When hammering out contracts, shippers, carriers should focus on specifics.

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Attention to details

If 2009 was the year of the shipper and 2010 the year of the carrier, 2011 may well be the year shippers and carriers start paying heed to the details in service contracts that have long been ignored. Indeed, the key to more successful negotiations in 2011 may lie in the specificity demanded from carriers and shippers in the service contracts they sign.

No holding back

Government officials at the Brussels-based World Customs Organization know John Raven isn’t afraid to ruffle a few feathers in defense of trade facilitation. Even now, when the spritely 90-year-old stands up in a crowded room of customs officers to ask a question or make a point, he gets everyone’s attention. Raven doesn’t hold back.

Show me the data

The U.S. Department of Homeland Security is seeking advance air cargo information to protect aircraft, but could DHS have developed a pre-departure regime before the latest crisis?

On the waterfront

The International Longshoremen’s Association and the United States Maritime Alliance are not expected to begin negotiating a new contract until perhaps late 2011. That’s far in advance of the current labor agreement that expires on Sept. 30, 2012. But as 2010 closed there was already some concern about continued labor harmony on the East and Gulf coasts because of activity in New York.
Shippers need internal customs cooperation

As global competition and financial pressure continue to grow, companies of all sizes are faced with the challenge to better manage their supply chains.

A significant part of this challenge is tied to what’s sitting in the middle of their international supply chains, which are two governments — one at origin and the other at destination. In many cases the key to supply chain success for companies is to better manage their obligations and risk when dealing with these governments.

Government risk to supply chains are well known in the private sector and include disruptions, such as delaying or holding shipments for inspection or document verification, and there’s always the possibility of fines and penalties for failing to meet export or import obligations. On the other side of the risk and reward ledger are the supply chain opportunities that include legal avoidance of duty, taxes and fees, as well as possibilities to reduce customs and transportation expenses and lower inventories.

Both the risk and rewards found in the supply chain have led companies to realize they need to better manage both ends of the export and import process. The challenge for these companies resides in four primary areas:

• Utilizing their own human resources.
• Managing data.
• Instilling documented and repeatable processes.
• Efficient use of service providers.

To realize improvements in supply chains, companies frequently seek to create global customs organizations that use the professional talents and investments in one country or region across their entire global enterprise.

As customs professionals responsible for global customs operations will tell you, there are many challenges to accomplishing this goal despite the fact that the value of it is straightforward and obvious. While the remainder of this column cannot identify and address all the obstacles the global customs professional will encounter, human resource and business unit leadership issues must by necessity be high on the list.

One of the very first challenges faced by these in-house customs professionals will come from their own colleagues around the world, who will be quick to claim: “you don’t understand” or “it is different here.” This claim is true, but it is a lot less true than these colleagues might think or in some cases want to believe.

The danger in this frequent reaction is that it frames the subsequent discussion in the negative by comparing one person’s understanding of global customs operations versus another’s, and completely overlooks the more important issue about “what is the same.” Customs professionals attempting to organize global customs operations for their company are wise to address this issue head-on by acknowledging the differences and the need to address them, while at the same time discussing what’s common.

They can start this discussion by pointing out virtually all countries around the world require importers to request permission to enter goods into a country. This request must be accompanied by data that’s found on commercial documents such as invoices and bills of lading. The request to admit the goods must be accompanied by entry documents that require duty, tax and fee calculations. Either at the time of admission or shortly thereafter these duties, taxes or fees must be paid to the government.

From there the discussion can get into what is common in the harmonized tariff, reporting the value of goods and their origin. As the list of common practices and rules continues, even the most doubting colleague would have to admit to the opportunity of working together.
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MSC: A Global Leader, Standing Firmly At Your Side.
I would caution that this discussion cannot succeed unless it is accompanied by a firm commitment to also address the real differences.

In addition to addressing the issues related to differences and similarities, it’s essential for the global customs professional to convey a clear vision, strategy and benefits for developing and implementing a global customs organization. One of the keys to this part of the discussion is that the vision and strategy must address the personal concerns of the customs professionals in the global organization. The vision and strategy must explain where and how these professionals fit into the global vision and strategy.

The natural resistance to change for many people can be overcome with a clear explanation of the future customs organization and how it will be better and offer more opportunities for them. Experience has shown that most people, if given a chance, would prefer to be part of something greater, have more intellectual challenges, work closer with people who recognize and better appreciate the work they perform, and finally to be more successful.

A wise customs professional working to establish a global customs organization in his or her company will recognize that the greatest asset is getting other customs professionals around the world to become part of the process and not letting debates on differences or immediate reactions get in the way.

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Larger trucks remain weighty issue

The Nov. 16 online article quoting Chris Lofgren of Schneider National (“Truck size-weight issue loses traction,” available online at www.AmericanShipper.com for more) about the noise level for size and weight changes dying down because of smaller shipment sizes, makes me wonder if the state of Maine’s pilot program for larger trucks remains weighty issue.

Then again, you can’t shrink-wrap lumber, steel, autos, paper, soup cans or many other items we use everyday. The country needs larger trucks to keep it competitive with our northern and southern neighbors, reduce pollution and congestion, improve trucking efficiency and make our highways even safer than they are today.

Sitting next to one of his biggest transportation partners, BNSF Chief Executive Officer Matt Rose, must have made Lofgren nervous, and it is understandable that he reached for a neutral position on this subject, which railroads typically oppose.

Let’s not forget that pro-size and weight bills are good for the country.

Wayne Johnson
manager of carrier relations, Owens Corning
Toledo, Ohio

A simple green step

Logistics companies like to talk about their environmental sensitivity and sustainability initiatives to reduce carbon emissions. But often it’s difficult to discern green motives from the general discipline of being more efficient.

When communicating with the press about one’s green credentials, it might help to start by double-siding news releases in media kits. I don’t need a release that fits on one page followed by a second with a single pro forma paragraph about the company or a Safe Harbor Statement required by the Securities and Exchange Commission. Save a tree and put that on the back side of the release. (Eric Kulisich)
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Attention to DETAILS

When hammering out contracts, shippers, carriers should focus on specifics.

When hammering out contracts, shippers, carriers should focus on specifics. If 2009 was the year of the shipper and 2010 the year of the carrier, 2011 may well be the year of the detail. As in, the year that shippers and carriers start paying heed to the details in service contracts that have long been ignored.

Details like shippers meeting their minimum quantity commitments, and carriers avoiding the urge to drop unexpected rate increases and surcharges in their customers’ laps.

Or like shippers understanding that when those minimum quantity commitments are complete, it means that a carrier has fulfilled its end of the contract. Or that carriers have an obligation to provide the space to which they agreed in contracts, whatever way the market wind is blowing.

Indeed, the key to more successful negotiations in 2011 may lie in the specificity demanded from both carriers and shippers in the service contracts they sign.

“I totally expect customers to ask us to put more service specificity into service contracts,” said Bob Sappio, senior vice president of Pan-American trade for the liner carrier APL. “Generally speaking, service contracts have been rate-volume

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agreements. This last 12 to 18 months may have been the cold shower everyone needed to show there’s a more intelligent way to go about this.”

There are issues that cloud negotiations outside of what can be written in a contract, of course. Carriers want, or expect, better advance forecasting from their customers in order to better arrange their global networks.

“The ability customers have, if they can forecast their needs accurately and if the carrier can meet that demand, is to write that in the contract,” Sappio said. “If a shipper needs 20 45-foot units a week from this time to this time, on this string, you write that in the contract. In the case of intermodal customers, they can say ‘I want this container in M emphis on this date and this time.’ Customers can write in the contract a ‘no-roll’ provision. But for those types of service attributes, you have to pay. They have to be written into the contract and the carrier should be held accountable.”

Is this type of specificity happening? Not so much. Sappio said that out of the 1,100 or so service contracts on the eastbound transpacific for A P L, less than 100 have that level of specificity.

“I’m hoping that (level of specificity) becomes the norm,” he said. “I’m hoping that becomes triple digits.

But for shippers, it’s often hard to know what actual demand lies beyond a four-week horizon.

“It’s difficult for most shippers to forecast with precision, especially when transporting cargo that is prone to frequent changes in transport patterns,” said Eric Brandt, manager of global ocean transportation for K raft Foods. “When forecasts are accurate, carriers are often not able to hold up their end of the deal. It’s a science that has not been perfected by either party. Unless contractually binding accountability is clearly defined between both parties, forecasting will remain just a concept. Realistically, a four-week forecasting window is feasible for many shippers, but not all. There’s still a lot of work to do to improve the gap between forecasted and actual volume.”

And Brandt said there have to be tangibles benefi ts for shippers who do provide those levels of accuracy.

“Shippers who are able to improve their process and accuracy of forecasting should expect to receive space and equipment guarantees in return for their reliable and accurate information,” he said. “Carriers should still grant flexibility, within reason, to accommodate sensible discrepancies. The opportunity for true collaboration lies with jointly improving the communication of known and potential variances in forecasts.”

Tension Boils Over. The tension between shippers and carriers probably reached a crescendo last spring, when cargo was being rolled by carriers who said they were caught unprepared for stronger-than-expected container volume in the fi rst half of the year.

Then in the summer, U K -based retailer A rgos sued M aersk Line for nearly $14 million for breach of contract. A rgos argued that M aersk hiked its rates nearly threefold within the contract period, forcing it to abandon the contract and negotiate deals with other carriers or forwarders at rates higher than its initial contract with M aersk.

The case was considered to be a landmark, potentially precedent-setting event for carrier-shipping negotiations. But the two sides settled out of court in November. (Neither side divulged the details of the settlement. See “M aersk, A rgos announce settlement,” www.A mericanShipper. com/links).

In any case, the short saga may provide shippers and carriers greater impetus to be

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**Q.T. ON MQCs**

At the TPM Asia conference in Shenzhen in October, much of the discussion revolved around shippers better understanding the concept of minimum-quantity commitments.

A Minimum Quantity Contract (MQC) is a standard clause in an ocean freight service contract that delineates how many containers a shipper must ship with a carrier over a specific period of time.

According to carriers, however, shippers often misinterpret the MQC as the minimum amount of cargo a shipper is required to provide, and that the carrier is obligated to transport any amount over and above the MQC.

In theory, a service contract ends when the MQC is met by shippers. But in practice, carriers are often expected to continue providing the same service and space.

“M ay think it’s ‘this is the minimum I need to provide and anything over that, you must ship,’” said Eng A lk Meng, president of A P L. “No, it’s not like that. A nything over the MQC has to be a new contract.”

“A s soon as that minimum is met, the contract is complete, because the MQC has been fulfilled,” said Barry Horowitz, principal of C M S Consulting Services. “Shippers who understood that, put language in their contracts.”

Carriers also said they have been guilty of not collecting so-called “dead freight” — that is, space booked by shippers but not used, and thus chargeable by carriers (minus cargo handling costs).

But shippers have their own issues with the way MQCs were employed in 2010.

“I’m surprised MQCs were divided on a 52-week basis this year,” said Scott Larson, vice president of international logistics and custom compliance for retailer The Bon-Ton Stores. “When you divide by 52, it’s improbable for shippers to meet your MQCs. There’s no way freight could be leveled over 52 weeks. That was a surprise to the industry. Carriers were desperate — ‘fair’ and ‘partnership’ were probably not terms that were applicable to the industry.

“We can give pretty good forecasting as far as ‘this is the two-week time when we ship’ and so we will do our MQC by week going forward. I will do it very differently next year.”

And that speaks to the specificity needed in contracts. Wherever there is opacity, there is opportunity for clauses in an ocean freight contract to be abused by either side.

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**Takeaways**

- Carriers and shippers should build more specificity into their service contracts.
- Shippers need to provide improved forecasting to carriers and should expect benefits in return.
- Better understanding needed of the difference between ‘relationships’ and ‘transactions’ in ocean freight contracts.
- Pilot testing of long-term contracts on specific lanes a way to build relationships.
more detail-oriented in future negotiations.

Brandt said Kraft avoided much of the service upheaval in 2010 by not being opportunistic to its carriers’ detriment in 2009.

“We honored our 2009 contractual agreements while resisting the pressures and temptation to renegotiate rates or terms during the industry nosedive,” he said. “As a result, we’ve been relatively insulated in 2010 from capacity and equipment shortages as carriers reciprocated our behavior by ensuring they protect our cargo. In the instances where we faced such issues, either we may not have provided carriers with sufficient notice of equipment and space requirements or our booking request may not have been within reason. We’ve learned from those particular situations.

“Shippers and carriers who recognize the change in dynamics within the industry have already put the recent past behind them and moved forward in a more collaborative spirit.”

Yet it’s hard to assert that the line-drawn-in-the-sand acrimony of past years has been wiped away across the industry.

“The past year has witnessed a variety of unacceptable shipping practices, ranging from the imposition of abrupt and opportunistic rate increases and surcharges, cargo ‘rollovers,’ the limitation of shipping capacity and a general lack of adherence to rate agreements and contractual arrangements on an unprecedented global scale,” said the Global Shippers Forum, a worldwide panel of shippers councils, in a joint declaration this fall. “This has resulted in major disruption to global supply chains, often resulting in delayed deliveries, especially for time-sensitive shipments.’’

Shippers no doubt feel burned by the events of 2010.

“I can’t remember in recent history where we’ve had to pay higher prices for poorer service,” said Tom France, director of transportation and supply chain solutions for Caterpillar, at the Council of Supply Chain Management Professionals conference in San Diego in late September. “Today we have slow steaming, mechanical failure, skipped ports. They’ve become the norm.’’

And while some shippers would like to look forward, they often don’t see a practical way to bridge the divide.

“We need to look at contracts differently than we have in the past, but I’m not sure how you handle that,” said Scott Larson, vice president of international logistics and custom compliance for retailer The Bon-Ton Stores. “We’ve all taken advantage of fluctuations in the marketplace. When rates go down, you don’t want to be caught paying more than your competition. But we need to get over 2010 and re-engage. We need to come to an agreement on reasonable and fair rates for both sides, and ensure that those terms are firmly in place for the duration of contracts. The surprises have to be taken away.”

Relationship vs. Transaction. One area for shippers and carriers to consider is how they are perceived by their counterparts heading into negotiations.

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"You have different customers," Eng Aiik Meng, president of APL, said at the TPM Asia conference in Shenzen in October. "Are all customers partners? Some are relationships, and some are transactional."

Sappio explained the difference. "We have a growing number of shippers more sophisticated in how they negotiate service contracts," he said. "Why don’t more people do this? Because it’s really hard work for carriers to understand their service capabilities and their cost to serve a customer. You have to sit down and figure out what your cargo flows are, what corridors you’ll use. Then you sit down and write a more sophisticated service agreement."

"But those are some of our best agreements and the easiest ones to negotiate. We talk more about service and taking cost out than what the price is," Sappio said there’s no particular size or type of shipper that fits the profile of one looking to negotiate more relationship-oriented contracts.

"There are some big, big shippers who have sophisticated contracts, and other smaller shippers who are long-time customers," he said. "I couldn’t characterize it as any one customer segment. The segment who does want this type of contract are those fed up with how things have been and want like-minded carriers who want to go down a new path. That’s the common denominator.”

Brandt, of K raft, clearly believes in following the same path.

"True carrier-shipper collaboration needs to turn theory into action," he said. "The first step is to move beyond the past, to apply the lessons learned. We are all in the business of moving freight and we cannot effectively exist without each other. Shippers and carriers should turn their focus to delivering a competitive advantage for their organization through partnering to drive innovation, deliver joint gain, share risks and rewards, communicate openly and deal with differences constructively. Performance assessments must be two-way. It can’t only be about how the carrier is performing against defined metrics, but should also be about how the shipper is tracking against their obligations. Shippers should seek constructive feedback from carriers on how they can become a better partner."

Building carrier relationships

There’s been plenty of acrimony in ocean carrier-shipper relations this past year, so what exactly does a nuanced approach to contracting for ocean freight transport look like?

Eric Brandt, manager of global ocean transportation for K raft Foods, talked to American Shipper about how his company views the ocean procurement process.

When asked whether K raft deals differently with individual carriers, Brandt said that would make his team’s task too overwhelming.

"Standardization of expectations is essential during negotiations with the scale of the ocean freight network we are managing," he said. "Considering exceptions makes for a manual process, exposing negotiations to errors and misunderstandings. Once the carriers have demonstrated their ability and willingness to submit to a standard process, it is very gratifying to then see how carriers will strive to differentiate themselves from the rest of the pack by focusing on service or identifying areas of available potential. It would be pleasing to see even more carriers look at the opportunity to deliver value by leveraging across trades and evaluating customers holistically for their global potential and value.”

Brandt added the carriers K raft most values are those who have shown an inclination to help their business, not simply move some containers.

“Our core carriers are those who have demonstrated a more strategic approach to our business,” he said. “They have spent time and money staffing global account teams dedicated to continuous improvement across our global supply chain. We value these partnerships and often allow flexibility with those carriers dedicated to growing our partnership.”

As with many shippers and non-vessel-operating common carriers American Shipper has spoken with in recent months, Brandt said K raft is looking to reduce the number of carriers with which it works, though the scope of its sourcing network means there will always be a number of different carriers.

“We contract directly with both what we consider global and niche ocean carriers,” he said. “We have been steadily reducing the number of carriers we contract with directly. Our core carrier base of six to seven global carriers handles approximately 80 percent of our volumes. They offer stable and predictable services at competitive rates. In exchange, we offer stable and predictable ocean volumes year long.

"Given the nature of our business, we must rely on niche carriers that can efficiently access destinations that are not serviced as frequently by global providers. These niche carriers, though only handling a small percentage of our volume, play a tactical and valuable role in our international supply chain. Overall, we keep our carrier base relatively small to enable more strategic relationships and best leverage our scale.”

It’s The Rates, Stupid. All the talk about collaboration often obscures the reality that rates are still a key determining factor in negotiations, if not the most important.

"As a procurement organization, first and foremost, we have a financial obligation to K raft Foods, so rates are of course one focus of our negotiations," Brandt said. “However, getting our product to market on time is important, as the financial consequences of a disruption to our supply chain can quickly nullify the benefit of chasing a low ocean rate. The equilibrium we seek is to negotiate contracts which deliver value through a combination of costs and service.

“Service predictability is another decisive focus in our negotiations," Brandt continued. "As long as the service is consistently predictable, our receiving plants and customers can plan properly. It is the unexpected changes in a service that can hinder our supply chain.”

Sappio said both sides are searching for stability.

“Shippers will look for predictability of service and stability of price," he said. “They’re not going to want to play the surcharge game. Carriers will be looking for very much the same thing. Accurate forecasts from shippers — when the demand surges will come, and what will peak season look like. We too will be looking for stability of price during the contract cycle.”

He added that some shippers leaned on carriers to adjust rates to reflect market changes, as they have accused lines of doing in 2010.

"For a long time the rate became the ceiling," Sappio said. "Most contracts have a no (general rate increase) clause, a no surcharge clause. However, there’s nothing to prevent a shipper from saying, ‘The market has moved and I’m not competitive. I need you to adjust the rate down to meet the market level.’ There’s enough bad behavior from both shippers and carriers.
Plenty of carriers dug their own hole, but enough shippers were handing us a shovel.”

Brandt, like Sappio, said rate stability is just as important as service stability – even if, in practice, it hardly works out that way.

“Servicerationalization and slow steaming have negatively impacted the supply chains of large and small companies, predominantly due to unpredictability,” Brandt said. “Carriers need to make a profit to sustain their services, and hopefully will invest those profits to improve their service offering. This cannot happen at the rate levels of 2009 and shippers must be realistic with the rates they expect to receive and procure responsibly, looking elsewhere for costs savings beyond ‘squeezing’ an ocean rate. Shippers who seek stable and competitive pricing with a quality service to get their raw materials to production or finished goods to market to run their businesses will be better positioned to succeed in 2011.”

Thomas Kim, executive director of Asia investment research for Goldman Sachs, asked a pertinent question regarding rates at the TPM Asia conference.

“Who benefits if rates come down?” Kim said. “You can’t induce demand by lowering freight rates. In the darkest days of (the first quarter of 2009), carriers should have stopped everything and sent everybody home. Every box that was moved, they lost money. They gave back more than three years of profits in one year. But market share gains are illusory. You cannot induce more demand. A II you have is a happier shipper. You won’t increase the number of boxes. Wal-M art won’t create more boxes if the price is better.”

Meanwhile, Kim chided shippers for considering rates — even those at the apex of the scale — high in historical terms. “Freight rates haven’t grown very much historically in real terms,” he said. “It’s been a good environment for shippers, in that they’ve seen a deflationary environment for freight rates in the last 20 years. Unless the industry is regulated, you won’t see freight rates be stable. The ups and downs of a cycle may seem like a lot to shippers, but container shipping is the least volatile shipping industry. The pricing tends to be pretty understandable through the cycles.”

Shippers Know Who’s Good. Not all carriers are equal, of course. Some position themselves as service leaders while others clearly target no-frills shippers looking for the best rates. In the best of times, when capacity is available and container demand is high, it works out fine — there’s business for everybody. But in times like early 2010, when capacity was at a premium, some shippers found out which carriers were, in the words of A PL’s Eng, relationship-based or transaction-based.

“While history rarely repeats itself, it usually comes close,” said Alan Mctaggart, director of group logistics for Techtronics Industries, which ships around 20,000 containers annually and uses six to seven carriers. “Of our carriers, two were exemplary and it didn’t matter if we had a contract or not, they honored every responsibility. Four or five, it didn’t matter if we had a contract, they wouldn’t have honored it.”

Edwin Coseteng, stream managing director for IDS Logistics, a unit of the Hong Kong-based sourcing giant Li & Fung, said shippers know the carriers upon which they can rely.

“I think you know who you can count on,” Coseteng said. “So you reward those carriers. You try to talk about extending the contract period. Now more than ever, carriers need that certainty.”

Coseteng said he is bothered by the way carriers are able to signal the market through the ordering or shelving of capacity, and announcing of rate increases or peak season surcharges months in advance.

“My point of view is that if you have a
contract made in good faith, it should be respected,” he said. “It’s a negotiation, and it’s how you frame your negotiation. If you come to me and say, ‘Edwin, I need to raise rates by $100 during peak season,’ that’s the right way to approach the situation.”

Philip Damas, division director for Drewry Supply Chain Advisors, said shippers should diversify their carrier bases, try to hammer out longer-term contracts, and agree on contracts with financial penalties on both sides.

“The question is how do you make contracts stick?” Damas said. “How do you stop carriers finding loopholes?”

Sappio, for his part, has long been a proponent of transpacific carriers and shippers taking better advantage of the confidential service contract negotiations afforded by the 1998 Ocean Shipping Reform Act (“A missed opportunity, June 2006 American Shipper, pages 54-56 or www.AmericanShipper.com/links). “If I need mortgage, I have plenty of options, depending on my risk tolerance,” he said. “If I want predictability, I can do that in a 30-year fixed rate. If I want to play the market, I might take a short-term adjustable. It’s the same in ocean rates. I can sign a fixed, all-in rate, or we can negotiate to a short-term adjustable. Carriers and shippers can get as creative as they want in terms of rate mechanisms and service specificity.”

Carriers, meanwhile, have been busy in 2011 laying the groundwork for more lucrative contracts by showcasing their service improvements — in spite of widespread shipper sentiment that service levels were poor this past year.

APL and MOL (partners in the New World Alliance) became the first lines to publicly release on-time performance metrics, while Maersk has often trumpeted its on-time performance in third-party schedule reliability indexes. That the performance of APL and MOL is measured in-house and may not be as reliable to shippers as measurements by unbiased third parties is beside the point. The mere fact that carriers are measuring this aspect of their service offering speaks to how they want to be perceived as more than a commodity.

Long-term Option? All this discussion begs for a return to the topic of long-term contracts as a way to ease the volatility of rates and service levels, yet little progress has been made since American Shipper last broached the issue in March (“Short-sighted, long-term view,” pages 6-10, or online at www.AmericanShipper.com/links).

“I haven’t seen that either party wants to go there yet,” said Larson, of The Bon-Ton Stores, when asked whether longer terms for rates, like two years, would be an answer. “If you do, you’re really only looking at volume, not rates. It would be difficult to get shippers or carriers to lock down rates over two years.”

Brandt, of KRAFT, said longer-term contracts could solve the problem where “as soon as the ink dries, it seems that work is beginning on the next contract.”

“We are in favor of longer term contracts,” he said. “However, when discussed with carriers, they express an interest in theory, but hesitate to make such a commitment, especially in the present market with rising rates. The hesitation with longer-term contracts is driven by the uncertainty of who will gain most. There are risks and rewards for both sides. Shippers would benefit from stable rate levels with reliable and flexible services, whereas carriers would benefit from predictable and guaranteed support at stable rate levels.”

But Brandt said that long-term contracts could “become influenced by convenience instead of sound business judgment,” leading shippers and carriers to “become complacent as they take each other for granted.” He said the success of longer-term contracts is largely reliant on both sides resisting the urge to be opportunistic. He

NVOs gain market share in 2010

The percentage of U.S.-bound containerized cargo booked by non-vessel-operating common carriers versus that booked direct through ocean carriers rose markedly in 2010, according to statistics provided to American Shipper by Zepol Corp.

The statistics, which run through late November, show that NVOs have been able to gather market share the past year, onmarked by deep shippers dissatisfaction with liner carriers.

In 2009, carriers handled 76.8 percent of U.S. inbound volume by TEU, leaving 23.2 percent for NVOs. But through Nov. 22, Zepol’s statistics show that NVOs have moved 27.8 percent of inbound volume, while carrier’s volume has fallen to 72.2 percent.

When measured by shipment (rather than TEU), NVOs enjoy an even greater share of the market. In 2009, NVOs had a 38.2 percent share of total shipments, but that has increased to 42.5 percent in 2010.

Minneapolis-based Zepol tracks inbound containers using U.S. Customs data straight from carrier bills of lading, showing the point from which carriers took possession of the goods.

Far from an anomaly, NVO’s gains in 2010 punctuate an eight-year stretch in which NVOs have increased their share of U.S. inbound volume from 11.2 percent to 27.8 percent by TEU volume and 20.5 percent to 42.5 percent by shipment.

What 2010 did do was shake the NVO industry free from a period of stagnation in terms of market share gains. The gains in 2010 were bigger, in TEU volume terms, than those garnered collectively from 2005 through 2009. Despite NVOs gradually increasing their share in that time, their share rose less than 3 percent, to 23.2 percent, versus the 4.6 percent gain in the first 11 months of 2010.

Executives at some of the world’s largest forwarders have intimated all year that they have gained market share in the wake of shipper unrest in early 2010, which was plagued by a scarcity of supply (of vessel space, then containers) that drove shippers to seek capacity from NVOs.

A pril, American Shipper reported that UPS was seeing such migrations: “We’ve seen some (beneficial cargo owners) come to us for the first time because they have felt let down by the carriers,” said Jimmy Crabble, vice president of global ocean freight services for UPS (“Anger management, pages 36-47, or online at www.AmericanShipper.com/links).

More recently, Luc Jacobs, senior vice president for ocean freight and head of global full-containerload for DHL Global Forwarding, said much the same thing.

“We had new customers come to us in view of space challenges,” he said. “It’s partly because we have a wider range of services and carriers, but also because we provide things that carriers don’t. Moving port-to-port cheaply is not always the best option.

“If you only focus on port-to-port issues, I’d be skeptical that we could increase our share of business,” he said. “But we look at other issues, not in a competitive way, but in a cooperative way with carriers.”

In any case, while carriers have made a boatload of loot in 2010 — virtually offsetting the steep losses they swallowed in 2009 — their inability to meet shipper demand in the first half of the year may have steered customers toward NVOs.
*Extra-slow steaming the norm*

At least half of all loops operating between Asia and North America and Europe are being extra-slow steamed — that is, run to a degree even slower than “first-stage” slow steaming and incorporating an extra vessel or two.

According to maritime news service Alphaliner, 93 percent of Asia/northern Europe loops, 80 percent of Asia/U.S. East Coast loops, and 50 percent of Asia/U.S. West Coast loops were being extra-slow steamed as of late November.

"The additional capacity absorbed by extra-slow steaming has reached 625,000 TEUs, or 4.4 percent of the cellular fleet," Alphaliner estimates. While there is only potential for roughly 60,000 TEUs more capacity to be absorbed on the Asia/Europe lane, there’s much more scope for use of extra-slow steaming on the transpacific.

"A full adoption of (extra-slow steaming) on all transpacific routes could absorb a further 140,000 TEUs," Alphaliner said. "The efficiency of (extra-slow steaming) on the shorter Far East/U.S. West Coast loops is, however, less compelling. These services are more sensitive to the fixed costs of deploying additional ships, relative to the cost of existing ships. It is furthermore expected that some of the niche carriers active on the transpacific routes will continue to run at faster service speeds in order to provide some competitive advantage over their larger competitors."

Extra-slow steaming is even emerging on routes from Asia to Latin America and the Middle East, but Alphaliner estimates that only a further 350,000 TEUs globally could be soaked up by going even slower.

"The upper limit of capacity absorption through (extra-slow steaming) adoption would therefore stand at about 900,000 to 1 million TEUs in total, or up to 7 percent of the current cellular container fleet," it said.

Extra-slow steaming is considered viable economically for carriers only when bunker rates are above $400 per ton (versus $250 per ton for first-stage slow steaming). Bunker rates in early December had risen to nearly $500 per ton.

LOCATION. LOCATION. LOCATION.

Also raised the idea of pilot testing long-term deals on a single lane.

A new approach that could prove beneficial is to isolate key lanes that certain shippers and carriers are willing to take to a different level of cooperation into consideration," he said. "It’s preferable to find ways to adjust rates in a trade lane where escalation is tied to a transparent mechanism. A single partnership moves through one or two cycles, the relationship will be tested, and longer-term contracts will be tested. Relationships are based on trust, so start small.”

A complementary concept to consider is whether shippers and carriers might agree on a band of rates (a minimum and maximum rate level within a specified period) as a way to induce both sides into longer-term contracts. That way, the normal play of market rates could be accommodated within a longer-term relationship.

Luc Jacobs, senior vice president for ocean freight and head of global full-containerload for DHL Global Forwarding, said that when rates go above or beyond a healthy band, it causes the industry to go into crisis management mode. And the major culprit is inaccurate volume forecasting.

He said volume deviated by as much as 50 percent of forecast levels at certain points in 2010, while no-show levels at times reached 30 percent.

"How do you handle that?" he said. "We need to switch from crisis management mode back to a long-term strategic approach.”

Sappio said as much in 2006: “We’ve got to get with shippers to get over the yearly fight over rate reductions and work on narrowing the band of reductions and increases. It does nobody any good to have a $500 reduction one year, then a $500 increase the next year.”

Bear in mind, that was three years before the 2009 bloodbath for carriers and the 2010 tumult for shippers.

More recently, he said: “If we have learned anything from the chaos that was 2009 and 2010, it’s that there’s a better way to do this than bludgeoning each other year after year.”

Or, as Eng put it: “I think this is an industry that needs some parental supervision.”
No holding back
Raven remains a torchbearer for trade facilitation in intergovernmental circles.

By Chris Gillis

Government officials at the Brussels-based World Customs Organization know John Raven isn’t afraid to ruffle a few feathers in defense of trade facilitation.

Even now, when the spritely 90-year-old stands up in a crowded room of customs officers to ask a question or make a point, he gets everyone’s attention. Raven doesn’t hold back.

“My first impression of him when we first met in the early 1990s was that when he spoke you would do well to listen,” said David Hesketh, a former WCO technical officer and retired British customs officer, who now consults and writes on customs matters.

A handful of former government and industry officials, who either worked for the WCO or interacted with the organization, had similar reflections of Raven.

“There were occasions when the rest of us were ready to say it was not the time to make our case” on an express carrier issue, recalled former U.S. Treasury official John Simpson, who until recently was director general of the Global Express Association (formerly the International Express Carrier Coalition or IECC), an industry group in Brussels led by Raven from 1999 to 2000.

“I never backed off. I have to admire him for that.”

Many WCO officials have never hesitated to bounce their concepts and policy ideas off Raven for his insights into potential industry impacts.

“When taking up my work at the WCO, John was a permanent go-to person to get an accurate and honest industry perspective,” said former German Customs officer Dietmar Jost, who now runs his own consulting firm. “He is familiar with all necessary management disciplines and knows how business works.”

During the June 2010 WCO Council session, Secretary General Kunio Mikuriya recognized Raven for his insights and abilities to understand complex customs and trade issues, in addition to his “great sense of humor.” The council gave him a standing ovation.

This highlight may mark the end to a career for some, but not for Raven. He has even more ideas for how to advance the co-existence between customs control and trade facilitation.

‘Uncoiled Spring.’ Born and raised outside of London, Raven’s youth was anything but privileged. His father, a flour merchant, was downsized into long periods of unemployment during Great Britain’s pre-World War II economic turbulence.

Raven persevered and at 17 got a firm financial base from several scholarships at Cambridge University where he learned under F.R. Leavis, a renowned British literary critic, until Britain declared war on Germany in September 1939.

Like most young men of the time, Raven enlisted, but his military service was cut short when he contracted tuberculosis and was confined to a hospital for the next four years. Raven used this time to extend his reading and, as he described, “strengthen my imagination by looking at the ceiling every Monday and fixing what to think about for the particular week.”

From 1944 to 1946, Raven served trial stints as a pine disinfectant salesman in the Welsh valleys and then a post-war planner at a munitions factory and an assistant buyer for a drop forge company. W hen the end of the war eliminated job restrictions on employment, he persuaded Sir William Crawford and Partners, innovators in industrial design, to accept a proposal to start an information bureau in London.

In 1946, Raven returned to Wales to become assistant secretary of the South Wales Industrial Association. As a result of disagreement with the association’s chairman, Raven ended up back in London as assistant secretary of the once powerful British Coal Exporters’ Federation, and a year later, with the death of its secretary general, he became its director general.

Raven was only 27 years old and “an uncoiled spring,” he said.

The British government nationalized coal production after the war. Coal exporters, who used to operate with commercial freedom, found themselves as agents to a common commission with only occasional pickings from freighting operations. In 10 years, the post-war market went from a situation where there was no coal and many customers to one where there was ample coal but the customers had disappeared. It was then that Raven said he had to carry out the hardest task in his entire career — persuading his members that their federation was no longer useful and needed to be terminated.

Within two weeks of closing the coal federation in early 1968, another chapter opened for Raven. He was asked by the U.K. Board of Trade to organize and service a small expert committee to look at procedural, regulatory and documentary hindrances to U.K. international trade and to recommend changes. This was new territory for Raven.

“In 21 years of dealing with coal exports, I never met a customs officer. That's not surprising. A fter all there were no duties and who wanted to get in close quarters with all that dirt and dust?”

Two years later, equipped with the committee’s 32 recommendations, Raven became chief executive of the U.K. Committee for the Simplification of International Trade Procedures, better known as SITPRO, and began over a decade of “systematic fact-finding, analysis and persuasion,” he said.

The SITPRO report, which was released in March 1970, became the starting point for international trade’s discussion and drive to facilitate. “It explained what we are for is simplified international trade procedures and the information flows that service them. That was the new trumpet call,” Raven said.

Some of the report’s most groundbreaking recommendations included a call for the progressive use of computers — then a novel resource — associated agreement on international data standards, adoption of an international container marking code, and deferred payment of customs duties for compliant traders.

SITPRO’s management was charged to give full international publicity and support to the basic need for simpler and standardized commercial and official procedures.

This remit sparked what would become a 40-year crusade by Raven to urge trade regulators, especially customs administrations, to embrace and deliver facilitative
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LOGISTICS

practices. A longsde a brief stint in the early 1970s as director general for the Association of British Chambers of Commerce, Raven was able to focus his message on the need for trade facilitation while head of SITPRO from 1974 to 1984.

Sharp Pen. During his time at SITPRO, Raven sharpened his pen on frequent opportunities to write center page articles on coal and energy policy for London’s widely circulated Daily Telegraph (the newspaper at the time had sales of more than 1 million copies a day). The Telegraph’s editors also allowed him to write a weekly column on government and business under the pseudonym John Bosworth.

Whether Raven or Bosworth, he established himself as a voice for free trade and small business. He wrote in 1969 a column regarding imports, for example, that “once a spiral of (import) restrictions begins it could rapidly get out of control and affect the whole atmosphere of world trade.” Countering those who at the time wanted to impose greater barriers on imports entering Britain, he warned: “Perhaps more important than any of these objections is the defeat which import restrictions would represent for the pacific growth of free international trade.”

He also crusaded for improvements to women’s role in the workplace. In a 1968, Raven boldly wrote, “If sex determination were practicable in Britain today, prudent parents would be obliged, if considering only the commercial interest of their offspring, to opt for a boy ... Lack of apprenticeship opportunities — and hence of access to craft and many middle-management jobs — (for women) results mainly from formal restrictions imposed by unions and employers, but in top jobs the real problem is one of attitudes.”

Raven decided to end his column with the Telegraph in 1979 when Margaret Thatcher came to power as Britain’s prime minister, a leader who he said “cleared away all the nationalized and bureaucratic undergrowth, reduced the trade unions to a reasonable role at the political bargaining table and so effectively abolished most of the grounds for any further Bosworth fulminations.”

He was in any case very busy abroad for such organizations as the World Bank and the United Nations’ Development Program (UNDP) and Conference on Trade Development. He routinely traveled between London, Brussels, Paris, Geneva and Washington to educate and inform regulatory policymakers about the benefits of improving cross-border trade, and worked in and maintained contact with government and trade interests in upwards of 35 countries.

Throughout the 1980s and 1990s, the express carriers became the de facto messengers to governments on the importance of trade facilitation, and the industry would serve as a platform for Raven to continue his facilitation drive. Raven moved to Brussels in 1990, after a brief semi-retirement in provincial France, to become director...
Under Raven’s leadership, the express carriers would become more prominently engaged with the WCO in an effort to simplify and harmonize global customs procedures. This industry was particularly influential in helping the U.S. and Canadian Customs support the production of the WCO Immediate Release Guidelines, and took a keen interest in work on the revised WCO Kyoto Convention on the simplification and harmonization of customs procedures resulting in 1999 in a new and significantly improved text.

Beyond 2010. Since his “retirement” from the IECC in 2000, Raven has served as an advisor to The International Air Cargo Association, a position he held until the end of 2010. Yet he remains active in WCO affairs.

Free from the pressures of administering a trade group, Raven has become more embolden in his views on how customs administrations might improve their management of trade during a time of heightened security in the aftermath of the Sept. 11, 2001 terrorist attacks.

Raven provided industry input and support for the development of the post 9/11 WCO SAFE Framework of Standards to Secure and Facilitate Trade, the Data Model, Unique Consignment Reference (UCR), and capacity building for developing countries’ customs operations.

He’s urged restraint in the WCO against blanket support for general adoption of such special U.S. innovations as Customs-Trade Partnership Against Terrorism (C-TPAT) and its continued calls for additional trade data and 100-percent cargo scanning. He warned that even the Authorized Economic Operator (AEO) regimes that have formed in recent years among some customs administrations, especially in Europe, have limited benefits and profuse costs.

Raven is also no fan of the WCO taking direction from the highly politicized World Trade Organization. The UNDP commissioner during a September meeting on capacity building, which Raven attended, floated a query of whether the WCO should apply to become a U.N. agency. “This would certainly give it a better status in relation to the WTO, which might feel obligated to move deeply into customs affairs if the current facilitation negotiations ever terminate in an agreement,” he said.

Looking ahead into the next decade, Raven believes the WCO SAFE Working Group can help return trade facilitation to a “procedural reality.” In an October 2010 WCO News article, Raven said the group’s “first task should be to seek to link and subject operational risk management to constantly updated risk assessment.”

Second and simultaneously, he said the working group should “seek some shift back towards pre-9/11 data frugality. Somewhere in a more rational future we might hope for a retreat from transaction-based controls to the old familiar post-entry audit systems for this phenomenon. Winners tend to be bigger companies with presumably more complex supply chains, which would demand more applications given that there is no single solution providing functionality required by every industry segment. Winners employ more systems because automation is a winning practice. If they could use fewer applications for more functions, they presumably would.

Functionality. Comparing available functions versus those that are critical shows in general terms shippers are only scratching the surface of what ITMS is capable of providing. Basic functions that are the most widely available are also considered the most important. Sophisticated functions, such as mode and route optimization, appear out of reach for most respondents.

3PLs, on the other hand, have more robust systems providing more key functionality. In many cases, connectivity and optimization functionality are twice as prevalent among 3PLs as they are among shippers.

Visibility. Managers can only optimize what they see. In the case of winners, they can “see” their freight (i.e., understand the important details such as cube size and weight) about five days earlier than the average. Bear in mind these figures will vary among industry segments, or even within individual segments, based on the type of freight and the shipper’s business model requirements.

But in general terms, those supply chain managers with five days of extra notice — a business week — can make adjustments to schedules, routes and modes to create bottom-line savings in terms of decreased freight rates and related shipping costs. That additional visibility allows shippers to carry less inventory, while ensuring their freight gets to market on time and reduces the impact of lost sales due to lack of stock.

Productivity. In 2009, freight volumes plummeted and logistics departments responded by shedding staff to save cost. In 2010, volumes rebounded more than expected, but those logistics departments have not restaffed. This requires them to do more with less. The trend is evident showing a jump in productivity levels across all segments.

Winners, most of which are automated, show an increase in productivity greater than 12 percent. Clearly automation plays a role in enhancing the logistics operation, allowing firms to handle more volume on a nominal basis in addition to scaling up greater capacity.

Register and download the report at AmericanShipper.com/ITMS
Peripheral vision

Potential surprises on the horizon for 2011?

By Walter Kemmsies

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ast month’s column laid out a base case outlook for 2011, so this month the focus is placed on various key factors that are unlikely to happen but for the sake of full disclosures should not be totally discounted.

A list such as this shows that these items are expected to occur, but by the same token they are not completely improbable. It is recommended that anyone who has to make decisions where the outcome is affected by future business conditions compiles their own list. Peripheral vision can be a lifesaver.

A mong other things, the effect of massive stimulus spending and the world’s second-largest economy, China, keeping its currency undervalued while the U.S. trade deficit mushrooms, is a recipe for instability.

With that backdrop in mind, here is the list, with scenarios subjectively ranked from least unlikely to the most unlikely.

Scenario No. 1: U.S. economic growth begins the year at a higher than anticipated rate so that 2011 growth exceeds 2010. The recovery finds strength from a stronger than expected recovery in the real estate and banking sectors, as well as exports.

Scenario No. 2: U.S. dollar appreciates strongly in 2011 but exports still grow strongly. The reason for the appreciation could be the “least-worst” principle. With the United States still limping through a recovery, Europe struggling with a massive public debt burden, aging Japan struggling against deflation and China trying to avoid a surge in inflation, the “least-worst” currency could be the U.S. dollar.

Scenario No. 3: Oil prices rise 25 percent in 2011, due to accelerating economic growth and declining inventories. The real surprise would be that despite the higher fuel costs, the economic and trade growth is so strong that ocean carriers abandon slow steaming due to equipment shortages.

Scenario No. 4: Inflation rises from the less than 2 percent rate in 2010 to the 7 percent to 9 percent range. The Federal Reserve starts increasing interest rates very quickly and the 10-year yield rises to the 7 percent to 9 percent range. The Federal Reserve starts increasing interest rates very quickly and the 10-year yield rises to the 7 percent to 9 percent range.

Scenario No. 5: Ocean carrier rates increase significantly despite concerns about new ship deliveries increasing container carrying capacity faster than container volume growth.

Scenario No. 6: Many U.S. states increase road weight limits, lowering the cost of draying heavy U.S. exports. Consequently exports grow faster than imports, even if the U.S. dollar strengthens. Container volumes in 2011, which are expected to exceed the peak 2007 levels, instead of being led by growing import volumes, are instead led by exports.

Scenario No. 7: Trucking companies manage to hire enough drivers, purchase trucks and their volumes grow faster than rail volumes.

Scenario No. 8: Many states pass legislation that not only allows public/private partnership but also creates infrastructure banks, leading to a surge in transportation infrastructure privatizations.

Scenario No. 9: China’s policymakers shift from developing an export-oriented economy to a consumer-driven one by pushing for wage increases and decreasing intervention in the foreign exchange markets to keep the yuan undervalued. This could be accompanied by a Chinese private equity group or pension fund purchasing a U.S. company with a global brand name to jumpstart the process of creating a consumer culture.

Scenario No. 10: A terminal operator issues shares in an initial public offering instead of selling itself to a private equity group, pension fund or insurance company. This is followed by a flood of highway privatizations via IPOs. Before the end of the year there is a lot of discussion about possible launches of various exchange traded funds based on various types of privatized infrastructures such as highways, bridges, ports and other terminals.

The most likely event from this list of surprises is a rise in inflation and interest rates due to increases in commodity prices driven by resource investment in consumer spending. While the surprisingly strong underlying economic growth would be well received, the consequences of rising construction materials costs and the cost of borrowing would delay the much-needed improvement in U.S. transportation infrastructure.

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E-commerce’s slow boat

Born about 10 years ago, Web portals have become a significant piece in the fabric of containerized ocean shipping, but the pace of adoption continues to lag behind other industries such as finance and retail.

A closer look reveals that adoption of e-commerce within various segments of the freight management lifecycle varies widely between portions of the so-called “procure-to-pay loop.”

INTTRA, GT Nexus and Cargo Smart — ocean container shipping’s Big 3 Web portals — were initially started as carrier-funded experiments to move the booking process onto the Internet. Now they’re much broader in scope, and have helped this industry to convert a number of formerly manual processes to e-commerce activities.

For example, procurement of ocean transport capacity is moving to online platforms. GT Nexus reports that roughly $10 billion in transportation contracts (the majority of which is related to ocean transport) are managed on its platform. That figure is up roughly 300 percent from the company’s 2006 estimate of $3.5 billion.

American Shipper’s annual study on transportation procurement (available at www.AmericanShipper.com/Procurement) supports the idea that negotiations are shifting from a manual to electronic environment. In 2010, 40 percent of respondents classified their process as manual, down from 60 percent the prior year. Essentially shippers managing large, complex supply chains use e-commerce to simplify the process while leveraging their size to secure cheaper rates.

Bookings, the next step in the sequence, have long been viewed as a holdout. INTTRA estimates its platform will process 18.2 million container bookings in 2010, a more than six-fold increase from the 2.5 million the company counted in 2005. But INTTRA estimates that transaction volume is still about 12 percent of the global market leaving lots of room for growth.

“Many shippers still make their bookings by phone and receive the shipping instructions electronically,” said Andy Barrons, INTTRA’s vice president of marketing. “There is less data in the booking. The shipping instructions have more data fields, which are also required to meet regulatory and customs requirements.”

“In the past five years, we have seen an increase in both online shipping instructions and bookings as carriers and shippers seek ways to improve their shipment management processes,” said Joe O’Brien, managing director of CargoSmart North America.

In that timeframe bookings processed by CargoSmart have grown 693 percent. “The rise in online bookings has been primarily driven by carriers, but shippers are starting to see improvement in the process,” O’Brien said.

“With vessel capacity tightening, as was the case last year, shippers use online tools to manage their booking process and secure space on vessels.”

The industry has been faster to adopt electronic means for managing and transmitting the shipping instructions associated with each booking.

“That’s the greatest opportunity to streamline, create efficiency, and reduce errors and speed up bill of lading turn time,” Barrons said. “There is a lot of data in shipping instructions and likewise a lot of opportunity for errors.”

Since 2006 CargoSmart has seen a nearly fivefold increase in the number of shipping instructions processed.

The company credits this trend in part to carrier incentives, such as waived documentation fees.

“Carriers experience bottom-line benefits and internal efficiency through online documentation and as a result they have pushed their customers to adopt electronic submission tools,” O’Brien said.

For shippers, freight forwarders and non-vessel-operating common carriers that are not capable — or not willing — to use e-commerce, platforms like CargoSmart are working to digitize their shipping instructions process.

“Shippers and logistics service providers submit information using their preferred file format while fulfilling their carriers’ electronic submission requirements,” O’Brien said. “Mapping technology saves customers from having to re-input data into an online application or bearing the costs of maintaining EDI connections to carriers.”

All indications are that portals have gained significant ground in their initial goals to apply e-commerce at the front end of the shipping process. “We shouldn’t forget that there is a lot more to be done in streamlining the shipping initiation process and reduce the use of manual processes,” Barrons said.

Rate structures, surcharges and other complexities are common to the ocean transport industry, making settlement a difficult task that often leads to incorrect invoices, disputes, short payments, and other extra steps. As a result the settlement process becomes a manual exercise where efficiencies are lost.

“We see a significant opportunity to streamline invoice presentation and dispute resolution processes,” Barrons said. “We estimate there are 40 million to 50 million invoices per year that each cost between $20 and $60 to process.”

American Shipper’s research on freight payment (available at www.AmericanShipper.com/payment) estimates that 69 percent of payments are made with a check. There is certainly a large opportunity for the industry to improve on this front moving forward.

Portals have also set their e-commerce sights on other long-held manual shipping practices.

“The next big opportunity we see is to provide e-commerce solutions for NVOCCs,” Barrons said, specifically referring to the booking process between shippers and NVOs.

In fact, INTTRA announced Dec. 7 that it was opening its window to NVO customers. NVOs “will be able to participate as both a sender of data or a shipper, and as a carrier as a receiver of data,” said Robert Haney, director of NVO product management at INTTRA.

According to Greg Kefer, director of marketing for GT Nexus, “I think the key opportunity to streamline the process is about addressing the full, closed-loop process. We see it as an eight-step process: procure, optimize, allocate, contract, execute, track, audit, pay and measure.

“Most companies still take a silo approach to this. By simply addressing the individual areas, tremendous value has been proven,” Kefer said. “Imagine what would be possible if the whole loop was all automated and connected together in a single standard platform? A few companies are close today and the technology is pretty mature now so we think the market is beginning to shift into this centralized model.”
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**Becoming bigger player in forwarding game**

The bright red trucks of Norbert Dentressangle are a common sight on European roads, so much so that the Wikipedia entry on the company is largely devoted to the rules of a spotting game, “Nobby, Nobby,” that bored children and their parents can play — two points for every one of the firm’s lorries they see, three for a reefer, four for a double trailer, five for a tanker.

There are plenty of opportunities to spy Nobbies. With 8,000 tractor units and 11,000 trailers, it has Europe’s largest wholly owned fleet.

Don’t look for the company’s trucks on U.S. roads anytime soon, but Lyon, France-headquartered Norbert Dentressangle has expanded here in a big way with its Nov. 1 purchase of Schneider Logistics’ freight forwarding, customs brokerage and non-vessel-operating common carrier business. The business it is acquiring had annual revenues of about $29 million.

The U.S. operation will use the name NDO America (NDO is for Norbert Dentressangle Overseas), and it plans to offer global service.

When Schneider announced the sale — it included forwarding and brokerage operations in both the United States and China — it said it had “become clear that while freight forwarding and customs brokerage is an exciting business with significant potential, it is not part of the strategic focus on our core truckload, logistics and intermodal services.”

But for Norbert Dentressangle, the acquisition is part of a plan to expand in forwarding, adding a third stream of revenue to its transport and logistics-warehousing sectors.

Norbert Dentressangle followed up its Schneider acquisition in December with an even bigger deal, acquiring Laclede Logistics, which owns TDG, the Manchester, England-headquartered transport and logistics company.

TDG makes 74 percent of its revenue in the United Kingdom, 12 percent in the Benelux countries, 8.5 percent in Spain and the remainder in Ireland, Germany and Hungary. Like Norbert Dentressangle, most of TDG’s revenue comes from trucking and warehousing, but 14 percent of its 795 million euros ($1 billion) in 2009 revenue came from its forwarding operations.

Many of Norbert Dentressangle’s customers throughout Europe are “multinationals that have a presence in the states and Asia as well. They have asked for quite some time for Norbert to have a footprint in the states,” said Diane Hofman, general manager of NDO America. She comes from Schneider, where she had been running the forwarding and brokerage operation.

Schneider customers have migrated to NDO with the acquisition and are “quite excited about this because it gives them a greater global footprint,” Hofman said. NDO will continue to closely work with Schneider so its U.S. customers’ warehousing, trucking and transloading requirements will continue to be met.

NDO America has offices in seven U.S. cities — Atlanta, Chicago, Los Angeles, Miami, New York, San Diego and San Francisco — and “we are expecting to open a few more offices throughout the U.S. over time,” she said.

The Schneider acquisition included operations in Shanghai and Tianjin, China. That’s already been supplemented with an office in Hong Kong. Norbert Dentressangle Overseas also has offices in Europe.

The TDG purchase “will give us some great opportunities because there is so much business that goes on between the U.S. and the U.K.,” Hofman said.

Norbert Dentressangle, which takes its name from its founder, was founded in 1979 and initially was an international trucking company specializing in cross-channel traffic. The company opened branches in Italy, Spain and the Benelux countries and expanded in the late 1980s and early 1990s by acquiring 30 companies.

It became a public company in 1994 and since then has expanded in the services it offers by getting into logistics and warehousing, and geographically by establishing operations throughout Western and Eastern Europe.

It continued to grow in the 1990s and during the past decade by purchasing firms throughout Europe: Confluent, UTL, Van Mierlo, Stockalliance, Cidem, Venditelli, TNT Logistics France, Transcondor, CCH and Christian Salvasen.

With the acquisition of TDG, Norbert Dentressangle will have 2010 pro forma revenue of 3.6 billion euros ($4.8 billion), 57 percent from outside France. It has 33,000 employees, 58 percent outside of France. About 53 percent of the company’s revenue will come from road transport, 44 percent from logistics (the company has about 70 million square feet of warehouse space), and 3 percent from forwarding like the business it acquired from Schneider. — Chris Dupin

**INTTRA adds shipper-NVO business**

Shipping portal INTTRA said Dec. 7 it is opening its window to the customers of non-vessel-operating common carriers, giving a big new group of shippers access to its product.

INTTRA, which is used to initiate more than 350,000 container orders per week, estimates NVOs handle 34 percent of full containerload shipments and 74 percent of less-than-containerload shipments, a total of about 50 million TEUs of cargo.

The actual number of NVOs is difficult to estimate; INTTRA said its research gives a range of 10,000 to 30,000 globally. The middlemen, which buy lift from container shipping companies and then resell to shippers, can be big or small. But smaller shippers’ NVOs consolidate smaller lots into containers, offering a shipping service analogous to less-than-truckload shipping.

While 81 of the top 100 NVOs already use INTTRA’s electronic systems like other shippers to exchange information with container liner companies, NVOs will also be able to do business with their customers on the network.

NVOs will “be able to participate as both a sender of data or a shipper, and as a carrier as a receiver of data,” said Robert Haney, director of NVO product management at INTTRA. “It really completes the picture if you think about the supply chain breaking down into shippers and the NVOs and then the steamship lines — those are the three big pieces and this gives us an opportunity to really make it more valuable to all three.”

Shippers, he said, would benefit from a single point of entry through which they can initiate and manage both full container and LCL shipments.

INTTRA will sign up NVOs globally to do business with shippers, he said. Shippers will be able to perform all the functions they perform today with vessel operators when they use INTTRA to do business with NVOs, and eventually the company plans to let them post schedules on its Web site, www.OceanSchedules.com. — Chris Dupin
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Panther Expedited Services is poised to take a bigger bite of the logistics market.

The Seville, Ohio-based company has increased its presence in international freight forwarding through acquisition, and it is now ready to initiate a public stock offering in preparation for further expansion.

Panther first gained its footing in transportation about 20 years ago by providing door-to-door expedited ground services to the automotive sector and gradually rolling those out to other shippers with similar time-sensitive delivery requirements.

"After years of managing the industry’s most critical shipments, we’re bringing the same sense of urgency to delivery of high-value freight to and from anywhere in the world, regardless of the mode," said Andrew Clarke, Panther’s president and chief executive officer.

This change has taken several years to evolve in a company highly regarded among automakers for providing an “ambulance service” to keep assembly lines running smoothly. It’s estimated that it costs automakers about $20,000 a minute whenever a line goes down. The company has found similar interest for this level of service among shippers in the pharmaceutical, life sciences, and electronics industries.

Panther operates this service through its network of more than 1,100 exclusive owner-operators of tractor-trailers and cargo vans, which are painted with the company’s logo and outfitted with technology that keeps them connected to Panther’s information system. The company has the capability to electronically dispatch a truck within a few minutes and pick up a shipment within 90 minutes.

In addition, Panther has access to a large pool of third-party ground carriers. The company has increased the size of this network to more than 1,600 truckers. In an emergency, Panther is not beyond chartering planes to ensure shipments are delivered on time.

For the most time-sensitive deliveries, Panther makes available its Elite Services, which includes temperature control, special security, heavy-weight and oversize shipping, and emergency recoveries and distributions. Clarke noted that Elite Services has been used by the U.S. government’s NASA and Defense and Treasury departments.

Four years ago, U.S. expedited ground services accounted for 92 percent of Panther’s business, with 53 percent of that in the automotive sector. Since 2006, when Clarke joined the company, Panther has rapidly branched into other areas of logistics, both because its customers asked for it and to avoid having its business too narrowly focused on automotive parts supplies.

Unforeseen by Panther, the U.S. auto industry’s annual output dropped dramatically from a high of near 16 million units in 2006 and 2007 to almost 8 million units in 2008 and 2009. “I shudder to think what we’d look like today if we had not done that,” Clarke said.

In July 2006, Panther acquired certain assets of Con-way Expedite and Brokerage, a division of Con-way Inc., to expand its ground expedited services and shipper base. This acquisition was followed by the purchase of Integres Global Logistics, which was founded by United Airlines, Unisys and Roadway Express as a technology-based forwarding and logistics firm dedicated to air and ground freight services. The Integres acquisition also provided Panther with a platform for its One Call Solution shipping quotation system.

In October 2008, with an eye to expanding into international air and ocean forwarding services, Panther acquired Portland, Ore.-based Elite Transportation Services, which also has offices in Seattle, San Francisco, Los Angeles and San Diego.

For years, Panther has worked closely with many forwarders and express carriers to handle the ground transport portion of their inbound international shipments. While the company continues to serve these partnerships, it also sees opportunities to handle some of its own overseas freight.

“It’s a pretty big world and we’re not that big in that world,” said Clarke, referring to the estimated $776 billion global logistics market. “We know our business with forwarders and our own direct business. We will not back-solicit.”

In the first six months of 2010, Panther handled shipments to or from 38 countries, mostly in Asia. The company has targeted U.S. gateways for international freight opportunities, including New York, Atlanta, Miami, Chicago, Dallas, Houston, San Diego, Los Angeles, San Francisco and Seattle. In its Aug. 9 registration statement filed with the U.S. Securities and Exchange Commission, the company said it has hired international sales people and continues to invest in building its brand in these markets.

Panther also has its sights on developing overseas market opportunities in India, South America and Europe.

To support its domestic and international services, Panther’s online shipping procurement engine searches more than 200,000 transportation options for every shipment. Investments in service diversification and systems are starting to pay off for Panther. In the first half of 2010, North American ground expedited accounted for 66 percent of its overall business, followed by Elite Services at 16 percent, air and ocean freight at 14 percent, and 4 percent listed as other.

Clarke said the company will continue expanding its logistics services, geographic coverage and customer base.

“We’re open to organic and acquisition growth,” he said. “We have so much blue sky ahead of us.”

Panther’s logistics bite
Expedited ground carrier expands business with international freight forwarding.

By Chris Gillis

In the last two years, Panther has expanded its domestic and international network by acquiring Roadway Express as a technology-based forwarding and logistics firm dedicated to air and ground freight services. The Integres acquisition also provided Panther with a platform for its One Call Solution shipping quotation system.

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WE KNOW WHERE YOU'RE COMING FROM. AND WHERE YOU HAVE TO GO.
Congress needs better security answers

A Ian Bersin, commissioner of U.S. Customs and Border Protection, and his counterpart at the Transportation Security Administration, John Pistole, were hard pressed at a Nov. 16 Senate hearing to explain why they couldn’t immediately issue a directive moving back the deadline for air carriers to file their cargo manifests.

The discussion came on the heels of the Yemen parcel bomb incident as Rep. Edward Markey and a colleague in the Senate, supported by some airline pilots unions, called for inspections of all shipments of cargo-only planes, as is required for cargo on passenger planes.

Freighters carry a lot more volume than passenger planes, especially bulk shipments that require separation of individual pieces to meet inspection requirements. Security experts and the business community condemn 100 percent inspection as ineffective and expensive.

The Department of Homeland Security has launched an effort to get more pre-departure, advance data from carriers that its computers can compare to risk criteria to identify suspicious packages that merit further scrutiny. But its approach is more nuanced than simply making the manifest due earlier. Under the law, airlines must electronically file their cargo lists and associated data four hours prior to arrival or takeoff for nearby nations.

DHS officials say it would be difficult to get a lot of the flight data on the manifest any earlier. They’re more interested in getting some of the shipment data that resides in the manifest up front.

That’s because they don’t want to wreck the air cargo industry in an attempt to protect it. In air cargo, especially the express consignment sector, time windows are so tight that to require all the information before departure would destroy the value proposition of air transport. Many manufacturers and other shippers often run packages to the freight dock right before the cutoff time. The entire network of express carriers is structured to handle last-minute tendering at full rates.

Plus, there are a lot of technical, legal and procedural protocols to implement that would actually make it possible to flag a shipment that caused an alarm. DHS probably should have been working on that system before, but it is focused on the job now and is asking all the right questions as it prepares to test the concept.

And much of the manifest data is useless for advance targeting.

But for politicians like Sen. Carl Levin, D-Mich., the solution is plain as day: push back the deadline for filing the manifest.

A skeptical Levin repeatedly asked Bersin and Pistole about any practical challenges to moving up the manifest deadline, and neither of them could supply a cogent answer.

Their main point was that some small airlines around the world don’t have adequate information technology systems to electronically file data to CBP.

Levin, who didn’t seem to have much consideration for the realities of the business world, dismissed the notion that adding time to the manifest requirement would bring commerce to a standstill. He said it would only slow deliveries by several hours, which he submitted the public would accept in exchange for greater security.

The law enforcement officials didn’t project a sense of confidence to Congress, which is what is needed to prevent lawmakers from filling the perceived void with feel-good security measures.

What they should have said is that a lot of the data isn’t readily available from freight forwarders and shippers because they often don’t know until late in the process which airline they plan to use. They could have pointed out that more work is required than just a time-change for submitting the manifest.

Bersin’s inability to better explain the situation is baffling because in an interview with me in his office three days later he was very articulate describing the challenges associated with imposing a new security filing on industry. And he did an excellent job describing how industry and DHS are reshaping the way they view security.

Unless he spells things out point by point, lawmakers won’t get the point.

ICAO addresses air cargo security

The International Civil Aviation Organization on Nov. 17 adopted more stringent air cargo security standards that are in line with the U.S. government’s Certified Cargo Screening Program and the International Air Transport Association’s Secure Freight initiative, which are designed to push screening up the supply chain to reduce lines at the airport.

The new guidelines call for more screening of cargo and mail by detection devices and better protection from tampering from the point of screening until loading on the plane.

Also included in the revision to the Convention on International Civil Aviation is the strengthening of provisions related to the deployment of security equipment, the security of air traffic service providers, training programs and instructor certification systems, and cyber threats.

Countries usually incorporate ICAO’s non-binding guidelines into their aviation laws. The text of the document is not publicly available yet, but ICAO outlined some of the changes in a news release.

Meanwhile, the European Union on Dec. 2 unveiled its own plan to strengthen air cargo security, which will replace emergency measures put in place by individual members following the Yemen parcel bomb plot and another mail scare in Europe.

The European Commission said it will convene a working group to devise security measures for cargo from non-EU countries, with an emphasis on risk-based targeting and more advance information about shipments.

The group will identify criteria for assessing high-risk cargo and establish an audit process to evaluate security standards of airports outside the EU. A nother goal is to develop a common security training program for air cargo.

Members will be encouraged to speed up implementation of the known shipper rule, which must be fully implemented by April 2013. The commission said it will take steps to ensure quick sharing of threat information, incidents and emergency responses and develop a common threat-assessment capability.

It encouraged nations to quickly adopt the enhanced ICAO guidelines on air cargo security.

In late November, Germany revoked the licenses of three companies for failing to meet cargo security standards and issued warnings to 20 others, according to the Associated Press. The government didn’t identify the firms.
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Department of Homeland Security officials say they will issue a new rule requiring airlines that carry cargo into the United States to submit manifest data prior to departure from a foreign airport — but only after thoroughly testing the best methods for achieving their security goals without damaging the air cargo industry.

Obtaining shipment information in advance of the current manifest-filing deadline — four hours prior to arrival or at takeoff for countries less than four hours away — is now considered a necessary step to protect aircraft, including freighters, from being blown up in flight, after plastic explosives hidden in printer cartridges were recently discovered on a UPS plane in England and at a FedEx facility in Dubai. Investigators suspect the plastic explosives, which were rigged to cell phone circuitry, were timed to detonate while the couriers’ planes flew over major cities on the U.S. East Coast.

The acknowledgement that data is virtually useless for weeding out suspicious shipments and thwarting a mid-air attack when received after planes are en route begs the question of why it took the parcel bomb plot from Yemen before officials considered revising a major gap in the nation’s risk-based supply chain security regime.

The manifest, electronically transmitted through an approved pipeline, is ostensibly filtered through CBP computers to match shipment characteristics against various risk factors and intelligence reports. Shipments that generate a red flag are subjected to non-intrusive technical or physical inspections upon arrival, but the recent al Qaeda plot targeting U.S.-bound cargo planes has DHS scrambling to revise its security protocols so that shipments can be assessed and, if necessary, held for inspection before they are loaded onto a plane.

Soon after the bomb plot was foiled, DHS officials indicated they were working with express delivery companies and other airlines to find a way to get some of the manifest data, and possibly new data elements, before departure.

Among the issues to be resolved are:
- What data is available pre-departure.
- How early can air carriers get complete and reliable data from customers.
- Which parties have the data.
- How to notify a freight forwarder or carrier not to load a shipment in the event of an alarm.
- How law enforcement officials in a foreign country can be enlisted to help resolve whether a package poses a threat. CBP also updated its automated cargo targeting rules to identify air cargo shipments with risk profiles similar to those of the parcel bombs that originated in Yemen.

DHS will soon launch several demonstration programs for collecting advance air cargo data before rolling out a new rule, according to recent Senate testimony by Customs and Border Protection Commissioner Alan Bersin and John Pistole, administrator of the Transportation Security Administration.

In conjunction with the new security directive on advance shipment data, CBP
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Whew.
will also adjust its targeting rules to reflect TSA security concerns and establish procedures for scanning high-risk cargo overseas, Bersin said in an interview. TSA’s focus is explosives and stowaways, while CBP’s mission is aimed at intercepting radiological/nuclear material, narcotics, agricultural pets, outbound guns and money, and other contraband.

“A robust, intelligence-based targeting system … built upon pre-departure advanced air cargo data, will result in a much enhanced air cargo strategy and greater security for our nation,” the two agency heads said in their joint statement.

Security Filing. Contrary to general perception, CBP isn’t seeking to push back the timeline at which air carriers must electronically file the cargo manifest. Instead, the agency believes that obtaining a subset of the manifest data in advance could enhance its ability to assess security risks without unduly burdening the air cargo industry, according to an agency official close to the policy deliberations.

The manifest includes:
- Master and house airwaybill numbers for consolidated shipments.
- Trip/flight number.
- Carrier code.
- A report of origin.
- A report of arrival.
- Scheduled date of arrival.
- Total piece count.
- Total weight.
- Cargo description.
- Shipper name and address.
- Consignee name and address.

CBP is only interested in obtaining a few of the data elements on the manifest that are generally known earlier in the shipping process — such as the cargo description and relevant addresses — that can be run through an automated targeting system for pre-departure risk assessment, said a Customs source, who spoke not for attribution because he is not authorized to speak to the press.

The other half of the manifest data specific to the flight the cargo is arriving on is generally not available until the plane is ready to take off and is not being sought any sooner.

“We’re not looking to take the existing manifest and back that up, but require those data elements that really have the targeting value and make sure we get those” as a separate security filing, the official said.

The information would still come from the carriers, unlike the advance security filing now required from importers in the ocean container arena.

Any filing deadlines could differ to accommodate different types of business models within the air cargo industry, according to the CBP source.

CBP will have two pilot programs — one for express carriers and the other for passenger airlines — to gauge what data is available and when it is accessible, as well as other operational mechanics. Several carriers have volunteered to participate in the pilot programs, and technical staffs are working out the necessary information technology connections, data elements, message formats and targeting rules to move ahead, the official said.

Dual data streams are necessary because express carriers such as FedEx, UPS, DHL and TNT are integrated logistics companies that deal directly with regular shipping customers, have trucking networks, consolidation hubs and their own aircraft. That means they get information from their shipments very early, and maintain control of it throughout the process.

Passenger airlines tend to partner with freight forwarders, who are middlemen for the shippers trying to find the most cost-effective or expedited carrier. Forwarders often subcontract with ground transportation companies or other service providers, which adds layers to the cargo handling and documentation processes.

The official said a separate pilot for heavy-weight all-cargo carriers is not necessary because they tend to follow either the express consignment model and deal directly with shippers or deal with freight forwarders in the same way as passenger airlines.

A second part of the pilots, which would take longer to set up than the IT component, will focus on response protocols — such as replying with “do not load” messages and setting up inspections for shipments that score above pre-determined risk thresholds.

Bersin and Pistole testified that one of the challenges to simply pushing back the manifest deadline is that small carriers in some parts of the world are not fully electronic.

According to industry experts, many shipments come from countries with limited Internet access or from forwarders that don’t have electronic capability. The shipments, for example, can be moved on the first leg by a local courier and transferred to a larger airline at a major gateway. The small express company or forwarder may fill out a paper manifest or house airway bill, which requires the second airline, or a third-party filing service, to manually input the information for transmission.

The house bill is the forwarder’s own internal bill of lading, or contract with each individual customer. A forwarder can combine multiple house bills on a master bill, which represents its contract with the airline.

Most large forwarders have the necessary software and approval to send house airway bills themselves through CBP’s Automated Manifest System, after which they notify the airline. Forwarders also have the option of electronically sending their house and master bills to the airline and letting the airline submit the documentation through AMS. A bout 20 percent of the time, the paperwork arrives with the cargo.

A bout 5 million house and master airway bills are submitted to Customs through the Automated Manifest System every month, according to Michael White, assistant director for cargo standards at the International Air Transport Association’s U.S. subsidiary.

“IT’s in the best interest of the forwarding
The problem for the forwarder is that it, or the airline, may not have created a master airway bill number that soon. Forwarders must put the master bill number on their own manifest as a cross reference because CBP’s computers use the number to match up the master bill with the sub-bills so the agency knows which plane the shipment flew on. In many cases a forwarder may still be consolidating shipments and not know which airline, or airlines, to whom it ultimately will tender a load.

A further complication is that house bills in other languages must be translated into English before they can be sent along with the carrier’s master airway bill to CBP. “There’s certainly a strong sense of urgency on this whole issue,” said M ichael Mullen, executive director of the Express Association of America. “I think people really want to test out what’s in the realm of the possible.”

Mullen said there have been no discussions yet on what the end state would be other than a general sense that any rule would have to be codified in some way if it is to become a permanent change.

Plugging The Gap. Meanwhile, DHS has instituted several more immediate precautions, including an indefinite ban on air cargo from Yemen and Somalia. But the announcement that all shipments of concern are now automatically placed on hold and examined upon arrival, implies two contradictory things:

\* A new security measure was implemented to demonstrate to the public that the government is responsive when in fact the same method has been in place for years.

\* The air cargo data wasn’t routinely scrubbed for anomalies.

The international freight transportation community has always assumed air cargo was subject to the same risk rating as freight moved by ocean and cross-border surface modes.

On the maritime side, vessel operators must transmit the manifest 24-hours prior to loading containers at a foreign port. CBP also operates the Container Security Initiative, which is designed to push the borders out to foreign ports for pre-departure inspections. Small teams of Customs officers are stationed in 58 ports through bilateral agreements where they use risk analysis of shipping data to identify a fraction of suspicious U.S.-bound volume and make requests for automated scans by local authorities.

Congress has questioned the effectiveness of the program because less than 1 percent of boxes are inspected overseas.

CBP officials maintain the air shipment data has always been effectively plugged into its Automated Targeting System, but that no infrastructure exists at overseas airports as it does at ocean ports to hold a shipment for inspection. Until the Yemen parcel bomb plot, the focus was on stopping unauthorized containers at foreign ports. CBP could be used in an attack, or traditional contraband like drugs, from being smuggled by plane into the country. Now the focus has expanded to stopping attacks on aircraft and any resulting collateral damage on the ground.

The fact that data mining based on the manifest is of questionable value for risk analysis purposes, given the unreliable nature of the document, could explain why the agency might feel less compelled to pay attention to screening inbound air cargo information. In fact, TSA wasn’t much interested in the data for its purposes (“Picking up the pace,” www.AmericanShipper.com/web).

Customs last year implemented a rule, known as the Importer Security Filing (ISF) or “10+2,” requiring importers to electronically transmit advance data about their ocean shipments because of concerns that manifest data is not very reliable or detailed enough. Part of the problem is that the information on the manifest comes from third parties and cannot be verified by the carriers.

Bersin, in his Senate testimony, said CBP’s maritime risk-management strategy serves as a good template for identifying threats, but it needs to be customized for the air cargo environment.

CBP officials have insisted for years that ISF is only being used for maritime container security and they have no plans to apply it to air cargo, while at the same time acknowledging it would be a natural extension for ISF at some future point. Their position stemmed from a desire to focus on the difficult implementation of a controversial rule within the trade community without causing further distraction and to make sure they got the program working well before taking on a bigger scope.

Many air cargo industry officials don’t want to see ISF and air cargo security in the same sentence, given the amount of work done by importers to compile shipment origin data from their overseas suppliers before vessel loading. Although airlines are willing to share advance data with CBP under the policies being considered, they fear that requiring their customers to feed data to the government could damage the industry’s expedited value proposition as shipments wait for information to catch up to them.

Pistole told the Senate Homeland Security and Governmental Affairs Committee that the U.S. government has confidence that known shippers, usually large companies with a track record of regular shipping activity, have safeguards for ensuring the integrity of their shipments through handoff to the airlines (“Finding the sweet spot,” www.AmericanShipper.com/web). The primary challenge is individual packages originating in high-threat areas where there is not a pre-existing relationship between the carrier and shipper, and there is no government security program in place, he said.

As part of new security measures announced by DHS in the wake of the Yemen parcel plot, international mail packages
must be screened individually and certified to have come from an established postal shipper. The measure essentially forces postal authorities to segregate packages based on whether they are a regular shipper with a known address so they can proceed in accordance with appropriate screening. Individuals who walk up to the counter will fall into the high-risk category and their shipments will not be allowed on passenger aircraft.

Pistole said TSA is studying expansion of the Certified Cargo Screening Program from the passenger aircraft arena to all-cargo carriers as well. But unless 100 percent screening becomes the law for shipments on cargo-only planes, there doesn’t appear to be any rationale for such a move.

The CCSF was developed to help shippers and airlines meet the Aug. 1, 2010 deadline to screen all parcels and freight on passenger planes without causing backlogs at airports. The mandate requires screening down to the carton, or piece, level, which led to fears that airlines would be overwhelmed if some cargo wasn’t prescreened before entering their systems. Unscreened cargo must be inspected by airlines at their airport facilities, which aren’t geared for peripheral activities.

Under the voluntary program, shippers can get certified to pack shipments in a secure manner or have their certified freight forwarded by Consolidated Palletized Freight and check it by physical or non-intrusive means. Either party must then maintain a secure chain of custody during transport to the airport.

Shippers who participate in CCSF incur the lowest expense because they’re rebuilding in security as they pack the boxes without having to pay a third party to screen on their behalf further down the supply chain.

TSA so far has certified 1,156 facilities, including more than 100 independent operations dedicated to inspections. Together they screen half of all cargo moving on passenger planes.

The Airforwarders Association supports more risk-based data targeting as a better means. Either party must then maintain a secure chain of custody during transport to the airport.

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The best way to improve air cargo security is to push the trusted shipper model to the rest of the world so that all airlines and shippers are operating under the same standard, Pistole told lawmakers. The goal is to get foreign governments’ screening systems as adequate under U.S. law.

TSA is working with the International Air Transport Association and the International Civil Aviation Organization to encourage and help countries that don’t have adequate resources develop screening programs that adhere to international standards, including ones that involve the private sector, Pistole testified.

Countries such as the United Kingdom, Australia, and those within the European Union have well-regulated air cargo supply chains to prevent bombs on aircraft and theft. TSA has access to observe the programs in action, but reaching bilateral agreements on mutual recognition is a slow and laborious process.

IATA’s initiative, called Secure Freight, aims at addressing weaknesses in countries that lack security programs. The industry group has created a security template, documents and best practices to help governments set up a security program.

The new initiative is focused on securing shipper handling and processes to minimize the need for expensive X-ray devices. The other key objective is to get governments with existing programs to recognize the security regimes as compatible with their own practices so that transshipment and inbound cargo doesn’t have to be rescreened, and airlines don’t face the burden of complying with dozens of inconsistent security standards around the world.

The lack of adequate cargo security standards was evident during a recent visit to Yemen, where the parcel bombs originated, Pistole said. Yemeni authorities are using older generation X-ray machines that don’t have two-dimensional software enhancement, have neither explosive trace detection machines nor canine detectors, and only conduct very limited physical inspections.

TSA has sent a team to Yemen to help train inspectors and also donated several explosive trace detection machines to the government, he said.

But building a common international screening capability “likely will take many years, perhaps decades, before most countries have established sufficient screening systems and DHS has been able to review them in enough detail to certify them,” Stephen Heifetz, who until last April was deputy assistant secretary for policy development at DHS, wrote in a prescient article published about one month before the parcel bomb plot. Now a partner in the Washington office of Steptoe & Johnson, he added that the DHS had time to enhance an auditing program for foreign facilities.

The best form of security in the short term, Heifetz said in the fall issue of the Airforwarders Association’s magazine, is to develop a risk rating system like the one used for maritime cargo with advance importer data. Without such a system in place for inbound air cargo, he warned, industry could face draconian rules in the event of a terrorist incident involving the air cargo supply chain.

He called on DHS to add some data points to those already collected and collect the data earlier.

A strong risk-assessment system, using better data and algorithms for risk-ranking cargo, could be implemented in a couple of years, saving money and, providing equal or better levels of security than trying to validate the security levels of overseas freight stations, he said.

Writing in the New York Times a few days after the Yemen parcel bomb plot was foiled, Heifetz suggested that Congress made “the perfect enemy of the good” by passing the 2007 mandate to physically screen all cargo on passenger planes, which distracted TSA from developing a risk assessment tool for air cargo or working with CBP on one.

“The only practical way to increase the security of inbound air cargo is to rely on
a risk rating system rather than a physical screening system,” especially since almost three-quarters of air cargo is moved by freighters, he said.

The U.S. government and air cargo industry should require different standards of security for shipments originating in high-risk markets and transshipped between carriers, according to Brian Clancy, managing director of Logistics Capital & Strategy, a financial and strategic advisory firm based in Arlington, Va.

“The ability to introduce a package that has a threat is likely to be easier in a high-threat country than in low-risk country, which has more security to begin with,” he said. “The biggest challenge is that no system is ever perfect. One hundred percent security is never possible because the resources needed to achieve that is a non-linear curve — it goes up at an accelerating rate” to fill the last gaps.

“So a partitioning strategy to me is a logical one. Every airport in a country and every country get ranked” by their security protocols, said Clancy, who recently split from MergeGlobal.

A nd cargo that flies on a dedicated plane with custodial control, such as one operated by FedEx or UPS, follows one level of security versus an interline shipment subject to one or more handoffs.

“The package leaves from Yemen, Clancy pointed out, went from an agent through an interline passenger airline service to Dubai before they entered the express carriers’ systems.

“Interline handoffs in high-threat markets are probably the most vulnerable points in the U.S. air import network,” Clancy said.

Even if there is adequate security in a high-risk market there should be a second layer of scrutiny applied when the cargo gets to a transshipment hub, he added.

And global shippers, who move high-value products through tightly controlled supply chains with a small number of handoffs and belong to programs like the Customs-Trade Partnership Against Terrorism, would have shipments go through the fast lane compared to the high-inspection, slow lane for infrequent and unknown shippers.

“The trick is to bifurcate the packages based on who is tendering them and where they’re tendering them. If they’re tendering in a high-threat market as an unknown shipper walking up to a franchise store front — that will have a different set of rules,” such as embargoing it for two or three days until all the manifest information can be collected and rated for risk.

“It slows things down, but that part of the market is such a small part of their business that it’s not a financial problem” for cargo carriers to impose the rules and risk losing those customers.

Pistole predicted express carriers and other cargo airlines are likely to avoid countries that have serious security gaps.

“I think what we’ll probably see is a sector private risk model is that they may not pick up packages from countries assessed as high risk, he said.

Adapting To Terrorists. CBP leaders, past and present, insist the agency took appropriate steps to deal with concrete threats and adjusted its aviation security strategy as dictated by intelligence.

Prior to the attempted attack on U.S.-bound freighters, the primary threat to commercial aircraft was considered to come from the passenger side in the form of explosives in baggage or carried by a suicide bomber, or terrorists commandeering a plane and crashing it into a building as happened on Sept. 11, 2001.

“Now we have intelligence, an act and a continuing threat stream, so we have a responsibility to act,” said Jayson Ahern, who until last December was acting commissioner of CBP and now is a principal for risk management consultancy The Chertoff Group.

A sked why DHS didn’t anticipate that freighters themselves would become terrorist targets, Ahern responded the key is to look ahead to the new threat.

“What we did or didn’t do in the past is irrelevant,” he said.

Bersin, interviewed in his office at CBP headquarters, compared the current initiative to the way DHS responded to the failed attempt by underwear bomber Umar Farouk Abdul Mutallab to destroy a Northwest Airlines jet last Christmas.

In late November, DHS announced that it had met its goal of prescreening all passenger data for flights originating in or bound for the United States. Under the SecureFlight program, TSA matches every name, date of birth and gender against terrorist watchlists before passengers receive their boarding pass. Most passengers are cleared to print boarding passes at home or at a self-serve kiosk. Individuals found to match watchlist parameters are subject to secondary screening, a law enforcement interview or prohibition from boarding an aircraft, depending on the specific case.

Airlines previously had responsibility for checking passengers against the government watchlists.

“In the same way we moved to pre-departure information after Dec. 25 on passenger, so we move to pre-departure with regard to cargo after this incident,” Bersin said.

“Look, this is an ongoing process of reacting to counter-terrorist threats. The nature of the threat changes and this will not be the last time in which we see a response to our adjustment by the terrorist to produce another challenge. This is the new world that we live in.”

AMERICAN SHIPPER: JANUARY 2011
A 2010 recap

As the calendar sweeps gently into 2011, there’s always a dilemma for shippers and carriers over whether to look back in anger or look ahead with hope.

There’s plenty discussion in this issue on what form liner carrier-shipper relations might take in 2011 (see “A 2010 recap,” pages 6-13), so let’s briefly look back at a few touchstone issues from 2010.

- **Carriers withholding capacity.** Depending on which side of the fence you fall, you either viewed carriers’ actions in early 2010 as showing the capacity management discipline they lacked in previous years, or as an egregious attempt to manipulate the market to drive up rates.

As Philip Damas, division director of Drewry Supply Chain Consultants, put it: “Capacity came back after demand came back. Carriers learned that you let demand increase, then you increase capacity.”

With another explanation you believe, it did lead to a vicious cycle of carriers being unable to meet demand, which led shippers to make multiple bookings to ensure space, which led to no-shows. Not good any way you look at it.

George Goldman, vice president of South China for APL, argued that the return of idled vessels in early 2010 threw carriers’ networks out of whack, contributing mightily to the space shortage.

“Well, when ships were put back into service, they weren’t all the same size, so we had to cobble together some services with different size ships,” Goldman said.

“On the other hand, there were misleading forecasts, purchase orders that didn’t show up, and purchase orders showing up that weren’t expected.”

By fall, the capacity situation was largely sorted out.

“Transpacific capacity is now what it was in 2008,” said APL President Eng Aik Meng. “Utilization in the last four months is pretty healthy — 90 percent or so.”

His comment on transpacific capacity is largely corroborated by analysis from American Shipper research affiliate ComPair Data. Both ComPair Data’s October World Liner Supply report and a special report on ocean carrier capacity management show such a development.

(The ComPair Data report, Taming Cyclical Rates: Have ocean carriers found the key to reining in the boom-and-bust cycle?, is available at www.ComPairData.com/reports.)

- **Ocean carriers have been too quick to order new vessels.** APL, Evergreen and Hamburg Süd all made orders in the summer, while Maersk is rumored to be negotiating a massive $4 billion order for 2018,000-TEU vessels (which it denied to American Shipper).

Eng justified the orders by saying a situation of overstated supply can quickly turn to undersupply.

“The supply side is overstated,” Eng said, explaining that while currently ordered ships were due to be delivered industry-wide in bunches, because of delays, deliveries will be spaced more evenly over the next couple of years. “Capacity growth is forecast at less than 10 percent the next two years. The question is whether in 2013 there will be enough ships to meet forecast demand.”

The maritime news service Alphaliner reported in mid-November that even if the present levels of ordering interest were to be maintained, it wouldn’t represent too much ordered capacity on a historic basis.

“Since the order book peaked at 6.9 billion TEUs in August 2008, it has been in continuous decline due to a combination of poor market sentiment and a lack of access to funding,” Alphaliner said. “Although the order book will not return to the heady levels of 2007, when it reached a peak of 64 percent of the fleet, its size is expected to remain in the 25-30 percent range next year.”

That’s not really too much. Philippe Hoelinger, vice president of SeaAxis, said in April that historically, the minimum ratio of ordered to existing capacity is 20 percent (see “Analysts: Ship orders to begin anew in ’11,” at www.AmericanShipper.com/links).

- **Rate volatility.** If there really were lessons learned by carriers in 2009, it seems ships did most of the learning in 2010.

Carriers stuck to their guns over contract negotiation time and, in the words of one carrier, were “more obstructive and more immediate on price points.” Carriers’ actions in early 2010 as showing the capacity management discipline they lacked in previous years.

Carriers who withheld capacity (see “Carriers withholding capacity,” page 7) and were “really trying to benchmark their rates against spot market rates,” Damas said.

Stephen Ng, director of corporate planning for OOCL, said rate volatility would continue unless carriers are afforded some level of cooperative engagement, another hot topic in 2010.

“During the worst of the downturn, we heard a lot from customers about the importance of rate stability, especially last year when rates were below costs,” Ng said.

“We have conducted some internal research at OOCL to examine the standard deviation of rates before EU deregulation in 2008, when the EU took away exemption for price discussion from the liner shipping industry. We took the Asia/Europe and transpacific trades as examples.

“During the period before 2008, there was slightly less rate stability in Asia/Europe, with its standard deviation being 1.2 times that of the transpacific. Since October 2008, the volatility in Asia/Europe has become much higher — 2.5 times that of the transpacific eastbound.

When standard deviation has been higher, rate stability has been less. When things are left to the free market, people tend to overreact.”

What shippers want, aside from service consistency and good rates, is the knowledge that carriers are making their decisions individually, as Peter Friedmann, executive director of the Agriculture Transportation Coalition, told American Shipper in November (“Friedmann: Expect scaled-back antitrust bill in new Congress,” at www.AmericanShipper.com/links).

“As a general rule, shippers and AGTC didn’t voice complaints about Maersk,” which several years back all but pulled out of serving U.S. inland points, he said.

“That was an individual company making an individual decision based on economic factors. Nobody is expecting a carrier to provide a service that doesn’t make sense economically.”

Narrowing the arrow of rate volatility may eventually come down to carriers knowing exactly where their profits lie, on a micro level.

“I know what the cost is to move every box, all the fixed costs and the variable costs,” Eng said. “We are very clear on this.”
The fresh aroma of early morning coffee fills the air and your senses.
But, behind the scenes, the very source, the voyage of those coffee beans, is another story of itself.
The hard work of so many people teaming up to make sure that each and every day in life can have that same aroma -- is quite a journey indeed.

From the very beginning of a day, Yang Ming stays with you and works for you.
Levers of inbound
An inside look at how APL ties vessel, terminal and intermodal pieces together.

BY CHRIS GILLIS

The APL Holland’s arrival in the Port of Los Angeles at 5 p.m. on Sept. 29 triggered what appeared to be a flawless response at Eagle Marine Services’ terminal, as both humans and machines prepared to engage the fully laden containership. The terminal’s actions were not precipitated by the ship’s mere sighting on the horizon. Rather, the event was anticipated weeks, if not months, in advance of the vessel’s arrival.

The master schedule for this ship, along with the entire APL fleet for that matter, is meticulously detailed upwards to a year in advance by a cadre of planners in the NOL Group, parent for both Eagle Marine and the APL liner service. The schedule is routinely analyzed, updated and made transparent throughout the company’s far-flung multifaceted operation.

“The schedule reflects a highly coordinated integration of both our commercial and operational imperatives,” said Nathaniel Seeds, APL’s vice president of network operations in the Americas region, during an interview at Eagle Marine’s Los Angeles terminal building. “It tells us on what side the ship will be tied up at the berth.”

“We know where every container is and its priority coming off each vessel before they arrive,” added Jack Cutler, Eagle Marine’s port manager in Los Angeles. This is a side of the container transport business that many shippers never see. All they know is that they booked their cargo with the carrier and expect it delivered to a certain location at a set date and time.

However, due to the unexpected acceleration in cargo volumes in 2010, it appeared to many shippers that liner carriers in the transpacific had lost control of their transportation networks by suddenly experiencing severe congestion in both Chinese and Southern California ports, tightening space on containerships, and deteriorating service reliability. Shipper relationships with many carriers slipped to a new low.

APL makes it a point on a near-weekly basis to host shipper representatives at its three West Coast terminals to provide them a better understanding of what actually takes place behind the scenes to ensure their freight moves efficiently.

“We believe there’s a great appreciation among our customers for what we do,” said Bob Sappio, senior vice president of Pan-American trade for APL. “People really care about predictability in their supply chain, and we show them how we do it.”

APL gives its vessels a four-hour tolerance for when they’re scheduled to arrive in port. The reason for this is to allow two hours for customs and other regulatory processing of the ship’s crew and cargo before any discharge or loading work begins. “With this, we’re afforded 100 percent on-time arrivals on the West Coast,” Sappio said.

In the final minutes of the 5,500-TEU APL Holland’s approach to the terminal on Sept. 29, Eagle Marine’s 12 gantry cranes began a coordinated shuffle of sorts along the pier. Four cranes previously working the larger APL Tennessee, moved into place alongside the APL Holland, while the cranes that were finishing the APL Korea took up position at the APL Tennessee. The larger APL Tennessee required three days of handling that week, while the APL Holland was scheduled to depart in 24 hours. The APL Holland is part of APL’s Pacific South 2 (PS2) service, which operates in a rotation of Oakland, Los Angeles, Manzanillo, Lazaro Cardenas, Los Angeles, Yokohama, Kaohsiung, Chiwan, Hong Kong and Shekou.

However, vessel-to-terminal connections don’t always operate like clockwork due to unforeseen changes to sailing schedules.

“When one ship in the system is delayed it has an impact on the other ships and terminals in the string,” said Jim Dwyer, vice president of global network operations for APL in Singapore. “We then have to figure out how to react to the circumstances.”

“What we’ll do is come up with a tactical reply to allow a ship to adjust,” he added. “It’s common to do this particularly when the Asia terminals get behind by congestion and bad weather.”

Delays are also felt on the terminal side. “Late ships certainly hurt, whether that’s...
eight or 24 hours off schedule. You can quickly run up against an asset crunch,” Cutler said. “The good thing is that we’re able to understand this and prepare ourselves to lessen the service and cost impacts. We can pull a lot of levers.”

During discharge, the APL Holland’s inbound containers waste little time on the docks. In June 2006, the Port of Los Angeles changed its free-time policy for how long containers can sit on the pier before demurrage is assessed on the shipper — from five days to four days for imports, and from six days to five days for exports. Although this narrower window adds to the pressure, Eagle Marine executives prefer to minimize container dwell-time on the 292-acre terminal.

“Our philosophy is that import containers stay on wheels; empties can be grounded; and exports may be grounded but grouped together for particular ships,” Cutler said. “What you see in terms of acreage here is what you got. One parked container is room for three stacked containers on the ground.”

Containers designated for on-dock rail are out the gate and on a unit train in 24 to 36 hours, while others may be trucked to an offsite railhead within two days. Pick up by truck for local and regional traffic is generally completed within three to four days.

Intermodal connections in the Port of Los Angeles are especially complex since three large container terminals, including Eagle Marine, feed the same rail network. “We must coordinate between the terminals because we all have to share those tracks,” Cutler said. “By 10 days out, we all know what the volumes are.”

Eagle Marine is able to move about 210 containers from ship to an intermodal unit train from 8 a.m. to 5 p.m. “We’ve devised a system so that when the container comes off the ship that within five minutes the trucker from the intermodal yard has picked it up and taken it to the train,” Seeds said.

The terminal operator has enhanced its on-dock container tracking by installing radio-frequency identification tags on its chassis. “Data integrity is very important to us,” Seeds said. “It affects our velocity.”

Eighty-five reader devices have been installed on light poles throughout the terminal, which work together to triangulate the location of any box within 10 feet. “We can recover a lost container quickly,” Cutler said. “We’re able to track it back from when and how it left the ship.”

In the past five years, Eagle Marine has invested in optical character recognition systems to replace manual data entry and further perfect its system for managing grounded boxes.

“We go through an extensive amount of analysis and testing,” Cutler said. “What we don’t want to do is turn the system on and off to make fixes.”

Eagle Marine also includes dock labor in any terminal management upgrades. “We work closely with labor to figure out what will or won’t work in order to respect our contract,” he said.

The week prior to the APL Holland’s arrival in Los Angeles, Eagle Marine’s terminal handled a record 21,000 container lifts, more than 15,000 gate moves and 7,000 rail lifts. “It’s a lot to concentrate on, and we have to plan so all this traffic doesn’t bump into each other,” Cutler said.

For tactical reasons, Eagle Marine maintains a central meeting space within each of its terminal buildings, often referred to as the “war room.” At Los Angeles, the room consists of a long table and chairs surrounded by wall-mounted flat screens containing computer generated operations data and streaming video of terminal activity. A core group of 15 to 20 people from the various terminal departments meets twice daily in this room to decide how best to apply resources to handle the day’s cargo flows. The group meets first at 10:30 a.m. to prepare for the evening’s workload, and again at 4 p.m. for the next morning.

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The information generated from these meetings determines daily workloads, not just in terms of container volumes, but also in the amount of labor and trucks required to handle them. “We’re in competition every day and every week with other terminals for labor,” Cutler said. “People like to come here and we want to keep it that way.”

Cutler noted the war rooms meetings are sometimes heated, especially when a department perceives its resources are stretched. But in the end an agreement as to what’s needed must be reached. “This type of activity cannot be directed from an ivory tower,” he said.

In August, APL began reporting the results of its internal accounting of schedule reliability to its customers for each of its four eastbound transpacific services, 99 sailings in all.

The information is released in APL’s quarterly customer newsletter, Global Horizons. From February through June 2010, all four services were 100 percent on time with the exception of two winter weather delays.

“A nid in both of those cases, heavy M arch fog in A sia kept them from sailing on time,” the newsletter said. In January, four vessels missed their windows.

“APL considers vessels on-time when they berth within four hours of scheduled arrival,” the carrier said. “Most publicly available vessel reliability data use a forgiving same-day arrival benchmark. That makes it easier to be ‘on-time’ but weakens the reliability measure for shippers.”


Maersk Line recently touted its improving schedule reliability by citing data from Drewry Shipping Consultants. The Danish line said earlier this year it is seeking 95 percent on-time performance globally. According to Drewry, which tracks schedule reliability for 1,600 ships in 10 ports worldwide and defines “on-time” as arriving on the scheduled day or one day early, Maersk achieved 75 percent reliability in the second quarter, far away the best among lines it surveyed.

APL has a narrower definition for what constitutes on-time arrival. A ship may be due to arrive early in the morning on a specific day, but may actually arrive at 11:59 p.m. that same day and be considered on-time by most measures.

“Our service is not perfect, but it is improving,” said Ron Widows, chief executive officer of NOL Group. “Through this quarterly reliability report, shippers will be able to measure the progress, and we welcome the scrutiny.”

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Agricultural exporters’ difficulties in obtaining shipping containers for their products during 2009 and 2010 were widely publicized, and helped spark a Federal Maritime Commission fact-finding investigation into the availability of equipment and space on ships for U.S. importers and exporters.

Now some agricultural exporters are beginning to benefit from a new inland rail terminal in Minot, in northern North Dakota. It is attracting service from shipping companies either repositioning empty containers for exporters or moving products into this sparsely populated area, which is also facing a boom in oil and gas production.

Gregory Johnson, owner and chief executive of North Dakota Port Services, said planning for the terminal goes back about a decade when a local group began to look into how to develop intermodal rail service in the region.

Johnson opened the facility three years ago, handling a variety of railcars. In August he achieved the objective of attracting intermodal service to the region, as the first containers from OOCL arrived and were loaded with agriculture products, then carried by the Burlington Northern Santa Fe to the port of Seattle for shipment to Asia.

Since then other steamship lines have begun moving product from M inot, including Maersk and CMA CGM, said Lynda Norris, director of strategic accounts for BNSF Logistics. “I’m talking daily to others.”

Johnson said there are four additional companies that have expressed interest in serving the terminal, and one of his objectives is to get rail service to ports elsewhere in the country since pulses — peas, beans and lentils — and other crops in North Dakota are shipped to Latin America, Europe and Africa, as well as Asia.

“We are building it slowly. The shipping community has a lot of commitments when something like this starts and some of those commitments are contractual,” he said. “As contracts get renewed, you hope some of the freight will move.”

In November the facility was loading about 40 to 50 containers a week. With room for 120 cars, Johnson said he hoped to double the trackage on his terminal before winter next year. In addition to containers, the terminal handles all sorts of railcars, including gondolas loaded with pipe for drilling.

“We created a facility that can be expanded on, which is what we are doing,” he said. “We created it not only for intermodal, we created it to develop a distribution center.”

He thinks distribution centers like North Dakota Port Services are a necessity because with increased demand for rail transport, it will be increasingly difficult for small shippers moving less than 100 to 150 units to “attract rail delivery on a timely basis or as often as we are going to need it.”

“The demand on railroads increases every year, and as you see the population migrate to either the inner U.S. areas, which is basically the Chicago and Detroit areas, or to the coastal regions, the only way to get cargo in or back out with the volumes needed is the railroads,” he said.

“I don’t think we will see more railroads east and west. Because of the mountains, the passes are limited. Railroads are working on higher velocity with increased speed, longer trains, more trains,” Johnson added.

“A rail intermodal network is built off of density, so all railroads, not just BSNF, have intermodal hubs where there is a lot of inbound and outbound freight,” Norris said. “You would think M inot would be a logical choice. There is a lot of agricultural export in M inot, and on the flip side, with the Bakken Shale deposit ... imports are increasing.”

Johnson also owns Premier Pulses International, which processes dried peas, chickpeas and lentils. “Freight and transportation has always been a big interest of mine,” he said.

In addition to pulses, he said container service will be attractive for products such as canola meal, corn, dried distillers grains, alfalfa, organic flax and wheat and flour.

Prior to intermodal service this fall, he said agricultural products moving out of M inot by rail had to be loaded in hoper cars to Seattle and Tacoma, then transloaded into containers for export. That’s less than ideal, Johnson said, since there are some-
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Dr. John Doggett, economist,
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9:15am Transportation Infrastructure: Who Will Pay?
• Hayes Howard, CEO, American Shipper, (Moderator)
• Jeff Holt, Managing Director, BMO Capital Markets GKST, Inc.

10:45am Future of Intermodal Transportation
• Bill Clement, Vice President, Intermodal, CSX
• Jeff Heller, Assistant Vice President, Norfolk Southern
• Hans Stig Moller, President, Bridge Terminal Transport

1:45pm Reviving U.S. Exports by Reviving U.S. Manufacturing
• Peter Gatti, Jr., Executive Vice President, NITL (Moderator)
• Paul Boynton, President & COO, Rayonier
• Denny Carpenter, Vehicle Logistics Department Manager, Ford

3:00pm Ocean Carriers and Customer Service
• Peter Keller, President, Peter I. Keller and Associates LLC (Moderator)
• Michael Hynekamp, Chief Financial & Admin. Officer, Wallenius Wilhelmsen Logistics
• Jim Prior, Senior Director of Transportation and Customs Compliance, Coach
• Stephen Ryan, Vice President, North America Customer Service, MOL

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Large amounts of “frac sand” or proppant used in the drilling process is being shipped through M inot. After wells are drilled, fluids containing proppant are pumped into rock formations to fracture the rock — the proppant props the fractures open to allow oil and gas to flow more freely so that production rates and the amount of oil or gas can be increased.

While some of the “frac sand” is mined, a great deal of ceramic proppant, a man-made material is also used, and much of this is manufactured in China and Russia and arrives in M inot by container. Ceramic proppant manufacturers say the uniform size, spherical shape and strength of their material results in better hydrocarbon production.

DIY tracking

SensorLogic says customers can build tracking systems using a bag of ‘widgets.’

BY CHRIS DUPIN

Developing a system to track cargo as it moves around the country or around the world can be a daunting process.

But SensorLogic, a Boston-based firm, said that through the use of pre-built modular software, it calls “widgets,” the time needed to put together tracking applications can be shortened to a matter of days, even hours.

And by offering tracking in a “platform as a service” (PaaS) customers can avoid a large upfront investment and “pay by the sip,” said Michael Campbell, president and chief executive officer of SensorLogic. “You only pay for what you use and you’re not paying for anything more than that. So it allows customers to scale up and down based on their requirements.”

SensorLogic’s focus on the freight industry is relatively recent, but the company is not a start-up, having been created in 2002 initially “to solve a broader set of problems in what might be referred to as the machine-to-machine or M2M industry,” Campbell said. These involve tasks such as deploying wireless sensors and sensor networks in places such as oil fields and manufacturing facilities to gather data that is fed into automation and management systems that control industrial processes.

SensorLogic, which recently moved its headquarters from Plano, Texas, to Boston, is backed by several venture capital firms: Boston Millennia Partners, Sevin Rosen Funds, Covera Ventures, Star Ventures, STARTech Early Ventures, and UPS Strategic Enterprise Fund, the private equity strategic investment arm of UPS.

UPS said its fund “focuses on products, services and technologies that can reshape industries and expand our ability to provide our customers with business solutions that synchronize the flow of goods, information and funds.”

SensorLogic has annual sales of less than $10 million, and have been growing 20 percent to 30 percent a year.

“A at the company evolved, what I realized was ... how complicated and sometimes expensive it was to deploy relatively simple tracking and monitoring applications,” Campbell said. “The best example is container tracking and the telematics industry.

“I, for one, didn’t understand why it was complicated to do that, why it was so expensive and why more of the market wasn’t doing it. The reality is that the hardware that’s used to track trailers, containers, trucks, ships and so forth, is all over the board. There are no standards whatsoever around the tracking hardware,” he said.

“The other issue is that they all operate on different networks and there is different technology. Even if it’s just something you’re tracking in the U.S., over a wireless network — Sprint and Verizon and T-M obie and AT&T have very different networks and ways you interact with them, get devices on them, and so forth.”

The problem gets even more complex, he said, with international cargo or shipments moving via several transport modes, and that complexity made companies reluctant to invest in such systems.

Despite those differences, he said all tracking applications have similarities. They involve connecting to a device that has to communicate over some kind of network. Then basic business rules and event management logic are set against the device, and the system sends out reports or alerts when, for example, a shipment arrives at a location, or temperature or humidity goes outside of a predetermined range, if a truck goes off a predetermined route, or a pallet moves outside a “geo fence” around a warehouse.

SensorLogic asked, “why don’t we take on that burden of the technology, and let the shipper, the enterprise customer, or the systems integrator worry about the specific subtleties of what the application looks like,” Campbell said.

So the firm has focused on “bringing a set of building blocks to the marketplace so that anyone who wanted to build and deploy one of these applications could do it probably in 90 percent less time and at 90 percent less cost than if they were going to do it on their own.”

“A nd what’s incredibly disruptiv
exciting about what we’re doing is that we’re using cloud computing,” he added. Instead of using its own computer, a company can “use the Internet to deploy these tracking applications.” The company calls its PaaS for asset-tracking Cirrus.

While he would not reveal specific customer names, Campbell gave the example of how SensorLogic assisted a Fortune 100 consumer packaged goods company that wanted to track cargo moving on trucks of 13 different transportation companies used to move product from manufacturing plants to distribution centers, and ultimately to grocery stores.

“They were finding that a large number of pallets with the product were going to the wrong distribution centers. The cost was very significant in terms of rerouting,” he said. “This wasn’t a problem of tracking the truck, it was a problem of tracking something that was on the truck.”

The company used disposable GPS devices that it could put on pallets.

“Then they could do one of two things. They could create a geo fence for the shipment and say, this thing has to go to Topeka, K an., and if it goes anywhere else we want to get a notification that it did.” Alternatively, they could track the pallets, and if the customer said it did not receive a pallet, it could use the system to find and reroute it.

“The nice thing about our platform is that it’s not hard-coded or hard-wired to any particular tracking technology,” Campbell said. So, in the example above, if the customer wanted to put a passive RFID reader on the truck and an RFID tag costing 10 cents or 25 cents on each pallet, the same platform could be used.

“In a SensorLogic platform, you can literally plug all the technologies into one place — it doesn’t change their application at all,” he said.

He compares the platform to a bag of Lego blocks.

“The customer, on its own or with a systems integrator, can say ‘build me an application that looks like this. And here’s how I want the information to be pushed out, here’s what I want it to look like and here’s why I want access to it,’” he said.

Customers “use these building blocks and it is just kind of copying and pasting code into an application browser. We’ve written the whole platform in Java, but the good news is our customer doesn’t have to work with Java code. The most they will mess around with is terms of code is HTML, and if someone can build a Web site, or a Web application, that’s all the expertise they need to do this,” Campbell said.

His company has a handful of turnkey applications for package and vehicle tracking, and what he calls “security resources” such as armored vehicles. But he said its platform is “almost limitless in terms of the way you can access the information.”

Shippers can ask for reports on every shipment, or only if a shipment goes to the wrong place.

“We have a customer in Australia where the initial screen when you log onto their system has green, yellow or red lights and they simply indicate the condition of the process that’s going with their application and the things they’re tracking. It’s only when they see a condition red that they want to get more details. They click on that particular vehicle to find out what’s going on,” he said.

In addition to providing turnkey applications, SensorLogic also allows customers to “roll their own” applications, using the widgets it has developed.

For example, he said a customer who wanted to track shipments in refrigerated containers as they move around the country, and monitor that temperature and humidity were remaining in range could have an application up and running in a production environment “in a day, and I mean a day,” using its widgets, which he said are fully documented.

Information can also be fed into distribution resource planning modules in SAP, Oracle, and Microsoft ERP systems that many large companies use to manage distribution centers, logistics and supply chains.

Campbell said his company’s product is not delivered as a traditional enterprise application where the customer makes a large upfront payment and annual maintenance cost.

“It is completely by the drink. If you’re a shipper and you call and say, I just want to start tracking 2,500 trailers or X number of pallets of cargo, that’s all they pay for,” he said.

Cost depends on how many assets are being tracked and how much functionality a shipper wants — as low as $12 a year to $200 a year, depending on what is being tracked.

“Our platform is technology agnostic. Satellite tracking is very expensive so you have to say, ‘at what price is it worth getting this information?’

“But to us it doesn’t matter at all. As long as there is a technology out there that will locate or monitor a particular asset, we can read that data and push it up to an application anywhere in the world any time of day,” he said.
On the waterfront

Shipping industry watches New York docks for clues on whether labor harmony will continue.

BY CHRIS DUPIN

The International Longshoremen's Association and the United States Maritime Alliance (USM X), which represents terminal operators, stevedores and steamship lines that employ ILA members, are not expected to begin negotiating a new contract until perhaps late 2011.

That's fair in advance of the current labor agreement that expires on Sept. 30, 2012. But by the end of 2010 there was already some concern about continued labor harmony on the East and Gulf coasts because of activity in New York.

A brief ILA wildcat strike in New York and Philadelphia was staged in September 2010, resulting in a lawsuit against the union by the New York Shipping Association (NYSA) in December.

In October another group of employers filed an unfair labor charge against a local headed by one of the ILA's most outspoken leaders, Harold J. Daggett, executive vice president and president of Local 1804-1, whose members do maintenance and repair (M & R) of containers and chassis. Daggett has been mentioned as a possible successor to the current ILA President Richard Hughes.

And while both labor and management are bristling at a probe by the Waterfront Commission of New York Harbor into what it calls "no work/no show" jobs at terminals, the issues raised during the commission's hearings may wind up on the bargaining table when contract talks start.

New York "is where the ILA lives. This is its base," said Joseph Curto, president of NYSA, which also negotiates local labor issues with the ILA on behalf of terminal operators, stevedores and steamship companies.

Testifying during hearings at the Waterfront Commission this fall he noted "we have more ILA jobs than any other port." The ILA has about 4,000 employees working in New York.

The ILA says it has 65,000 members, though all are not deep-sea longshoremen — less than 10,000 cast ballots when the union voted to extend the contract with USM X.

Curto noted other ports use more non-ILA workers in port operations:

- In Philadelphia, members of the International Association of Machinists, not the ILA, do M & R.
- In Virginia, there are back office clerical workers who are non-union.
- In Savannah and Charleston, there are non-ILA operators of gantry cranes, yard equipment and gate system.

**Different ILA.** Addressing the Port Industry Day conference for the Port of New York and New Jersey, Curto said, "I think what we are seeing is maybe a different type of ILA. We have had excellent relations with the ILA in the past.

"There may be some change in the leadership and there may be some change in direction occurring ... I think we are going to be living a new ballgame here as time goes on."

Joseph Curto, president, New York Shipping Association

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**Different ILA.** Addressing the Port Industry Day conference for the Port of New York and New Jersey, Curto said, "I think what we are seeing is maybe a different type of ILA. We have had excellent relations with the ILA in the past.

"There may be some change in the leadership and there may be some change in direction occurring," he added. "We need to watch what is happening there and adjust our strategies somewhat. I think we are going to be living a new ballgame here as time goes on."

Curto made his remarks after ILA members in New York refused to cross picket lines thrown up by Philadelphia-area ILA members. Longshoremen there were protesting Fresh Del Monte Produce's decision to move an operation that handles imported bananas and other produce on the Delaware River from a pier in Camden, N.J., to the employed ILA members, to a facility in Gloucester City, that employs members of the Teamsters and Machinists.

Even when the protest was in the rumor stage, NYSA obtained an order from an arbitrator saying a sympathy strike would violate the National Labor Relations Act. But the strike happened anyway, even after a federal judge issued temporary restraining order. After the NYSA threatened to commence contempt proceedings during the second day of the strike, ILA members returned to work.

In December, NYSA and its members said they had collectively suffered more than $6 million in damages and filed a lawsuit in U.S. District Court in Newark against the ILA.

In 2009, USM X and NYSA reached agreements to extend their ILA contracts through September 2012. A nother employer group in New York, the Metropolitan Marine Maintenance Contractor's Association, thought it had reached a similar deal for a two-year extension after Dec. 31, 2010 with Daggett's Local 1804-1, which represents M & R workers and lashers, who secure containers to ships.

But J. Randolph Brown, president of Metropolitan Marine, said last spring the local refused to execute a memorandum of agreement or bargain in good faith because of a disagreement. So in October it filed a charge with the NLRB alleging an unfair labor practice.

In early December, employers were hopeful the NLRB would rule there was a deal between the union and employers, or that a new agreement would be reached. There was also the possibility an impasse could shut down the port.

The disagreement between 1804-1 involved lashers, but Daggett has been outspoken in his concern that ILA members continue to maintain chassis even as many steamship lines have announced in the past year plans to divest themselves of their chassis fleets.

"We have had no discussions with 1804 on the chassis issue," Brown said.

Carriers have said they want truckers to supply their own chassis when picking up containers at the port. But sources said while it's more common for non-union or non-ILA mechanics to do M & R work in other ports, the ILA is dominant in the greater New York area and that is unlikely to change.

Jim Devine, president of Global Container Terminals USA, which runs both Global Container Terminal in Jersey City, and Bayonne and New York Container Terminal at Staten Island, said that while he thinks demands for increased staffing by lashers is unnecessary and would significantly raise the cost of moving cargo through New York, he believes Daggett...
“has a legitimate issue” when it comes to chassis maintenance in the New York area. “That is the domain of the ILA. It has been since time immemorial. I don’t know that it is the interest of our industry to pull chassis totally away from the waterfront. It’s going to negatively impact the trucks and obviously it is going to negatively impact the ILA.”

“I can fully understand the steamship lines wanting to walk away from the chassis, because they are not adequately compensated for it. But the solution is not to abandon them & R of chassis to the truckers who are not well set up to do it, but for land to be made available in the case of New York... and there are pool operators who set up operations in close proximity to the terminals and the chassis maintenance stays under the control of the ILA.”

James Capo, chief executive of USMX, said ILA’s control of chassis and container M & R is a mixed bag in some ports to the south, particularly in so-called “right to work” states and at locations far from the docks. ILA does M & R work in Baltimore and Norfolk, and Capo said there is a separate South Atlantic maintenance agreement with the ILA in the ports of Wilmington, N.C.; Charleston, S.C.; Savannah, Ga.; and Jacksonville and Tampa, Fla. There is yet another agreement for M & R workers in South Florida.

“A lot of the work in the South is done by vendors who are not members of USMX but they employ ILA members and agree to be bound by the terms of the contract,” he said.

On The Clock. Meanwhile, in a series of hearings this fall, the Waterfront Commission has highlighted outsized salaries being paid to some ILA members such as timekeepers and shop stewards in the Port of New York and New Jersey, some being paid 24 hours, even 25 hours a day, seven days a week because of union rules that result in their receiving a salary whenever members of a local are working, even if they are home.

Ronald Goldstock, one of the agency’s commissioners said “most of the timekeepers in the Port of New York, each with generous salaries, have organized crime family connections or are related to union officials,” and that the “three largest stevedores in Port Newark-Elizabeth each have a shop steward who was a nephew or son-in-law of Vincent Gigante” — the late boss of the Genovese crime family.

“Daggett — who himself was once indicted by the federal government with the help of the Waterfront Commission, then acquitted of all charges — was unapologetic about the high salaries that some ILA member make, saying he wished more of his members could make such high salaries. He complained about individuals being smeared because of relatives or friends who may have criminal backgrounds, and he noted every waterfront worker must be screened and licensed by the Waterfront Commission and that the ILA has two ethical practice judges.

“A lot of people would like to have these jobs, only certain people seem to have the right connections,” Goldstock said.

“A lot of people would like to have these jobs, only certain people seem to have the right connections.”

Ronald Goldstock
commissioner
Waterfront Commission of New York Harbor

Walter Arsenault, executive director of the Waterfront Commission, said the Taft-Hartley Act “forbids employers from giving anything of value to a union representative representing employees,” and asked terminal operators “how that squared with paying employees around the clock.”

Curto explained that some of the practices, such as paying workers around the clock, are the result of “custom and practice,” are likely to be discussed in coming negotiations. But, “whether or not they become the central issues, I can’t say.”

“The waterfront commission is highlighting facts and practices that we have known for some time,” he said. “At one time, both sides, employers and the union, could justify certain things. Now, as you unpeel the onion and see things that don’t make sense are probably not sustainable. And some of these things that have been brought to the public’s attention by the commission don’t make sense and need to be changed, but the method of change is the collective bargaining process. Management can’t just unilaterally stop a work process that has been in place for 50 years.”

Devine said he “doesn’t like the waterfront commission maligning in a blanket fashion terminal operators or longshore people as criminals. I took particular exception to the fact to the basic innuendo that because we have a shop steward or timekeeper that is paid $340,000, that is a result of either intimidation or criminal activity.”

But he said if individuals linked to organized crime families hold key positions at terminals “you can understand where they are trying to get to. But I think they need to use a scalpel and not a meat ax. But what I get frustrated about is walking on my terminal and seeing a lot of honest longshore people. They tell me... an neighbor, or in some cases their child, will walk up to them and ask if they are a criminal.”

The Waterfront Commission hearings come at a time when the agency is reinvigorating itself after being sharply criticized in 2009 by New York State’s inspector general as being corrupt and suffering a “total agency breakdown.”

Goldstock and Arsenault, both newcomers to the commission, said there has been about a 20 percent to 25 percent turnover in staff, and that it is now performing many of the functions it was supposed to do, but never did in the past.

Goldstock also said the agency has rededicated itself, not to fight crime and corruption, but to “make its workforce more diverse, make its work more sustainable, and also to increase the port’s competitiveness.”

For example, they are proposing that a diverse pool of potential longshoremen be prequalified that stevedoring companies would then be able to hire from.

The agency said it would investigate and grant licenses to each of the businesses operating on the waterfront to see if they have “good character and integrity.” For decades, the commission has routinely granted temporary licenses to businesses year after year without comprehensive investigations.

As part of that process, it proposed that it might allow businesses if finds unacceptable to continue to operate under the watch of an independent private sector inspector general, a technique that it said has become a “standard law enforcement practice.” That has resulted in a federal lawsuit from NYSA seeking an injunction against the commission, saying it does not have the authority to set up an IPSIG program.

“NYSA members are not criminals, but legitimate business entities that are already overregulated,” said Curto, testifying before a New Jersey Senate Committee.

Raymond Lesniak, the committee’s chairman, has called for having the Waterfront Commission’s duties be assumed by the Port Authority of New York and New Jersey.

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SHIPPERS’ CASE LAW

Court looks to waybill, not contract

A U.S. Court of Appeals has reversed a lower court ruling and held that the liability of a logistics company for an accident in which millions of dollars in pharmaceutical products were damaged, should be capped by the Montreal Convention for air cargo at about $26 per kilo. (Eli Lilly & Co. v. Air Express International d.b.a. DHL, Danzas, No. 09-12725, 11th Circuit, Aug. 23)

In an appeal of the case also discussed here in May 2009, (“Not too hot, not too cold,” at www.AmericanShipper.com) the court found a limitation on liability in the convention is not pre-empted by a service agreement if the preemption is not incorporated in the air waybill, according to a law firm involved in the case.

In 2004 Eli Lilly directed DHL, pursuant to a long-term service agreement, to ship eight containers of insulin and growth hormone from Fegersheim, France, to Indianapolis with Lufthansa.

But the court said due to an admitted human error by Lufthansa personnel, the containers were left outside in Munich in sub-freezing temperatures before being loaded on the planes.

Lilly said that while it was able to salvage some of the growth hormone, the insulin had to be destroyed. It made a claim for $10.25 million, and its insurer, Elgo Insurance Co., along with reinsurers ultimately paid Lilly $9 million to satisfy the claim.

Lilly, individually and for the benefit of Elgo and the reinsurers, filed the action against DHL in U.S. District Court for the Southern District of Florida.

The law firm DeOrchis & Partners, which represented DHL in the case, explained in a recent issue of its company newsletter, Client Alert!, that the 1999 Montreal Convention, “limits an international air carrier’s liability for damage to cargo to protect it from catastrophic liability.”

Like the Warsaw Convention of 1932 that it replaced, the Montreal Convention requires carriers to issue air waybills detailing the conditions of carriage.

Normally the limit of liability for cargo and baggage is 17 “special drawing rights” (SDRs), an artificial currency created by the International Monetary Fund based on a basket of currencies worth about $26.

Liability limits may be increased, “only if the shipper makes a special declaration of value on the airway bill and pays any additional freight required,” or if the carrier voluntarily stipulates a higher limit in the waybill, DeOrchis explained.

The trial court held that while Lufthansa’s liability was limited to 17 SDRs per kilo under the waybills and the Montreal Convention, DHL’s liability was governed by the terms of the service agreement.

“Where the waybill is the only contract, there seldom is a problem with liability limits,” DeOrchis noted. “But where large shippers enter into long-term service contracts with carriers covering many shipments, conflicts can develop between the two contracts.”

Lilly and DHL had entered into a service agreement that covered five years beginning Jan. 1, 2003.

A section of that agreement provided that DHL would indemnify Eli Lilly against third-party claims arising from breach of the service agreement.

The agreement also contained a limitation of liability. It stated, in part, that damages either party was required to pay, for whatever reason, would be limited to two times the amount of the total fees payable to DHL under the service agreement.

Lilly settled with Lufthansa and a judgment of more than $10.2 million was entered against DHL by the trial court.

DeOrchis noted that this was far in excess of the limitation under the Warsaw Convention, though less than the limitation contained in the five-year service agreement.

On appeal, DHL argued the district court erred in applying the terms of the service contract instead of the limitation that was contained in the air waybill.

The 11th Circuit agreed with DHL that the service agreement took effect 11 months before the Montreal Convention went into force on Nov. 4, 2003.

“If the parties intended for the service agreement to constitute a stipulation to waive limits on liability, this would not have been permitted by the Warsaw Convention which was then in effect,” DeOrchis noted.

“The service agreement makes no mention of the Montreal Convention, the Warsaw Convention, the concept of declared value, or limits of liability imposed by law,” the 11th Circuit wrote. “Nor does it contemplate that the service agreement would modify any subsequently executed air waybill contracts. In sum, there is no indication that the parties intended to opt out of the Montreal Convention liability regime…”

The 11th Circuit reversed and remanded the case back to the district court with instructions that DHL’s liability should be capped at 17 SDRs per kilogram of the damaged cargo.

Since the two shipments of the eight containers totaled 10,609 kilograms, it would appear DHL’s liability would be less than $275,000.

A nother issue that DHL raised in the appeal had to do with the destruction of the insulin. DHL argued that because Lilly failed to produce documents showing the pharmaceuticals had been destroyed, they failed to present evidence sufficient to show that they were damaged in transit.

DHL also argued that because Lilly denied it an opportunity to inspect and test the pharmaceuticals, they had committed a “spoliation of evidence” — withheld or hid evidence.

But the court said Lilly produced records showing the insulin was subjected to sub-freezing temperatures and that the recording thermometers were tested and certified for accuracy before and after use.

Also, the court noted federal regulations require pharmaceuticals subjected to sub-freezing temperatures must be tested for safety and purity prior to being salvaged, and Lilly presented expert testimony that sub-freezing temperatures would destroy the insulin.

As a result, it said Lilly was entitled to summary judgment on the issue of whether the insulin products were damaged in transit. And it said the fact that Lilly destroyed drugs did not affect DHL’s ability to make a claim or defense — the exposure to the cold rendered the products worthless regardless of any tests that DHL may have conducted.

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Supply chains are becoming increasingly transparent and complex, yet more and more critical to retail success. Keeping pace with changes in consumer demand, capacity, and trade and transportation realities is a growing challenge for retail executives.

Retail Industry Leader’s Association’s 2011 Logistics Conference will address these realities and focus on specialized educational tracks including:

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Logistics

APL Logistics has named Jerry Plummer, formerly of C.H. Robinson, as head of business development for highway services, and Mike Deegan, formerly of Schneider, as general manager of the same unit.

French logistics company Goodis said it has appointed former IBM veteran Gary Smith as executive vice president, focusing on developing its global 4PL business, as well as on strategy and an acquisitions policy for the Americas region. He helped develop IBM’s global logistics platform, and held positions with PepsiCo, Navistar International Corp. and Ford Motor Co.

Third-party logistics provider Kalstar Enterprises has appointed Tom K Imball as vice president of operations and innovation, focusing on streamlining Kalstar’s Procter & Gamble operations and improve the overall consumer goods company’s supply chain performance. He served in various management roles in a 22-year tenure with K raft, most recently as senior director of network demand and inventory management.

The North American Millers’ Association has named Sherri Lehman director of government relations. Lehman has worked on agriculture, food, trade, nutrition and food safety issues for members of Congress and other associations for more than 20 years. In 2003 she joined the National Food Processors Association, and later merged with the Grocery Manufacturers Association.

In 2003 she joined the National Food Processors Association as executive vice president, focusing on developing its global 4PL business, as well as on strategy and acquisitions policy for the Americas region. He helped develop IBM’s global logistics platform, and held positions with PepsiCo, Navistar International Corp. and Ford Motor Co.

Air

Cathay Pacific Airways said Chief Executive Tony Tyler will leave the airline March 31 after being recommended to succeed Giovanni Bisignani, who is retiring as director general and chief executive of the International Air Transport Association. Tyler joined John Swire & Sons in 1977 and moved to Cathay Pacific in 1978. He became CEO of the airline in July 2007. He is also chairman of Hong Kong-based Dragon Airines Ltd. and director of John Swire & Sons (HK) Ltd. and SwirePacific Ltd. An IATA board member, he served as its chairman in 2009-2010. At Cathay, Tyler will be succeeded by Chief Operating Officer John Slosar.

CoyneAirways has appointed John Brown to director of U.S. sales, based in Houston. Formerly regional director of Heavyweight Air Express, Brown also spent 17 years with Continental Airines, mostly in its cargo division. In 2004, he joined Air Cargo Promotion, spending five years with the general sales agency.

Carston Spohr, head of Lufthansa Cargo, became chairman and chief executive officer of Lufthansa Airines on Jan. 1. Succeeding him as chairman and CEO of the cargo division is Karl Ulrich Garnadt, who led hub management and passenger services of Lufthansa Airines. Also, Karl-Heinz Kopfle has retired as Lufthansa Cargo’s operations chief. He has been replaced by Karl-Rudolf Rupprecht, who was responsible for passenger hub management in Frankfurt.

Ocean

Classification society ABS has appointed David Weinstein to vice president of strategic development, based in Houston. He has more than 25 years as a strategy consultant in the transportation, energy and manufacturing sectors, most recently as a partner with Norbridge.

Crowley Maritime Corp. has promoted Jose “Pache” Ayala to general manager of operations for its liner services group in Puerto Rico. Ayala was promoted to director of labor relations for the East Coast-Caribbean terminal operations in October 2009, after serving as intermodal manager in Jacksonville.

Robert J. Mark has joined Metro Group Maritime, a commercial receivables management, debt recovery and consulting company focusing on the maritime and transportation industry. He formerly was with Hapag-Lloyd and Maersk.

Ports

International Container Terminal Services Inc. said it has named Elvis Ganda as chief executive officer and general manager of ICTSI Oregon, the terminal operator’s facility in the Port of Portland. Ganda was president of California United Terminals in Long Beach, and before that was deputy director for port operations for the Massachusetts Port Authority.

The South Carolina State Port Authority has promoted Art Pruett to vice president of carrier sales and named Jack Ellenberg as vice president of cargo development. Pruett, who replaces Sarah Gaillard, joined the port authority in July 2009 as general manager of cargo sales after holding various positions with Evergreen Shipping Agency (America) Corp. Ellenberg served as deputy secretary for new investment at the South Carolina Department of Commerce.
O Captain! No Captain?

Students of literature already know that Walt Whitman’s poem written 145 years ago actually had nothing to do with the captain of a ship, but in fact was a metaphor regarding President Abraham Lincoln’s assassination. (Not being a student of literature, I can thank Wikipedia for that information.)

My slight adjustment of Whitman’s verse, with apologies, aims at capturing the spirit of anxiety within the ocean shipping industry that before long there won’t be enough captains available to command our ships, nor enough crew to serve under them.

Merchant shipping is a cyclical business, and during the good times as the merchant fleet expands to meet increasing freight volumes, the supply of qualified seafarers sometimes has been stretched to the limit.

Twenty years ago this led BIMCO and the International Shipping Federation (ISF) to team up with the Institute for Employment Research at the University of Warwick to establish an accurate assessment illustrating the actual supply of available seafarers and compare this with the demand at that time. The project also developed projections of future supply and demand.

These studies have subsequently been conducted every five years, and based on the findings there have been several studies that have called for enhanced training and recruitment efforts to maintain an adequate supply of officers and ratings as projections indicated ever-increasing demand for manpower.

Working against seafarer recruitment efforts, developments that detract from the appeal of a life at sea have surfaced and in some cases intensified over the past several years. The unfair treatment of seafarers in the aftermath of maritime accidents is hardly encouraging to young people considering a career at sea. Although fortunately few in number, cases have received ample media attention showing seafarers imprisoned or kept under house arrest for extended periods of time far from home, family and loved ones, often when there is little or no evidence of wrongdoing on their part. This serves only to stymie recruitment efforts.

Another detriment to recruitment is the continued threat of piracy and kidnappings by Somali pirates. Now regularly reported in the mainstream media, such incidents do not portray a career at sea as one offering a safe and secure working environment, but rather illustrate serious risks of extended confinement under harsh conditions and at worst, death at the hands of the pirates.

Not so long ago, as the market enjoyed an extended period of growth while reports of piracy and unfair treatment of seafarers persisted, it seemed a shortage of qualified officers and crew was imminent. But this didn’t happen. Why not?

The global downturn in 2008 resulted in a dramatic nosedive in freight volumes, and many ships in essentially all sectors being laid up. Just when the industry was approaching a real and potentially devastating manpower shortage, so much tonnage was taken offline that panic was averted.

However, markets are improving and ships are coming out of layup, so is a manpower shortage waiting just around the corner? The findings of the latest BIMCO-ISF Manpower Study, conducted again with the Institute for Employment Research at the University of Warwick and now joined by the International Maritime Conventions Research Center at Dalian University, suggest it may be too soon to press the panic button.

The study shows that industry calls for enhanced training and recruitment have been heeded, with supply and demand of seafarers essentially in balance in 2010. Far from reducing training and recruitment efforts in the aftermath of the 2008 downturn, the number of available qualified seafarers indicates such efforts persisted during the past two years (and, unsurprisingly, during the years leading up to the 2008 downturn).

One can safely say the industry has achieved the result that was sought after. The message delivered every five years since 1990 hit home and the countries supplying crews ramped up their training efforts. But by no means can we relax; valid concerns remain.

While the supply of ratings, determined to be 747,000, equals the estimated demand for these seafarers, the present supply of 624,000 officers falls 2 percent short of the estimated 637,000 positions that must be filled. The shortage of officers is more acute in specialized sectors such as tankers and offshore support vessels.

Although countries like China, India, the Philippines and several Organization for Economic Cooperation and Development countries have made notable improvements in their manpower supply numbers during the past five years, there is still a need to maintain training and recruitment efforts to ensure a future pool of suitably qualified and high caliber seafarers.

This is not only important with regard to the safe operation of merchant ships, but is equally important with the many shore-based jobs in which experience at sea is essential.

In respect to officers, maintaining training, recruitment and retention efforts will not be good enough to correct the current shortage. Here increased efforts in all of these areas must be implemented. Furthermore, if general economic conditions continue to improve globally in the absence of enhanced training and recruitment, the world could face a potential 11 percent shortage of officers by 2015.

Under such circumstances, the prospect of ships not being able to operate due to a lack of qualified officers could become a reality. If that happens, Whitman’s lines may be subject to additional revision:

The ship is anchored safe and sound, its voyage closed and done,
The next alas, we’ll have to pass, a captain can’t be found.
Don’t let Capitol Hill strangle free trade

When a free trade agreement is right for American shippers, like the one recently concluded between the United States and South Korea, then our elected officials on Capitol Hill must make every effort to expeditiously ratify it.

However, as so often goes in Washington, there will be a group of isolationist politicians — both Republican and Democrat — who will do their best to stymie the ratification process, further demonstrating their inherent ignorance in the value of free trade to U.S. industries now and in the long term.

Simply put, free trade agreements are about ending tariff and non-tariff barriers between two countries’ imports and exports. Why should protectionist barriers prevent high quality U.S. products from reaching overseas consumers?

Some lawmakers, as well as labor unions, would argue that these trade deals result in domestic job losses, or don’t do enough to hold trading partners accountable on human rights, labor and environmental standards. While these impacts are arguable, the result of doing nothing to achieve free trade with our closest economic and political allies may spell lost jobs anyway, as U.S. companies’ products fail to be competitive in these overseas markets.

One of the most important U.S. industries — agriculture — has already reaped the benefits from existing free trade agreements between the United States and other countries, such as Mexico, Canada, Chile, Australia, Peru, Morocco and the Central American region.

According to a recent study by a group of U.S. agricultural industry analysts (the 2010 Analysis of the Effects of Trade Agreements on U.S. Agricultural Exports and U.S. Market Development Programs), the North American Free Trade Agreement, from 1994 to 2008, resulted in a boost in U.S. agricultural exports to Mexico and Canada of more than 300 percent or more than $12 billion.

The U.S.-South Korea free trade agreement is expected to increase annual exports of numerous U.S.-made products by as much as $11 billion and support at least 70,000 domestic jobs. It also opens Korea’s $560 billion services market in areas such as finance, energy and distribution.

However, the United States has a long way to go before it can truly enjoy the benefits of free trade. In fact, Congress has allowed two successfully negotiated Bush administration agreements with Colombia and Panama to languish, and has failed to grant Trade Promotional Authority to the Obama administration. It’s also estimated there are more than 125 free trade agreements under negotiation or in the planning stages between countries and regions that do not include the United States.

With a deeply divided Congress now seated on Capitol Hill, it’s now more important than ever for large companies and trade associations to demand lawmakers to take action on facilitating free trade. Remind them that exports have been one of the strongest components of the economy helping to lead us out of the recession. With the economy still weak, just think of how many more quality jobs could be created to help bring down unemployment. This is something that any congressman should understand.
We pride ourselves on offering you the most value for the international transportation dollar.

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Global logistics will never be the same. On April 1st NYK Logistics Inc. (Americas) will merge with Yusen Air & Sea (USA) to form Yusen Logistics. With over 125 years of combined experience in transportation and logistics, we have the professional expertise to provide both design and execution of supply chain solutions from origin of raw materials to delivery of the finished product.

Yusen Logistics will be a premier international logistics company, with 15,000 employees, serving our customers in 69 different countries. With 125 years of quality experience behind us, it is time to help global supply chains evolve for 125 more.