Could Kinko's put a kink in FedEx?
Why dismantle your cargo when ACL can ship it in one piece? ACL’s RORO ships were designed for shipments that are too big for a container. Your product is parked under-deck in our ship’s garage decks, secure from the elements.

ACL provides door-to-door service on oversized cargo the same as we do for containers. We save you the hassle of costly dismantling and reassembly while eliminating the risk of damages due to lifting, weather and seawater. Before you break your next shipment down into pieces to fit into a container, let ACL show you a better alternative.
**Could Kinko’s put kink in FedEx?**

FedEx rang in the New Year with news it had agreed to acquire Kinko’s for $2.4 billion cash. The move is seen as a reaction to UPS’s purchase of Mailboxes Etc. in 2002, and an attempt to compete with UPS and the U.S. Postal Service for small shippers at the retail level. However, some observers worry the purchase will dilute FedEx’s parcel and freight focus.

**Owens Corning builds flexibility**

Three years ago, Owens Corning, squeezed by rising costs for supplies and services and falling prices for its own products in the face of global competition, decided to transform the company from top to bottom to become a more modern, lean manufacturer. Among its main priorities for transformation was the company’s supply network. By the end of the year, the company said it will have eliminated about $165 million in excess costs.

**U.S. agriculture sector vulnerable?**

Many U.S. agricultural producers and shippers, worried the nation’s prosperous agricultural sector could become a terrorist target, want the Bush administration and lawmakers on Capitol Hill to place more emphasis on preventing the introduction of agricultural pests into the country. Meanwhile, the recent mad cow scare has made shipping beef overseas even more difficult.

**Reefer grief**

Consumers in 2004 expect to find a wide assortment of fruits and vegetables in their grocery stores, as well as exotic varieties of ice cream and other frozen products. If the produce or frozen goods aren’t in premium condition, there’s no sale. But, even as increasingly more technologically advanced refrigerated container equipment comes online, the biggest risk to perishable products continues to be human error.
A decade of NAFTA

The North American Free Trade Agreement, which just passed its 10th anniversary, brought into one loop the disparate economies of the United States, Canada and Mexico. Early hype for this pact was more than any reality could deliver: NAFTA would create millions of jobs, slow illegal immigration and raise living standards “from the Yukon to the Yucatan,” as one partisan put it.

There is no question that NAFTA has stimulated trade across North American borders. Yet NAFTA has also brought troubling dislocations of employment.

A recent cartoon by Gary Markstein in the Milwaukee Journal Sentinel shows a Mexican worker who says initially, “As an illegal immigrant, I was allowed to apply for temporary work status in the U.S.” Then, “I got a job in a factory.” Subsequently, “After three years, I moved back to my country, where I got a job … at the same factory when it moved there for cheaper labor!”

NAFTA’s planners did not allow for the fact that U.S. and Mexican lower and middle-class consumers also comprise those nations’ workers. Too often, reduced consumer costs have come at the expense of reduced circumstances as jobs shifted across borders.

In Canada, such tremors have been cushioned by a social safety net. Canadian businesses are now far more export-oriented than a decade ago. An executive for Durham Furniture, in Ontario, aptly said, “we do not treat the border as a border.” In fact, his and other firms are lobbying for an entirely open U.S. northern border.

In Mexico, it’s been a mixed story. NAFTA has been a boon, although the benefits derived from access to U.S. markets have been mitigated by Mexico’s inefficient transportation sector, as well as by that country’s widespread corruption. Mexican companies have prospered with access to U.S. markets, especially those allied with U.S. corporations, NAFTA has unquestionably widened the gap between rich and poor in Mexico.

The jobs NAFTA created have not keep pace with competition from Asia, or with a labor force that, in the case of farmers, was displaced by subsidized American imports.

NAFTA’s backers definitely oversold the idea that creating jobs in Mexico would deter immigration to the United States. Within Mexico in the last decade, more than a million people relocated to live along the edge of the United States, ending up in assembly-line plants called maquiladoras that are found in each border town. In NAFTA’s first seven years, 700,000 maquiladora jobs were created; 300,000 have been eliminated since 2000 as the work has gone to Asia.

Economists in all three countries say NAFTA has been a success, yet non-economists see it as a failure. One common theme is that NAFTA has been roundly blamed, as The Economist put it, “for every economic disappointment in the past 10 years, however tenuous the connection may be.”

As a matter of public awareness, it also doesn’t help that the gains from NAFTA have been so thinly spread about in the United States and Canada that the average citizen doesn’t think why a piece of fruit or a car muffler costs less than before NAFTA was negotiated.

In the United States, there has been a grudging recognition that jobs lost to Mexico were going anyway, and many of them will soon leave Mexico for China. The fact that free trade has meant that jobs cross borders is the least of it, although not to protectionist politicians.
EXPERTISE>
Finding the right transport solution requires people with the knowledge to understand your particular problem and the experience to evaluate alternatives. People you can rely on are Intermarine’s most important asset. Our people identify the right ship. Our people determine the safest and most efficient handling techniques. And our people supervise all operations. Don’t just look for a vessel to move your cargo, look for the people that make your cargo move.

Intermarine.
Taking a broader view, one can fairly ask if NAFTA has been too much too soon. Probably. Has it worked? Overall, yes. Can it ever be undone? No way.

If there’s a moral thus far, it is that free trade by itself isn’t enough. NAFTA has facilitated trade, but it has not been — and could never have been — a panacea for economic inequities. (Robert Mottley)

China ball in FMC court
The U.S. Maritime Administration did its job when it concluded a new bilateral maritime agreement with China in early December. Now it’s up to the Federal Maritime Commission to make some important decisions that will determine when the agreement takes effect.

Key to enacting the agreement will be the U.S. government’s willingness to liberalize the U.S. Controlled Carrier Act’s 30-day advance notice requirements for tariff rate reductions for China’s three state-owned liner carriers. The FMC is the only federal agency that has authority to grant this status to Chinese carriers.

Chinese carriers regulated under the act are China Ocean Shipping (Group) Co. (COSCO), China Shipping Container Lines, and Sinotrans Container Lines. With the exception of COSCO, which has a partial tariff rate reduction exemption under the act, the Chinese carriers must wait 30 days to make rate changes in response to competitors.

“Because of the dramatic improvement in business operations that will come about for U.S. carriers as a result of this new agreement, we are hopeful that the FMC will respond positively to the petitions of the Chinese carriers,” said Maritime Administrator William G Schubert in a Dec. 31 letter to the FMC.

“Similarly, we will urge U.S. carriers and shippers to support positive action by the FMC on the Chinese carriers’ petitions for relief.” (Chris Gillis)

Chemical imbalance
More than 5,400 companies have formally committed to participate in the Customs-Trade Partnership Against Terrorism, according to the most recent figures from the Bureau of Customs and Border Protection. The C-TPAT program is designed to motivate companies to require their foreign suppliers to adopt measurable internal security controls and processes. Many importers and transportation service companies realize that participation in the still evolving program is a necessary cost of doing business in order to ensure speedy customs clearance and on-time delivery of their goods.

It seems, word about using the Customs program has been slow to reach parts of the chemical industry. About 44 percent of respondents to a BDP International survey said they were unaware of C-TPAT. Of those who were familiar with the program, 37 percent did not realize the similarities to the chemical industry’s own Responsible Care program, which sets safety and security standards for facilities, transportation, products and personnel.

BDP commissioned the survey after realizing chemical shippers could comply with many C-TPAT requirements by applying many of their best practices for domestic chemical protection to their international supply chains.

“We saw tremendous efficiencies in terms of reducing duplication of effort and cost reduction in terms of taking good work they’ve done and applying it to C-TPAT,” said Arnie Bornstein, spokesman for BDP, the third-party logistics service provider.

The survey results were based on 218 responses to an e-mail to BDP contacts and clients such as Dow Chemical, Borden Chemical, and Chevron Phillips Chemical, as well as subscribers to Chemical Week’s Distribution & Transportation electronic newsletter. Nearly half of the respondents said they were responsible for domestic transportation, logistics and operations. So, unless compliance departments publicized their efforts, these people may be in the dark regarding import activities.

The survey serves as a reminder that much work remains to be done by Customs and the American Chemistry Council to promote the benefits of C-TPAT and possibly integrate its guidelines with the Responsible Care program, especially among smaller companies that do not have designated customs compliance staffs dedicated to tracking every regulatory move Customs makes.

“It’s a little troubling because I thought we had really got the word out,” said Douglas Browning, deputy commissioner for Customs. “We’ve got to take the opportunity to do some more education and outreach.” (Eric Kulisch)

Forgotten supply chain terrorists
Political and religious radicals are relative newcomers to terrorizing the international supply chain. Pirates have been doing it a lot longer, but have somehow been lost in the recent debate on toppling terrorist organizations.

Simon Bennett, secretary of the International Chamber of Shipping, pointed this out during the recent announcement of a publication to help ship masters better protect their ships from pirate attacks.

“In view of the enormous energy that is currently being expended on security issues, it is ironic that the problem of piracy and armed robbery at sea is still being given inadequate attention by the international community,” he said. When pirates attack, they harm crews, steal cargo, and, when lucrative enough, take the ships. These terrorists still operate with occasional frequency along the coasts of South America, Africa and Southeast Asia.

The international community must do more to sink these pirate operations. (Chris Gillis)

Charging for text of IMDG Code
The International Maritime Dangerous Goods Code, which the United States incorporated into federal law, became mandatory for shippers and carriers of hazardous materials on Jan. 1. The code, promulgated by the International Maritime Organization, was adopted by the fourth IMO assembly in 1965 and is amended every two years. This is the first time its provisions are legally binding instead of existing as recommended guidelines.

The code’s new stipulations include changes to hazmat indexes, shipping documents, packaging for gases, markings, labeling and placarding.

However, there’s a Catch-22 at work here. The code’s hazmat rules can be accessed only by buying the code from the IMO’s publications department in London for 95£ (about $140).

Now that the IMDG Code is public law, the content of the code should be free and available on the Internet to anyone in the shipping world. (Robert Mottley)

Correction
In a story about the World Cargo Alliance (January American Shipper, pages 38-40), the name of the shippers’ association’s system should have been eTrackCargo.com.
Mediterranean Shipping Company (MSC) has reached the summit in worldwide container shipping.

A young company driven by a spirit of maritime tradition, MSC now ranks number two in ocean transportation providing top-level customer service. Geneva based, privately owned and financially solid, MSC credits its rising success to hard work, clear vision and focused sense of direction. Networked with their own offices around the world, MSC’s business performance is basic – offering more services, capacity, and reliable consistent delivery for good value.

Foresight and a firm grip on the pulse of a progressive industry have MSC – on course, on time and on top of the world.
Three years ago, Owens Corning, squeezed by rising costs for supplies and services and falling prices for its own products in the face of global competition, decided to transform the company from top to bottom to become a more modern, lean manufacturer.

Among the top five priorities for the new transformation strategy was the company’s supply network. Company leaders set a goal of increasing profits by reducing cost and increasing revenue through improved customer capabilities. Achieving those goals meant becoming a more flexible manufacturer.

That task is no small feat in a company as big and sprawling as Owens Corning. The company, which had $4.9 billion in sales for insulation, roofing, vinyl siding and other products in 2002, has manufacturing facilities in more than 25 countries and 165 distribution centers. Think of it like trying to change a lumbering battleship into a maneuverable destroyer, capable of turning on a dime.

Today, the Fortune 500 supplier of building materials and fiberglass for automobiles and boats appears well on its way to...
achieving its vision for supply chain reform.

“We are trying to get the lowest delivered cost (for our products) and drive about $250 million of waste (per year) out of our supply chain,” said David Johns, the company’s chief supply chain and information officer, in an interview.

Company officials said their reforms are paying off in lower inventory levels, better inventory quality, improved on-time delivery and order fill rate performance, and reduced logistics costs. Spending on transportation, for example, has decreased from 7.3 percent to 6.5 percent of sales, Johns said. The majority of the company’s outbound transportation is by truck, while inbound raw materials primarily arrive via rail. The composites business uses ocean container transport, because many facilities are located in Europe and Asia. Also, raw material costs are being reduced by more centralized ordering where possible.

By the end of the year, Owens Corning said it will have eliminated about $165 million in excess cost per year, Johns said. In reality, rising costs for materials, transportation and other items mean the initial savings goal of $250 million is now closer to $400 million, he added.

Supply chain improvements are getting a lot more recognition in major companies than they were even five years ago, according to industry analysts.

“Now you have vice presidents of logistics at these companies. They are being treated more as a competitive factor than just a cost,” said Dick Armstrong, a logistics consultant in Stoughton, Wis.

“A lot of companies have made major improvements in supply chain a corporate strategy. It’s a way of increasing the valuation of the stock,” said Steve Banker, a director for supply chain management at Dedham, Mass.-based ARC Advisory Group.

Supply chain improvements are typically designed to reduce costs, especially inventory carrying costs. But in some cases “it can lead to increased revenues as well, because very often at the same time it can improve service levels to customers,” Banker said.

Culture Change. Executives at Toledo, Ohio-based Owens Corning, like those at Dell, Dow Chemicals and other major corporations, realized they couldn’t achieve sought-after efficiencies simply by trimming logistics and transportation costs. Instead, the strategy called for an integrated supply chain that coordinated forecasting, demand planning, raw material supplies, manufacturing and transportation, rather than separating these functions within the company.

In fact, before the restructuring, each business unit within the company operated like a self-contained unit, with its own commercial, sales and supply chain processes and facilities. The resulting redundancy in processes, personnel, and software applications, combined with the lack of data sharing, was “a key contributor to the increasing problems that Owens Corning was experiencing with inaccurate demand forecasts, poor planning, overall customer dissatisfaction and high-cost supply chain operations,” according to an internal summary of the reorganization shared with American Shipper.

Progress had already begun in the mid-1990s, when the company eliminated 500 legacy software systems in exchange for a single company-wide platform from SAP.

“Our forecast accuracy was not good, there was not the right linkage to production schedules, and we weren’t doing the right level of demand/supply balancing,” said Sue Hatfield, the company’s director of strategy and integration for supply chain.
and technology, in the summary. “Our planning problems were having downstream effects on our customers, impacting on-time delivery and order-fill rate performance.”

The supply chain transformation at Owens Corning coincided with a restructuring of the company along financial lines in 2000, when Owens Corning and 17 of its domestic subsidiaries began operating under bankruptcy relief. The company filed for bankruptcy to protect itself from mounting lawsuits seeking billions of dollars in personal injury claims over its decades-long use of asbestos in building materials. Asbestos has been linked to cancer and lung-disease and its use banned by the U.S. government.

Achieving its goals meant the company had to overcome an inward-looking culture focused on maximizing production efficiency through long product run times, and instead make decisions based on customer needs. Owens Corning is investing heavily in its manufacturing infrastructure, not only so it can boost the efficiency and capacity at its plants, but also to make it more nimble and cut logistics costs, company officials said.

A manufacturer can compensate for frailties in its planning or manufacturing through the use of what Bob Harlan, director global transportation and warehouse operations, calls “heroic logistics.” But using expedited truck service or air freight to meet a delivery deadline, or shipping products outside of a carrier’s normal service area or between sister plants because one doesn’t have the right inventory where its needed, is very costly.

As the company becomes more flexible in its manufacturing process, it will more easily be able to switch the location where a particular product is made, determine the size of production runs, switch back and forth between product mixes to meet market demand, and convert a higher percentage of raw materials into finished products.

“Our company moves a lot of freight to ourselves, which is like the ultimate sin. We’ll spend an outrageous amount of money shipping to ourselves, and that’s simply because we don’t have enough manufacturing capability at all of our facilities,” Harlan said during a presentation at the National Industrial Transportation League conference last November.

Owens Corning “is focused on investing more in our manufacturing infrastructure and our planning capabilities so we can have more stable, reliable, consistent logistics,” he said.

As advance process controls are implemented, the company hopes to see improvements in forecasting, materials management, production schedules, meeting deadlines and cost containment. If everything is running right for example, there won’t be outages of stock or too much inventory.

“When that happens, our service will improve and our costs will drop because we’ll be routine, we’ll be reliable and we’ll be able to rely less on emergency service,” Harlan said.

The company, known for using the Pink Panther logo to market its insulation, is building new plants in some instances and adding sophisticated technology in others to bolster its manufacturing capability. Initiatives completed since 2001 include:

- Installation of a proprietary technology at the Delmar, N.Y., fiberglass insulation plant that has resulted in record levels of productivity and quality.
- Opening a new plant in Chester, S.C. for the production of manufactured stone veneer.
- Opening a joint venture, advanced technology plant in Danville, Ill., for the production of wet-formed glass fiber mat used primarily in the production of asphalt roofing shingles.
- Adding a sophisticated production line at an Irving, Texas, plant that produces laminated shingles.
- Renovating the company’s oldest fiberglass insulation facility, in Newark, Ohio, including complete modernization of machinery and technology.

In 2004, the company plans to increase manufacturing capacity and productivity in its fiberglass insulation and composite materials business by:

- Upgrading and restarting a mothballed production line at a plant in Kansas City. Along with technology and efficiency improvements at other facilities, the company predicts it will realize a 15-percent increase in light-density fiberglass capacity.
- Installing new manufacturing technology at its Fairburn, Ga., plant designed to increase capacity by 20 percent in 2005.
- Expanding the Toronto facility. Along with recent upgrades at plants in Newark, Ohio; Salt Lake City; and Santa Clara, Calif., the company said the move will increase its ability to produce loose fill fiberglass by 30 percent.

Payoff. Owens Corning has also begun to utilize its sales organization to help with long-range planning. “We haven’t really taken advantage of looking deep within the pipeline, talking with our customers and asking them how full their warehouses are. We are doing that now, so we can truly understand where the inventory is in the marketplace and where we are going to need to be prepared in the next 30 days, so we can mitigate this outrageous logistics cost that we deal with every day,” Harlan said.

The way Owens Corning is dealing with new truck driver work rules provides insight into the way the company is taking responsibility for coordinating its suppliers and customers. On Jan. 4, the federal government began enforcing new hours-of-service rules regulating how much time drivers can spend on duty and reducing by one hour their daily time behind the wheel. The rule is forcing trucking companies to revamp their operations in order keep drivers on the road more and tied up less by non-driving duties.

Owens Corning quickly realized the impact of the rule would extend to shippers, who are being asked to help truckers by reducing delays getting in and out of their loading docks. Logistics officials put together a memo and sent it to the entire company to make people aware of the regulation. Everyone — from the chief executive officer down to the sales force in the field, as well as the workers on the plant floor and in the warehouses — received a copy.

“Everybody at Owens Corning is aware of our responsibility to mitigate the impact of this regulation for our carriers and for our company,” Harlan said. “We are educating our customers about the regulations. We explain it to them and we talk to them about...
the impact to Owens Corning deliveries. The point is when a carrier arrives at one of our customers, who we have little control over in terms of how fast they unload, we are going to be asking our sales people to educate those customers that cause product delays and get (truckers) out quicker.”

The hours-of-service rules, however, pose a dilemma for Owens Corning. In an effort to meet the demands of retailers, who want smaller deliveries and shorter lead times in order to maintain less inventory on their shelves and increase turns in their stores, Owens Corning is looking to provide more multi-stop deliveries. That flies in the face of the new hours-of-service, because more stops cut into a motor carrier’s allowable over-the-road time.

“For a company that is primarily a truck-load (user), that’s a challenge for us, but that is what the market is calling for,” Harlan said.

IT. Another area of emphasis within Owens Corning is information technology. The company is electronically connected and shares data with its suppliers, carriers and customers through electronic data interchange and Web portals. The data that is generated each day through transactions and operations is then plugged into forecasting models to help the company with short, medium and long-term planning.

Owens Corning’s carrier portal is its most widely used portal, Harlan said. The manufacturer can tender shipments through the portal, seek confirmation of delivery and make freight payments, while carriers can view their payment information and submit balance dues. Communication through the portal is used to maintain Owens Corning’s high delivery expectations. The company measures every shipment down to the minute.

The company developed a strong IT expertise while curtailing the urge to do everything in-house.

The technology “folks that we have are really not the technical folks you find in typical information systems organizations,” said Don Kosanka, vice president information systems, in the internal case study. “They have a really good understanding of the business processes that we operate, and their value comes in helping figure out where technology can enable each process to become more efficient, precise and accurate. We outsource the more routine technical skill sets (help desk, data center operations, network management) required to operate the IT infrastructure.”

Johns said the company handles all its own logistics, but would not hesitate to use a third-party logistics provider if it felt that would drive out costs.

“As a company, we outsource quite a bit from an IT standpoint, human resources and so on. But we are not there yet with transportation,” he said.

“Our company moves a lot of freight to ourselves, which is like the ultimate sin. We’ll spend an outrageous amount of money shipping to ourselves, and that’s simply because we don’t have enough manufacturing capability at our facilities.”

Bob Harlan
director of global transportation and warehouse operations, Owens Corning
Many U.S. agricultural producers and shippers, worried the nation’s prosperous agricultural sector could become a terrorist target, want the Bush administration and lawmakers on Capitol Hill to place more emphasis on preventing the introduction of agricultural pests into the country.

“We must continue to make the case to Washington about the dangers associated with foreign pests to agricultural industries and food production in this country,” said Mike Carlton, director of production and labor affairs for Florida Citrus Mutual, a trade group that represents more than 10,000 citrus growers. “We must make them recognize that it will cost them more to fight outbreaks than to prevent them.”

Florida’s citrus growers know all too well about the cost to battle pest infestations. Non-native, highly contagious citrus canker started invading the state’s groves in 1995. The disease is alleged to have entered the state through the Port of Miami from South America where citrus canker outbreaks are common.

Since the outbreak, U.S. regulators have...
“Gaps” in the government’s ability to protect agriculture and the food supply.

“The U.S. agriculture and food sectors have features that make them vulnerable to bioterrorism attacks,” Lawrence J. Dykman, GAO’s director of natural resources and environment, told the Senate’s Governmental Affairs Committee in testimony Nov. 19. “These attacks could be directed at many different targets in the farm-to-table food continuum — including crops, livestock, food products in the processing and distribution chain, wholesale and retail facilities, storage facilities, transportation and food and agriculture research laboratories. Indeed, chemicals and infectious pathogens could be intentionally introduced at various points in that continuum."

Similarly, agriculture commodity producers and shippers worry that mismanagement of government controls could lead to disruptions of legitimate exports and imports, which would be devastating to those who handle highly perishable agricultural goods.

“When the system doesn’t work we don’t have satisfied users,” said Bill Gimpel, a Maryland representative of the National Plant Board, a group of state and local government and industry officials. “We can’t allow people to go underground.”

**Pest Invasions.** Ensuring cargo is free of pests has been the duty of the U.S. Department of Agriculture’s Animal and Plant Health Inspection Service for years. The agency staff, however, has been increasingly swamped by containerized imports during the past decade, which means more pests have the opportunity to slip into the country.

Imported pests depleted the nation’s once-rich abundance of American elm and American chestnut trees. The western white pine has suffered a similar fate from imported pests.

A tree-killing pest outbreak that captured national interest occurred in the late 1990s when the Asian longhorned beetle, a native of China, began destroying trees in New York and Chicago. Investigations found that the pest entered the country through non-treated wood-packaging materials in cargo containers originating from China.APHIS warned that if left unchecked, the Asian longhorned beetle could easily destroy more than 100 million acres of maple forests in New England, the Midwest, southern Canada, and aspen forests in the Great Lakes and Rocky Mountains. A recent study cited by APHIS set the price tag of the unchecked beetle’s destruction at $72 million for Jersey City, N.J. and $2.3 billion for New York City. The most effective way to prevent the beetle’s spread is to destroy the infested trees. In 1998, APHIS issued regulations mandating treatments for all wood packaging from China. Phytosanitary certificates issued by the Chinese government must ensure that the wood packaging is heat-treated, fumigated with methyl bromide or chemically preserved.

APHIS considers woodboring pests one of the most difficult pests to detect. These pests accounted for more than 95 percent of infested wood packaging intercepted by APHIS inspectors in 2001-2002. In July 2002, the agency found the emerald ash borer, a native of China and eastern Russia, in the Detroit-Windsor, Ontario area. The same month, the agency discovered wood boring moths in wood containers from Spain.

To head off these invaders, the U.S. government has embraced international wood-packaging treatment guidelines developed and adopted by the UN Food and Agriculture Organization’s International Plant Protection Convention (IPPC) Secretariat, of which the United States is a member. The hope is that these standards will help fight pests globally and simplify wood-packaging treatment procedures for the trade to follow.

APHIS, which announced its rulemaking for implementing IPPC guidelines in May, had intended to impose them on the shipping industry by Jan. 1. That date has since been pushed back to April or May.

There are about 3,000 wooden pallet and container manufacturers in the United States. About 450 million pallets are made or refurbished in the country each year.

Although APHIS is not expecting to finalize the rule until later in 2004, it was to start issuing notices to the national plant protection organizations in other countries for material not appropriately treated and marked starting in January.

“These notices will clearly state our intention of implementation later in the year and will serve as an information dissemination tool,” APHIS said in a December notice. “No additional action will be taken on noncompliant material at this time.”

Insects aren’t the only pests. APHIS must contend with imports of noxious weeds and plants. Some that have entered the country are leafy spurge, knapweed, starthistles, saltcedar and cheatgrass.

U.S. soybean shippers have become increasingly concerned about the introduction of Asian soybean rust, which has the potential to devastate the industry.

“We must work to prevent the accidental introduction of soybean rust associated with imports or travelers, and a potential outbreak via wind-borne spores,” said Ron Heck, president of the American Soybean Association and a Perry, Iowa, soybean farmer. “With the possible yield losses of 80 or even 90 percent, rust is one of the most
pressing issues facing farmers this year.” Soybean rust attacks the foliage of soybean plants causing their leaves to drop early. The amount of damage depends on how early in the growth of the soybean plant the infection occurs.

ASA members, who met in St. Louis in early January for the Soybean Rust Conference, are concerned that Asian rust could be transported to the United States through commercial shipments from South America, where the plant disease has already caused significant crop losses. Because imported soybeans are allowed to contain up to 2 percent foreign material, such as plant stems, pods and leaves, rust spores may find their way into these shipments.

ASA members are adamant that the risk procedures used by APHIS are based on “good science.” “As global exporters, it is in our best interest to have plant protection measures around the globe that are grounded in good science because we also have to live with such measures to reach out international customers,” Heck said. The United States exports more than 1 billion bushels of soybeans a year.

“The rate at which we are importing forest insects, diseases, and invasive plants is growing,” said USDA Forest Service Chief Dale Bosworth at the Oct. 26 Society of American Foresters meeting. According to the USDA, the combination of current pest introductions causes about $337 billion of damage a year. Invasive species cover about 133 million acres and they advance at the rate of 1.7 million acres a year.

**APHIS Split.** APHIS began making many changes to its operations in the late 1990s when it asked for recommendations from the National Plant Board to find efficient ways to keep pests out of the country without disrupting trade. The result was the 2000 report, Safeguarding American Plant Resources: A Stakeholder Review of the APHIS-PPQ Safeguarding System, which contained about 300 recommendations.

Since the Sept. 11, 2001 terrorist attacks in the United States, APHIS underwent a significant transformation in its operations. Shortly after the attacks, the Bush administration and Congress began to lay the groundwork for the Homeland Security Department. The new department’s goal is to create “one face” for the nation’s border security. For APHIS, this meant the transfer of 2,600 agricultural inspectors to the newly formed Bureau of Customs and Border Protection in March 2003.

APHIS now employs about 6,000 people scattered over all 50 states, several territories, and about 25 countries. The workforce is organized into six operational units — animal care, biotechnology regulatory services, international services, plant protection and quarantine, veterinary services and wildlife services — and three management support groups — legislative and public affairs, marketing and regulatory programs, and policy and program development.

At the time of the transfer of its inspectors to DHS, APHIS entered an agreement with U.S. Customs to share information, communicate regulations and policies, share resources, and carry out other activities to support each other.

APHIS still identifies intercepted pests, performs fumigations, conducts market blizzards and trade compliance activities, develops import and export regulations and policies, and certifies agricultural products for exports.

The agency maintains a series of data gathering and emergency pest response systems and programs, such as the Offshore Pest Information System and Global Pest and Disease Database. APHIS recently developed a system at the Texas land-border port of Laredo to track shipments transiting through the United States to other countries. The tracking system has since been expanded to other ports. The agency even tested the use of electronic seals for transit cargo moving between Seattle and Blaine, Wash., and is now experimenting with the technology in Laredo.

Through the 2000 Plant Protection Act, many shipments are trucked into the country from Canadian suppliers. Also, APHIS does not have a station set up at FedEx’s hub in Memphis.

Once shipments arrive at their traditional entry ports, they must be routed to one of the plant inspection stations for final clearance, adding a minimum of one day to the transit and potentially killing the insects, Glenister explained.

“A few very large companies with facilities very close to inspections stations do not anticipate any problems,” she said. “For the rest of us, the reductions of quality of the product and the untimely deliveries to our customers will put us out of business.”

According to the ANBP, its members’ products have a safe track record with agricultural regulators. They are upset that the delay is being caused by APHIS’s traditional method of lumping together their insect shipments with the harmful pests associated with the agency’s 526 permit system.

ANBP members don’t dispute the need for measures to protect the nation’s agricultural system from introductions of untested organisms. They are also aware that the new Homeland Security Department is struggling with its inspectional role with agricultural goods.

“Our products, however, are known to be safe and are routinely released for the natural control of pests,” Glenister said. “We believe that APHIS and DHS should be able to design a system of oversight that will facilitate the swift inspection and movement of these products without jeopardizing national security.”

**The good bugs**

**WASHINGTON**

Just because a shipment contains bugs doesn’t mean it’s bad.

For years, members of the Association of Natural Bio-control Producers have promoted the use of beneficial insects, mites and nematodes to combat agricultural, horticultural and garden pests. Some of these organisms are imported into the United States from international producers, including Canada.

But a new regulation requiring these super-sensitive shipments be routed through designated U.S. plant inspection stations may kill off a number of players in this niche industry.

“The shipments usually get through overnight with occasional one-day delays,” said Carol Glenister, president of Locke, N.Y.-based IPM Laboratories, and a representative of ANBP. “Under the new procedure, we are afraid that they will take at least two days with occasional one- to two-day delays. The situation is impossible for us as the product is highly perishable.”

There are 14 plant inspection stations operated by the U.S. Department of Agriculture’s Animal and Plant Health Inspection Service Plant Protection and Quarantine. Many are located near major seaports, such as Los Angeles-Long Beach, Calif., and New York-New Jersey.

A problem for many importers of helpful bugs is that their traditional entry ports are not located near the plant inspection stations. None of the plant inspection stations, for example, are located along the U.S./Canadian border, where imports and about 25 countries. The workforce is organized into six operational units — animal care, biotechnology regulatory services, international services, plant protection and quarantine, veterinary services and wildlife services — and three management support groups — legislative and public affairs, marketing and regulatory programs, and policy and program development.

At the time of the transfer of its inspectors to DHS, APHIS entered an agreement with U.S. Customs to share information, communicate regulations and policies, share resources, and carry out other activities to support each other.

APHIS still identifies intercepted pests, performs fumigations, conducts market blizzards and trade compliance activities, develops import and export regulations and policies, and certifies agricultural products for exports.

The agency maintains a series of data gathering and emergency pest response systems and programs, such as the Offshore Pest Information System and Global Pest and Disease Database. APHIS recently developed a system at the Texas land-border port of Laredo to track shipments transiting through the United States to other countries. The tracking system has since been expanded to other ports. The agency even tested the use of electronic seals for transit cargo moving between Seattle and Blaine, Wash., and is now experimenting with the technology in Laredo.

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APHIS imposed stiffer penalties for shippers that violate the country’s regulations. These penalties are tracked in an agency database.

‘One Face.’ Many agricultural producers and shippers question the effectiveness of a Customs-driven line to stop pests from entering the country, especially when it has been traditionally focused on cargo infiltrations, such as drugs and contraband. Pests are generally not that obvious.

Customs officials say they’re aware of the need for efficient agricultural pest controls.

“We need to strike that balance between protecting the homeland and traditional border controls,” Jayson Ahern, Customs’ assistant commissioner of field operations, told industry attendees at the APHIS Plant Protection and Quarantine Stakeholder Meeting in Washington, Dec. 9. He said Customs is still working through training issues, regulatory issues, targeting, and appropriations to keep positions in the agricultural area.

Under its “one face at the border” initiative, the agency created a new position, the Customs agriculture specialist, to serve as the agricultural expert at ports of entry. The agriculture specialist will support Customs officers in passenger baggage and cargo operations in airports and seaports.

According to the agency, in ports where the agriculture industry imports much of its flowers, fruits, vegetables, and meat, the Customs agriculture specialist will:

• Conduct cargo exams for quarantine diseases and pests.
• Collect, prepare and submit pest and disease samples to USDA.
• Oversee the seizure, destruction and re-export of inadmissible cargo.
• Negotiate compliance agreements with importers of regulated agricultural commodities.

Mike Oraze, deputy associate commissioner of Customs’ agricultural inspection, policy and programs, said all the agency’s 18,000 field inspectors would receive additional training on how to detect pests in cargo. The agency initially suggested 16 hours of pest detection training per inspector, but has since proposed raising that instruction to 90 hours.

Industry representatives believe the increased training is a positive step.

“We’re still very concerned that agriculture needs to play a key role in the education of the inspectors,” said Keira Franz, director of legislative affairs for the Washington-based United Fresh Fruit & Vegetable Association. “They appear to be moving in the right direction.”

LOGISTICS

Rectionary. Meanwhile, regulatory officials find themselves reacting to some recent pest discoveries after infested shipments entered the country.

In December, for example, APHIS banned imports of Chinese Ya pears due to a serious fungal infection in the fruit. The fungus, which causes lesions on the fruit skin, poses significant risk to the U.S. apple and pear industries, the agency warned.

APHIS recommended that retailers remove Ya pears immediately from their shelves, double bag and deep freeze them for at least 24 hours before disposal.

The agency also issued a national recall of pinecones from India after a non-indigenous wood-boring beetle was found in them. Infested pinecones were found in Frank’s Nursery, Kmart, Target, Wal-Mart, JoAnn Fabrics, Lowe’s, Dollar Tree and Safeway stores throughout the country.

Again, APHIS recommended that infested pinecones be either frozen, or double bagged, tied securely and disposed of in the trash. Frozen cones should remain in the freezer for at least two days to kill the pests. The agency also mandated the fumigation of future shipments of Indian origin pinecones before they enter the United States. Pinecones packaged in non-permeable materials will be refused entry or destroyed, since they cannot be fumigated, APHIS said.

Alan Green, director of quarantine policy and analysis staff for USDA’s Plant Protection and Quarantine, admits the agency and its inspectional counterparts at Customs are still adjusting to the organizational changes, which may impact their ability to target suspect shipments. “It’s not about inspectors doing their job,” he said.

A different breed of logistics

If you thought shipping beef overseas is difficult, try transporting a live cow.

By Chris Gillis

When the U.S. government announced the discovery of a cow infected with bovine spongiform encephalopathy, better known as “mad cow” disease, in Washington state Dec. 23, Gordon Thornhill decided to take a short vacation.

What else could he do? Thornhill’s company, T.K. Exports, specializes in transport logistics for live cattle shipments, and most markets for American beef closed within hours of the mad cow announcement.

“It’s something you’re never quite prepared for, but you always know it could happen,” Thornhill said in a recent interview.

Thornhill doesn’t downplay the seriousness of the brain wasting disease, which can be transmitted to humans who eat infected beef. More than 150 human cases of a disease variant were linked to the consumption of mad cow tainted beef in the mid-1980s, mostly in the United Kingdom.

But Thornhill believes the disease is misunderstood. “It’s more hysteria than anything else. Chances of contracting it are slim,” he said.

Thornhill is confident he’ll be back to work soon, perhaps facing a little more regulatory scrutiny from U.S. and overseas agricultural authorities.

He also believes there are two “silver linings” to be drawn from the mad cow incident. First, it happened in late December when the overseas cattle business is traditionally slow, and the U.S. Department of Agriculture traced the infected cow’s origin to a Canadian herd where another case of the disease was found in 2003. Thus the United States technically maintains its BSE-free country status.

“This event should strengthen the industry in our country (compared with Canada and other cattle exporting countries) for a long time,” Thornhill said.

The United States has remained relatively free of pathogens because of its animal health system. “This is why countries will continue to want U.S. cattle,” Thornhill said.

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ago. This has allowed the national dairy herd size to decrease. In 1995, the national dairy herd included about 10 million head compared to 25 million in 1945, yet the new herd out-produces its larger predecessor.

For developing country populations, access to reliable dairy sources is increasingly important. “If you had the choice between drinking fresh milk or that created from a reconstituted powder, you’re going to take the fresh milk,” Thornhill said.

China has increased its taste for fresh dairy products. In China, the average milk consumption rate is 2 kilos per person a year compared to the average American who drinks between 35 to 40 kilos a year.

Turkey, Saudi Arabia and other Middle East countries also appreciate the milk production of American dairy cows, and have imported them by the boatloads in recent years.

Thornhill started in the cattle shipping business 25 years ago. After college, he worked in the meat packing industry for two years in the mid-1970s. In 1977, he was asked to join Virginia’s Agriculture Department to promote the state’s emerging livestock exports. Many of these cargoes were loaded on ships at Virginia’s Port of Richmond destined to Europe and the Middle East.

In 1982, Thornhill wanted a piece of the action and decided to form his own company, based at his family’s ranch in Culpeper, Va. He has since shipped thousands of cows by air, but large numbers are generated for cattle transport. “They’re more helpful today.”

“Twenty years ago, USDA was more regulatory and less concerned about our needs,” he said. “Before, it may be more efficient to ship a handful of cows by air, but large numbers are generally moved by ship. T.K. Exports specializes for cattle transport,” Thornhill said. “They’re like barns.”

Since some voyages last up to three weeks, T.K. Exports must ensure there is sufficient food and bedding for the cows. The company works with feed manufacturers and hay suppliers to have the correct mix for each class of animal it ships.

While Thornhill compliments the ability of the carrier crews to care for cows, he prefers to send his personal veterinarian with the ship. Some clients will ask T.K. Exports to arrange veterinary and quarantine services when the cattle arrive overseas.

Even though ocean transport is generally the most cost effective, all the services to prepare the cattle are up. It’s estimated that freight transport accounts for 20 to 25 percent of each cow’s delivered cost overseas. A pregnant dairy cow purchased for the Middle East market may cost as much as $2,200 to $2,300 to deliver.

“The hard part is the politics and animal health regulations of the individual countries,” Thornhill said. “It’s something out of our control.”

Thornhill praised the USDA for its improved services to cattle shippers. “Twenty years ago, USDA was more regulatory and less concerned about our needs,” he said.

“They’re more helpful today.”
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Consumers in 2004 expect to find a wide assortment of fruits and vegetables in their grocery stores, as well as exotic varieties of ice cream and other frozen products.

If the produce or frozen goods aren’t in premium condition, there’s no sale.

The refrigerated container industry “is responsible for raising customer expectations because of recent technological advancements. Today’s consumers would never buy the head of lettuce that was their only option 10 years ago,” said Patrick E. Brecht, president of P.E.B. Commodities Inc., based in Petaluma, Calif.

“There was more transportation business by far in 2003 for reefer containers, but looks are deceiving,” said John Mynes, sales and marketing manager, western U.S. region, for P&O Cold Logistics, based in Anaheim, Calif.

“The way to determine if business is up is by the availability of equipment, and there has been a drop in newly manufactured reefer containers in the last 48 months. Some suppliers folded,” Mynes said.
A number of ocean carriers that own reefer containers have had to cut back their fleets,” he said. “I hasten to add that P&O Nedlloyd is not one of them, having taken on about 5,000 reefer containers last year.”

“Cold means longer.”

For insulated containers, Maersk has a couple of factories where we develop and implement technologies,” Pratt said. “For refrigerated units, we specifically purchase equipment and work with vendors in the commercial market. The insulated box is matched up with a mechanical refrigeration unit made by a different manufacturer.”

Maersk Sealand and Orient Overseas Container Line Ltd. have recently acquired MAGNUM reefer units made by Thermo King, a subsidiary of Ingersoll-Rand Co. Ltd., said Kim Thorsen, manager of marketing services for Thermo King Corp.

Thorsen would not say how many Maersk bought, but noted that OOCL acquired 800 new MAGNUM units last summer.

The Thermo King MAGNUM unit can maintain deep-frozen cargo to -35 degrees Celsius in new containers. For a 15-year-old container with a typical heat leakage of 3 percent to 5 percent a year, the unit can keep cargo at -30 C, thereby extending the box’s usable life.

“Thermo King is the only company known to me with units going that low,” Brecht said.

As containers grow older, “there’s no question that their insulation isn’t quite as good as when they were new, and that their machinery doesn’t quite have the ‘umph’ it once did,” Brecht explained. “A new container with the MAGNUM technology will remain useful for a longer period, the lower temperature making up whatever was lost in aging insulation.”

“If you have an ongoing preventive maintenance program, refrigerated containers can last between 10 and 20 years,” Pratt said. “Colder means longer.”

A reciprocal compressor is piston-driven. The scroll compressor is a rotary machine, in which the action of a pump is powered by two discs rotating against each other.

“In Carrier Transicold’s Elite product line, the discs resemble the contours of a nautilus shell, so that circular motion is an efficient way to power the pump,” D’Angelo said.

“2003 was an extraordinarily strong year in the industry,” he explained, noting that his company’s scroll compressors and its bread-and-butter product, thin-line reciprocating compressors, both sold exceptionally well. There was also demand for Everfresh, Carrier Transicold’s controlled atmosphere system.

GPS Technology. Last year, the reefer industry conducted a series of global positioning testing. Maersk’s interpretation of the results was mostly positive.

“The initial testing has proven that GPS...
Avoiding reefer grief

In a University of California publication, Refrigerated Trailer Transport of Perishable Products, authors James F. Thomson, Patrick E. Brecht and Tom Hinsch recommend the following checklist be followed in the preparation of reefer containers.

Before loading, check that:
☐ Trailer interior is clean and dry.
☐ Trailer is odor free.
☐ Floor drain holes are free of obstruction.
☐ Any damage to the container’s interior walls has been repaired.
☐ Container’s air chute is in good repair and properly attached to the ceiling.
☐ Door seals are in good repair, and floor drains are open.
☐ The front bulkhead is firmly attached.
☐ The refrigeration unit is operational.
☐ The trailer is cooled to desired loading temperatures.
☐ The cargo is stowed on clean, four-way pallets.
☐ Pallets loads are unitized and well secured on each pallet.
☐ Cargo is at specified pulp temperature.
☐ Products in load are compatible in their needs for temperature, humidity, ethylene sensitivity and odors.

During loading, check that:
☐ Boxes do not touch air chute or block air from refrigeration unit.
☐ The cargo is stowed away from walls and rear door.
☐ Unrefrigerated cargo is separated from refrigerated product by a space to avoid warming the cooled product.
☐ Packaged, iced product is not placed on top of other product.
☐ Airflow is not blocked by ice, dunnage or plastic wraps.
☐ No boxes are loaded directly on the floor.
☐ Portable temperature recorder charts are marked with load identification, start time, date and location.
☐ Portable temperature recorders are started and marked with their location.
☐ The thermostat in the container is set to the correct temperature; check for Celsius or Fahrenheit specification, and don’t confuse the two.
☐ Vehicle meets highway weight regulations.
☐ Mark positions of recorders, air bags, and other details of stowage.

Additional tips:
Maintain records. Parties in a dispute involving refrigerated cargo often lack documentation to support their contentions. Get the facts to support a cause of loss. If you can’t demonstrate loss, you won’t get an equitable settlement.
Portable temperature recorders, some now smaller than a pack of cigarettes, should be sent back to their manufacturers at regular interviews for recertification and recalibration — usually a free service provided by the manufacturers.
The ideal place for such probes is a carton with an X on it — three of them, one in the rear, one in the middle, and the third in the nose of the container.

Before you ship, think this through: does your product have the “legs” under normal and customary transit conditions to make it to the desired market?

is feasible. We are taking it the next step, but not for full-fleet implementation at this point,” Pratt said. “We’ve expanded the testing, and we’re piloting a program this year on a much larger scale.”

Much of the technology being used comes from StarTrak, a provider of wireless data software based in Morris Plains, N.J.

“The technology is a combination of software and hardware — a satellite and cellular phone connection,” Pratt said. “Sometimes it uses one, sometimes the other.”

Although Maersk and other reefer-owning carriers are also looking at radio frequency identification (RFID) technology for monitoring chassis and dry containers, “we’re not looking at RFID for refrigerated containers at this time,” she said.

Regulating Carbon Dioxide. Another recent technological innovation has been the development, again at Thermo King, of a computerized fresh air management system.

“Heretofore, a fresh air exchange was utilized manually,” Brecht explained. “The steamship company or supplier would manually adjust two fresh air vents on the front of a reefer container to a certain percentage opening or to a certain flow rate, either cubic feet per minute or cubic liters per hour.”

There was substantial guesswork as to what the optimum setting should be, given conflicting dynamics such as the leak rate of the container, and the respiratory activity of the commodity — meaning how much CO₂ it gave off, or oxygen it used.

“The higher the temperature, the faster the respiration of the commodity, meaning that more CO₂ is given off as fruit ripens,” Brecht said.

If the computer on the container could, by means of a new type of software, sense the carbon dioxide and oxygen levels in the refrigerated space before the CO₂ level became dangerous, “the computer could open a special fresh air exchange for a period of time, which permits the CO₂ level to drop down to an optimal level,” he explained.

“That, in fact, is how Thermo King’s Advanced Fresh Air Management System (AFAM) works,” he said.

Thermo King confirmed that Brecht had a conceptual role in the development of its AFAM technology.

RCT Units. Specialists in cold technology have tried for years to produce a means of keeping containers cold off-site when they are disconnected from supporting electrical equipment on ships and in container yards.

The latest variant of this research has been adopted by Revolutionary Cold Technologies LLC, based in Jacksonville, Fla., which “markets a proprietary, non-mechanical refrigeration system,” said Mike Shea, the company’s president and chief executive officer.

“We refer to this technology as RCT,” Shea said. “Essentially, we make 40-foot marine containers that have normal refrigeration machinery that can maintain frozen product for a minimum of five days,” he explained.

RCT containers sustain temperatures of -10 F, using a heat-sink material installed permanently in a box’s ceiling.

“Looking at the ceiling of one of our containers, you would see aluminum ducts.
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Behind the ductwork would be bags of a cold-making material that will last the life of the box,” Shea said. “I can’t tell you exactly what the material is. It derives from a secret formula that’s been patented.”

More specifically, the company’s technology uses a phase-change material that changes from a liquid to a solid as the refrigerated container is chilled.

“The material in RCT containers requires no maintenance. It automatically works. Once the box is chilled, it will hold the box in a frozen condition for a minimum of five days,” Shea said.

“That means when a container either comes off a ship already chilled, where it’s been operating off electricity, or if it’s been plugged in a terminal and been chilled — if that container is a RCT unit, you can put it on a regular chassis and send it off to the customer without the need for a genset to sustain its coldness.

“That saves time in the terminal and the cost of a genset,” Shea added.

“Our product is also a quality assurance device. If there is a breakdown in the refrigeration system, either on a ship or in a terminal, then this material keeps the box chilled. We’ve already had that happen.

“At present, we’re only putting the material into new containers purpose-built for it,” he explained. “It can also be used on smaller feeder ships that may not have adequate electrical plugs for refrigerated containers.”

The cost of a RCT unit is higher than standard marine reefers, which can cost new in the low $20,000 range. Shea declined to say specifically how much more the RCT technology costs. “It’s a significant premium, but less than the cost of operating a genset,” he said. “Of course, the size of an order affects the pricing.”

**First Sales.** A RCT container can be stowed in a dry slot on a ship as long as the voyage doesn’t last more than five days. After that amount of time, the material weakens and temperatures will slowly rise in the container. As soon as the container grows cold again, the material rejuvenates itself.

“Our company presently consists of an investor group and myself. Every activity we have is on a contract basis. We have two contracts, and expect to conclude more this year with domestic and deepsea carriers,” Shea said.

He said 18 RCT containers are operating in the Puerto Rican trade and have made about 200 voyages thus far.

Sea Star ordered 10 RCT containers, built in China, in 2002 when Shea was then president of Sea Star. He left the company in December 2002.

Caribbean Shipping, a non-vessel-operating common carrier, has also purchased RCT containers. Paul Robbins, Caribbean’s president, has an ownership interest in Revolutionary Cold Technologies, Shea said.

“Sea Star is only interested in the technology as technology,” Shea said. “It has no ownership interest in our company.”

Sea Star provides integrated transportation services between the United States, Puerto Rico, the Dominican Republic, and the U.S. Virgin Islands.

Bill Stallings, Sea Star’s vice president for sales, confirmed that his company had initially bought 10 containers from Revolutionary Cold Technologies.

**“There definitely are not enough refrigerated containers. The problem is to reload empties and get them out West again.”**

John Mynes
sales and marketing manager, western U.S., P&O Cold Logistics

“We have seen very significant savings, more than enough to offset their higher cost,” he said.

Stallings described the material in the containers’ ceilings as being “a packed, jelly-like substance — a dormant, packaged system unto itself.”

Stallings said Sea Star “actually recorded seven days before you need to restart the container’s cooling equipment to regenerate the RCT material. The colder the box, the more efficient the material works.”

**Time Protocol.** “Another new development last year was that a lot more refrigerated products started coming into the U.S. from Central and South America and China — mostly fresh fruit and vegetables that previously originated in the U.S.,” Brecht said.

U.S. quarantine issues, specifically the use of cold treatment, were not a major factor in those trades. “They have become so now,” he said.

Cold treatment is a means of disinfecting, killing all stages of insects by using a time/temperature protocol designated by the U.S. government and other nations. For example, if table grapes are shipped from Peru to the United States, they would be held under very specific cold temperatures for a period of time.

“Here’s the kicker,” Brecht said. “If the temperature of the grapes exceeds the cold temperature upper limit — and each container of table grapes will have three temperature probes to record internal readings — then the cold treatment has to be redone.

“If you need 12 days of cold treatment at 32 F to make sure the grapes are free from live insects, and then have to redo the treatment — then that means another 12 days of delay,” he said.

That creates both a marketing issue and a problem with the shelf life of the grapes. Certain defects may show up in the course of time that wouldn’t appear if the grapes had reached their market in half the time.

“The U.S. Department of Agriculture inspects the temperature readouts of every cold-treated container coming into the U.S.,” Brecht said. “If you have a special type of fruit, say mandarin fruit, that doesn’t have a long shelf life, adding another two weeks to the shipment’s already mandated cold treatment schedule is tantamount to disaster, because the fruit doesn’t have enough legs to survive it.”

Brecht said in some cases packing procedures in Central and South America and China lead to the raised temperatures that necessitate an extra period of cold treatment.

“The USDA has been very specific as to what has to be accomplished at the point of origin to insure that you are not going to have a temperature excursion in transit,” he said. “For example, they indicate that you shouldn’t have dissimilar packaging, or dissimilar products in the same container, and that you should stow the container in a very specific way.”

**When Probes Fall Out.** If the cargo isn’t properly stowed, USDA probes placed in a reefer shipment often report that temperatures are too high, while the ocean carrier’s probes will be reading temperatures from the container’s microprocessors that say everything is O.K.

“As a result, a lot of litigation is developing in this area,” said Brecht, who frequently testifies as an expert witness in cases involving alleged loss of reefer cargoes.

The problem goes back to the people who originally supplied the product, packaged it, and stowed it in the container.

“Even if they did everything right, so there is uniform temperature management throughout the container, if they didn’t properly put the probes into the fruit, then you have a problem,” Brecht said. “If a
Sure, we’ve made a name for ourselves in Puerto Rico over the last 45 years. But lately we’ve been acknowledged for our superior service by some bigger names. Like Sears, Ford, Campbell Soup and Toyota. Most recently, SC Johnson recognized us for sailing schedule integrity, documentation, customer service, and equipment availability and condition. But you don’t have to be a big company to get Crowley’s attention. Every one of our customers receives the same high level of service. For example, we offer four sailings a week to all customers who ship between the U.S. and Puerto Rico, and even more during the busy holiday season. And every customer benefits from the efficiency of our San Juan terminal.

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Another look at product origin

WCO forum hopes to spark interest in harmonizing rules for where goods come from.

By Chris Gillis

Free trade agreements offer the promise of liberalized commerce between countries, but importers often face complicated rules of origin in order to receive the benefits.

The World Customs Organization recognizes this and will bring together customs administration and industry officials to discuss the future of origin rules.

“The problem with different rules of origin is that the customs transaction becomes heavier and adds costs,” said WCO Secretary General Michel Danet in a recent interview. “It goes against the concept of free trade.”

Around the world, countries have increasingly entangled themselves in regional and bilateral free trade agreements. The United States, for example, recently implemented individual agreements with Chile and Singapore, and seeks numerous other trade deals, such as the proposed Central America Free Trade Agreement, this year.

While these agreements are similar in purpose, the origin rules may differ. “I believe that for the trade this causes a sensitive and difficult situation,” Danet said.

Danet decided the WCO should hold a meeting at its Brussels headquarters Jan. 26-27, inviting representatives from the private sector and international and regional organizations to express their concerns and present new approaches to provide global traders with clear and harmonized rules.

“I didn’t get a mandate to take care of the rules of origin,” Danet said. “But I travel a lot and meet with leaders of different countries. People ask me what do I think will happen with the rules of origin.”

Global Standards. During the Uruguay Round, participating countries recognized the importance of concise origin rules. They determined these rules should not be used to pursue trade policy goals. They also agreed the origin rules should not be used to create restrictive or disruptive effects on international trade or discriminate against imports and exports between countries.

Instead, the Uruguay Round determined that origin rules should be applied in a consistent, impartial and reasonable manner. The agreement also says governments should not change origin rules retroactively and importers should have the ability to seek appeals for origin-related administrative actions by customs.

Since 1995, the WCO Rules of Origin Committee has tried to come up with standard guidelines for the rules, similar to those used today with harmonized system nomenclature. In early 2000, the WCO initiated several permanent responsibilities for the committee:

- Provide technical help and training seminars on the harmonized rules of origin to member customs administrations.
- Develop guides to the harmonized origin rules.
- Prepare periodic reports and annual reviews.
- Conduct a comprehensive study to certify and verify processes to facilitate future implementation of the harmonized origin rules.
- Revise the origin rules as a result of
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amendments to the harmonized tariff system, technological developments and other changes in trade.

While the WCO’s origin rule harmonization recommendations are complete, the WTO’s political will to act upon them appears to have stagnated. WTO representatives are expected to attend the WCO’s January meeting. “We need to restart a movement,” Danet said.

After several years of focusing on supply chain security, industry officials praise the WCO for revisiting equally important technical issues related to improving cross-border trade.

“If there’s no harmonization, you’re looking at lots of origin laws to know about,” said Michael Cerny, chief executive officer of Global Customs & Trade Specialists, based in Brewerst, N.Y. “It becomes a big puzzle.”

**NAFTA Blues.** North American companies still struggle to comply with the complex origin requirements of the 10-year-old North American Free Trade Agreement. There are typically two criteria used for NAFTA origin: regional value content and tariff shift, also known as change in tariff heading. For a product to gain NAFTA benefits, one or both of these tests must apply.

“The rules of origin generally are structured to prevent someone from setting up a mere ‘screwdriver assembly’ or repackaging operation in Mexico, for example, and getting NAFTA preference for third-country products,” said Don Luther, former U.S. Customs official and proprietor of 19CFR Trade Consulting, based in Cumberland, Md.

The tariff shift rules often specify “a change to tariff heading X from any other heading, except for headings Y or Z.” This means in the manufacture of a product classified at X, no non-NAFTA-origin parts that are classified at provisions Y or Z can be used if the final product is to qualify for duty free entry under NAFTA. For example, a hair dryer can be made from many non-NAFTA-origin parts, but the motor and heating element must be of U.S., Canadian, or Mexican origin.

Manufacturers with products requiring hundreds or thousands of parts or dozens of major assemblies may find NAFTA origin rules difficult to meet. For these cases, a manufacturer may need to obtain the actual classification and value of every single part in the final production, along with the classification, value and NAFTA origin status of any subassemblies (made of individual parts) that may be part of the manufacturing process.

“Manufacturers don’t always have good visibility of where the parts originate,” Luther said. “Sometimes there are model changes, revisions to the product, etc., that can change some of the assemblies or original parts. Decisions can be made to change the production location of some subassemblies, decisions that may have nothing to do with customs planning.

“As a result of these kinds of rules, for complex products, manufacturers must deal with reams and reams of paperwork, sometimes doing detailed background checks on each part listed on the bill of materials,” he added. “The administrative costs of such endeavors often outweigh the duty savings benefits of claiming NAFTA.”

**‘Origin Certification.’** Through the WCO, industry officials may encourage customs administrations to lighten up on traditional nitty-gritty origin information requirements for complex products.

“Some recognition should be given to the complexity of certain kinds of articles, and the business realities faced by those who manufacture them,” Luther said. “Tariff shift is not too much to ask for in the case of a furniture maker turning lumber into furniture, but for more complex items, a more flexible and ‘big picture’ view should be taken.”

Luther pointed out that for the earlier trade agreements, such as the General System of Preferences, the preference requirements are standard for all products: 35 percent local value, direct shipment to the United States, and “substantial transformation” of any third-country parts into a new and different article of commerce. “Some of the NAFTA origin rules already allow such an approach, even to the point of overriding the tariff shift requirements,” he said. “But the rules are still too burdensome.”

One way to ease the origin rule burden, Luther suggested, would be to have an independent certifying body review a manufacturing operation, and determine the “value added” during the operation. An “origin certification” from this body could then be honored by customs administrations for whatever purposes. “Something like this may be politically unfeasible, but it is a possible alternative,” he said.

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**Moisture-free boxes for food aid**

*U.S. government, carriers and shippers find ways to keep bagged corn, beans dry.*

**BY CHRIS GILLIS**

In August 2003, U.S. government officials were prepared to deliver about 6,000 tons of bagged corn to offset hunger in Angola. When the ocean containers arrived, little did they know that a public relations disaster waited.

The shipment of 90,000 bags, valued at $2 million, had rotted from moisture inside the containers and had to be buried in a hole the size of a football field.

“This presents a terrible image of the United States,” said Bert Ferrish, deputy administrator for the U.S. Department of Agriculture Farm Service Agency’s Commodity Operations, in an interview. “When we have to destroy something, it means people can’t eat.”

After the Angola disaster, considered the worst U.S. food-aid loss in 20 years, government officials decided something had to be done to eliminate moisture in ocean containers.

First, the U.S. Agency for International Development, which works with USDA on food aid programs, sent a memo to private relief agencies on Nov. 14 stating that use of containers for all bagged corn and bean shipments will be considered by the agency.
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LOGISTICS

on a case-by-case basis. The memo stated that containers could be used if the organization demonstrated that an overseas destination port cannot handle breakbulk commodities or that there are security concerns.

Next, USAID set up the Container Aid Product Improvement Team (CAPIT) to review the processes of shipping certain bagged food commodities, namely corn and beans, in containers. The agency invited 10 representatives from private voluntary organizations, U.S.-flag ocean carriers and bean shippers to participate.

“Our statistics indicate a loss rate of just under 2 percent for bagged corn for the past several years,” said Paul Vicinanzo, traffic management specialist for the USAID Office of Procurement’s Transportation Branch and the agency’s representative on CAPIT. “USAID feels that this rate can be improved by adopting certain standards for containerizing corn and beans.”

U.S. food aid is managed under a variety of federally funded programs. Most bagged corn and beans are shipped under P.L. 480 Title II, a donation program to meet emergency and non-emergency food needs in other countries. This food aid is provided under government-to-government agreements or through public and private agencies, such as the United Nations World Food Program. Non-emergency help under Title II may only be provided through private groups, such as Catholic Relief Services, CARE and World Vision, and cooperatives and intergovernmental organizations. Other U.S. food aid programs that may include bagged products are P.L. 480 Title I, Food for Progress, Section 416(b), and the McGovern-Dole International Food for Education and Child Nutrition.

Damage claims in general for food aid shipments vary, but appear consistent with those normally seen for shipments originating in the United States with a southern hemisphere final destination, such as Central America and Southern Africa, or taking an unusually long journey.

In the case of the Angola shipment, the bagged corn was loaded in the spring of 2003 in the U.S. Gulf. The containers were then shipped to the Bahamas, where they were loaded onto another ship bound for Cape Town. They arrived in the South African port in May. The cargo was originally destined to another African country, but was diverted to Angola to assist a humanitarian effort there.

CAPIT has held several meetings in Washington since Dec. 10.

“We are currently in the process of studying the entire shipment cycle, from when the commodities are made available for shipment to when they are delivered to the end user for consumption,” Vicinanzo said. “All areas within the shipment life cycle are being dissected, from the way the cargo is currently being contracted, to the preparation of the containers prior to loading them, to the way that the documentation is being prepared, and customs clearance procedures.”

Containers are considered the main culprit for losses. CAPIT members studied types of lining that could be used in food-aid containers, such as cardboard instead of paper, and the need for ventilators.

CAPIT also considered non-container aspects of corn and bean shipments, such as the types of bags used, food aid destinations, shipping seasons, routing, condition of the product at harvest and time delays at the discharge ports.

“Currently, we are in the information gathering stage of the process, and are not at a point that would allow us to come up with a quick-fix solution,” Vicinanzo said. “USAID’s main goal here is to thoroughly look at the whole shipping process for these commodities and evaluate all possible solutions so that we do this one time only and come out with a solid solution.”

Moisture problems with bagged beans in containers are not only a concern for government food aid. Commercial shippers involved in coffee, cocoa and sugar also wrestle with moisture content in containers.

“The problem with moisture for us is moving coffee beans from a warm climate to colder climates,” said Jay Irwin, marketing manager for Louis Dreyfus’ coffee business. “We line the containers with Kraft paper. This keeps condensation and moisture content in containers.”

USAID and USDA officials realize it’s unrealistic to abandon container transport for food aid. They say it simply has to be used in a sound way to prevent future cargo damage.

“Containerization is the wave of the future and we want to be as successful as possible in moving these commodities from the fields of the U.S. farmers to all points around the world to those that most need them to sustain their way of life,” Vicinanzo said.

U.S. trade deficit in goods narrows as exports rise

WASHINGTON

Higher U.S. exports of goods and a fall in imports resulted in a narrower U.S. trade deficit in goods to $43.6 billion in November down from $47.1 billion in October, according to the latest statistics of the U.S. Census Bureau.

Including services, the U.S. international deficit decreased to $38 billion in November from $41.6 billion in October.

The value of U.S. goods exported increased to $63.8 billion in November from $61.6 billion in October. The Census Bureau said the Octobre-to-November increase reflected increases in capital goods ($1.7 billion); consumer goods ($600 million); and foods, feeds, and beverages ($400 million).

Imports of goods decreased to $107.4 billion in November from $108.8 billion in October. The decline included lower amounts for industrial supplies and materials, consumer goods, and automotive vehicles, parts, and engines.

The U.S. goods deficit with China, which accounts for a quarter of the total trade deficit in goods, decreased from $13.6 billion in October to $10.8 billion in November. Exports increased $0.5 billion (primarily soybeans and raw cotton) to $3.3 billion, while imports decreased $2.3 billion (primarily toys, games, and sporting goods; other household goods; and apparel) to $14.1 billion.

The goods deficits with Japan and Mexico also decreased between October and November.
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Taming complexity, reducing costs

Management Dynamics keeps focus on ocean contract, tariff management.

BY ROBERT MOTTLEY

I t’s hard enough in today’s skittish market for logistics technology entrepreneurs to create a niche and survive in it, let alone trying to expand that niche without having its walls crumble.

Management Dynamics Inc., based in East Rutherford, N.J., has altered its business strategies several times in the 14 years it has been selling one evolving product.

“In our situation, Rate Explorer is the sole focus of our company,” said John W. Preuninger, president and chief operating officer of Management Dynamics. “That’s what we have to offer.”

Rate Explorer is a Web-based software that enables ocean carriers, shippers and transportation intermediaries to manage tariff rates and service contracts in a calculable format.

Preuninger, along with twin brother, Jim, who is chief executive officer, bought the company in 1990 when it was a systems integrator that assisted corporations with resource planning. Both Preuningers had worked at IBM in sales and marketing.

In 1994, China Ocean Shipping Co. contracted with Management Dynamics to develop a means to manage ocean tariffs, an area in which the Preuningers later decided to specialize. After six years, Celerix Inc., a provider of supply chain visibility and connectivity services, acquired the company but kept it intact as an autonomous unit.

In 2002 the Preuningers bought back Management Dynamics from Celerix, which later was sold to GSX.

Management Dynamics also secured $6.7 million from four major investors: Cross Atlantic Capital Partners (XACP), the Megunticook Fund, the New Jersey Technology Council, and the Preuningers themselves.

“We have always updated Rate Explorer several times a year, at no charge to its users,” John Preuninger said in an interview with American Shipper. “We knew in that sense that our product would remain fresh in 2004. But we also needed to know where next to expand our business.”

Subscription Access. Shortly after acquiring their company, the Preuningers decided what they would not do.

“You can’t offer contract management and other things, such as supply chain management, customs compliance and landed costs,” John Preuninger explained.

“We felt that the shipper and NVO (non-vessel-operating common carrier) contract management market was wide-open territory, in which we could expand for using our system that has been proven and accepted by ocean carriers. For us, offering anything in another category would be overreaching and very imprudent,” he said.

The Preuningers also decided that Management Dynamics would not sell its software outright to clients. Customers using Rate Explorer access, via the Internet, contracts that are stored in a data center in East Rutherford that is owned and controlled by Management Dynamics.

“We’re more like a landlord charging for space that a client uses,” Preuninger said.

A typical subscription extends two or three years. The longest contract that Management Dynamics has negotiated is for five years. Subscribers pay fixed monthly fees that range from $3,000 to $100,000, depending on the amount of business done.

Rate Explorer’s customer base comprises 20 ocean carriers and dozens of NVOs and shippers. There are 10,000 calculable contracts in its data bank, which supports 6,000 users globally.

More than 60,000 amendments or changes to contracts were processed last year. The company’s data center clocks more than eight million transactions a month, at a rate of 15,000 to 20,000 an hour.

Management Dynamics has spent $20 million in research and development in the last five years. The software is updated three to four times a year.

Heidi Lindemann, logistics coordinator at ABX Logistics, said, “we have definitely saved substantial time and money using Rate Explorer. I particularly like its transparency in showing those a la carte extras that can add to the cost of a shipment. Also, I like the fact they don’t charge for program improvements that are introduced several times a year.”

As part of their business expansion, the Preuningers wanted to reach shippers and NVOs as well as ocean carriers. One way was found in the burgeoning number of confidential service contracts.

“The traditional format for such contracts is a text document. You have to kill a couple of trees to print them out,” Preuninger said. “Basically, the practice has been to email contract management data all over the globe and hope people would print it out and put it into three-ring binders. That was a leap of faith at best.”

Rate Explorer maintains its clients’ contracts in a format “that allows users to rapidly find an appropriate rate and calculate the bottom line,” said Nathan Pieri, vice president of marketing for Management Dynamics. “We also ‘publish’ a company’s contracts, which is another word for taking multiple contracts and entering them into Rate Explorer to make them paperless.”

“The system will render a text version of a document that it has stored, so you can have a paper trail if you want one,” Pieri said.

Amending Contracts. An acute industry headache, Preuninger said, comes from confidential service contracts that appear to be out of control.

“People are locking up contract demands in large, complex annual contracts that are amended frequently,” he said.

In a survey extending over 2002-2003, Management Dynamics determined that amendments to confidential service contracts increased in some trades by as much as 66 percent, and no trade increased less than 33 percent, Pieri said.

An ocean carrier decides, for example, that a general rate increase of $140 a contract will go through its system. That won’t apply to all of its customers, because many of them have exempted themselves from such rate increases in their service contracts.

“The fact of that exemption doesn’t always make it through the carrier’s paperwork before a bill incorporating the rate...
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increase goes out,” Preuninger said. “Contract management software prevents that from happening.”

Invoice Errors. Management Dynamics has also studied invoice rating errors. “About a year and a half ago, we asked two large steamship lines if they could empirically understand the extent of rating errors in text-based contracts,” Preuninger explained.

The lines gave the company a broad sampling of contracts from large and small NVO and shippers for both importers and exporters.

“We put those contracts into a calculable format in Rate Explorer. Then we went to the carriers’ documentation departments and said, ‘pull all of the bills that you’ve processed with these contracts over the last three months. Let’s do a post-mortem audit and see what we find,’” he said.

A documentation manager from one carrier provided 700 invoices that had been checked by a pre-audit service and spot-checked by the manager’s staff.

“One fallacy in this industry is that people think that hiring an auditing firm will guarantee error-free bills,” Preuninger noted.

After re-freighting each bill using Rate Explorer, Management Dynamics “found a 22-percent error rate,” Preuninger said.

“arist of these invoices had been checked by a pre-audit service and spot-checked by the manager’s staff.”

“The mistakes weren’t trivial, $5 here, $10 there. The average error was $178 per invoice,” Preuninger said. “For a lot of trades and shipments, $178 is all the margin there in a transaction.”

“The tendency was to overbill, but underbilling also occurred. About half of the time, the error was an overcharge,” he said.

“The mistakes had gotten through the carrier’s billing staff, its pre-audit firm’s staff, and whatever quality assurance measures the shipper or the shipper’s freight forwarder had taken,” he said.

Using Rate Explorer, that same ocean carrier’s error rates dropped to 0.5 or 0.3 percent.

“The error percentage for the second ocean carrier was consistent with the first carrier. In both cases, customers had presumably paid the invoices containing the mistakes.”

Shipper Ignorance. “The shippers who are starting to adopt us are seeing differences in carriers in this aspect of their performance. They rank carriers by error rates — high rates mean they are still using text,” Preuninger said. “Some shippers are delaying payments to carriers until their invoicing processes are cleaned up.”

“Most carriers want it to be right, so their sales and finance staff don’t spend half of their time trying to collect money,” he said.

“This only confirms what has been suspected for years, that a lot of carriers have significant problems with accounts receivable,” Pieri said.

“In the carriers’ defense, shipper ignorance of contract remains astonishing. “We’ve seen a lot of shippers who say, ‘I have all-in rates in my contract. When they show me their contracts, there’s nothing of the sort,’” Preuninger said.

“There’s also the suspicion that, on occasion, not everyone wants sunlight brought into a contract, which may have been made deliberately murky.

“It’s hard to organize and share these agreements across a large organization, which could have dozens of freight forwarders, affiliates, consolidators that need access to the contracts. If your only means of sharing with them is by e-mail, how do you know that the contract is secure, when anyone can print it out and walk it down the street to a competitor?” he asked.

NVO finds savings using Rate Explorer

Seahorse Carrier Services, the non-vessel-operating common carrier for Barthco, has been using Rate Explorer, Management Dynamics’ Web-based tariff and contract management system, for about 10 months.

“We realized last summer that we were losing our ability to effectively access and manage our service contracts because they were becoming extremely complex and growing in number,” said George Cirrilla, manager of inbound transportation for Seahorse Carrier Services. “Our initial hope, using Rate Explorer, was that we could perform rate audits and quickly access our rates for the purpose of quoting them to our customers.”

The NVO not only catches rating errors made by carriers, but has been able to point out specific rules and line items in its contracts, Cirrilla said. “The detail we were able to provide the carriers has prevented the errors for recurring, because we were specifically able to reference sections of rule tariffs to show them where the mistakes were being made.”

Seahorse Carrier Services has also been able “to catch short-term rate reductions for our customers,” he said. “If we are able to realize a reduction in an accessorial charge from a carrier, rather than take that reduction as additional profit, we’ll pass the reduction on to our customers.”

“While our contracts continue to grow in complexity, in some aspects they have gotten easier to understand. We rely heavily on our Management Dynamics’ account manager to make suggestions on how to structure our contracts. As a result, we have been able to streamline our negotiations to make quoting and auditing charges easier and more consistent,” he said.

Rate Explorer has firewalls between users, which can be shifted as desired.

“It’s up to the client how far they want to provide access to Rate Explorer. For example, Honeywell has extended it to its freight forwarders,” Preuninger said.

Richard Zavertnik, director of global logistics for Honeywell Specialty Materials, a specialty chemical group within Honeywell, said Rate Explorer had proved to be “a remarkably versatile software” for Honeywell’s internal units and vendors.

“Its functionality has more than met our expectations,” he said.

“We have a query engine that allows queries with a variety of parameters,” Preuninger said. “Some customers want to use the software to find true landed cost. Others like to take the data out of Rate Explorer to set up freight accruals.”

Extra Charges. Shippers can measure carriers’ performance, as well. “A shipper can determine how much money was spent last month with XYZ carrier, by trade lane and commodity,” Pieri said.

Barthco uses Rate Explorer to go back to customers with quotes and show multiple options (see related story), Preuninger said.

Rate Explorer also shows arbitrary and assessorial charges added to basic ocean freight rates.

Another problem with carriers is that in the United States, there’s been a trend of beneficial cargo owners going to steamship lines and asking for consolidated invoices on a weekly or monthly basis, rather than having individual bills of lading faxed from regional documentation centers. Shippers are even providing the formats they want for a consolidated invoice.

“Carriers are going to accommodate that request, but it adds a burden in the sense that they are putting up $50,000 to as much as half a million dollars into an invoice for 40 to 200 bills of lading,” Preuninger said. “That’s a lot of money for a single invoice. What you’d like to do before handing over that invoice is to have it be as accurate as possible, so that payment won’t be delayed by correcting errors.”

A new module for Rate Explorer “allows a carrier to do a consolidated freight audit … that flags any bills that may hold an error,” Pieri said. The same tool can be used by shippers to freight audit a batch of bills.
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EU, nations to strike back at U.S.

Requests WTO authorization to impose import duties on U.S. exports to retaliate against U.S. dumping act.

GENEVA, Switzerland

The European Union and seven countries of the Americas and Asia on Jan. 15 requested an authorization from the World Trade Organization to impose import duties on U.S. exports, to retaliate against U.S. legislation on dumping and subsidies ruled illegal by the Geneva-based international trade body.

The EU, Brazil, Canada, Chile, India, Japan, Korea and Mexico requested a meeting by the WTO’s trade settlement body to discuss potential sanctions against the U.S. Continued Dumping and Subsidy Offset Act of 2000, known as the Byrd Amendment.

In January 2003, the WTO upheld complaints by U.S. trading partners that the redistribution of antidumping and countervailing duties to U.S. domestic producers was against WTO rules.

The U.S. had until Dec. 27 to bring the Byrd amendment into conformity with WTO rules, a deadline that expired with no compliance by U.S. Congress.

The European Commission said U.S. companies in the ball bearing, metal, household item, food and other industries received $231 million in payments in 2001 and about $330 million in 2002 under the antidumping legislation.

“It is clear that the Byrd Amendment is a WTO-incompatible response to dumping and subsidization and must therefore go,” said EU trade commissioner Pascal Lamy.

“I hope the U.S. will now take action to remove this measure, thus avoiding the risk of sanctions.”

In seeking the authorization to retaliate against the U.S. legislation, the EU proposed that the level of the duty should be linked to the disbursements made to U.S. producers under the Byrd amendment during the previous year. It did not disclose which products would be targeted by EU duties.

The United States plans to seek WTO arbitration in the matter. “The retaliation being sought by the other complaining parties does not appear to be based on actual harm to their exports,” said John Veroneau, general counsel for the U.S. Trade Representative’s Office, in a statement.

The Byrd amendment, named for sponsor Sen. Robert Byrd, D-W.Va. and passed by Congress in 2000, authorizes the government to pay antidumping duties to U.S. companies that petition for them. Prior to the rulemaking, this money ended up in the general treasury.

The WTO dispute settlement body was posed that the level of the duty should be paid to antidumping duties to U.S. companies that petition for them. Prior to the rulemaking, this money ended up in the general treasury.

The WTO dispute settlement body was assigned to meet Jan. 26. It is expected to approve trade sanctions against the United States. If the United States contests the validity of the requests, the matter will be referred to arbitration, which will normally be completed within 60 days.

The dispute on the U.S. antidumping and subsidy question follows last year’s tensions over U.S. steel import duties, also ruled illegal by the WTO. The steel duties were eventually removed by the Bush administration, removing the threat of retaliation by the EU.

WTO report warns U.S. against protectionism

GENEVA, Switzerland

The World Trade Organization has warned the United States against the risks of protectionism, and of trade barriers created by security-related policies, following the completion of a WTO trade policy review of U.S. trade practices and policies.

The WTO report expresses “some concern” about U.S. trade and budget deficits. It notes that “the presently perceived large bilateral trade imbalances that are now part of the U.S. current account situation could give rise to protectionist sentiment.”

USTR chief calls for jumpstart to global trade talks

WASHINGTON

U.S. Trade Representative Robert Zoellick asked members of the World Trade Organization to restart global trade liberalization talks this year.

In Cancun, Mexico last September, WTO talks broke down mostly over the liberalization in agricultural trade. Zoellick said in a letter to 140 WTO trade ministers that the United States “does not want 2004 to be a lost year” for trade talks.

The Bush administration still urges countries to eliminate agricultural export subsidies, in addition to cuts in domestic farm supports. The administration wants countries, both industrialized and developing, to open their markets to U.S. farm products.

The administration also encourages a tariff-cutting formula and zero-tariff initiatives for some manufacturing sectors.

WTO negotiations are expected to continue in mid-2004 and the organization’s trade ministers will meet in Hong Kong before the end of the year.

U.S. opens trade talks with Dominican Republic

WASHINGTON

U.S. Trade Representative Robert Zoellick traveled to the Dominican Republic Jan. 14 for the first of three free trade negotiating rounds with the Caribbean nation.

The goal is to integrate the Dominican Republic into recently completed negotiations with El Salvador, Guatemala, Honduras and Nicaragua on a U.S.-Central American Free Trade Agreement (CAFTA).

The combined markets of the Dominican Republic and Central America would create the second-largest U.S. export market in Latin America, after Mexico, Zoellick said.

To integrate the Dominican Republic in CAFTA, Zoellick will negotiate market access for government procurement, investment services, financial services, textiles, industrial and agricultural goods.

The United States will also set up a trade capacity-building working group for the Dominican Republic. This group will comprise representatives from international groups, private sector and non-governmental organizations. The U.S. government spent $3.5 million on trade capacity initiatives in the Dominican Republic in fiscal year 2003.

A free trade agreement will expand U.S. access to the Dominican Republic’s market, which already receives $4.3 billion in U.S. exports annually and about $1.4 billion in U.S. investment, Zoellick said. The United States imports about $4.2 billion from the Dominican Republic each year.
NEW YORK

The United Nations Food and Agriculture Organization wants nations to strengthen their meat health and safety programs to prevent the spread of livestock diseases, such as bovine spongiform encephalopathy (BSE).

In addition to increased surveillance and testing of cattle, the FAO recommends banning the use of meat and bone meal livestock feed and reduce the mix of brain, spinal cord and parts of intestines in meat products.

The FAO criticized those countries with weak meat safety programs.

“In many countries, BSE controls are still not sufficient and many countries are not applying the recommended measures properly,” the organization said in a statement. “There is also a considerable risk of further reducing infectious materials, given the global trade in animal feed and animal products.”

On Dec. 23, the United States announced the discovery of a single case of BSE, a brain wasting disease also known as “mad cow,” which can be passed to humans through consumption of infected meat.

The United States tests more cattle for BSE than any other country in the world. In 2003, the United States tested at slaughter about 20,000 cattle, more than recommended by the Paris-based World Organization for Animal Health, and has increased safety measures since the BSE announcement.

The FAO said it is providing countries with “good practices” training for meat inspectors, laboratory staff, and others involved in the meat and feed industries.

WASHINGTON

The recent case of an imported cow infected with bovine spongiform encephalopathy, or “mad cow” disease, may speed up the implementation of a new origin labeling rule for meats and produce sold in the United States.

The 2002 Farm Security and Rural Investment Act requires the U.S. Department of Agriculture to impose origin labeling regulations for beef, lamb, pork, fish, shellfish, perishable agricultural commodities and peanuts by Oct. 1.

Congressional leaders, however, agreed in a conference report Nov. 25 to delay implementation of the country of origin labeling for meats and produce, excluding fish, until Oct. 1, 2006. The origin labeling delay language was included in an $820 billion omnibus appropriations bill passed by the House of Representatives Dec. 8.

Prior to the mad cow case, announced Dec. 23, the Senate appeared poised to pass the same origin labeling delay, but that support has started to wane.

Senate Minority Leader Tom Daschle, D-S.D., reportedly plans to step up pressure on the Bush administration to demand on-time implementation of the origin-labeling rule.

Numerous trade organizations, such as the United Fresh Fruit & Vegetable Association and National Cattlemen’s Beef Association, supported the origin labeling rollout delay, citing in recent testimony the enormous cost and disruption to their businesses to meet the mandate.

However, the American Farm Bureau supports the original origin labeling implementation date. “Congress has the opportunity to do the right thing for all Americans by continuing funding and program implementation for COOL in their fiscal year 2004 bill,” said Bob Stallman, president of the American Farm Bureau, in a statement.

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Don’t be too hard on the WCO

The World Customs Organization has taken its fair share of criticism over the years, but recent remarks by a leading international liner carrier group about the organization’s ability to tackle supply chain security may have gone too far.

Christopher Koch, president and chief executive officer of the World Shipping Council, said at the Panama Canal Authority’s Conference Dec. 1 the WCO is “either unwilling or incapable, or both, of addressing container security in a meaningful and comprehensive way.”

“It may yet produce guidelines or ‘best practices’ for these issues, but this would seem to fall far short of an international instrument comparable to the International Ship and Port Facility Security code,” Koch added, referring to the compulsory International Maritime Organization’s code.

He also said “there are too many governments’ customs officials at the WCO that either do not see cargo security as within their responsibility, or do not see it as an issue requiring meaningful WCO action.”

For more than 50 years, the WCO in Brussels has been a gathering place for government officials to express ideas about how to reform customs operations. It was only in 1999 that the organization, formerly known as the Customs Cooperation Council, opened its doors to industry representatives with its first “Open Day for Trade” meeting. Since then, the WCO has held numerous meetings both in Brussels and around the world that include industry participation. Many of the organization’s customs administration members, especially from developing countries, are still getting used to this type of contact with the shipping sector.

Unlike the IMO, or International Civil Aviation Organization for that matter, the WCO was not set up to take on this yearlong initiative by the Group of Eight and other developed countries to develop international supply chain security guidelines. The organization was asked to take on this yearlong initiative by the Group of Eight nations. The WCO task force was instructed to develop the guidelines in consultation with the shipping industry and intergovernmental organizations, which it did. That’s why WCO Secretary General Michel Danet is perplexed by the World Shipping Council’s criticism.

“I was very surprised that Mr. Koch would say that,” Danet said in a recent interview. “We opened the task force to the private sector and his organization had a leading role.

“If an organization could not express itself, I could understand they would become frustrated,” he added. “But when they participate, they know the rules. They may win on some points and not on others. Liner shipping is but one element of the supply chain that the guidelines needed to take into account.”

Danet said drafting the international supply chain security guidelines as extremely difficult because of the large mixture of governmental and industry interests involved. The WCO’s guidelines have to provide meaningful cross-border controls without disrupting legitimate trade flows.

“To say the WCO secretariat does not have the willingness (to address container security in a meaningful and comprehensive way) is wrong,” Danet said.

One must not discount the positive contributions that the WCO has made to customs administrations and international traders over the years.

The WCO, for example, is credited for developing the Harmonized Commodity Description and Coding system, which is used by customs agencies worldwide as the basis for classifying goods and for the collection of customs revenue.

The WCO works closely with the World Trade Organization. It is responsible for administering the WTO Valuation Agreement, formerly known as the Agreement of Implementation of Article VII of the General Agreement on Tariffs and Trade. The original GATT Valuation Code was developed in 1979 during the Tokyo Round of multilateral trade negotiations. It helped to eliminate arbitrary customs valuation policies, which plagued the shipping industry at the time. It promotes a policy of customs valuation based on the price paid for the goods.

Not long ago the WCO developed the Harmonized Rules of Origin, which were forwarded to the WTO for consideration for eventual use by its members. The organization operates programs that help members with training and other improvements to their operations.

One major WCO achievement was the development of the International Convention on the Simplification and Harmonization of Customs Procedures, or Kyoto Convention, in 1974. The convention set out in 31 annexes how to streamline the basic operations of customs agencies to ease the burdens on trade. Many WCO members signed it, but the convention’s drawback was that countries could pick what they wanted to implement from it.

About eight years ago, the WCO began to revise the Kyoto Convention to give it more muscle and to account for increased trade volumes, changes in information technology, and the need for modern customs practices based on cooperation with industry. The WCO approved the revised convention in June 1999.

The revised convention, a “blueprint” for modern customs operations, comprises a general annex and 10 specific annexes. Countries that ratify the revised convention must accept and apply all the principles listed in the general annex. The revised convention also included an important “protocol of amendment” to transition from the former convention to wide acceptance of the revised convention.

However, the revised convention will only come into force when 40 of the 61 “contracting parties” to the 1974 convention ratify it. To date, there are 16 signatories to the revised convention, the most recent being Bulgaria and South Africa. The WCO is seeking to industrial powerhouses, such as the United States and European Union, to sign off on the revised convention. Other political interests have distracted both the United States and European Union during the past three years. The WCO hopes the revised convention will enter into force by the end of this year.

“It’s frustrating that the revised Kyoto Convention hasn’t been ratified, especially when everyone is talking about trade facilitation,” Danet said.

Even the binding security rules of the IMO and ICAO take time for countries to implement. “Countries are going to spend money on those areas where they perceive a threat. They’re not going to make expenditures if they don’t think the risk is there,” Danet said.
While many information technology companies spend countless hours and dollars trying to promote themselves, Flagship Customs Services’ senior management use what they call “smart marketing” by combining delivery of key applications and targeted sales.

FCS president Robert Foley and Peter Slutsky, chief technical officer, believe this business approach has largely contributed to the wide use of their systems applications by many of today’s liner carriers and non-vessel-operating common carriers.

Thousands of liner carrier and NVO employees use FCS technology and many don’t even know it, which Foley and Slutsky point to as a mark of success for their business strategy. FCS provides shipping companies, through their own systems, automated access to the U.S. Bureau of Customs and Border Protection and the Census Bureau for their cross-border freight moves.

The strategy is similar to how telephone, electric and other utility companies operate. They provide behind-the-scenes support services to help their customers smoothly operate.

With this success, the 20-person company still doesn’t engage in marketing campaigns, preferring to let its services speak for themselves through their clients. “We focused on applications that bring customers to us,” Foley said. “These customers then promote these applications to others.”

Foley, Slutsky build widely used shipping industry Internet applications without the hype.

BY CHRIS GILLIS

“We brought AMS to the desktop and made it affordable. AMS is not just for the big steamship lines anymore.”

Riding on Flagship’s success

Systems. “I was becoming weary of the large company mentality,” he said.

In 1987, Foley created Flagship Technologies in the United States on behalf of a Norwegian software company. Flagship Technologies’ initial purpose was to sell back office systems applications to ocean carriers, their agents and port authorities. These systems provided booking, documentation, equipment control and accounting capabilities.

“At that point, there was a lot of debate about whether steamship lines would run their own systems or employ agents,” Foley said. “What made us successful was that we gave the agents a system to communicate with multiple steamship lines through electronic data interchange.”

Prior to that, the agents had computer terminals for each steamship line they did business with.

Slutsky, a former researcher for Johns Hopkins University, joined Flagship Technologies in 1991 to help the company build a “gateway” application that allowed ocean carriers to connect to U.S. Customs’ Automated Manifest System.

Together, Foley and Slutsky developed the Ships Automated Manifest System (SAMS). A number of mid-sized lines bought the software when it was introduced in 1992. The biggest boost to SAMS occurred in 1993 when Flagship Technologies became the first certified data service center with Customs with more than 40 carrier and 35 container terminal users.

In 1995, Flagship Technologies began to take interest in export services with the introduction of the U.S. government’s Automated Export System. AES allowed exporters and their freight forwarders to electronically submit their shippers’ export declarations (SEDs) to Census.

With a firm belief in the Internet and its future in the shipping industry, Foley split from Flagship Technologies to form FCS to focus on Internet-based application data centers. “That’s where we saw the future,” Foley said.

In 1997, the company announced its Internet-based SED filing application, Export2000. In July 1999, FCS won a multiyear contract from Census to build and operate the AESDirect service, a free Internet SED filing service. The company delivered on the contract in October 1999. Within the first year, AESDirect attracted more than 2,500 company users, with 1,200 of them filing daily. AESDirect was quickly starting to meet Census’ goal of eliminating hundreds of thousands of paper SED filings a month.

Another benefit of AESDirect is that it
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allowed companies to use their existing systems to feed SED information into it. “In effect, our Export2000 is a competitor of AESDirect,” Slutsky said.

Mandatory Filing. After the Sept. 11, 2001 terrorist attacks in the United States, SAMS, which had evolved into an Internet application known as Import2000 in the late 1990s, took center stage in the ocean transportation business when Customs announced new rules for advance manifest information to be filed by both ocean carriers and NVOs 24 hours prior to loading containerized cargo on U.S.-bound ships overseas. Import2000 became an inexpensive means, especially for NVOs, to get on board with AMS.

“We brought AMS to the desktop and made it affordable,” Slutsky said. “AMS is not just for big steamship lines anymore.” By the beginning of this year, Import2000 supported about 20 ocean carriers and more than 200 NVOs.

In mid-April 2003, a group of liner carriers and NVOs approached Customs with a plan to better manage the inland portion of AMS filings, called the “special bill” process. The special bill process helps NVOs link their bill of lading information to the liner carrier master vessel operating carrier bill of lading details. FCS with its NVO clients and ocean carrier “K” Line America were the two companies that helped Customs test the special bill concept, which the agency rolled out industry wide Jan. 10.

“The special bill will make AMS much better not only as a system but as a process,” Slutsky said.

The 24-hour rule also put FCS at the forefront of mandatory advance electronic reporting of both import and export cargo information to Customs, which Congress ordered under the 2002 Trade Act.

AES2000, a product of FCS, allows ocean carriers and NVOs to process their export manifests in AES. The company recently became certified by Customs to provide Air AMS capability to airlines, forwarders and deconsolidators. “What we did was take Import2000 for ocean and expanded it to air manifests,” Foley said.

FCS has no trouble supporting its increased data center activities.

“FCS has the largest bite into U.S. Customs,” Slutsky said. The company has 2 T1 lines into U.S. Customs’ system. The company’s message queueing-based communications provides a “virtual private network” for users. “We can connect you securely to U.S. Customs from anywhere in the world,” Slutsky added.

Going Global. Foley and Slutsky believe the future for FCS is in the global market. “The U.S. government’s mandatory filing requirements has created a global community of users,” Foley said.

FCS has engaged in international activities in recent years. In April 2002, FCS signed an agreement with the Foundation for Russian American Economic Cooperation to help develop a system that promises to expedite the clearance of U.S. shipments through Russian Customs in the Far East (September 2003 American Shipper, pages 54-58).

FCS will develop Import2000 to interface with other customs administrations as they employ manifest rules that mirror those of U.S. Customs, Foley explained.

This year many ocean carriers and NVOs are expected to use FCS Internet applications to satisfy Canada Customs’ advanced manifest filing rules. Other customs administrations of interest to FCS are Australia and the Netherlands.

One way for the FCS to tap into international user markets is to create relationships with software companies overseas. “Manifest data could be reported to the overseas customs administrations through these software companies’ data centers, but we will control the interfaces with the users,” Foley said.

‘Range rate’ tariff gains support

WASHINGTON
Two of the largest U.S. non-vessel-operating common carrier groups told the Federal Maritime Commission they support a proposed alternative to tariff publishing if the agency cannot eliminate the procedure altogether.

The NVOCC-Government Affairs Conference and the New York-New Jersey Foreign Freight Forwarders and Customs Brokers Association filed joint comments to the FMC Dec. 16 in response to a petition filed by the National Customs Brokers and Forwarders Association of America during the summer.

The NCBFAA asked the FMC in its petition to use its exemption authority under the 1998 Ocean Shipping Reform Act to exempt NVOs from publishing tariffs, a costly exercise the industry says provides no value to shippers. If that was not possible, the NCBFAA proposed that the FMC permit NVOs to publish simpler “range rates.”

“A range rate would consist of establishing two levels of rates for any particular service, which would be a maximum and the other to be a minimum rate,” the NCBFAA petition said. “The participating NVOC could then price its traffic for a given customer, based upon the appropriate market conditions and the agreement negotiated with its customers, anywhere within that range without having to separately establish a specific rate or charge for that service in its tariff.”

The World Shipping Council, a group that represents the liner carriers, told the FMC in its comments that it would “not object to the commission undertaking such an initiative as a way to consider the issue and its appropriateness as a mechanism to reduce the alleged burdens and costs of tariff publication and penalties for minor tariff infractions about which NVOCCs complain.”

Lou Policastro, vice president of Clark, N.J.-based Wilson Logistics and vice president of ocean for the New York forwarder group, said the joint petition “presents an opportunity to reduce the tariff-publishing burden and costs of the NVO industry, and allow it to operate on a more competitive basis in the global market while still maintaining necessary compliance and process to the public.”

The NVCC-GAC and New York forwarders association said a range rate system should:

• Provide shippers greater freedom to structure “non-public” commercial relationships with NVOCs as to pricing and services.
• Eliminate or lessen the expensive burden of tariff publishing.
• Eliminate or lessen regulatory exposure to technical violations associated with tariff publishing.
• Contain elements that the FMC would find acceptable to perform its congressional mandate as a regulatory agency.

The two groups also further defined the rule of range rates to “a price state in a tariff for providing a specified level of transportation service for a stated cargo quantity, from origin to destination, on or after a stated effective date or within a definite time frame, which prices are to be stated in terms of minimum and maximum rates and charges.

“Minimum rates and charges shall not be less than 50 percent of the maximum rates
and charges,” the groups added. “Range rates may include or exclude surcharges, and may define applicable cargo in generic terms defining which commodities shall be included or excluded from the range.”

Carlos Rodriguez, legal counsel to both the NVCC-GAC and New York forwarders group, described the group’s range rate proposal as similar to the liner carriers’ use of time-volume rates with their customers.

“We’re simply expanding it to include other terms,” he said.

The groups said they welcome other ideas or suggestions from the NVCC industry to lighten the tariff-publishing burden.

“It’s time we take some steps to remove it, and this is a good first step,” Rodriguez added. “In the not so long term I believe tariffs will be a thing of the past.”

Industry groups: Allow NVO contracts

NIT League, NCBFAA, TIA say FMC has authority under OSRA to grant NVOs exemptions.

WASHINGTON

The National Industrial Transportation League, the National Customs Brokers and Forwarders Association of America and the Transportation Intermediaries Association have urged the U.S. Federal Maritime Commission to allow non-vessel-operating common carriers to sign service contracts with their customers.

In a joint comment, issued Jan. 12 by the three industry groups, which represent shippers and intermediaries, the organizations offered seven “common principles” they believe will help guide the FMC “in rendering a decision which recognizes the ability of the agency to grant an exemption for qualified NVCCs to enter into contracts with their customers.”

Under the Ocean Shipping Reform Act of 1998, vessel-operating common carriers (VOCCs) are allowed to sign confidential service contracts with their customers, whereas NVOs are prohibited from signing such contracts with shippers, and must work under public tariff arrangements.

Last year, the NCBFAA, UPS, BAX Global and C.H. Robinson Worldwide petitioned the FMC asking for exemptions from public tariff-filing requirements, or for the right to enter into ocean service contracts with customers.

One of the trade associations’ “principles” said that the FMC “should permit all qualified NVCCCs to have service contracting authority, and should consider whether service contracts between NVCCs and shippers should be subject to all of the existing rules and requirements applicable to VOCC service contracts.”

The trade associations believe the FMC has the authority under OSRA to grant an exemption allowing NVO contracts with shippers.

Another principle states that the FMC’s exemption authority was liberalized under the OSRA to enable the agency to reduce unnecessary regulatory burdens. “The FMC should exercise that authority unless the exemption would substantially reduce competition or be detrimental to commerce,” it adds.

Moreover, the trade associations say that granting exemptions that broadly permit confidential contracting between NVOs and their customers and reduce tariff publication burdens “would have a pro-competitive impact on the industry and would facilitate commerce.”

The trade associations asked the FMC to initiate a rulemaking proceeding to determine how to apply its exemption authority to broadly authorize confidential contracting between NVCCs and their customers.

The shipping industry has moved from a system of common carriage to contract carriage, the statement said.

The three trade associations expect to each submit separate comments to the FMC in this proceeding. Late last year the FMC extended the comment period on the NVO petitions to Jan. 16.

One uncertain aspect of a potential FMC exemption would be whether all NVOs or only certain NVOs would be allowed to sign service contracts. Major U.S. NVOs have suggested that the right to enter into service contracts should be limited to large NVOs or NVOs that are affiliated with shipping lines.

The NCBFAA has already criticized the proposal to allow different rights to NVOs depending on their size.
FedEx Corp. rang in the New Year with news that it had agreed to acquire Kinko’s office centers for $2.4 billion in cash. The move is widely seen as a reaction to UPS’s purchase of Mailboxes Etc. in 2002, and an attempt to compete with UPS and the U.S. Postal Service for small shippers at the retail level.

Beyond that, observers of the global express industry seemed unsure about how FedEx intended to use Kinko’s as a shipping outlet or source for new business opportunities. The only thing that seems certain is that the Kinko’s model will look very different several years from now.

FedEx officials said the deal benefits both companies by driving additional store traffic to Kinko’s, and by providing the world’s largest express delivery company greater capability to use digital technology to move and deliver documents, and offer comprehensive office service that allows customers to take care of their document preparation and shipping at one time.

“We’ll have a network of local stores to meet the individual needs of small businesses, plus have better physical and virtual...
connections to the global marketplace for our large customers,” said Frederick Smith, chairman and chief executive officer of FedEx, in an online video announcing the deal.

But several analysts who follow the company expressed concern that FedEx was adding a new line of business that could prove difficult to manage and less profitable than its bread-and-butter transportation services.

“We remain perplexed why FedEx would want to enter the document imaging business in such a hands on way as we see this as a lower return and long term slower growth business than FedEx’s core global package and freight business,” said Bear Stearns analyst Edward Wolfe in a note to clients.

**FedEx Store?** Kinko’s is majority owned by private equity investment firm Clayton, Dubilier & Rice, which has increased its stake since acquiring a 29.6-percent interest in Kinko’s and consolidating 130 related, small business entities into a single corporation in 1996.

Privately held Kinko’s operates about 1,200 stores, most of them in the United States and 400 of which are open 24 hours a day, seven days a week. It expects to record revenue of about $2 billion in calendar year 2003. The Dallas-based company has transformed itself from a traditional copy center to a digital service and office support provider for those who don’t have access to a computer, high-speed or wi-fi Internet access, videoconferencing, fax, presentation support and other office resources. The company is especially popular with small and home businesses, as well as salesmen, technicians, business travelers and other mobile professionals who need to conduct office business while on the road. Kinko’s, in essence, functions as a branch office for them.

Large companies use Kinko’s copying, printing and document management services for big projects.

Kinko’s has served as an exclusive FedEx shipping provider since 1988, and has drop boxes in 1,068 stores. FedEx also operates full-service, staffed counters in 134 Kinko’s stores. Under the acquisition, FedEx will be able to offer an expanded range of packaging and shipping services, including time-definite express and day-definite ground shipments, at all Kinko’s stores.

FedEx said the deal does not affect its relationships with other FedEx authorized shipping centers, such as ParcelPlus, PakMail, Packaging Store, Post Net, Postal Annex and others, which remain important outlets.

The acquisition immediately doubles FedEx’s retail presence, expanding customer access beyond its 1,200 World Services Centers that provide shipping advice, package tracking, consolidated returns, packaging supplies and other services. The addition of the Kinko’s outlets especially benefits the FedEx Ground package delivery unit, which did not previously have a presence in most Kinko’s stores. Available drop boxes were solely for FedEx Express service and could not accommodate bigger packages, FedEx spokesman Howard Clabo explained.

“We’re extremely strong in the B2B (business to business) marketplace and the B2C marketplace (business to consumer), but lags UPS in that C2C (consumer to consumer) and small B2C market,” and this is a way to make it easier for customers to access FedEx services,” A.G. Edwards analyst Donald Broughton, told CBS MarketWatch in an audio interview.

FedEx also predicts the deal will benefit its international business because most customers find shipping internationally to be more complicated, and want to speak with someone who can help them compare their options based on delivery time, cost, tariffs and other factors, Clabo said.

Projections of volume growth should be tempered by the fact that FedEx has not seen significant improvement in domestic volumes as it expected as a result of placing thousands of drop boxes at various U.S. Postal Service offices, Wolfe warned. “Our sense is that while drop boxes at the USPS offer customers convenience, the drop is likely replacing a drop somewhere else or a pick up of the FedEx package, rather than stimulating incremental package growth,” the Bear Stearns analyst said in his client note.

The fact that the two companies had a strong, existing relationship actually undermines the rationale for the merger, Wolfe said later in a conference call with investors. “ What’s puzzling is that for the last 15 years they have been the only shipper with exclusive contracts in Kinko’s, so the incremental volume (they hope to gain) is hard to see.”

Manning the Kinko’s counters with

**“We’ll have a network of local stores to meet the individual needs of small businesses, plus have better physical and virtual connections to the global marketplace for our large customers.”**

Frederick Smith chairman and chief executive officer, FedEx Corp.

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FedEx staff may convince some people to use the higher-margin ground service, but the extra business may not offset the estimated $70 million in extra costs for counter service, Wolfe said.

“Why not have a marketing agreement for a lot less if that’s all they wanted to do?” he said.

Back Office. FedEx said it expects to close the deal sometime during the first quarter of the year and keep the current Kinko’s management team, headed by Gary Kusin, president, in place. Kinko’s is expected to begin adding to the bottom line in 2005.

Company officials said they have not had a chance to develop new business opportunities for the combined company because they are focused on the short-term integration job of getting their services into the new store locations and expanding Kinko’s internationally. Officials indicated Kinko’s will operate independently within the FedEx organization, but it was unclear whether FedEx would eventually rebrand Kinko’s as it has with all of its other acquisitions. Among the issues FedEx must weigh regarding any rebranding strategy is Kinko’s strong image in the United States and how well-known the company is in other countries as it seeks to expand internationally, Clabo said.

FedEx will quickly figure out how to use the Kinko’s stores as shipping centers, said transportation consultant Satish Jindel. For one thing, Kinko’s will be able to handle bigger pieces. If someone needs to ship a flat panel TV that needs warranty work, for example, they could take it to a Kinko’s store. That’s because Kinko’s outlets are about five times larger than Mail Boxes Etc. in terms of square footage and have room to store bigger boxes, he said.

“I envision them using the Kinko’s locations potentially as a service center for the Home Delivery” service, said Jindel, whose Pittsburgh-based SJ Consulting Group advises shippers and logistics providers alike on business plans for parcel consolidation, small package delivery and courier services.

FedEx Home Delivery is a service of FedEx Ground designed to help catalog and online retailers move their products. FedEx could use Kinko’s in urban areas and rely on the post office for home delivery in rural areas, he said. He suggested that FedEx could have drivers operating from 2,000 stores within two or three years.

“The Kinko’s acquisition will help diversify the FedEx revenue base (and) ... strengthen our competitive position in the marketplace,” said Alan Graf Jr., the company’s chief financial officer, in a prepared statement.

FedEx is targeting small business as a key area for growth and profitability and Kinko’s “is a magnet for small business,” Clabo said.

FedEx is even embracing Kinko’s digital document transmission service, rather than fearing it could cut into the company’s core product of physically moving goods and documents, Clabo said. In the last several years, FedEx’s document delivery business has peaked and been replaced in importance by the parcel component as people use e-mail and other methods to share documents.

“This puts us back into that game in a big way,” he said.

Technology has enabled Kinko’s to turn around the standard equation of printing something and then shipping it. Now documents can be shipped electronically, printed and delivered, saving time and shipping costs. A company, for example, that needs to get a new sales guide to 1,000 salesmen scattered around the country can digitally give that file to Kinko’s and Kinko’s can transmit it to all the local sites where it is needed. The local store then prints it, binds it and arranges for delivery or makes it available for pick up in the store.

Kinko’s said such service is becoming particularly popular for cross-border orders. A major U.S. financial organization, for example, regularly printed large quantities of employee training materials and then express shipped them to Japan. The customer now submits new manuals online to Kinko’s and Kinko’s can deliver it and arrange for delivery or makes it available for pick up in the store.

Kinko’s location in Tokyo produces the manuals, which are delivered to the customer’s office at no charge.

FedEx also plans to leverage more business from large customers who outsource back-office printing and document management to Kinko’s. They have 370 of the Fortune 500 as customers,” Clabo said.

“We have a lot of experience selling to that marketplace. So we think our credibility with that customer puts us in a position to grow that aspect of the business.”

Jindel speculated that could mean FedEx may use Kinko’s as a way to offer a service managing mail rooms for large companies — taking on Xerox Corp., Pitney Bowes, Archer Management Services in this field — and thus gaining control over the document shipping that takes place from them.

Wolfe said he is unconvinced that substituting digital services for paper-based ones will materially benefit FedEx, because it is easy enough in most instances to send files to someone without the use of a middleman.

“I think people have become more comfortable with e-mail in general and sending documents on their own. People’s systems and networks have gotten more capacity to do that,” he said.

Wolfe, responding to a question, also downplayed the Kinko’s deal as a way for FedEx to challenge R.R. Donnelley in the print and publishing logistics sector, since Kinko’s already handles major document projects for big companies and uses FedEx for shipping.

R.R. Donnelley specializes in reducing the cost of bulk mail shipments, like magazines and catalogs, through a process known as zone skipping. The Chicago-based media distributor delivers its customer’s mail to the postal service closest to the final destination, skipping all the sorting centers along the way and getting a better price from the post office for the last mile of delivery.

UPS has begun a new service along those lines, delivering packages deeper into the postal system and letting the post office do some of the deliveries for them, especially in rural areas where it doesn’t pay to establish a full delivery infrastructure, Wolfe said. UPS Mail Innovations, established in 2001, provides mail preparation (distribution management, prerouting, labeling) and delivery into the postal system for large customers. UPS has not yet taken the step of actually placing personnel at the customer’s site to manage their mailrooms.

Asked whether FedEx would have been better served acquiring a pure retail package store, such as Parcel Plus, Clabo responded: “There is no real competitor to Kinko’s. They are very unique in the marketplace. We have WorldService Centers. We can build our own stores. Kinko’s brings us a whole new approach, the ability to serve as a hub magnet for small business and the mobile professional workforce that no one else offers. (The package outlets) are obviously very important to us as authorized shipping centers, but they don’t have the scale to make an impact as a Kinko’s or the range of offerings.”

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potentially stimulating business for FedEx Ground, the acquisition serves to block a competitor from displacing FedEx as the exclusive shipping option for Kinko’s or even buying the document and business services provider, one of FedEx’s largest customers, said Bear Stearns’ Wolfe.

“My sense is that this was a defensive move, and they were protecting Kinko’s. (They) felt like that contract was up for grabs (when it expired) and maybe UPS was looking at buying Kinko’s, so they went out and bought it,” said Wolfe.

**Strategic Value.** Despite the upbeat prognosis by FedEx, some analysts in the financial and logistics communities raised doubts about whether Kinko’s will provide a boost or a drag on earnings.

“I would rather see them use (the $1 billion in cash flow generated during the last couple of years) to buy back stock, or buy an express business in Europe or a logistics company in Europe than Kinko’s,” Wolfe said.

Kinko’s ability to expand its international presence beyond 110 locations in 10 countries will be significantly enhanced by FedEx’s financial resources and experience operating globally. Kinko’s growth strategy calls for it to quadruple the number of stores outside the United States during the next five years. The company opened its first store in Mexico last November. The Mexico City branch is the first of several locations planned for Mexico’s largest city in the next 18 months, Kinko’s said.

FedEx will use about $750 million of its cash and $1.65 billion of short-term commercial paper to finance the deal. FedEx said it has secured a commitment from JP Morgan to provide financing. However, Moody’s Investors Service and Standard & Poor’s Ratings Services indicated they were reviewing whether to downgrade the integrated logistics company’s debt rating, which would increase FedEx’s interest costs, despite the potential for increased business.

“FedEx’s ability to pay down the debt it took on to buy Kinko’s overseas. FedEx has built up its cash reserves in recent periods, but its need to reinvest in its core business could limit its ability to pay down the debt it took on to buy Kinko’s,” Moody’s said.

The Kinko’s announcement comes almost 18 months after UPS purchased Mail Boxes Etc. and its approximately 4,500 storefronts, including nearly 900 outlets in 29 countries, for $180 million. On the surface, the UPS and FedEx purchases seem to be addressing similar niches in the shipping market, but their strategies couldn’t be more different. While FedEx bought Kinko’s assets, UPS only bought rights to the Mail Boxes Etc. franchise, not the individual franchisees.

“They didn’t want to be in the day-to-day running of the Mail Box business. What they wanted to do was set the corporate structure and the strategy” and drive more business to UPS and away from competitors that also served the Mail Boxes stores, Wolfe said in a conference call with investors. “And as a result, Mail Boxes Etc. is becoming a larger and larger UPS customer, while at the same time UPS is collecting about $100 million per year in annuity as a franchising tax.”

The Kinko’s acquisition should have little impact on UPS since it had no business with Kinko’s, Wolfe added.

“It looks to me like FedEx is playing catch-up and has gone for the best alternative they could find,” said Richard Armstrong, who heads the Stoughton, Wis.-based consulting firm Armstrong & Associates.

Equity analyst Wolfe questioned whether FedEx overpaid for Kinko’s to keep pace with UPS.

“It also seems like a steep price for a non-core business given that FedEx paid only $2 billion for Caliber Systems Inc. in 1998.

Caliber included asset-based subsidiaries RPS, a small-package ground services provider now FedEx Ground; less-than-truckload carrier Viking Freight, now the western operating segment of FedEx Freight; Roberts Express, an expedited carrier specializing in shipments requiring special handling and now operating as FedEx Custom Critical; and Caliber Logistics and Caliber Technology.

But Jindel said it is too early to tell if FedEx paid too much for Kinko’s. It all depends on how FedEx executes their idea, because the concept presents multiple opportunities, he said. Kinko’s is very profitable and has good cash flow. The picture will become clearer once FedEx produces a prospectus for Kinko’s and investors can see a breakdown of where Kinko’s sales come from, he said.

It is also premature to pronounce UPS as gaining the upper hand with its deal for Mail Boxes Etc., Jindel cautioned.

“To me, Mail Boxes are more like Subway (sandwich) stores. You do takeout. You don’t go there for a family meal. Kinko’s is more like a McDonalds. They have a drive through, are bigger, have a playground for the kids. So there will be more capabilities that FedEx will be able to evolve,” Jindel said.

UPS buys companies “that really make sense, they fit and they don’t pay too much money for them,” Armstrong said. UPS also tends to pay for acquisitions with stock rather than cash, FedEx, on the other hand, tends to act more like an impulse buyer and over pay for companies, he argued.

Two years ago, Armstrong panned FedEx’s February 2001 purchase of American Freightways, a large regional less-than-truckload carrier now folded into FedEx Freight, for $1.2 billion. At the time the
motor carrier generated about $1 billion or less in revenue per year. The normal rule of thumb is to pay four or five times over earnings before interest, taxes, depreciation and amortization (EBITDA) for the stock of an asset-based company. In the case of American Freightways, FedEx paid a 10 to 12 times EBITDA, he said. These types of earnings multiples are more in the range of what one might use as upper end guidelines for buying a non-asset based company.

FedEx also paid a huge premium for Kinco’s, according to Wolfe. Based on financial comparisons to Office Depot, Staples and Office Max — the closest competitors to Kinco’s that he could find — FedEx paid 20 times EBITDA vs. the industry standard of 8.7.

FedEx Supply Chain Services, which comprises the former Caliber Logistics and Caliber Technology, is an example of a FedEx acquisition that has withered rather than blossom. Armstrong told American Shipper. UPS bought Fritz Cos., a well-established freight forwarder and customs broker in 2001 for $450 million in UPS stock, and combined it with more than a dozen other smaller acquisitions to create UPS Supply Chain Solutions, now the largest U.S.-based third-party logistics provider. The company was profitable in all four quarters last year and will probably produce about $2.1 billion in revenue in 2003, when all the numbers are in, Armstrong said.

By contrast, Armstrong estimates FedEx Supply Chain Services only produced about $170 million in net revenue during 2003. Exact figures aren’t available because FedEx does not break out the results for FedEx Trade Networks and FedEx Services, the umbrella group for Supply Chain Services. Armstrong, who publishes an annual Who’s Who in Logistics, extrapolates from FedEx’s financial reports and his knowledge of the company that Supply Chain Services is losing money, but that FedEx has to keep it as a service because there are a few major customers still under contract.

The problem, as Armstrong sees it, is that Supply Chain Services is not perceived as a neutral provider of logistics services. “It is hamstrung because it is being used primarily as a feeder for the other FedEx businesses,” he said. “Potential customers don’t want their 3PL transport managers tied to a limited situation. They want them to pick the best transportation service provider in the marketplace. UPS Supply Chain Solutions does that. FedEx always has to look at the FedEx assets first. In many shippers’ eyes, that makes them non-competitive. You can’t depend on them to find you the absolute best, consistent service at the lowest price.”

Another FedEx acquisition that Armstrong feels has not realized its potential is FedEx Ground. FedEx rebranded RPS (Roadway Package System) in January 2000, but despite having the same famous FedEx name the company is not fully integrated into the FedEx Express network. The reason has to do with the labor structure at RPS. Its drivers are owner-operators, essentially independent trucking contractors. FedEx Express, on the other hand, uses its own employees. The RPS set-up benefits FedEx in that it doesn’t have to spend capital for its rolling stock and it keeps the drivers from being easily unionized.

But the downside is “they can’t integrate them, which means they have to run two separate networks,” Armstrong said. “UPS has all of their ground, international and air combined. So for FedEx that is a built-in inefficiency.”

Doerken to top spot at DHL’s U.S. unit

BRUSSELS, Belgium
Four months after Express carrier DHL Worldwide Express acquired Airborne Express, the company’s U.S. division has a new leader. Uwe Doerken, Worldwide’s chief executive officer and a member of DHL parent company Deutsche Post World Net’s board, will replace Carl Donaway as executive chairman of DHL USA.

Donaway headed Airborne Express and was responsible for executing the merger with DHL. A statement gave no reason for Donaway’s departure other than he was leaving “to pursue other business opportunities.”

DHL has stated in the past that it plans to consolidate management positions as part of its integration plan. John Fellows will continue to implement the merger of the two companies as CEO of DHL’s U.S. operation.

DHL bought Airborne in August for about $1 billion in cash in an effort to add a dedicated domestic ground network to its express air operations, and break the grip of FedEx and UPS on the domestic expedited delivery market. The three companies are fierce competitors internationally, where DHL has a stronger presence.
Motorcycle danger

Security levels for air transportation were at all-time highs during the holidays, as law enforcement agencies and screeners responded to the Code Orange alert for terrorist threats.

But while travelers and shippers are being forced to toe the line to prevent bombs and other devices from being slipped on a plane, there continue to be reminders that planes can be inadvertently brought down by potentially volatile hazardous materials carelessly, and oftentimes, illegally placed in the cargo hold without proper disclosure.

In September, Emery Worldwide Airlines pled guilty to 12 felony counts for violating federal hazardous material laws by failing to properly identify shipments, and agreed to pay a $6 million fine.

The most recent example of how the system for protecting aircraft from transporting dangerous goods came to light in December as a result of a criminal investigation.

The most shocking thing about the case is that it involved a pilot — someone who should know better than to evade the rules, and who should know the seriousness of the hazmat threat.

Alexander Eskin, a former Northwest Airlines pilot, pled guilty to one misdemeanor count of filing a false manifest related to the shipment of a motorcycle, according to the U.S. Attorney for the Northern District of New York.

Under the plea agreement, Eskin admitted that in June 2001 he contacted Mobile Air Transport (MAT) Inc., a cargo handler that processed shipments from Albany International Airport for Northwest Airlines. Eskin inquired about shipping a used motorcycle from Albany to his home at the time in Michigan. A MAT employee correctly advised Eskin that the motorcycle would have to be classified and shipped as a hazardous material because the engine had contained gasoline or oil. A follow up call with another employee resulted in the same advice. When Eskin brought the motorcycle in a box to the MAT office a third employee mistakenly agreed to accept it for shipment without requiring that it be classified as hazardous material.

In his plea, the Northwest pilot admitted filing a false air waybill by knowingly initialing the box next to the words: “This shipment does not contain dangerous goods regulated in air transport.” He also signed a Shipper’s Security Endorsement stating that the “cargo did not contain any unauthorized explosives, incendiaries or hazardous materials.”

MAT personnel were aware Eskin was trying to ship a motorcycle and printed that on the air waybill. Ultimately, the motorcycle was not shipped because the box did not fit within the aircraft’s cargo entrance.

Eskin was levied the maximum criminal fine of $5,000 and also agreed to pay a civil penalty of $12,500 to the Federal Aviation Administration for violating administrative regulations.

Who’s checking the checkers?

Among the components of the Transportation Security Administration’s recently released strategic plan for implementing security measures for the air cargo environment is the use of enhanced background checks for persons who have access to cargo or cargo aircraft.

In fact, transportation workers across all modes and types of facilities are under increasing security since the terrorist attacks on U.S. soil in 2001. The TSA and other federal agencies are working to develop a standardized transportation worker identification card that can be used to access ports, airports, rail and truck yards, shipper facilities and anywhere else where security is needed.

But recent incidents involving federal security directors at two major airports leaves one to wonder if TSA is checking the backgrounds of people at the top of the chain of command as thoroughly as the airport baggage screener and others implementing aviation security rules.

The federal security director is responsible for overseeing passenger, baggage and cargo air cargo screening, airport security risk assessments, crisis management and supervision of law enforcement activities on and around airport property.

In one case, Charles Brady, acting federal security director at Dulles International Airport, was placed on administrative leave after being charged with drunken driving while on duty New Year’s Eve, according to media reports. As you may remember, the country was under a Code Orange alert at the time, and several British Airways flights to and from the airport were canceled because the Department of Homeland Security determined from intelligence that they were potential targets of terrorists. Law enforcement officials were on a high state of readiness.

Brady was supposed to be at his post until 2 a.m. participating in a security training exercise, but was pulled over on a nearby highway about 1 a.m. He claims that he never went AWOL and was pulled over 2:30 a.m. But since he was booked at the Fairfax County jail at 3 a.m., according to a police spokesman quoted by the Washington Post, it strains credulity to believe that he could have been given sobriety tests, processed and transported several miles to the jail in just 30 minutes.

Meanwhile, the TSA confirmed to the Associated Press that James Golden, the federal security director at the Philadelphia airport had been suspended. No reason was given for the action. But WCAU-TV reported that the TSA relieved Golden because of questionable management practices, such as hiring and promoting his son-in-law and hiring a former exotic dancer to supervise screeners. Beyond that, widely reported security lapses have taken place at the airport. Golden denied any allegations of impropriety and said he expected to be reinstated.

The airport security director is a position created after the Sept. 11 attacks, and most of the people who have taken the job have come from law enforcement or the military. Golden, for example, was a former top police official in Trenton, N.J.

But it’s fair to ask how did these guys get their jobs in the first place? Were there references checked, was there a history of alcoholism or any other clues to professional problems? Let’s just hope the same background screening is being applied to the Indians as it is to the chiefs.

Schumer proposes cargo security measures

Sen. Charles Schumer, D-N.Y., called on the Bush administration to bring security on cargo planes up to par with passenger security.

Schumer on Jan. 4 proposed reinforced cockpit doors be required on cargo planes, improved cargo screening technology and better cargo tracking, according to the Associated Press.

The U.S. Transportation Security Administration is developing a comprehensive plan to address air cargo security. However, some lawmakers and consumer groups argue passengers are vulnerable because most cargo placed in the hold of planes is not physically screened and because cargo airlines are not subject to the same security standards.
Now may be a good time for airlines with cargo operations to consider converting older passenger aircraft to freighter configurations.

Aircraft maintenance and manufacturing companies say two aircraft in particular — the Boeing 737 and 747-400 — meet the need of air cargo providers for relatively inexpensive airlift.

In late October, China Southern Airlines took possession of the first of four 737-300 planes that had been completely renovated to accommodate cargo. Pemco Aviation Group modified the aircraft for GE Capital Aviation Services, which is carrying out final preparations before delivering the three other leased aircraft to China Southern. The aircraft will be shared by China Postal Airlines and China Southern, which holds a 49-percent stake in China Postal. China Southern, the largest carrier in the People’s Republic of China, uses China Postal to handle domestic cargo.

The 737 conversions are part of China Southern’s plan to gradually grow its cargo fleet and take advantage of China’s burgeoning air cargo market. China Southern also operates two Boeing 747-400F jets for international frequencies.

Two of China Southern planes were retrofitted in a way that allows them to be quickly changed between passenger and cargo configurations to maximize use of the aircraft, according to Rick Smith, Pemco’s sales director. During the day the planes will carry passengers and then switch over to China Postal cargo flights at night by sliding out the seat deck in as little as 45 minutes.

Each of the two “quick change” aircraft can accommodate eight cargo containers with a total payload of about 38,000 pounds, while the full freighter version can carry nine containers with a capacity of 40,000 pounds. The difference is primarily due to the lavatories, galleys and overhead bins remaining in place in quick change aircraft. Dothan, Ala.-based Pemco, has converted 32 737s to the quick-change configuration since 1991, according to Smith.

“The 737 is growing in popularity as a freighter,” Smith said in an interview. In the past “the cost of the aircraft kind of offset any operating savings, but now the values of 737s are coming down, making them more desirable as a replacement aircraft to the 727-100 and 200.”

The 737s appeal to freight carriers because they are only 15 to 20 years old and many have been parked in the desert as the decline in passenger travel has forced carriers to cut capacity. The planes only require two-man crews, are more fuel efficient, have newer technology, meet noise and other regulatory requirements, and can be had for about $5 million to $6 million apiece, Smith said.

The European Union banned the noisiest planes in 1999, making virtually obsolete older Boeing planes, such as the 727-200s, which cannot meet stricter noise standards without updated engines or hush kits to reduce noise.

Other air cargo carriers are also adding modified 737-300s to their fleets to meet the growing capacity needs of shippers. In April, Iceland’s Bluebird Cargo is scheduled to take delivery of three freighters from GE Capital Aviation Services (GECAS). Conversion work is being done by Israel Aircraft Industries.

GECAS is one of the world’s largest providers of aircraft financing and leases. It owns more than 1,100 planes and manages another 300 for airline customers, including a fleet of 65 owned and managed freighters.

TNT Express, the international expedited delivery unit of semi-private Dutch postal and logistics conglomerate TPG N.V., said in January it would lease five additional 737-300s from GECAS to replace chartered aircraft in its network. TNT leased its first 737-300 in June 2003 and picked up a second one in December. TNT Airways, the carrier’s in-house airline, will phase in the new aircraft, with two joining the fleet in 2004 and further aircraft coming on line in 2005-2007. TNT said it also has options to lease a further five 737s to accommodate planned expansion of its network.
for the 747-400 and in January announced Cathay Pacific as its first customer. Cathay Pacific, the world’s sixth-largest air cargo carrier in terms of tonnage carried, signed an agreement for delivery of six 747-400 Special Freighters between 2005 and 2007, with an option for six more. It also ordered one new 747-400 for delivery in February 2005. The production freighter comes with a nose opening for easier handling of outsized cargo.

Until now Boeing has only had conversion programs in place for older 747-200 and 747-300 models.

“There happen to be a lot of 400s underused right now, so the timing was good to offer that conversion program,” said Vicki Ray, spokeswoman for Boeing’s Commercial Aviation Services group.

The Special Freighter has a longer upper deck that includes seating for up to 19 people, an option found on no other converted freighter, according to Boeing. The conversion process includes strengthening the main-deck floor, adding a side cargo door and main deck lining, provisions for a new cargo handling system and upgraded cockpit controls.

The converted freighter will have two fewer pallet positions than a production freighter, Ray said. The Special Freighter has an estimated payload of 113.5 tons compared with 119.5 tons for the production variant.

Hong Kong-based Cathay Pacific said it may convert some of its own 747-400 passenger planes along with others purchased used. It operates a fleet of five 747-400F and six 747-200F freighters to Europe and North America, as well as in Asia.

Hundreds of successful conversions on all types of aircraft have been performed by aftermarket aviation service companies, but Boeing officials contend that their conversions are potentially more reliable because they have the original design and production data.

“In many cases, operators want a converted airplane to match their other planes as much as possible,” Mike Cave, senior vice president for Commercial Aviation Services, said in a statement about the conversion program. “This gives Boeing a chance to support its customers not only with freight conversion, but further with packages including avionics and flight-deck upgrades, and integration of technical manuals.”

The actual conversion of the first three 747-400s will be outsourced to Taikoo Aircraft Engineering in Xiamen, China, under Boeing supervision. Boeing typically farms out the physical labor for conversions and focuses on systems integration.

**Gemini Air Cargo finalizes new financing**

**DULLES, Va.**

Gemini Air Cargo said it successfully renegotiated debt and payment terms with its bank lenders, aircraft lessors, maintenance provider and equity holders as part of its broader plan to restructure the company.

Terms of the restructuring include forgiveness of bank term debt, adjustment of aircraft lease and maintenance rates to reflect weakened market demand, the return of certain leased aircraft and the infusion of cash by the company’s majority stockholder, buyout specialist The Carlyle Group.

Recapitalization will allow the company to remain in business without seeking bankruptcy protection, President Thomas Corcoran told American Shipper.

The Dulles, Va.-based company uses a fleet of 15 owned and leased aircraft to supply air freight services to airlines, freight forwarders and the U.S. military. The company returned two of its 12 DC-10s to its leasing company to reduce cost and capacity on under utilized routes, Corcoran said.

As business picks up the company plans to add more modern MD-11 aircraft, he said. The company currently leases four MD-11s.

**Boeing financing company looks to exit market**

**SEATTLE**

Boeing Capital Corp., a financial and leasing subsidiary of aircraft manufacturer Boeing Co., said it was exploring options to divest its Commercial Financial Services unit.

“This could include the sale of the whole operation itself, sale of all or part of the commercial finance portfolio or a phased closure of the existing portfolio.

**DHL Danzas’ Cargo 2000 system is approved**

**BASEL, Switzerland**

DHL Danzas Air & Ocean has completed the second phase of accreditation for its Cargo 2000 quality management system, using Syntegra’s “CargoChorus” route management system.

Cargo 2000 is a joint quality initiative of major airlines and freight forwarders, which encourages the implementation of processes backed by data-based and measurable quality standards.

**Freightgate offers online airline schedule access**

**HUNTINGTON, Calif.**

Freightgate, the Internet applications developer, said it will offer freight transportation intermediaries online airline schedules.

Freightgate developed its Schedule-Trek! in partnership with Portland, Ore.-based Conducive Technology Corp.

“It offers a new way to access airline schedule data that enables users to perform rapid searches of direct flight schedules,” said Martin Hubert, Freightgate’s president and chief executive officer, in a statement.

“The application also allows for more complex routing searches when direct flight alternatives are not available and permits expanded time frame searches to ensure the greatest degree of schedule comprehensiveness and flexibility,” Hubert said.

**U.S. international air freight down 6.1%**

**WASHINGTON**

U.S. international freight and express traffic fell 6.1 percent in November, the eighth monthly decrease in a row, according to the latest statistics of the U.S. Air Transport Association.

International freight and express traffic decreased to 974 million revenue ton-miles in November from 1 billion in November 2002. For the first 11 months of 2003, international freight and express traffic dropped 2 percent to 10 billion ton-miles.
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Security costs? Increase port dues

The decisions by Californian ports to increase port tariffs on Jan. 1 for the first time since 1999 indicates who will fill the shortfall in federal port security funding: Port users, through higher user fees and tariffs.

The port of Long Beach increased its tariff 5 percent on Jan. 1. The ports of Los Angeles and Oakland also are moving ahead with a 5-percent tariff increase, the port of Long Beach said.

The Long Beach board acted after the California Association of Port Authorities voted to authorize member ports to increase tariff charges by as much as 5 percent beginning Jan. 1.

The California Association of Port Authorities cited sharp increases in infrastructure and security costs to meet soaring trade volumes and new threats from terrorism.

No funding blues in China

In the United States and Europe, it is common for the industry to complain about the lack of government funding to finance transport infrastructures.

Usual concerns arise from road congestion, the gap in ports’ funding for additional security equipment, and port capacity bottlenecks.

But think what it must be like for the authorities in China, whose freight volumes grow considerably faster than in the West.

In the international shipping business, private-sector operators have financed additional port infrastructure in many parts of the world, under build-and-operate licensing agreements. The operators invest their own shareholder capital, and take on loans, to build the required port facilities.

Erik Bogh Christensen, managing director of Hong Kong terminal operator Modern Terminals Ltd., told the recent Container Shipping Summit in Shanghai that 100 new container berths need to be built in China to cope with growing volumes. He estimates the associated direct investment requirement at $10 billion, not counting the supporting infrastructure.

Port capacity utilization in China is very high, and “significant new terminal capacity” is required to meet demand, Christensen said.

He stressed the role of foreign direct investment in port infrastructures for China. At South China ports, the largely private-sector investors include:

- Hutchison, A.P. Moller/Maersk and COSCO in Yantian.
- China Merchants, COSCO, P&O, Swire and Modern Terminals in Shekou.
- China Merchants, Nanyou, Kerry Property and Modern Terminals in Chiwan (COSCO and China Merchants are government-controlled, but raise some capital from the equity and debt markets).

So, China may be Communist but, in the port sector, the private sector continues to provide much of the finance the country’s needs for infrastructures, in return for profit.

Maybe there is an answer there to the United States, where cities and state authorities carry the burden of financing port expansion.

Fewer takeovers and mergers

The mythical consolidation of the container-shipping liner business is progressing ever more slowly.

In 2003, according to our records, there were just three takeovers in this industry sector: Hamburg Sud’s acquisition of the liner interests of the bankrupt Taiwanese shipping group Kien Hung, and the purchases by Hong Kong-based Swire of multipurpose shipping operators Bank Line and Indotrans. These acquired entities were all relatively minor operators.

In 2002, there were eight takeovers, also of small magnitude.

Although the 20 largest containerlines carry most of the cargo moving on the east/west trades, there is still plenty of competition from all the medium-sized carriers. In fact, U.S. Lines, managed by former APL and SeaLand executive Ed Aldridge, has just joined their ranks (see story, page 58).

According to ComPair Data, the global liner-shipping database, there are 203 liner-shipping companies.

New shakeup for Atlantic trade?

After a few years of partial market consolidation, sluggish growth and some withdrawal of ship capacity, the transatlantic trade looks set for a new shakeup and increased competition.

It wasn’t long ago that Senator Lines, Safmarine and Deppe Linie pulled out of the North America/North Europe trade.

But this month, China Shipping Container Lines, Norasia and Gold Star Line will enter the transatlantic westbound trade as part of a joint round-the-world service linking ports in North Europe, the United States, Asia, the Indian Subcontinent and the Middle East.

Norasia will be re-entering the transatlantic trade “after an absence of many years,” said Jamshed Safdar, head of marketing of the shipping line.

China Shipping will operate its first Atlantic service since the company was founded in 1998, and will thereby fill the remaining gap in its east/west network.

Gold Star Line, a Hong Kong-based shipping line owned by Zim Israel Navigation, is also new to the Atlantic trade.

The service will have a rotation of Dubai, Mundra (India), Nhava Sheva, Tuticorin (India), Colombo (Sri Lanka), Damietta (Egypt), Felixstowe, Rotterdam, Hamburg, New York, Norfolk, Charleston, Kingston, Los Angeles, Shanghai, Ningbo, Xiamen, Shenzhen, Singapore, Port Kelang (Malaysia) and Dubai.

The joint service will also provide an all-water link from the Indian Subcontinent and the Middle East to the U.S. via the Suez Canal and North Europe, and a westbound-only transpacific service.

China Shipping Container Lines in transition

State-owned China Shipping Group is planning to turn its fast-growing container subsidiary China Shipping Container Lines into a joint-stock limited company.

Although the future impact of this change in corporate structure is not known, a statement made by China Shipping Group said, “China Shipping Container Lines was considering raising funds in the international and domestic capital market when opportunities arise.”

China Shipping Group injected about Remimbi2.7 billion ($326 million) into the container business in December 2002, and September and October 2003, partly to cover losses.

It’s a fair bet that the many orders for new containerships placed by the Chinese shipping line and its rapid expansion will require further additional finance.
Overinflated outlook?

Container shipping market looks set for overcapacity once record vessel orders have been delivered.

By Philip Damas

Ocean carriers and analysts cannot agree on the impact the record level of orders for new containerships to be delivered in the next four years will have on the market.

For some analysts, the huge additional vessel capacity in the pipeline heralds that a new overcapacity bubble will burst two years from now. Others argue that cargo volumes will absorb any additional capacity, and there is nothing to worry about, just yet.

Either way, the container shipping market is set for a substantial expansion of vessel supply. Also there is no suggestion from researchers and analysts that the market will crash soon, as the consensus is that 2004 will be a strong market.

U.K.-based Clarkson Research estimates that ocean carriers and non-operating shipowners have ordered more than 2.5 million TEUs of new capacity, representing 40 percent of the current fleet.

Investments for new ships ordered during the first 11 months of 2003 reached a record $22.4 billion, according to Clarkson. The financial commitment to new boxships during the latest 11-month period is more than five times the investment made in containerships during the corresponding period of 2002, it said.

Such figures look alarming.

However, Rogan McLellan, director of liner research at Clarkson, cautioned that the record orderbook for boxships does not necessarily mean that it will lead to overcapacity.

“We can forecast supply with a degree of certainty, but what we can’t do is know what demand is going to do,” McLellan said.

Following industry analysts’ comments that overcapacity will return in late 2005, McLellan said the supply-and-demand balance in 2005 and 2006 is still difficult to predict. He noted that demand growth in 2002 and in the first half of 2003 was rapid, and absorbed additional capacity at that time.

“Analysts are out on a limb when they say ‘the end of the world is nigh,’” McLellan said.

By contrast, Barry Rogliano Salles, the major French shipbroker, sees danger ahead.

“Given the schedule of (containership) deliveries, the size of the fleet will enter the danger zone in the second half of 2005, and 2006 could be a year of low charter rates,” it said.

Barry Rogliano Salles calculated the following figures on the number of new containerships delivered, worldwide:

- 181 ships for 577,000 TEUs in 2003.
- 202 ships for 678,000 TEUs in 2004.
- 231 ships for 849,000 TEUs in 2005.
- 163 ships for 831,000 TEUs in 2006.

This will represent an increase in worldwide boxship capacity of 10.7 percent a year in the next three years.

Historically, worldwide container shipping has grown 7 to 8 percent a year. The question for users and providers of containerships is whether the next three years will deliver volume increases sufficiently above this historical average to absorb the estimated 10.7-percent growth rate of supply.

Another factor is that most of the new capacity on order is skewed towards larger vessels. These bigger ships are destined to trade on the east/west trades. This means that the transpacific and Asia/Europe trades, in particular, will be bombarded by additional vessels between now and 2006.

Analyst's Forecast. Charles de Trenck, analyst at CitiGroup in Hong Kong, cautioned that all forecasts are hazardous, but he believes containership overcapacity will return.

“We are looking for 2004 to be a cyclical peak year for container trades — a year where volume growth will likely be buffered by currency shifts and U.S. elections, and a year where concerns over a capacity bubble should begin to form,” he said.

“In our view, 2004 should be seen as the peak year in container shipping because:

“(1) Resistance to higher rates is strong among customers now that rates have rebounded.

“(2) Volume growth on demand side is slowing, given base effects.

“(3) Costs for short-term charter vessels are about twice what they were 12-18 months ago.

“(4) Overcapacity of substantial proportions is just around the corner.”

The container-shipping industry “is characterized by boom/busts,” de Trenck told American Shipper. “The only issue is how long we stay at current tops before seeing the weakening,” he said. “And this call is made tougher as a result of record low interest rates, as well as a low dollar, which have the effect in many cases of bringing demand forward and of allowing marginal capacity players to have the money to service the demand.”

De Trenck expects that the industry this year will continue to enjoy “some of the strong 2003 momentum.” By the second half of the year, he predicts “a cyclical ‘past-its-peak mentality’ to begin settling in and to see question marks emerge over a flood of new container capacity.”

“Fears that a container orderbook at an all-time record of 40 percent or more of the core container fleet will cramp the style of many container operators by 2005 should help bring some bargaining power back to shippers.”

Charles de Trenck analyst, CitiGroup
Modest Pacific capacity cuts

Carriers suspend entire services, omit a few sailings to adjust supply to reduced demand.

BY PHILIP DAMAS

In the transpacific container trade — the world’s biggest east/west shipping market — the time for a respite between two hectic peak shipping seasons is the period from December to the end of spring.

But the reductions in vessel capacity for this year’s slack season have been modest. After handling higher transpacific cargo volumes last year, ocean carriers and their alliances have scaled down their vessel deployment for the yearly slack season.

A January World Liner Supply report from ComPair Data, the global liner-shipping database, shows that ocean carriers cut overall Asia-to-North America ship capacity 3 percent, or about 7,100 TEUs a week, between Oct. 1 and Jan. 1 (see chart).

This 3-percent capacity reduction wasn’t spectacular, and was less significant than the comparable cut of 5 percent that happened a year earlier. But it illustrates the carriers’ continuous efforts to improve the balance between supply with demand, and to lower their operating costs.

Staggered Cuts. For several years, the suspension of one Asia/U.S. weekly service per alliance during the slack season has been a pattern of the Pacific trade for most alliances and carrier groups.

Because some of the capacity reductions were carried out after Jan. 1, the actual cut in eastbound Pacific capacity probably will amount to about 5 percent overall, rather than the 3 percent calculated by ComPair Data as of Jan 1.

The following capacity cuts in Asia/North America services have occurred since October:

• Compania Chilena de Navegacion Interoceania, Maruba, Lykes Lines and TMM Lines in October ended their joint weekly “Transpacific Express” service that started in June. The service had used five ships and called Shanghai, Hong Kong, Yantian, Los Angeles, Shanghai, Hong Kong and Yantian. Net reduction in transpacific capacity: about 1,500 TEUs a week.

• New World Alliance carriers APL, Hyundai Merchant Marine and MOL in November suspended their weekly “PSV” service until June. The “PSV” service had a port rotation of Chiwan, Hong Kong, Kaohsiung, Los Angeles, Chiwan, Hong Kong and Kaohsiung. Net reduction in transpacific capacity: about 4,600 TEUs a week;

• Grand Alliance carriers Hapag-Lloyd, NYK, OOCL and P&O Nedlloyd in November ended their Asia/U.S. East Coast “ECX2” fortnightly service. Net reduction in transpacific capacity: about 1,200 TEUs a week.

• The CKYH alliance of COSCO Container Lines, “K” Line, Yang Ming and Hanjin Shipping in December ended their Asia/Suez canal/Mediterranean/U.S. East Coast “AMA” service, which offered a limited capacity between the Far East and the United States. This service also served the Asia/Mediterranean and Mediterranean/ U.S. trades. Net transpacific capacity reduction: about 1,300 TEUs a week.

• The Grand Alliance carriers also in late January suspended their Far East Express (FEX) transpacific service. Net transpacific capacity reduction: about 6,200 TEUs a week.

Paradoxically, over the same period, ocean carriers have increased their transpacific vessel capacity on other services. U.S.
Lines, a new entrant in the Pacific, launched its service with 1,550-TEU vessels in late December, also adding ship capacity to the trade (see related story, page 58).

The capacity reductions for the off-peak season have thus far exceeded any additions.

**Aim Of Adjustments.** The Grand Alliance said suspension of its FEX transpacific service was “for a period of approximately six weeks” and would enable the Grand Alliance to perform “regular vessel maintenance and scheduled fleet re-assignments.”

The Grand Alliance said it would continue service coverage for ports called by the FEX service, primarily utilizing its South China Sea Express (SCX) loop. The alliance said it would reinstate the FEX service with its current rotation if there is sufficient demand. The FEX service was one of the alliance’s seven Asia/U.S. West Coast weekly services.

Like the FEX service of the Grand Alliance, the New World Alliance’s “PSV” service, now suspended, had operated as a peak-season-only service since the start of the 2003 peak season.

“The New World Alliance will make no further cuts in transpacific capacity during the slack season, having already suspended its “PSV” service, Sappio added.”

The “PSV” loop was one of the New World Alliance’s eight Asia/U.S. West Coast services.

With seven or more Asia/U.S. West Coast weekly services, the major alliances appear able to suspend one of their services, and lower their costs during the slack season, without a substantial deterioration of their service to shippers.

Yvonne Mulder, spokesperson for Lykes Lines, said the withdrawal of the carrier’s “Transpacific Express” service was planned. “It was always intended that this would be just a seasonal service,” she said. “Lykes Lines has four other ‘permanent’ transpacific services that can handle the traffic now.” Lykes will consider running the extra service again if there is sufficient demand.

**Chinese New Year.** Sappio reported that January saw strong transpacific volumes ahead of Chinese New Year. Chinese New Year, this year on Jan. 22, is celebrated in most of Asia and means the closure of numerous factories for a week or more. “There will be a seasonal drop after Chinese New Year ... for a few weeks,” he said. “That is expected. It should be no surprise to anyone.”

Instead of withdrawing an entire service, usually involving four to six ships, some carriers are omitting a few sailings at the quietest time of the year — the weeks that follow Chinese New Year.

The CKYH alliance of COSCO, “K” Line, Yang Ming and Hanjin Shipping has canceled three Asia-to-U.S. East Coast sailings at the end of January and in early February. A Hanjin executive told *American Shipper* that one sailing a week of three Asia/U.S. East Coast services — the all-water East Coast 1, 2 and 3 loops — would be omitted on a rotating basis during an overall three-week period.

In a separate development, COSCO, “K” Line and Yang Ming will omit two individual sailings of one of their Asia/U.S. West Coast services, called “KY PSW,” in early February.

Aaron Young, junior vice president, planning at Yang Ming, said the ships withdrawn from service in the transpacific will go into dry dock.

By timing maintenance operations for the ships during the quiet season, Yang Ming avoids a potential loss of revenue, while the omission of the sailings also reduces port and bunker costs, Young explained. But he cautioned the savings on port and bunker expenses “are not huge.”

Maersk Sealand has yet to announce any reduction in transpacific capacity for the off-peak period. But the Danish megacarrier said in mid-January it was considering reducing its ship capacity in the Pacific trade immediately after Chinese New Year.

“We are looking at suspending individual sailings ... not individual strings,” said Jorgen Harling, vice president in charge of planning at Maersk Sealand.

Harling said his company expects weak cargo liftings in the three-week period starting Jan. 26.

Maersk Sealand operates five Asia/U.S. West Coast weekly strings and two Asia/U.S. East Coast weekly services via Panama.

The fact that ocean carriers have not made severe cuts in capacity this winter may also indicate that the capacity swings in the eastbound transpacific are not as pronounced as in previous years.

Meanwhile, despite those seasonal capacity cuts since October, the longer trend in vessel capacity remains strongly upwards (see chart). Eastbound capacity this January was 17 percent higher than a year ago. The next step will be the injection of additional ship capacity by carriers beginning in April or May, before the next peak season starts.

**Source:** ComPair Data, the global liner-shipping database (January 2004 issue of the World Liner Supply report).

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**Changes in transpacific capacity of major carrier groups 2002-2004**

<table>
<thead>
<tr>
<th>Capacity/week (adjusted)</th>
<th>10/02</th>
<th>1/03</th>
<th>4/03</th>
<th>7/03</th>
<th>10/03</th>
<th>1/04</th>
<th>% change 1/03-1/04</th>
<th>% change 10/03-1/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>New World Alliance</td>
<td>39,955</td>
<td>35,667</td>
<td>36,439</td>
<td>43,126</td>
<td>44,775</td>
<td>41,011</td>
<td>15%</td>
<td>(8%)</td>
</tr>
<tr>
<td>CMA CGM/China Shipping/Norasia</td>
<td>15,391</td>
<td>18,230</td>
<td>17,117</td>
<td>20,904</td>
<td>24,850</td>
<td>24,185</td>
<td>33%</td>
<td>(3%)</td>
</tr>
<tr>
<td>CKYH alliance</td>
<td>63,049</td>
<td>62,875</td>
<td>57,674</td>
<td>62,363</td>
<td>63,549</td>
<td>62,016</td>
<td>(1%)</td>
<td>(2%)</td>
</tr>
<tr>
<td>Grand Alliance</td>
<td>37,785</td>
<td>39,017</td>
<td>39,252</td>
<td>40,475</td>
<td>42,479</td>
<td>41,502</td>
<td>15%</td>
<td>(2%)</td>
</tr>
<tr>
<td>Other carriers</td>
<td>20,805</td>
<td>17,488</td>
<td>21,760</td>
<td>28,805</td>
<td>28,847</td>
<td>28,540</td>
<td>63%</td>
<td>(1%)</td>
</tr>
<tr>
<td>Evergreen/Lloyd Triestino/Hatsu</td>
<td>27,015</td>
<td>27,304</td>
<td>28,074</td>
<td>30,860</td>
<td>31,314</td>
<td>31,280</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>Maersk Sealand</td>
<td>24,097</td>
<td>19,974</td>
<td>22,295</td>
<td>25,783</td>
<td>26,464</td>
<td>26,644</td>
<td>33%</td>
<td>1%</td>
</tr>
</tbody>
</table>

**Total Asia/North America trade**

| Increase/decrease from prev. quarter | 222,097| 217,555| 222,611| 252,316| 262,278| 255,178| 17%            | (3%)             |

**Notes:** CKYH alliance = COSCO, K Line, Yangming and Hanjin; Grand Alliance = Hapag-Lloyd, NYK, P&O Nedlloyd and OOCL.
‘K’ Line seeks more diversified fleet

Japanese shipping group to boost share of non-container shipping activities.

BY PHILIP DAMAS AND SIMON HEANEY

Kawasaki Kisen Kaisha Ltd., the most container-shipping oriented of the three large Japanese shipping groups, plans to expand its fleet to 500 ships of all types by 2008 through growth in its non-liner shipping activities.

Yasuhide Sakinaga, president of “K” Line, expects to see “K” Line’s involvement in non-containership markets increase over the next five years, narrowing the difference between itself and fellow Japanese competitors Mitsui O.S.K. Lines and NYK.

Mitsui O.S.K. Lines and NYK each have a much larger tanker and bulk-carrier fleet than “K” Line, while “K” Line’s containership fleet is the largest among Japanese shipowners. About 42 percent of “K” Line’s revenues come from liner shipping, compared to 32 percent at Mitsui O.S.K. Lines and a similar percentage for NYK (NYK does not disclose this figure).

“K” Line reported group revenues of $5.3 billion for the financial year to March 31, 2003. “K” Line has already ordered six Capesize bulkers, seven pure car-carriers and 13 tankers of various types for the transportation of oil, coal and gas.

Sakinaga said his group will introduce a new five-year plan after it releases its yearly financial results in May. The new “post KV-Plan” will be introduced because the results of the original, three-year “KV-Plan” were obtained one year ahead of schedule, he said.

Part of the new plan will see the total fleet increase to at least 500 ships by 2008, from 352 today. In addition to 43 existing vessel orders, “K” Line expects to order about 105 other ships at a cost of about 300 billion yen ($2.8 billion). However, “K” Line provided no details of the breakdown of the ship types involved in the fleet expansion.

The Japanese group also wants to expand its logistics business, “K” Line logistics.

Against Industry Trend. “K” Line is not new to bulk, tanker and car-carrier shipping. Yet, its policy to seek a more diversified fleet beyond container shipping goes against the trend of Asian and European shipping groups which in recent years have sought to end their traditional bulk or non-liner shipping activities:

• London-based Peninsular & Oriental Steam Navigation Co. recently sold its remaining 50-percent interest in Associated Bulk Carriers Ltd.
• Neptune Orient Lines, the parent company of APL, sold its tanker arm American Eagle Tankers to Malaysia International Shipping Corp. Bhd.
• In the last few years, Hapag-Lloyd sold its general cargo division Rickmers-Linie, and Hyundai Merchant Marine divested from car-carrier shipping, while remaining in the liner-shippping and bulk-carrier sectors.
• Tanker shipping group Torm, of Denmark, sold its liner shipping business to Maersk.
• Canada-based Kent Line sold its linershipping activities to Tropical Shipping to concentrate on its core bulk-shipping business.

This polarization of shipping interests between liner or bulk/tanker means there are few shipping operators that still have a major presence in both the liner and bulk shipping sectors. They are “K” Line, Mitsui O.S.K. Lines, NYK, Chinese state-owned shipping companies COSCO and China Shipping, A.P. Moller-Maersk, Hyundai Merchant Marine and, to a lesser extent, Hanjin Shipping, Hamburg Sud and Compania Sud Americana de Vapores.

Improved Results. “K” Line tripled its operating income and net income in the six-month period ended Sept. 30, as the Japanese company rode the boom in the container-shipping and bulk-carrier markets. The group’s net income climbed 224 percent to 15.9 billion yen ($144 million), while operating income soared 204 percent to Yen34.3 billion ($309 million).

“K” Line forecast that it will earn an annual net income of Yen30 billion ($270 million) for the current financial year ending on March 31, three times the Yen10.3 billion net profit earned in the year-earlier period. This would be the best profit in the company’s 85-year history.

“K” Line said the fulfillment of the original “KV-Plan” was a combined result of market improvement and its cost-cutting initiatives, which have seen its intended saving of 30 billion yen ($280 million) achieved in two years instead of the planned three.

“K” Line recently said it managed to “normalize” freight rates on its North American container services, after those rates had dropped substantially in the previous year. “K” Line experienced favorable volumes in its North American services and a “considerable steadiness” in cargo volumes on its European services.

However, “K” Line voiced concerns about the rise in the value of the Japanese yen against the U.S. dollar, and about the increasing...
price of fuel oil. The company said it expects its containership business to benefit from “further cost reduction by service reorganization, and further freight rate restoration.”

“K” Line said a variation in average freight rates of $10 per TEU has an impact of 2.25 billion yen ($21 million) on its non-consolidated group results.

Although container-shipping activities were not designated as “K” Line’s main growth targets, the Japanese group has already decided to expand its container ship fleet, and ordered 17 large containerships, including its first 8,000-TEU vessels.

Four 8,000-TEU boxships will be delivered to “K” Line this and next year, for the Asia/Europe trade. The Japanese group has also placed orders for eight new 4,000-TEU Panamax-type containerships for its Asia/U.S. East Coast services. Furthermore, it has ordered five 5,500-TEU vessels, due to be delivered between 2006 and 2007, for the transpacific trade.

Sakinaga noted the growth of China, where the company opened its 14th office in Beijing in January. The company’s other China offices are in Wuhan, Shanghai, Dalian, Qingdao, Tianjin, Shenzhen, Nanjing, Suzhou, Ningbo, Hangzhou, Xiamen, Guangzhou and Chongqing.

New areas of growth for “K” Line will include Africa, Eastern Europe and India, Sakinaga said.

Supply Of Ships. Sakinaga said he expects to see the current profitable situation in the container ship market continue until 2006. Japanese and Korean shipyards are fully booked until 2006, he noted.

After this, he said that “deeper and more intense” cooperation with its alliance partners — COSCO, Hanjin Shipping and Yang Ming Marine — especially in terms of vessel orders, would be necessary to combat a downturn in profitability.

“K” Line ordered its new 8,000-TEU and 5,500-TEU vessels from Japanese and Korean shipyards. Alliance partner Yang Ming also ordered four 8,000-TEU ships for its joint service with “K” Line.

Asked whether “K” Line would have containerships built in China, Sakinaga said the company will look at the technical capabilities of shipyards there, but had doubts about quality issues at Chinese yards. The Japanese group recognizes that it may have to source ships from China due to the busy orderbooks of shipyards in other Asian locations.

“K” Line will look at the possibility of ordering boxships from Nantong COSCO KHI Ship Engineering Co. Ltd., a China-based shipbuilding joint venture. One factor that may influence the Japanese group’s shipbuilding policy is that “K” Line belongs to the same “keiretsu” — or closely knit Japanese industrial group — as Kawasaki Heavy Industries, one of the joint venture partners of this Chinese shipyard.

Last year, “K” Line ordered three 5,000-unit car carriers from the Nantong COSCO KHI shipyard.

In November, “K” Line formed a roll-on/roll-off joint venture based in China with China Shipping Group. China Shipping has 51 percent of the venture and “K” Line 49 percent. The venture, Orient Sea Highway Services Co. Ltd., is based in Shanghai, with a registered capital of $10 million.

“K” Line said the venture aims to respond to the expected increased in demand for marine transport of Chinese vehicles, and would combine “K” Line’s marine transport technology and China Shipping’s business strength in the Chinese market.

Also in China, “K” Line received in November permission from the Chinese authorities to establish and operate a joint venture logistics company in Shanghai. Shanghai “K” Line Z.F. Logistics Co. Ltd. will provide freight forwarding, customs brokerage, trucking and warehousing services, covering air, sea and land transportation, as well as supply chain management services.

The Japanese group said this was part of its policy to expand its logistics services.

Laissez-faire compliance

Shipowners, ports not rushing to comply with U.S. Coast Guard’s ISSC, ISPS requirements.

By Robert Mottley

Despite looming port and ship security requirements, some shipowners and ports are taking a laissez-faire approach to compliances, representatives from two security companies said.

As of July 1, incoming vessels to the United States must have an International Ship Security Certificate (ISSC) to comply with requirements of the International Ship and Port Facility Security (ISPS) Code, as mandated by the U.S. Coast Guard.

“An International Ship Security Certificate is given by the vessel’s flag state as a credential that a ship and the company running the vessel have gone through some procedural modifications to allow them to operate in a more secure fashion,” said Fred Gordon, chief operating officer of Global Marine Security Systems Co. in New York.

To qualify for such a certificate, the vessel’s owner or manager must develop a ship security assessment and ship security plan.

While business has been good for Global Marine Security Systems and Sea & Land Security LLC, two companies that perform security assessments, executives in both organizations told American Shipper they were surprised at the latitude shown by many shipowners and port facilities.

“We’re disappointed at the number of people who aren’t conforming to the ISPS Code in any meaningful way,” said Ron Katims, president of Navieras (NPR) and vice president of engineering for Sea-Land Service Inc. “It’s going to take stiff enforcement or another act of terrorism to motivate some of the slackers. Those companies that stepped up early and did their assessments so they were in compliance with the ISPS Code are perplexed now at the number of their competitors getting away with not doing it.”

“That sort of laissez-faire compliance will end as we get closer to July 1,” Katims predicted.

Gordon agreed. “Our company has the traction it’s gotten thus far from clients with enough foresight to implement the ISPS Code before next July.”

“I hope that people who have not done anything will decide to make their move sooner than later. May and June will be horrific months for anyone scrambling to get a certificate by July 1, because qualified inspectors — not just in our company — are going to be hard to find,” Gordon said.

Complex Assessment. For its part, the Coast Guard has said it will not provide security assessments or serve as the source of vessel security plans.

“That’s a technicality. The Coast Guard cannot do so, because it agreed at the International Maritime Organization that under the ISPS Code, each maritime country will implement the code on its own,” Gordon said.

Nor will the Coast Guard “approve security assessment tools or incorporate such tools by reference, because we prefer to
allow flexibility for industry to develop their own tools to meet their specific needs,” the Coast Guard said in a statement. For companies that want to go their own way, “we have provided a list of examples of security assessment tools.”

That list includes “a no-cost, user-friendly, Web-based, vulnerability-self-assessment tool designed by the Transportation Security Administration,” the Coast Guard said.

The Coast Guard outlined in its interim final rule the complexity of security assessments, including an on-scene survey of a vessel that is necessary to qualify for an ISSC.

The fine points include a shipowner having to reissue identification cards for crew personnel if individuals grow facial hair to the extent they no longer resemble their images on former ID cards.

Getting Help. Although the new rules don’t require that security assessments be done by a qualified third party, “there are certainly small-print reasons why some shipowners prefer to hire security assessment companies to make their vessel assessments and help them develop vessel security plans,” Gordon said.

“It is a somewhat daunting process, which may explain in part why thousands of organizations that should have did not qualify for certificates by Dec. 31,” he explained, referring to a deadline set by the Coast Guard.

Outside of the United States, “recognized security organizations” (RSOs) may issue ISSCs after being presented with a vessel’s security assessment and security plans.

“Most of the recognized security organizations that aren’t flag states themselves are classification societies,” Gordon explained. “In the U.S., the Coast Guard is the equivalent of a flag state.”

Detaining Vessels. The Coast Guard has indicated that, after July 1, it will make life extremely rough for incoming vessels that lack certification. Japan and nations in northern Europe have also said as much.

“The theory behind the operations of some lagging vessel owners is that “I’ll never come to the U.S., so why bother?”” Gordon said. “But shipping doesn’t always work that way. That attitude is asking for hardship. If you suddenly, perhaps to take advantage of a lucrative charter, have to do business in the U.S., you’re going to be stopped by the Coast Guard if you don’t have your documents in order.”

“Right now, there is no way to get into the U.S. without a certificate. Your vessel will be held with the cargo on board — a state of essentially being on demurrage without being paid for it — for weeks, if necessary, until you solve your security certificate problem,” Gordon said.

“After July 1, the Coast Guard will use every chance it gets to check foreign-flag vessels coming to the U.S.,” he said.

“The Coast Guard’s spot checks will be more than just noting the presence of a valid certificate. In certain instances, the Coast Guard will determine if the stipulated security plan that helped the shipowner qualify for a certificate is actually being implemented on a vessel,” Gordon said.

“That process will be as tedious as the Coast Guard wants to make it, on a ship-by-ship basis,” Katims said.

Terrorist Options. To prepare shipowners, Global Marine Security Systems “first goes through an assessment of possible threats to a vessel, before developing a plan that will deal with those threats in a realistic manner and providing training to people on board to that end,” he said. “It is a somewhat daunting process, which may explain in part why thousands of organizations that should have did not qualify for certificates by Dec. 31.”

Fred Gordon
Chief Operating Officer

“We ask if procedures are in place so that someone in the crew is always looking at the vessel and in the shipowner’s offices ashore,” Gordon said.

“We will visit every ship in an owner’s fleet. We look at existing security plans. We look at access to all parts of the ship, cargo spaces, and machinery spaces, fore and aft. The question we pose is, ‘if someone wanted to come on board and do something untoward on that particular vessel, how would they do it? What would they have to go through?’

“We ask if procedures are in place so that someone in the crew is always looking at the water side of the ship when the vessel is tied up, and another person on the vessel is watching the gangway,” Gordon explained.

“We also ask for documents to show what a shipowner’s company is doing internally in regard to security. We regularly enter into confidentiality agreements with our clients, because we see and hear things that are quite sensitive in regard to their operations.”

“We tend to discourage the use of fire-arms on a ship. That’s an issue of training. For an operational standpoint, a guy with a gun on a tanker or LNG carrier, whether he is a crew member or a security agent, is more of a potential disaster than someone trained as a lookout to spot trouble and call in the right people,” Gordon said.

On a fleet basis, Global Marine Security Systems charges about $2,000 per visit, which includes a ship’s assessment, and about $1,500 for developing the security plan. “The assessment becomes part of the vessel’s security plan,” he said.

Air travel and expenses for the company’s inspectors, who usually travel solo, are extra costs paid by a client.

Steps In A Process. Data from assessments are usually electronically filed. “At some point, the results of an assessment and a vessel’s security plan have to be printed out, because the flag states require a hard copy,” Gordon said.

A completed assessment takes about a week. That includes visiting the vessel, writing up an assessment, and developing the ship’s security plan.

“The client subsequently reviews what our inspector has written. There’s some back-and-forth there, the amount of which depends on the company,” Gordon explained.

“We write up what we see. We don’t help people who want to slide by. Of course, our report is going to be read by the flag state or the recognized security organization as part of the next step toward a shipowner’s acquiring a certificate.”

“If the flag state or RSO sees we’ve written that there were deficiencies on the vessel, then those deficiencies have to be rectified before there’s any hope of the vessel owner getting his certificate,” he said.

Inspectors employed by Global Marine Security Systems do not comment on a vessel’s seaworthiness. “That’s an issue for a flag state or a classification society,” he said.

Once the plan and assessments are filed, the resulting certificate is good for five years, but vessel assessments have to be redone periodically.

After a shipowner has an ISSC in hand, “there are certain things you have to continue to do, in addition to understanding the threat against a vessel, which is part of its assessment phase,” Gordon said.

“Once a year, you have to go through a full security exercise, which includes mobilizing people on board, getting them outside of their cabins and work stations. Security drills must
be held every three months, or when 25 percent of the crew changes,” he said.

To conduct its assessments, Global Marine Security Systems has 25 employees based in New York, London and Singapore, with London being its headquarters.

“Our company’s forte is that we blend maritime expertise with security experience. We have guys who have operated ships, and those who have front-line counter-terrorism expertise,” Gordon said.

“Some of our people are ex-Special Air Services from the U.K., or special ops personnel who have been fighting terrorists around the world for 20 years and more,” he said.

“There are a lot of people with counter-terrorism expertise who have never been on a ship. There are excellent marine inspectors who have no skills in fighting terrorism. Our guys have the benefit of training in both worlds,” he said.

Asked if his company’s inspectors ever become suspicious about cargo on a vessel — such as the appearance or reputed provenance of a container — Gordon said “so far, no. That could happen. We’ve been fortunate to have clients who know their business.

“We also have to know with whom we are involved. It would be difficult for an organization that deals in security not to cover itself with due diligence in that area,” he explained. His company’s shipping clients include Overseas Shipholding Group Inc., General Maritime, Stolt-Nielsen and Maritrans.

Global Marine Security Systems continually vets the names of clients and would-be customers against lists of forbidden parties and other “specially designated nationals” from the U.S. Office of Foreign Assets Control and other government sources.

Work in Iraq. Gordon’s company also provides security services, including armed guards, for engineering firms active in Iraq.

“We’re paid to train such security personnel, who remain on our payroll,” he said. “So far, there have been no casualties among our people,” he said.

Gordon expects business to burgeon in this area, so that Global Marine Security Systems might employ as many as 700 security operatives in Iraq in another year. He would not identify the company’s clients in that country.

Gordon, 47, a native of Yonkers, N.Y., graduated from the Webb Institute of Naval Architecture. His first job in ship management was with Navios, a subsidiary by the time of U.S. Steel. After working in Turkey for a number of years, he joined Energy Transportation Group, eventually becoming that company’s senior vice president.

Late in 2001, Energy Transportation Group, acting with other shareholders, founded Global Marine Security Systems. Gordon now heads the organization’s U.S. operations.

Assessing RRF Ships. Sea & Land Security, which was founded in the second half of 2003, was recently awarded a contract by the U.S. Maritime Administration through Marine Design and Operations Inc., in Kenilworth, N.J.

For MarAd, Sea & Land Security will develop a ship security assessment and ship plan for the Ready Reserve Force fleet, to bring RRF vessels into compliance with the ISPS Code.

“Unlike some of the newly formed ‘security’ companies offering support services for ISPS Code compliance, Sea & Land Security’s management is comprised of maritime industry veterans who understand the importance of commerce flow,” Katims said.

Other Sea & Land Security executives include Jim Ryan, vice president, a former New Jersey state police detective, and Raj Sengupta, vice president, a marine engineer who is also a principal in Marine Design and Operations. Robert Fruci, Sea & Land’s general manager, has worked as manager of vessel operations for Atlantic Container Lines and is a licensed private investigator.

“As a former Sea-Land person, I was delighted to find that the business title ‘Sea & Land’ was available for copyright,” Katims explained.

“We perform audit and security evaluations anywhere in the world. Each contract is customized to a client’s requirements with respect to safety of property, personnel, cargo and international security compliance standards,” he said.

The company’s principals divvy their present work, occasionally using subcontractors, to create assessment teams that travel on assignments in the U.S. and overseas.

“Basically, we help both port facilities and shipowners get their security in line,” Katims explained.

“Sea & Land Security is off to a good start,” he said. “We anticipate that business will be getting much better with the approach of July 1 — panic time.”

Hapag-Lloyd plans stock market listing

Hamburg. The supervisory board of TUI AG said Jan. 20 it wants about one-third of the stock of its wholly owned shipping and logistics subsidiary Hapag-Lloyd AG to be listed on the stock market, after selling its non-shipping activities.

Under the plan, Hamburg-based Hapag-Lloyd will be restructured into “an exclusively shipping company” comprising Hapag-Lloyd Container Line and Hapag-Lloyd Cruises, the German company said. Hapag-Lloyd will dispose of its logistics arm VTG-Lehnkering AG and container modules company Algeco.

“The selling process for the bulk and special logistics business unit of VTG-Lehnkering is already proceeding and that for the rail and tank container logistics business unit is starting,” Hapag-Lloyd said.

“The stock exchange wants to have focused companies, not conglomerates,” said Michael Behrendt, chairman of the executive board of Hapag-Lloyd AG.

“It will give the company greater entrepreneurial independence,” Behrendt added. He believes the stock exchange listing will also open new opportunities for Hapag-Lloyd.

TUI plans to finalize the stock market listing of Hapag-Lloyd later this year.

In 2000, TUI considered putting half of the shares in Hapag-Lloyd on the stock market, a move that was postponed. A small percentage of the shares in TUI-controlled Hapag-Lloyd was traded on the stock exchange until 2002.

The industrial conglomerate TUI, formerly called Preussag, acquired the then stock market-listed Hapag-Lloyd in 1997 for about 2.8 billion Deutsche marks ($1.6 billion), largely because of its profitable tourism activities.

The timing of Hapag-Lloyd’s stock market listing plan coincides with good market conditions and strong profit results in the container shipping industry, which have boosted the prices of shipping stocks.

Hapag-Lloyd has not reported its 2003 profit, but said it “again achieved an extraordinarily high profit, accounted for mainly by its global liner shipping.”

Hapag-Lloyd Container Line recorded double-digit growth in transport volume in 2003, which for the first time exceeded 2 million TEUs. The carrier’s fleet comprises 40 container ships.

Hapag-Lloyd Cruises is focused on the luxury segment. Hapag-Lloyd Cruises’ fleet also includes the two expedition ships Hanseatic and Bremen, as well as the Columbus.

Hapag-Lloyd said the departure of its executive board member Guenther Casjens, announced Jan. 21 (see story, page 68), was not related to the public offering.
U.S. Lines II keeps it simple
Management-controlled shipping line enters transpacific trade.

BY PHILIP DAMAS

Despite the prevalence of large, established multimodal container shipping lines in the east/west container trades, new entrant U.S. Lines believes that it can carve a niche for itself.

To do that, the new carrier aims to keep the operation simple, ensuring low costs and providing a customized service.

The shipping line’s management bought the name “U.S. Lines” to be allowed to trade under this name. The original U.S. Lines, then run by Malcolm McLean, stopped trading in 1986.

The reincarnated U.S. Lines said it has identified opportunities in the market emerging from the globalization and consolidation of the container industry.

The carrier launched in late December a fortnightly service calling at the ports of Shekou (China), Hong Kong and Long Beach, Calif. The service is from port to port, with no intermodal coverage.

“We said we are not going to be all things to all people,” Ed Aldridge, president and chief executive officer of the new company, told American Shipper.

Aldridge said U.S. Lines aims to provide “a highly customized, personalized service,” and will keep “costs very low.”

“We are not going to go into the interior of the U.S.,” he explained, adding that this is where other carriers incur most of their costs.

The business model of U.S. Lines will be “to keep it simple.”

U.S. Lines expects to upgrade its fortnightly service to a weekly frequency this month. It will then operate five vessels.

“We received a lot of support from both the beneficial cargo owners and the freight forwarding community,” Aldridge said. He said that many brand-name customers are already shipping with U.S. Lines.

Ships operated by U.S. Lines have capacities of about 1,700 TEUs, less than most vessels in the transpacific trade.

Aldridge said it also means U.S. Lines would like to have “a little bit of business from a lot of customers,” rather than large volume contracts.

“We want to be known as the ‘boutique line’ between these ports,” Aldridge said.

Founded in November, U.S. Lines has offices in Santa Ana, Calif. and in Hong Kong. It has neither the large staff nor the huge assets of the mega-carriers like Maersk Sealand and APL.

Aldridge, a former chief operating officer of APL and previously a senior SeaLand Service executive, wants U.S. Lines to be seen as a low-cost alternative to the bigger carriers.

But how will U.S. Lines manage to be cost competitive against carriers that have vessels of 5,000-7,000-TEU capacities? The economics for 1,700-TEU vessels “are very different” from those of operators of larger ships, Aldridge admits. However, vessel costs “are only a portion of the costs.”

He also played down the potential extra cost of chartering ships, when compared to shippers operating their own vessels.

“We know that the charter rates are substantially higher than a year ago, but so are freight rates,” Aldridge said. He noted that his company has taken advantage of a softening of the containership charter market in November and December to charter its first vessels.

“Aldridge said.

“Charter rates are only one part of costs,” Aldridge added. The “big part” is inland costs, empty repositioning and other equipment costs. He believes that U.S. Lines’ general and administrative costs, and its equipment and inland expenses “are going to be minuscule compared to the other lines.”

U.S. Lines will also compete by providing a more customized service, its management says.

“When you sign a contract with a customer, it’s generally a rate agreement,” Aldridge said. But U.S. Lines wants to offer more than that, and will allow direct contacts between shippers and the management of the company.

At U.S. Lines, “people can make a decision on the spot,” said Aldridge, who has already made many sales calls. At the new company, every executive is “multitasked,” he noted.

Aldridge said U.S. Lines has several features that are unique in the transpacific container trade. Its senior management owns a stake in the company, and it is a U.S.-owned and U.S.-managed carrier.

Two of the men who joined Aldridge — Kevin Kroft and Bob Belin — are former senior executives of Australia-New Zealand Direct Line. Aldridge said ANZDL is a company that other carriers regard as a benchmark for quality. Kroft, chief financial officer of U.S. Lines, is the former CFO of ANZDL. Beilin was senior vice president of operations with ANZDL.

Aldridge said U.S. Lines has adopted business methods used at ANZDL.

Given the many years of experience of its management, Aldridge said that U.S. Lines is a different sort of venture.

“It’s a start-up, but it’s not a start-up,” he said. “Our people have been here, done that.”

Aldridge would not disclose how much capital has been invested in U.S. Lines by its management, other than it was “a significant amount.”

The finances to set up and run the carrier come from “a combination of private equity firms and individual investors.” He would not name the equity firms involved, but denied that the Carlyle Group, owner of Horizon Lines, is one of them.

U.S. Lines has appointed KNS Agencies (Kerr, Norton Strachan), one of the largest liner shipping agencies in North America, as its agent. It will rely on the agent’s computer system. The carrier will use the terminal of Total Terminals International in the port of Long Beach.

“We’d like to grow intelligently,” Aldridge said.

Aldridge could not comment on a report that it plans to launch a second service next year to serve the Asia/U.S. East Coast trade.

“We’ve just had our first two sailings,” he said.

Since November, Aldridge has made two business trips to Asia, where he expects to spend 25 to 30 percent of his working time.

He does not hide the fact that he used many of his former business contacts in Asia and the United States to set up the company and find vendors.

“I know a lot of people,” Aldridge said.
Liberty takes third new bulk ship

U.S.-flag ship built in Japan using last Reagan-era Section 615 permissions.

WASHINGTON

In late January, Liberty Shipping Group received its third newly built U.S.-flag multipurpose dry bulk ship and immediately placed the vessel in service. The Lake Success, N.Y.-based carrier handles mostly U.S.-government food-aid shipments. The new vessel increases Liberty Shipping’s fleet to eight U.S.-flag vessels. The two other new ships — Liberty Glory and Liberty Grace — were delivered in 2001.

Liberty Shipping’s three new dry bulk vessels are about 52,000 deadweight tons each, making them some of the largest vessels of their type available to the U.S. government. The company handles hundreds of thousands of tons of bulk and bagged food aid to developing countries each year.

For its maiden voyage in late January, the Liberty Eagle was expected to take a load of bagged food aid from the U.S. Gulf to ports in East and Southern Africa.

Keeping eight U.S.-flag vessels active, however, won’t be easy and competition for food aid cargoes is fierce.

“It will be a challenge,” said Philip J. Shapiro, president and chief executive officer for Liberty Shipping, and president and CEO of Liberty Maritime Corp., the operator of the ships. “We obviously have more tonnage to fix.”

Liberty Shipping will also reduce its U.S.-flag dry bulk fleet as earlier built ships are phased out of service. “The introduction of the new ships are part of a responsible and orderly plan to bring more modern and efficient tonnage to eventually replace older tonnage,” Shapiro said.

The introduction of the Liberty Eagle also closes out an era in the acquisition and construction of U.S.-flag vessels, known as the Section 615 program of the 1936 Merchant Marine Act. In the early 1980s, the Reagan administration suspended the Construction Differential Subsidy program, which eliminated the ability for U.S. shipyards to competitively build commercial cargo ships.

The Reagan administration compromised by initiating the Section 615 program, which established a one-year system of permissions to allow existing Operational Differential Subsidy carriers to build U.S.-flag-qualified ships in foreign shipyards and enter them into the cargo preference program without the three-year waiting period.

While the Section 615 program was largely finished by the early 1990s, Central Gulf Lines, a subsidiary of New Orleans-based International Shipholding Corp., held the last three permissions, which it acquired during the bankruptcy of United States Lines. In 2000, Liberty Shipping acquired two newly built vessels from Central Gulf through two of the permissions. The Liberty Glory and Liberty Grace were both built by Japan’s Oshima Shipbuilding Co.

In April 2002, Central Gulf asked the U.S. Maritime Administration to confirm the last Section 615 permission to build another 52,000-deadweight-ton U.S.-flag dry bulk vessel in the Oshima shipyard, which would be sold to Liberty Shipping at the time of its delivery.

Without the Section 615 permissions, Shapiro said his company’s three dry bulk vessels would have been cost prohibitive to build in U.S. shipyards. Ships of similar size and type as Liberty Shipping’s vessels built in U.S. shipyards would have cost at least three times the amount that Asian shipyards would charge.

Shapiro continues to lobby Washington lawmakers and administration officials to find ways to help the U.S.-flag merchant marine stay viable into the future.

Israel to sell state’s 49% share in Zim

HAIFA, Israel

The state of Israel has given its preliminary approval for the sale of its 48.6-percent stake in Zim Israel Navigation Co. to Israel Corp., a private company controlled by the Ofer brothers, Israeli millionaires.

Israel Corp., a conglomerate that already owns 49 percent of Zim, has bid NIS504 million ($115 million) to acquire the state’s share in the Israeli shipping company. The state has named Israel Corp. as the preferred candidate for Zim’s privatization, after a long search for bidders.

The sale is subject to regulatory approval from the restrictive practices commission of Israel. A spokesman for Israel Corp. said the company expects the sale to be finalized “very soon.”

Zim, ranked as the 15th-largest containership operator in the world, was founded in 1945, initially to carry refugees and immigrants to Israel.

For the first nine months of 2003, Zim had earnings of NIS128 million ($29 million) and revenues of NIS6.7 billion ($1.5 billion).

Whereas Zim will be fully privatized, other shipping companies in Asia and the Middle East, such as United Arab Shipping Co., Neptune Orient Lines, Yang Ming Marine Transport, China Ocean Shipping Co., China Shipping Group and Sinotrans, continue to be partly or fully state-owned.
Aboard the Colombo Bay

Author Richard Pollak provides insightful take of travels aboard P&O Nedlloyd vessel.

BY ROBERT MOTTLEY

It’s news when Simon & Schuster, a mainstream book publisher, takes a risk on container shipping. More remarkably, Richard Pollak’s nonfiction The Colombo Bay turns out to be well-judged and astutely written.

Jeremy Nixon, a senior vice president at P&O Nedlloyd, arranged for Pollak to go aboard the Colombo Bay after convincing the author to take on this project. The resulting book is a general-audience ride all of the way, with nothing to offend P&O Nedlloyd’s management.

Various crew members on the Colombo Bay are described as “tall, taciturn,” or “burly, jovial.” One officer, Pollak said, had “the air of an experienced chief engineer who knows that, however difficult, this job will get done.”

Pollak acknowledges that Nixon read and corrected the manuscript, and “more than once saved me from seeming even more of a landlubber than I am.” That does explain why Pollak’s book has very few classic errors made by outsiders writing about containerization.

The book must also overcome the hurdles of the author’s injecting unnecessary sidelights from his life in New York City. Pollak, who also wrote The Creation of Dr. B: A Biography of Bruno Bettelheim, has been literary editor and executive editor of The Nation. He clearly comes from a cultured world infused with (his words) “liberal reflexes.” A reader is reminded of these credentials, if one thinks of them in that way, much too often. In mitigation, they may have brought needed comfort to Pollak a long way from home. He boarded the Colombo Bay in Hong Kong in the agonizing days immediately after the terrorist attacks of Sept. 11, 2001.

After returning home from his stint on the Colombo Bay, Pollak decided to fit his notes from the ship into a broader analytical framework, mixing history, bonded maritime lore and commentary about the present state of the industry.

Pollak’s synthesis is masterly, both informed and courageously insightful. Not many people in the business world would or could “tell it like it is” with such candor and acumen.

He is generous in citing sources that fed his research, such as The Abandoned Ocean, a history of U.S. maritime policy by Andrew Gibson and Arthur Donovan.

Before containerization, “the loading and unloading of cargo remained largely the same as it was in the 13th century B.C.” Pollak wrote, “when Phoenician round ships traded at Mediterranean ports; the sinew required on the docks of the Tyre still ruled by the time Marlon Brando’s ur-longshoreman Terry Mallow worked the New York piers in On the Waterfront. Freight still came in drums, boxes, bags, barrels, bales, and crates; cranes lifted this ‘breakbulk’ cargo, but human hands, arms, and shoulders pushed, shoved, and positioned it on the ships and docks.”

After due tribute to Malcom McLean, the first to succeed at putting truck containers on ships, Pollak describes containerization as “the greatest revolution in the international transport of goods since the coming of steam propulsion in the early 19th century.

“The total value of U.S. business inventory was $1.5 trillion in 2000, $1 trillion less than it would have been had McLean’s folly not taken hold. His innovation made inexpensive products available to millions who otherwise would not have been able to afford them,” Pollak wrote. McLean “made the Wal-Marts possible,” yet his name remains “virtually unknown to the general public.”

Pollak is particularly eloquent on the demise of the U.S. merchant marine, and the long saga of seagoing romance that died with it.

“It was a brave universe of hard work and occasional high drama, inspiration not only for Melville but for many other American writers, among them Cooper, Hawthorne, Poe, Crane, London, Bellow, and Eugene O’Neill, a merchant seaman himself before he etched his experiences into Bound East for Cardiff, The Long Voyage Home, The Hairy Ape and other plays. But as my mates on the Colombo Bay would be the first to say (and Conrad to lament), there is not much romance left in the technologicalized, just-in-time world of 21-century merchant shipping, and even if there were, the collapse of the U.S. shipping industry doesn’t seem a particular tragedy.

“Perhaps I am overidentifying,” Pollak wrote, “but I suspect my ‘foreign’ shipmates are no less capable of bringing home the boxes than my countrymen once were. Nor are … the Filipino crew and … the Colombo Bay’s British officers less deserving of the work, though die-hard American chauvinists obsessed with giant sucking sounds doubtless feel otherwise.”

The top 20 containership operators “have been rewarded for their efficiency in the marketplace, the sort of triumph U.S. capitalism is forever saluting. What has occurred here is just the kind of Darwinian selection America’s mainstream politicians and their corporate backers seek when at every opportunity they urge that globalization be allowed to work its market magic unrestrained,” Pollak wrote.

Pollak also describes contemporary piracy, stowaways, shipboard rituals ranging from British TV soap operas such as Are You Being Served? to crossing-the-equator hazing, and the harshness of new security measures that prevent seafarers from going ashore in the United States and other wary nations.

The non-analytical material in Pollak’s book often has a pickled Masterpiece Theater tone, as if the author were describing actors on a stage. On occasion, he steps through his own proscenium frame to become a player, and these are the most human moments in his story.

In one such scene, the Colombo Bay’s medical officer tells Pollak that “very often people hide medical problems because they want to sail. This is especially true of crewmembers, whose pay stops if they are sent home for medical reasons.”

“I empathized,” Pollak wrote. “I have a long history of epilepsy that I had kept from Jeremy Nixon, worried that he or his superiors at P&O Nedlloyd might decide my presence aboard one of their ships was not worth the risk, even though anticonvulsant medication keeps my seizures almost completely controlled.”

The Colombo Bay has enough honest moments of that ilk to be worth reading and pondering. Overall, Pollak’s book is a welcome exception to the usual rule that truth and irony don’t mix.
Is the container load profitable?

Ocean carriers should better track, account for and allocate to specific cargoes all appropriate container logistics costs.

BY STUART DOWNIE

Knowing the cost of doing business is an essential goal for any company to be successful and profitable. The theory that “any business is good business” is oft quoted, but has led to the ruination and downfall of many enterprises.

A comprehensive understanding of all the cost components may be complex to determine, and sometimes unattractive to a salesman desperate to “do the deal.” But, without knowledge of and adherence to cost allocation rules, no company can profitably operate.

The container-shipping industry has been guiltier than most in doing business when the true cost associated with any specific activity was either not known or ignored.

In the early days of containerization, shipping lines operated via a network of agents, many of whom had a high degree of autonomy in determining freight rates charged and the sourcing of container equipment to be used. There was an obvious tendency for an agent to be more concerned with keeping his customer happy than with fully accepting the cost of acquiring the containers to carry the cargo and of all associated logistical costs when the container is emptied at destination. It was not his concern what happened to the box when it was emptied, but there was, and still is, a very real and very high cost involved.

The computer and communication revolution has given shipping lines the ability to have much closer cost control of their operations. Many now have a high degree of central control over both freight rate quotations and fleet logistics management, but container shipping is a complex, multifaceted business, and many lines do not have the resources, systems or control procedures in place.

Any operation will have both direct and indirect costs to consider when quoting for a particular piece of business. But in container shipping, the variable costs are infinitely variable. A cargo flow consisting of one, 10, or 100 container moves has a specific cost basis for every container. Sourcing containers at point of origin may be simple or complex, but every box can have a different price tag. Some will be readily available from previous cargoes, fully paid up in terms of logistical costs. Some will be further away and need to be transported, while others may need to be leased in.

Between the points of origin and destination every container will have a similar cost structure, mostly fixed or finite in nature, but the components are many, including inland transport, stevedoring, port charges and ship costs.

It is when the container is unloaded at its destination that the real “sting in the tail” comes in terms of logistical cost. This then raises the questions: What will be done with the box? Can a cargo-paying load be found for it? The latter is an important factor in determining the profitability of any revenue move. Allocating the cost of any downtime, onward transportation or positioning is absolutely crucial in quoting a freight rate and determining the cargo profitability.

The process has been likened to a game of chess where any move that is made should be considered in the light of at least one and possibly more subsequent moves. A cargo that is accepted with poor logistics, or inappropriate pricing to compensate for the logistical costs, will doubtless lead to a financially unprofitable transaction. It is the next move that makes or breaks profitability.

A cargo that is accepted with poor logistics, or inappropriate pricing to compensate for the logistical costs, will doubtless lead to a financially unprofitable transaction. It is the next move that makes or breaks profitability.
TMM found in contempt of court in KCS dispute

KANSAS CITY, Mo.

Kansas City Southern, the railroad involved in a dispute over the takeover of Mexico City-based Grupo TMM, S.A., welcomed a ruling made Jan. 6 by the Delaware Court of Chancery regarding a motion to enforce an injunction and hold TMM in contempt of court in its dispute with KCS.

“The Delaware Court of Chancery held TMM in contempt of court for taking action inconsistent with its Oct. 29 order that TMM abide by the terms and conditions of the acquisition agreement pending arbitration of the parties’ dispute over the agreement,” KCS said.

KCS said the court held that by TMM changing its powers of attorney, it violated provisions of the acquisition agreement. The previous order of the court required TMM to cause its subsidiary Grupo TFM to conduct its business in accordance with past practices and not to directly or indirectly amend its organizational documents, the KCS statement said. The court ordered TMM to take the actions necessary to re-voke the new powers of attorney, to re-enact the original powers of attorney, and to pay KCS its costs and attorney fees for bringing this motion for contempt, the railroad added.

KCS said it believes the Delaware Court’s decision is “appropriate” and upholds KCS’s belief that TMM cannot arbitrarily take actions without KCS’s agreement.

KCS had planned to merge Kansas City Southern Railway Co. with Mexico-based Grupo TFM to form “NAFTA Railway.” Last September, the KCS board of directors affirmed the company’s efforts to pursue all legal means to enforce provisions of the acquisition agreement between KCS and TMM.

Swift Transportation buys large Mexican carrier

PHOENIX

Truckload giant Swift Transportation Co. said it became the only U.S. trucking company with a 100-percent ownership interest in a Mexican carrier when it finalized a deal for cross-border truckload carrier Trans-Mex Inc. S.A.

Swift purchased the remaining 51-percent interest in the company for $31 million, comprising $11 million in cash and the rest in Swift stock.


Pacer International files equity issue statement

CONCORD, Calif.

Pacer International Inc., the Nasdaq-listed non-asset-based North American intermodal and logistics company, has filed a statement with the U.S. Securities and Exchange Commission for the potential offering of up to $150 million in equity.

The purpose of the registration statement is to provide Pacer with greater flexibility for corporate purposes, including the repayment or refinancing of borrowings, working capital, capital expenditures, and acquisitions, said Don Orris, chairman and chief executive officer.

If approved by the SEC, “the equity securities may be offered from time to time directly or through underwriters at amounts, prices and other terms to be determined at the time of any offering,” Pacer said.

Pacer said it would provide detailed information about each offering of common stock, preferred stock or warrants at the time of the offering.

The registration statement also covers possible future sales of up to 8.7 million shares of common stock by existing stockholders.

U.S., Canada set intermodal records

ALEXANDRIA, Va.

U.S. and Canadian railroads set records for intermodal traffic during 2003, as intermodal volume in the two nation’s topped 12 million trailers or containers for the first time, according to statistics compiled by the Association of American Railroads.

Railroads moved a combined 12.1 million boxes last year, a rise of 6.5 percent from the previous record of 11.4 million set in 2002.

Intermodal volume on U.S. railroads totaled 9.94 million trailers and containers for the year ended Dec. 27, up 6.8 percent from 2002, when the previous record of 9.31 million was set. Canadian railroads moved 2.16 million trailers and containers in 2003, breaking last year’s record by 5.3 percent.

Total combined carload volume for 15 reporting U.S. and Canadian railroads was 20.2 million cars, up 3 percent from 2002.

U.S. loans $233M to short-lines

WASHINGTON

The U.S. government loaned two related short-line railroads $233 million for track and other infrastructure improvements, marking the largest chunk of assistance doled out under a troubled rail assistance program established in 1998.

The Federal Railroad Administration granted the loan to Dakota, Minnesota & Eastern Railroad and its subsidiary Iowa, Chicago and Eastern Railroad, both based in Sioux Falls, S.D.

The DM&E serves 130 companies along its 1,103-mile network, while the IC&E serves about 750 customers on a 1,403-mile system. The money will be used to acquire additional rail lines, rehabilitate existing track and bridges, and refinance existing debt on better terms. The savings in debt payments will be used for capital improvements and deferred maintenance.

The railroad group was approved for the loan through the Railroad Rehabilitation and Improvement Financing Program, which provides loans, and loan guarantees, to help railroads finance capital investments. The railroad-financing program has been plagued by bureaucratic red tape. Extensive application procedures and slow approvals have limited the number of railroads seeking assistance through the program.

Short-lines seek approval for sale

WASHINGTON

Lehigh Valley Rail Management LLC has asked the U.S. Surface Transportation Board to use a streamlined review process to approve its acquisition of three short-line railroads from International Steel Group.

Lehigh has agreed to acquire a 132-mile line in Northampton County, Penn., formerly operated by Keystone Railroad LLC; a 32-mile line in Cambria County, Penn., formerly operated by Conemaugh & Black Lick Railroad; and a 4.5-mile line formerly operated by Cambria and Indiana Railroad Inc. The three railroads were subsidiaries of bankrupt Bethlehem Steel Corp., which were sold to International Steel Group last May.

The streamlined review process requires much less documentation and fees than a formal application.

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Maher merges terminals

Combined Fleet Street and Tripoli facilities will provide more efficient terminal by fall.

By Robert Mottley

By October, the former Maher Fleet Street Terminal and the Maher Tripoli Street Terminal in Port Elizabeth, N.J., will merge into the single-yard Maher Container Terminal.

The combined terminal will provide about 500 acres with an existing 10-acre internal facility set aside for non-containerized cargo, including project cargo.

Combining the adjacent yards, divided by Bay Street, is about three-quarters completed. Implementing plans for new uses of space, including the shifting of 375-foot-high cranes, has been complicated by the fact that Maher Terminals has had to do business as usual around its physical consolidation.

A principal lease-holder within the port department of the Port Authority of New York and New Jersey, Maher Terminals handles more than half of all container traffic through the port. The company is based in Berkeley Heights, N.J.

“When the port authority decided to restructure the entire Elizabeth peninsula, we recognized that would require us to design and implement a new terminal,” said Roger E. Nortillo, executive vice president of Maher Terminals. “As part of that planning, we decided that we wanted to combine the terminals into one large facility.”

In the process, Maher will give up “about 84 acres of the Tripoli Street Terminal, which will go over to the adjacent Maersk Sealand Terminal to support their operations,” Nortillo said.

In exchange Maher is “getting land from warehouses that weren’t on our property that have been torn down,” said M. Brian Maher, chairman and chief executive officer of Maher Terminals.

Essentially, “we’re coming out with the same amount of land,” Maher said.

Maher signed a letter of intent for the combined terminal in 1997 “that wasn’t turned in to a lease until 2000, and in early 2004 we have only eight-to-10 months of construction left,” Maher said. “Our lease was expiring on Tripoli Street in 2000. The Fleet Street lease wasn’t to expire until 2012. We’ve combined them under the one lease that started in 2000.”

Pay-Back Deal. The port authority will invest $250 million in infrastructure, lighting, berths, paving, electrical systems, and new buildings for the combined Maher terminal.

“We must repay that $250 million over the 30-year life of our lease, with interest, so it’s really a financing deal,” Maher said.

The Maher family, which includes Brian Maher’s brother, Basil, as president, will come up with additional financing — projected at more than $200 million — to cover container cranes, straddle carriers, yard hustlers, computers and other expenses during the first five years of development and operation.

“This total project will cost close to $500 million for the first five years,” Brian Maher said.

Chassis Pool. Nortillo said the combined yard “permits us to unify our operations with a fully computer-supported straddle carrier operation.”

“We have two off-site facilities, which we call ‘near-terminal depots.’

“One is for empty containers, those being dropped off or picked up for inland movement. We also have a depot for a neutral pool of chassis owned by steamship lines that operate through our facility,” he said.

“Chassis reside in that depot, from which they are maintained and issued to various truckers.

“The land under the neutral chassis depot is part of our facility. Maher Terminals also manages the neutral chassis fleet,” he said. All of the participating steamship lines contribute to the costs to neutral depot.

Predefined Picks. A few months into 2004, existing cranes on rail tracks along the Tripoli Street side of the water will slide on rails “slowly and gently” over to the new leasehold, he noted.

Maher’s German-designed, Italian-built cranes have U.S. electronics and drive systems.

The new cranes have identification cards for each driver. The cards are left in the crane, and adjust the crane’s perimeters for a particular driver’s skill capacity.

“More specifically, using a control card in the drive system permits the crane to have characteristics that match a driver’s skills,” Nortillo said.

Maintenance problems on the cranes are usually detected in advance by built-in software packages that analyze possible trouble areas.

“Repairs, even preventive ones, are made immediately, because the cranes are the primary productive equipment in the facility,” he explained.

Thinking Gray. Nortillo said the terminal project has been a “team effort” through a master plan in 2000 followed by three sub-master plans.

“One sub-master plan covered conceptually what we wanted to do. The second covered our capital budget for what we thought it would cost. The third sub-master plan was an overall schedule showing the relations between the component projects of our plan — when work had to be contracted, so it would be possible to have a specific task finished at a certain date,” Nortillo said.

The project wasn’t merely “combining two pieces of property,” Nortillo said. The result will be “a totally new plant that will be more efficient than either of its predecessors.”

In terms of managing development costs, Nortillo said Maher Terminals is “working on ‘gray space’ development, not ‘green space’ development.

“In green space, you take a piece of land with nothing on it and lay out a plan. You can estimate very closely what you are going to need and how much it’s going to cost,” he said. “In gray space analysis, you are working in and around normal operations. We have ships in here, and trucks rolling in and out, and also conflicts with

M. Brian Maher
chairman and chief executive officer,
Maher Terminals

“This project will cost close to $500 million for the first five years.”

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underground construction and the moving of containers — and those factors make the development cycle a little bit more expensive,” he said.

“We have an overrun margin, and we seem to be tracking to what we projected,” he added. Overall, “although some components of our master plan were deleted and others added, we have followed the script more closely than I thought would be possible.”

**Faster Gate Transits.** Maher’s new terminal gate system is being designed for more than 13,000 trucks a day, handled electronically.

“The only way to get boxes from a single 6,000-TEU ship out of the terminal is to allow truckers to make three, four or five turns a day,” Nortillo said. “Does that mean that, every single day, we’ll be running 13,000 trucks? No. But it means that when a big ship calls, we can move 800 TEUs from that vessel a day if we need to do so.”

At Tripoli Street or Fleet Street today, Maher “can handle 3,000 boxes a day through their gates. When they get above 3,000 boxes a day, they start to sweat,” he said.

In the new combined terminal, “the upper control limit at our gate will be in the 13,000 range. The lower limit will be 3,500-4,000 boxes, and this place will sing,” Nortillo said.

Maher gates are open from 6 a.m. to 11 p.m., and occasionally to midnight. “I don’t see a 24-hour window at this time for gate operations,” he said.

**Security Issues.** Maher’s present terminal operation sorts containers off vessels for diversion to Expressrail and for screening using gamma-ray Railroad Vehicle and Cargo Inspection System equipment from Science Applications International Corp.

Additionally, “we are doing substantial work now with the Department of Homeland Security and the Bureau of Customs and Border Protection, basically at their direction,” Nortillo said.

“Their final rules will come out next April. If the Department of Homeland Security tells us so, we will sort them off a ship directly and get them to an area where Customs inspectors can do their work,” he said.

**Software Adjunct.** Maher Terminals, through Maher Terminals Logistics Systems Inc., a separate company, also sells information technology, principally terminal management software.

“We design and develop all of our software in-house,” said George Coleman, director of worldwide marketing for MTLS. “When we started, 25 plus years ago, there wasn’t much out there. We were on platforms like everyone else,” Coleman said.

MTLS targets “smaller, multisite container operators that have limited technology and budgets,” Coleman said.

The company has also begun a marketing campaign aimed at larger ocean carriers that operate terminal sites around the world.

Customers can either buy and operate MTLS’s software themselves or “we can run everything you need,” Coleman said. “You administer it, we maintain it.”

MTLS’s clients include Metropolitan Stevedore, a warehouse breakbulk terminal operator in Wilmington, Calif., and the Massachusetts Port Authority.

Although Massport is a competitor of the Port Authority of New York and New Jersey, the port authority has never complained to MTLS.

“We’ll basically sell our software to anyone, including competitors,” Maher said.

MTLS has provided joint software to Maersk Sealand through Expressrail.
Houston gets permission for Bayport expansion

HOUSTON

The Port of Houston Authority signed a federal permit for its Bayport Container and Cruise Terminal, the culmination of more than five years of preparations and planning.

The U.S. Army Corps of Engineers issued the long-awaited permit Jan. 5 for the construction of the $1.2-billion terminal, despite the opposition of some local residents for environmental reasons.

“We have always felt that this step would occur,” said Jim Edmonds, Port of Houston Authority commission chairman, commenting on the approval of the project.

The Army Corps of Engineers studied the port authority’s Bayport terminal for more than five years, reviewing the site location and its environmental impact.

The port of Houston has provided environmental mitigation measures to address those concerns.

The Bayport terminal project will be built in phases over 15 to 20 years.

The port of Houston has said the Bayport facility would provide enough space for seven ships and feature a 378-acre container storage yard. It will have a maximum capacity of about 1.4 million containers, representing a 200-percent increase over the port’s current container handling capacity.

A competing neighboring project — the SSA/CP Ships container terminal in Texas City — has recently been approved by the authorities.

Port of New Orleans opens Napoleon terminal

NEW ORLEANS

The Napoleon Avenue Container Terminal, a $101-million terminal operated jointly by Ceres Gulf and P&O Ports, has opened in the port of New Orleans.

Located on the Mississippi River, the new terminal occupies 61 acres and has a capacity of 366,000 TEUs. It includes two 1,000-foot berths with a draft of 45 feet.

The Napoleon Avenue Container Terminal is equipped with four gantry cranes, and features a 48-acre marshalling yard with six rubber-tired yard gantry cranes and connections for 192 refrigerated containers.

“The new container terminal is located within close proximity (to) the six Class One rail lines that intersect New Orleans,” a spokesman for the port of New Orleans said.

Alameda Corridor board expands scope

LOS ANGELES

The Alameda Corridor Transportation Authority approved a seven-point mission plan for assisting with road, bridge and rail improvement projects designed to ease on-dock backlogs and truck congestion on key highway arteries serving the ports.

The multi-jurisdictional agency, comprising representatives from the cities and ports of Los Angeles and Long Beach and the L.A. County Metropolitan Transportation Authority, turned its attention to clearing up other bottlenecks after finishing construction of the Alameda Corridor rail project in April 2002.

The Alameda Corridor consolidated train traffic from four branch rail lines into a high-speed freight rail expressway stretching 20 miles between the ports of Long Beach and Los Angeles and major rail yards. Among the goals the authority set for itself are to:

• Assist in the evaluation and implementation of extended operating hours at port terminal gates and regional distribution centers.

• Work with the ports to optimize the use of existing rail facilities.

• Develop a pilot program for a shuttle train.

• Assist the port of Los Angeles and a railroad in developing a new, near-dock intermodal container transfer facility that would accept containers for the Alameda Corridor, rather than trucking the container- ers on the Long Beach 710 freeway.

PSA terminals record 35% growth

SINGAPORE

PSA Corp., the Singapore-based global terminal operator, said its international terminals located outside Singapore increased their combined container volume 35 percent last year to 10.4 million TEUs.

The Singaporean government-controlled group, which operates container terminals in Asia, the Middle East and Europe, could not confirm a report that most of its growth came from Chinese terminals. The Singapore-based port group is involved in terminal operations in the Chinese ports of Dalian, Fuzhou and Guangzhou.

The 35-percent jump in international container throughput last year lifted PSA’s global volume 16.3 percent to 28.5 million TEUs, from 24.5 million TEUs in 2002. The global figure includes box volumes at the port of Singapore, which increased 7.8 percent to 18.1 million TEUs.

PSA said in early January it has received government approval to develop five additional berths at Pasir Panjang terminal, to boost its annual container capacity in Singapore 20 percent to 24 million TEUs.

Marine Terminals tops 6 million TEUs

OAKLAND

Marine Terminals Corp., one of the largest U.S.-based terminal operators, handled more than 6 million TEUs in 2003.

The figure represents the combined total of containers handled at Marine Terminals Corp.’s general stevedoring operations, container facilities, and joint-venture container terminals on the U.S. West and East coasts.

Marine Terminals Corp. has stevedoring and terminal operations in more than 26 West Coast locations and five East Coast ports. It has operated on the West Coast since 1931 and added operations on the East Coast in 2001, when it acquired Stevens Shipping & Terminal Co. in the Southeast.

The majority of the volume utilized Marine Terminals Corp.’s “M-21” terminal operating system. The M-21 system was co-developed by U.S.-based Embarcadero Systems Corp. and Total Soft Bank, Ltd., of Korea. The system was completed and installed at nine terminals in 2003.
NTSB must defer to Coast Guard

On Jan. 29, 1999, Capt. John Nitkin was pilot of the Chelsea as it approached the oncoming Manzanillo in the Miami harbor channel. The two vessels had initially agreed to pass one another starboard-to-starboard; but, as they drew near to each other, the pilot of the Manzanillo radioed Nitkin that he was going to attempt a port-to-port passing (starboard is right, port is left). Nitkin radioed the other pilot that a port-to-port passing was not possible and urged him to follow their original agreement by turning to port, so the ships would pass starboard-to-starboard. But the Manzanillo in fact turned to starboard, trying for a port-to-port passing. Despite Nitkin’s efforts to maneuver to safety, the two ships collided about two and one-half minutes after the Manzanillo began its starboard turn.

At the time of the accident, Nitkin was operating under the authority of a pilot’s license issued by the U.S. Coast Guard. That agency found he had committed misconduct by failing to comply with COLREGS Rule 34(d), which stipulates that “when vessels in sight of one another are approaching each other and from any cause either vessel fails to understand the intentions or actions of the other, or is in doubt whether sufficient action is being taken by the other to avoid collision, the vessel in doubt shall immediately indicate such doubt by giving at least five short and rapid blasts on the whistle,” which Nitkin had not done.

His license suspended for five months (four months remitted on probation), Nitkin appealed to the Commandant of the Coast Guard. He argued that Rule 34(d) didn’t apply when a danger of collision developed so late that the warning signal was useless, that his radio communications with the other pilot satisfied any duty to warn, and that special circumstances existed in this case because a five-blast warning would have prevented communication with crewmembers on the bow of the Chelsea. When the commandant rejected his arguments, Nitkin appealed to the National Transportation Safety Board.

After the NTSB ruled that, as a matter of law, Rule 34(d) doesn’t apply in situations where a pilot is certain that the other vessel’s conduct makes a collision inevitable, the Coast Guard appealed the board’s decision to the U.S. Court of Appeals for the District of Columbia Circuit.

The appellate panel said, “we think there is a case for deference (to the Coast Guard) … given the Coast Guard’s expertise both in maritime safety and in deciding the most efficient way to administer its licensing and discipline procedures … It cannot be the case that Vessel A’s failure to sound the warning signal would nonetheless be excused because there was certainty, rather than ‘doubt,’ about the insufficiency of Vessel B’s conduct. Yet the board’s interpretation would allow precisely this result.”

The appeals court ruled that the NTSB “erred in failing to defer to the Coast Guard’s reasonable application of Rule 34(d). We reverse, and remand the case so that the board can consider Nitkin’s other factual and legal arguments.”

[Continental Insurance Co. v. Orsula, her engines, boilers, etc.; Fednav International Ltd., and Atlant Adria Corp., et al.: U.S. Court of Appeals for the Seventh Circuit; docket numbers 03-1721, 03-1722, 03-1723; date of ruling: Dec. 24, 2003]

Dead freight

MB Petroleum Services, a provider of oil-field services based in the Republic of Oman, bought an oil rig from Drecor Rig Technology and asked freight forwarder Diversified Freight Logistics Inc. to oversee shipment of the rig from Edmonton, Canada, to Oman. DFL then contacted the National Shipping Co. of Saudi Arabia about its rates for shipping the rig from Houston to Muscat, Oman.

In a lawsuit later filed in federal court in New York, NSCSA claimed in July 2001, NSCSA and DFL entered into a binding oral contract of affreightment, which DFL breached when it canceled the booking. DFL contended there was no valid contract, and that as MB Petroleum’s agent, it was not liable for a breach in any event.

U.S. District Judge Harold Baer Jr., determined “DFL’s relationship with MB Petroleum was not one of agency,” because freight forwarders aren’t agents “simply because they act of behalf of others.” In the case at hand, “MB Petroleum exercised no control over the means and methods for DFL to accomplish the end result.” Baer ruled that DFL, in a complex shifting of booking arrangements, had breached a binding oral contract, and awarded NSCSA damages of $174,945.29 for “dead freight.” The court noted that “dead freight” must be paid to the vessel owner “although the cargo contracted to be carried by the vessel is not actually carried. It is a lost opportunity cost.”

[Sheriffs’ CASE LAW

Wrong about that

In spring 2001 three shipments of cold-rolled steel from Belgium, were brought to Burns Harbor, Ind., on three different vessels: the Orsula, Federal Rideau and Daviken. The bill of lading for each of the three shipments named Burns Harbor as the port of discharge. Also, in a forum-selection clause that determined the location for any subsequent litigation, each bill of lading specified the “United States District Court having admiralty jurisdiction at the … USA port of discharge.”

After all three cargoes of steel suffered alleged damage, Continental Insurance Co., which had insured the owner of the steel, sued the vessels’ principals, Fednav International and Atlant Adria Corp., in federal court in the Northern District of Illinois.

Continental’s legal counsel erred in that Burns Harbor is in Indiana, not Illinois. Illinois-based U.S. District Judge James B. Zagel refused to transfer the cases. Citing improper venue and a lack of subject-matter jurisdiction, he dismissed all three of Continental’s claims — one of them alleging damage of $700,000 (for cargo on the Daviken). Continental appealed to the Seventh Circuit Court of Appeals on March 18, 2003.

“The Northern District of Illinois does not include any part of Indiana,” the appeals court said pointedly, dismissing as “commercial fiction” Continental’s subsequent claim that, under customs regulations, Burns Harbor is considered to be within the Port of Chicago, Ill.

Continental’s error in filing in the wrong federal district “was an obvious mistake made by a sophisticated party with (legal) representation,” the appellate panel said, affirming the lower court’s dismissal of all of Continental’s claims “put forth on the basis of improper venue. We will not second-guess the district court when it has not clearly abused its discretion,” the appeals court concluded.

[Continental Insurance Co. v. Orsula, her engines, boilers, etc.; Fednav International Ltd., and Atlant Adria Corp., et al.: U.S. Court of Appeals for the Seventh Circuit; docket numbers 03-1721, 03-1722, 03-1723; date of ruling: Dec. 24, 2003]
Corporate Appointments

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Logistics

Arzoon Inc.

Industry veteran Bill Sickler has been named president and chief executive officer of the supply chain process management technology provider.

Sickler succeeds Farid Dibachi, who co-founded Arzoon in 1999. Dibachi “resigned to pursue other interests,” the company said in a statement.

Sickler has 27 years of industry experience, serving as CEO for Reactive Network Solutions, Caspian Networks, Gadzook Networks and Network Computing.

Freightgate Inc.

The Huntingdon Beach, Calif.-based provider of Internet applications for the freight and logistics industry has appointed Rick Anchan vice president, business development.

Anchan was senior vice president of UTi Worldwide. Prior to that he served as vice president for Menlo Logistics, and senior vice president of GATX Logistics (now APL Logistics).

He will be based at Freightgate’s headquarters.

Geologistics Corp.

The logistics services provider has appointed Alex Leivici chief executive officer of Geologistics Americas Inc.

Leivici was senior vice president for the Northeast U.S. region at Panalpina.

He will be based at Geologistics’ headquarters in Santa Ana, Calif., and report directly to Bill Flynn, group president and CEO of Geologistics.

Management Dynamics

The East Rutherford, N.J.-based provider of contract management software has appointed Albert Cooke vice president of sales.

Cooke was the company’s director of sales operations. He rejoined Management Dynamics in 2003, having worked there in the early 1990s.

Prior to rejoining the company, Cooke was vice president, products and solutions, for Industri-Matematik International Corp.

Panalpina Inc.

The U.S. unit of the Panalpina Group, a Swiss transport and logistics services provider, has appointed Alan Geraldi vice president and general counsel for North America.

Geraldi was associate general counsel and director of international legal affairs for Menlo Worldwide Forwarding.

At Panalpina Inc., Geraldi will report to David I. Beaton, chief executive officer for North America.

Sandler & Travis

Dennis Curran has been named vice president of global development for Sandler & Travis Trade Advisory Services, based at the company’s Phoenix office.

He is a 37-year veteran of international trade and customs business, having served as director of customs on the tax staff of a major automobile manufacturer, and as partner for two major accounting firms, Sandler & Travis said. Curran also has served as an independent consultant to multinational pharmaceutical, energy and consumer product firms.

Forwarding

Kom International

The Montreal-based provider of supply chain consulting services has appointed Alan Taliaferro president and chief executive officer.

Taliaferro headed Kom International’s office in Mexico City.

Tibbett & Britten Group plc

The third-party logistics provider is searching for a new management team for its North American division after firing president Michael Sprague and two of his top deputies.

The changes were necessary to take advantage of different growth opportunities, according to a company spokesman. Also replaced were Dick Alston, chief financial officer, and Nancy Olive, senior vice president of business development.

Tibbett & Britten, based in London, quietly made the change Jan. 2 and has launched a search for a new president.

Ron Tomiuck, senior vice president of operations, will lead the division until Sprague’s successor is appointed, the spokesman said. The duties of Olive and Alston will be divided among other managers on an interim basis.

Toronto-based Tibbett & Britten North American unit provides warehousing, distribution, transportation and inventory management for manufacturers, retailers of food and beverages, clothing and other consumer products.

Integrators

FedEx Freight

The less-than-truckload freight services unit of FedEx Corp. has named Larry C. Miller senior vice president of customer center operations.

Miller, a 32-year transport industry veteran, has been vice president of customer center operations since 2001. He joined FedEx freight in 1995.

His new duties include equipment maintenance and claims prevention, in addition to oversight of the company’s operations and line haul network.

UPS

The Atlanta-based provider of package delivery and supply chain services has named Wolfgang Flick president of UPS Europe. Fick replaces John Warrick, who is retiring.

Flick had been managing director of UPS Germany, UPS’s largest market outside of the United States.

Air

ABX Air

The airline spun off from Airborne Express after the delivery company merged with DHL named Duane Kimbel as chief financial officer.

Kimbel held similar positions for Sight Resource Corp., a retail optical company, and Baldwin Piano and Organ, a musical instrument manufacturer.
Maritime

Hapag-Lloyd AG

Guenther Casjens, chief executive officer of Hapag-Lloyd Container Line and a member of the executive board of Hapag-Lloyd AG, will leave the German shipping group March 1.

Hapag-Lloyd said Casjens is “leaving the company at his own request.” A spokesman for the company said Hapag-Lloyd was surprised by his decision. Casjens’ departure is not believed to reflect management problems, but a personal decision.

Casjens, one of the best known senior executives in liner shipping, joined Hapag-Lloyd AG in 1974 and has been a member of the executive board since 1990. He was one of the founders of the Grand Alliance between Hapag-Lloyd and other carriers in the mid-1990s.

“I greatly regret the decision, but must accept that Guenther Casjens has other plans,” said Michael Behrendt, group chairman of Hapag-Lloyd.

He said Casjens intends “to remain linked with the company on an amicable basis.”

Casjens will be succeeded on the executive board of the Hapag-Lloyd group by Adolf Adrion, managing director of Hapag-Lloyd Container Line. Adrion is also chairman of the Far Eastern Freight Conference.

Matson Navigation

C. Bradley Mulholland, a long-running senior Matson executive, retired, effective Jan. 1.

Mulholland was vice chairman of Matson, and worked for the U.S. Jones Act shipping line for more than 38 years. He also stepped down as executive vice president of Alexander & Baldwin Inc., Matson’s parent company, and from director positions on the boards of both companies.

Mulholland joined Matson in 1965 as an assistant booking clerk in Southern California and, over the years, held such positions as district sales manager, regional sales manager, vice president sales, vice president of Matson Agencies, senior vice president in freight operations and president of Matson Terminals Inc.

He was named president and chief operating officer of Matson in 1990, and then president and chief executive officer in 1992. He became vice-chairman of the board in 2002.

Matson did not name a successor for Mulholland as vice chairman. James S. Andrasick continues to be Matson’s president and CEO.

P&O Nedlloyd Container Line

The Anglo-Dutch megacarrier has appointed former DHL International executive Philip Green to succeed Robert Woods as head of the company.

Green was named chief executive officer of P&O Nedlloyd Jan. 1, the same day Woods, group managing director, left P&O Nedlloyd to become CEO of the Peninsular & Oriental Navigation Co. group, one of the 50-percent owners of P&O Nedlloyd.

The appointment follows a long search for a new head for P&O Nedlloyd, the world’s fourth-largest container shipping line.

P&O Nedlloyd also said Haddo Meijer, CEO of Royal Nedlloyd NV, the other 50-percent owner of P&O Nedlloyd, stepped down as chairman of the executive committee of P&O Nedlloyd on Jan. 1.

Both Woods and Meijer will become non-executive directors of P&O Nedlloyd. The appointments coincide with a restructuring of the top management of the company, whereby one executive — Green — will succeed both Woods, a former P&O Containers executive, and Meijer, a former Nedlloyd executive.

Jeffrey Sterling, chairman of the P&O group, and Leo Berndsen, chairman of Nedlloyd, will remain co-chairmen of the P&O Nedlloyd joint venture.

Green was until recently chief operating officer of Reuters Group plc, which he joined in 1999. Prior to this, he worked for nine years with DHL International, becoming COO for Europe and Africa.

In addition, Barry Williams, a long-serving director of the carrier, will retire in the middle of the year.

Williams has been in charge of charge management and regions at the company. P&O Nedlloyd has not yet named a successor to Williams.

Totem Ocean Trailer Express Inc.

The U.S. Jones Act shipping line serving Alaska has promoted Claudia Roberts to vice president of pricing and Phil Morrell to vice president of marine operations.

Roberts has 20 years experience with Totem Ocean Trailer Express, and becomes the first woman vice president in the company’s 28-year history. She will oversee the pricing, documentation and market research departments in her new capacity.

Morrell will be responsible for all marine operations. He joined Totem Ocean Trailer Express in 2002 as marine superintendent. Morrell has more than 22 years of experience in the shipping and transportation industry.

Totem Ocean Trailer Express runs roll-on/roll-off ships between the ports of Tacoma, Wash., and Anchorage, Alaska.

Inland

Canadian National Railway Co.

Paul Waite has been promoted to vice president, the initiative launched by the company last year to improve service for intermodal movements.

Waite led the development and implementation of IMX as assistant vice president, domestic.

IMX seeks to provide customers consistent service by duplicating practices used in the carload business, such as providing predefined daily train capacity, slot, gate and equipment reservations and day-of-the-week pricing.

The railroad also said William Berry has retired as vice president, intermodal.

Knight Transportation

The Phoenix-based regional truckload carrier named Gary Knight vice chairman after 10 years as president of the company.

The company also promoted Timothy Kohl from chief financial officer to replace Knight and named David Jackson to replace Kohl.

Jackson managed the company’s owner-operators and served a stint as CFO and manager of the company’s Southeast region.

Velocity Express Corp.

The Minneapolis-based express shipment company appointed Jeffrey Hendrickson chief operating officer.

Hendrickson joins the company from Sport & Health Co., where he was president. He also worked for armored delivery company Brinks Inc. as senior vice president for global air courier and North American ATM services. He also was vice president and general manager for Hertz truck rental.

Vexture Inc.

The Jacksonville, Fla.-based parent company of Stonier Transportation Group, TRT Carriers, Velocity 3PL, Alert Cargo Express and Stonier Trucking has appointed Mike Liantonio senior vice president of operations.

Liantonio was general manager of TRT Carriers, a provider of truck-rail-truck intermodal services.
Service Announcements

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Canadian westbound Atlantic rate hikes

The Continental Canadian Westbound Freight Conference and Canadian North Atlantic Westbound Freight Conference said they plan three general rate increases for April 1, July 1 and Oct. 1. On April 1, the increase for westbound cargoes will be $200 per 20-foot container and $250 per 40-foot for general cargo; and $250 per 20-foot container and $300 per 40-foot for temperature-controlled cargoes. The amounts for the July 1 and Oct. 1 rate increases will be announced later this year.

The conferences said the increases “are part of the continuing need for the restoration of viable rates, balanced against the level of services required by the trade.”

Members of the conferences are Canada Maritime, Hapag-Lloyd, Cast, and Orient Overseas Container Line.

In addition, the two conferences, along with the Canada-United Kingdom and Canadian Continental Eastbound Freight Conferences, said they will set their currency adjustment factor at 9 percent for eastbound and westbound continental and U.K. cargo, effective Feb. 1.

The changes are being made due to the strengthening of the euro and pound currencies, the conferences said.

Carriers enter Atlantic with RTW service

China Shipping Container Lines, Norasia and Gold Star Line will enter the transatlantic westbound trade in February as part of a joint round-the-world service linking ports in North Europe, the United States, Asia, the Indian Subcontinent and the Middle East.

Norasia will re-enter the transatlantic trade “after an absence of many years,” said Jamshed Safdar, head of marketing of the shipping line.

China Shipping will operate its first Atlantic service since the company was founded in 1998, and will thereby fill the remaining gap in its east/west network.

Gold Star Line, a Hong Kong-based shipping line owned by Zim Israel Navigation, is also new to the Atlantic trade.

Subject to U.S. Federal Maritime Commission approval, the service will deploy 12 ships of about 3,000-TEU capacities and 21 to 22 knots in speed. Norasia will deploy eight vessels on this service, while Gold Star will contribute three and China Shipping one.

The service will have a rotation of Dubai, Mundra (India), Nhava Sheva, Tuticorin (India), Colombo (Sri Lanka), Damietta (Egypt), Felixstowe, Rotterdam, Hamburg, New York, Norfolk, Charleston, Kingston, Los Angeles, Shanghai, Ningbo, Xiamen, Shenzhen, Singapore, Port Kelang (Malaysia) and Dubai.

The joint service will also provide an all-water link from the Indian Subcontinent and the Middle East to the United States via the Suez Canal and North Europe, and a westbound-only transpacific service. Both China Shipping and Norasia are already active in the transpacific trade.

CKYH adds 14th Pacific West Coast link

The CKYH alliance of COSCO Container Lines, “K” Line, Yang Ming and Hanjin Shipping will introduce its 14th Asia/U.S. West Coast service in April or May.

The carrier grouping, which already provides the largest number of transpacific container services, will add a weekly service calling at Qingdao, Shanghai, Pusan, Los Angeles, Oakland and Qingdao. The service will employ five vessels of about 3,500-TEU capacities that are operating on another Pacific service.

A Yang Ming executive official said the transfer of the 3,500-TEU ships is linked to the introduction of five new 5,500-TEU vessels to be delivered to Yang Ming for its “PSW-2” transpacific service. This service has a rotation of Hong Kong, Kaohsiung, Keelung, Los Angeles, Oakland, Keelung, Kaohsiung and Hong Kong.

The capacity expansion of the “PSW-2” service and the addition of the 14th loop will add a combined one-way capacity of about 290,000 TEUs a year to the transpacific trade.

CKYH speeds up all-water Asia/U.S. loop

The CKYH alliance of COSCO Container Lines, “K” Line, Yang Ming and Hanjin Shipping plans to speed up its joint “AWE-3” all-water Asia/U.S. East Coast service from April.

One of nine vessels used for the service will be withdrawn, improving transit times, while second port calls at Hong Kong and Kaohsiung will be ended.

“K” Line said the transit time from Yantian, China to New York will be cut from 30 to 25 days and the transit from Hong Kong to New York will be reduced from 29 days to 26 days. However, Kaohsiung will retain its current 28-day transit time to New York.

The new port rotation for the “AWE-3” service will be Kaohsiung, Hong Kong, Yantian, Pusan, Savannah, New York, Wilmington, Savannah, and Kaohsiung.

The CKYH alliance provides three separate weekly services in the Asia/U.S. East Coast trade.

Maersk Sealand considers Pacific cuts

Maersk Sealand, the largest box carrier in the transpacific trade, is considering reducing its ship capacity in the Pacific trade immediately after Chinese New Year.

“We are looking at suspending individual sailings ... not individual strings,” said Jorgen Harling, vice president in charge of planning at Maersk Sealand.

Contrary to the New World Alliance and the Grand Alliance, the Danish mega-carrier has not suspended any transpacific loops during the off-peak transpacific season this year.

Harling said his company expected weak cargo liftings in the three-week period starting Jan. 26.

Maersk Sealand operates five Asia/U.S. West Coast weekly strings and two Asia/U.S. East Coast weekly services via Panama, providing a total eastbound capacity of about 28,000 TEUs a week, according to ComPair Data, the global liner-shipping database.

Alliance scales back after Chinese New Year

The CKYH alliance of COSCO Container Lines, “K” Line, Yang Ming and Hanjin Shipping have canceled three Asia-to-U.S. East Coast sailings through in early February to coincide with the weak cargo volumes from Asia that traditionally follow Chinese New Year.

A Hanjin executive said one sailing a week of three Asia/U.S. East Coast services — the all-water East Coast 1, 2 and 3 loops — would be omitted on a rotating basis during an overall three-week period.

Chinese New Year, this year on Jan. 22, is celebrated in most of Asia and means the closure of numerous factories for a week or more.

In a separate development, COSCO, “K” Line and Yang Ming will omit two individual sailings of one of their Asia/U.S. West Coast services, the “KY PSW,” in early February. Hanjin said it is not involved in the operation of this Pacific Southwest service.
The New World Alliance and the Grand Alliance have already suspended transpacific services during the off-peak season.

**West Coast/Australasia lines skip ports**

The five carriers of the Pacific Coast Oceania Vessel Sharing Agreement will shorten the round-trip voyage times of both their weekly services and stop calling at three ports direct in an effort to lower their operating costs.

Hamburg Sud, P&O Nedlloyd, Fesco, ANZDL and Maersk Sealand operate two joint services between the West Coast of North America and Australia, New Zealand, and islands in the Pacific.

The new schedules will start late in the first quarter, subject to obtaining regulatory authority, the carriers said.

The change is designed “to counter sharply escalating port operating costs” and will involve the suspension of direct port calls at Adelaide, Manzanillo (Mexico) and Portland, they added.

The revised rotation of the Pacific Southwest string will be Los Angeles, Tauranga (fortnightly), Melbourne, Sydney, Auckland (alternating with Tauranga), Suva (fortnightly), and Los Angeles.

The revised rotation of the Pacific Northwest string will be Los Angeles, Auckland, Sydney, Melbourne, Auckland, Papeete (fortnightly), Honolulu (monthly), Oakland, Seattle (alternating with Vancouver), and Los Angeles.

**CMA CGM, China Shipping add service**

Riding the trend towards all-water transpacific services, CMA CGM, China Shipping Container Lines and P&O Nedlloyd are planning to add a third Asia/U.S. all-water service via the Panama Canal in April or May, CMA CGM said.

A spokesman for CMA CGM said the three carriers will launch a China/Caribbean/U.S. East Coast “P Eck 3” service, to complement their existing Asia/Caribbean/U.S. East Coast “P Eck 1/AAE” loop and Asia/Caribbean/U.S. Gulf “P Eck 2/PGX” service.

The addition of the all-water transpacific service will be subject to approval by the U.S. Federal Maritime Commission and China’s Ministry of Communications.

CMA CGM also confirmed that it and Mediterranean Shipping Co. would launch a joint Central China/U.S. West Coast service in 2004, probably at the time of the peak season. The service will employ new ships of 8,100-TEU capacities, and is expected to be called “TPX 3.” The new operation using 8,100-TEU ships will replace CMA CGM’s “TPX 1” service, which uses vessels of about 4,100 TEUs, thereby adding about 200,000 TEUs in annual one-way capacity to the transpacific trade.

Norasia, China Shipping, Lloyd Triestino, ANL and Far Eastern Shipping Co. (FESCO) currently take space on the TPX 1 vessels.

In a separate development, CMA CGM said it will withdraw from a U.S./North Europe slot-charter agreement with Mediterranean Shipping in November to introduce a transatlantic service using its own ships.

**Grand Alliance suspends service for winter**

Grand Alliance carriers Hapag-Lloyd, NYK, OOCL and P&O Nedlloyd have temporarily suspended their Far East Express (FEX) transpacific service.

This is the second transpacific service suspended by the Grand Alliance in recent weeks, following the ending of the Asia/U.S. East Coast “ECX2” loop.

The Asia/U.S. West Coast FEX service has employed five ships of 6,200-TEU capacities. It is one of the alliance’s seven Asia/U.S. West Coast weekly services.

The suspension is scheduled for about six weeks and enables the alliance “to perform regular vessel maintenance and scheduled fleet reassignments,” alliance members said in a joint statement.

The alliance said it would continue serving ports called by the FEX service, primarily using its South China Sea Express (SCX) loop.

The alliance said it would reinstate the FEX service with its current rotation if there is sufficient demand.

Suspended a transpacific service during the winter, post-peak-shipping season has become a pattern of several major carrier groups in the transpacific. The New World Alliance has also suspended one of its Asia/U.S. West Coast services for the off-peak period.

**FEFC plans April rate increase**

The Far Eastern Freight Conference, which represents container-shipping lines serving between Europe and the Far East, said it will implement rate increases in its 2004 business plan, effective April 1.

The FEFC’s business plan calls for minimum rate increases of $150 per 20-foot container and $300 per 40-foot container from Asia (excluding Japan) to North Europe/Scandinavia.

The final amount of the increase will be decided nearer the time, the FEFC said. Japan has a separate business plan.

Member lines of the FEFC are APL, CMA CGM, Hapag-Lloyd, Hyundai, K-Line, Maersk Sealand, MOL, Norasia, NYK, OOCL, P&O Nedlloyd, Yang Ming, MISC-Malaysia International Shipping Corp, and ANL Container Line.

**WTSA lines plan to increase reefer rates**

Shipping lines of the Westbound Transpacific Stabilization Agreement said they plan to increase rates for refrigerated cargo moving from the United States to Asia, effective March 1.

The recommended increases are $300 per 40-foot container and $240 per TEU, with proportionate increases for cargo otherwise rated. The increase applies to all refrigerated cargo not already covered under seasonal, commodity-specific rate programs for 2004.

The WTSA said the increase covers “the relatively high direct costs for equipment and monitoring of perishable shipments.” These costs include dealing with the “more than 4-to-1 ratio in refrigerated cargo moving outbound from the U.S. to Asia, relative to the inbound direction from Asia.


**USSEC raises bunker surcharge**

The United States South Europe Conference said it will set its bunker surcharge for its eastbound and westbound U.S./Mediterranean tariffs.

Effective Feb. 1, the surcharge will be $131 per 20-foot container and $262 per 40-foot container, and 11 percent per weight/measure.

The conference said it plans to implement a two-step tariff general rate increase for shipments from the Mediterranean to the United States. Identical increase of $200 per 20-foot container or $250 per 40-footer are scheduled for both April 1 and July 1, the USSEC said.

Member carriers of the conference are Hapag-Lloyd, P&O Nedlloyd and Maersk Sealand.

**Maersk Sealand revises services**

Maersk Sealand is altering its U.S./Middle East/India and U.S./Mediterranean services.

The “Middle East Container Line” weekly service will omit calls at Halifax, Nova Scotia; and Gioia Tauro, Italy, starting this month. A spokesman for Maersk Sealand said this will reduce transit times from the Middle East and India to the U.S. East Coast.

The service will also start calling at Jebel Ali in Dubai, and make eastbound calls at Algeciras, while stopping
westbound calls at Algeciras.

The first voyage with the revised rotation for the “MECL” service will be made by the vessel Greenwich Maersk when it departs Charleston Feb. 14.

The “MECL” service will retain the existing seven ships averaging 4,227 TEUs, and will have a revised port rotation of Charleston, Norfolk, New York, Algeciras, Jeddah, Salalah, Jebel Ali, Nhava Sheva, Salalah, Charleston, Norfolk and New York.

Safmarine Container Lines, P&O Nedlloyd Container Line, APL, Evergreen and Hapag-Lloyd all take space on various sections of the “MECL” service.

Meanwhile, Maersk Sealand’s “Mediterranean Express” service will pick up the MECL’s former call at Halifax, and will stop calling at Charleston. The service will have a revised North American rotation of Halifax, New York and Norfolk, before the ships proceed to Leghorn, Gioia Tauro and Algeciras.

Wallenius Wilhelmsen adds U.S./Mideast link

Wallenius Wilhelmsen will start a direct pure-car/truck-carrier or roll-on/roll-off service from the U.S. East and Gulf coasts to the Middle East in early March.

Two sailings per month, eastbound only, will be offered, with continuing service to the Far East on a monthly basis.

The load ports will be Baltimore, Savannah, Galveston and Jacksonville, with discharge at Jeddah, Dubai, Dammam and Kuwait, then Singapore and Shanghai in the Far East. Additional ports will be available via transshipment or inducement.

Wallenius Wilhelmsen said the enhancement of its Middle East service is part of the ongoing expansion of its global network.

Grimaldi, ACL revise West African links

Grimaldi Lines, based in Naples, and its subsidiary Atlantic Container Line, have upgraded their multipurpose services to West Africa.

In mid-January, Grimaldi replaced car carrier and conventional services between northern Europe and West Africa by multipurpose services. This means ACL will use improved northern Europe/West Africa services to connect with its transatlantic roll-on/roll-off/container service as part of its North America/West Africa transshipment service via Antwerp.

Three separate northern Europe/West Africa links will be provided from mid-January, each offering a service dedicated to a different range of ports on the West African coast.

The “Northern Express” service will call Tilbury, Hamburg, Antwerp, Le Havre, Bilbao, Dakar, Banjul, Conakry and Freetown on a nine-day frequency. The “Central Express” will call Amsterdam, Hamburg, Tilbury, Antwerp, Le Havre, Dakar, Abidjan (with feeders to Matadi and Boma), Tema, Lagos, Douala, Abidjan and San Pedro on an eight-day frequency. The “Southern Express” will call Hamburg, Antwerp, Le Havre, Setubal, Dakar, Lome, Cotonou, Pointe Noire, Luanda, Libreville and Abidjan on a 10-day frequency.

Atlantic Container Line said it will issue through bills of lading to all of these African ports for containers and all types of non-containerized cargo.

Americas West Coast lines expand service

Hamburg Sud, Compania Chilena de Navegacion Interoceania and Maruba are expanding their joint AmPac service connecting the West Coast of the Americas and Asia.

With the addition of an 11th vessel, the 1,750-TEU Cap Vilano, the carriers will increase the frequency of southbound port calls at Puerto Quetzal, Guatemala, and Buenaventura, Colombia, from fortnightly to weekly.

The revised port rotation for the service will be Keelung, Hong Kong, Shanghai, Busan, Vancouver, Long Beach, Manzanillo (Mexico), Puerto Quetzal, Buenaventura, Callao, San Antonio, Antofagasta, Puerto Quetzal (fortnightly), Manzanillo, Long Beach, San Francisco (fortnightly), Seattle (fortnightly), Vancouver (fortnightly) and Keelung.

U.S./Venezuela/Brazil lines revise pact

Hamburg Sud, APL, Lykes Lines and Evergreen Marine Corp. have filed a revised space-charter agreement with the U.S. Federal Maritime Commission concerning their cooperation in the trade between the U.S. East Coast and Venezuela, Brazil, Argentina, Uruguay and Paraguay.

Following the renaming of Crowley American Transport to Hamburg Sud, the space-charter agreement is now called “APL/Hamburg-Sudamerikanische Dampfschiffahrts-Gesellschaft/Lykes/EVERgreen vessel-sharing agreement.”

German-based Hamburg Sud, which acquired the South American liner interests of Crowley in 1999, has also stopped using the brand name Columbus Lines for its South American services.

The agreement allows Hamburg Sud to sell 300 TEUs a week to APL, 210 to Lykes Lines and 350 to Evergreen.

The space-charter agreement is linked to a vessel-sharing agreement that involves Hamburg Sud and Maersk Sealand as vessel providers, and other carriers in the trade.

Hamburg Sud, Maersk Sealand and their carrier partners operate two weekly services in the U.S./East Coast of South America trade, where they are the largest grouping.

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AMERICAN SHIPPER: FEBRUARY 2004 71
The executives who run today’s big container-shipping lines have risen through the ranks, often staying within the same companies.

In other words, it is an industry used to internal promotions, life-long career specialization and, sometimes, family-stockholder connections.

So, the decision of P&O Nedlloyd’s shareholders to appoint an industry outsider as its new chief executive officer, Philip Green, is an unusual one. Green is a former DHL executive who has also worked for the news and data provider Reuters (see story, page 68).

The company must think P&O Nedlloyd needs different skills now.

This begs the question: Which management skills does the top executive tier of ocean carriers need nowadays?

You may think financial discipline, corporate governance and strong relationships with the financial community and the stock market are what matters now. This could be the thinking at P&O Nedlloyd, as Peninsular & Oriental Navigation Co. and Royal Nedlloyd NV, the two 50-percent owners of P&O Nedlloyd, are said to be close to deciding on a public listing of the container-shipping company. Green was chief operating officer of stock market-listed Reuters.

Or do ocean carriers need young, financially trained brains like Alex Mandl, the former chairman of Sea-Land? Mandl, a former merger and acquisition specialist, was senior vice president of corporate development at CSX Corp. when he was appointed to run Sea-Land. He negotiated the purchase of Sea-Land by CSX in 1987.

At the time, Mandl was also chairman of CSX/Sea-Land Intermodal, CSX/Sea-Land Logistics and CSX Technology. His handling of Sea-Land was regarded as relatively successful, although the carrier’s results were not profitable enough to convince CSX to invest more capital in the company. Mandl, who eventually moved to a top job at AT&T, was succeeded by an old shipping hand, John Clancy.

Tim Harris, a former CEO of P&O Nedloyd, was also a financially trained executive. He had worked for the P&O group before moving to the container shipping unit in the early 1990s, but did not succeed in turning P&O Nedlloyd around.

Overall, financial whizzes are not much in demand as container shipping CEOs. This may be because few container carriers are publicly listed companies, and many are merely parts of larger groups or conglomerates with their own corporate and financial executives.

Or you could argue that expertise in logistics and forwarding services is now the top priority. Green appears to have the right background for this, too, after his experience at express and logistics company DHL. One rare precedent of forwarding and logistics people at the top of shipping groups was Bernd Wrede. A former Kuehne & Nagel financial executive, he was chairman of the Hapag-Lloyd group until 2001, but did not actually run its container-shipping unit Hapag-Lloyd Container Line.

A final set of management requirements for ocean carriers may be information technology skills. Yet, after the dot-com fiasco, it is hard to imagine an IT person running a shipping line.

Shipping companies have traditionally been run by men with strong operational backgrounds and years of shipping experience. This makes sense for a relatively mature, cost-centered business. But a side-effect may be that ocean carriers appear self-centered, tied to old practices, and lacking innovation, as some shippers say.

So, would an innovative manufacturing or retail executive be able to bring a new perspective to the shipping business? After all, containerization was invented by Malcolm McLean, a trucker, not by a shipowner. The airline industry has also showed that new low-cost challengers, run by industry outsiders, could do better than the established major airlines.

Until now, there have been mixed results with the experience of the (few) retail/production industry executives moving to shipping. Bruce Seaton, a former oil executive with Natomas, became the very successful president of run-down APL in 1977 and put it on a stronger footing. After recruiting specialists from all surface transportation modes, he led APL in the development of rail-based intermodalism in the United States. But his successor, John Lillie, who joined APL in 1992 and previously ran the U.S. grocery chain Lucky Stores, is not regarded as having delivered good results. He resigned from APL In 1995 and was succeeded by an experienced shipping man, Timothy Rhein.

Using these observations, I conclude that naming an outsider in liner shipping is unorthodox, but it can occasionally work wonders, if recent history is a good enough guide. In any case, the industry will be watching what Green does at P&O Nedloyd.

Which management skills for ocean carriers?
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