprint for investment,” said U.S. transportation secretary Norman Y. Mineta.

The 2003 Safe, Accountable, Flexible and Efficient Transportation Equity Act (SAFETEA) more than doubles funding for highway safety over levels provided by the Transportation Equity Act for the 21st Century (TEA-21).

SAFETEA continues the Transportation Infrastructure Finance and Innovation Act program and expand it by allowing rail freight projects to qualify for credit assistance. SAFETEA would also create a new category of tax-exempt private activity bonds to finance highway projects and freight transfer facilities.

“The proposal I have submitted to the Congress is more than a simple spending plan,” Mineta said. “It is a key blueprint for investment.”

Mineta emphasized that SAFETEA will help ensure transportation projects are “completed on budget and on time, while protecting the environment.”

Jeffrey Shane, undersecretary for policy at the Department of Transportation, said SAFETEA demonstrates the Bush administration’s goal to promote the development of inland and coastal short-sea shipping services as one way to take freight off congested highway arteries, such as I-95 on the East Coast.

“We at DOT feel strongly that short-sea shipping has the potential to provide benefits to multiple stakeholders by relieving congestion and adding freight capacity to the system. But its ultimate success will depend on cooperation among service providers across the various modes,” Shane said at a recent port and intermodal industry event.

Shane said the bill has many features designed to address port, rail and highway infrastructure needs. While continuing the funding guarantees of the TEA-21, SAFETEA creates a new requirement for states and municipalities to invest at least 2 percent of their National Highway System funds on intermodal connectors, unless the Transportation Secretary certifies they are already in a state of good repair. The federal share for these projects can be as high as 90 percent, he added.

But the bipartisan leadership of the House Transportation and Infrastructure Committee told DOT Secretary Norman Mineta at a May 15 hearing that the administration’s budget proposal was inadequate to address America’s growing surface transportation problems. The committee proposes to spend $375 billion to meet the investment level that a DOT report said is needed to improve the condition of highways, bridges and transit systems by 2009.

A copy of the administration’s proposal is available online at www.fhwa.dot.gov/reauthorization/

DOT helps finance transportation projects

WASHINGTON

A toll road in southern California that is expected to help facilitate freight movement across the U.S.-Mexico border is one of 11 projects that received a total of $3.5 billion in loan guarantees from the Department of Transportation.

Macquarie Infrastructure Group, the largest developer of toll roads in the world, will borrow $140 million with government help to cover a portion of the $642 million project, the DOT said May 23.

RailAmerica buys BNSF track

BOCA RATON, Fla.

RailAmerica Inc. has purchased 288 miles of track for its Alabama & Gulf Coast Railway subsidiary from Burlington Northern and Santa Fe Railway Co. for $15 million cash, the companies said in a joint statement.

Alabama & Gulf Coast began service on the new section, which runs from Amory, Miss., to Mobile, Ala., on June 1.

The Alabama short line now operates 429 miles of rail line and provides shippers direct access to the Port of Mobile. The railroad said it expects to haul about 23,000 additional carloads and generate $12 million in new operating revenue on the extension during its first full year of operation. Major shippers on the line include Gulf States Paper Corp., EKA Chemicals, Kerr-McGee Chemical, Weyerhaeuser and the Port of Mobile.

Alabama & Gulf Coast exchanges with five Class I carriers, as well as several other short lines. RailAmerica, a holding company with 49 short line and regional railroads in the U.S., Canada, Australia and Chile, acquired Alabama & Gulf Coast in January 2002.

This line acquisition is consistent with our strategic approach in North America to build geographic clusters of operations to achieve operating and marketing efficiencies and to grow the existing customer base,” said Gary Marino, RailAmerica’s chairman and president, in a statement.

KCS buys 51% stake in Mexrail

KANSAS CITY, Mo.

Kansas City Southern has acquired a 51 percent stake in Mexrail for $32.7 million in cash.

The Kansas City-based railroad said it has placed the stock into an independent voting trust pending approval by the U.S. Surface Transportation Board of KCS’s common control of the Texas Mexican Railway Co., a wholly owned subsidiary of Mexrail.

KCS holds an option to acquire the remaining 49 percent of Mexrail from TFM, a company controlled by Grupo TMM.

Kansas City Southern Railway Co. and the Gateway Eastern Railway Co. already indirectly owned a significant minority interest in Mexrail through its ownership interest in TFM. KCS said it wants to merge TFM and its own railroad activities into a larger railroad to be named NAFTA Rail.

KCS believes the transaction should be treated as a “minor” transaction under current Surface Transportation Board procedures, since it only involves common control of a Class I (Kansas City Southern Railway), Class II (Texas Mexican Railway) and Class III (Gateway Eastern Railway) carrier in an end-to-end manner, with no reductions in the number of carriers serving any customers.
Captain, whose captain?

ILA, Evergreen America settle labor dispute, begin contract negotiations.

By Robert Mottley

The International Longshoremen’s Association and Evergreen America Corp. settled a labor dispute June 11 that had ballooned to dimensions that neither side had anticipated.

The ILA’s attempts to unionize five Evergreen port captains resulted in a four-week work stoppage at Maher Terminal’s Tripoli Street terminal in Port Elizabeth, N.J., and pickets against Evergreen at East Coast ports.

“After 29 years without a labor action, I have a strike over five people,” said John Bowers, ILA president. “Why? Because I gave my word,” he said in an interview with American Shipper. “When you give your word, you don’t back away from it.”

“No one could have predicted the situation caused by two unhappy port captains would lead to picket lines around our vessels in the port of New York and New Jersey,” Capt. Jimmy Kuo, executive vice president of Evergreen America Corp., said in a letter to Evergreen customers written before the settlement.

Those of us at Evergreen are distraught about the … walkout against our company that has left so much cargo stranded and undelivered, and that has upset our East Coast services,” Kuo said.

Cargo began moving June 11, after Evergreen America agreed to withdraw charges against the ILA that were pending before the National Labor Relations Board.

The two sides negotiated a written settlement in a late-night session June 10 (see related story).

“Last night, we settled the whole thing in four hours,” Bowers said. “We could have done that many weeks ago, without all the intervening trouble.”

Shoreside Staffs. The ILA for years has been interested in organizing the shoreside office staffs of ocean carriers in ports where the ships of those same carriers are serviced by ILA personnel.

In 2002, the ILA’s local 1964, a union comprised of clerical workers, tried to organize 115 office employees of Evergreen America. Evergreen’s employees voted 61-52 against the union.

Rebuffed, the ILA then sought out four port captains and one port engineer who worked at Evergreen America. Those five Evergreen employees, Taiwanese who lived in the United States on work visas, voted 3-2 to join the ILA.

The National Labor Relations Board certified the tally and ordered Evergreen America Corp. to accept the result and deal with the ILA. In an April 25 “decision and order,” the NLRB said Evergreen “admits its refusal to bargain, but contests the validity of the certification on the ground that its port captains, assistant port captain, and engineer are managerial employees.”

Port captains prepare plans to stow cargo on ships, and port engineers oversee ship repairs while a vessel is in port. In Evergreen’s view, those duties were managerial, not clerical. Evergreen has alleged that certain of the five employees misrepresented their jobs to the ILA, saying their positions tended to be clerical in nature.

In its decision, the NLRB ordered Evergreen “to cease and desist, to bargain on request with the union, and if an understanding is reached, to employ the understanding in a signed agreement. We also shall order the respondent to furnish the union the information requested.”

Subsequently, Evergreen allegedly assigned two of the four port captains to duties in Taiwan. One was said to have left immediately, the other was to return at the end of June. Evergreen maintained these assignments were made according to prior scheduling, the captains being on visas that required their return to Taiwan.

The ILA cried foul, alleging that Evergreen wanted two replacements that would

Outline of emerging contract

Evergreen America and the International Longshoremen’s Association reached a memorandum of understanding in their late-night June 10 meeting.

In the settlement, a copy of which was obtained by American Shipper, Evergreen America and the ILA agreed that any issues on which they could not see eye-to-eye after the next 14 business days of negotiations would be submitted to a panel of three arbitrators, one from Evergreen, one from the ILA, and a third to be picked by the other two arbitrators.

Evergreen agreed to withdraw immediately all pending unfair labor practice charges against the ILA, and “to designate a representative with authority to negotiate and … execute good faith negotiations with the ILA toward a contract concerning the port captains.”

Evergreen promised to dismiss a lawsuit against the ILA filed in a New Jersey federal court, and agreed not to sue the ILA “for damages or other relief arising out of the current port captain dispute.”

However, “nothing herein shall constitute a waiver by (Evergreen) of its claims which are the subject of current appeal before the U.S. Court of Appeals for the District of Columbia circuit,” the agreement noted. Evergreen had appealed the NLRB’s determination that its port captains and port engineer were employees entitled to representation instead of managers exempt from representation.

“The port captains are to be returned to their positions and normal functions immediately,” the agreement said. Evergreen promised not to house the port captains beyond a 25-mile radius of its present offices in Morristown, N.J.

The contract will include language to assure the ILA that Evergreen will not divert the work of its ILA unit to other vessels its owns or controls.

One contentious issue concerned Evergreen’s right to rotate its port captains out of the United States.

In that regard, the agreement said, “of the five union employees in the certified bargaining unit, three positions will be subject to the union referral system to be contained in the agreement, and the other two positions will be part of Evergreen’s worldwide personnel rotation system.”

The ILA pressed for a provision requiring “unionized employees to have input into the employer’s hiring process. Until now, Evergreen was entirely at liberty in selecting, transferring, and otherwise dealing with the terms and conditions of its employees,” the ILA said in a statement.

The three-year contract between the ILA and Evergreen may be extended if the parties want, according to the agreement.
We have moved cargo to Halifax, beyond our control.

sporadic problems, it was a situation being solved itself from obligations to shippers from the New York area traveled to other Evergreen’s coastal operations.

Evergreen declared force majeure, absolving itself from obligations to shippers for cargo en route to New York, and ripples from the stoppage quickly affected all of Evergreen’s operations.

As Kuo said in his letter, “when pickets from the New York area traveled to other ports up and down the East Coast and caused sporadic problems, it was a situation beyond our control.”

“We have moved cargo to Halifax, Jamaica, and Panama in an effort to meet our schedules,” Kuo said.

While it was an “Evergreen problem, it will, without question, impact the industry in the future,” he said.

“I have a nice sense of understatement,” said another carrier source — before the ILA and Evergreen settled.

War Chest? Bowers recently committed more than $1 million to ILA organizing. Asked if the ILA intended to approach the office staffs of other ocean carriers, trying to organize them, Bowers said “that’s our right, if we feel they are disposed to want us.”

Does that mean more work stoppages against carriers arising out of efforts by the ILA to organize their office workers or port captains?

Bowers replied that a vote against the union would not be grounds for any action against the carrier.

However, if employees vote for the ILA, their vote is legally certified, and the carrier refuses an order by the NLRB to negotiate with the union, then the union will stand by the employees who voted for it.

“That’s the signal, if you’re looking for one, from our experience with Evergreen,” Bowers said.

During the ILA’s job action against Evergreen, certain members of ILA Local 1422 in Charleston, S.C., crossed a picket line and worked one Evergreen vessel against the wishes of the international union.

“I am distressed and shocked that some of our local’s members in Charleston crossed a picket line,” Bowers said.

Port charges

WASHINGTON

A new grouping of terminal operators on the U.S. West Coast plans to discuss rates and port charges.

If approved by the U.S. Federal Maritime Commission, the West Coast Marine Terminal Operator Discussion Agreement will be allowed to discuss and agree on rates, charges, rules, regulations, procedures, practices, terms and other conditions of service pertaining to the transport, handling, receipt, or delivery of cargo by marine terminal operators.


The grouping includes both major independent terminal operators and carrier-affiliated terminal operators.

In early May, some of the members of the West Coast Marine Terminal Operator Discussion Agreement, together with operators of U.S. East and Gulf coast terminals, also notified the FMC that they are planning to discuss security charges and issues within the new Marine Terminal Discussion Agreement.

Consortium gets $480 million for Pusan terminal

PUSAN, South Korea

Pusan Newport Co., a consortium of companies with the largest shares held by Samsung Corp. (25 percent) and CSX World Terminals (24.5 percent), has received $480 million in financial backing for construction of a new terminal facility in Pusan, South Korea.

The funding includes 245 billion in Korean won and $276 million, CSX World Terminals said in a statement.

“Pusan is currently the third-largest container port in the world, and it is at full capacity. The addition of our new terminal ... will solidify Pusan as the key logistics hub for North Asia,” said Arno Dimmling, senior vice president and chief operating officer of CSX World Terminals.

The South Korean government awarded Pusan Newport Co. a 50-year concession contract for the initial development of the Pusan project.

CSX World Terminals has the exclusive right to manage the new terminal for a minimum of 30 years.

Construction started in November 2001 on the terminal and operations are expected to begin in January 2006.
Carrier liable for trucker’s lapse in security

Levi Strauss & Co. contracted with Tropical Shipping & Construction Co. Ltd. to ship a loaded and sealed container of men’s pants from Puerto Plata, Dominican Republic, to Little Rock, Ark. On April 2, 2000, Levi Strauss delivered the container to Tropical in Puerto Rico. Tropical issued bills of lading for the cargo and transported it to the Port of Palm Beach, Fla. Then Tropical contracted with All Coast Intermodal Services Inc. to bring the container by truck to Little Rock.

Gerald and Robin Baum, drivers for All Coast, picked up the cargo April 5 at 9 a.m. After driving for several hours, the couple stopped in Melbourne, Fla., and secured a room at a Days Inn. Later that afternoon, the Baums unhitched the trailer and used the tractor to go to Wal-Mart for personal shopping. The next morning, the Baums discovered the container with Levi Strauss’s goods had been stolen from the parking lot at the Days Inn. The night manager reported seeing the truck leave the hotel lot at 3:30 a.m. When the tractor and trailer were later found in Miami, the police recovered 14,590 units of pants, but 6,976 units were never found. The market value of the missing men’s pants was alleged by Levi Strauss to be $155,000.

Levi Strauss sued Tropical and All Coast in federal court in Florida’s southern district to recover the loss of the pants. U.S. District Judge Kenneth L. Ryskamp noted in his ruling that “plaintiff Levi Strauss has demonstrated that it delivered to defendant Tropical a container of goods in sound condition.” The question was whether Tropical was liable for the theft.

Ryskamp said, “Gerald Baum had hauled cargo for Levi Strauss before on about 15 to 20 occasions. He knew a trailer could be empty. Later that was valuable.” Although the Baums testified they had taken “certain security precautions … the truck was no more protected in the hotel parking lot than on a public street. Moreover, although Baum’s route was not necessarily a deviation in the sense that he went out of his way, it was a deviation in the sense that it substantially increased the exposure of cargo to foreseeable dangers,” Ryskamp said.

Available options to protect the truck included “storing the container in a secured depot or warehouse when stopping overnight, using pilferage alarms on the container … and having the driver sleep in the cabin of the truck,” Ryskamp said.

The court ruled that “Tropical was negligent in that it did not require … greater security measures. Today, theft is increasingly common, but there are options that can be taken to prevent or decrease the risks of loss. Those measures were not taken here,” concluded Ryskamp, who ordered a subsequent hearing on the amount of damages. That trial is scheduled to begin in November.


Another inducement to read your bill of lading

Leslie Fay, a clothing company, had a service contract with Crowley American Transport, a shipping company, to bring clothing and other cargo between Central America and the United States at set rates based on the size of the container. Pursuant to that agreement, Crowley agreed to deliver one 40-foot container of garments from El Salva
dort to Miami, under a bill of lading dated April 30, 2002. The container, provided by Crowley, was identified in the bill of lading as a “rack,” or a “garment on hanger container,” equipped with ropes used for hanging individual pieces of garments.

The container was loaded by the shipper, not by Crowley, and contained 22,355 pieces of garments prepackaged in sets wrapped in plastic. The bill of lading did not indicate how many packaged sets were in the container.

Subsequently, armed bandits allegedly hijacked the container while a truck convoy was transporting it from San Bartolo, El Salvador, to Santo Tomas de Castilla, Guatemala, the intended port of loading. Most of the contents were lost.

The service contract between Leslie Fay and Crowley indicated that armed guard service was to be provided in El Salvador to protect the shipper’s goods. Leslie Fay’s director of international operations said that meant an armed guard with a cellular phone would escort each container, in addition to the normal security provided by Crowley, which allegedly had one guard accompanying the convoy when the hijacking occurred.

American Home Assurance Co., the insurer of Leslie Fay’s clothing, sued Crowley in federal court in New York to recover $400,000, the alleged value of the unaccounted-for garments.

Leslie Fay had entered no value for the shipment. The reverse side of Crowley’s bill of lading noted that when no value was entered by a shipper, the $500-per-package limitation specified by the Carriage of Goods by Sea Act (COGSA) applied to the shipment.

U.S. District Judge Peter K. Leisure, in his ruling, said, “the bill of lading lists the container as a package and the description of the garments does not indicate anything regarding preparation for shipment. The plaintiff (the insurer) attempts to avoid the harsh result of limiting the recoverable damages to $500 by arguing that through the course of dealing between Leslie Fay and Crowley, defendants (Crowley) had sufficient notice of the number of packages. Therefore, American Home argues that the court should find that there were 22,355 packages in the container because the garments were wrapped in plastic,” Leisure wrote.

“While the alleged plastic wrapping of the sets might have been enough for them to be deemed COGSA packages, the lack of disclosure on the bill of lading of the true number of sets is fatal to the plaintiff’s argument,” the judge said. The court ruled that Crowley’s damages, if liability was proven, would be limited to $500 for the entire container considered as one COGSA package.

The insurer also argued that COGSA’s protection should not apply because Crowley had failed to provide the security agreed to in its service contract with Leslie Fay. Leisure said, “an unreasonable deviation from the contract of carriage would preclude a carrier from invoking COGSA’s $500-per-package limitation. In the U.S. Second Circuit (Court of Appeals), this doctrine has been strictly limited to geographic deviation and unauthorized on-deck stowage,” neither of which Leisure said applied in the case at hand.

Corporate Appointments

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Logistics

Horizon Services Group

The Dallas-based provider of logistics management technology for ocean shipping and intermodal logistics has appointed Rick A. Kessler president and chief executive officer, and Tricia Covais as chief operating officer. Kessler was vice president and chief operating officer. Covais was director of information technology.

Horizon Services Group is a subsidiary of Horizon Lines, recently acquired by The Carlyle Group. Horizon Lines, based in Charlotte, N.C., was formerly called CSX Lines.

P&O Nedlloyd Logistics

Michael Vaccaro has been named director of business development, eastern region, for the East Rutherford, N.J.-based company. Vaccaro worked for APL Logistics as director of synergy sales for greater China and general sales manager of North Asia.

Integrators

Atlas Air Worldwide Holdings

The parent company of air-freight charter companies Atlas Air and Polar Air Cargo promoted David Lancelot to senior vice president and chief financial officer. The positions have been open since Douglas Carty left the company in January.

Lancelot moves up from vice president and controller. He previously was controller at Polar Air Cargo and before that vice president and controller. He previously was controller of the company’s terminal operating subsidiary, Eagle Marine Services Ltd., as well as its Stucktrain Services subsidiary. In 1999, he was named senior vice president, liner operations in 1999. In 2001, he was promoted executive vice president.

CP Ships

Jared Henry has been named vice president of supply chain security, in addition to his existing duties as vice president of customer service. Henry will be based at CP Ships’ office in Tampa, Fla. He will be responsible for the company’s compliance with security initiatives that are being introduced by the United States and Canada, other countries and international bodies.

Henry also heads up CP Ships’ “security task force,” a committee that reports directly to Ray Miles, chief executive officer of the company. The task force includes experts from across the group representing specialized areas such as marine, insurance and claims, communications and business process improvement.

CP Ships said Henry led the recent effort to comply with the 24-hour rule of the U.S. Bureau of Customs and Border Protection, which the company completed on time.

International Shipholding Corp.

The company has appointed Erik F. Johnsen to chairman and chief executive officer, succeeding his brother, Niels W. Johnsen, who remains on the company’s board.

Prior to his appointment, Erik F. Johnsen served as president of the New Orleans-based ocean carrier. His nephew, Niels M. Johnsen, has assumed the role of president.

As president, Niels M. Johnsen will serve as a director of International Shipholding, and head of subsidiary Waterman Steamship Corp. He is also chairman and director of Central Gulf Lines, another International Shipholding subsidiary.

Erik L. Johnsen, son of Erik F. Johnsen, will continue as executive vice president and director of International Shipholding and Waterman Steamship, and as president of Central Gulf.

P&O Group

Lord Sterling, chairman of P&O, said Charles Rice left the P&O board and group, effective June 30.

Rice had been managing director of P&O Trans European (Holdings) Ltd. P&O recently sold the logistics business of P&O Trans European to Wincanton plc.

Nick Luff has joined the P&O board as chief financial officer. He had been CFO of P&O Princess Cruises plc.

Inland

Jones Walker

John S. Doyle Jr., vice president of government relations for Waterways Work!, has joined Jones Walker as special counsel in the law firm’s Washington office.

While Doyle will continue to represent Waterways Work!, he will also assist other Jones Walker clients in the areas of water resources development, transportation, environmental, maritime, technology and appropriations issues.

Waterways Work! is a national campaign to educate administration and congressional policymakers about the importance of ports and inland waterways to the nation’s economy.
TACA plans to raise westbound tariffs

The Trans-Atlantic Conference Agreement said it will increase rates $400 per 20-foot container, $500 per 40-foot container, and $25 weight/measure for other cargo, effective Oct. 1. Tariff rate levels “will be held good through March 31, 2004,” TACA said in a statement. The Oct. 1 rate hikes are the second of a two-part general tariff rate increase program originally announced in February.

TACA’s member lines are Atlantic Container Line AB, Hapag Lloyd Container Linie GmbH, Mediterranean Shipping Co. SA, A.P. Moller-Maersk Sealand, Nippon Yusen Kaisha, Orient Overseas Container Line Ltd., and P&O Nedloyd Ltd.

USSEC plans rate increase

The United States South Europe Conference said it will raise westbound tariff increases by $200 per 20-foot container and $250 per 40-foot container, effective Oct. 1. The conference previously had announced westbound tariff increases, effective July 1, of $200 per 20-foot container and $250 per 40-foot container.

Conference members are A.P. Moller-Maersk Sealand, Hapag Lloyd Container Linie GmbH and P & O Nedloyd, Inc.

Rickmers revises round-the-world service

Rickmers-Linie, the German multipurpose shipping line, has revised its round-the-world service after taking delivery of six new vessels. The service has been renamed “round-the-world Pearl string” service, and will eventually employ nine ships. The remaining three multipurpose vessels will be delivered in July, September and December.

The 14-day-frequency service has a regular eastbound rotation of Hamburg, Antwerp, Genoa, Jakarta, Singapore, Map Ta Phut, Haiphong, Hong Kong, Shanghai, Xingang and Dalian, Kobe, Yokohama, Houston, New Orleans and back to Europe. The service also calls at specialist project ports such as Masan, South Korea; Hitachi, Japan; Newport News, Va.; and Camden, N.J.

The nine new ships will each have four large cranes, of which the two heaviest will be combined for a lifting capacity of up to 640 tons. Each ship will also be able to carry up to 1,888 TEUs.

Med Shipping adds transpacific service

Mediterranean Shipping Co. is the latest shipping line to add capacity to the expanding transpacific trade that’s gearing up for the peak season.

The Geneva-based shipping line has added a second weekly transpacific service, the “USA-Orient Express.” The China/U.S. West Coast service calls at Shanghai, Chiiwan, Hong Kong, Yantian, Long Beach and Shanghai. The ships employed in the service vary in size, but they are believed to average 2,600 TEUs in capacity.

Med Shipping’s second transpacific service complements its main “Transpac Pendulum” Asia/U.S. West Coast/U.S. East Coast service, which utilizes ships of about 4,500 TEUs.

In a separate development, Med Shipping is adding a ninth ship to its Transpac Pendulum link, which will start calling at the port of Miami on July 13. The revised eastbound rotation of the service is Busan, Chiiwan, Hong Kong, Ningbo, Tokyo, Long Beach, Manzanillo (Mexico), Freeport, Miami, New York and Savannah. The Transpac Pendulum loop now carries primarily cargoes for the U.S. East and Gulf coasts and for the Caribbean.

Other carriers that have added transpacific capacity this year include China Shipping, CMA CGM, COSCO Container Lines, “K” Line, Yang Ming, Hanjin Shipping, Great Western Shipping Co., Lloyd Triestino, New World Alliance carriers APL, Hyundai Merchant Marine and MOL, Maersk Sealand, Wan Hai Lines and Zim Israel Navigation. Grand Alliance carriers Hapag-Lloyd, NYK Line, OOCL and P&O Nedloyd are also expected to add a Pacific loop.

China Shipping rationalizes tonnage

In a move to large containerships, China Shipping Container Lines has replaced two weekly transpacific services that employed smaller vessels with a single weekly transpacific loop using five ships averaging 4,476 TEUs.

The changes withdraw about 80,000 TEUs in annual one-way capacity from the transpacific market, according to ComPairData, the global liner-shipping database.

The additional service, called “AAS Loop 2,” is being introduced at the expense of the “AAC” and “AAT” services. The new service will focus largely on China, the home market of China Shipping.

The port rotation for the AAS2 service is Yantian; Hong Kong; Shanghai; Ningbo; Busan; Vancouver, B.C.; Los Angeles, Calif.; Yantian; Hong Kong; Shanghai; Ningbo and Busan.

The AAC had used five ships averaging around 3,500 TEUs and called Liangyungang, Ningbo, Shanghai, Hakata, Busan, Los Angeles, Oakland, Liangyungang, Ningbo, Shanghai, Hakata and Busan.

The AAT used 12 ships of about 2,600 TEUs with a port rotation of Jebel Ali; Nhava Sheva; Port Kelang; Laem Chabang; Hong Kong; Yantian; Shanghai; Busan; Vancouver, B.C.; Seattle, Wash.; Busan; Qingdao; Dalian; Xingang; Busan; Shanghai; Ningbo; Chiwan; Port Kelang; Colombo; Jebel Ali and Nhava Sheva.

The changes also mean the withdrawal of the carrier’s direct connections between the U.S. and Canadian West Coasts, at one end, and the Middle East, India and Thailand, at the other end.

New World adds Asia/U.S. East Coast link

New World Alliance carriers APL, Hyundai Merchant Marine and MOL have added a weekly Asia/Panama/U.S. East Coast service, called the “New York Express.”

The service is the second Asia/U.S. East Coast all-water link, using alliance carriers’ ships, besides its “APX” weekly service. The alliance carriers also take space on Evergreen’s Asia/U.S. West Coast/U.S. East Coast/Europe “NUE” service.

The New York Express uses eight ships of about 2,800 TEUs and calls Shanghai; Yantian; Hong Kong; Kaohsiung; Balboa; Manzanillo, Panama; New York; Norfolk; Savannah; Manzanillo, Panama; Balboa; Yokohama; Busan; Shanghai; Yantian; Hong Kong; and Kaohsiung.

Great Western adds ships

Tequesta, Fla.-based Great Western Shipping Co. confirmed it has resumed a transpacific service of its own, following a period of exclusive slot chartering on other carriers’ vessels.

Using five chartered vessels of about 2,000 TEUs, Great Western’s new “GWX” loop calls weekly at Shekou, Hong Kong and Los Angeles.

The shipping line is also building up its additional strings. Great
Western now takes slots with Zim Israel Navigation from Asia to both the Pacific Northwest (the “AMP” loop) and U.S. East Coast (the “ZCS” service), and takes further East Coast slots from Zim’s “AUX” joint service with Lloyd Triestino.

“We still have one string with Maersk Sealand, which will hopefully soon become two,” said Don Carter, Great Western spokesman.

**FEFC to raise Asia/Europe rates, surcharges**

Shipping lines of the Far Eastern Freight Conference said they will proceed with rate increases announced on Nov. 15, and will introduce additional changes in their tariffs.

Between July 1 and Sept. 30, rates for cargo from all Asian main ports (excluding Japan) will rise $250 per TEU, the Asia/Europe conference said.

A “rate restoration” of $300 per TEU will apply to Indonesia, the Philippines, Vietnam, Thailand and all cargo loaded in Penang and Pasir Gudang.

The high-cube surcharge also increases by $300 per TEU.

For six-month contracts having effect from July 1, the interim tariff rates will rise by $350 per TEU to an amount of $1,500 per TEU for ports in the Mediterranean and $1,550 per TEU for North Europe and Scandinavia, the FEFC said.

A further rate restoration will be implemented on Oct. 1, with rates yet to be decided, the FEFC said.

**TNWA, Evergreen to exchange Pacific slots**

Evergreen Line and the New World Alliance carriers — APL, Hyundai Merchant Marine and MOL — have agreed to a new slot-exchange in the transpacific trade.

The proposed “New World Alliance/Evergreen Slot Exchange Agreement,” filed with the U.S. Federal Maritime Commission, revises several aspects of their operations, including the number of vessels deployed by the carriers in the trade, their average capacity and the list of services on which the partners exchange slots.

The agreement is for an initial period of 12 months.

The New World Alliance already takes space on the Asia/U.S. East Coast “NUE” service of Evergreen.

**Oceania/U.S./Europe VSA tightens schedule**

P&O Nedlloyd, Contship Containerlines, Hapag-Lloyd, Hamburg Sud, CMA CGM and Marfret have tightened the schedule of their joint Oceania/U.S. East Coast/Europe eastbound round-the-world service by stopping direct calls at Fremantle and New York.

The grouping, which operates the largest service in the trade from Oceania to the U.S. East Coast, said high cargo volumes on its “Eastabout” service and productivity problems at certain ports had put pressure on the previous schedule. Ending calls at New York and Fremantle will “lock in” a consistent fixed-day weekly service frequency, said Jeremy Nixon, director of trades at P&O Nedlloyd.

With a fleet of 10 ships of 4,100-TEU capacities, the joint “Eastabout” service replaced late last year several services with frequencies ranging from eight to 14 days. The new 4,100-TEU vessels have the largest reefer capacity of any containerships currently afloat.

The revised eastbound service calls at Melbourne, Sydney, Brisbane, Auckland, Napier, Port Chalmers, Manzanillo (Panama), Savannah and Philadelphia, before continuing to Europe and Oceania.

Shipments from Oceania to New York will now be routed via Philadelphia, P&O Nedlloyd said. After direct calls at Fremantle have been stopped, cargoes from this area to the United States will now move either by transshipment over Singapore, or by rail via Melbourne.

The vessel-sharing agreement also operates a weekly westbound Europe/U.S. East Coast/Oceania round-the-world service, which remains unchanged.

**Maersk Sealand adds Oceania feeder**

Maersk Sealand has added a transshipment-based service from the U.S. Gulf to Australia and New Zealand, via the port of Freeport in the Bahamas.

The service from Houston to Oceania was resumed by reinstating southbound calls at Freeport on Maersk Sealand’s U.S. East Coast Oceania string.

The revised southbound rotation of the fortnightly service is Philadelphia, Savannah, Freeport, Manzanillo (Panama), New Plymouth (near Auckland), Melbourne, Sydney and Brisbane.

**DHL schedules charter with Dragonair**

Dragonair said it has signed an agreement with global freight forwarder DHL Express to launch a dedicated express cargo delivery service between Hong Kong and Shanghai, China.

The Hong Kong-based airline said the overnight service offers a payload capacity of 22 tons aboard an Airbus A330-300 passenger plane and operate Tuesday through Friday.

**Med Shipping adds West Med ports**

Mediterranean Shipping Co. has introduced a direct service to West Mediterranean ports in addition to its existing North Atlantic service.

MSC is using five 1,200-TEU-capacity vessels on a weekly basis for the new service, with a rotation of Boston, New York, Baltimore, Charleston, Savannah, Freeport, Valencia, Naples, and La Spezia, then returning to Boston.

**Med-Can conference raises rates**

The Mediterranean-Canadian Freight Conference said it is raising rates by $150 for 20-foot containers and $200 for 40-foot boxes, effective July 1.

Members in the Med-Can Conference include Canada Maritime and CAST, both divisions of CP Ships (UK) Ltd., Senator Lines, and Zim Israel Navigation.

**U.S./India carrier group ends conference role**

Indamex, a grouping comprising Contship Containerlines, CMA CGM and the Shipping Corp. of India, will no longer operate as a conference.

The cooperative group in the U.S./Indian Subcontinent trade will become a rate discussion agreement, its partners told the U.S. Federal Maritime Commission.

The three shipping lines also operate a joint, direct weekly service in the U.S./Indian Subcontinent trade.

**Maersk Sealand merges Americas services**

Maersk Sealand is merging its weekly Central America/West Coast South America “Andean Loop 2” with its weekly North Coast South America/Central America “WCCA” service.

The former “Andean Loop 2” had called Balboa, Buenaventura, Callao, Paita and Balboa. The “WCCA” had served Ensenada, Mexico; Los Angeles; Puerto Quetzal, Guatemala; Acapulco, El Salvador; Ensenada; Los Angeles.

The two ships from the Andean Loop 2 service will now join the “WCCA” service. The Mexican port of call of the service will be Manzanillo, instead of Ensenada. The merged WCCA service will use four ships of about 1,150
TEUs and will call at Los Angeles, Manzanillo, Puerto Quetzal, Acajutla, Balboa, Callao, Paita, Balboa, Acajutla, Puerto Quetzal, Los Angeles and Manzanillo.

Maersk Sealand also operates a Balboa/West Coast of South America service, previously known as “Andean Loop 1.” This operation will pick up the call at Buenaventura that was lost after the end of “Andean Loop 2.”

**APL adds direct service to El Salvador**

APL has extended its Pacific Coast feeder service southward to include El Salvador, along with Mexico, and the northern zone of Central America.

Expansion of the Mexico-Central America Express, launched in December, to Acajutla is aimed at taking advantage of El Salvador’s growing international garment and refrigerated commodities markets, said Manny Fernandez, head of APL’s Latin America market, based in Miami.

APL had provided service to El Salvador by combining ocean service to Puerto Quetzal, Guatemala with truck service to El Salvador.

With the change, transit times to Acajutla improve by two days to six days transit to Los Angeles. Transit times to Los Angeles from Honduras and Nicaragua also are shortened by two days because direct calls at El Salvador reduce the number of border crossings and length of overland segments required to serve those markets.

The service, which uses two containerhips provided by APL, has a rotation of Los Angeles, Manzanillo, Mexico; Acajutla; then northbound to Puerto Quetzal, Guatemala. A fortnightly northbound call is made at Mexico’s port of Salina Cruz.

**Carriers amend Asia/Americas services**

The six carriers of the Asia/North America/West Coast South America “AMPAC” vessel-sharing agreement have dropped three ports from their two joint fortnightly loops and removed one from their fleet.

Shipment lines of AMPAC are Compania Chilena de Navegacion Interoceanica, Compania Latino Americana de Navegacion, Columbus Line, Lykes Lines, Maruba and TMM Lines.

Previous calls at Yokohama, Lirquen and Antofagasta have been dropped and will now be served via transshipment. The change allows the carriers to reduce the number of deployed ships on the two strings from 11 to 10.

Loop 1 will now operate five ships of about 2,200 TEUs and call Hong Kong; Shanghai; Busan; Vancouver, B.C.; Long Beach, Calif.; Manzanillo, Mexico; Puerto Caldera; Callao; Antofagasta; San Antonio; Manzanillo; Long Beach; Seattle, Wash.; Vancouver; Keelung; Hong Kong; Shanghai; and Busan.

Loop 2 will use five ships of about 1,850 TEUs with a revised port rotation of Hong Kong; Shanghai; Busan; Vancouver; Long Beach; Puerto Quetzal; Buenaventura; San Antonio; Buenaventura; Puerto Quetzal; Manzanillo, Mexico; Long Beach; San Francisco; Keelung; Hong Kong; Shanghai; and Busan.

**Seaboard Marine adds 2nd Miami/Haiti link**

Seaboard Marine is adding a second weekly service from the Port of Miami to Port-au-Prince, Haiti.

The twice-weekly link will depart every Wednesday and Sunday from Miami, with arrivals in Port-au-Prince on Saturday and Wednesday. Northbound departures from Haiti will be every Wednesday and Sunday, with arrivals in Miami on Sunday and Wednesday.

Seaboard Marine has been in the Haiti market for over 12 years and in 2000 opened its own office, Seaboard Marine of Haiti.

**MOL expands Brazil feeder links**

Brazilian carrier Navegação Vale do Rio doce S.A. will provide expanded feeder services covering Brazilian ports for Japanese carrier MOL.

The new Docenave feeder service will have a fixed-day frequency, to synchronize operations with MOL’s Asia/East Coast South America service.

Furthermore, MOL said that its port coverage will be expanded to include Ijuai, Sepetiba, Vitória and Salvador.

Docenave is the largest domestic shipping company in Brazil.
U.S. government should take a lesson from itself

To protect the nation’s ports from terrorist attacks, Congress and the Bush administration should take a lesson from the U.S. Transportation Command.

TRANSCOM, whose components include the Military Traffic Management Command, Military Sealift Command and Air Mobility Command, took the time to understand the commercial supply chain and how some of its aspects could be applied to global military freight transport.

TRANSCOM did not want to re-experience the widely publicized transportation logistics inefficiencies that plagued the military during the 1991 Persian Gulf War. Military cargo ships were ill prepared for rapid deployment and containers piled up in the Middle East desert with little knowledge of their contents among the troops.

The result of TRANSCOM’s work with the private transportation sector since then paid off mightily during the recent Iraq war. In the air, on the land and in the sea, the military’s logistics operations gained little notice in the general press, “a success story,” as Ret. Vice Adm. James B. Perkins III, senior military advisor to the American Maritime Congress, put it in a recent interview.

Although fighting in Iraq remains sporadic, TRANSCOM has already embarked on a “lessons learned” exercise to sharpen its logistics edge for when the next conflict arises.

The government’s port security initiative under the 2002 Maritime Transportation Security Act is essentially 10 years behind today’s military freight logistics model.

Congress and the Bush administration want quick results, but fail to understand how commercial port operations work. This has manifested itself in crazy legislative proposals, such as inspecting all ocean containers that enter the United States, or throwing millions of dollars into high-tech security experiments which common sense will prove have no practical use without adequate coordination with shippers, intermediaries and carriers.

Operation Safe Commerce has the potential to be a truly coordinated government/industry approach to port security. However, the Transportation Security Agency already wants to siphon promised funds for this program to cover long overdue air-cargo security initiatives.

Where’s the commitment from the Bush administration to stay the course? It’s tiresome listening to Congress grumble about inadequate port security.

In the end, port security may not be the “silver bullet” for fending off all terrorist attacks, which government officials admit. However, as TRANSCOM learned, the transportation and logistics industry is an indispensable resource for developing realistic and effective measures — particularly when those measures directly impact the industry.
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