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Time’s Up

U.S. Customs’ new regulation, which requires ocean carriers and non-vessel-operating common carriers to file cargo manifests for containerized shipments 24 hours prior to loading overseas, aims to help prevent terrorists from using the international supply chain to carry out future attacks. However, its Dec. 2 effective date left very little time for the industry to comply.

Battle for logistics world domination?

The pace of takeovers and consolidation in the logistics and transport industry continues unabated, as major groups refine their strategies as global one-stop providers of a wide range of services. While UPS, Deutsche Post and FedEx remain one-two-three in American Shipper’s latest global ranking of the largest logistics and transport companies, but restructuring, integrating and costs cuts are common among all the industry leaders.

Ocean transport made easy?

Despite the enactment of the Ocean Shipping Reform Act, the e-commerce “revolution” and industry efforts to simplify business, buying ocean freight services and managing day-to-day ocean freight transactions are tasks that still remain complicated. A survey conducted by American Shipper among 35 U.S. shippers shows that roughly one fourth of them find procuring services and dealings with ocean carriers are “too burdensome.”

MSC goes for the top

Without acquiring other shipping lines, without the financial support of a cash-rich parent company and without fanfare, Mediterranean Shipping Co. has climbed the ranks of the major containership operators and established itself as the second-largest carrier in the world. The Geneva-based global carrier increased its container slot capacity in the last few months to overtake both the Evergreen Group and P&O Nedlloyd.
Security, transportation, and the supply chain

The November cover of American Shipper depicts what appears to be two Coast Guard petty officers or perhaps Customs agents, one of whom is armed with an M16 rifle while scrutinizing operations at a major U.S. container port. Closer examination reveals that a small red device, known as a blank firing adapter, is affixed to the muzzle of that rifle rendering the weapon suitable only for firing “blank” ammunition. Apparently, this photograph was taken during the course of a recent training exercise. However, it still provides a powerful visual metaphor on the current state of port security, one that begs the question: “Is the campaign to safeguard our nation’s transportation system more image than substance?”

The past 15 months since Sept. 11, 2001 have witnessed many ideas, suggestions, proposals, and tentative regulations designed to protect the international supply chain from future service disruptions and, more importantly, to prevent the transportation network itself from being used to launch another terrorist attack. The cover story (“Secure on Time: Forging a New Supply Chain,” page 6) provided interesting background information on several of these initiatives. However, it was disappointing that most of the articles dwelled exclusively on issues involving industry acceptance, convenience, and compliance; and not on the relative merits of these initiatives. But it is doubtful anyone who regularly travels by air, handles international freight consignments, visits ports, or has even the most casual opportunity to observe operations at petroleum pipeline or oil terminal storage facilities can cite many reasons why any of us should feel more secure now than before. And for good reason! It is painfully obvious, even to the most untrained eye that significant gaps still exist that could be easily exploited by a determined foe. The fact that none of these networks, facilities or installations has been attacked is likely only because none has yet been targeted for attack by the enemy.

In medicine disease models are used to predict the progressions of an unfolding epidemic. For example, historical statistics on the transmission of the hepatitis B virus and certain venereal diseases can be used to forecast the progression of HIV infection rates and the number of future AIDS cases. Similar directly relevant analogs can be found in the transportation sector, ones that common sense would suggest can serve as equally useful predictors to provide important insights about our potential vulnerability to terrorist acts.

Our ability to stop smuggling, deter narcotics trafficking, and prevent illegal immigration provides strong empirical evidence for gauging how effectively our international borders and gateways are being protected. And it is no secret that success in these areas has remained elusive. The frequency of other malpractices such as the false coding of commodities, misstating information on cargo documents, fraudulently rating cargoes, and exceeding the allowable weight limits of containers is equally telling. Such illegal activities are longstanding and common if not pervasive, and they should serve as everyday reminders to underscore
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awareness that serious deficiencies in security continue to exist. If the system can be compromised so easily by organized criminals and opportunisti cheat, it can certainly be breached by state-sponsored foreign agents and terrorists.

The goals and objectives behind Customs-Trade Partnership Against Terrorism, the 24-hour notification rule, the Container Security Initiative, and the various activities encompassed by the World Customs Organization are admirable. However, it must be realized that having the ability to simply authenticate a shipper’s identity may do little more than permit blame to be assigned after the fact, rather than truly improve future security. We need only be reminded that of the 19 terrorist hijackers participating in Sept. 11 attacks, most had resided in this country legally, lived law abiding lives, purchased tickets via normal channels, established track records of recent air travel, and even had frequent flyer accounts with the major air carriers. In short, no discrepancies existed that would have caused them to be flagged for closer examination on a strictly “exception” basis. It is a chilling and sobering thought, but we can only assume that fifth column networks of al-Qaeda members, other terrorist operatives, and their sympathizers already exist and are actively working to establish track records as “legitimate” shippers, forwards, non-vessel-operating common carriers, ocean carriers, and trucking companies in preparation for future strikes. When the time to attack does come, these conspirators, like the hijackers of Sept. 11 before them, may simply slip undetected through the electronic screening systems capable of identifying only the most obvious threats.

Electronic techniques that screen and authenticate shippers and their consignments using database information will play increasingly important roles in securing our nation’s borders and logistics networks against terrorism. However, the use of such methods should be driven by their absolute effectiveness and not by issues of relative cost of convenience. The stakes are just too high to do otherwise! We already have a proven approach for determining with absolute certainty what is in a container and the process is called physical inspection. I for one will sleep much better if those on the front lines in the battle against terrorism continue and is called physical inspection. I for one will sleep much better if those on the front lines in the battle against terrorism continue and expand the use of time-tested methods for interdiction, ones that, like the hijackers of Sept. 11 before them, may simply slip undetected through the electronic screening systems capable of identifying only the most obvious threats.

Electronic techniques that screen and authenticate shippers and their consignments using database information will play increasingly important roles in securing our nation’s borders and logistics networks against terrorism. However, the use of such methods should be driven by their absolute effectiveness and not by issues of relative cost of convenience. The stakes are just too high to do otherwise! We already have a proven approach for determining with absolute certainty what is in a container and the process is called physical inspection. I for one will sleep much better if those on the front lines in the battle against terrorism continue and expand the use of time-tested methods for interdiction, ones that, one, establish impervious perimeter security at our national borders and gateways; two, require rigorous examinations of arriving ships, aircraft, trucks, railcars, and cargoes; and three, handle the mundane, day-to-day tasks associated with operating the national transportation system with unifying vigilance.

Charles J. Reinhardt
Principal, C.J. Reinhardt & Associates
Bedford, Mass.

Contract law and cargo security

Attorneys who specialize in customs and international trade law are preparing for changes to legal requirements for contracts and agreements under proposed U.S. government supply chain security initiatives.

Key initiatives will warrant change: Customs’ Container Security Initiative and Customs-Trade Partnership Against Terrorism; the Transportation Department’s Operation Safe Commerce; the National Infrastructure Security Committee’s work; and pending port and maritime security legislation. There are also legal concerns regarding future ship crew identification requirements.

“These proposals and the ones that will surely follow will apply to a wide variety of participants in the supply chain,” said Richard K. Bank, an attorney with the law firm Thompson Coburn LLP at a C-TPAT-related meeting in Washington, Oct. 29.

“The implementation of these programs will require ever-changing technology and business methods and systems that will be developed in-house or by global software providers,” he said. “These systems will not only seek to make more efficient the movement of goods, but must dovetail with the requirements of Customs and security officials here in our various trading partners.”

Bank said the legal implications of these programs and requirements will be reduced to binding contracts and agreements, which will be created and adjudicated under commercial private law.

Cargo security programs “will engender the need to redefine expectations and risks,” Bank said. “Will there be a need for new and redrafted documents of transport? What will be the new definition of ‘just in time?’ Which party will be responsible of the less-than-rapid delivery of a container when it is held up for further scrutiny based on its profile or that of another box on the same vessel?”

“These and many other issues must be addressed by governments and the transportation industry in a cooperative fashion,” he said. (Chris Gillis)

C-TPAT needs clearer vision

U.S. Customs’ Trade Partnership Against Terrorism is a voluntary program. But if companies don’t chose to join, will they be subject to undue discrimination by the agency?

A U.S. Customs official involved in C-TPAT told attendees at a recent Thompson Coburn LLP-sponsored meeting in Washington that non-participation would likely raise the agency’s suspicions. For example, if a manufacturer outright resists the program, that “would raise a flag,” said Richard Dinnucci, program manager of Customs’ Office of Border Security and Facilitation.

To participate in C-TPAT, companies complete a security questionnaire for Customs and agree to develop programs to enhance security throughout their supply chains. Customs agrees to provide C-TPAT participants with faster cargo clearances and fewer exams.

So far, close to 900 companies, including importers, manufacturers, customs brokers, freight forwarders, non-vessel-operating common carriers, vessel operators, truckers and railroads, have signed up to participate in C-TPAT. According to Customs officials, more are expected to join the program.

The agency said the purpose of the program was not to “profile” companies and affirmed that C-TPAT was no “silver bullet” to stop terrorists from using containers to transport bombs into the country. If that’s the case, Customs needs to do a better job at explaining to the industry exactly what the long-term purpose for C-TPAT is. (Chris Gillis)

Simplify pricing, add stability

While the number of surcharges in container shipping keeps increasing, the number of containership operators is going down.

True, there is no causal link between these two trends. But they show different facets of the instability of the shipping industry. The business implication of these two trends is that they make the work of shippers and forwarders more complicated, absorb largely unproductive staff hours, and cloud opera-
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tional costs and shipment predictability.

Except for shippers who negotiate watertight, all-in-rate service contracts with the most financially solid carriers, there is a rising risk of price changes and carrier shutdowns.

A survey carried out by American Shipper among shippers in the United States shows that only 9 percent of them find that procedures and processes to enter into contracts with ocean carriers, book cargo, handle documentation and payment, and receive cargo are “simple” (see story, page 22).

In particular, shippers polled during the survey criticized the complexity of documentation and surcharges in international shipping.

There is also a growing perception among shippers that carrier surcharges are designed to increase their revenues, particularly when base ocean rates are non-compensatory — not to cover temporary extra costs. Ocean carriers maintain that surcharges are a pass-through of specific additional costs, but they are stretching the concept to its limit, and taking every opportunity to create new surcharges.

In the last few weeks, a particularly difficult issue compounded the problem of surcharges: the congestion surcharges on the U.S. West Coast and the additional costs charged to shippers for containers discharged at the wrong West Coast port during the port shutdown. In this case, there is no doubt that exceptional extra costs were incurred.

It looks as if few shippers will escape paying for such costs, because carriers have invoked the legal defense of force majeure. But what have surcharges got to do with the consolidation of the carrier industry?

It is not a coincidence that ocean carriers like Tecmarine and Trans-Pacific Lines are closing down, while Senator Lines and others are pulling out of the major container trades and restructuring to reduce their losses. Many carriers just can’t survive at the current levels of freight rates.

As things stand, shippers may have to accept they will have to pay surcharges of various names to carriers going.

In the long term, though, this outdated and complicated industry practice should be reviewed. There has got to be a better way to deal with variable costs. (Philip Damas)

Shippers speak out about ports shutdown

Contingency plans by shippers to prevent additional service disruptions if the West Coast ports dispute isn’t settled soon are well afoot in some quarters, according to a survey BDP International and its Centrx supply chain consulting unit commissioned from Adler Research. The survey closed Oct. 30, two days before federal mediators announced that the Pacific Maritime Association and the International Longshore & Warehouse Union, the principals in the ports dispute, had reached a tentative agreement on the touchy issue of technology.

At press time, the mediator had declared a one-week hiatus in negotiations after the ILWU and PMA were unable subsequently to reach agreement on pension provisions. There is a widespread suspicion that if both parties haven’t agreed on all components of a new contract by Dec. 27, the date the current Taft-Hartley-induces cooling-off period ends, the ports will close again.

Among the survey’s respondents, 63 percent said they were not optimistic about a timely settlement. Interestingly enough, although 44 percent reported preparing contingency plans in advance of the ports’ shutdown, 63 percent reported that the West Coast work stoppage came on them unexpectedly.

Arnie Bornstein, a BDP spokesman, said 74 percent of supply chain managers who participated in the survey said they were making contingency plans if there should be no timely settlement. Their plans included cargo diversions to East Coast ports (52 percent of respondents); increases in safety stocks (34 percent); alternate sourcing (29 percent), and diversions to Gulf Coast port (29 percent).

The survey went to 600 U.S. international shippers, and 161 or 26 percent, responded.

When asked “what was the single most unexpected impact of the shipping disruption on your operations or supply chain’’ shippers replied:

• “I would have expected this during July, but not so far down the road. I can’t believe this was allowed to happen, considering the major impact it would have on so many economies.”

• “One of our product lines was unable to ship for the month of October because it was sitting on a boat waiting to be unloaded. This hurt the company and its customers.”

• “We are very discouraged. This is the first year we have imported from Asia, and it has been a terrible experience.”

• “We don’t know how long before we can recover. We have no alternative. Our product is produced in mainland China and there’s nothing available in Europe to replace it.”

• “It’s shocking how quickly equipment — rail cars, ISO tanks, truck chassis — became unavailable through the whole country.”

• “We’re worried, long-term, about the loss of goodwill with our Asian customers.”

Not all respondents were glum. “The port shutdown was great for us,” one shipper said. “It helped our sales. We are a U.S. manufacturer, and with a reduction in foreign dumping, our company received orders from many companies looking from a domestic alternate source.” (Robert Mottley)

A bad idea from Brussels

When Tom Ridge, the director of homeland security, arrived in Rotterdam early in November, he wanted to see how four U.S. Customs officers were settling in as they worked alongside Dutch inspectors.

Ridge also intended to shore up support for U.S. Customs’ Container Security Initiative. As part of the CSI, nine nations in Asia and Europe have signed two-country agreements that allow U.S. Customs officers to select cargo containers for inspection before the boxes go on vessels bound for the U.S.

As Ridge made his rounds, he learned that the European Union is considering whether to discipline the five European countries that have signed up for the CSI: Germany, the Netherlands, Belgium, France and Italy.

The EU’s disciplining would take the form of infringement procedures. “We regret this action because these are our friends and allies,” Ridge told reporters.

While the EU has its reasons (see page 72), the better part of valor would be to back off any notion of punishment for nations that have joined CSI.

Some policy planners in Brussels obviously enjoy giving the United States a glove across the face, but the slap here is on them, as well. The CSI sharpens the overall security of any participant, and every major European port is as vulnerable as New York or Norfolk to terrorism. (Robert Mottley)
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U.S. Customs affirms need for cargo details 24 hours prior to loading on ships overseas.

By Chris Gillis and Philip Damas

U.S. Customs has developed a new regulation for the advance filing of cargo manifests to help prevent terrorists from using the international supply chain to carry out future attacks.

The Customs regulation, which requires ocean carriers and non-vessel-operating common carriers to file manifests for containerized shipments 24 hours prior to loading overseas, left very little time for the industry to comply. It becomes effective Dec. 2.

“Terrorist organizations pose an immediate and substantial threat to the global trading system,” said Customs Commissioner Robert C. Bonner. “With this rule, Customs can better protect the American people and the global trading system as a whole from the threat of nuclear terror using sea containers.”
In June, the Group of Eight nations and World Customs Organization endorsed the CSI concept as a way to improve security in the supply chain without disrupting legitimate flows of cargo.

CSI requires bilateral agreements with other governments to target and pre-screen high-risk containers in overseas seaports before they are shipped to the United States. Customs inspectors will also be stationed in CSI ports to work with their overseas counterparts.

So far, Customs has entered into CSI agreements with more than a half-dozen governments in Europe and Asia. The countries involved in CSI include Canada, the Netherlands, Belgium, France, Germany, Singapore, Hong Kong and Japan, representing 11 of the world’s top 20 container ports. China agreed in principle to participate in CSI in mid-October. The Italian Customs Agency also joined the initiative in November.

“Because of CSI’s rapid growth and critical role in homeland security, it is necessary that Customs immediately begin receiving the advance manifest information required for CSI implementation, electronically (through Customs’ Automated Manifest System) or otherwise,” the agency said.

“On arrival at the U.S. seaport, the CSI-screened container should be released immediately by U.S. Customs, which could shave hours, if not days, off of the shipping cycle,” the agency added. “In this manner, CSI should increase the speed and predictability for the movement of cargo containers shipped to the U.S.”

The agency received impetus for its advance manifest regulations from recent congressional legislation, namely the 2002 Trade Act and the Port and Maritime Security Act.

Customs is also under pressure from the general public to get measures in place to better protect against future terrorist attacks, especially with the possibility of war with Iraq.

“Attacks against Americans on U.S. soil that may involve weapons of mass destruction are likely, but the structures and strategies to respond to this serious threat are fragmented and inadequate,” said Leslie H. Gelb, president of the New York-based Council on Foreign Relations, in a stinging report: America Still Unprepared—America Still in Danger, which was released on Oct. 24.

“If an explosive device was loaded in a container and set off in a port, it would almost automatically raise concern about the integrity of the 21,000 containers that arrive in U.S. ports each day and the many thousands more that arrive by truck and rail across U.S. land borders,” the report warned. “A three-to-four-week closure of U.S. ports would bring the global container industry to its knees.”

Since earlier this year, Bonner made it clear that advance manifests would play a key role in the agency’s Container Security Initiative. CSI, which was announced in January, is designed to help protect the United States and a large portion of the global trading system from terrorists who might use container transport to hide weapons of mass destruction and related materials.

The agency estimates there are about 200 million containers moving between the world’s seaports each year. About 6 million containers are offloaded in U.S. seaports annually.

Initial Reactions. When Customs proposed the advance manifest regulations in early August, it prompted numerous protests from industry groups.

Most of the 78 industry responses acknowledged the need to improve supply chain security. But they called the proposed regulations “unreasonable” and incompatible with today’s international supply chain management.

“The unintended effect of these proposals will be to severely impede the normal commercial flow to trade,” said seven industry groups in a letter to Customs. “While Customs believes that the proposed amendments are necessary and required for the protection of this country, we do not believe the contemplated changes will achieve that end.”

The National Customs Brokers and Forwarders Association of America, Business Alliance for Customs Modernization, American Association of Exporters and Importers, Joint Industry Group, Pacific Coast Council of Freight Forwarders and Customs Brokers Association, International Association of NVOCCs, and the Los Angeles Customs Brokers and Freight Forwarders Association signed the letter.

The International Mass Retail Association called the proposed rules “extremely premature” and suggested that they should be withdrawn altogether.

The World Shipping Council, NVOCC-Government Affairs Conference and National Industrial Transportation League also raised concerns about the proposed rulemaking, but believed it was workable with changes.

“We nevertheless recognize that currently the government does not feel that it has better information systems for this task, and thus the industry would like to cooperate to the extent practical,” said the World Shipping Council in its comments during the rulemaking process. “It is essential, however, that the role, the limitations, and the ramifications of the manifest be kept in mind.”

Few Exemptions. Customs said it studied the industry’s comments closely and made some changes to the final regulation.

After much consideration, Customs decided to exempt bulk shipments from its advance manifest requirements. The agency defined bulk shipments as:

- “Free flowing articles,” such as coal, ore, grain, and oil, which can be “pumped or run through a chute or handled by dumping.”
- Commodities that require mechanical handling, such as lumber, iron, bricks and steel beams.

The NIT League and World Shipping Council asserted to Customs in their comments that bulk shipments posed less of a national security threat because they’re not...
concealed like containerized cargo.

Customs also made exemption possible for breakbulk carriers. “Breakbulk is cargo that is not containerized, but which is otherwise packaged or bundled,” the agency said. “This type of cargo may raise the same types of concealment and smuggling concerns as containerized cargo.”

“Consequently … a carrier of breakbulk cargo may apply for an exemption from the 24-hour rule,” the agency said. “Customs will evaluate each application on a case by case basis.”

The advance manifest exemption requests for breakbulk cargo will require detailed information about the shipments, such as sources, identity and means of packaging, ports of call overseas and domestically, vessel identifications, and lists of the carriers’ shippers and importers. Customs may rescind a carrier’s exemption status at any time.

Carriers receiving exemptions for bulk and breakbulk shipments must still file complete cargo manifests to Customs 24 hours prior to arrival in U.S. seaports.

During the rulemaking process, liner carriers expressed concern to Customs about manifest filing requirements, while still maintaining efficient consolidation services.

Under the new regulation, NVOs must also intended to undergo significant changes to its operations to meet the new manifest requirements, while still maintaining efficient consolidation services.

Under the new regulation, NVOs must be licensed and bonded with the Federal Maritime Commission (or registered with the agency in the case of overseas-based NVOs), in addition to having an international carrier bond with Customs, to file manifests to Customs 24 hours prior to loading on ships overseas.

The agency gives NVOs the option to file manifests directly through AMS. Non-automated NVOs can provide carriers with paper manifests, which the carriers would in turn forward to Customs 24 hours prior to loading. The agency strongly encourages all NVOs to use AMS.

Customs affirmed that its manifest filing regulations would not destroy the common practice among NVOs of co-loading their cargo. “The automated NVOCC who is co-loading (with a non-automated NVO) should be aware, however, that its shipment could be held for examination based on Customs not receiving timely manifest information in the United States,” the agency said.

Many NVO executives had begun to prepare for the new manifest filing requirements before the final rules were announced. “Quite frankly, we didn’t believe Customs would alter its position,” said Michael Dye, senior vice president of NACA Logistics Group, a Southern California-based company that owns neutral NVO subsidiaries Direct Container Line, Brennan International Transport and Conterm Consolidation Services. “We weren’t even against it.”

“It’s a very demanding regime and I think the NVOs will be challenged,” said Carlos Rodriguez, counsel for the NVO-GAC. “However, if I don’t think the regulations are anti-NVO. Customs simply requires the information to do its job.”

Some NVO executives and representatives also viewed the rulemaking process as a political victory for the industry.

“This is a great day in the history of NVOs,” said Joseph T. Saggese, executive managing director of the North Atlantic Alliance Association, a shippers’ association which represents about 40 NVOs and freight forwarders, when the regulations were released by Customs on Oct. 31. “For the first time in many years, we finally got meaningful input into important policy matters in Washington.”

An area of chief concern for the NVOs, however, is maintaining confidentiality of their manifest data from carriers and other competitors. In the new regulation, Customs made recommendations for how NVOs can protect the confidentiality of their shipper and consignee manifest data. The agency also intends to address the matter more specifically in the near future. “It’s appa-
Larry Polite, Julie Owens, Rick Herron, Keith Nell

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ent that Customs wants to deal with this issue in a positive way," Rodriguez said. To make the manifest filing process efficient, both carriers and NVOs will be largely dependent on the responsiveness of their customers’ ability to provide them with complete and accurate information in timely manner.

“We recognize some customers will face a challenge as they comply with this new security requirements,” said Mark Johnson, vice president of corporate relations for Maersk Sealand. “Rest assured Maersk Sealand will do its best to communicate what has been mandated by Customs and thereby avoid any disruptions in service.”

“Whether we like it or not, however, industry business practices will have to

WCO's ‘capacity building' initiative

Industrialized nations asked to help developing countries improve their border and cargo security.

BRUSSELS

While industrialized nations tighten their cargo controls against terrorism, customs administrations in developing countries worry about keeping up.

Many developing countries have already voiced concerns that they may be left out of the world economy because they simply can’t afford technology and other customs resources to improve their border and cargo security. Senior officials of the Brussels-based World Customs Organization, acknowledge that this is a legitimate concern.

The current “digital divide” between industrialized and developing countries might soon be widened by “a security and trade facilitation divide,” said Kunio Mikuriya, deputy secretary general for the WCO, at a recent meeting with industry in Brussels.

“With today’s focus on economic globalization, we need to have access to anywhere in the world for our products,” said Domingos Tivane, senior customs officer for Mozambique Customs. “If goods from underdeveloped countries suffer from supply chain security programs, then they won’t be able to compete.”

Customs administrations worldwide began to focus on border and cargo security shortly after the Sept. 11, 2001 terrorist attacks on the United States. Security experts warned that terrorists could use legitimate cargo transportation conveyances, such as ocean containers, to move weapons of mass destruction and related materials.

U.S. Customs took the lead on cargo security in January by creating the Container Security Initiative. The program promotes pushing container security away from U.S. ports of entry to ports and load centers overseas, and calls for advance manifest information to be filed to the agency before loading cargo on vessels overseas. It also places U.S. Customs inspectors in overseas ports to help their counterparts identify high-risk containers. So far, more than a dozen governments in Asia and Europe have joined CSI.

In June, the Group of Eight nations largely endorsed the CSI concept as a way to promote global supply chain security. The G8 further identified the WCO, along with the International Maritime Organization and International Civil Aviation Organization, as the bodies to develop global initiatives to improve ocean container, vessel and aviation security.

Shortly after the G8 endorsement, the WCO created a task force to draft the so-called “Resolution on Security and Facilitation of the International Supply Chain” by June 2003.

At the same time, the WCO began a study to ensure that developing countries aren’t left out of the security equation, a process known as “capacity building.” The study received impetus in the World Trade Organization’s Doha Declaration, which emphasized that cargo security must not impede legitimate trade.

“It would be fair to say that the global trading community is looking for measures that are well explained as to purpose, principle and operation,” said Robin Dare, comptroller of the New Zealand Customs Service.

“Above all, it wants measures to be proportional to probable or perceived dangers — to be realistic in both the short and long term.”

“The cost of security will be a very delicate matter to settle,” said Michel Danet, secretary general of the WCO. “The private sector won’t finance this effort and the banks’ support is questionable.”

“If we miss some economies, then we’ll miss the mark (on global supply chain security),” he warned.

It would be wrong for industrialized nations not to help developing countries improve their border and cargo security because they “generally aim to be good international citizens,” and because it “makes good business sense” in the long term, Dare said.

To create its “customs capacity building strategy,” the WCO has asked for help from representatives of the WTO, World Bank, Organization for Economic Cooperation and Development, United Nations Conference on Trade and Development, and other donors, as well as the private sector. The WCO’s findings will be presented at the organization’s council meeting in June 2003. They will also be presented at the Sept. 2003 WTO Ministerial Meeting in Cancun, Mexico.

The WCO has also emphasized the need for all countries — industrialized and developing — to fully implement internationally accepted customs improvement guidelines, such as the WTO Valuation Agreement, and the WCO’s revised International Convention on the Simplification and Harmonization of Customs Procedures (known as the Kyoto Convention), Arusha Declaration and the Model Code of Conduct.

In addition, there are opportunities for developing country customs administrations to work together as regional or sub-regional blocs to share resources to fight terrorism and other related crimes.

For example, Mozambique could take a leadership role in Southern Africa because several landlocked African countries use its seaports. “Mozambique has proposed to be a focal point in the war against terrorism in the region,” Tivane said.

“We expect that neighboring countries will likely cooperate.”

Developing countries, however, won’t be the only ones under pressure to meet new supply chain security measures in the coming years. Many smaller industrialized countries will face financial and technical constraints to meet these requirements.

“Resources are always a problem (for New Zealand Customs),” Dare said. “We have to think laterally to keep pace in our strategic and policy thinking, and because of our size we have the ability to take quick decisions and commit to action on a collegiate basis.”

“Our solutions are often ‘partnerships’ — partnerships between customs and other agencies of state, and partnerships between customs and the private sector,” he said.
change,” Johnson added. “Customs is unlikely to amend their rulemaking.”

Dye said NACA Logistics views the new regulation as “a welcome development” for the NVO industry, because it’s traditionally been a battle for NVOs to obtain manifest-related information from forwarders and shippers. “With a firm regulation in place, we’ll be able to get the necessary documentation earlier in the process,” he said.

Large shippers and freight forwarders do not expect to experience many problems meeting the advance manifest rule, whereas smaller firms with less sophisticated systems may feel the pinch.

The director of transportation for a major West Coast shipper told American Shipper his company largely exports to the same customers, and has procedures in place early in the shipping process that already meet the new regulatory requirements.

The problems for shippers may occur with third-party suppliers overseas who may not understand the gravity of the advance manifest regulation. A large chemical shipper, who requested anonymity, said some of its pre-bookings could be affected. “We’ll just have to find a way of doing it, but it’s not a major issue,” the chemical shipper said.

Carriers and NVOCCs will no longer be able to accept generic cargo descriptions, such as F.A.K. (freight all kinds) and S.T.C. (said to contain), or broad descriptions, such as “chemicals” or “foodstuffs.” “These so-called ‘dummy’ cargo descriptions are exactly what Customs cannot accept because they undermine our efforts to target threats to national security,” Customs said.

Many shippers have made improvements to how they manage their shipment information since the Sept. 11, 2001 terrorist attacks. Increasing numbers of them have joined Customs’ Trade Partnership Against Terrorism (C-TPAT) program. To participate, companies agree to improve and document their supply chain security. Customs, in turn, gives these companies “fast-lane” clearance treatment at border crossings and seaports. There are nearly 900 C-TPAT applicants, including shippers, carriers and intermediaries.

The NCBFAA urges its customs broker and freight forwarder members to educate their shipper/importer clients in the United States and overseas about the new manifest filing requirement.

“There is a new regulation in effect and companies must begin to comply with the terms of it,” said Peter H. Powell Sr., chief executive officer of C.H. Powell Co., based in Westwood, Mass., and chairman of the NCBFAA. “The clock is running.”

To give the shipping industry time to comply with the new manifest regulation, Customs has granted a 60-day grace period for non-fraudulent violations before taking enforcement action against these operators.

Meanwhile Customs said it’s prepared to receive automated manifest information immediately from carriers and NVOCCs.

“The need to have a secure transportation system goes without question. The rule should be beneficial in helping to meet this objective,” said Peter Gatti, vice president of international policy for the NIT League. “But there are still many questions that will need to be answered.”

Customs has asked the Treasury Department’s Advisory Committee on the Commercial Operations of the U.S. Customs Service (COAC) to set up a special subcommittee to assess the impact of implementing the advance manifest regulation on the industry.

“This special subcommittee will allow Customs to maintain an open dialogue with the trade on potential implementation issues,” Bonner said. “It is imperative that the trade community and Customs continue to work together.”

Industry leaders plan to align themselves with the Treasury-appointed members of COAC to ensure their voice is heard.

“It’s our intention to work closely with the agency in implementing the rule in a way that balances everyone’s desire to have a safe and secure system of transportation without impeding the ability of freight to move efficiently and effectively as possible,” Gatti said.

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**We Do More Than Handle Cargo.**

**We Seek Solutions!**

Just about any transportation company can handle cargo. What makes P&O Ports North America so different? As one of the largest stevedores and terminal operators in the U.S., P&O Ports North America has the expertise and professionalism to handle any type of cargo requirement once it reaches the port. We make every resource available to our customers to satisfy their needs and offer solutions to the complexities of project, breakbulk or unusual cargo. Should a problem arise, P&O Ports North America is there to offer solid answers.

Service excellence is the standard in every P&O Ports’ operation. Wherever you go in the U.S. and worldwide, you’ll find the highest quality of service, consistency of management and customer satisfaction. Handling your cargo and its logistics is P&O Ports’ expertise. Building your confidence, trust and satisfaction in our company and its capabilities is P&O Ports’ goal.
The pace of takeovers and consolidation in the logistics and transport industry continues unabated, as major groups refine their strategies as global one-stop providers of a wide range of services.

UPS, the Atlanta-based express giant, said it is still “the world’s largest transportation company, offering the most extensive range of e-commerce and supply chain solutions.”

The group increased its total revenue by 3 percent in a difficult market in 2001, to $30.6 billion. Having acquired the major customs brokerage and freight forwarding group Fritz for $450 million in 2001, UPS has recently made another step to increase its presence in the ocean shipping business.

UPS launched a simplified ocean shipping service for shippers who manufacture products in China and Brazil and import them into the United States (October American Shipper, page 77). This move has raised...
worldwide logistics industry — by leveraging our large growth and cost reduction potential sensibly,” he said earlier this year.

Deutsche Post came second in American Shipper’s latest global ranking of the largest logistics and transport companies (see Table No. 1, page 16-17).

In July, Deutsche Post acquired another 25-percent stake in the express company DHL for 610 million euro ($598 million). The purchase raised Deutsche Post’s shareholding in DHL to 75 percent. The German group said it aims to “increase the stake in DHL to 100 percent in due course.”

Between 1998 and 2000, Deutsche Post stunned the industry by acquiring two of the largest forwarders, and at prices that few could afford: Danzas, for $1.1 billion, and Air Express International Corp., for $1.14 billion.

In early November, Deutsche Post-affiliated also said it has acquired Mayne Group Canada Inc., an express delivery company. The purchase of Mayne allows DHL to expand its Canadian market share and improve cross-border service performance with the United States. DHL and Loomis’ product offering will combine ground operations with an air express network for Canadian customers. The purchase will be complete on Jan. 31, pending regulatory approvals by Canadian authorities.

The battle for control of the logistics business has continued this year, particularly following German railroad Deutsche Bahn AG’s acquisition of the German logistics group Stinnes AG, the parent company of the global forwarding and logistics company Schenker. Again, the cash amounts required for the takeover are daunting.

In July, Deutsche Bahn acquired a 65-percent stake of Stinnes for approximately 1.6 billion euro (about $1.6 billion) in cash. Europe’s largest railroad also offered to acquire all remaining shares as part of a proposed $2.5-billion takeover of the logistics group.

Stinnes, including its transportation arm Schenker, is one of the largest logistics and forwarding groups in Europe. Stinnes has annual revenues of about 12.3 billion euro ($12 billion) and about 43,000 employees at more than 1,300 locations worldwide. Besides logistics and transportation, Stinnes’ other activities are chemicals and materials.

Schenker, with annual revenues of 6.2 billion euro ($6.1 billion), provides land transport, air and sea freight services, as well as logistics services and global supply chain management from a single source. Some 33,000 employees work for Schenker.

Deutsche Bahn, the state-owned rail-way company based in Berlin, has annual revenues of 15.7 billion euro ($15.4 billion) and some 214,000 staff. It lost 406 million euro ($398 million) in 2001.

The combination of Deutsche Bahn and Stinnes will create a giant $25-billion group that would rank as the world’s third-largest transportation and logistics group, behind UPS and Deutsche Post.

Deutsche Bahn said the takeover of Stinnes will complement its freight services, adding logistics services to its existing carrier services.

World Rankings. Among the largest logistics and freight transport companies, 44 firms had 2001 annual revenues of more than $2 billion.

Of these, four were integrators, six were forwarders or third-party logistics providers, 12 were shipping lines, seven were railroads, 11 were trucking-based companies and three were diversified conglomerates like Deutsche Post and the Dutch mail and logistics group TPG, now the owner of former U.S. logistics provider CTI Logix.

The combined revenue of the top 43 transport and logistics groups — $301 billion — gives an indication of the considerable size of the logistics and freight transport industry.

Airlines and passenger-oriented railroads are not included in the ranking.

Major port operators, such as Hutchison and PSA Corp., do not have revenues of $2 billion a year now, but they could soon join the ranks of the top logistics and transport groups.

Another group that is close to joining the $2-billion club is Singapore-based SembCorp Industries Ltd., the parent company of SembCorp Logistics and a shareholder in the forwarding group Kuehne & Nagel. In 2001, SembCorp Logistics had total revenues of $S$3.2 billion ($1.7 billion).

Compared to the global ranking of top companies conducted by American Shipper 10 months ago, the latest survey omits one company: Consolidated Freightways, which went bankrupt in September.

The combined revenue of the top 43 transport and logistics group — $301 billion — gives an indication of the consider-
able size of the logistics and freight transport industry.

For the large transport and logistics companies, restructuring, integration of multiple activities and cost cuts are common strategies. These changes are the logical results of acquisitions and increasingly difficult world markets.

In October, Deutsche Post said it would merge Danzas into DHL and cut jobs. From April 2003, Danzas Eurocargo (the company’s European land transport) and Danzas Solutions (its supply chain management arm) will be integrated into DHL.

Danzas AEI Intercontinental (providing air and ocean freight forwarding) will be renamed DHL Danzas Air & Ocean.

The administrative centers of Danzas (in Basel), Euro Express (in Bonn) and DHL (in Brussels) will be merged at the Brussels site. The DHL Danzas Air and Ocean unit will remain in Basel.

“In the past there has been some overlapping among the group companies, especially in the realm of European land transport,” Danzas said. “Bundling activities under the DHL brand will make it easier to strengthen the market position and to further optimize the cost structures.”

Table No. 1

<table>
<thead>
<tr>
<th>World rank</th>
<th>Company</th>
<th>Main industry sectors</th>
<th>Country</th>
<th>2001 figures (in $ million or local currency)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total group revenue</td>
</tr>
<tr>
<td>1.</td>
<td>United Parcel Service</td>
<td>Integrator/logistics/forwarding</td>
<td>U.S.</td>
<td>$30,646</td>
</tr>
<tr>
<td>2.</td>
<td>Deutsche Post/DHL/Danzas group (1)</td>
<td>Mail/forwarding/integrator/banking</td>
<td>Germany</td>
<td>$29,539</td>
</tr>
<tr>
<td>3.</td>
<td>FedEx (2)</td>
<td>Integrator/logistics/forwarding</td>
<td>U.S.</td>
<td>$20,607</td>
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<tr>
<td>4.</td>
<td>Nippon Express (5)</td>
<td>Trucking/forwarding/logistics</td>
<td>Japan</td>
<td>$14,211</td>
</tr>
<tr>
<td>5.</td>
<td>Deutsche Bahn (3)</td>
<td>Railroad</td>
<td>Germany</td>
<td>$13,913</td>
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<tr>
<td>6.</td>
<td>Union Pacific</td>
<td>Railroad</td>
<td>U.S.</td>
<td>$11,973</td>
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<tr>
<td>7.</td>
<td>Stinnes/Schenker (3)</td>
<td>Forwarding/logistics/materials</td>
<td>Germany</td>
<td>$10,888</td>
</tr>
<tr>
<td>8.</td>
<td>TPG/TNT/CTI group</td>
<td>Mail/integrator/logistics</td>
<td>Netherlands</td>
<td>$9,227</td>
</tr>
<tr>
<td>9.</td>
<td>A.P. Moller group (4)</td>
<td>Shipping/logistics</td>
<td>Denmark</td>
<td>$9,237</td>
</tr>
<tr>
<td>10.</td>
<td>Burlington Northern Santa Fe</td>
<td>Railroad</td>
<td>U.S.</td>
<td>$9,208</td>
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<tr>
<td>11.</td>
<td>NYK (5)</td>
<td>Shipping/logistics</td>
<td>Japan</td>
<td>$8,577</td>
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<tr>
<td>12.</td>
<td>CSX Corp.</td>
<td>Railroad/shipping</td>
<td>U.S.</td>
<td>$8,110</td>
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<tr>
<td>13.</td>
<td>Mitsui O.S.K. Lines (5)</td>
<td>Shipping/logistics</td>
<td>Japan</td>
<td>$6,784</td>
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<tr>
<td>14.</td>
<td>Exel</td>
<td>Forwarding/logistics</td>
<td>U.K.</td>
<td>£6,532</td>
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<td>15.</td>
<td>P&amp;O group (6)</td>
<td>Shipping/ports/logistics</td>
<td>U.K.</td>
<td>£6,520</td>
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<td>16.</td>
<td>Norfolk Southern</td>
<td>Railroad</td>
<td>U.S.</td>
<td>$6,170</td>
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<td>17.</td>
<td>DHL Worldwide Express (1)</td>
<td>Integrator</td>
<td>Belgium</td>
<td>€5,487</td>
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<tr>
<td>18.</td>
<td>Kuehne &amp; Nagel/USCO group</td>
<td>Forwarding/logistics</td>
<td>Switzerland</td>
<td>CHF5,021</td>
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<tr>
<td>19.</td>
<td>Ryder System</td>
<td>Trucking/truck leasing/logistics</td>
<td>U.S.</td>
<td>$5,006</td>
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<tr>
<td>20.</td>
<td>CNF/Menlo group</td>
<td>Trucking/forwarding/logistics</td>
<td>U.S.</td>
<td>$4,863</td>
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<tr>
<td>22.</td>
<td>Neptune Orient Lines/APL group</td>
<td>Shipping/logistics</td>
<td>Singapore</td>
<td>$4,737</td>
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<td>23.</td>
<td>Bollore Investissement/Delmas/SCAC group</td>
<td>Shipping/forwarding/trading</td>
<td>France</td>
<td>$4,548</td>
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<tr>
<td>24.</td>
<td>“K” Line (5)</td>
<td>Shipping/logistics</td>
<td>Japan</td>
<td>¥571,014</td>
</tr>
</tbody>
</table>

Source: American Shipper research and companies involved.
possible to optimize the transportation networks, expand customer services, and reduce duplication in the service functions.”

The company said Danzas customers would now have “just a single contact — DHL — for the whole spectrum of express and logistics services, from parcel to heaviest tonnage.”

Deutsche Post also announced a group-wide restructuring program designed to increase group net profit from operating activities by about 40 percent by 2005, to 3.1 billion euro (about $3.1 billion). Integration is also happening within other major groups.

FedEx Trade Networks Inc., a subsidiary of FedEx Corp., has recently reorganized its company structure, renamed the previous services offered by Tower Group International Inc., and introduced new international shipping tools.

Tower changed its name to FedEx Trade Networks Transport and Brokerage Inc. in July.

FedEx Trade Networks also plans to create a subsidiary, FedEx Trade Networks Trade Services Inc., to incorporate the duty

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total group profit</td>
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<tr>
<td>25.</td>
<td>Hyundai Merchant Marine</td>
<td>Shipping</td>
<td>South Korea</td>
<td>$4,196</td>
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<td>26.</td>
<td>Panalpina</td>
<td>Forwarding/logistics</td>
<td>Switzerland</td>
<td>$3,998</td>
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<tr>
<td>27.</td>
<td>Pittston/BAX Global group</td>
<td>Forwarding/security</td>
<td>U.S.</td>
<td>$3,624</td>
</tr>
<tr>
<td>28.</td>
<td>Canadian National (7)</td>
<td>Railroad</td>
<td>Canada</td>
<td>$3,533</td>
</tr>
<tr>
<td>29.</td>
<td>Hanjin Shipping</td>
<td>Shipping</td>
<td>South Korea</td>
<td>$4,612,000</td>
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<tr>
<td>30.</td>
<td>Hapag-Lloyd group</td>
<td>Shipping/logistics/forwarding</td>
<td>Germany</td>
<td>$3,442</td>
</tr>
<tr>
<td>31.</td>
<td>Yellow Corp.</td>
<td>Trucking</td>
<td>U.S.</td>
<td>$3,277</td>
</tr>
<tr>
<td>32.</td>
<td>Airborne</td>
<td>Integrator</td>
<td>U.S.</td>
<td>$3,211</td>
</tr>
<tr>
<td>33.</td>
<td>Geodis</td>
<td>Trucking/forwarding</td>
<td>France</td>
<td>$3,095</td>
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<tr>
<td>34.</td>
<td>C.H. Robinson</td>
<td>Trucking/logistics</td>
<td>U.S.</td>
<td>$3,090</td>
</tr>
<tr>
<td>35.</td>
<td>Roadway Express</td>
<td>Trucking</td>
<td>U.S.</td>
<td>$2,792</td>
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<td>36.</td>
<td>CP Ships (8)</td>
<td>Shipping</td>
<td>Canada</td>
<td>$2,646</td>
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<td>37.</td>
<td>ABX Logistics</td>
<td>Trucking/forwarding</td>
<td>Belgium</td>
<td>$2,575</td>
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<tr>
<td>38.</td>
<td>USFreightways (9)</td>
<td>Trucking/logistics</td>
<td>U.S.</td>
<td>$2,459</td>
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<tr>
<td>39.</td>
<td>Schneider</td>
<td>Trucking/logistics</td>
<td>U.S.</td>
<td>$2,400</td>
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<tr>
<td>40.</td>
<td>OOIL (parent of OOCL)</td>
<td>Shipping</td>
<td>Hong Kong</td>
<td>$2,379</td>
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<tr>
<td>41.</td>
<td>CP Railway</td>
<td>Railroad</td>
<td>Canada</td>
<td>$2,312</td>
</tr>
<tr>
<td>42.</td>
<td>Tibbet &amp; Britten</td>
<td>Logistics</td>
<td>U.K.</td>
<td>$2,130</td>
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<td>43.</td>
<td>Swift Transportation</td>
<td>Trucking</td>
<td>U.S.</td>
<td>$2,112</td>
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<tr>
<td>44.</td>
<td>J.B. Hunt</td>
<td>Trucking/intermodal/logistics</td>
<td>U.S.</td>
<td>$2,100</td>
</tr>
</tbody>
</table>

Total of 41 major logistics and freight transport groups (excluding DHL, Schneider and ABX Logistics) $289,928, 19,775, 6.8% 8,193
Total of 44 major logistics and freight transport groups (including DHL, Schneider and ABX Logistics) $301,090, N/A, N/A, N/A

(1) In July 2002, Deutsche Post increased its shareholding in DHL International to 76 percent.
(2) The results for FedEx are for its financial year ended May 31.
(3) In August 2002, the German railroad Deutsche Bahn announced the takeover of Stinnes.
(4) The results for A.P. Moller/Maersk Sealand are those of the group’s Tankers and Liners in Partnership unit. The figure shown under operating profit is the company’s result before interest and depreciation, less depreciation and write-downs.
(6) P&O Nedlloyd Container Line is 50-percent owned by the P&O group.
(7) Canadian National includes Wisconsin Central Transportation Corp. since October 2001.
(8) CP Ships is an independent company since October 2001, following the breakup of the CP conglomerate.
(9) In October 2002, USFreightways sold its forwarding arm.
realize how UPS’s integrated international logistics, freight and financial services can help improve their supply chains, he added. It appears that most major groups are broadening their range of logistics services, moving into each other’s areas of specialization.

<table>
<thead>
<tr>
<th align="left">Table No. 2</th>
<th align="left">Logistics, transport sector 2000-2001 financial results</th>
</tr>
</thead>
<tbody>
<tr>
<td align="left"></td>
<td align="left">(in $million)</td>
</tr>
<tr>
<td align="left"><strong>2001</strong></td>
<td align="left"><strong>2001</strong></td>
</tr>
<tr>
<td align="left"><strong>Total</strong></td>
<td align="left"><strong>Operating</strong></td>
</tr>
<tr>
<td align="left"><strong>group</strong></td>
<td align="left"><strong>group</strong></td>
</tr>
<tr>
<td align="left">revenue</td>
<td align="left">margin</td>
</tr>
<tr>
<td align="left">UPS, FedEx, Airborne</td>
<td align="left">$54,464</td>
</tr>
<tr>
<td align="left">6 forwarders/3PLs</td>
<td align="left">$32,193</td>
</tr>
<tr>
<td align="left">12 shipping lines</td>
<td align="left">$51,033</td>
</tr>
<tr>
<td align="left">7 railroads</td>
<td align="left">$55,219</td>
</tr>
<tr>
<td align="left">10 trucking-based groups</td>
<td align="left">$43,005</td>
</tr>
<tr>
<td align="left">3 diversified conglomerates</td>
<td align="left">$44,014</td>
</tr>
<tr>
<td align="left"><strong>Total</strong></td>
<td align="left">$289,928</td>
</tr>
</tbody>
</table>

and tax data services of its subsidiary WorldTariff. FedEx is moving into the business of streamlining, automating and simplifying the shipping process for large customers, from harmonized system classification to document preparation.


CNF said Menlo Worldwide has revenues of $3 billion and employs more than 15,000 people, providing supply chain services including air freight, ocean freight, global logistics management, urgent transportation, supply chain consulting and technology, and customs brokerage and other trade services in more than 200 countries.

In October, Menlo Worldwide opened its first Asian “multifunctional” logistics regional hub. The company said the new $12-million Singapore facility will provide value-added services, such as pick and pack, repair and return, bulk-packing and product postponement, product reconfiguration and light assembly, and testing.

Scott Davis, chief financial officer of UPS, said recent customer gains validate the group’s long-term strategy of “helping customers simultaneously manage the flow of goods, information and funds.” New customers, such as Haemacure and Eurofrut, and tax data services of its subsidiary WorldTariff. FedEx is moving into the business of streamlining, automating and simplifying the shipping process for large customers, from harmonized system classification to document preparation.


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18 AMERICAN SHIPPER: DECEMBER 2002
Sector-by-sector analysis

Overall, the combined revenues of the major logistics and transport groups declined slightly in 2001, while their operating profits fell an average of 14 percent. Nevertheless, a sector-by-sector comparison of the major groups highlights wide variations between the growth and profitability situations of the different sectors (see Table No. 2).

Integrators
The integrators continue to be among the largest players and the most profitable. Excluding DHL Worldwide Express, which publishes only limited financial information, the integrators continued to see some growth in revenues in 2001, and their profits remained high — with average operating margin of 9.7 percent of revenues. UPS and FedEx are much more profitable than Airborne, which incurred losses in 2001.

Forwarders and 3PLs
The forwarders and non-asset-based third-party logistics providers saw improvements in profitability in 2001, when most of the other sectors experienced profit declines. Mega-forwarders have been thriving in a difficult ocean and air-freight market (October American Shipper, page 8). However, this category is hard to distinguish from that of the diversified logistics conglomerates. Some of the largest forwarding companies — such as Danzas AEI and SCAC — are owned by the Deutsche Post and Bollore conglomerates. Major U.S. forwarders — such as EGL and Expeditors International — have revenues of less than $2 billion a year and were not included in the ranking.

Shipping lines
Shipping lines have more companies among the top transport and logistics groups than any other sector. Based on the 12 ocean carriers that disclose detailed financial results, the shipping lines saw their revenues fall 1 percent in 2001 and their net profits plunge 69 percent.

Railroads
Railroads continue to have the best operating profit margins, as a category.

Yet, they also saw a small decrease in average revenues and lower profit results.

Trucking-based groups
2001 was a disaster for trucking-based groups. The 10 large trucking groups included in the ranking lost a combined $485 million last year, as revenues decreased and profit margins fell. Some companies categorized as trucking-based groups also have forwarding and logistics activities.

Diversified conglomerates
These very large groups have relatively high operating profit margins and maintained them in 2001. They are the third most profitable group in operating profit margins after the integrators and the railroads. Alongside the integrators, the diversified groups like Deutsche Post and TPG also have the biggest checkbooks, when it comes to acquisitions.

Through the full consolidation of the integrator DHL, and further organic growth, Deutsche Post predicts its total revenues will soon exceed $36 billion. That should put it on top of the world ranking of the top logistics and transport groups ... unless UPS acquires a $3-billion business in the meantime.
Many shippers still think procuring services, day-to-day dealings with ocean carriers are too burdensome.

By Philip Damas
Despite the enactment of the Ocean Shipping Reform Act, the e-commerce “revolution” and industry efforts to simplify business, buying ocean freight services and managing day-to-day ocean freight transactions are tasks that still remain complicated.

A survey conducted by American Shipper among 35 shippers in the United States shows that 26 percent of them find that procedures and processes to enter into contracts with ocean carriers, book cargo, handle documentation and payment, and receive cargo are “too burdensome” (see chart, page 22).

The majority found the work burden involved “adequate,” and only 9 percent found industry processes “simple.”

Asked about potential areas of improvements, several shippers expressed frustration about industry practices such as documentation and pricing.

One survey respondent complained about documentation. “The carriers are sending the ocean bills of lading back to the forwarder to check for mistakes — unbelievable, but typical of ocean carriers,” the respondent said. “This delays the release of the bill of lading and delays forwarding the documents. I am becoming less and less enthusiastic with ocean carrier’s documentation practices. I think forwarders should be allowed to charge for this service.”

A major shipper said that, contrary to airlines, shipping lines’ documentation continues to be based on vessel names.

“If they change the ship (for booked shipments), you need to change the whole documentation,” the shipper said.

Another respondent named internal communication and surcharges as areas that could be improved.

“Surcharges cost way more in administration and bad will than they pay back to carriers. Clarifying to get ‘apples-to-apples’ rates is near impossible.”
‘apples-to-apples’ rates (is) near impossible.”

Respondents’ replies to the survey were given anonymously.

Another shipper said carriers have too many “hidden” charges. “They quote a price and then, when you get the rated bill of lading, it has all these additional add-ons that they never quoted in the rate,” the shipper added.

Although not addressed specifically in the survey of shippers, it is known that ocean carriers have introduced more surcharges in the last two years. In addition to the traditional bunker and currency surcharges, there are now Panama Canal and Suez Canal surcharges, war-risk insurance surcharges, congestion surcharges, peak season surcharges, winter surcharges, security surcharges and imbalance surcharges.

Ocean carriers “could make a lot of shippers happy if they had a single rate,” said Hud Warren, director of transportation with a major West Coast shipper. “They have surcharges for every little thing.”

Miscommunication within the carrier’s offices at home and abroad, the lag time to obtain accurate information, and quality of staff among carriers were also pointed out in the survey as problem areas.

Warren said ocean carriers could improve both their internal communication between offices and the external communication with shippers. Carriers should better communicate with their overseas offices the requirements of particular shippers such as container demurrage arrangements under global contracts, he said.

“They could do a much better job with pre-alerts,” Warren added. Instead of letting customers contact the carriers when there is a problem, the carriers should proactively notify them.

“They should give us the bad news quickly.” Warren said.

“The first thing they can do is simplify the billing,” the West Coast shipper said. Instead of receiving separate invoices for each bill of lading, the shipper asked carriers to send periodic, consolidated bills with an Excel-format list of multiple shipments covered.

Warren also believes ocean carriers can modernize their computer systems.

He said that his company uses waybills whenever possible, rather than bills of lading.

“Quite honestly, I don’t know why we need to print waybills at all,” he said, pointing to the use of e-tickets by airlines.

“You can’t shipping lines think outside the box?” Warren asked. He said that ocean carriers should look at the way FedEx and Dell Computer serve their customers.

Ocean carriers have introduced, individually and jointly, Internet platforms that allow computer-to-computer transactions between shippers and carriers without the need for expensive electronic data interchange integration.

GT Nexus and Logistics.com have developed software to automate contract bidding and the analysis of contract tenders. Others have sought to automate the auditing of bills.

One survey respondent said it “would be ideal if the portals — GT Nexus, Cargosmart, Intra, etc. — handled all carriers as opposed to just shareholding carriers.”

“They could do a much better job with pre-alerts. They should give us the bad news quickly.”

“It would be beneficial if more carriers were on the Net where individual companies could do their own bookings,” another said.

Warren said his company has found that the GT Nexus portal has simplified day-to-day shipping transactions. “We can make bookings, we can track, we can approve the B/Ls, and when there’s a change, we get an email,” he said.

The portal also provides a window into the carriers’ capacity availability, and allows the shipper to choose bookings and submit the bill of lading online.

Yet, only a small minority of survey respondents said the multicarrier portals in container shipping — Cargosmart, GT Nexus, Intra — have improved work processes between them and ocean carriers.

Several shippers who were asked to reply to the survey said they don’t have to worry about the complexities of day-to-day transactions with carriers, because they delegate these tasks to a freight forwarder.

One said his company doesn’t use the multicarrier portals, because “we use our forwarder’s system to work direct with carriers.”

“As in other business fields, though, automation and electronic data interchange are bound to drive the process of simplification of transactions.

Staying Focused. “One of the first things a shipper needs to do is separate strategic procurement from day-to-day operations,” said a major chemical shipper.

The chemical shipper said the Ocean Shipping Reform Act has allowed shippers and carriers to streamline their contractual practices.

“You can now have a global contract,” the major shipper said. “Before, you had to have eight or nine contracts — one for each conference.” Moreover, all freight rates are now in a single contract exhibit, attached to the boilerplate service contract.

As in other business fields, though, automation and electronic data interchange are bound to drive the process of simplification of transactions.

The solution to the multi-carrier portals is to ask carriers to appoint staff dedicated to working for the account of a shipper. “They get to know us well — it is a simplification,” the major chemical shipper said.

Source: American Shipper magazine’s survey of 35 American shippers.
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The RFID panacea

Good technology. Problematic results.

By Thomas Feo and Theodore Prince
According to the Gartner Group’s “Hype Cycle,” there are five distinct stages through which emerging technologies develop.

- **Technology trigger.** A public breakthrough or other event generates significant press and industry interest.
- **Peak of inflated expectations.** Massive publicity generates wild enthusiasm and euphoric projections although technical and business failure is more common than success.
- **Trough of disillusionment.** Overinflated technology expectations cause the publicity bubble to burst.
- **Slope of enlightenment.** Basic applied research by a growing number of organizations develops a true cost/benefit understanding. Off-the-shelf applications allow wider industry penetration.
- **Plateau of productivity.** Technology benefits become established as related products become more stable, robust and cost-effective.

Today, all of these stages can be used to describe different aspects of radio frequency identification (RFID).

**RFID Overview.** All RFID systems must contain three components. An antenna emits radio signals to activate the RFID tag and to read and write data to it. The transceiver and decoder control the system’s data acquisition and communication. The antenna, transceiver, and decoder can be combined into a single unit and is commonly referred to as a reader or interrogator.

A transponder or RF tag is electronically programmed with unique information. The reader emits radio waves that vary depending upon its power output and the radio frequency used. When an RF tag passes through such an electromagnetic zone, it communicates with the reader’s signal. The reader then collects and decodes the data encoded in the tag’s integrated circuit, and this data is passed on for processing.

RFID tags come in a wide variety of shapes and sizes. Tags permanently affixed to expensive assets (i.e., containers) can justify a greater expense than those affixed to relatively unimportant items. Tags can be either passive or active.

- Passive tags have no power source of their own and rely on the reader’s signal to be activated. Passive tags are lighter, less expensive, and last longer than active tags, but they have shorter read ranges and require a higher-powered reader. Read-only tags are mostly passive and are programmed with a small set of unique data that cannot be modified in the field.
- Active tags are powered by an internal battery and can typically read and write data on demand. Battery-supplied power of an active tag often gives it a longer read range. The trade-offs are greater size, greater cost, and limited operational life. However, new technologies are constantly shrinking battery size and power needs.

RFID systems are also distinguished by their frequency ranges. In general, for a given power output, low-frequency (30 KHz to 500 KHz) systems have longer read ranges and lower system costs, while high-frequency (850 MHz to 950 MHz and 2.4 GHz to 2.5 GHz) systems offer higher reading speeds, shorter read ranges, and are more expensive.

Once an RFID system is setup, there are still technical issues that need to be resolved:

- Incompatible standards are an issue, but not a big problem in the RFID industry since most readers are not very expensive and some are quite versatile.
- Security of RFID tag data is a problem. Consider the implication of any third party knowing the contents of a smart tagged container down to the SKU level.
- Addressing security concerns through encryption potentially creates process inefficiencies along the supply chain and may also be considered a barrier to competition.

**RFID Challenges.** When considering an RFID project, it is necessary to analyze the entire process. For example, a great deal of attention has been focused on the cost of an individual RF tag. However, in many cases, the initial tag costs is not the major hurdle. Physically tagging items can be quite expensive. For example, tagging chassis in a metropolitan area requires getting access to each chassis at a place and time appropriate for a tag to be attached. Testing, maintenance, and replacement of tags require an even larger logistics effort and expense.

It is also necessary to consider technology limitations. Automatic Equipment Identification (AEI) technology applied by railroads for identification of locomotives and railcars is a good example.

- AEI is not 100 percent accurate. It is a
Business Limitations. Technology can do lots of flashy things, but the bottom line will always be fulfillment of your business case. The issue in front of management — how does an organization realize its business case benefits — still depends on getting tag data to the right people, at the right time, and in the right format.

All business cases have a bottom line. Projects with a sufficiently favorable bottom line are often funded. Yet, few business cases in either the public or private sectors are revisited in detail after funding is approved. This practice leaves the initial objectives and motivation to do a project disconnected from ongoing project management, and thus, the final results of the project. Technology projects are notorious for promising tremendous bottom-line business cases, only to either fail out right or to deliver anemic results.

The reasons a particular technology may physically fail are many, but even when a project functions properly from a technical perspective, its underlying business case may not be met. In other words, getting to the bottom line of a business case requires much more than functioning technology. Keeping business practices aligned to make use of better data and prescriptive output from support systems is critical to project success. Disconnects in business practices within an organization often nullify a project’s potential benefits. Providing great data or prescriptive output is meaningless if the information is not acted upon.

Multiple technologies are required to get raw RFID data to where it can be utilized. These supporting technologies include LANs, WANs, RF connectivity, host systems, relational databases, decision support systems, etc. Unfortunately, these technological components are aligned in series. That is, if any one of them does not work properly, the project fails. RFID will not work if the tag or reader are broken, if the WAN is down, or if the database is not functioning properly. Field equipment must be tested regularly (both readers and tags). In addition, certain components required for success, such as decision support systems, may not yet be deployed or even available. Note that lack of data accuracy is often blamed for the underlying problem of lack of procedural discipline.

Several questions management should ask prior to embarking on an RFID project are:

- How do you get RFID generated data to the right people? What applications do they use and how will the RFID data be incorporated?
- How do you make the RFID data digestible for end users? Do you show them every read, or do you need to summarize or graph the data?
- Will end users trust the RFID data?
- How will end users make use of the improved RFID data accuracy? Will they ignore it, or will they be capable of incorporating it into their daily activities and decision-making processes?
- Note that RFID data does not directly improve operations, but merely improves data integrity at the site of the reader. Getting from an improvement in data quality to a hard cost savings or improvement in customer services requires expert end users, enlightened management, and additional technologies such as a sophisticated decision support system (DSS.) Even then, it might still not be enough. Tagging a chassis can ensure that you recognize the initial and number — but it may not let the terminal know who the chassis sublessor is or what to do with the equipment. Again, providing great RFID data and any prescriptive solutions is meaningless if they are not acted upon.

Sustenance of all technology and infrastructure, including software support, hardware maintenance, and, most importantly, continuous end-user and management training, is critical if an organization wants to hold onto any benefits derived from a technology project. Deploying a sophisticated DSS requires the political and financial alignment of many individuals from many departments throughout an organization. Will rank-and-file members or even management trust or embrace a new system or data feed if it threatens their job security or is associated with considerable cost reductions?

The multiple constituencies requiring alignment include rank-and-file workers and various levels of management across multiple departments and locations. Similar alignment is also required with all stakeholders including vendors, customers, and government agencies. Will all departments, vendors, and customers be able to access and share the benefits of the RFID data?

Organizational follow-through is critical to garner bottom-line cost savings or improved customer service or revenue increases. Therefore, senior management has the task and responsibility to see that proper alignment and follow through takes place across not only their organization, but also across the industry.

Conclusion. RFID is a very good peripheral device in the design of a comprehensive solution to visibility management. Other components include sophisticated decision support systems, flat organizational structure, and procedural discipline. The following is a list of success factors for RFID technology projects.

- RFID hardware and technology must work and be highly reliable.
- Reads must be clean (free of spurious data).
- RFID data must be transferred in a timely fashion via LAN, WAN, etc. to a well-structured, efficient, and accessible database.
- Decision support systems (DSS) must be comprehensive and present all relevant data (including RFID data) in an easy to digest format to the right end users at the right time.
- Administrative structures and an organization’s culture must allow informed decisions to be effectively executed based on the output of a DSS.
- Data (including RFID data) and prescriptive results must be appropriately shared across organizations (including vendor and customer groups) in order to benefit all parties.
- All components must be maintained, supported, and enhanced as requirements continue to evolve. This includes the significant task of end-user and management training and retraining.

Knowing exactly what something is and where it is located right now is very valuable, but this information alone does not immediately improve one’s logistics operations. Organizations need all the other pieces of the puzzle outlined throughout this article (not just a sophisticated peripheral device) to get to the bottom line of their business case.

Thomas A. Feo is president and co-founder, and Theodore Prince is senior vice president for marketing and sales of Optimization Alternatives Ltd., an Austin, Texas-based company that develops and deploys large-scale control and decision support systems to manage freight transportation.
IN AN INSECURE WORLD, SAFE PASSAGE IS A PRICELESS COMMODITY.

These days, shipping cargo around the world is anything but business as usual. With everything from new icebergs to terrorist concerns, it’s comforting to know “K” Line is putting its technology and expertise to work for you every day. Our tactical cargo security initiative involves key people applying state-of-the-art systems and insight to help keep shipments secure on ships and at terminals, railroad and trucking operations. Our enhanced information technology lets you access vessel schedules, book cargo, track shipments, release bills of lading and more via your computer. And, of course, having the financial strength of the preferred shipping line for major worldwide companies can also help put your mind at ease.
The recent buyback, by its founders, of Management Dynamics, a provider of tariff and contract management systems, from Celarix, a builder of online business networks, has stirred both practical and morbid interest during an increasingly perilous period for logistics companies.

In recent weeks, Clicklogistics and Logistics.com have been taken over by other companies. Meridian IQ and BNSF Logistics picked what they wanted from Clicklogistics. Manhattan Associates has acquired the assets of Logistics.com for about $20 million.

So, one can fairly ask how Management Dynamics will manage on its own, and what’s left at Celarix.

The principals of Management Dynamics, Jim and John Preuninger, 43-year-old twins, began their careers at IBM in sales and marketing. They have been business partners for 12 years.

“I left IBM and went to Harvard to get an MBA. Jim founded Management Dynamics in 1989, and I joined the next year. We’ve run the business jointly ever since,” said John Preuninger, president and chief operating officer of Management Dynamics. Jim is chief executive officer.

The brothers’ involvement with ocean shipping began in 1994, when Cosco asked Management Dynamics to create a tariff management system. The result was their company’s flagship product, Rate Explorer, which produces calculable service contracts for determining freight totals.

Rate Explorer, built slowly over five years at a cost of more than $10 million for research and development, is now available in version 8.2.

The software was an immediate hit with its users — mostly ocean carriers, such as CMA CGM, Evergreen, Cosco, K Line, P&O Nedlloyd, and CSX Lines — and began producing revenue streams.

The Preuningers boot-strapped themselves as needed with their own cash, avoiding venture capitalists. In time, “Celarix approached us. They were interested in our technology,” John Preuninger said.

The brothers sold Management Dynamics to Celarix in 2000, but kept their management roles.

Celarix maintained Management Dynamics “as a totally separate operating entity within Celarix — separate assets, location, development, even separate benefit systems. We never really integrated at any level,” he explained.

Although Rate Explorer attracted more and more ocean carrier users, Celarix and the Preuningers had differing ideas about a suitable market for Management Dynamics software.

“There was an idea that we would do joint development, and take some product and services out to the shipper marketplace,” Preuninger said. “For a variety of reasons, those projects never seemed to bubble up to the top of the agenda. Some of our ideas about what we would do together didn’t materialize.”

Frustrated at being kept in one market, the brothers began to look at ways to buy back their company. Their way out of Celarix was literally to take a route they had avoided: seeking venture capital.

The Preuningers’ eventual backers were with the brothers from the time they decided to extract Management Dynamics from Celarix. Their angels included Cross Atlantic Capital Partners, the New Jersey Technology Council Venture Fund, and the Megunticook Fund.

Glenn Rieger, founder and president of Cross Atlantic Capital Partners, said the Preuningers’ buyout was “an opportunity for us to invest at a time when new venture capital deals are very rare.”

“The days are gone when venture capitalists were cutting deals on a bar napkin,” John Preuninger said. “Today, venture capitalists want a layered breakdown of everything. The amount of analysis that goes on is extremely intense.”

Celarix agreed to the buyout, “which involved cash and stock,” Preuninger said. In addition, Management Dynamics secured $6.7 million in financing from the venture capitalists and the Preuningers themselves.

Asked if Celarix balked at letting them go, Preuninger cited press accounts that referred to Management Dynamics as the “jewel” in Celarix’s display case.

“Jewels are usually kept under lock and key. All I can say is that Jim and I were persuasive in making the point that we wanted a life of our own again, in broader markets,” he said.

The brothers’ venture capitalists were willing to help them because Management Dynamics “has a large, loyal customer base. Our contracts extend for two and three years,” Preuninger said.

“We’re profitable, with positive cash flow. Our product has proven itself empirically to be commercially viable,” he said.

The Preuningers’ involvement with ocean shipping began in 1994, when Cosco asked Management Dynamics to create a tariff management system.
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LOGISTICS

“We have clients who, when they first signed with us, were experiencing 26 percent error rates in their bills of lading.”

“Some of those clients who have been using our Rate Explorer technology now have documented evidence that their error rates are under 1 percent. One global carrier actually claims that its error rates are now under 0.5 percent.

“Those low figures of error mean that we have returned tens of millions of dollars to the carriers in profits,” Preuninger said.

“We now want to take this technology and offer it to shippers, forwarders — people on the other side of ocean contracts — who have a lot of the same issues and problems in managing complex contracts that carriers have,” he said. “We can show them automation that will provide value at very reduced price points from what carriers are paying.

“A shipper with 20 contracts is going to pay for the service at a drastically lower price point than a large global carrier who has 1,600 contracts,” Preuninger said. “The service is value-based, and we expect a rapid adoption rate.”

“On any given day around the world, we host 6,000 users. We process seven million transactions a month. Right now, our system maintains over 10,000 calculable contracts,” he explained.

Management Dynamics, based in East Rutherford, N.J., has 30 employees — “a few of them administrators, the rest in customer support or engineering,” Preuninger said. “We’ll be building out our sales and marketing group.”

The company’s $6.7 million in additional funding, beyond the undisclosed buyout price, will also be used to expand product development.

John Preuninger said the twin entrepreneurs “have an easy relationship. Our skills are similar, so we are flexible enough to be interleaved in a lot of different avenues. I can show up for a meeting and if someone is expecting Jim, they won’t know the difference until I’m introduced.”

Celerix sells visibility products, networks

CAMBRIDGE, Mass.

Supply chain visibility defines Celerix Inc., said Evan Schumacher, Celerix’s founder and chief executive officer.

“What’s left at Celerix after we sold Management Dynamics? Plenty,” he said. “Our visibility product business is secure. We have plenty of cash. We’re attracting new customers, and we’re looking forward to being a going concern for quite some time,” Schumacher said.

“We sold Management Dynamics because it wasn’t strategic. Management Dynamics was a totally separate, standalone business, taken on back when cash was cheap and we intended to have offerings for both shippers and carriers,” he said. “Now, we’re really focused on visibility for shippers.”

In a leaner and meaner year, “I just felt that the Preuningers’ business wasn’t in accord with where we were going,” Schumacher said.

“Let’s be real clear: Celerix had two distinct products: a network visibility product, and an ocean tariff contract management system. We continue to sell the first product to manufacturers, retailers and distributors that we always have targeted,” he said.

The Preuningers are now free to sell their contract management system to whomever they want. “They have a great opportunity to do that across the boards,” Schumacher noted.

Who got the itch to leave first? “We bought Management Dynamics in 2000 at the top of the market. Everyone had dreams of billion-dollar companies. It’s hard for entrepreneurs and founders — which Jim and John are — who are passionate about their product and used to certain autonomy in doing things, to come into a large organization and be just one voice in a larger management team,” Schumacher said.

“Jim and John are very smart guys. We thought of Management Dynamics as a secret gem that just wasn’t being sold properly,” Schumacher said. “We grew the Preuningers’ business by five-X, meaning five times revenue over two years, which was phenomenal. We did that by a combination of giving them more cash and providing them sales people to leverage their domain expertise.

In that time, Management Dynamics acquired eight new global carrier customers, John Preuninger confirmed.

“Clearly, just focusing on ocean carriers is a limited market. We always thought that the best application of that product was to go after the forwarders and shippers. No doubt about it. But the issue we had was that — as we tried to get out of the logistics execution business — I didn’t want to overlap a transportation management system (TMS) footprint. I just wanted to focus on the network and the visibility,” Schumacher said.

“I told Jim and John that we were getting out of the business of selling a contract management solution to ocean carriers, and we should find a way of doing that without delay,” Schumacher said. “My problem with their product was that it made our message too confusing, and I wanted to focus our dollars and energies on visibility.”

As for Celerix’s alleged constraints on the Preuningers pursuing broader business, “because we had a larger footprint, we had to always think about what’s the best story to tell customers. They probably felt that we weren’t telling exactly the message they wanted to put out,” Schumacher said. “In a context of mutual respect, we extracted each other, quite willingly on both sides, from each other’s business lives.”

From its inception four years ago, Celerix has always sold visibility. “I’ve thought consistently that the part unique to Celerix was our logistics network concept — that we had the hosted solution, we’d connect to the carriers, centralize the information from the carriers, consolidate it across all of a shipper’s modes and transportation carriers, then run it back and present it to a visibility application or a TMS application,” Schumacher said.

“My whole strategy, and my view of the world, is that supply chain visibility is becoming much more common in a lot of bigger applications. As a result, we need to leverage what we’re good at, which not just our own visibility software, but to focus on being the network.

There was an interval in which Schumacher “brought in a CEO because I wanted to work more in a founder capacity,” he explained. “By March, 2001, we had expanded our company until it had 225 people. Frankly, I was burnt out. I wanted a more seasoned person who could take our business to the next level.”

The executive left when Schumacher became CEO this past summer. “The bottom line was that he achieved his goal of streamlining our operations. Now we feel it’s time to focus on new strategic initiatives and the need to go sell, and the board and I felt that was a solid role for me to take on,” he said.

“I have a plan of how Celerix should continue grow. That plan pushes toward profitability, taking expenses out of the business, so we can get there by taking a laser-focused approach to the market,” he said.

Schumacher would not disclose the exact current number of Celerix employees, reporting staff as “over 50 and less than 100.”

Celerix said Nov. 6 that Sharp Electronics had extended a contract with Celerix. Sharp’s U.S. sales and marketing division in Japan uses Celerix’s Data Management Service to identify and resolve data quality issues on a carrier-by-carrier basis, from origin of manufacture to the point of final delivery.
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Legal analysis

West Coast lines out on legal limb?

Legal analysts say force majeure doesn’t extend to carrier-imposed lockout.

BY ROBERT MOTTLEY

In the course of the recent 12-day shutdown of West Coast ports and its aftermath, several ocean carriers bringing cargo from Asia to the United States declared force majeure, a common-law defense exempting a party from its contracted obligations.

During that same period, some of the carriers’ affiliates on the West Coast — stevedores and shoreside subcontractors who book intermodal chassis — also invoked force majeure, when delays or congestion relating to the ports’ shutdown kept them from performing their contracted work on schedule.

Of the approximately 20 ocean carriers that are among the 79 members of the Pacific Maritime Association, America Shipper found that only Maersk Inc. had not invoked force majeure after the West Coast ports shutdown.

Specialists in admiralty law said companies that have declared force majeure are in serious legal jeopardy when inevitable litigation over stymied cargo begins in earnest.

Here’s the problem in a nutshell: the West Coast ports shutdown occurred after the PMA locked out members of the International Longshore & Warehouse Union. Since it was the PMA that caused the shutdown, its members cannot plausibly resort to claims of force majeure to extricate themselves from a situation they caused.

‘Not In My Court.’ Anything can be argued in court, of course. Carriers may also try the related legal defenses of ‘impossibility,’ when there is no way cargo can be delivered, and of ‘frustration,’ when a carrier tries but cannot get around surmountable obstacles to delivery.

Both routes are likely to lead to the same brick wall, if the carrier caused the circumstances that brought on the impossibility or frustration.

Pacific Maritime Association roster

The Pacific Maritime Association’s 2001 annual report lists the following members, as well as this invitation from the PMA bylaws:

“Any firm, person, association or corporation engaged in the business of carrying cargo by water to or from any port on the Pacific Coast of the U.S., or any agent of such firm, person, association or corporation, and any firm, association or corporation employing longshoremen or other shoreside employees in operations at docks or marine terminals or container freight stations at any such port or within the port area container freight zone of any such port, and any association or corporation composed of employers of such longshoremen or other shoreside employees, shall be eligible for membership in this corporation.”

American President Lines Ltd.
Anacortes Log & Bulk Stevedore Co.
Bellingham Stevedoring Co.
Benicia Port Terminal Co.
Brady-Hamilton Stevedore Co.
Bridge Warehouse Inc.
California United Terminals
Centennial Stevedoring Services
Coast Maritime Services
Coastal Great Southern
Consolidated Stevedoring Co. LLC
Cooper/T. Smith Stevedoring Co. Inc.
COSCO North America Inc.
Crescent City Marine Ways & Drydock Co. Inc.
Crescent Wharf & Warehouse Co. CSS Lines LLC
Eagle Marine Services Ltd.
Everett Stevedoring Co.
Evergreen Marine Corp. (Taiwan) Ltd.
Foss Alaska Line Inc.
Hanjin Shipping Co. Ltd.
Hapag-Lloyd AG
Harbor Industrial Northwest Corp.
Harbor Industrial Service Corp.
Husky Terminal & Stevedoring Inc.
Hyundai Merchant Marine (America) Inc.
International Transportation Service Inc.
Italia Line
Jones Stevedoring Co.
“K” Line (Kawasaki Kisen Kaisha Ltd.)
Kinder Morgan Bulk Terminals Inc.
Long Beach Container Terminal Inc.
Maersk Inc.
Main Lines Inc.
Marine Terminals Corp.
Marine Terminals Corp. - Columbia River
Marine Terminals Corp. - Puget Sound
Marine Terminals Corp. of Los Angeles
Matson Navigation Co. Inc.
Metropolitan Stevedore Co.
MOL (America) Inc.
National Lines Bureau Inc.
Norsø Pacific Steamship Co. Ltd.
NYK Line
Olympia Stevedoring Co. Inc.
OOCL (USA) Inc.
Oregon Ship Terminal Inc.
P&O Nedloyd B.V.
Pacific Coast Stevedoring Inc.
Pacific Coast Terminals Ltd.
Pacific Crane Maintenance Co. Inc.
Pacific Northwest Auto Terminals
Pacific Ro-Ro Stevedoring LLC
Pasha Maritime Services Inc.
Pasha Stevedoring and Terminals LP
Pier Maintenance Inc.
Port of Vancouver
Portland Lines Bureau
Reliable Line Service
Rogers Terminal & Shipping Corp.
Sea Star Stevedore Co.
Seattle Stevedore Co.
SSA Terminals LLC (Stevedoring Services of America)
Tacoma Line Handling Co.
Terminal Maintenance Co. LLC
Terminal Maintenance Corp.
Trans Pacific Container Service Corp.
TransBay Container Terminal Inc.
Transpac Terminal Services
Twin Harbor Stevedoring Co.
Ultramar Inc.
Wallenius Wilhelmsen Lines AS
Washington United Terminals
Western Stevedoring Corp.
Westfall Stevedore Co.
Williams, Dimond & Co.
Yangming Marine Transport Corp.
Yusen Terminals Inc.
Zim American Israel Shipping Co.
Having obtained this assessment from admiralty attorneys of the detriment that membership in the PMA could be to invoking force majeure, American Shipper asked a federal judge in the Southern District of New York for his opinion.

“I am profoundly stirred by the very notion that anyone would invoke force majeure for a lockout they caused. That had better not come up in my court,” the judge said.

“Furthermore,” he added, “force majeure has no Himalaya legs.” By that, he meant that force majeure as an ocean carrier’s defense does not extend, via ‘Himalaya clauses’ — as do certain COGSA defenses — to a carrier’s stevedore or subcontracting agents.

Should this judge’s view be shared by others in the coming avalanche of litigation from the West Coast ports shutdown, then any terminal or intermodal agency that’s a member of the PMA will find it hard to sustain a force majeure defense.

Force majeure comes in two brands. The first is overwhelming natural force. The second is overwhelming human force.

The legal defenses of natural force majeure, known as “perils of the sea” and “acts of God,” reflect the reality that for centuries, the carriage of goods by sea brought particular risks and dangers.

In 2002, technology for conveying and caring for cargo has decreased the risks from natural forces, so that those concepts are not the factors they were 200 years ago.

The excuse of “perils of the sea” means perils of an extraordinary nature or those that arise from irresistible force or overwhelming power that cannot be guarded against by ordinary human skill and caution.

Fire, lightning, an explosion, or some other event that occurs on the sea but is not peculiar to the sea is not a “peril of the sea.” That term is reserved for risks that have to do with the sea, such as storms — “perfect” or otherwise — and invasive sea water.

If an event, such as a storm, is so severe that it cannot be foreseen, then it cannot be charged that the carrier acted unreasonably in not being prepared for it.

Even if subsequent cargo damage could have been prevented had the carrier been aware of the danger, the carrier still will not be negligent if the event was unforeseeable.

Case law does not distinguish clearly between an act of God and a peril of the sea, except that the former occurs without any human intervention.

As with a peril of the sea, proven human fault or negligence defeats a carrier’s defense using the claim of an act of God.

The legal defenses of overwhelming human force usually define such force as an act of war, an act of public enemies, an act caused by the restraint of princes (a golden oldie, that one), or by a quarantine, strikes, riots and civil commotions.

In most human force majeure cases, the goods will be undamaged — there will often only be a delay or detention. The shipowner must act reasonably in such a situation, and is not relieved of responsibility to care for the cargo.

The U.S. Carriage of Goods by Sea Act (COGSA) cites specific acts that qualify legally as interference “by human forces not in the control of either the shipper or the carrier, that exonerate the carrier from liability,” according to one legal text.

However, COGSA specifically says [46 U.S.C. 1304 (2) (e) (j)] that although “neither the carrier nor the ship shall be responsible for loss or damage arising or resulting from … strikes, lockouts, stoppage or restraint of labor from whatever cause, whether partial or general,” COGSA specifically adds, “nothing herein shall be construed to relieve a carrier from responsibility for the carrier’s own acts.”

And that is the rub. You can’t renege on your obligations if you caused the event that triggered the human force majeure.
National Cargo Bureau at 50

Despite its low profile, bureau has played significant roles in the safe movement of cargo.

BY ROBERT MOTTLEY

The National Cargo Bureau, 50 years old on Nov. 19, has since its inception been an unusual hybrid of the federal government — acting principally through the U.S. Coast Guard — and the private maritime sector.

The Coast Guard was the catalyst for creation of the New York-based not-for-profit organization, which inspects the stowage, securing and unloading of cargo on commercial vessels.

NCB was launched in 1952 after a series of maritime disasters demonstrated a need for uniform standards and regulations. Those disasters included the capsizing of grain ships due to shifting cargoes, shipboard fires relating to wet cotton or metal turnings, and a nitrate ship explosion at Texas City, Texas, in 1947.

The bureau was formed from the inspection divisions of the Board of Underwriters of New York and the Marine Underwriters of San Francisco.

In 1961, the U.S. Coast Guard and the U.S. Department of Labor recognized NCB as a cargo gear certificating agency. In 1967, the bureau began container loading inspection services.

In 1994, the Coast Guard and NCB signed a memorandum of understanding to cooperate in inspecting the carriage and stowage of hazardous materials. The Coast Guard subsequently gave the bureau authority to approve cargo securing manuals for U.S.-flag cargo vessels, and in 1998, allowed NCB to receive loading plans for solid cargo in bulk, as an alternate to the Coast Guard captain of the port.

On Sept. 23, 2003, the Coast Guard and NCB signed a new memorandum of agreement to cooperate as partners in building “maritime domain awareness,” the Coast Guard’s new term for heightened security in port zones.

“Maritime domain awareness is vitally important to gather what knowledge we can to understand what our threats and vulnerabilities are on the waterfront,” Adm. Thomas H. Collins, Commandant of the Coast Guard, told a meeting this fall of NCB’s board of directors.

“We must be able to distinguish what is normal and what is not,” Collins said. “You are a key asset in expanding our awareness through your knowledge of ships, marine operations, and cargo.”

Today, NCB has 92 employees in 19 port offices.

Advising IMO. NCB participates in international conferences, including International Maritime Organization committees and Safety of Life at Sea (SOLAS) working group meetings, providing technical advice when new rules or charges are drafted by those groups affecting codes such as the IMO International Maritime Dangerous Goods Code and the same group’s Bulk Solids Code. The bureau has also been active on the IMO Subcommittee on Containers and Cargoes.

NCB’s surveyors are asked regularly to give technical advice, often by container packers of ocean shipments, who seeking guidance on appropriate techniques and materials to properly secure and segregate commodities, “Regulations state requirements, but not the methods or materials to use. Time has shown that it is prudent to conduct a hands-on inspection of containers with hazardous materials before they are stowed aboard a vessel,”

In the course of such inspections, NCB’s inspectors have found that some containers delivered to piers and terminals have totally inadequate bracing and blocking for their contents. It is not unusual for them to find some containers with no internal securing of cargo whatsoever.

Surveyors also frequently find individual lots of hazardous materials packaged together without any regard for segregation requirements.

Dependent Underwriters. NCB’s board includes insurance companies and ocean carriers. Insurers are involved because the reliance of cargo underwriters on marine cargo surveyors is, like marine insurance itself, of such antiquity that its origins cannot be pinpointed.

“A marine surveyor’s inspection fulfilled two crucial needs of any risk-bearer: verification of the loss or damage on which any claim was based, and some sense of loss-prevention through a determination that the insured goods were properly stowed on board,” said Dan Negron, vice president of the Through Transport Corp.

The need for that traditional bonding acquired new urgency during World War II, when virtually every cargo putting out to the contents of cargo containers. The bureau also offers shipboard and shore-side hazardous material training, frequently with U.S. Coast Guard participation.

Sea-Going Experience. All surveyors employed by NCB have been in the merchant marine. They have been licensed masters, or mates with related shore-side experience, or they are former Coast Guard officers.

“The relevance of sea service is significant. The seeds of cargo problems planted ashore often bear fruit at sea. A former ship’s officer has the distinct advantage of having experience that can be applied in the selection of the best stowage and securing methods,” said Capt. James McNamara, NCB’s president, who sailed with States Marine Lines.

“Of course, no one assumes that every shipper and exporter of containerized hazardous materials has skilled personnel to properly pack and secure a variety of regulated packaged commodities,” McNamara said. “Regulations state requirements, but not the methods or materials to use. Time has shown that it is prudent to conduct a hands-on inspection of containers with hazardous materials before they are stowed aboard a vessel.”

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Steel coils: menace on the rails

NEW YORK

The National Cargo Bureau frequently warns shippers about intermodal risks that imperil cargoes and bring on unacceptable liability.

For example, in the past 16 months, there have been four major derailments on U.S. railroads that have been caused by steel coils falling through the bottom of intermodal containers while trains were in transit.

In each derailment, the railcar carrying the coils was not the only car harmed. A number of following railcars were severely damaged or destroyed, along with their cargoes.

Because steel can vary in grades, size, thickness and weight, the most common steel coils vary in weight between 10 tons and 20 tons. Depending on the quality of the metal, such coils may be covered with a thin steel sheet for protection. The coil itself is held together by at least four steel bands, fastened with clips that have been crimped.

Because the U.S. steel industry was based in the nation’s heartland, railroads used to offer special, heavily built rail cars fitted with cradles to carry the coils to seaports for export.

“Steel coils are extremely heavy, cylindrical, hard to secure, easy to damage. Traditionally, they have been shipped in a breakbulk fashion,” Capt. James McNamara, president of the National Cargo Bureau, told a recent conference of insurance underwriters in New York.

But in 2002, the economics of the container trade “has changed the method of shipping steel coils,” he said.

“There are more cargoes imported to the center of the U.S. than exports leaving. For shipping companies, this means empty containers in the center of the U.S., with no cargo available for a buckhail,” McNamara said.

“Only two commodities of sufficient volume — bulk grain and steel coils — are generally available for transport to the East from this region. “As grain is much cheaper to ship in the bulk mode, this leaves steel coils to lessen the impact of this unbalanced trade route by filling up empty containers that are then sent to ports by rail,” he said.

Shippers — and in particular, non-vessel-operating common carriers — have been pressuring rail carriers to move steel coils. “This pressure takes the form of threats to withhold more innocuous and lucrative cargoes,” McNamara explained.

Since empty containers must be repositioned and cargoes to the East are scarce, steel coils regularly travel in containers that would be otherwise empty, on double-stack trains to West Coast ports.

“Unfortunately, the construction of a freight container doesn’t lend itself for the transport of such a dense package as a steel coil,” McNamara said. NCB surveyors recalled steel coils falling through the sides of containers while ships rolled in a seaway.

“Now, we have a far more serious problem. A steel coil traveling by rail in a container experiences high frequency vibrations due to fast-moving trains. That situation results in overloading the cross-members supporting the floor of the container,” he explained.

“The coil then falls between the undercarriage of the rail car and gets jammed between the ties and tracks, derailing that car and others following it.”

U.S. railroads have now established specific criteria for carrying steel coils. Shippers of such coils must also have liability insurance should an accident derail a train.

One major railroad with double-stack container trains demands $5 million in liability coverage, and this amount could be raised.

“We have been fairly lucky because no one to date has been killed,” McNamara said. “Imagine what could happen to a shipper and his insurer if a derailment occurred in a populated area, and one of the rail cars following the car with the coil happened to be carrying hazardous cargo, such as explosive or toxic chemicals.”

Each major U.S. railroad maintains a Web site and has published information about its policy about the carriage of steel coils. “If you’re shipping steel coils, you must understand all of the potential risks,” McNamara said.
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loading and carriage at sea of grain and hazardous goods.

Congress, in legislation implementing the new SOLAS convention, designated the Coast Guard as the federal agency to see that the U.S. complied with the new rules.

Unfortunately, Coast Guard had no means of doing so, and the SOLAS clock was ticking. The international convention’s regulations would go into effect on Nov. 19, 1952.

Caught in a time bind, the Coast Guard asked Capt. (later Rear Adm.) Halert C. Shepheard, then the Coast Guard’s chief of merchant marine safety, to make inquiries in the marine insurance market and among steamship companies.

Non-profit Hybrid. The result of Shepheard’s overtures was the establishment of a joint government-industry-cargo inspection operation, the National Cargo Bureau, a partnership with the two industries most concerned with marine inspections: cargo underwriters and cargo carriers.

The nascent NCB urged its surveyors to follow two new guiding principles. The first was the attainment of uniform inspections nationally, and if possible, internationally.

On the West Coast, it was not unusual before 1952 for a vessel that passed inspection at one Pacific port for loading at another port to be rejected upon arrival at a loading by a surveyor in the second port, to the shipowner’s annoyance and expense.

The second tenet was adjusting the practice of surveying to the then-novel distinction between “regulated” and “unregulated” cargo.

While most American cargo surveyors had worked until 1952 under regulations established by either the Board of Underwriters of New York or the Marine Underwriters of San Francisco, those rules did not have the force of law.

After SOLAS 1948 and its implementing legislation came into effect, Coast Guard loading regulations superseded private rules where grain, explosives, or other dangerous cargo was concerned.

Grain Headaches. Grain, since Roman days, has been a “problem cargo,” given its propensity to shift and imperil the stability of vessels carrying it. Shipowners and underwriters have worked to reduce that hazard by establishing precautionary loading practices and the use of special grain fittings.

Principal safety devices included “shifting boards” and “feeders”: large, bottomless wooden boxes constructed in ‘tween decks over compartments full of bulk grain, which allowed the grain to flow evenly to fill any existing voids in the lower hold spaces without massive impairment of a ship’s equilibrium.

As progressively modified, such devices were being written into the rules of survey organizations and boards of trade.

One issue was whether and when specially designed grain vessels might dispense with shifting boards. After considerable consultations in 1956, the Coast Guard ruled with NCB concurrence that such boards could be eliminated on certain ships.

Tankers As Grain Ships. Comparable considerations already allowed the omission of shifting boards in tankers carrying grain, a practice that had begun in earnest during wartime convoys on the Atlantic.

At that time, European grain reserves had vanished with the devastation of agricultural regions, and cities faced starvation.

Due to the urgency of the situation, a bold experiment was undertaken: bulk grain would be loaded into newly built tankers that had never been used in the oil trades. The first of these vessels loaded at Canadian ports, and the experiment turned out to be a success.

In 1954, economics again dictated that tankers enter the grain trades. The Grain Rules from the 1948 SOLAS convention were in effect, mandating for the installation of bins and feeders where bulk grain was to be loaded.

Although it was impractical to fit tankers with bins and feeders, tanks ships proved to have inherent stability advantages for carrying grain. To accommodate the free surfaces of liquid cargoes, a tanker’s longitudinal bulkheads are located so as to reduce the vessel’s transverse heeling moments.

That design similarly accommodated shifting grain, a commodity that — although it can move after stowage, is less fluid than liquid.

Shifting Hazards. Problems remained for regular grain vessels. A restudy of certain aspects of modified grain rules prescribed under Chapter VI of SOLAS 1960 became necessary because serious casualties to grain ships were still occurring.

NCB’s technical staff soon found that that several of the premises of SOLAS 1960 with respect to the behavior of grain were unsound.

It had been assumed that, after grain compartments had been initially filled, feeders would automatically keep the cargo properly trimmed to the deckhead, allowing for a presumed “settling” of the grain in the course of the voyage. But cumulative evidence based on tests of the grain level in the hatches before, during, and at the conclusion of voyages suggested that both assumptions were wrong. On calm-weather trips, no settling whatever was discernible. After rough passages, there were sharp discrepancies in level, showing that grain was going into voids that had still existed after stowage.

Such a shift to the low side during heavy weather, if massive enough, could create a new rolling axis, and cause an inordinate load on one side of feeders that had no centerline shifting boards to lessen the pressure. The failure of any one feeder would increase the ship’s list, causing further feeder failures and, possibly, ultimate disaster.

World Standard. To prove the existence of voids which the feeders did not correct, and to determine their extent, NCB devised and carried out, with Coast Guard support, an elaborate program of drilling one-inch holes every 10 feet or so through the twee decks of grain vessels, and taking measurements through the holes to determine the distance of the grain below the deckhead.

The upshot was, as the Coast Guard duly reported in 1966, “specifically, grain does not flow as water, and voids are not completely filled.”

After further tests, both NCB and the Coast Guard jointly promulgated what is now generally known as the “allowable heeling” concept, by which a master could ascertain his compliance with the rule by a simple comparison of two numbers. Since 1970, the “allowable heeling” concept has been incorporated in stability books worldwide.

Ore Concentrates. Another dilemma taken on by NCB involved cargoes of ore concentrates that showed a dangerous tendency for spontaneous heating.

Leaving a larger amount of water in the concentrates after processing diminished this risk, but introduced a new and more serious danger.

The added water gave the ore concentrates a thixotropic property, meaning a capacity to turn partly or completely into liquid in the holds of a rolling and pitching vessel. Once that happened, the free-sloshing cargo could quite suddenly throw the ship into a list from which she could not recover, or capsiz the vessel entirely. Shifting boards were of no avail.

And more strangely still, such cargoes could again turn solid once the motion ceased. Many cases were reported where they literally had to be broken up by pile drivers before the ship could discharge.

The real difficulty lay in discovering, by prolonged and frustrating tests, whether safe moisture levels could be determined and standardized that would prevent ore concentrates both from heating and from liquefying. What was sought, and finally
established for each ore concentrate, was a
flow moisture point beyond which the addition
of further moisture would induce a
thixotropic change.
Once that had been determined, the next
step was to ascertain a transportable mois-
ture limit, reckoned as being 10 percent on
the dry side of the flow moisture point. That
duly became part of the IMO Code of Safe
Practice for Bulk Cargoes.

Vessel Integrity. NCB has also been
concerned about the age of ships carrying
scrap metal.
In order for letters of credit to be issued
for such cargoes, marine surveyors have to
determine, by means of draft and displace-
ment surveys, the precise amounts of scrap
metal that has been loaded on such ships.
NCB has developed a Draft Survey Form
for their use.
At the same time, the underwriter mem-
bers of NCB are concerned about scrap
vessel losses — in which wasted or holed
bulkheads are a serious and often fatal fac-
tor. Many of the most decrepit scrap vessels
actually load scrap cargoes for their own
voyage to the scrap yard.
However, “NCB is not, and has not pre-
tended to be, a hull survey organization.
Nor is the bureau responsible for watertight
integrity. NCB’s obligation is to cargo, but
a part of that commitment has been to see
that cargo is not consigned to a dangerous
ship,” McNamara said.

For that reason, NCB takes the position
that, if hull repairs are obviously needed, the
holds of an offending vessel are certainly not
ready to receive cargo. “Therefore, NCB will
withhold its certificate of readiness for that
particular ship until repairs are made to the
satisfaction of the appropriate classification
society,” he explained.
In April 1970, the Coast Guard gave
NCB official status as “a certifying author-
ity” for cargo containers — the actual boxes,
as well as their chassis, “design, strength,
safety and suitability.”
NCB’s carrier and underwriter members
also broadened the bureau’s mandate so
that it could work in foreign ports.

Gulf War Boost. In the 1980s, NCB’s
fortunes slumped. The bureau lost work due
to a national recession. One consequence
was that NCB reduced its manpower nation-
wide. Even after business cycles picked up in
1987, much of the Bureau’s resuscitation
was due to large exports of grain from the
U.S. to the Soviet Union.
By the time of the Iraqi invasion of Ku-
wait in 1990, NCB had recovered to the
point of being able to handle an infusion of
requested services from the Military Sealift
Command.
A subsequent NCB statement to its mem-
bers noted that “within a day of the (Mili-
tary Sealift Command) contract being
signed, we were at work at a number of
ports on military-owned and chartered ships
… many kinds of ships, including a number
we haven’t been aboard in 15 years. In
some cases, our surveyors sailed aboard
these reactivated ships 20 years ago as
mates or masters.”

After the termination of Operations
Desert Shield and Desert Storm, “our work
with the Military Sealift Command contin-
ues unabated,” the statement said.

The Long View. NCB and its directors
“prefer to keep a low profile, simply doing
the work the Bureau’s surveyors are given
without talking about it,” McNamara said.
The bureau’s surveyors occasionally travel
on assignments abroad. When asked, NCB
says it inspects air shipments, rail yards, and
trucks carrying hazardous cargoes, yet the
Bureau’s business in these non-ocean modes
is not widely known because, again, the work
is done without fanfare.
“Let’s just say that, at its half-centennial,
NCB has a full plate,” McNamara said.

Uses for printed schedules - Idea #23

**Step 1**

Start with a printed schedule. Fold in half.

**Step 2**

Fold to the center.

**Step 3**

Fold the overlapping strip upwards. (turn over and repeat)

**Finished hat**

Wear hat while checking online schedules at
www.compairdata.com
Logistics prospects on Sakhalin

Forwarders set up operations on Russian Far East island to serve emerging oil business.

By Chris Gillis

Where large shippers go, freight forwarders will follow.

This was certainly the case when the oil companies recently set up operations on Sakhalin. A handful of forwarders have responded by planting their flags on this remote Russian Far East island.

“If it wasn’t for the oil business, there wouldn’t be any business for us,” said George Burch, president of Dallas-based RealAmerica Co., which owns ERA Logistics.

ERA Logistics has operated throughout the former Soviet Union for more than a decade. On Sakhalin, the company was joined by U.K.-based Exel to access business opportunities.

Sakhalin began to attract the interest of Western oil companies in the mid-1990s because of its large oil reserves. Prior to then, the island’s principal businesses were timber cutting, fishing and some coal mining.

ERA Logistics had initially set up an office on Sakhalin in 1998. The office closed shortly after, because the oil companies held off on development when the Russian Far East economy collapsed. “We couldn’t justify supporting an operation on Sakhalin without any business,” Burch said.

Last year, oil companies, such as ExxonMobil, Royal Dutch Shell, Mitsui, Mitsubishi, ChevronTexaco and BP, reaffirmed their commitment to developing the oil fields at Sakhalin. This was the assurance that the world’s largest forwarders needed to move operations onto the island.

In addition to ERA Logistics, other forwarders on Sakhalin include Lynden International, Panalpina, Kuehne & Nagel, and Danzas AEI. Others are likely to set up operations on Sakhalin as the oil business develops.

“It’s a difficult place,” Burch said. “Operations are expensive and logistics are complicated. It takes substantial players to be in this market.”

“Presence is everything,” said Jeff Valkar, director of the Foundation for Russian American Economic Cooperation’s American Business Center on Sakhalin. “It would be extraordinarily difficult to get at the opportunities without being here.”

Lynden established representative offices at Khabarovsk on the Russian mainland and Sakhalin in 1994.

“It was important to be as early as possible in the Russian Far East, and learn the processes for freight transport and customs clearance,” said Eric Vercesi, regional manager for Lynden’s Russian Far East operations. “It was also very important for us to show our commitment to the market by setting up a direct office.”

Project Cargoes. In 2001, the oil and gas industry invested about $450 million in Sakhalin, double the investment of the previous year. The first of six major multibillion-dollar oil-related projects on Sakhalin is already underway.

ExxonMobil has begun to lay the groundwork for an estimated $12-billion oil drilling and pipeline network, known as Sakhalin – 1. The oil will be pumped by offshore rigs and transported via pipeline across the island and across the Tartar Strait to a shore-side terminal at Dekastri on the Russian mainland. Ice-class tankers will transport the oil from the terminal to overseas destinations.
Sakhalin-2, which is a consortium led by Royal Dutch Shell, includes a $10-billion infrastructure investment. The consortium will also drill for oil and natural gas along the northern shore of the island. Pipelines will transport the production down the island to Prigorodnoye to a newly built oil terminal and world’s largest liquid natural gas plant.

In the early stages of construction on Sakhalin, the forwarders will help their clients with the transportation logistics for large project cargo moves.

“These are enormous infrastructure projects, but they have a limited customer base,” Burch said. “All the forwarders will compete hard for this business.”

Houston is a traditional U.S. export hub for the petroleum and heavy construction equipment businesses. Breakbulk ships are essential for the transport of this freight to Sakhalin.

Because of a 70-percent Russian content rule in the development of Sakhalin’s oil patch, Russian-flag carriers, Far East Shipping Co. (FESCO) and Sakhalin Shipping Co., will transport most of the shipments.

From the United States, FESCO uses its SA15 ice-class roll-on/roll-off vessels to transport cargo to Sakhalin. Three recent voyages included about 11,500 tons of freight for Sakhalin, said Mike Evans, director of sales and marketing for FESCO Agencies North America in Seattle.

From January to September, FESCO has also moved 2,853 TEUs of dry cargo, 663 TEUs of refrigerated cargo, and 1,100 tons of breakbulk freight from Russia’s Vladivostok seaport to Sakhalin.

The carrier also operates project cargo vessel charters from Southeast Asia to Sakhalin for the oil companies. FESCO estimates that from January to September it has transported more than 35,000 tons of breakbulk cargo to the island from the region.

Containerized shipments of general commodities, such as building supplies and household goods, are expected to increase in the coming months to support the emerging international community on Sakhalin.

For now, carriers still lack steady cargo flows to attract increased sailings at Sakhalin. “There’s lots of hurry up and wait and the carriers get frustrated by the delays,” Burch said.

**Customs Clearance.** Clearance of inbound cargo through Russian Far East Customs remains difficult for most shippers. It’s not uncommon for the agency to take five or more days to clear shipments.

The Foundation for Russian American Economic Cooperation, a U.S. Commerce Department-backed program, has spent the past several years developing a system to automate Russia’s customs clearance process.

Once completed, the system, known as the Customs Link Entry/Exit American Russia-Pacific or Clear-Pac, will allow U.S. exporters or their forwarders to transmit shipping data required for Russian customs clearance prior to the goods arriving in the country.

Without automated clearance technology, Russian Customs can’t begin to clear cargo until the freight arrives in port. The wait times result in thousands of dollars in storage fees and other charges, in addition to cargo damage and lost business.

Clear-Pac began processing ocean cargo bound for Sakhalin in 1999 through its preliminary electronic clearance model. In September 1999, it added air-cargo to the program. During the trial period, Clear-Pac reduced clearance times to about 1.5 days for ocean shipments and to about six hours for air cargo.

During the summer, Clear-Pac officials met with Russian Customs on Sakhalin and industry to discuss a pilot test of the system before the end of the year. When the software is in place, Clear-Pac officials will connect it with the U.S.-Russia Trade Facilitation Link.

“The real benefits will come with implementation of the trade facilitation link,” said Goran Latkovic, Clear-Pac program director. “That’s when exporters or their forwarding can send all documents elec-

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“Presence is everything. It would be extraordinarily difficult to get at the opportunities here without being here.”

Jeff Valkar
director, American Business Center,
Foundation for Russian American Economic Cooperation
Working group calls tune

Slow waltz in Vienna for UNCITRAL-CMI cargo liability convention.

By Robert Mottley

This fall in Vienna, delegates to the United Nations Commission on International Trade Law (UNCITRAL) and the Comité Maritime International (CMI), UNCITRAL’s advisory comrade-in-arms, convened for another session of UNCITRAL’s Working Group III to resume deliberations on a harmonized cargo regime. Not much demonstrable progress was expected in Vienna, since the real framework of the Working Group’s instrument will be hammered out during a crucial meeting at the United Nations in New York next spring.

The fall conference was pitched as an opportunity for clarifying and augmenting positions laid out during last spring session at the UN (July American Shipper, page 46). U.S. delegates in Vienna reported that the Working Group’s chairman, Rafael Illescas, appeared committed to a door-to-door focus instead of a more limited port-to-port scope. The major surprise was the U.S. delegation’s continuing inability to come up with a defendable definition of “performing party,” a hurdle deferred until next spring.

Chaotic Landscape. Vincent M. De Orchis, De Orchis & Partners LLP, an admiralty law firm in New York, said a succession of international regulations, including the Hague Rules of 1924, the Hague-Visby Rules of 1968, the Hamburg Rules of 1978, and the Multimodal Transport Convention of 1980, “have all failed to provide the necessary guidelines for assessing liability for cargo loss or damage in an era that is now dominated by containerization, multimodal transport, slot charters, NVOs (non-vessel operating common carriers), and confidential service contracts.”

“I personally continue to spend an inordinate amount of time trying to apply the U.S.’s antiquated, 66-year-old Carriage of Goods by Sea Act to a landscape of maritime transport which could never have been envisioned by the drafters of COGSA.”

Vincent M. DeOrchis
De Orchis & Partners LLP

“There is no doubt that the Hague Rules may be as familiar and comfortable as a pair of worn slippers, but the truth is those rules cannot answer simple questions, like ‘what is a package?’ when a sealed container of palletized cartons is shipped,” De Orchis said. “Nor can the Hague Rules answer the more difficult question ‘who is the carrier?’ when there is an NVO who issues a bill of lading and in turn engages a liner carrier who only has a slot charter arrangement on a vessel time chartered by another ship operator in some carrier alliance.”

“What do the words ‘clean on board’ mean for a sealed containerized shipment, and how do defenses like ‘error in navigation’ and ‘error in management’ work in a computerized, electronic world where a vessel is connected on line to its owner’s office 24 hours a day? Do you apply the concept of ‘deviation’ to a trucker who takes the wrong highway for cargo transported under a through bill of lading, or when a liner service uses a feedership arrangement?” he asked.

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ocean bills of lading has become increasingly smaller and more complex, “as carriers try to compensate for ‘holes’ they perceive in the present state of transport law,” De Orchis said.

As for case law, “judges issue opinions creating exceptions to prior exceptions in an effort to provide equity and fairness which the courts feel would otherwise be denied by the literal application of outdated conventions that presently govern the carriage of cargoes,” he explained.

There is no doubt the industry could stagger on, trying to make do with the old ways of assessing liability for cargo losses. “But the proposed UNCITRAL-CMI harmonized regime is a better way to go,” De Orchis said. “That’s now a well-accepted view around the world, and UNCITRAL does not want to lose the momentum that it has built up so far with Working Group III.”

Scope Of Application. Delegates have spent considerable time discussing “whether the new instrument should be applicable door-to-door, or be restricted to a port-to-port situation like the Hamburg Rules,” De Orchis said.

“There seems to be no doubt that the instrument-in-progress will be expanded beyond tackle to tackle, as is now the case with the Hague and Hague-Visby Rules,” he noted.

Real concern remains as to how to create a single international convention that will regulate both ocean and land carriage, especially if the proposed instrument conflicted with existing conventions controlling land carriage, notably the CMR, which controls trucking in Europe, and the CIM, which governs railroads in Europe.

The U.S. Maritime Law Association wants a single door-to-door regulation because of problems confronted in courts as a result of a patch-quilt of law governing current multimodal shipments.

De Orchis explained how complex this can get. “If cartons of watches were shipped on a house-to-house arrangement today from Geneva, Switzerland, to Buffalo, N.Y., there would be approximately 10 different sets of laws applicable to that shipment.”

“Separate and distinct laws would govern while the cargo was sitting in the warehouse in Geneva; while it was being trucked to the railroad in Geneva; while it was being sent by train internationally to Milan; while it was being sent by train domestically from Milan to Genoa; while it was being trucked from the railroad in Genoa to the port terminal; while it was sitting on the pier in Genoa; while it was being transported by ship to Port Elizabeth, N.J.; while it was on the pier in Port Elizabeth; while it was being trucked to Buffalo, and while it was at the trucker’s yard in Buffalo,” he explained.

If that cargo is damaged during transport or arrives short, a judge must determine exactly where the loss or damage occurred in order to apply the appropriate law.

Should the place of loss not be clear, the judge is left “with a difficult, if not impossible task of assessing liability on someone in order to compensate the shipper,” De Orchis said.

Because of differences in the various legal regimes, the current “network” system “as it now stands simply does not work,” he said.

If the new convention is not door-to-door, “it will not add anything to existing international law, and will only confuse even more the existing pool of port-to-port conventions,” De Orchis said.

Carrier Liability. The Working Group draft is based on the fault of the carrier, rather than some form of strict liability.

“There seems to be support for providing a list of applicable defenses for the carrier, similar to what is already contained in the Hague and Hague-Visby Rules,” De Orchis said.

The defense of ‘error in navigation and management of the vessel’ will mostly likely be removed, “since most delegates appear to agree that the defense no longer works in court. There is no other form of cargo carriage, by land or air, which enjoys such a defense,” he explained.

“Perhaps one of the most significant items in the UNCITRAL draft,” De Orchis said, “is the provision for distinguishing between the contracting carrier and the performing party.”

The performing party, whose definition must still be settled upon, is generally regarded as someone the carrier hires to perform the carrier’s core responsibilities, such as carriage, handling, custody and storage of the goods.

“If the draft instrument is going to cover door-to-door carriage, then there is a need to hold liable also the performing party who damages cargo while it is actually in custody,” he said.

The object of the Working Group draft is to allow cargo interests to sue, “not only the contracting carrier, but also the subcontractors that the carrier hires to perform the services it owes the shipper,” De Orchis said.

Those sub-contractors can include a stevedore, terminal operator, barge operator, trucker or railroad whose negligence actually damages the cargo.

Shipper Liability. The Working Group within UNCITRAL has recognized that the shipper’s primary obligations are to pay freight and deliver cargo fit to withstand a voyage into the custody of a carrier.

The shipper is obliged to inform the carrier of the nature of the cargo, and in particular whether it was hazardous.

Delegates to the UNCITRAL-CMI meetings have discussed whether a consignee should also be held liable for the freight, as well as the effect of conflict with domestic legislation concerning obligations to pay freight, especially if the proposed conven-

Everyone has his day, and some days last longer than others (Winston Churchill)

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SCHINDELLEGI, Switzerland

Swiss logistics giant Kuehne & Nagel reported lower net income for the first nine months of 2002, due largely to poor utilization of warehousing in North America.

Net income was CHF108.4 million ($72.1 million), down 3.3 percent due to negatively currency impact in addition to the North American warehousing concerns. Because of the negative impact, the company has lowered its profit forecast to more than CHF150 million for the full business year.

As a result, Kuehne & Nagel said it would introduce measures at its U.S. subsidiary, USCO Logistics, including reducing warehousing capacities and cutting personnel. The company also intends to expand its customer base into other market sectors.

Kuehne & Nagel said revenue improved 3.1 percent to CHF 6.52 billion ($4.34 billion), while gross profit jumped 17.4 percent to CHF 1.44 billion ($954.9 million).

Apart from North America, all regions reported good operational results, Kuehne & Nagel said. Clear gains were made in the Europe and Asia-Pacific regions.

“Thanks to our global presence and balanced product portfolio we have been able to increase our market share and achieve a stable result in spite of the unfavorable development of the economy,” said Klaus Herms, chief executive officer of Kuehne & Nagel International AG.

Kuehne & Nagel’s international forwarding business unit saw operating profit climb 20.9 percent due to increased market share, in spite of unstable freight rates and falling margins in both sea and air freight. Development of overland and rail activities also improved conditions.

Contract logistics, the company’s second-largest business unit, saw the flourishing European market partially offset the poor North American warehousing utilization. Contracts with new customers should positively impact the unit for 2002 and 2003, Kuehne & Nagel said.

Kuehne & Nagel income off, plans cuts at USCO

Shipper pays $1.76 million for export violations

WASHINGTON

Sigma-Aldrich Corp. and two of its subsidiaries have agreed to pay the U.S. government $1.76 million to settle charges involving illegal exports of biological toxins to Europe and Asia.

The penalty is one of the largest imposed on a shipper of biological toxins and one of the largest penalties ever paid to the Commerce Department for export violations.

The Commerce Department alleged that St. Louis-based Sigma-Aldrich had acquired a company in 1997 that made the unauthorized biological toxin shipments. The company continued to make the illegal shipments for more than a year after the acquisition.

The penalty was mitigated because the evidence available to the Commerce Department indicated that none of the shipments were used to manufacture biological weapons.

“These cases set the important precedent that when acquiring another firm, a company should scrutinize the export control practices of the acquired company in order to avoid the risk of incurring substantial liability along with the assets of the company,” said Michael J. Garcia, assistant secretary of commerce for export enforcement. “In this case, the acquiring company not only failed to discover the prior unlicensed exports, they allowed them to continue for more than one year after the acquisition.”

In a 15-page opinion, an administrative law judge said companies could be held liable for export control violations that have been committed by firms that they acquire.

“This settlement, and the administrative law judge ruling upon which it is based, make twowhings clear,” said Kenneth I. Juster, under secretary of commerce for industry and security. “First, this Commerce Department will vigorously enforce our export control laws to prevent the spread of biological toxins and other substances that can be used for weapons purposes. Second, corporations will be held accountable for violations of U.S. export control laws committed by companies that they acquire.”

A copy of the administrative law judge’s opinion is available online at www.bis.doc.gov.
Confidentially speaking, that is...

"I am he as you are he as you are me and we are all together."

— "I Am the Walrus," the Beatles

With that line from the song, the Beatles have inadvertently summed up the U.S. ocean shipping industry when it comes to the accessibility of business information.

It’s not too difficult to figure out what your competition is doing in terms of ocean freight and the customers they serve. Easier yet, you can buy that information from reporting services who extract shipping details from U.S. Customs data and compile it into convenient reports.

The question on many executive and government officials’ minds today is how freely accessible should ocean freight information be to the shipping industry or, for that matter, the general public? Better yet, how much freedom to information is the shipping industry willing to give up for the sake of protecting it for commercial and security reasons?

In the near future, the U.S. Customs Service will consider confidentiality of shipment information as it pertains to the recent promulgation of a new advance cargo manifest filing regulation.

“A number of commenters addressed the issue of the confidentiality of certain manifest information,” said Customs regarding comments made by the industry on the proposed rulemaking process. “The views expressed really concerned two different aspects of the need for confidentiality — that involving business and competitive advantage and that involving the matter of cargo security.”

Confidentiality of manifest data has long been a concern for non-vessel-operating common carriers as it relates to ocean carriers, co-loading partners and other competitors. NVOs would try to shield their customer information by listing their names or their agents’ names as shipper and consignee on manifests and bills of lading.

Customs and other regulatory agencies have complained about this commercial practice for years, because they said it obscures their ability to know whose truly shipping into the country.

The NVO manifest confidentiality debate came to the surface after the Sept. 11, 2001 terrorist attacks on the United States. On Nov. 8, the NVOs were alarmed by a notice released by Customs in the Houston/Galveston area, which called for more in-depth house manifest and bill of lading information to be filed to agency via the ocean carriers. Customs agreed to back down until new manifest filing regulations were developed.

When Customs proposed its new advance manifest regulation in early August, the NVOs complained to Customs that the regulation would subject their detailed manifests to publication, which could harm them commercially. The NVOCC-Government Affairs Conference, in specific, suggested that freight consolidators should be allowed to make biennial confidentiality certifications to Customs on behalf of their import clients. The Washington-based group went so far as to request that NVOs should have the power to become “attorneys in fact” to protect all their customer information on manifests from public consumption.

The confidentiality debate is hardly limited to the NVOs. It has become a subject of debate for a number of U.S. importer and intermediary groups, such as the International Mass Retail Association, National Customs Brokers and Forwarders Association of America, and Pacific Coast Council of Customs Brokers and Freight Forwarders Association. The definitions of confidentiality and how far to take the concept surely vary among the groups.

It’s still questionable how far Customs can take confidentiality measures under the current law. In 1984, Customs lost in court to PIERS and had to amend its regulations under the 1930 Tariff Act to give reporting services broader access to manifest information. PIERS and other reporting services had the right to copy and publish all information in cargo declarations unless an importer has requested confidential treatment of its name.

For now, Customs recommends that NVOs urge their importing customers to file for biennial confidentiality certifications with the agency. Individual importers have the right under the current law to request confidential treatment of their names, but only 15 percent of importers take advantage of this option. Industry representatives believe that many importers simply don’t know about the confidentiality option or believe it’s not worth the administrative burden to do it.

If Customs can grant NVOs “attorney in fact” status to protect their manifest data, ocean carriers will press the agency for similar privileges.

Ocean carriers, however, will likely resist confidentiality of manifest data. Unlike other industries with dedicated staffs to analyze the markets conditions, ocean carriers have reduced their marketing departments to a nub to reduce costs. They have become heavily dependent on reporting services.

If Customs’ hands are tied on the issue, confidentiality supporters could go to Congress to lobby for changes to the Tariff Act itself.

Lawmakers appear to be willing to listen to the industry’s concerns regarding confidentiality of shipment information. New U.S. maritime and port security legislation includes confidentiality language for cargo information. A senate staffer told American Shipper the legislation would limit reporting services to the level of manifest information they currently get from the government — nothing more and nothing less.

Industry representatives could also make manifest confidentiality a heated international debate, especially with regard to the on-going global war against terrorism.

At a recent meeting in Brussels, several large shippers asked the World Customs Organization to consider confidentiality of shipment information in the development of future supply chain security guidelines, due for completion in June 2003. Besides this information falling into the hands of competitors, they argued that it could easily be used for terrorist exploits.

The WCO said it would take the industry’s confidentiality concerns into serious consideration. The International Chamber of Commerce, which will be working closely with the WCO on the supply chain security guidelines, said it would push for confidentiality measures. The goal for the WCO supply chain security guidelines is to provide customs administrations with standards with which to interact with trade and each other in the war on terrorism and other crimes.

The argument for confidentiality undoubtedly troubles the reporting services, namely the biggest, PIERS, and their supporters. If blanket confidentiality were granted to both NVOs and ocean carriers, the value of their data would surely decline.

Stay tuned.
WESCCON’s pot boils

PCC chairman Bob Coleman offers his perspectives on Customs, West Coast ports issues.

BY ROBERT MOTTLEY

These are edgy times for anyone who books or brokers cargo, especially on the West Coast.

A palpable sense of tension could be felt at the annual Western Cargo Conference, Oct. 24-27 in Las Vegas.

WESCCON comprises members of the Pacific Coast Council of Customs Brokers and Freight Forwarders Associations Inc. Members are brokers and forwarders in five regional associations along the West Coast: Washington State, Columbia River, Northern California, Los Angeles, and San Diego. Anyone who is an employee of a company in one of the PCC’s five associations is a member of WESCCON.

Conference attendees are traditionally not shy about expressing their opinions, and this year they were outspoken in their apprehension of the growing power of the U.S. Customs Service and the effects of a prolonged labor conflict on the West Coast.

WESCCON attendees were also bitter that certain ocean carriers, in their recent hiking of surcharges, appear to be discriminating against non-vessel-operating common carriers, and some have formally complained to the Federal Maritime Commission.

“The fires were high and the pot was boiling for this year’s conference,” said Bob Coleman, current chairman and immediate past president of the Pacific Coast Council.

A veteran of 20 of 22 WESCCONs, Coleman said one major theme of attendee discontent was that Customs and the Transportation Security Administration “don’t understand how commerce works.”

“You can’t just sit in an office in Washington, D.C., wearing the flag, and saying ‘we’ll just do this,’ without any understanding of the consequences,” he said.

Turf War. Mark Johnson, TSA’s deputy undersecretary, in his WESCCON keynote address, said a reasonable approach to security that would be commercially viable could be negotiated by the government and the private sector, through a “mosaic” of contributions akin to those that produced in the Oil Pollution Act of 1990 after the Exxon Valdez incident. That went down tolerably well with attendees.

The TSA has suggested there should be a secondary system set up so that the TSA can receive information, analyze it and pass it on to Customs.

“No one in this industry has any interest whatsoever in having to go out and purchase additional equipment to put a secondary system into our operations. That’s financially ridiculous,” Coleman said.

“TSA wants to gather statistics on outbound air freight. They want to begin building profiles of exported cargo. They have proposed that we just download our entire client list to them. We’re not going to do that, and it’s naïve of the TSA to ask.”

The problem is that information about what’s in a container could be leaked at the port of origin, giving aid and comfort to a shipper’s competitors.

Coleman believes the TSA wants to build credibility with Congress in an evolving turf war between Customs, the TSA and the Coast Guard, if the proposed Department of Homeland Security crashes politically.

Sources in Washington believe that the TSA wants Customs under its control, while Customs would like to prevail over the TSA.

Whether the information is in one agency’s quiver or the other’s, “it could be used or misused,” Coleman said. “They haven’t told us yet why they need it.”

Former Dialogue. Many WESCCON attendees agreed with Coleman’s assertion that U.S. Customs has gone through a “scary” transformation.

“During George Weise’s tenure as commissioner, Customs really had an open-door policy,” Coleman said. “There was a lot of communication between Customs and trade. We certainly had many issues we didn’t agree on. The Mod Act Customs Modernization Act) was a contentious issue — our industry was very split as to whether it was good or bad. Weise’s reorganization proposal, where he eliminated regions and established Customs management centers, was also contentious.”

“Through all of that, there was a lot of dialogue with the industry. Customs was pretty much an open-door agency,” Coleman said.

Raymond Kelly, Weise’s replacement, brought a “New York police commissioner mentality to Customs,” Coleman said.

Difficult Mandate. Succeeding Kelly, Robert Bonner was sworn in as Customs commissioner shortly after Sept. 11, 2001.

Coleman said Bonner “has a very clear mandate from the White House about what he has to do. Customs still very enforcement, very security-oriented. I don’t know that’s the way Bonner would have run Customs if the attacks on Sept. 11 had never occurred.”

In Coleman’s view, Bonner is civil and intelligent, not an attack dog. “Andrew Maner, Customs’ chief of staff, is Bonner’s enforcer, so that they make a ‘good cop/bad cop’ team.”

Coleman believes that, because of the Bush administration’s mandate, “Customs doesn’t listen to trade as much as they used to. The doors are closed. They really are not interested in having a lot of interface.”

C-TPAT Fears. Another topic of concern at WESCCON was Custom’s Customs Trade Partnership Against Terrorism program, an industry-agency cooperative.

Participating with Andrew Maner in a “town hall” meeting, Coleman said Customs’ C-TPAT initiative was a “warm and fuzzy program lacking in focus that exists only because Customs wants its own database to be able to show Congress as proof that it has been doing something.”

“I’m concerned that the focus of C-TPAT is just to get names on a list, without any substantive results. C-TPAT could be a very good idea,” he said. “I just don’t like the way they are going about implementing it.”

“You have to first define U.S. Customs its mission. Customs’ mission is twofold:
enforcement, and collection of revenue. You’re dealing with a cop who collects money,” Coleman explained. “I was trained by Pete Stevens, an old curmudgeon that came out of the Los Angeles Customs area, who always told me, ‘the regulations aren’t the law. The tariff act is the law. The regulations are an interpretation of the tariff act.’”

“Customs is specifically mandated by statute as to what it has a right to have access to, and what it doesn’t,” Coleman said.

Bonner defended the changes Customs has proposed. “The status quo is not an option,” Bonner said. “Why? Because if there should be a terrorist incident in a port, then there would be a shutdown of all container trade nationwide. The whole system would go down for an indeterminate period, with consequences we can barely imagine.”

The regulations stipulate that if Customs follows proper protocol, it has the right to certain information.

However, the rules and regulations are applicable on both sides. “They are there as much to control and establish Customs’ role as to control and establish our role, and the rules with which my clients have to comply,” Coleman said.

“The C-TPAT program goes way beyond the statute rules and regulations restraining Customs,” he claimed. “The program is asking companies to open their doors to areas of information that Customs has no right to know.”

A view heard as well from other WESCON attendees is that Customs has the right to know data about a company importing from China, it doesn’t have the authority or right to know how that company operates a distribution center in Tulsa, Okla.

Nor, goes this argument, does Customs have the right to access to certain accounting records that are not specific to Customs’ business.

“I have four national companies who have come to me and said, ‘we’re been invited to participate in C-TPAT.’ All were established as low-risk importers,” Coleman said.

“In all four cases, the companies’ in-house legal staff counseled them not to participate. The lawyers were uncomfortable with the range of information that Customs wanted.”

“The importers told Customs they wouldn’t participate at the time.”

“They very quickly found out that C-TPAT is not a voluntary program,” Coleman claimed. The four-non-signers were allegedly told by Customs that, if they didn’t sign up with C-TPAT, they would lose their low-risk, importer status.

There was also the implication that Customs “might have the auditors come out and pay you a visit,” Coleman said. “Customs can audit anyone, anytime it wants. The problem with auditors is that they don’t come in for a day or two. You might have an auditor in your company for a year or longer,” he said.

“All business that runs a ‘just-in-time’ inventory system will do just about anything to avoid having its cargo delayed,” Coleman said.

“C-TPAT is over-reaching, intrusive, burdensome, and not voluntary,” Coleman said.

**Different Times.** Told of Coleman’s concerns, Bonner said, “C-TPAT reaches as far as it needs to. There’s no particular burden to it, assuming participants have their security already in order.”

“We certainly do not coerce anyone. We try persuasion, perhaps, but coercion implies threats, and that is simply not true,” Bonner said.

Maner, prodded by Coleman during a WESCON session, said that “instead of arguing whether it’s voluntary or not, I’m perplexed as to why any company would not join C-TPAT. Not doing so, naturally, raises suspicions on our part.”

“Customs impugns the patriotism of any anyone who digs in their heels and balks at signing up for C-TPAT,” Coleman countered. “Disagreeing with them is un-American.”

“Where I come from, agreeing with a dumb idea is not patriotic,” he added.

“You and those who feel as you do about C-TPAT are entitled to your opinion,” Maner told Coleman. “We’re living now in a different time, after 9/11, and our policies reflect that change.”

“Our focus is to do everything we can to reduce the chance of another terrorist incident, especially one that could involve a weapon of mass destruction.”

“Again, I am ‘perplexed’ — and that is the word I want to stress — as to why anyone wouldn’t cooperate in full with us,” Maner reiterated.

“You should come up with a program that’s supported by law and regulation,” Coleman said.

**NVOs’ FMC Complaint.** WESCON attendees were also angry over allegations that ocean carriers are giving preferential treatment, in terms of rates, surcharges and other components of contract, to a beneficial shipper as opposed to an NVO.

Peter Friedmann, an attorney in Washington, D.C., said, “the Federal Maritime Commission seems to be taking this complaint seriously.”

In the past, responding “to some previous complaints by shippers, the FMC’s staff turned the tables and really beat up on the shippers who files complaints instead of the carriers against whom the shippers were complaining,” Friedmann said.

“That was terribly biased and unfair, and it resulted in the Ocean Shipping Reform Act,” he explained. “In this case, the FMC has demonstrated a greater interest in treating the complaint fairly by maintaining confidentiality of the data provided by NVOs. OSRA does not allow carriers to discriminate against a class of shipper, NVOs are a class of shipper.

However, carriers can say, “use our logistics unit, and we’ll give you, the shipper, an even better deal.”

“That appears to be legal under OSRA,” Friedmann said.

“I think that both NVOs and carriers would agree that carriers prefer to do business with the beneficial owner of the cargo,” Friedmann said.

“In terms of the NVOs’ complaint, “the FMC can scrutinize all NVO contracts. All of that data is on file in the FMC’s building. The commission can also scrutinize all of the beneficial owner contracts.

“If the FMC’s investigators see if there’s a trend, meaning that if contracts negotiated for similar commodities at the same time — those having similar volumes, with more or less the same origins and destinations — show a pattern in which NVOs are regularly paying more for demurrage or detention charges, or other surcharges than beneficial owners, they can determine if a complaint is justified.

“The contracts may be confidential, but not to the FMC staff,” Friedmann said.

Stephen Blust, chairman of the Federal Maritime Commission, promised the FMC would issue an advisory cautioning carriers and shippers to observe the FMC’s rules on tariffs.

The advisory warned that any variations “from specific terms” that could be construed as “inconsistent with general rules” are “permissible only if they are authorized by other lawful provisions.”

Although most WESCON attendees questioned expressed visceral distaste for the International Longshore and Warehouse Union, Coleman took a more generous tack.

“We who are in the business of dealing with ports, steamship carriers and the ILWU
on a daily basis tend to side with the Pacific Maritime Association, he said. “Let’s be realistic: the PMA isn’t riding a white horse in any of this. These guys in the PMA are a bunch of foreign ship owners and port operations.”

As for the PMA’s motives, “I thought it was an interesting time for the PMA to draw a line in the sand. Major ocean carriers are in terrible shape. Why would they pick a labor fight now?” he asked.

“Maybe they aren’t losing so much money. It probably depends on which set of books they are using. If things are so bad for them, why do they continue to do the business?”

“To suggest that the ILWU is completely wrong and the PMA totally right is certainly not true. They both have big problems. You ask me what ILWU jobs are being threatened by the technology. The last offer the PMA laid on the table gave the ILWU a 100-percent guarantee that no jobs would be lost by technology,” Coleman said.

“Every time I automate, as a businessman — where I used to have one person, after automation it takes two. In fact, I’ve never had to eliminate a job because of automation. Usually, new technology produces so much information it takes more people to figure it out than before,” said Coleman, president and chief operating officer of Portland, Ore.-based Total Logistics Resource Inc. His company is involved in customs brokerage, freight forwarding and employs 46 people at offices in Portland, Seattle, San Francisco and Los Angeles.

“Too often,” he said, “the software you were conned into buying to boost your company’s IT usually screws you to the point that you have to hire extra people to sort it out and make the alleged magic work.”

Had the West Coast lockout lasted more than a month, “you’d have companies falling over like dominoes,” Coleman said.

If President Bush had waited another week to ask for a Taft-Hartley injunction, “companies like mine would have laid off basically 80 percent of their staffs,” he said. “Life gets harsh when there’s no cash flow.”

Coleman’s candor, and his blunt interrogation of federal officials at the conference’s forums did not sit well with a few WESCON attendees.

“He’s not talking for me,” one forwarder said. “I think the points he makes are valid … but I happen to think we shouldn’t question the government right now.”

“Lots of brokers and forwarders think if you say something negative about U.S. Customs, there could be reprisals. Or, if you testify before Congress about antitrust immunity, the carriers could get back at you,” said a member of the PCC’s board.

FORWARDING / NVOs

7M Transport stands firm

NVO unscathed by bankruptcy of alliance partner Computrex.

HOUSTON

Count 7M Transport among the fortunate survivors of U.S. corporate failouts. The Houston-based non-vessel-operating common carrier came away unscathed from the bankruptcy of its former alliance partner Computrex Logistics this summer.

“I was fortunate to have the license, bond and tariff under my control,” said Howard Leff, founder and president of 7M Transport.

“The carriers were also very understanding of the situation.”

Leff, with more than 40 years in the freight forwarding and consolidation industry, started 7M Transport in June 2000 and became a fully licensed domestic and international service provider in July 2000. The office served the household goods industry with air, ocean and domestic capabilities for inbounds, outbound, and foreign-to-foreign moves.

In April 2001, 7M Transport joined in a strategic alliance with Louisville, Ky.-based Computrex Logistics. The intention of the alliance was to build 7M Transport’s international business by sharing networks, he said.

Computrex Logistics, a subsidiary of freight audit and payment firm Computrex Inc., served about 200 shippers through its 30 offices. The company moved about 30,000 TEUs of cargo a year.

The alliance showed immediate benefits for 7M Transport. The company increased its freight volumes from 1,700 TEUs in 2000 to 4,798 TEUs by the end of 2001.

The alliance began to come undone in January when Computrex Inc. declared bankruptcy, a victim of the downturn in the U.S. economy. Foreseeing the demise of Computrex Logistics, Leff left the alliance in late July. Computrex Logistics declared bankruptcy in mid-August.

7M Transport took quick action to preserve its business. The company set up its own office in Louisville. Leff’s son Steven, vice president of 7M Transport, was put in charge of the office with four staff members.

7M Transport also reestablished partnerships with overseas NVOs. In Europe, 7M Transport’s agents include TS International in the United Kingdom, Top in Germany, IFIFS in Belgium, Alpha in Naples, Transglory in Spain, and Confront in Denmark. In Asia, the company works with Worldscope in Singapore and Austpac in Australia/New Zealand.

Leff said his company should come close to matching its freight volumes of last year. By September, 7M Transport had already moved about 4,200 TEUs.

Leff remains active on issues impacting the NVO industry at large. He is president-elect of the revived Washington-based International Association of NVOCCs.

FMC to investigate NVO’s activities

WASHINGTON

The U.S. Federal Maritime Commission has ordered an investigation and hearing into the non-vessel-operating common carrier activities of California-based Golden Bridge International for possible violations of the 1984 Shipping Act.

The FMC said it appears that Golden Bridge, licensed by the agency on May 30, 2000, may have obtained wrongful transportation by misdescribing cargoes during a period lasting to August 2002.

“Contemporaneous documentation such as the NVOCC house bill of lading and freight invoice reflect that shipments declared to COSCO as ‘housewares’ or ‘household goods’ actually were loaded garments ... as well as textiles ... and miscellaneous other commodities,” the agency said.

Golden Bridge also appeared to act as a common carrier in relation to its NVO cus-
UPDATE: Nov. 1, 2002

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Economy and Consolidation Bring New Challenges
North American Chemical distributors are still facing a difficult economic environment, and industry consolidation has only added to the challenge. With a lot of collective inventory in the supply chain, customers remain cautious in their ordering patterns. Chemical manufacturers, distributors, logistics and transportation companies are being called on to squeeze higher levels of productivity from their supply chains.

Security Remains a Key Concern
With the ACC’s issuance of new recommendations on ‘value chain’ security, a component of its Responsible Care security code, it’s time to take inventory of the potential financial burden that the war on terrorism will place on chemical industry stakeholders. New security recommendations will impact chemical company customers, as well as firms that provide products and services to the industry, such as distribution, toll production, and off-site storage.

Leaders Discuss Their Best Practices
Bill Huff, Director Global Rail Operations, The Dow Chemical Co.
Daniel J. Pigott, Corporate Director of Transportation, BASF Corp.
Carmen Bianco, Vice President Safety Resources, DuPont
Linda Morgan, Chairman, Surface Transportation Board
Chuck E. Dettmann, Executive Vice President of Safety and Operations, Association of American Railroads
Chuck Platz, President, Basell North America
George Gavalla, Associate Administrator for Safety, Federal Railroad Administration
Glyn Perry, VP Chemicals, Manugistics Group Inc.
Andrew Liveris, President Performance Chemicals, The Dow Chemical Co.
Yone R. Dewberry, Managing Director, Centrix, a BDP Knowledge Venture
James Kolstad, President, NACD
Matt Collier, President, SAFER Systems
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Raymond Conlin, EVP Administration, Jevic Transportation Inc.
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Unlocking the Value In Your Supply Chain
AA Cargo takes on integrators

American Airlines attracts higher-yield revenue with expedited cargo services.

FORT WORTH, Texas

AA Cargo, the air-freight division of American Airlines, said it can provide an alternative to forwarders who have used integrators for guaranteed, expedited service.

Following the introduction of its “Expedite-fs” service for U.S. exports in June, the airline has rolled out its own guaranteed service at several major international airports. Growing revenues from this service suggests the service has been well received by customers.

The expedited service provides shorter transit times, as its name implies, and priority boarding, fast tail-to-tail connections at airport hubs and a 100-percent money-back guarantee.

AA Cargo said monthly revenue from the expedited service was $250,000 in June, $500,000 in September and $1 million in October. AA Cargo reports total revenue of about $700 million a year.

The air-freight operator also plans to introduce the service into Latin America in the first quarter of 2002.

The long-term aim of AA Cargo is to have expedited services represent 20 to 25 percent of total revenue, said Dave Brooks, president of the division.

Expedite-fs’ early success included shipments of credit cards that had been handled by integrators.

AA Cargo is not the only airline air cargo division to provide guaranteed expedited freight services. In the last few years, many operators have rushed to develop “time-definite” products inspired from the integrator model.

Are conventional airlines reversing the trend of integrators winning market share? Brooks wouldn’t say, but pointed to the credit card contract as a precedent.

“We’re saying: ‘it can be done,’” he said. “Our target is go and get the business that the forwarders were doing with the integrators.”

AA Cargo said its Expedite-fs service had a flown-as-booked reliability level of 97 percent in September.

AA Cargo’s expedited cargo service continues to use a flight specific number.

“Our strategy is that our products will be flight-specific and not time-definite,” said Mark Najarian, vice president of cargo sales and marketing.

Customers “always want to know” the flight number, and the arrival and availability times, he said. “With time-definite products, they’re not in control of their products.”

However, Brooks added: “If you’re guaranteeing flight-specific, by default, you’re also guaranteeing time-definite.”

The air cargo operator believes that forwarders’ systems are still geared towards flight number-specific shipments.

Meanwhile, forwarders offer their own time-definite services to shippers.

“Our business is primarily with forwarders,” Najarian said. “In order for them to provide a time-definite product to their customers, they need to have a flight-specific product.”

AA Cargo will implement a real-time flown-as-booked measurement system across its worldwide network in the first quarter of 2003. The system will assign causes to non-booking incidents, ranging from overbooking to weather and improper handling of the shipment in the terminal.

AA Cargo expects that the flown-as-booked system will allow it to improve its work under the industry’s Cargo 2000 quality initiative.

Like other airline cargo divisions, AA Cargo has suffered from declining yields and pressures on prices.

But Brooks noted that the yield for AA Cargo’s expedited service is about 15 percent higher than for conventional services.

“Our yield expectation has been fulfilled,” he said. “It’s all part of our yield improvement policy.”

AA Cargo wants to move away from commodity products.

The American Airlines group, heavily in the red, is also working on improving its productivity, and recently announced a reduction in its fleet.

All the cargo handled by AA Cargo moves in the belly of passenger airplanes.

Brooks said security costs at American Airlines will year will be about $30 million higher than in 2001. “The Transportation Security Administration’s requirements on security are changing,” he said. “It’s hard to keep tracks of the costs.”

“Pre-Sept. 11 and post-Sept. 11 mark our changes,” said Kevin Diamonti, vice president of cargo operations. “Terrorist threats have not abated,” AA Cargo supports the universal known shipper database program of the TSA.

AA Cargo will continue to invest in electronic developments to link with its customers. American is also a member of the Global Freight Exchange airline/forwarder portal.

EU Court: U.S./Europe ‘open skies’ pacts illegal

BRUSSELS

The European Court of Justice, Europe’s highest court, has declared that several aspects of “open skies” agreements concluded between individual European member governments and the United States are contrary to European law.

In a ruling issued Nov. 5, the European court said the bilateral agreements the United States made with Austria, Belgium, Denmark, Finland, Germany, Luxembourg, Sweden and the United Kingdom discriminate against airlines of other EU countries, and cover areas that are under the exclusive competence of the European Commission.

The European Commission welcomed the court’s decision. The Brussels-based body has argued for years that Europe should have a single bilateral agreement with the United States, instead of individual agreements for each EU country. “Today’s judgment is a major step towards developing a new coherent and dynamic European policy for international aviation,” said Loyola de Palacio, European commissioner in charge of transport and energy.

The court case is the latest political conflict between the EC and European national governments. In the customs and maritime fields, the EC has also criticized European national governments for signing separate bilateral Container Security Initiative agreements with the U.S. Customs Service.

Despite warnings from the EC, European national governments have signed open skies agreements with the United States since the mid-1990s.

The EC believes nationality-based rules in the bilateral aviation agreements hamper competition among European airlines and have prevented the European industry from consolidating into economically stronger, international businesses.

It said the bilateral agreements were biased towards the United States, giving U.S. carriers broader coverage than European airlines. The agreements also grant U.S. airlines “fifth-freedom” rights to fly between two points within the EU’s internal market.

The EC sees “an urgent need to open negotiations between the EU and the U.S. with a view to agreeing an EU-wide replacement for the problematic bilateral.”
Counting cost of the West Coast dispute

The closure of the U.S. West Coast ports in October and the subsequent congestion, delays, additional expenses and damages to perishable cargoes continue to affect shippers and carriers, leading to difficult times about who pays.

Shipping lines and ports are bearing substantial costs related to loss of earnings, loss of productivity, missed sailings, congestion and the movement of containers discharged in emergency at a temporary port in the United States or overseas.

Having initially declared that the U.S. West Coast port labor dispute would have only a “modest impact” on its fourth-quarter profit results, CP Ships then said that the impact may be bigger than expected because operations are still disrupted.

“There hasn’t been a prompt recovery,” said Ray Miles, chief executive officer of CP Ships.

Alexander & Baldwin Inc., the parent company of Matson Navigation, said its near-term earnings performance “will be heavily influenced by the pace and ultimate outcome of labor negotiations affecting Matson’s operating costs, both in West Coast ports and in Hawaii.”

A spokesman for A&B said that the Matson fleet serving Hawaii and Guam was fully operational, but schedules have been affected by long wait times to access berths at West Coast ports, and by lower terminal productivity on the West Coast.

Some shippers have questioned the attempts of major carriers to pass on additional costs to them and raise congestion charges. This exasperation among shippers is understandable, given the delays already borne by shippers during the port lockouts and the fact they virtually lost control of their cargoes for more than a week.

Under “force majeure” conditions, ocean carriers should logically be entitled to avoid liability for failure to perform, as this was caused by exceptional circumstances. But they should not abuse their positions by asking shippers to pay for additional costs after the dispute ended; nor should they impose congestion charges before the statutory 30-day wait period for shipments moving under tariff terms.

For cargoes moving under service contracts, it looks as if lawyers will get involved in several disputes about the interpretation of the scope of “force majeure” and its application under a specific contract.

Carriers, shippers face MarAd, Customs dogma

Shippers and international container shipping lines are frustrated by the inflexible attitude of the U.S. Customs Service and the U.S. Maritime Administration concerning the movement of containers stranded at U.S. ports.

“Thousands of containers were discharged at the wrong port by carriers to avoid vessels getting caught in lengthy port delays during the U.S. West Coast port shutdown. Hyundai Merchant Marine, of South Korea, and other non-U.S. carriers, are believed to have asked for permission to move containers between U.S. West Coast ports on non-U.S.-flag vessels, but their requests were turned down.

The U.S. National Industrial Transportation League has asked the Customs to grant ocean carriers a temporary waiver from the Jones Act to allow them to move stranded containers. The NIT League believes the temporary waiver of the coastwise rule would help American industries, facilitate trade, and protect American workers from layoffs due to supply chain interruptions.

The NIT League told U.S. Customs that congestion has continued since the lockout ended on Oct. 9, and “the ongoing effects of the port closure has created a bottleneck that shows no signs of abating anytime soon.”

Under the Jones Act, a waiver can be granted in times of national defense. However, the Maritime Administration said the Jones Act must be upheld. MarAd wrote to U.S. Customs to say that it did not believe the current circumstances met the definition of the interest of national defense.

The arguments that the stranded containers coming from overseas origins were never intended to move between ports of the West Coast, and that a waiver would in no way threaten the U.S. domestic fleet, seem to have been lost among administration officials. In any case, the U.S.-flag container shipping is unable to provide this service at short notice and with the capacity required.

Lawyers at MarAd may be able to argue that moving stranded international containers between U.S. West Coast ports still falls under the jurisdiction of the Jones Act, but this dogmatic response will attract little sympathy among ocean carriers and shippers who will have to truck containers at much higher expenses.

A temporary waiver could probably have saved the U.S. industry millions of dollars.

Shipping cycle enters new phase

After a long phase of declining container freight rates, the trend seems to be turning towards rates picking up again.

CP Ships reported that it saw a small increase in average freight rates in the third quarter that broke a cycle of five previous, consecutive quarters of falling prices.

Higher prices and heavier volumes are coming to the rescue of container shipping lines, who have suffered dismal profit results in 2001 and in the first half of 2002.

CP Ships bounced back with a $17-million net profit for the third quarter, compared to a net deficit of $9 million a year ago.

“K” Line has revised upwards its group profit forecast for the current fiscal year, ending in March 2003, following favorable trends seen during the first half of the fiscal year.

The Japanese group said it has overcome adverse factors, such as higher-than-expected Yen and bunker oil price, “low-key markets” for bulk carriers and tankers and a drop in container freight rates.

For the rest of the current fiscal year, “K” Line predicts “movements of container cargo and vehicles staying as steady as during the first half, and (the) likelihood of recovery in container freight rates on the container trunk service routes.”

Ocean carriers have also announced substantial increases in transpacific freight rates for next year, and several price increases in the Atlantic and Asia/Europe trades — from current low price levels.

Will rates continue to increase in the fourth quarter and beyond?

“Going forward, it is our expectation that we will see that trend continue,” said Ray Miles, chief executive officer of CP Ships.
MSC goes for the top

Privately held carrier continues rapid expansion despite difficult market conditions.

BY PHILIP DAMAS

Without acquiring other shipping lines, without the financial support of a cash-rich parent company and without fanfare, Mediterranean Shipping Co. has climbed the ranks of the major containership operators and established itself as the second-largest carrier in the world.

The Geneva-based global carrier increased its container slot capacity in the last few months and overtook, in fleet size, both the Evergreen group and P&O Nedlloyd — respectively the former third- and second-largest carriers.

According to industry statistics, Mediterranean Shipping Co.’s fleet soared from about 253,000 TEUs in June 2001 to 391,000 TEUs in June of this year and 435,000 TEUs now (see graphic). That amounted to a 72-percent increase in shipboard capacity over less than 18 months.

“It was quite a natural growth,” said Gianluigi Aponte, founder and president of Mediterranean Shipping, in an interview at the company’s headquarters in Geneva.

“This was part of our strategy,” added Aponte, who knows his company’s container-slot capacity by heart. “Every day, we find new synergies, new potentialities.”

Lately, the carrier extended its transpacific container service to the U.S. East Coast, riding the trend towards all-water Asia/East Coast services. It also set up a transshipment hub at the port of Manzanillo, on the Pacific Coast of Mexico, allowing the shipping line to provide an Asia/West Coast of South America service by transshipment over Manzanillo by linking with a new West Coast of Mexico/West Coast of South America service, started in June.

Part of the brisk expansion of Mediterranean Shipping’s global fleet of containerships is also the result of the introduction of new 6,700-TEU vessels, since August 2001. The carrier has considerably boosted its slot capacity in the Asia/Europe container trade after phasing in the new vessels.

Aponte said the first 10 of a series of 16 large new ships have now been delivered, and assigned to the Asia/Europe trade.

More Services, Capacity. In November, Mediterranean Shipping Co. started its first direct U.S./Mediterranean service, as part of a new rotation for its existing “North Atlantic Service.”

The carrier added two ships and extended to the Mediterranean region its weekly U.S./northern Europe operation. Calls at Valencia, La Spezia and Naples are being included, while Bremerhaven is being dropped from the rotation. Two ships of around 3,200 TEUs are being added, increasing the number to six in total.

The revised port rotation of the “North Atlantic” is Baltimore, Norfolk, New York, Boston, Antwerp, Valencia, La Spezia, Naples, Le Havre, Felixstowe, Antwerp, Boston, New York, Baltimore and Norfolk.

In October, Mediterranean Shipping split its U.S. East Coast/South America East Coast service into two and added substantial capacity to this trade. The revised operation also provides additional service connections via the Bahamas hub of Freeport, located only a few miles away from the U.S. mainland.

Freeport, in the Bahamas, serves as the carrier’s connection point between multiple services. In addition to the two upgraded U.S. East Coast/East Coast of South America services, other main Mediterranean Shipping services calling at the Freeport hub include: a transpacific service via the Panama canal, a northern Europe/U.S. South Atlantic/Gulf/Mexico loop, a U.S. East Coast/North Coast of South America/West Coast of South America operation, a U.S. East Coast/southern Africa service and several Caribbean services.

In September, the company also added a second Asia/Europe loop — the only carrier to have increased its capacity in this trade since the beginning of the year. The new “Dragon Express” service utilizes eight ships of about 3,000-TEU capacities.

Concurrently, in August, Mediterranean Shipping completed the upgrading of its first Asia/Europe loop, by introducing its 10th 6,700-TEU ship, the MSC Loretta.

According to a recent World Liner Supply report of ComPair Data, the global liner-shipping database, Mediterranean Shipping more than doubled its Asia/Europe vessel capacity from October 2001 to October 2002, to reach an annual one-way capacity of about 510,000 TEUs.

Meanwhile, Mediterranean Shipping is also increasing its vessel capacity in the transatlantic trade, in the wake of an agreement to sell space to CMA CGM and Hapag-Lloyd on that route. In October, Mediterranean Shipping even introduced a post-Panamax containership in the Atlantic trade, the 4,918-TEU MSC Hudson, be-

“Every day, we find new synergies, new potentialities.”

Gianluigi Aponte
founder & president,
Mediterranean Shipping Co.

“The balance, I cannot tell you.”

The carrier’s ability to keep expanding in what is a difficult market with thin profit margins has puzzled industry analysts. Other carriers — such as Sinotrans Container Lines, United Arab Shipping Co. and Cho Yang Shipping — have been forced to reduce their capacity and activities in the Asia/Europe container trade.

Aponte offers no clear explanation as to how his company appears to be willing and able to increase its exposure and scale in the business, beyond the statement that the growth was planned and that total industry traffic volumes are also increasing.

“I don’t know why some of our competitors are cutting back,” he said.

However, Aponte agrees that the global container shipping business has become very competitive, and margins are small.

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lieved to be the first post-Panamax vessel to be deployed on the U.S./North Europe route. Mediterranean Shipping is traditionally one of the largest carriers in the U.S./northern Europe container trade, historically the first major east/west trade it has served. The carrier entered the Asia/Europe trade in the mid-1990s and the transpacific in 1999.

Aponte and Nicola Arena formed Mediterranean Shipping Co. (USA) Inc. in the mid-1980s, when Mediterranean Shipping started its transatlantic service. Arena, who was previously agent for the carrier, has been president of the American arm of Mediterranean Shipping since then.

**Competition Concerns.** The carrier serves five continents and calls at some 170 ports through a mixture of direct and transshipment services.

Whereas Mediterranean Shipping Co. has broadened its customer base and made a competitive impact among its rivals, it isn’t keen to help competitors find out what it is planning to do next. Mediterranean Shipping Co., a privately owned company, publicizes little information about its policy and plans, and does not publish its financial results.

“There are certain strategies that I cannot divulge to our competitors,” Aponte explained.

What is known, however, is that the company continues to be run with entrepreneurial flair, and with a strong focus on marketing.

Mediterranean Shipping also has a distinctive network of transshipment hubs on every continent that enable it to mesh its many long-haul services, north/south and local feeder connections.

Aponte said Freeport, Antwerp, Felixstowe, Le Havre, Piraeus, Singapore and Durban are among the carrier’s main hubs. Manzanillo in Mexico is the latest addition to the list of hubs.

Mediterranean Shipping and China Ocean Shipping Co. are now working on setting up a joint venture to run a container terminal in the port of Naples, Italy.

The involvement of the shipping line in running container terminals is little known in the industry. Aponte said his company has at least 15 container terminals, but would not say where they are located for competitive reasons.

Mediterranean Shipping and Stevedoring Services of America are due to move into the 170-acre Pier A container terminal

**Family Control.** While Mediterranean Shipping has grown over the years to cover all but a few trade routes around the world, it remains a family-controlled business.

Aponte has also brought in his son Diego to run the company’s container shipping and cargo activities, while his daughter Alexia is in charge of passenger shipping and fast ferries in the Mediterranean. Container shipping activities account for 95 percent of the company’s business.

Is Mediterranean Shipping more entrepreneurial than mainstream container shipping companies run by employees? “Everybody has to be entrepreneurial,” Aponte replied. “You have to move with the market.”

Founded in 1970 by Aponte, a former seafarer, Mediterranean Shipping has largely reinvested its profits over the years to grow the business.

The company has grown steadily, but has not engaged in mergers and takeovers in the 1990s, contrary to the likes of Maersk Sealand, P&O Nedlloyd and APL/Neptune Orient Lines, which boosted their volumes that way.

Alongside Y.F. Chang of Evergreen and Jacques Saade of CMA CGM, Aponte belongs to the generation of make-it-happen container shipping executives who set up a container shipping company and lifted it to the top ranks of the industry.

Asked why there appear to be no new container shipping entrepreneurs, Aponte replied: “I wouldn’t say that. When we started, it was a lot easier. It was a changing market. The competition was not so tough.”

Entrepreneurs in the 1970s could grab a piece of the industry transformation from general cargo ships to container ships with relatively little capital, he explained.

“Today, for a newcomer, it would be very difficult,” Aponte added. “You would need capital of at least $100 million.”

Also unusually for the containership industry, Mediterranean Shipping does not run its regional organizations as indepen-
"It was not a decision of ours to go with forwarders. We could not get direct shippers. Now, we have both the forwarders and the shippers."

Security. Mediterranean Shipping will follow the new U.S. rules on container security. "Rules are rules, and security is very important," Aponte said. "We want to cooperate with the U.S."

Asked what effect changing regulations are likely to have on shipping lines, Aponte said he believes such changes will have no business impact on carriers.

"Somebody will have to pay," he admitted. If the cost is "severe," it will have to be passed on to the end customers — the shippers.

Carriers alone cannot take care of security checks. "It must be done by an organization, by the terminals," he said. "We cannot check the containers, unless we are paid for it and told to do it." Security is the job of governments, he added.

Like most containership operators, Mediterranean Shipping has joined the U.S. Customs Service’s Customs-Trade Partnership Against Terrorism. The program encourages ocean carriers, shippers and others to support the U.S. administration’s policy against the carriage of weapons of mass destruction in cargo containers.

In August, Mediterranean Shipping said it has implemented an internal structure, and named senior executives, to address security issues globally.

Capt. Pasquale Formisano, director of the company, and Paulo Quariguasy, who was appointed liner security officer, are coordinating worldwide security efforts from the company’s headquarters in Geneva.

In the United States, Capt. Marvin Pontiff, manager of security and compliance, oversees the company’s security activities in North America.

‘K’ Line ties IT pieces together

Japanese ocean carrier seeks profitable use of computer systems.

BY CHRIS GILLIS

The information systems of Kawasaki Kisen Kaisha Ltd. are as diverse as the Japanese liner company’s services themselves. While the Tokyo-based company has no intention of remaking its systems, it has established a new subsidiary — “K” Line Global Systems — to create a digital thread to tie its operational pieces together worldwide.

“We started this new information technology company not because the old way wasn’t working,” said Daisuke Arai, senior vice president for “K” Line Global Systems, in a recent interview. “We’ll still have each operation working off its own system. But we will provide the means to allow them to work with each other more efficiently as a team.”

The development of “K” Line Global Systems is one of the requirements of the company’s three-year management plan to strengthen its overall organization through profitable use of computer systems.

“When you’re out on the road and you ask shippers about what they need in support capability, the conversation inevitably turns to technology,” said David N. Mills, senior vice president and corporate secretary for “K” Line America, based in Richmond, Va.

Mills said shippers want to know more about a carrier’s abilities to provide them information on a point-to-point basis throughout the entire transportation process.

“Carriers are moving freight on the same vessels and railroads,” Mills said. “We focus very hard on our service support capability, because that’s what we have to sell and that’s what’s needed to be competitive today.”

The organization of “K” Line Global Systems has been under development for about a year. It was officially launched by “K” Line in early September.

Shipper Driven. “K” Line has long prided itself on the ability of its operating units to stand alone, and to build their own businesses. When one operating unit experiences a softening in revenues, others generally pick up the slack.

Systems of the various operating units have been developed at varying degrees. Last year, for example, “K” Line’s liner service rolled out a comprehensive system covering container fleet control and vessel scheduling. Supporting aspects, such as online booking and documentation, will be added soon.

In recent years, however, “K” Line executives have experienced an increase in shipper service requests that overlap operating units, such as containership activities, consolidation and warehousing, inland transport, logistics management, and air-freight services.

While the company can accommodate these shippers, it often requires “K” Line’s employees to switch between systems of the different operating units.

“Each “K” Line company has its individual customers, which they will continue to support,” said James J. McCullen, vice president of information systems for Century Distribution Systems. “But now we’re seeing more customers with global logistics needs.”

Century is a freight logistics management operation of “K” Line. The company, which consolidates merchandise in more
than 40 ports and inland shipping hubs throughout Asia, the Indian Subcontinent and Europe, handles about 100,000 TEUs of cargo a year.

In 1998, the company introduced Internet tracking software, called Enterprise-PCL. The system manages shipments down to the purchase order or stock-keeping unit (SKU) levels. Century receives and loads status updates from overseas vendors, U.S. customs brokers, freight forwarders, truckers and distribution centers in its database. Over the years, the company’s in-house technical staff has continuously enhanced the system.

“Our customers are constantly changing their logistics requirements, demanding more from us as their service provider,” McCullen said. “We’re continually redeveloping ourselves.”

Century’s staff wants to provide instant “customized” responses to shippers with varying transportation logistics requirements. “We need to provide them with visibility all the way through the process,” McCullen said.

“K” Line Global Systems’ prescription for meeting shippers’ diverse transportation and logistics requirements won’t come through building a new system. Shauny Moore, vice president of “K” Line America’s Information Systems Division, said the new operating unit would simply create a platform for each of the carrier’s global offices to deal with customers more efficiently.

“K” Line Global Systems must support a variety of automated communication mediums, such as electronic data interchange and XML (extensible mark-up language), in addition to interacting with Web-based services, such as Bolero.net and ocean carrier portal GT-Nexus.

“It’s neither about migrating data from one operation to the next, nor about storing it in one place,” McCullen said. “It’s about exchanging and sharing information.” “Everyone needs to reduce costs in today’s environment,” Arai added. “We want to be a value center to our group of companies and customers.”

Business Minded. “K” Line Global Systems comprises staff from among the different operating units in its four regional offices: Tokyo (headquarters), Singapore, London and Richmond. While most of the staff has technical understanding of systems, “K” Line Global Systems will place a heavy emphasis on the practical knowledge of the business and its customers.

Daisuke Arai
Senior vice president, “K” Line Global Systems

“What we’re trying to do is put more business people into the IT department. We need to know what the customers are asking from our IT.”

Arai spent most of the past 19 years of his career at “K” Line in container shipping. During the past two years, he was a manager in the carrier’s information technology strategy team.

“What we’re trying to do is put more business people into the IT (information technology) department,” Arai said. “We need to know what the customers are asking from our IT.”

The company also decided to base “K” Line Global Systems in Richmond, not because of the proximity of its location to the other regional offices, but because U.S. shippers have tended to place the most demands on “K” Line’s systems, Arai said.

Since 1996, “K” Line America has operated a centralized customer service and documentation center in Richmond. The center operates extended hours and covers the United States, Canada and Mexico. “K” Line’s North American regional office also manages transpacific pricing.

The London office manages the transatlantic and Asia/Europe services pricing, while Singapore oversees pricing for business in intra-Asia, Australia and Africa. The Tokyo office manages equipment control, ship financing and other broad liner operations issues.

To ensure that “K” Line Global Systems has a clear picture of the corporate-wide systems of the company and the needs of the users, it holds an annual world information conference among its systems and business staff. The sixth-annual meeting was held in Shanghai in early November. In addition, systems committees from each of the four global regions hold quarterly meetings.

The “K” Line Global Systems staff may expand in Richmond as its activities increase, company officials said.

To the shipper, the work of “K” Line Global Systems will be gradual and largely transparent. “Customers will have visibility to the information that’s important to them,” McCullen said. “They don’t have to worry about how it gets to them.”

Maersk Line Ltd. seeks MSP control

WASHINGTON
Maersk Line Ltd., the U.S.-flag vessel operator of A.P. Moller/Maersk, has asked the U.S. Maritime Administration to confirm its eligibility as a Maritime Security Program provider to bring all its U.S.-flag vessels enrolled in the program under its direct management.

Maersk Line Ltd. manages four U.S.-flag vessels in MSP and another 15 ships indirectly under U.S. Ship Management, a section 2 citizen corporation established when A.P. Moller/Maersk took over the vessels from former Sea-Land Service.

Under its 1999 MarAd-approved operating contracts, Maersk Line Ltd. claimed that U.S. Ship Management agreed to transfer direct operation of the vessels to Maersk should Maersk Line Ltd. elect to become the MSP contractor.

John P. Clancey, chairman of Maersk Inc., told a House Armed Services MSP reauthorization hearing this summer that direct management of the 15 U.S. Ship Management ships would save the company millions of dollars in operations costs a year.

With the MSP ships, Maersk Line Ltd. operates upwards of 50 U.S.-flag ships in commercial and government service, including vessels used for top secret duties.

“Transferring the MSP operating agreements under existing law makes complete sense,” said John F. Reinhart, chief executive officer of Maersk Line Ltd. “It lets us bolster our fleet and do a better job for the U.S. government.”

Also under Maersk Line Ltd.’s direct control, the 19 MSP vessels would continue to be owned by the same section 2 citizen companies that own them today, ensuring the Defense Department’s control and ac-

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access to the vessels, the company said.

In addition, Maersk Line Ltd. said the ships will “remain U.S.-flagged supporting U.S. global trade and national security, and will be crewed by the same American seafarers that man those vessels today.”

MSP was created under the 1996 Maritime Security Act and is managed by MarAd. The program provides the federal government with immediate access to 47 military-useful commercial container and roll-on/roll-off vessels during times of war or national emergency. To help offset the higher vessel operations costs, the federal government pays the MSP vessel operators $2.1 million per ship annually.

The U.S.-flag vessel industry has already started lobbying Capitol Hill for reauthorization of MSP. Carriers and union leaders asked Congress to increase the number of ships enrolled in MSP to 60 and raise the level of government payment per ship in the program to $3.5 million annually.

Kenneth C. Gaulden, senior vice president of Maersk Line Ltd., said the “administration approach” to directly manage its 19 MSP ships should be acceptable under current legislation and regulation. “MarAd’s authority to proceed would remove this issue from the legislative debate for reauthorization of MSP,” he said.

U.S. Ship Management executives called Maersk Line Ltd’s newest actions underhanded.

“Maersk Line Ltd. having spent the past two and one half years in a futile effort to convince the Congress to adopt special purpose legislation that would allow a foreign controlled company to hijack the Maritime Security Program has now apparently claimed that they were only fooling and that the legislation isn’t really necessary,” said Joseph Keegan, president and chief executive officer for U.S. Ship Management.

“Maersk apparently thinks that they have some contractual slight of hand that would allow them to take this unprecedented action at this time,” Keegan added. “They are clearly mistaken.”

MarAd protects Jones Act on West Coast

Foreign-flag carriers, shippers press U.S. Customs for temporary waiver to domestic shipping law.

WASHINGTON

U.S. Maritime Administrator William G. Schubert told shippers and ocean carriers caught up in the recent West Coast port labor strife that U.S.-flag carriers are ready to ease cargo congestion.

A number of liner carriers emptied their ships of containers at the closest West Coast port in anticipation of the late September port lockout. This has caused heartburn for shippers who still await delivery of some of their containers stuck on congested West Coast terminals.

“Qualified (U.S.-flag) vessels are standing by with available tonnage on the West Coast to assist any shipper or carrier in moving cargo forward as necessary,” Schubert said.

The domestic waterborne trades are regulated under the U.S.-flag vessel requirements of section 27 of the 1920 Merchant Marine Act, also known as the Jones Act.

U.S. Customs has considered granting foreign-flag vessel operators waivers to the Jones Act to help clear up the cargo congestion between West Coast ports. MarAd said this action would violate the law, which only permits waivers during times of national defense.

“The Maritime Administration does not believe that these current circumstances meet the definition of the interest of national defense, and hereby requests that the Customs Service instruct all personnel to enforce the provisions of the Jones Act,” said Schubert in an Oct. 9 letter to Customs Commissioner Robert C. Bonner.

The American Maritime Congress, on behalf of a group of U.S.-flag vessel operators and maritime union Marine Engineers Beneficial Association, also defended maintenance of the nation’s maritime cabotage laws on the West Coast.

“Most of the responsibility for the congestion and confusion at West Coast ports is directly due to the actions of the very same foreign-flag shipping lines that now are seeking exceptions to the Jones Act,” said Gloria Catanese Tosi, president of the American Maritime Congress in an Oct. 30 letter to Bonner.

“Waivers contrived strictly for economic convenience are not allowed under any circumstances, and if allowed by your agency, would soon unravel this vital pillar of American merchant marine policy,” Tosi warned Customs.

Some Jones Act carriers with operations on the West Coast said they have capacity available to offer foreign-flag carriers and shippers.

CSX Lines said it would divert a ship, if needed, to take cargo containers between Los Angeles and Oakland and to provide other lifts to ease congestion.

Naknek Marine in Seattle, Crowley Marine Services and Foss Maritime said they have tugs and barges available to reposition containers.

Totem Ocean Trailer Express said it has the ability to reposition one of its three Alaskan ships to move cargo in the Jones Act trade or carry foreign cargo as early as December.

“The Maritime Administration is carefully evaluating all potential alternatives that would alleviate congestion in the ports, and expedite the delivery of cargo to its final destination,” Schubert said. “We would strongly encourage all non-Jones Act qualified carriers to consider utilizing the available domestic carriers for this purpose.”

However, Customs remains under pressure from foreign-flag carriers and shippers to grant the Jones Act waivers.

NIT League. The National Industrial Transportation League asked Customs for a 90-day temporary waiver to the Jones Act. The waiver “would be an effective means of alleviating the congestion, delays and stranded containers and equipment, that have resulted from the 10-day closure of the West Coast ports,” said Edward M. Emmett, president of the NIT League, in a letter to the agency on Oct. 23.

Referring to MarAd’s call for using available Jones Act carriers, Emmett said, it would be “illogical to introduce more vessels into the already massively congested areas in and around the West Coast ports.”

The NIT League president also noted that the exclusive use of Jones Act carriers would lead to further cost increases for shippers.

“The health of many shippers and carriers is already strained by current economic conditions,” Emmett said. “Adding more costs to transportation services that, in many cases, have already been contracted and paid for would only have further adverse repercussions for such businesses and the economy as a whole.”

The NIT League affirmed that it was not its objective to undermine the Jones Act or U.S.-flag carriers. “These are extraordinary circumstances which merit special action,” Emmett said.
Eimskip: Where carrier meets cargo

Icelandic liner operator expands logistics coverage for North Atlantic niche markets.

BY CHRIS GILLIS

The executives at the Icelandic Steamship Co. may know more about M&Ms than most carriers in the ocean container business. Besides transporting the candy-coated chocolates to Iceland, the liner carrier, better known as Eimskip, makes sure that each bag in the ocean container is properly labeled so the importer complies with the European Union’s stringent food labeling laws.

“We’re trying to promote trade to Iceland and we work closely with businesses in the United States and elsewhere to do that,” said Gardar Thorsteinsson, vice president and general manager of Eimskip USA, based in Virginia Beach, Va.

Eimskip operates from its Icelandic homeport of Reykjavik. Its liner services spread out into the northern reaches of Europe and North America. Most liner operators can only access these markets by feeder services, a less personalized way to deal with Icelandic shippers who closely monitor their transportation activities.

While many shipments are ready-made for Iceland’s 260,000 consumers, some goods require modifications or special handling for admission into the market. Eimskip can manage this activity itself or through third-party arrangements.

“We declared to ourselves years ago that we would be a market-driven transportation and logistics services company. Thus we need to know how to help the customer,” Thorsteinsson said.

In the coming years, the company expects more Iceland-bound cargoes will require special treatment. Eimskip recently started working with an Icelandic importer to ensure that U.S.-built campers meet EU operation and construction codes. Eimskip also manages the transportation logistics for the campers from the United States to Iceland, Spain and other European markets, said Gylfi Sigfusson, director of sales and marketing for Eimskip USA.

Niche Focused. Eimskip has been focused on niche business for more than 80 years. The company has long provided ocean transportation services to the North Atlantic fishing industry. Eimskip caters to some of the biggest names in the international seafood business, such as Icelandic USA Inc. (formerly Cold Water Seafood Corp.), Iceland Seafood Corp., Fishery Product International, and National Sea Products of Canada.

Although the carrier moves other types of freight, it continues to develop and expand its handling of perishable cargoes. “Temperature-controlled cargo is our specialty,” Thorsteinsson said.

Eimskip’s home market is in the middle of some of the richest fishing grounds in the North Atlantic. Fishing trawlers discharge seven days a week at Eimskip reefer container stations in Iceland at Reykjavik, Hafnarfjordur, the Westman Islands, Akureyri and Isafjordur. The service is also available at Argentia in Newfoundland, Tromso and Aalesund in Norway, and Torshavn in the Faroe Islands. Eimskip then transports the fish to ports in continental Europe, Scandinavia, United Kingdom on a weekly basis and to the East Coast of North America on a biweekly basis.

Many of the North Atlantic ports served by Eimskip are of little interest to most liner carriers, which are focused on the higher profile container markets between North America, Europe and Asia.

However, Eimskip isn’t beyond handling non-North Atlantic cargoes. The company’s logistics operations will work with shippers to move cargoes with other carrier services to anywhere in the world.

The company has also recently turned its attention to “interport” frozen seafood cargo moves, such as from the East Coast of Canada to the U.S. East Coast by vessel, or from Alaska to Newfoundland by rail and vessel. Eimskip also provides through services to markets in the Far East. “We see significant growth in this area,” Thorsteinsson said.

In addition, Eimskip continues to enrich the shipper services in the niches it serves. Besides the seafood industry, Argentina, for example, has paper and mining industries, which require both inbound and outbound container services from Eimskip, Sigfusson said.

Logistics Thread. To efficiently serve niche markets, Eimskip has had to make substantial investments in the management of landside and intermodal logistics controls.

In Reykjavik, Eimskip will expand its terminal warehouse operation from 43,000 square feet to 137,000 square feet by May. The new warehouse, the largest in Iceland, will have capacity to handle up to 21,000 pallets. Many consumer goods will be shipped from the warehouse to destinations...
Throughout Iceland, Sigfusson said.

Since the early 1990s, Eimskip has developed a large logistics network in the United Kingdom and Benelux countries. The company’s offices in Rotterdam; Hamburg; Aarhus, Denmark; and Immingham and Felixstowe in the United Kingdom provide warehousing, freight consolidation, forwarding, temperature-controlled cargo services, ship agency work and project transportation.

The acquisitions of Gelders Spectra in the Netherlands, Giske Shipping of Norway and TVG-Zimsen in Iceland have allowed Eimskip to expand its international forwarding services in recent years.

To further expand its so-called “total transportation service,” Eimskip acquired several air-freight forwarders in the 1990s: Faroe Cargo in the Faroe Islands, MGH Riga SIA in Latvia, Malensteins Air in the Netherlands and Pelican Cargo in the United Kingdom.

Most Eimskip Group companies offer air-freight forwarding services, but its biggest use has been through its subsidiaries in the Netherlands and Faroe Islands. Air shipment sizes vary from parcels to pallet-loads of perishable goods, Thorsteinsson said.

Since last year, Eimskip has also invested heavily in information systems to more efficiently support its transportation logistics services. Corporate subsidiary Skyggnir hf. will develop the systems for the company.

Liner Adjustments. While logistics services increase at Eimskip, the backbone of the company continues to be its liner transportation.

Iceland is a small container market in global terms, but it’s still highly competitive among the carriers serving the country. Eimskip controls about 65 percent of Iceland’s total import and export volume. The rest of the trade is divided between Samskip, another Icelandic carrier, and U.S.-based Trans Atlantic Lines.

In 2001, Eimskip moved about 130,000 TEUs in 2001 and expects to move about the same amount this year. However, Eimskip received an increase in overall breakbulk tonnage during the past two years, due to an increase in industrial production in Iceland and increased palletized reefer shipments.

Two years ago, Eimskip made some changes to its liner fleet. The company brought in two 1995-built 1,457 TEU containerships to replace four aging containerships, including three chartered vessels, which were returned to their owners. Instead of six vessels sailing to Europe, the company now has four vessels serving mainland Europe and Scandinavia.

The two 1,457 TEU containerships — the Gooafoss and Detjifoss (“foss” in Icelandic means “waterfall”) — sail on a route calling at Reykjavik and other Icelandic ports and onto ports in the Faroe Islands, the Netherlands, Germany, Denmark, Sweden and Norway. Two 1990s vintage 724-TEU containerships — the Selfoss and Bruafofs — operate in Eimskip’s Iceland-Immingham-Rotterdam route.

Eimskip operates two 1980s-built containerships — the 413-TEU Skogafoss and 541-TEU Hauksdust — on a biweekly service from Reykjavik to Argentia; Shelburne, Nova Scotia; Everett, Mass.; Philadelphia; and Norfolk. At Norfolk, the ships return to Reykjavik via Shelburne and Argentia.

“We declared to ourselves years ago that we would be a market-driven transportation and logistics services company. Thus we need to know how to help the customer.”

Gardar Thorsteinsson

The company operates a 518-TEU vessel, the Manafoss, in the Icelandic coastal trade and charters the 732-TEU vessel, Lyra, abroad.

With its liner ships, Eimskip has a container fleet of 13,600 TEUs of which 3,300 TEUs are reefer units and 300 TEUs are insulated containers. The insulated containers were purchased last year for fresh seafood transport.

Eimskip’s vessels fit well into off-line markets in the North Atlantic. Onboard cranes allow the company to load and unload at ports with less-developed container terminals.

The containerships also allow the company to transport breakbulk shipments. Eimskip often transports aluminum bars in certain vessel cargo slots for destinations in Europe. Alean and Nordural operate smelters in Iceland. Alcoa also plans to build a large smelter on the East Coast of Iceland.

In addition to its eight containerships, Eimskip operates three reefer ships, ranging in size from 1,200 tons to 2,300 tons, which operate in a triangular service between Iceland, Norway and the Iberian peninsula of Europe, and a 1,750-ton bulk vessel, Trinket. Eimskip will charter additional capacity on an as needed basis to meet shipper requirements.

Like most liner carriers in recent years, Eimskip’s profitability has suffered from the general downturn in the global economy and shrinking container rates.

In 1998, Eimskip lost its bid for the U.S. Army contract to then upstart Trans Atlantic Lines to transport cargo to the American military base in Keflavik, Iceland (The company plans to re-bid for the contract next year).

Meanwhile, the Icelandic Steamship Co.’s investment holding company Burdaras hf. has increased its stake in the seafood industry and other non-liner businesses. Burdaras owns a 31-percent share of Icelandair, as well as firms in the software, telecommunications, banking, insurance and biotechnology industries.

Earlier this year, the parent company of Eimskip, the Icelandic Steamship Co., decided to separate its operations into three independent units: transport, seafood and investments. A plan was presented at a board of directors meeting in Reykjavik on Nov. 5 and approved. The new organization will take effect in early 2003.

The Iceland Steamship Co. will handle strategic planning for the group and various shared service projects in the areas of investment, financing and strategic planning. The parent company will also monitor the profitability of subsidiaries and is responsible to the shareholders, said Ingimundur Sigurpalsson, managing director of the Icelandic Steamship Co.

The senior management team for Eimskip transport company, based in Reykjavik, includes Erlendur Hjaltason, managing director; Gudmundur Thorbjornsson, senior director of sales and marketing; and Hoskuldr H. Olafsson, senior director of operations. The Eimskip board of directors will include five members and Sigurpalsson was named chairman.

Eimskip expects profitable results for 2002 largely due to the strengthening value of the Icelandic krona. During the first nine months of this year, the Eimskip Group’s operating revenues was $198 million with a consolidated profit of $44 million. This positive outcome is largely based on exchange rate gains on financial liabilities because of the strengthening of the Icelandic krona and this year’s unrealized gains on listed shares owned by the group, the company said.

The Icelandic Steamship Co. overall is the largest of 75 companies listed on the Iceland Stock Exchange with 17,000 shareholders and market capitalization of more than $250 million in 2002. “Most Icelandic citizens have forefathers invested in this company,” Sigfusson said.
Railroads post strong 3rd quarter

Intermodal shows growth despite West Coast port problems.

JACKSONVILLE

Most U.S. Class I railroads reported strong third-quarter results, despite continued economic woes and the ongoing West Coast labor dispute.

In fact, Union Pacific Corp., the major western Class I railroad, reported record net income for the third quarter of $437 million, a 63.7-percent increase over the third quarter of 2001. The record income includes gains from a transaction with the Utah Transit Authority as well as a tax settlement. Excluding those items, UP’s quarterly earnings are up 14 percent.

“Union Pacific combined record revenues with all-time productivity levels to produce great results,” said Dick Davidson, chairman and chief executive officer. “We achieved double-digit growth in earnings per share for the fourth straight quarter.”

Excluding results from Overnite, its trucking subsidiary, UP also reported record operating income of $619 million, up 11.3 percent. Other quarterly records set were operating revenues, $2.85 million; commodity revenue, $2.73 billion, up 4 percent; operating margin, 21.7 percent; operating ratio, 78.3 percent, total revenue carloads, 2.36 million, and employee productivity.

Among commodities, all groups showed increases except energy, which was down 3 percent. Automotive revenue was up 13 percent, intermodal up 9 percent, agriculture and industrial products rose 4 percent and chemicals increased 2 percent.

The impact of the West Coast ports shutdown will be a factor in UP’s fourth quarter. The railroad struggled when slowdowns at the ports wreaked havoc as UP faced congestion issues while trying to merge its operations with the former Southern Pacific.

“We have been facing some challenges in the wake of the port disruption,” Davidson said. “Fortunately our strong rail franchise gives us the revenue diversity and network flexibility to rebound rapidly.

CSX. CSX Corp. said third-quarter net income improved 27 percent to $127 million, as real estate gains and decreased interest expenses more than offset slumping rail and intermodal results.

Operating income for CSX Transportation, the company’s rail unit, and CSX Intermodal was $227 million, down from $237 million for the third quarter of 2001.

“The rail group’s performance in the third quarter marked a departure from the consistent year-to-year gains we have been seeing the last two years,” said John W. Snow, chairman and chief executive officer of CSX Corp. “We are confident that the problems we saw in the third quarter are now well behind us and look forward to delivering much stronger fourth-quarter results.”

CSX Corp.’s revenues were $2.06 billion, up from $2.02 billion for the year-earlier quarter. Rail and intermodal revenues were flat at $1.79 billion.

The slump for CSX’s surface transportation units came largely from weakened coal demand and a $15-million increase in operating expenses.

CSX Transportation reported operating income of $188 million, down from $200 million, on revenue of $1.47 million, down from $1.50 million in the third quarter of 2001.

CSX saw operating income improve to $39 million, from $37 million in the same quarter in 2001. Revenue was $313 million, up $17 million from the year-earlier quarter. Coal volumes declined while revenue fell 8 percent to $382 million. However, these numbers were offset by increases in merchandise, automotive and intermodal. Merchandise loads increased 2 percent and revenues increased 2 percent to $871 million. Automotive volumes rose 4 percent and revenues increased 6 percent to $195 million. Intermodal loads and revenue improved 9 percent, with revenue topping $313 million. International volumes were boosted by increased imports and pre-shipping in anticipation of West Coast labor disruption.

Teamsters end strike against Overnite

RICHMOND, Va.

The Teamsters union has ended its three-year strike against Overnite Transportation Co., the trucking unit of Union Pacific Corp. The Teamsters had been trying to organize the nationwide trucking company’s workers on a city-by-city basis since 1994. The Teamsters won over workers at 27 of Overnite’s 170 terminals, but the union and the company were never able to reach a contract, so the Teamsters called a strike in October 1999.

Both sides waged a contentious battle, accusing each other of bribes, violence and destruction. The union claimed Overnite refused to recognize the union and negotiate and it punished and fired workers who favored the union.

About 2,000 Overnite workers initially honored the strike. That number was down to 300 to 500 by the strike’s end, and most of those had moved onto other jobs.

The Teamsters claimed gains were made during the strike, pointing out that hourly wages nearly quadrupled, from $5.25 to $19 an hour, and Overnite now pays overtime and provides improved health care, pension and vacation benefits, a union spokesman said.

An Overnite spokesman said the National Labor Relations Board told the company that three of the 26 locations where the Teamsters represent workers have voted out of the union. Workers in Rockford, Ill. recently voted for Teamster representation.

Overnite reported a 19-percent increase in third-quarter operating income of $25.6 percent, on a pro forma basis.
Virginia builds for container future

Mid-Atlantic deepwater port attracts large shipper warehouse operations.

By Chris Gillis

The Virginia Port Authority has plans to build one of the largest container terminals on the U.S. East Coast, but it couldn’t come fast enough.

The first 220 acres of the proposed 600-acre Craney Island terminal won’t be ready until 2012. The port authority’s existing terminals, at projected levels of container volumes, will reach capacity within the next eight years.

That’s why Virginia port officials welcome the recent private purchase of 566 acres by A.P. Moller/Maersk at Portsmouth to build a $385 million, 200-acre container terminal by 2005, with the possibility of expanding to about 300 acres.

“A new Maersk terminal would definitely help us along,” said J. Robert Bray, port director at the Virginia Port Authority, based in Norfolk.

The Port of Virginia handled 1.3 million TEUs of containers in 2001. By 2010, container volumes in the port are expected to reach 2 million TEUs.

Anthony A. Scioscia, president of Charlotte, N.C.-based APM Terminals North America, the terminal management division of A.P. Moller/Maersk, said construction of the Maersk Sealand terminal is not yet “a done deal,” due to environmental permits and economic forecasts. He would also not comment on the financing for the new terminal.

APM Terminals hopes to firm up its terminal development plans in the Port of Virginia by the middle of next year. “If things go the way we like, we’ll build one of the largest terminals on the East Coast,” Scioscia said.

APM Terminals recently oversaw the completion of the largest container terminal on the U.S. West Coast, known as Pier 400 in the Port of Los Angeles.

While APM Terminals continues to explore options for terminal development in other East Coast ports, such as Charleston, S.C., and Savannah, Ga., the Norfolk area offered one of the best opportunities for the company to buy land.

Maersk Sealand’s ships currently use 71-acres at the Virginia Port Authority’s Portsmouth Marine Terminals. “We’re very close to capacity,” Scioscia said.

While new terminal plans take shape, the Virginia Port Authority continues to make improvements to its existing terminals. A 20-year, $400-million port capital improvement plan includes $72.5 million for channel dredging, wharf repair, paving and roofing. Another $38.5 million will replace outdated equipment and $56.5 million will go to replace or demolish obsolete facilities. The biggest portion of the spending—$251.1 million—will cover upgrades to its 811-acre Norfolk International Terminals, including the installation of eight new, Suez-class cranes.

“All the carriers are looking at further expansion,” said Joseph A. Dorto, general manager and chief executive officer of Virginia International Terminals. “We have the benefit of the deepest port on the East Coast to serve their needs.”

Market Shift. The Port of Virginia has handled container traffic since the 1970s. In the early years, the port relied heavily on exports of agricultural commodities, such as logs, lumber, tobacco and paper. However, since 1997, these containerized commodities have declined in the largely truck-driven Port of Virginia and large amounts of these cargoes now ship through other Northeast ports by the railroads.

“It is obviously apparent that these commodity groups must be replaced by other types of cargo for the port to sustain its competitive position,” said Carroll Harris, senior managing director of marketing services for the Virginia Port Authority, who retires at the end of November. “This loss in commodity trade has been replaced by...
imports of more finished general merchandise products.”

Europe still represents the largest container trade lane for the Port of Virginia at 47 percent. “Exports to Europe have been weak out of this port for a few years, but we have seen exports to Europe rebound significantly this year,” Harris said.

Imports from China and other Asian countries are on the rise at the port, and now account for 28 percent of the container volume. “Traditionally exports of goods to Asia were considerably larger than imports due to commodity and raw materials moving into those countries,” Harris said. “These are still huge markets, but imports of finished goods have grown tremendously.”

The Latin American trade accounts for 11 percent of the port’s container volume. Port officials believe this has a lot to do with the large investments by automakers in these markets, which feed shipments back into the United States. The remainder of cargoes move between the port and other overseas markets.

Five years ago, export containers accounted for about 60 percent of the Port of Virginia’s container business. Today export and import container volumes are balanced. “If the current import trend continues from Asia, as I believe it will, we could see import containers move toward 60 percent of our total port moves,” Harris said.

**Shipper Draw.** In recent years, the Port of Virginia has caught the attention of some of the country’s largest container shippers.

“There are a great deal of all-water services that are being priced attractively into Norfolk and rail freight to the Midwest is traveling in a reverse mini-landbridge fashion,” Harris said.

“Some will tell you it is a temporary spike in business caused by the current labor negotiations on the West Coast,” Harris added. “I personally believe that some of this new business comes from diversion, but it is less than 15 percent. The rest has to do with the realignment of steamship line services and equalization of delivered cost to many of our major Midwest markets.”

Distribution-related business represents about 15 percent of the port’s loaded containers and it’s expected to increase to 25 percent of loaded containers by 2005. Three years ago, this business only accounted for 3 percent of loaded containers in the Port of Virginia.

“These distribution, deconsolidation and light assembly facilities are where the port’s most rapid growth is coming from and where we are spending the majority of our development efforts,” Harris said. “It locks in the freight and eliminates competitors from luring away steamship lines for a small break in terminal handling rates.”

“We see a general movement of distribution centers to this area,” Scioscia said. “We want to be in a position to accommodate that movement.”

Companies that have set up warehouses near the port during the past five years include Iceland Seafood, Family Dollar, Dollar Tree, Ferguson Enterprises,

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**VPA looks to the roads**

**Tax to help fund transportation infrastructure rejected by Virginia voters.**

**NORFOLK, Va.**

The Virginia Port Authority knows that without efficient roads its future container business could be hampered.

The Virginia state government had proposed to increase the retail sales tax by a penny and use the revenue to issue nearly $6 billion in bonds to help pay for six major road projects. But voters rejected the transportation referendum during the Nov. 5 elections.

Port officials and industry, which lobbied hard for the transportation referendum, were disappointed by the vote. Many officials believe that Virginia’s general public doesn’t grasp the urgency to fund the construction of more efficient roads.

“The region’s economic competitiveness and our quality of life depend on better transportation,” said J.J. Keever, executive vice president of the Hampton Roads Maritime Association, which endorsed the transportation referendum. The transportation referendum would have helped to fund six projects:

- Add a third crossing of Hampton Roads.
- Widen Interstate 64 on the peninsula.
- Improve U.S. Route 460 to highway standards.
- Build a second tube to the Midtown Tunnel.
- Develop the Southeastern Parkway and Greenbelt.
- Improving regional transit systems.

Virginia state officials said they would have to find other ways to fund these road projects, because the improvements are needed to prevent gridlock in the region.

The port authority and industry are not alone in their concerns about making road improvements in and around cargo terminals. A U.S. Maritime Administration report, released in early November said that while intermodal access to the country’s ports is “good enough for now,” it would likely come under strain in a few years.

“Getting a ship into port is only part of the story,” said Maritime Administrator William G. Schubert. “If the goods can’t move quickly away from the water, then our transportation system isn’t doing the job.”

The report, *Intermodal Access to U.S. Ports*, was based on a survey of 70 percent of American ports, with a focus on the conditions of roadways, rail and water-side access.

“Significant access issues are found on the local access roads to ports, and at-grade rail crossings,” MarAd said. “Truck-only routes are of increasing significance as cargo volumes grow, and there is critical need to separate freight and passenger traffic on local roads and on state/inter-state roads.”

However, the report found “positive results” for local intermodal investments. More than 90 percent of the ports surveyed reported “acceptable or higher conditions in terms of availability of on-dock rail facilities and aids to navigation on the waterways,” MarAd said.
Congress passes port security bill

WASHINGTON

U.S. Congress passed legislation in mid-November to tighten security in the nation’s seaports and on arriving cargo vessels. The so-called “Maritime Transportation Security Act of 2002” had been held up in a Senate-House conference for months, but lawmakers in the lame-duck session were determined to pass the legislation.

“This legislation goes a long way toward tackling the many concerns facing the transportation industry as port security has remained one of the most difficult and least understood vulnerabilities to the American economy,” said Sen. John Breaux, D-La.

Development of the legislation, which started before the Sept. 11, 2001 terrorist attacks as a seaport antiterrorism bill (S.1214), was largely spearheaded by Senators Ernest F. Hollings, D-S.C., a leader of the Senate Committee on Commerce, Science and Transportation, and Bob Graham, D-Fla.

The legislation sets out a range of security measures to be carried out largely by the Customs Service and Coast Guard. These measures, some of which are already in place and largely follow proposed International Maritime Organization security guidelines, include:

- Creating local port security committees to coordinate efforts among federal, state, local, and private law enforcement agencies.
- Mandatory comprehensive security plans for all ports.
- Limited access to “security-sensitive” areas in ports, firearm restrictions, and employee background checks.
- Changes to advance cargo information requirements for Customs, including both import and export manifests.
- A sea marshal program and Coast Guard authorization to board ships entering U.S. ports to deter hijackings or other terrorist activities.
- Automatic identification systems on board vessels navigating in U.S. waters, in addition to a long-range vessel tracking system on international voyages that include U.S. waters to effectively track vessel movements.
- A controversial industry user fee to pay for the increase maritime and port security measures was pulled from the legislative negotiations in mid-October. However, Hollings and Graham said Congress would revisit port security funding in six months.

“I remained concerned that we are writing the check for security at our ports while we still need to put the money in the bank to cover it,” Graham said. “A sustained, reliable funding source for security at our ports is the only way these improvements will become reality.”

It will cost the nation’s seaports and related security activities about $4 billion to fully comply with the security initiative. Florida’s public marine terminals alone will spend about $220 million in security upgrades.

For now, the legislation establishes a grant program to help port facilities improve their security. It also authorizes $90 million in research and development grants to help Customs to more efficiently inspect containerized cargo and $33 million for development of security training and certification programs for federal, state and private security personnel. The legislation also authorizes $6 billion for the Coast Guard’s fiscal 2003 budget.

Passage of the legislation should be viewed as part of a “layering effect” to enhance security in all transport modes, including ocean, air, truck and rail, said Peter Gatti, vice president of international policy for the National Industrial Transportation League.

Gatti said the challenge for the new Homeland Security Department will be the coordination of requirements for the various transportation security-related legislation and the enforcement activities of the agencies under its management.
Getting the story

A primer for the mainstream media on the West Coast ports dispute.

BY THEODORE PRINCE

It is rare for the freight transportation industry to get extensive coverage in the general media — unless there is a disaster or accident. The recent events on the West Coast ports are therefore noteworthy. Front-page coverage and leads on the evening news were common. Unfortunately, although the news stories were plentiful, they were not told well. In looking for the 10-second sound bite (or the clear article lead), reporters often missed — or misunderstood — key issues. (i.e. CNN kept referring to a contract between the union and “shippers” — although there is no such contract.

Since this issue is far from over, it seems a good idea to clarify some of the major issues.

Who is involved? This West Coast dock labor dispute involves a multiple-employee and multiple-employer contract. These were very common a generation ago, but they are seen less frequently today, as employers and unions have negotiated tailored agreements reflecting the nuances of specific industries and local conditions (The upcoming national negotiation between the Teamsters and Trucking Management Inc. is another multiple-employer, multiple-employee contract).

The employees, all members of the International Longshore and Warehouse Union, are in the union’s Longshore Division, which is made up of approximately 30 locals, and divided among longshore workers, clerks and foremen. There are 29 ports on the West Coast, but the larger locals are in Los Angeles-Long Beach, San Francisco-Oakland, Seattle-Tacoma and Portland.

The Pacific Maritime Association, whose members include steamship lines, terminal operators and stevedores, represents the employers. PMA by-laws specify that any entity carrying waterborne cargo to or from the Pacific Coast — or employing longshore labor — is eligible for PMA membership.

Unlike most contracts, ILWU workers are not employees of PMA member companies, but rather, they are assigned by the union every day, based on labor requirements submitted by the PMA members and dispatched from the hiring halls. This is an inefficient process that often delays the start of work — but it guarantees that labor’s loyalty is to the union — and not to the employer.

Is the dispute the same in all locations? Although the contract covers the entire coast, the San Pedro ports of Los Angeles and Long Beach have become the focal point of the dispute. Although U.S. imports through the West Coast have remained fairly steady, at 55 percent over the past 20 years, San Pedro now makes up almost 80 percent of imports entering over the West Coast. This is not likely to change.

What about the Alameda Corridor and on-dock rail? Port terminals built to accommodate post-Panamax vessels (and their on-dock intermodal volume) have guaranteed leases of 25 years. Economists would label this situation a barrier to exit and characteristic of a less than free market. San Pedro essentially has been granted a monopoly license.

Infrastructure projects such as the Alameda Corridor, have only added to the union’s leverage. The project was financed and built without any operating plan outlining the guidelines for managing on-dock intermodal. Hence, 20 longshore workers may do the same amount of work as four Chicago Teamsters (The federal government now has a wiser position: it is demanding that airlines seeking assistance come prepared with operating plans and labor concessions, to receive consideration for financial assistance).

Did management contribute to this situation? Absolutely. Horror stories of overpaid labor are often true. But union members are simply receiving payment allowed under the contract and by local past practices. In order to ensure the availability of skilled labor at critical times, terminals have been bidding against each other for “steadies.” In addition, the PMA has not always been a united front. It has not been uncommon for board and committee members to leak confidential information, in an attempt to win favor with the union. But the PMA board now comprises industry leaders — many of whom have overall profit-and-loss responsibility for North America. There is some recognition that if change is not achieved in this contract, they may not be around to negotiate the next one.

Why was a lockout necessary? Although the contract expired July 1, both sides had agreed to short-term extensions while negotiations continued. However, at the end of September, the ILWU stopped accepting these stopgap extensions, and productivity (when measured against past levels) greatly decreased. In the past, the ILWU used “rolling actions” to get individual lines, or terminals, to capitulate. This time — for the first time — PMA unity held. A weekend hiatus was followed by resumed work at even slower rates — accompanied by other tactics (such as misreporting container locations and status). Without a contract, the PMA decided to stop ordering expensive labor that wasn’t working.

Why is technology such an important issue? Port volume growth to date has been accommodated by building larger facilities. But the amount of land available for future expansion will be consumed in the next five to 10 years — and traffic is expected to double in the next 20 years.

The only way to handle more volume is to be more productive. Technology can help do this, but it is expensive and it requires a sufficient business case to justify the expenditure. Ultimately, the hard savings that pay for these improvements imply less labor per unit. In a steady-state volume this means jobs are cut. In a growing volume case, this can mean no cuts — but no additional jobs — as more work is handled by the same amount of labor.

West Coast ports handle about 2,000 to 5,000 TEUs per acre, per year. Elsewhere, technology has successfully raised productivity. Overseas, many ports manage 15,000 to 30,000 TEUs per acre, per year, while rail intermodal terminals in this country can handle 8,000 to 18,000 TEUs per acre per year.

Deploying technology would primarily affect the clerks. Terminals showing major productivity improvements generally follow a path whereby those who do the work see overall goals and report their own work. Sophisticated systems automatically direct operations. All operators routinely have sufficient information to efficiently manage themselves, while exceptions are easy to identify — and address. In today’s environment, up to 75 percent of work assigned to marine clerks is unnecessary, as it involves re-keying existing computer information. Such busywork could easily be eliminated.

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Won’t that hurt the marine clerks? Not really. The PMA has offered to guarantee all existing marine clerks jobs. Once they retire, the job would be eliminated. Current clerks would no longer be able to pass down their jobs as legacies to other family members.

What about the clerks in the line’s offices? Two classifications of clerks exist: marine clerks (previously discussed) and steamship line office clerks (not located in marine terminals) who are members of the Office Clerical Unit (OCU). They are separate from marine clerks. As a rule, OCU have different contracts and are paid at a lower rate than the marine clerks. No provision exists today for marine clerks to take OCU jobs.

What about the other workers? PMA proposals are designed to motivate union members to aspire to be crane and yard workers. In fact, they are seeking to reintroduce skill pay differentials, so that more critical jobs earn increased pay. This provision was eliminated at the union’s request several contracts ago so that all workers would receive the same base rate.

Are the clerks that powerful? Even though marine clerks represent only 15 percent of union members, the answer would appear so. ILWU President Jim Spinoza comes from clerical Local 63 in Los Angeles. As negotiating leader, he can effectively stop any agreement from reaching a vote. Furthermore, while the contract must be approved by majority vote, the rejection by a single local causes any proposed contract to fail.

Is the union a monolithic force? Yes and no. The coast-wide agreement has proven to be a powerful tool in preventing lines from confronting the union on vulnerable points. But that is no guarantee for the future. Union members outside of California ports may no longer tolerate rich contracts — that lack local work. General longshore labor may no longer allow clerks to prosper at their expense.

The organized labor reaction to the ILWU’s plight, beyond the ritual unity rhetoric, will be interesting. It is difficult to gauge whether Machinists and Teamsters will support a union that seeks to take their work in jurisdictional battle, or, if Auto Workers will tolerate plant shutdowns and furloughs from inventory interruptions.

Is technology the only sticking point? No. Other critical issues are blocking compromise here. One is the manner in which labor is assigned to the terminals. Current practice calls for labor to be assigned manually from a series of separate hiring halls. Once dispatched, labor frequently arrives up to an hour late — and not fully qualified for their assigned task.

Local arbitration resolves disputes that can shut down operations. Local arbitration is “equally” divided geographically, but the union chooses the arbitrator in San Pedro and Seattle-Tacoma. This makes critical the position taken by the Pacific Coast Longshore Arbitrator. The incumbent, 94-year-old Sam Kagel, has held that job since 1948. Kagel has the respect of both sides of the dispute, but they have not agreed upon an acceptable replacement for him.

What is the West Coast Waterfront Coalition? The WCWC is a group of concerned business interests who recognize the economic importance of West Coast ports and Far East trade. Their most visible members are mass retail importers. Shipping lines feel pressure to ensure uninterrupted operations — especially during peak season. But the union accuses them of soliciting government intervention — undermining a worker’s right to strike for better conditions.

Mass retailers have an additional enemy this year — the calendar. The port interruption comes as many items (especially clothing) were arriving for coordinated media campaigns. The newspaper inserts are now printed — and still the goods have not arrived. Because Thanksgiving (the traditional kickoff of the holiday shopping season) is six days later this year than last, there are six fewer shopping days — leaving less room for delivery delay.

What did Taft-Hartley do? President Bush obtained a temporary restraining order that was made permanent, ordering both sides back to work for 80 days, under a cooling-off period. While the order requires work at a “normal and reasonable rate of speed,” there is no precedent for the current congestion — and strict compliance with safety rules must still prevail.

With ports working, is the problem finished? Not by a long shot. On Dec. 26, the cooling-off period expires and either side is free to take action. Taft-Hartley injunctions have been invoked 36 times since its passage in 1947 and strikes resumed in 25 of those cases (11 of the 36 involved waterfront labor — and strikes resumed in eight of those cases).

Can the government end this strike? Unlike the Railway Labor Act, Congress cannot impose a settlement established by a presidential emergency board. But there could be some interesting activity in December. After 60 days, the PMA must submit a “last, best and final” offer that will bypass the negotiating committee and be voted upon, by secret ballot, by the entire union membership. (This occurs under the jurisdiction of the National Labor Relations Board.)

Since Taft-Hartley does not specifically address voting rules, a disputed outcome could arise if a simple majority approves the contract — even though one or more local rejects it (It is unclear whether the act takes precedence over union rules which contradict it). If the PMA proposal is adopted then the contract is settled. Otherwise, the injunction must be dissolved and the president must submit to Congress a report of the proceedings, along with “such recommendations as he may see fit to make for consideration and appropriate action.” While the president may recommend legislation — and Congress may be empowered to act, such unprecedented action is hard to envision given current political realities.

What if we are at war? If our nation is in a shooting war, it is possible that Congress will legislate a solution. But it is also likely that the ILWU would agree to work on military cargo, to avoid losing in the court of public opinion.

Why is force majeure an issue? Force majeure is a bill of lading exception clause that relieves the carrier from the contracted terms of transport, traditionally for “acts of god” and other unforeseen events. Because vessel rotations have been seriously impacted, lines may discharge cargo at unintended ports — and require the customer to move it to destination at their own expense. Because of the inevitable conflicting claims, most likely will be litigation to determine whether the lines are entitled to invoke this clause. In addition, truckers and customers will be seeking relief from demurrage and per diem charges incurred during the lockout and subsequent congestion.

How is the Jones Act involved? The Jones Act forbids foreign-flagged vessels handling transport between U.S. ports. Because of operational disruption, many lines are seeking a waiver to move containers between various West Coast ports — but they are prohibited from doing so without a U.S. Customs’ waiver. U.S.-flag carriers can be expected to oppose such a waiver so that they may handle this very profitable (monopoly) business.

The issues here are not only complicated, but they critically affect our nation’s economy. Let’s hope that future coverage in the mainstream media relate the story accurately, and that our industry can resolve issues still in dispute.

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The rough life of ocean freight

Allied Signal Technical Services Corp. contracted with J.S. Connor Inc., a non-vessel operating common carrier, and Maersk Inc., an ocean carrier, to ship a space telescope from Baltimore to Matera, Italy, via Salerno. Allied Signal, which owned the instrument, then arranged for Pietro, Balena & Figli S.L.L. in Italy to clear the telescope through Italian customs and have a truck available to ship it to its final destination.

On the day of shipment, the space telescope was packed in wood crates, trucked to Baltimore, placed on a flatrack container and secured with metal bands. The flatrack was then loaded on a barge in Baltimore. A surveyor retained by Allied Signal’s insurance company observed the loading and stated it was without incident. In addition, Connor, the NVOCC, issued a clean bill of lading stating that the flatrack with the two crates had been received “in apparent good order and condition.” Maersk also issued a clean bill of lading, similarly attesting. The cargo was barged to Norfolk, where it was loaded on a Maersk vessel for shipment to Italy.

When the ship arrived in the Italian port of Gioia Tauro, south of Salerno, Allied Signal arranged for another surveyor to be present for the unloading of the telescope. The flatrack and two crates were discharged from the vessel in Gioia Tauro by a container crane, and then stored in a container yard for eight days before being loaded on another ship and transported to Salerno.

When Allied Signal uncrated the sensitive instrument in Matera, the shipper discovered that three lever arms had broken loose from the primary mirror of the space telescope. As a result of the detachment, the accuracy of the telescope was affected. Allied Signal subsequently sued Connor and Maersk in federal court in Maryland, seeking recovery of $500,000 in direct and indirect damage to the equipment.

Senior U.S. District Judge William M. Nickerson, in his ruling, wrote that in order to establish a case against the NVOCC and ocean carrier, the shipper “must demonstrate that the cargo was damaged while in their control.” In this case, when the shipper tendered the cargo, the court found, “it was not feasible” for Connor and Maersk “to determine the actual condition of the cargo without breaking open the crates.”

Allied Signal’s insurer, Fireman’s Fund, retained investigators in Italy, whose final opinion was that the damage may have been caused “by the crate hitting against crane equipment during handling.” The shipper then hired its own investigator, who determined that the flatrack carrying the crated telescope “had been dropped at some time during the handling at the transshipment port of Gioia Tauro.”

In the court’s view, “these opinions are based on nothing more than bald speculation.” Although photographs of the flatrack taken in Salerno showed rips in a plastic cover, гримм marks, and a nylon band replacing one of the metal bands, the photos also showed “no damage, holes or destruction of a crate. Maybe a mark, you know, discoloration, rubbing, but nothing other than that.” Nickerson quoted one observer as saying.

Allied Signal’s surveyors and agents “did not consider such damage to be anything out of the ordinary with respect to ocean shipments,” the court explained, noting that one surveyor of the crates had said, “when you take ocean freight, you accept excessive handling because of the ride, the ocean. That’s the life of ocean freight.”

After noting that Allied Signal “failed to establish the existence of an element essential to its case, namely that the cargo was outturned in damaged condition,” Nickerson ruled in favor of Connor and Maersk, the carrier, dismissing the shipper’s complaint. [AlliedSignalTechnicalServicesCorp. v. DagmarMaersk, et. al.; U.S. District Court for the District of Maryland; Civil Action WMN-00-3730. Date of ruling: Oct. 9]

COGSA protection cuts $6 million to $1,000

Industrial Maritime Carriers (Bahamas) Inc., based in New Orleans, operates cargo vessels under a tariff on file with the Federal Maritime Commission that incorporates the Carriage of Goods by Sea Act (COGSA)’s limitation of $500 per package.

In April, ICM’s agent, Intermarine, issued a liner booking notice to Siemens Westinghouse Power Corp. for the carriage of two generators and their component parts, valued at $3.1 million each. Both were loaded aboard a vessel, the Industrial Bridge, which left Masan, South Korea, on June 10 and arrived in Houston on July 16. During offloading operations, Siemens alleged that the ship’s hold where the generators were stowed flooded, rendering each unit a total loss.

After a lawsuit was filed in federal court in Louisiana, U.S. District Judge Lance M. Africk observed in his ruling that “Siemens does not dispute that each generator constitutes a COGSA package, or that ICM’s tariff and bills of lading gave shippers adequate notice of COGSA’s per-package limitation. Additionally, Siemens does not dispute the fact that it knowingly chose not to declare the value of the two units. Rather, Siemens argues that the 6 percent ad valorem rate was so unreasonably high that it effectively deprived Siemens of its opportunity to declare a higher value and avoid COGSA’s limitation.”

Because the shipper “was allegedly denied a fair opportunity to declare the cargo’s true value, Siemens argues that IMC should not be afforded the benefit of any limitation of liability,” Africk wrote.

Citing General Electric Co. v. Nedlloyd [F.2d 1022, 1029 (2 Cir. 1986)], the court said, in that prior case, that the Second Circuit Court of Appeals “rejected the very arguments advanced by Siemens.” The Second Circuit wrote that, “regardless of the novelty of the shipper’s claim, it cannot now challenge the ad valorem rate as being unreasonable because the record shows the shipper never even inquired about making such a declaration, much less took steps toward actually declaring the value of its cargo.”

Africk said, “in this case, there is no evidence that Siemens had any intention of either declaring the true value of its generators or obtaining additional insurance from IMC.” A Siemens employee, “in a sworn statement inquired about making such a declaration, much less took steps toward actually declaring the value of its cargo.”

Africk ruled that IMC’s liability was limited to $500 for each of the two generators. [Industrial Maritime Carriers (Bahamas) Inc., v. Siemens Westinghouse Power Corp.; U.S. District Court, Eastern District of Louisiana; No. Civ. A. 01-0726; Date of ruling: July 30]
Corporate Appointments

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Logistics

CNF Inc.
Kevin S. Coel has been named vice president and controller of the company, whose units comprise supply chain services, regional trucking, air and ocean freight, customs brokerage, global logistics, has named.
Coel has served as CNF’s controller since 2000. He joined the company in 1990 as corporate accounting manager and was named assistant corporate controller in 1995.

Crowley Logistics
Dan Warner has been promoted to director of finance for the subsidiary of Crowley Maritime Corp.
Warner joined Jacksonville, Fla.-based Crowley Logistics in November 2001 as a senior analyst for the corporate planning group. He will remain based in Jacksonville.
Before joining the company, Warner spent four years as vice president of finance for Citigroup in New York.

Through Transport Club
The mutual insurance association offering coverage for the multimodal transport industry, said Andrew Webster has returned to its London office to augment the Club’s loss prevention initiative.
Webster has worked for two years in the TT Club’s Dubai operation. Before joining Thomas Miller, which manages the TT Club, he had been a trader and trouble-shooter in the Swiss office of Cargo Recovery Consultants.

Forwarding

United Shipping Inc.
Fred Hall has been named president of the network of 77 independently owned and operated freight forwarders and customs brokers.
Hall, a 33-year logistics industry veteran, has served on United Shipping’s board of directors since 1989 and as its vice president from 1990 until his appointment earlier this month.

Maritime

COSCO Container Lines
The state-owned Chinese carrier has appointed Wu Shuxiong party secretary, a senior position in the management structure of the company.
Wu was vice general manager of COSCO Container Lines, and has managed vessel safety and machine operations. He replaces Zhang Fusheng, who has been promoted Party secretary of the COSCO group, the parent company of COSCO Contianer Lines.

Neptune Orient Lines
The parent company of APL Liner and APL Logistics has promoted Cynthia A. “Cindy” Stoddard to chief information officer for the group.
Stoddard had been CIO of APL, the group’s liner shipping arm, and will replace Hans Hickler, who has been promoted to chief executive officer of APL Logistics.
Stoddard will also continue her role as CIO of APL, sitting on the executive committee of the liner company.

Nicor Inc.
The parent company of Tropical Shipping, an operator of containerships in the Caribbean, named Russ Strobel president.
Strobel was executive vice president, general counsel and secretary of Nicor Inc. Paul C. Gracey Jr. has replaced Strobel as vice president, general counsel and secretary.
Gracey was vice president and general counsel for Midwest Generation EMELLC, an affiliate of Edison Mission Energy.

V Ships Group
The London-based group has appointed Roberto Giorgi, chief executive officer for the unit that covers all of the group’s ship management activities.
Giorgi, a member of the group’s Board, has managed V Ships’ offices in Monaco and New York. His new appointment will be effective in mid-January, following the retirement of Peter Cooney.
The group also has appointed Bob Bishop chief operating officer of V Ships Inc.

Air

Swiss WorldCargo
Oliver Evans has been appointed executive vice president of the Swiss airline’s cargo division, effective Dec. 1.
Prior to joining Swiss, Evans was vice president of global sales in Europe, the Middle East and Africa for BAX Global. From 1987 to 2001, he served in various management positions in Europe for KLM Cargo.

Inland

Roadway Express
Robert B. Carr has been promoted to the new position of senior vice president, corporate and international sales. Stan M. Friend moves up to vice president, corporate sales and officer of the company.
The promotions are part of a restructuring due to the retirement of Michael J. Murphy, as senior vice president of corporate sales. The promotions and Murphy’s retirement are all effective Jan. 1.
Carr’s new position merges his responsibilities as vice president, international business — a position he has held since 1995 — with larger corporate accounts.
He joined the company in 1977 and moved up through the ranks in Pennsylvania and the Northeast before being moved to Roadway Express’ corporate headquarters in Akron, Ohio, where he has also served as assistant to vice president, sales; director, international business development; and vice president, international.
Friend’s promotion expands his responsibilities as vice president, corporate sales, a position he has held since 1996, to include additional account and industry association responsibilities.
He joined the company in 1977 and moved to corporate headquarters in 1991 when he was named assistant to the vice president, sales.
Murphy has been with the company 29 years.
Service Announcements

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CKYHS alliance cuts capacity

The CKYHS alliance carriers — COSCO Container Lines, “K” Line, Yang Ming Marine Transport, Hanjin Shipping and its subsidiary Senator Lines — said they’ll reduce transatlantic vessel capacity when they revamp their transatlantic and Asia/U.S. East Coast services in January.

In the U.S./northern Europe trade, the carriers will replace two Asia/U.S. East Coast/northern Europe pendulum services by a single end-to-end U.S./northern Europe service. The carrier group’s new “Trans Atlantic Service” will employ four 3,800-TEU ships and call at Antwerp, Bremerhaven, Felixstowe, Rotterdam, Le Havre, New York, Norfolk, Charleston, New York and Antwerp. This will mean a 2,700-TEU reduction in capacity for the CKYHS alliance carriers in the U.S./northern Europe trade.

“In the transatlantic (U.S. East Coast/North Europe) service, COSCO Container Lines, “K” Line, Yang Ming, and Hanjin combined two loops — one (AUE) is operated by COSCO, “K” Line and Yang Ming, and the other (AWP) by Hanjin — into one to improve operation efficiency,” the carriers said in a joint statement. Other transatlantic loops serving U.S. Gulf and Mediterranean ports will remain unchanged.

“All the carriers — not just Hanjin — evaluated that the first priority is to make profits,” S.H. Kwon, a spokesman Hanjin said.

The five carriers have also revised their three Asia/East Coast all-water services via Panama, and added some capacity to these services. The Asia/U.S. East Coast all-water segment of the transpacific trade is seen as growing.

The carriers had operated three Asia/U.S. East Coast services via Panama — the AUE and AWP pendulum services and the AWE end-to-end service. Instead, they will now provide three end-to-end services.

“Harmonizing operations on the three current loops will make it possible to offer higher quality customer service,” the carriers said.

“At present, the four lines are operating the following loops: AUE by COSCO Container Lines, “K” Line and Yang Ming, AWE by Yang Ming and Hanjin, and AWP by Hanjin.”

The new AWE1 link will use eight 4,024-TEU ships and call at Shanghai, Yantian, Hong Kong, Pusan, New York, Norfolk, Savannah, Tokyo, Pusan and Shanghai.

The AWE2 loop, with eight 3,800-TEU vessels, will have a rotation of Qingdao, Yantian, Hong Kong, Charleston, Norfolk, New York, Boston and Qingdao.

The AWE3 will employ nine vessels with sizes of 3,500 to 4,000 TEUs, calling at Yantian, Hong Kong, Kaohsiung, Pusan, Savannah, New York, Wilmington, Savannah, Kaohsiung and Yantian.

The revisions to the alliance’s all-water services will add about 1,300 TEUs a week to their Asia/U.S. East Coast capacity.

The changes within the alliance will take effect in January, subject to regulatory approval.

The U.S. East Coast/Mediterranean “TAS3” service of the alliance, and Hanjin’s Asia/Suez Canal/Mediterranean/U.S. East Coast “AMA” service will remain unchanged.

Lines extend peak-season charge

Shipping lines of the Transpacific Stabilization Agreement in the Asia-to-U.S. container trade and the Canada Transpacific Stabilization Agreement covering the Canada-to-Asia will extend the duration of their “peak season surcharge” until Dec. 31.

The $300 per 40-foot container surcharge was introduced on June 1 in the Asia-to-U.S. trade, and was originally due to end Sept. 30. The Transpacific Stabilization Agreement carriers first extended the duration of the surcharge until Oct. 31. Last week, the carriers adopted a joint recommendation to extend it again until Dec. 31.

The surcharge is a premium intended to cover higher equipment positioning, vessel chartering, and other costs associated with the summer-fall peak season.

In previous years, the surcharge has been applied from July 1 to Oct. 31, but this year’s transpacific shipping season has been affected by advance shipments, the U.S. West Coast port lockouts and strong volumes.

In the trade lane from Asia to Canada, the $400-per-40-foot container peak season surcharge will also be extended through Dec. 31.

“Shipping lines in the Canada Transpacific Stabilization Agreement, a carrier discussion forum, said sustained third-quarter economic growth led by strong consumer spending, in both Canada and the U.S., is the primary contributor to the extended peak season,” a spokesman for the carrier group said.


WTSA reaffirms need for higher rates

Container shipping lines of the Westbound Transpacific Stabilization Agreement reaffirmed plans to raise westbound dry cargo rates across the board by $200 per 40-foot container to stem what they described as “significant revenue losses” in that trade.

An increase of $200 per 40-footer is scheduled by the shipping lines on Dec. 1 shipments of cotton, and on Jan. 1 for hay shipments.

Also on Jan. 1, the carrier group plans to raise rates for all other non-refrigerated commodities by $200 per 40-foot container and $160 per 20-foot container from U.S. West Coast and East Coast ports. On the same date, westbound shipments moving intermodally from inland U.S. points, as well as mini-landbridge cargo, would see increases of $400 per 40-foot container and $320 per 20-foot box.

WTSA lines “stress that the planned increases are not related to recent costs incurred by labor difficulties on the West Coast, but...
rather reflect sharp declines in westbound transpacific freight rates during the past year or more," a spokesman for the carrier group said.

According to the transpacific carriers, current revenues “do not remotely address” the significant investment made in recent years to provide shipping services to shippers.


Maersk Sealand recently left the Westbound Transpacific Stabilization Agreement.

China Shipping cuts rotation, fleet
China Shipping Container Lines has shortened the port rotation and reduced the fleet of one of its transpacific container services.

The Chinese carrier dropped two ships from its weekly “America Asia Thailand” service. Calls at Los Angeles, Dalian, Hakata, Qingdao and Xingang have also been ended as direct calls on the “AAT” service.

The “AAT” had used 11 ships averaging 2,551 TEUs. The withdrawal of two ships will see a reduction of around 7,000 TEUs in annual one-way capacity in the transpacific market.

The revised port rotation of the “AAT” service is Vancouver, B.C.; Seattle, Wash.; Busan; Shanghai; Ningbo; Hong Kong; Chiiwan; Port Kelang; Dubai; Nhava Sheva; Port Kelang; Laem Chabang; Hong Kong; Yantian; Busan; Vancouver and Seattle.

Earlier in October, China Shipping started a new weekly transpacific “AAC” service using five ships averaging 2,827 TEUs, four of which were phased-in from the “AAT” service.

**Wan Hai to take slots from Maersk Sealand**
Taiwanese ocean carrier Wan Hai Lines is planning to take slots on vessels of Maersk Sealand in the transpacific container trade. Subject to approval by the U.S. Federal Maritime Commission, Wan Hai will charter space from Maersk Sealand between the ports of Yantian, Hong Kong and Kaohsiung, on the one hand, and the ports of Los Angeles, Long Beach and Oakland, on other hand.

It is not known whether the slot-charter agreement would replace or complement Wan Hai’s existing transpacific service using its own ships.

Wan Hai is among the transpacific carriers who declared force majeure after the lockout of terminals on the US West Coast severely disrupted their West Coast operations.

**New World Alliance considers capacity cuts**

The New World Alliance of MOL, APL and Hyundai Merchant Marine, the largest alliance grouping in the transpacific trade, is studying plans to reduce vessel capacity this winter.

Although the New World Alliance carriers and other transpacific lines have experienced record eastbound traffic volumes and recent shortages of capacity, the peak season is coming to an end.

The New World Alliance carriers may end their PSV transpacific weekly container service, a source within the alliance told American Shipper.

The alliance introduced the PSV service in June, with a rotation of Tokyo, Nagoya, Kobe, Kaohsiung, Hong Kong, Yantian, Hong Kong, Los Angeles, Vancouver, Seattle and Tokyo. The service employs five ships with capacities of about 4,400 TEUs.

In previous years, the alliance has reviewed its capacity requirements for the slack season and adjusted its service provision.

In November 2001, the New World Alliance withdrew its former Pacific Northwest Express loop.

The New World Alliance operates nine transpacific container services with a combined one-way capacity of about 40,000 TEUs a week, according to a recent report of the global liner shipping database ComPairData. The alliance’s capacity represents 18 percent of the total eastbound vessel capacity.

**Evergreen pulls out of U.S./Med**

Evergreen Line has suspended its U.S. East Coast/Mediterranean container service, previously operated under a slot charter agreement with Hanjin Shipping and Senator Lines.

The Taiwanese carrier said it had increasingly reduced the scale of its activities on the highly competitive U.S./Mediterranean route, where freight rates are reportedly non-compensatory.

An Evergreen spokesman said the carrier’s involvement in the U.S./Med/Mediterranean trade had been minimal, and the carrier may reinstate a service if market conditions improve.

Evergreen took space between the Mediterranean and the United States on the Asia/Mediterranean/America “pendulum” service of Hanjin and Senator.

Evergreen said this service has not been profitable.

Earlier this year, Italia Line terminated its Mediterranean/U.S. East Coast service, blaming non-compensatory freight rates.

**Med/North America services adds Fos**

Four carriers of the CP Ships group and Zim Israel Navigation Co. have added a call at the French port of Fos to their Mediterranean/West Coasts of the United States and Canada container service.

CP Ships-owned Italia Line, Lykes Lines, TMM Lines and Contship Containerlines all take space on the Med Pacific Express service.
The new call at Fos (near Marseilles) gives French shippers the only direct all-water service to the West Coast of North America, an advantage Italian and Spanish shippers have enjoyed for years, Italia said. French shippers will be able to avoid transshipment and cut transit times.

The service operates every 10 days between the Mediterranean, North Coast of South America, Central America and West Coast of North America. By transshipment, it also connects with ports located on the West Coast of South America.

In North America, the service calls at Long Beach, Calif.; Vancouver, B.C.; Portland Ore.; Oakland, Calif.; and Mazatlan, Mexico.

Brennan adds direct Cyprus service

Brennan International Transport now provides direct weekly freight consolidation services to Limassol, Cyprus.

The non-vessel-operating common carrier subsidiary of NACA Logistics Group said the Cyprus service completes its coverage of the Mediterranean.

Brennan offers direct services to Alexandria, Ashdod, Barcelona, Beirut, Haifa, Istanbul, Izmir, Lisbon, Marseilles, Milan, Piraeus, and Valencia. In addition to 13 direct weekly services to the Mediterranean, the NVO also provides on-forwarding services to 265 cities in the region.

U.S./India carriers to share vessels

Three carriers of the Indamex vessel-sharing agreement — CMA CGM, Contship Containerlines and Shipping Corp. of India — plan to cooperate with APL as a new partner.

A proposed agreement would authorize the four carriers “to share vessel space between the U.S. East Coast and ports in India, Pakistan, Sri Lanka, Portugal, the United Arab Emirates, ports in the Bangladesh to Philippines range, ports bordering the Mediterranean Sea, and ports bordering the Red Sea,” according to the U.S. Federal Maritime Commission.

Unlike the Indamex carriers, APL does not provide a direct U.S./India service.

OTAL expands service to Las Palmas

OT Africa Line, the specialist West African shipping line, said it has expanded its North Africa regional service to include calls at the Port of Las Palmas in the Canary Islands every other week.

Las Palmas has been a bunker call for OTAL vessels serving the North Europe/West Africa trades. However, the carrier sees potential for direct trade between the Canary Islands and mainland West Africa.

The North Africa service rotation is now Dakar, Banjul, Nouakchott, Las Palmas (alternate sailings), Casablanca, Dakar.

The two 400-TEU feeder vessels connect with OTAL’s weekly Hebdo service that calls at Dakar every Monday.

OTAL has appointed Caniship as its agent in Las Palmas.

MSC adds South America capacity

Mediterranean Shipping Co. has split its weekly U.S. East Coast/East Coast of South America service into two strings, adding new calls at New Orleans and Miami, as well as adding four ships to the trade.

The previous service used seven ships averaging 2,476 TEUs. The combined capacity of the two string will see approximately 130,000 TEUs added to the U.S./East Coast South America trade a year.


The “USA Gulf & Miami String 2” service uses five ships of around 2,300 TEUs and has a port rotation of New Orleans, Miami, Freeport, Rio Haina, Port of Spain, Rio de Janeiro, Vitória, Salvador (fortnightly) Pecem (fortnightly), Freeport, New Orleans and Miami.

United Cargo adds Latin America flights

United Cargo, a division of United Airlines, has added daily non-stop service between Washington/Dulles International Airport and Buenos Aires, Argentina, with continuing service to Montevideo, Uruguay and new service from Washington to Sao Paulo, Brazil.

The expanded service employs Boeing 767-300 widebody aircraft.

Econocaribe adds weekly U.S./Kingston link

Econocaribe, the neutral non-vessel-operating common carrier, said it has started a weekly consolidation service from New Jersey to Kingston, Jamaica.

New Jersey is a consolidation point for Econocaribe’s Northeast operations, with direct less-than-containerload consolidations to Puerto Rico, Brazil, Dominican Republic, as well as Kingston.

Econocaribe’s agent in Jamaica is Freight Handlers, which also represents the NVO in Montego Bay.
The European Commission approves in theory of U.S. Customs’ Container Security Initiative, but resents the fact that the United States has thus far negotiated its agreements on an individual basis with Germany, the Netherlands, Belgium, France and Italy, instead of starting with the EC.

As Jonathan Todd, an EU spokesman, noted, “Customs policy in Europe is coordinated by the European Commission.”

Similar pique in Brussels also lay behind the recent upholding by the European Court of the commission’s objections to “open skies” agreements negotiated separately by the United States with eight EU member nations. Again, the EC was not against the concept, but felt that it should have had a catalytic role in orchestrating the various pacts.

It would behoove the United States to respect and accept European sensitivities on this issue.

In regard to CSI, U.S. Customs and the Department of Transportation have set up quasi-partnerships on the Continent that serve the United States but could have a potential negative impact on pre-existing commercial liaisons within the EU.

The European Commission suspects the CSI will favor those ports that sign up for it and hurt others that refuse to cooperate, or are too small to take part.

From that perspective, business will go to those European ports with U.S. Customs agents in place, as shippers curry favor to see that their U.S.-bound cargo is blessed and cleared early. To the EC, that’s a direct interference in commerce by the United States.

In letters to American officials, some large European shipping interests have also said elements in the CSI could put importers in Europe at a disadvantage, and increase congestion and transportation costs on the Continent.

On balance, these are valid concerns that deserve fair-minded assessment. U.S. agencies must also understand that the European Union is more intently focused than ever before on its evolving sovereignty, a very potent brew of oats to feel and sow.

Valery Giscard d’Estaing, former president of France, was recently given the task of producing the first outline of a constitution for the soon-to-be-enlarged EU. The draft just released in Brussels does not make clear, according to The Economist, “what powers the EU, as distinct from its constituent members would have in foreign policy.”

A French member of the European Parliament described the draft as the “skeleton of a ‘diplodocus,’ with an extremely small federal brain and a huge intergovernmental body.”

Whatever is sorted out, it will take years to realize any kind of United Europe. Yet time is not on the side of the United States. The Bush administration has plausibly said it negotiated CSI pacts with individual nations on grounds of expediency, so U.S. Customs inspectors could be in place in European and Asian ports as soon as possible.

A compromise is clearly in order here. The United States must take into account the widespread sentiment in Europe, Asia and elsewhere that it is overstepping its bounds for the sake of security. To counter that feeling, U.S. agencies negotiating CSI pacts should take pains to work openly toward a more acceptable solution, so that pre-existing foreign partnerships are accommodated rather than threatened.

The European Commission, instead of trying to shoot down existing bilateral agreements such as “open skies” and CSI, should instead offer EU-wide alternatives, based on the framework of those agreements. That way, the hard work done so far could be incorporated into pacts that would be acceptable to the European Commission and to the participating nations.

Trouble worth taking

The United States, in seeking to negotiate agreements permitting U.S. Customs inspectors to work in European ports, has run head-on into opposition from the European Commission, the executive policy body of the European Union.

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