Depending on China

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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.
Depending on China

China’s relentless growth in international commerce has made it indispensable. Its expanding trade attracts importers and transport service providers, and also increases their reliance on China for further growth. Can China sustain this growth, given trade friction with the U.S. and considering the loss of export markets suffered by other Asian countries?

NVO industry passes 24-hour rule test

A little more than a year ago, non-vessel-operating common carriers underwent a transformation of sorts, not in terms of how they load containers but in the way they perform as regulated entities in the ocean shipping business. Under U.S. Customs’ rule requiring NVOs and ocean carriers to file cargo manifests for inbound cargo 24 hours prior to loading on vessels overseas, business has become routine though glitches remain.

Boeing’s logistics takes wings

Ships move big, bulky items and large quantities of goods and materials. Aircraft move small stuff that needs to get someplace quickly. Ships are cheap. Aircraft are expensive. Those are general guiding principles that shape logistics managers’ decisions when it comes to moving stuff across the ocean. Now Boeing says it plans to rely on aircraft as the primary transport mode for bringing large components to its final assembly plant in Everett, Wash.

Inland waterways put bulk shippers at risk

U.S. Midwest grain growers and shippers are formidable competitors in the global market, but without efficient inland waterways transportation, their business could come to a grinding halt. During the past two years, hundreds of agriculture and shipping industry interests have lined up behind an evolving lobby in Washington, which is pressing Congress to allocate more money to upgrade the U.S. inland waterways system.

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Effective security rules fall on WCO members

The February issue of American Shipper contained a commentary entitled “Don’t be too hard on the WCO.” (page 36) that suggested that a December speech I delivered in Panama about the state of maritime security developments, which included comments about the World Customs Organization’s efforts on container security, “may have gone too far.” The point deserves a reply.

In the Panama speech, after discussing the various regulatory initiatives being undertaken by the U.S. government and the International Maritime Organization on vessel and port security, and the U.S. government on cargo security, I discussed what the WCO was doing, and stated in relevant part:

“We have also seen the U.S. and other governments try to get the World Customs Organization (WCO) to develop effective, mandatory uniform international container security standards, like the U.S. Coast Guard and the IMO did for ships and port facilities. Unfortunately, no Latin American customs administrations have participated in the proceedings of the WCO’s Task Force on Security and Trade Facilitation. The council and U.S. Customs officials have worked diligently in support of this objective; however, it appears that 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 ISPS Code. 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.

“What this means is that, without an effective international body addressing these issues, further U.S. cargo security measures will be undertaken either on a unilateral basis or pursuant to bilateral CSI (Container Security Initiative) agreements. In this regard, we welcome the announcement last month that the European Commission and U.S. government have agreed to intensify and broaden their Customs cooperation to improve the security of sea containers and other shipments that are imported into, transshipped through or transiting the European Community and the United States.”

First, I never said the WCO Secretariat does not have the willingness to address the issue. Michel Danet and his staff have shown leadership on the issue. We know this because we have worked with them over the past 18 months, and we will continue to do so.

What I did say in the speech is that, unlike the IMO, which has addressed vessel and port security rapidly with a new set of binding, uniform international cargo security rules and obligations, the WCO is not establishing mandatory or uniform international cargo and container security standards. This is clearly true.
UNDERSTANDING>
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ability

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Rather than developing new security rules, the WCO Task Force has produced a list of 27 data elements that Customs administrations are recommended to obtain for the identification of high-risk consignments (without specifying when or from whom the information should be provided); sets of guidelines or frameworks for the development of national laws and mutual assistance among customs administrations for the collection and transmission of customs information; and “high level” recommended guidelines for voluntary arrangements between customs and the private sector to increase supply chain security. In an innovative initiative by the WCO Task Force, additional Advance Cargo Information (ACI) guidelines are in the process of being finalized. The ACI Guidelines contain principles, which the World Shipping Council supports, for the advance collection, transmission and exchange of information between customs administrations with a focus on risk assessment prior to export; these principles, however, leave the implementation and allocation of nations’ respective customs authorities and responsibilities up to future bilateral government agreements to resolve.

While not irrelevant or without potential value, general WCO Task Force guidelines that nations may or may not choose to implement are unlikely in the near term to result in tangible and specific measures for the enhancement of cargo security, and do not provide an international cargo security regime. Rather than simply offering criticism, the WCO has on several occasions presented the Task Force with a set of recommendations for actionable container security requirements based on its In-Transit Security White Paper from last September. Those recommendations and the white paper itself were very positively received by the WCO Secretariat. The paper translated into French, and also arranged for it to be circulated at the first meeting since 1991 of the Administrative Committee for the Customs Container Convention last October. The WCO administers the convention that dates back to 1972.

However, due to an apparent lack of willingness or interest on the part of some of the members of the Administrative Committee, that meeting did not agree on any proposals to revise the 1972 convention to reflect post-Sept. 11, 2001 container security requirements and objectives. This brings me to my Panama WCO remarks.

My remarks were not about the WCO Secretariat, its efforts or its good intentions, but the ability of the organization’s members to create a meaningful set of international security rules for cargo the way the IMO created international security rules for vessels and ports. There is little argument that in non-security matters, the WCO has made positive contributions to trade facilitation, as noted by Danet. That is the WCO’s traditional role, but it is not the issue. The issue here is the development of effective international cargo security rules. In dealing with this issue, the WCO Secretariat itself is hampered by the fact as I stated that: “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.”

Representatives of several WCO member and observer delegations have articulated this identical concern to the council during WCO’s working sessions.

Finally, I stated in December that, while the WCO “may yet produce guidelines or ‘best practices’ for these issues, this would seem to fall far short of an international instrument comparable to the ISPS Code.” This is unarguable. But, even assuming for the sake of argument that is not realistic for the WCO to produce for cargo security a new international instrument comparable to the ISPS Code, clear specific recommendations that effectively address what should be the required responsibilities of each party and government in the supply chain should not be beyond its reach. If real progress is difficult because the customs services at the WCO, as the American Shipper commentary notes “are not, and never have been entrusted with substantive policymaking,” then it was certainly not being “too hard” to say that the WCO is “either unwilling or incapable of addressing container security in a meaningful and comprehensive way.” “Substantive policymaking” is what is needed.

Container security must begin with each shipper’s secure loading of legitimate cargo inside the container, the application of a high security seal to the container immediately upon stuffing the container, and the timely provision of complete and accurate submission of all information needed for security screening to the government before vessel loading. These requirements should be clearly defined and universally enforced. Subsequent protocols for carriers’ checking of containers’ integrity and their seals during transit are not meaningful without such necessary first steps — steps which should not be a matter of discretion.

We will see what the WCO can produce. Another opportunity to at least identify parameters for future specific recommendations for container security responsibilities arises next month when the WCO’s Permanent Technical Committee will consider a proposal to amend the guidelines to the Revised Kyoto Convention. Danet and his staff are well intentioned and committed professionals trying to do what they can to address international supply chain security. It is the WCO members that need to produce a set of clear and effective cargo security requirements that all parties are required to meet.

Until that time, as I stated in my speech, cargo security measures will continue to be based on unilateral, and at times bilateral, governmental policy. The liner shipping industry will certainly continue to support such measures, but they stop short of being an effective international approach to an international risk. Securing international trade against the threat of terrorism should not be left to a few nations dedicated to addressing the problem.

If my remarks serve in any way to help spur WCO members to produce effective international cargo security rules, it will have been a most productive speech.

Christopher Koch
President and Chief Executive Officer
World Shipping Council
Washington, D.C.

Customs integrity: good governance prototype

Customs, at first sight, present a daunting, possibly worst-case, integrity problem. In most developing countries they offer high-points of habitual misbehavior within an already unsatisfactory political and administrative environment where corruption, bribery and illicit drugs run rampant.

Customs even enjoy specific exception from what little international integrity regulation is in place by virtue of express exemption of “facilitation payments” from the scope of the Organization for Economic Cooperation and Development Corruption
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No matter what.
Guidelines on Business Integrity in Managing Customs Procedures.

These favorable factors include:

- Inter-governmental interest at the global level in current World Trade Organization concerns for customs reform as almost the sole subject raised, so far, by the main supporters of the trade facilitation component in the Singapore Agenda.
- An active, well-informed modernization and reform activity in the World Customs Organization. No other sector of national bureaucracies has any similar global forum and professional expertise.
- A large and growing number of World Bank trade expansion and facilitation projects with specific customs reform components. These add a potent element of financial back-up and investment that is lacking in many other deserving integrity causes.

Some of these projects will contain substantial customs automation components. These not only offer invaluable, because unobtrusive, means of gaining a detailed view of customs operational behavior, but will almost inevitably lead to the provision of assistance and advice on associated change management that can be readily harnessed to associated management moves to enhance integrity.

- A keenly interested trade community, usefully organized through the International Chamber of Commerce, with influential national committees in many developing countries. The ICC publishes and promotes a number of practical guidelines and toolkits to enhance integrity on both sides of the customs/trade operational interface.
- A comprehensive, well-structured framework of regulatory and persuasive definitions and explanations of sound operational procedures and practice that, progressively adopted, would first help identify and quantify and then confine and reduce corrupt activities.

The core instrument is the revised WCO Kyoto Convention on Simplified Customs Procedures and this, when it acquires the necessary minimum number of signatory states, would be powerfully augmented by any parallel and supportive regulation that might emerge from future WTO trade facilitation rulings.

On the trade side the ICC has produced and is maintaining a now well-established set of Customs Guidelines and their most relevant individual standards have been usefully focused in a selective Integrity Toolkit. This has been supplemented by a Chapter on Customs in the ICC Corporate Practice publication “Fighting Corruption” and will be extended by detailed Guidelines on Business Integrity in Managing Customs Procedures.

- Convenient and substantive measures of deficiency and progress.

Some attempts are made, from time to time, to secure direct assessments of the nature and extent of customs corruption, usually by enquiry among commercial victims. These are inherently ingenious, given the serious probability of falsification or resistance in the face of even the most modest possibility of customs reprisals.

Fortunately there are much more reliable indices in relatively straight-forward calculations of lost revenue on, for example, import duties, or statistical disparities in declared export and import values in selected trade flows.

On the detailed operational side many useful conclusions and signposts to remedial action can be drawn from quite modest analyses of information freely available from businesses, trade associations or customs themselves.

Such material could include freely available average and categorized release times for, say, maritime container traffic or airborne consignments. The ICC Integrity Toolkit identifies the relevance of such factors as the number and frequency of disputes, the availability of advance binding rulings and external judicial appeal mechanisms, the use of cash rather than banking arrangements for duty payments, the number of signatures and documents, the number of occasions, needs and opportunities for personal contact between customs staff and traders/agents and the presence of time-checks in automated procedural software programs.

For all these reasons the Bank, IMF and other interested parties, including the WCO and ICC, could well work together, perhaps in the ambit of the Bank’s Global Facilitation Partnership, to bring customs integrity into very fruitful global focus as a significant, powerful precedent and prototype in systematic pursuit of enhanced governance standards.

John Raven
Consultant, Brussels

Starving ACS?

U.S. importers and customs brokers are worried the Bureau of Customs and Border Protection is neglecting to maintain the primary computer system used to process trade data and communicate with industry, individual ports and other agencies.

Customs has embarked on a technology modernization program that will eventually replace the aging Automated Commercial System (ACS) with the Automated Commercial Environment (ACE), a more interactive, account-based system able to handle a greater volume of traffic. But ACE's development has been plagued by technical and management problems that have caused several delays in its scheduled rollout.

Customs' policy of husbanding resources for ACE at the expense of ACS is hurting the trade community because industry reliance on ACS has grown over the years, said Mary Jo Muoio, a vice president at Barthco International, a Philadelphia-based customs broker.

During February’s meeting of the Advisory Committee on Commercial Operations for Customs, Muoio told agency officials ACS needs to be maintained and upgraded to help companies keep up with regulatory and business developments. Enhancements are not a luxury, but a necessity, she emphasized.

Customs officials said they are trying to maintain a delicate balance between transitioning to a new system and keep the current system running properly. Customs is committed to maintaining ACS, but is trying to save money by not building modules twice — once for ACS and then for ACE — explained Charles Armstrong, acting assistant commissioner of the Office of Information and Technology, and the man in charge of modernizing the agency’s information technology infrastructure.
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He said ACS resources primarily have been shifted within in- 
house staff.

Muio said she hoped the import/export community was not 
being given short shrift.

“If I can liken this to a hospital, I don’t think any of those poor 
folks on life support in the ICU would want to be abandoned just 
to say they are booming down in maternity.” (Eric Kulisch)

Say again?

In the Democratic Party response to President Bush’s State 
of the Union address on Jan. 20, U.S. House of Representatives 
minority leader Nancy Pelosi, said, “100 percent of containers 
coming into our ports and airports must be inspected.”

Transportation Secretary Norman Y. Mineta, was asked 
during a press conference at the New York Stock Exchange 
what his department’s Transportation Services Index, a new 
economic indicator, would show after the massive log jam 
that would be caused if every imported container were to be 
checked individually.

Choosing his words with care, Mineta said “a pragmatic 
balance will have to be achieved between optimum security 
and the flow of commerce,” and that the first step is likely to 
be radiation checks on incoming containers. “Although some 
scanners have proved promising, we don’t have the technology 
generally available to check every container without causing 
delays that could adversely affect trade,” Mineta noted.

In early February, Christopher L. Koch, president and chief 
executive officer of the World Shipping Council in Washington, 
D.C., discussed Pelosi’s broad-ranging remark with members 
of her Congressional staff. Koch had received “numerous in-
quiries” from council members.

“He staff confirmed that the proposal was for 100 percent 
radiation screening inspection, not 100 percent physical or 
VACIS container inspection.” Koch explained.

“I understand that 100 percent radiation screening is also an 
objective of the Bureau of Customs and Border Protection,” Koch 
said. “Of course, that will present some challenges as well.”

The first hurdle is funding. Pelosi’s office has estimated that 
container radiation screening will cost the government $100 
million. (Robert Mottley)

A bold step, long overdue

Outside of the U.S. Northeast, it is easy to deny or dismiss 
the shadow cast by organized crime over the port of New York 
and New Jersey. The popularity of television series such as The 
Sopranos, masks the fact that all Americans pay higher prices 
because of goods stolen from containers.

This makes a recent disclosure by the International Longshore-
men’s Association all the more pertinent. At his union’s 2003 
annual conference in Puerto Rico, ILA president John Bowers 
said ILA’s alleged mafia connections remained a scourge that 
had to be dealt with swiftly.

Bowers subsequently announced a code of ethics for the 
ILA, and hired attorney Michael Armstrong as an independent 
“ethical practices counsel.”

Early in 2004, the ILA released the printed text of its new 
ethics code, and reverberations are still spreading through port 
circles.

The shock has been two-fold: first, that any major presence 
in the port would officially acknowledge that connections with 
organized crime exist, and second, that the liaisons are spelled 
out so clearly.

The code forbids any ILA “officer, representative or employee” 
and “no union trustee of any benefit fund” from having any 
dealings with “any member or associate of an organized crime 
family or syndicate.”

The simple need of the ILA to go about its business required 
two exceptions to be made to the rule against knowingly as-
so, and OECD (Organisation for Economic Co-operation and 
Development) are working together to find solutions to this 
problem.

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and the flow of commerce,” and that the first step is likely to 
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million. (Robert Mottley)

Ice brew

Rescuers rushed to the scene of the accident. A truck had 
plunged through the ice of the River Irtysh near the Siberian city 
of Omsk. Rivers in Russia normally freeze so thick during the 
winter that they become temporary transportation infrastructure 
for car and truck drivers seeking short cuts from normal bridge 
crossings, but this time something went horribly wrong.

Would the Russian Army be able to save the victim? After 
almost a week trying to pull the vehicle from the river bottom, 
most had given up hope for a successful rescue. Surely, nothing 
could survive in the freezing water. But, the soldiers would not 
give up. Divers attached ropes to the vehicle and a T-72 tank 
was brought in to pull the truck through the ice. As the truck 
reached the surface, soldiers with electric saws cut through the 
doors and pulled the precious cargo to safety — just before the 
rope snapped and the truck sank to the bottom again, according 
to accounts based on an Itar-Tass news agency report.

The driver, as you may have guessed, was not in the truck, 
having jumped out before the truck fell through the ice.

So what was the intensive rescue effort all about? Ten tons 
of beer.

The Russian Army invested a whole week of effort for a load 
of beer. Good thing there are no security problems in Russia to 
Worry about. That way, shippers know they can count on the 
army for logistics support when needed.

The Rosar brewery, a subsidiary of the Belgian Interbrew 
group, subsequently pronounced the beer fit for resale, saying 
the minus 27 degree Celsius water temperatures helped preserve 
the beer. (Eric Kulisch)
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.
China’s weight and relentless growth in international commerce has made it indispensable.

The country has become the main origin of mass-produced manufactured goods worldwide, as well as the place where expansionist companies can find additional business.

Importers and service providers have seen spectacular growth rates in China. Its economy grew 9.1 percent in 2003, its fastest rate of growth for six years. Containerized traffic to and from China, which increases much faster than its economy, soared about 35 percent in 2003. In value, China’s exports to the rest of the world rose 32.9 percent last year to $390 billion, while its imports went up 39.1 percent, to $370 billion (see Table No. 1). The U.S. deficit in international trade in goods with China widened to $124 billion in 2003 from $103.1 billion in 2002.

But can China sustain this rate of growth, given the increasing friction with the United States over both the trade deficit and the transfer of jobs, and considering the loss of export markets suffered by other Asian
According to China’s Ministry of Commerce (MOFCOM), China’s statistics show under bilateral trade agreements, countries?

In a recent report, the investment firm Morgan Stanley said it expects annual growth in the value of Chinese exports to slow to 15 percent in 2004 from 35 percent in 2003.

“The rate of growth in the first quarter of 2004 could drop below 15 percent due to ‘front loading’ by exporters in the fourth quarter of 2003,” Morgan Stanley said, referring to the ending of certain export incentives the British do-it-yourself chain B&Q is also opening stores in China, while Walmart has set up in Guangzhou the world’s largest warehouse, he added. Even black London cabs will soon be made in China.

China has benefited indirectly from the recent weakening of the U.S. dollar exchange rate. The Chinese Yuan, pegged to the U.S. dollar, has also depreciated against other currencies, Wang observed. This has

Table No. 1

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports 2003 (in billions)</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>$88.6</td>
<td>31.7%</td>
</tr>
<tr>
<td>United States</td>
<td>$83.4</td>
<td>31.8%</td>
</tr>
<tr>
<td>Canada</td>
<td>$58.1</td>
<td>30.5%</td>
</tr>
<tr>
<td>Asia</td>
<td>$197.1</td>
<td>27.7%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>$67.4</td>
<td>27.2%</td>
</tr>
<tr>
<td>Japan</td>
<td>$53.3</td>
<td>22.1%</td>
</tr>
<tr>
<td>South Korea</td>
<td>$17.6</td>
<td>26.5%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>$7.9</td>
<td>34.2%</td>
</tr>
<tr>
<td>Europe</td>
<td>$78.3</td>
<td>49.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>$15.6</td>
<td>35.8%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>$11.9</td>
<td>44.7%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$9.6</td>
<td>30.2%</td>
</tr>
<tr>
<td>France</td>
<td>$6.4</td>
<td>76.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>$5.4</td>
<td>68.0%</td>
</tr>
<tr>
<td>Latin America</td>
<td>$10.7</td>
<td>23.3%</td>
</tr>
<tr>
<td>Africa</td>
<td>$19.1</td>
<td>65.3%</td>
</tr>
<tr>
<td>Oceania</td>
<td>$8.5</td>
<td>26.1%</td>
</tr>
<tr>
<td>Total exports</td>
<td>$390.3</td>
<td>33.6%</td>
</tr>
</tbody>
</table>

Note: China’s statistics show under exports to Hong Kong goods that are re-exported via Hong Kong to other countries.

Source: China’s Ministry of Commerce (MOFCOM).

American Shipper: March 2004 11
China is also importing equipment and searching for new vendors and a European between a Chinese importer of wastepaper in the U.S.,” Wang said. In “They’re running out of suppliers of Chinese companies are turning to European paper and forest products. In some cases, for imported raw materials such as waste-

Wang cited China’s growing appetite percent a year, Koay said.

To absorb all this workforce, China’s needs to grow,” Koay said. Some 18 million people join the workforce every year in China, and the coastal cities alone have 180 million unemployed, he noted.

Koay related that when Chinese premier Wen Jiabo came to Washington last year, he told George Bush: “You think you have unemployment problems?”

A further problem is that China’s over-staffed state-owned enterprises are cutting millions of state jobs as part of their restructuring.

To absorb all this workforce, China’s volumes have to grow by more than 10 percent a year, Koay said.

Wang cited China’s growing appetite for imported raw materials such as wastepaper and forest products. In some cases, Chinese companies are turning to European producers.

“They’re running out of suppliers of wastepaper in the U.S.,” Wang said. In one case, OOCL acted as a go-between between a Chinese importer of wastepaper searching for new vendors and a European producer, he said.

China is also importing equipment and “second-hand factories” that are shipped in whole to the Asian country, Wang said.

Presence In China. Ocean carriers, NVOCs and logistics service providers have followed their customers into China by setting up offices or obtaining business licenses in the country.

In 2002, Changan Automobile (Group) Liability Corp. Ltd., Minsheng Industrial Co. Ltd., the Wanyou Group (Southwest) and APL Logistics set up a joint venture to provide logistics service to automobile manufacturers in China. It handles supply chain management and finished vehicle distribution throughout China from Chongqing.

In recent weeks, Kawasaki Kisen Kai-sha Ltd. (“K” Line) opened representative offices in Beijing, and Wuhan, the major Chinese city located on the Yangtze river and often described as the Chicago of China. “K” Line now has 15 offices in China. Maersk Sealand has 25.

In November, Korea-based Hyundai Merchant Marine set up a Chinese regional headquarters in Shanghai. The move forms part of a plan to strengthen the carrier’s marketing in the Chinese and intra-Asia sector.

Hyundai said the new Chinese regional headquarters will operate on a par with regional headquarters in America and Europe.

Santa Anna, Calif.-based GeoLogistics Corp. said in January it has received a “class A” forwarder’s license from China’s Ministry of Foreign Trade & Economic Cooperation in Beijing for its international freight forwarding operations in China. The class A license allows GeoLogistics to book freight space directly with carriers and to expand its international logistics business generated from within China.

Phoenix International Freight Services Ltd., a freight forwarder and NVOCC based in Wood Dale, Ill., has just opened offices in Guangzhou and Zhongshan, China. It also opened an office in Ningbo last December. Phoenix now has eight offices in China.

“We have found that more of our clients are either opening factories in the Pearl River Delta region in China, or sourcing materials from that area,” said Andy Wang, Phoenix’s managing director.

U-Freight, the Hong Kong-based forwarder group, is opening 10 sales liaison offices in the Pearl River delta. The forwarder group said it will be able to give increased support to those trading to and from the major industrial centers of Guangdong province.

U-Freight said that much of its recent growth in China has centered on the Yangtze river delta near Shanghai, but the Pearl River

<table>
<thead>
<tr>
<th>Table No. 2</th>
<th>China economic, international trade trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (in $billion)</td>
<td>$305.2</td>
</tr>
<tr>
<td>Population (in million)</td>
<td>1,058.5</td>
</tr>
<tr>
<td>GDP per capita (in $)</td>
<td>$291.1</td>
</tr>
<tr>
<td>Exports FOB (in $billion)</td>
<td>$27</td>
</tr>
<tr>
<td>Export growth (% change from previous year)</td>
<td>4.6%</td>
</tr>
<tr>
<td>Imports CIF (in $billion)</td>
<td>$42</td>
</tr>
<tr>
<td>Import growth (% change from previous year)</td>
<td>54.2%</td>
</tr>
<tr>
<td>Exchange rate (Yuan per U.S.$)</td>
<td>2.94</td>
</tr>
</tbody>
</table>

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delta of South China is now “China’s largest exporting region and continues to grow.”

**Increased Direct Calls.** Anthony Fong, U-Freight managing director, recently said 2004 will see “a huge increase” in the numbers of direct sailings and flights to South China.

Ocean carriers have already introduced numerous direct services not only from the main ports of Shanghai, Hong Kong and Shenzhen, but also what the smaller ports like Dalian and Lianyungang, both in northeast China, Ningbo, near Shanghai, and Xiamen, further south (see Direct services serving China’s secondary ports).

“Ningbo port holds the most potential for container vessels in China,” said Wang, at Phoenix International. In 2006, Ningbo will be ready to handle vessels with capacities of more than 7,000 TEUs, whereas the water depth of the neighboring port of Shanghai is limited to handling 4,000-TEU vessels and the port is “almost fully occupied,” Wang added.

Although the trend in other parts of the world has been towards transshipment services, the shift in container services covering China has clearly moved towards direct services – a reflection that China’s ports are becoming big load centers in their own right. For example, the port of Qingdao is now served by 10 transpacific direct container services.

At the end of February, China Shipping Container Lines was due to add the port of Xiamen to its weekly “Asia-America South Loop 1” service. The “AAS1” service is being re-tomaged with five ships of around 5,500 TEUs, and will have a revised port rotation of Shanghai, Xiamen, Yantian, Hong Kong, Keelung, Los Angeles, Shanghai, Xiamen, Yantian, Hong Kong and Keelung.

In January, China Shipping and CMA CGM added calls at the little-known port of Lianyungang on their joint weekly transpacific service “Jade Express/AAN,” replacing calls at Kobe in Japan. The “Jade Express/AAN” service has a rotation of Los Angeles, Oakland, Xingang, Dalian, Lianyungang, Qingdao, Busan, Los Angeles and Oakland.

Jorgen Harling, vice president, business development at Maersk Sealand, said his company now provides direct-call services from the Bohai Rim ports of China to Europe. Since May, the “AE6” Asia/Mediterranean link has called at three Bohai Rim ports: Dalian, Xingang and Qingdao.

Maersk Sealand also uses the “AE6” China/Europe ships as a feeder to relay transpacific cargoes. It transships Bohai Rim cargoes in Hong Kong for destinations on the U.S. East Coast and in Kwangyang, Korea, for destinations on the U.S. West Coast.

The highest growth rates in the container trades to and from China are not in the transpacific and China/Europe, but in the

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<th><strong>Table No. 3</strong></th>
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<th><strong>Direct container services calling China’s secondary ports</strong></th>
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<tr>
<td><strong>Transpacific</strong></td>
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<td><strong>Dalian</strong></td>
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<tr>
<td>COSCO/&quot;K&quot; Line/YML/Hanjin/Grand Alliance - CEN/CALCO-Q</td>
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<tr>
<td>CSCL/Norasia - Asia Med America/MAP</td>
</tr>
<tr>
<td><strong>Xingang</strong></td>
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<td>COSCO/&quot;K&quot; Line/YML/Hanjin/Grand Alliance - CEN/CALCO-Q</td>
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<tr>
<td>CSCL/Norasia - Asia Med America/MAP</td>
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<tr>
<td>New World Alliance - Guam China Express-GCX</td>
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<tr>
<td>Maersk Sealand - AE6</td>
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<tr>
<td>MSC - Silk Express (Asia-Europe/Med)</td>
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<tr>
<td><strong>Yantai</strong></td>
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<td><strong>Qingdao</strong></td>
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<td>COSCO/&quot;K&quot; Line/YML/Hanjin - AWE-2</td>
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<td>COSCO/&quot;K&quot; Line/YML/Hanjin/Grand Alliance - CEN/CALCO-Q</td>
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<td>CSCL/Norasia - Asia Med America/MAP</td>
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<td>Grand Alliance/FESCO - China Korea Express-CXX</td>
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<td>Grand Alliance/FESCO - East Coast Express-ECX</td>
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<tr>
<td>Lloyd Triestino/Evergreen/CMA CGM - CPN</td>
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<tr>
<td>Lloyd Triestino/Zim/Great Western - Asia USA Express Service-AUX</td>
</tr>
<tr>
<td>Lykes/TMM Lines/C&amp;M - Asia Canada Sprint</td>
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<tr>
<td>New World Alliance - Guam China Express-GCX</td>
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<td><strong>Ningbo</strong></td>
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<tr>
<td>CMA CGM/CSCL/ANL - Jade Express/AAN</td>
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<td>COSCO/&quot;K&quot; Line/Hanjin - CES/CALCO-P</td>
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<tr>
<td>COSCO/&quot;K&quot; Line/YML/Hanjin - PSW-1/AES-1</td>
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<tr>
<td>CSCL/Norasia - AAX</td>
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Source: ComPair Data, the global liner shipping database.
**Trade Frictions.** The U.S. administration and domestic interests are not happy about the growing trade deficit with China and the transfer of jobs away from the United States. They argue that these negative effects are the result of China keeping the Yuan at an artificially low exchange rate and not opening its market fully to U.S. exporters.

Koay cited the U.S. domestic apparel lobby, which is seeking the continuation of import quota on Chinese goods, and lobbies that want restrictions on Chinese exports of furniture.

Even if even labor-intensive goods were not made in China, Koay said, “they would not go back to the U.S.” Instead, they would be manufactured in other Asian countries, he believes.

Bush administration officials told the U.S.-China Economic and Security Review Commission in Washington Feb. 5 that, while China has made progress to modernize trade practices, it still has a long way to go.

U.S. Trade Representative deputy assistant Charles W. Freeman said China has reviewed thousands of laws and regulations, reduced tariffs and has taken steps to correct problems with the administration of its tariff-rate quota system for bulk agricultural products.

However, Freeman pointed out that “China’s market for U.S. goods and services is not as open as it should be.”

Patricia R. Sheikh, U.S. agriculture deputy administrator for international trade policy, said China’s policy toward U.S. agricultural goods is “often inconsistent and erratic, with new trade problems or barriers emerging even as previous ones are resolved.”

In China, U.S. agricultural exporters are faced with tariff-quota administrations, unscientific sanitary and phytosanitary...
barriers, trade restrictive biotechnology regulations, and unclear licensing requirements.

China joined the World Trade Organization in December 2001. In addition to trade improvements for U.S. agricultural products, the Bush administration recommended that China better enforce intellectual property rights and use criminal penalties and restrictions for exports where wrongdoing is found.

“We remain convinced that, as China more fully complies with its WTO obligations, it will become a more consistent and reliable trading partner,” Sheikh said.

**Chinese Ports Rise.** Last year, two Chinese ports, Shanghai and Shenzhen, exceeded a throughput of 10 million TEUs for the first time. No port in North America, Europe, Korea or Japan moves as many containers.

With an 11.3-million-TEU volume in 2003, Shanghai handled nearly three million more TEUs last year than in 2002 — an increase of 31 percent (see Table No. 4).

Shanghai is now the world’s third-largest container port, after Hong Kong and Singapore, but ahead of the Korean port of Busan.

Chinese carrier COSCO recently reported that Shanghai is expected to handle 25.4 million TEUs by 2020.

Shanghai is planning a huge deepwater port, Yangshan. “According to the Yangshan deepwater port layout, the Big Yangshan and Small Yangshan regions can be capable of accommodating over 50 ‘super-Panamax’ container berths,” COSCO said.

**Linking the Chinese inland**

The Chinese government, infrastructure providers and transport operators have a big task ahead of them: How to develop modern transport links between the coast and the interior of China to support the government’s “go West” policy.

The government wants to spread the economic wealth from the coastal predominance strategy to the less developed inland provinces.

“The inland is going to be a very important issue from a Beijing perspective,” said Koay Peng Ye, president, greater China region at APL. “For foreign investment to go inland, they’re going to want the development of inland infrastructure.”

According to APL, export-based manufacturing costs more in labor on the East Coast than in the interior of China, but the interior provinces lose this advantage because of the high expense of moving goods to the port.

The Asian Development Bank recently announced loans totaling $500 million to the government of China to finance a new east/west railway, as part of a $2.4-billion project.

“In line with the government’s western development strategy, the project will provide less costly, more reliable and safe transport between major economic centers, promoting economic development in the isolated project areas along the way,” said Hiromi Sakurai, an Asian Development Bank financial specialist.

The fledging development of the inland regions requires the development of inland transport connections and improved customs clearance procedures — two problem areas.

APL believes its intermodal container train services in China, connecting Shanghai and Qingdao in the East and Chengdu and Xian in the West, will benefit from this trend. OOCL also has offices in Chengdu, Chongqing, Wuhan, Xian and Zhengzhou, all of which are deep in the Chinese interior.

APL said it is also interested in developing intermodal in China.

Koay said the Chinese government is “very aware of the infrastructure needs” for rail. “It’s a very important first step,” he said.

**Table No. 4**

***Top 10 Chinese container ports 2003***

(In million TEUs)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Container traffic</th>
<th>% incr. ’03/’02</th>
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<tbody>
<tr>
<td>1.</td>
<td>Shanghai</td>
<td>11.3</td>
</tr>
<tr>
<td>2.</td>
<td>Shenzhen</td>
<td>10.6</td>
</tr>
<tr>
<td>3.</td>
<td>Qingdao</td>
<td>4.2</td>
</tr>
<tr>
<td>4.</td>
<td>Tianjin/Xingang</td>
<td>3.0</td>
</tr>
<tr>
<td>5.</td>
<td>Ningbo</td>
<td>2.8</td>
</tr>
<tr>
<td>6.</td>
<td>Guangzhou</td>
<td>2.8</td>
</tr>
<tr>
<td>7.</td>
<td>Xiamen</td>
<td>2.3</td>
</tr>
<tr>
<td>8.</td>
<td>Dalian</td>
<td>1.7</td>
</tr>
<tr>
<td>9.</td>
<td>Zhongshan</td>
<td>0.75</td>
</tr>
<tr>
<td>10.</td>
<td>Jiangmen</td>
<td>0.74</td>
</tr>
</tbody>
</table>

Source: OOCL.
Anchored in Houston, the energy capital of the world, EGL is uniquely positioned to support upstream and downstream supply chain activities. From the offshore platforms in the North Sea, to the jungles of Brazil, to the shipyards along the Gulf of Mexico, EGL delivers. Our global resources provide a comprehensive selection of services, from air charters to ocean transport, for one-time shipments to continuous supply chain operations, accommodating single box hand carries to heavy/oversized cargo moves.

Focusing on flexible, time-definite service to the energy market, our advanced systems and dedicated team of industry specialists are mobilized to provide exceptional logistics services to clients anywhere at anytime.

If single-source accountability, global shipment/service visibility and dedicated experienced professionals spark your interest, give EGL a call. Our people are energized to exceed your expectations.
Thinking outside the box

Handling of project cargo requires innovation, attention to details.

By Robert Mottley

While containerization has revolutionized the shipment of goods, project cargo has remained a vital industry to those who must think outside the box.

“Each project cargo shipment is unique, so no one contract is quite like another,” said Mike Wilson, director of trade development for the Port of Freeport.

“Planning initial moves, shepherding together shipment components from multiple vendors, overseeing the loading of a ship, tracking the vessel, and being there when it’s loaded — all of that requires more resourceful thinking than any other sector of logistics,” Wilson said.

“You need extra skill sets to figure all of the angles, and the job certainly isn’t over when a ship leaves port,” he said.

Two Parents. The majority of project cargo derives from mining operations on land and sea, and oilfield servicing, said Greg Stangel, vice president of marketing for Intermarine, a New Orleans-based ocean carrier that provides project cargo services.

“In my view, oil has to be $14 a barrel or above for projects to be viable,” Wilson said. Oil currently is above $28 a barrel.

The problem for handlers and transporters of project cargo is that there’s an ebb and flow in this pipeline of availability.

“You have projects either contracted or going out for bids that freeze, or are slowed significantly when the oil price per barrel drops,” Wilson said. “When business gets better, the flow picks up again. The work put out for bidding is resuscitated, or replaced with a newer project.”

That has rippling benefits beyond shipping. As more oil field workers are hired and paid, they in turn pour more dollars into the economy.

In the fourth quarter of 2003, EGL Eagle Global Logistics moved an oil rig from Houston to Singapore, where the rig was transloaded into five ocean barges “that went out to South China Sea, literally the middle of nowhere,” said Jason Hakala, an Eagle project cargo manager. “We chartered an entire ship for the components of that rig.”

“We supervised the load, working with the stevedores and crane guys so they understood what they were loading and why they had to follow an order of loading,” he said. “A drilling rig tears down in the opposite manner from the way a steamship line likes to load the cargo.”

“The heaviest pieces are on the bottom. The steamship company wants the heaviest pieces loaded first. Yet you have to balance what you can get on the vessel,” Hakala said.

“People generally don’t tear the rigs down three months before a ship arrives. They are working on them right up to the last minute,” said Jeff Caruthers, manager of oil and gas operations at EGL Eagle Global Logistics Inc., a Houston-based logistics services provider.

“That means a balancing act for us, between the port captain for the vessel, the stevedores at the port, and the rig yard manager who is taking the rig down,” Hakala noted. “Another factor is the prepacking that has to be done to get everything to the vessel in a timely manner, and in an order that placates both sides of the operation. It’s a constant give-and-take.”

“You have to take into account the ballast and balance of the ship, how much weight goes low vs. high. There’s always an engineering question about the distribution of weight vs. the vessel’s draft,” Hakala said.

“That requires a skill set of more than just freight and transportation knowledge. You have to know oil drilling equipment, understand how to deal with drilling managers, how to move around in rig-up yards, what equipment is what, which piece weighs more, and which piece has to go on the ship first.”

Caruthers said 18 percent of Eagle’s business is oil and gas related.

“Some people say project cargo has a start and an end. The big oil companies often look at a project as lasting for 20 years. You start by sending your geologists and geophysicists out to work a possible oil field, you bring in the drilling equipment, you bring the production equipment, and you produce oil. That project can be 20 years in scope,” he said.

“Other people say once you bring the equipment in, it’s all re-supply from that point on,” Hakala noted.

Some oil companies use the same project cargo facilitators for the life of a rig. Other oil companies rebid every project shipment.

Choosing Carriers. Project cargo shippers often listen to their facilitators and forwarders as to what ocean carriers they should use. Others pick the carriers, leaving little or no say in the matter to outside hired help.

“They don’t always pick the cheapest project cargo carrier. The more fragile the cargo, the more they are willing to pay for a carrier they trust because they’ve used it before,” Hakala said.

Fundamentally, price drives everything. “The ship’s age, speed, handling gear, the competence of the load master, and the ship’s crew are tangential to price,” Caruthers said.

“There can be hundreds of pieces to a torn-down rig,” Hakala said. “The packing list for a good-size desert drilling rig can be 300-400 pages long. There are hundreds of
pieces, some of them weighing 80 or 90 tons each, measuring 50 to 60 feet long and 12 feet tall and wide. Some of the pieces on the manifest will be as small as a pencil.

“You have to account for every single item making it on the ship. There’s no leeway for overlooking anything,” Hakala said.

Once a vessel sails, most project cargo carriers provide Internet-based ship tracking services, where the ship’s positions are tracked by satellite and updated by GPS every day, including such specifics as windage and wave height.

When the rig arrives at its destination, the packaging facilitator or forwarder ideally is flown over to unpack the ship.

“The economics don’t always support that. If the shipper won’t pay for at least one of us to go over, we’ll send the packing list and vessel load plan to our local agents who have experience with oil and gas drilling equipment.” Caruthers said.

“That’s why your final packing list and load plan have to be 100 percent accurate. We try to always have one of us present at the off-load,” Hakala explained.

“It doesn’t take as long to unload a ship. Project cargo comes off a lot easier than it goes on,” Hakala said.

“If you spend four or five days loading a project cargo shipment, you’ll take two to three days to unload it,” he noted.

**Damage.** “Another difference between containerships and project cargo ships is that the latter run the risk of receiving more damage,” said Stangel, of Intermarine.

“Often, project cargo is actually affixed to the ship, so that there is considerable cutting and prizing at the point of destination to remove the cargo,” Stangel said.

Asked who was responsible if Intermarine’s vessels were ever seriously scarred, Stangel said, “if the cargo damages the ship, in most cases it would be our fault, unless the cargo collapses.

“If you can clearly delineate that the cause of such an accident was the fault of the cargo, and it wasn’t reasonable for the carrier to anticipate the problem, then the carrier would have a claim against the cargo interests,” Stangel said.

“There are occasional situations where the cargo doesn’t have enough structural integrity to withstand the forces of sea transport, and breaks free or collapses,” he said. “Those are few and far between, and usually are not catastrophic general average situations.”

On a containership, “you have a system of cells where everything is fitted into slots like an egg carton. It doesn’t lend itself to damage in normal routine,” he explained.

“There’s more wear and tear on project cargo ships because of the nature of that securing process. You’re welding things down, and then cutting them away when the cargo is unloaded,” he said. “That means more dents and bangs. However, project cargo ships tend to be hardy vessels that can take that kind of wear and tear.”

“In addition to new ships in Intermarine’s fleet, we have some 20-year old breakbulk vessels that may appear to be beaten up, but they are still viable,” he said.

**Customs Scrutiny.** The U.S. Bureau of Customs and Border Protection inspects a significant amount of incoming project cargo: “probably half of what comes in,” said one Customs official in Houston.

“A lot of times, when you import a rig, Customs will do an intensive inspection, even using sniffer dogs,” Hakala said.

“You’re not going to have a problem with people trying to sneak stuff in on drilling rigs because they can’t get to them to do it on the water, and the rig yards used for repair and refurbishment are closely guarded around the world,” he said.

**Parking Imports.** One way around higher project cargo rates is to reduce costs
by the adroit placing of import inventory in a U.S. port’s foreign trade zone.

“It has become pretty standard for importers of 80-ton to 100-ton power generators to bring them in from Mexico, Canada, Italy and Japan,” said Wilson of the port of Freeport.

“Increasingly, manufacturers are quite pleased to import such units and park them in Freeport’s foreign trade zone. The project cargo is actually here before it’s sold,” Wilson said. No duty is paid until the sale. The manufacturer is also free to re-export the generator with no expense, duty deferred.

Freeport is building a new warehouse for parked project cargo.

Auto Imports. Generally along the Gulf of Mexico, “project cargo business has been good for several years, and increasingly better in the last few months,” noted Jimmy Lyons, director and chief executive officer of the Alabama State Port Authority.

“The last boom was when there a lot of small generator plants being built in the U.S., as well as smaller gas-fired power plants, with components for both being sourced offshore,” Lyons said.

In the port of Mobile, imported project cargo includes manufacturing equipment for the automotive industry, such as paint booths and stamping presses, including a 236,000-pound component for Honda’s plant in Lincoln, Alabama. Hyundai has brought in machinery for its automobile plant in Hope Hull, Ala.

In addition, Kvaerner Oilfield Products has imported components for its umbilical manufacturing plant in Mobile, Ala.

The port recently exported a 350-ton boiler sent to Jamaica, as well as chemical plant components shipped to South Korea from the dismantled Air Products and Chemicals Inc. facility in Coden, Alabama.

At the same time, “we’re seeing a lot of machine tools coming in from overseas, especially in Japan,” Lyons said.

“We do some offshore supply work, but not as much as Houston,” he explained.

Incoming project cargo moves of 100 tons or more leave Mobile on barges, traveling on inland waterways and moved to trucks only for the last portion of a delivery.

“You find a lot of project cargo barge traffic on the Intercoastal Waterway — as well as steel, scrap, limestone, and also on the Tennessee-Tombigbee waterway network,” he said.

Mitigating Risks. The project cargo market has been rife with horror stories akin to the one about a $1.5 million drilling press that went over the side of a ship, leaving the owner of the press to collect $500 from the ocean carrier because, under the Carriage of Goods by Sea Act (COGSA), the press was considered to be a single pallet of cargo. The owner had not insured the press for its full value.

Asked if, in addition to paying for routine insurance coverage, more shippers were paying high ad valorem rates to insure their project cargo at full value, responses were mixed.

“People don’t take the risks they used to out of ignorance or denial,” said Peter Moe Sr., president of Trans-Net Inc. a Seattle-based provider of project cargo services. Although most large oil companies are “self-insured,” meaning that they absorb any loss or damage to cargo, it would appear that mid-sized shippers are covering more of the value of project cargo to Iraq and Sakhalin Island.

Often, their twice-burned insurers are requiring that they do so in situations assessed to be of particular risk.

That would not seem to be true for project cargo imported into the United States.

“In three years, I haven’t seen one bill of lading with such an ad valorem declaration,” said Joseph Srour of Sea Bridge Projects Inc., in Metairie, La.

Hot trades for project cargo

Iraq, Sakhalin Island tops list for development.

BY ROBERT MOTTLEY

Two hot trades for project cargo are Iraq and Sakhalin Island in Russia’s Far East.

“There’s also activity in West Africa,” said Peter Moe Sr., president of Trans-Net Inc. “Not much is happening in the North Sea area, except for the maintenance and resupply of oil rigs that is usually handled out of Aberdeen, Scotland, or by Scandinavian sources.

In Iraq, “the U.S. Army Corps of Engineers is calling the shots when it comes to the transportation of materials,” said Jeff Caruthers, manager of oil and gas operations at EGL Eagle Global Logistics, Inc., a Houston-based provider of logistics services.

“The Corps dictates on a need basis what the priorities are. Power generation is a high-ranking priority,” Caruthers said.

GE, Perini and other electrical equipment manufacturers have been flying generator components into Iraq.

Project cargo trade to Iraq “is picking up dramatically. The U.S. promise to reconstrcut Iraq is beginning to turn into tangible physical pieces of cargo to be moved,” said Greg Stangel, vice president of marketing for Intermarine.

Intermarine does considerable project work for the military,” Stangel said.

J. Alberto Mejia, marketing manager at Intermarine, noted that “we have also been active in moving oil and gas equipment to West Africa.”

Intermarine owns three vessels in a fleet of 25 ships, with 16 of those vessels in South American trade. One ship is U.S.-flag, the others sail foreign-flag.

Trans-Net Inc. handles project cargo shipments to both Iraq and Sakhalin Island.

As far as Iraq goes, “we have partners in Jordan, notably Armad Armorsch, which runs 400 trucks to and from Iraq,” Moe said. Armorsch is also an agent for Strachan Shipping in Mobile.

“Because of bandits, the trucks sometimes have armed guards,” Moe said.

“We arrange for the cargo to be shipped from North America to Iraq. We’ve found there’s a lot of commonality between what we do in Iraq and what we do in the Russian Far East,” Moe said. “They are both oil-related economies. Sakhalin Island has extremely large oil and gas reserves. The companies that deal in the Russian Far East, such as ExxonMobil, Halliburton, and ABB Lumus, are the same as those bidding on work in Iraq. They work with major forwarders such as Panalpina and Danzas.”

Cultural Shaping. Moe, who travels frequently to Sakhalin, said oil purveyors in that region are “tough negotiators.”

“A lot of project cargo business is not done by letter of credit in that region of Russia, but on a handshake basis. The banking system is extremely weak, so you have to be innovative in how you transfer and move

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money around,” he said.

Although a Russian company, to get a letter of credit, can open an account with a U.S. bank, “most project cargo shipments to Sakhalin are done on direct consignment terms. That means we don’t release the cargo until the freight is paid on it,” Moe said.

Western oil companies have been beneficial “because they’ve imposed upon the Russian Far East culture a set of orderly ways to do business that are legal, and they have a high standard of ethics,” Moe said.

Although the Arab culture in Iraq is very different, “the end result is the same. Iraqis have been bottled up for a lot of years, and didn’t have any outside influences that could shape their thinking differently. Nine years from now, they will have come as far as Russians have since 1995,” Moe said.

Iraq, with a smaller population, doesn’t have eight time zones within its borders, as Russia does.

“When you ship project cargo to Iraq and to Russia, you must be compliant with every customs regulation. Everything needs to match up: the commercial invoice, the tally sheet, the bill of lading, the export deck, you can’t be as much as a penny off,” Moe said.

Trans-Net will open an office in Baghdad “when the time comes that project cargo contracting is being handled by Iraqi businesses,” he explained.

“Right now, the U.S. and its allies are doing all of the contracting in Iraq. That will spread out over time. Once the political process is over, Iraqi contracting will be global. You’ll certainly see Japanese and Canadian companies as well as American and British ones competing for bids,” Moe said.

Major contracts in the area of oil and gas logistics will be sourced globally: manufacturing components will come from Singapore, Aberdeen, and Seoul.

Trans-Net has a staff of five in Seattle and six employees in Russia. Soon, Trans-Net will have an office in Moscow and its own staff person in the Middle East.

The company partners with large forwarders as well as shipping project cargo directly. “The big project business is handled best by large companies, who find small niche companies very useful,” Moe said.

In Russia, “we don’t have much competition yet, but we will have,” he said.

“Everyone and his brother is smelling money to be made in Iraq, so that field is getting crowded.”

Asked of future market areas that might be rich in project cargo pickings, Moe said, “China is oversubscribed. We’re concentrating more on Mongolia, which has immense logistics potential.

“Remember that China’s space capsules come down in Mongolia, but aerospace is only one evolving industry. Every plant on the drawing boards there will have components shipped as project cargo.” He said.

“The export market for project cargo to the Far East has improved,” said Steve Garifalos of Rickmer-Linie. “We’ve gotten to the point that, besides our eastbound round-the-world service, we’ve reinstated our westbound service.

“We have nine new ships in eastbound trade, and one going westbound,” Garifalos
said in Houston.

“If the charter rates hold, ocean freight rates should improve the cash position of all project cargo vessel operators,” Garifulos said.

Stangel discerns “a new need for infrastructure development around the world. Most momentum stopped after 9/11.”

“The Chinese have put a tremendous strain on breakbulk vessel capacity in the world market, so that rates have skyrocketed,” he said. “This has put a squeeze on our project cargo clients. They haven’t been the cause for a shortage of space, but they are the victims of it.”

Project cargo rates are up 30 percent and more, but that has to be taken in context. Charter hire rates on bulk vessels have gone up 300 to 400 percent, while rates for smaller multipurpose vessels have doubled in less than a year, Stangel noted.

Rich Energy Fields. Mike Godfrey, a British logistics consultant who recently returned from Sakhalin Island after finishing a consultation for Panalpina, explained that there are two oil fields in that region, Sakhalin 1 and Sakhalin 2. “They take only gas from one, and by the end of 2004, they’ll be running oil from the second field,” he said.

Estimated recoverable reserves at three Sakhalin sites, Chayvo, Arkutun-Dagi and Odoptu, total 307 million tons of oil and 485 billion cubic meters of gas. The expected daily production is a quarter of a million barrels of oil, or 33,000 tons per day.

“There are massive amounts of equipment being brought over,” Godfrey said. For ExxonMobil, Panalpina shipped an oilrig to Sakhalin on a Crowley Marine vessel, the Freya, from Houston.

“It’s quite a hostile environment for oil field workers. Chayvo Beach especially is extremely inhospitable. The rig that Panalpina shipped was one of the world’s largest moveable objects — they had to set down tracks to transport it through a marshy bog full of mosquitoes,” Godfrey said.

The Japanese, who call Sakhalin “Kara-futo,” are also involved, building a pipeline to take gas into Japan.

As part of the Sakhalin-1 project, an 830-meter automobile bridge has been constructed connected the Chayvo website with an onshore processing facility run by Exxon Neftegas Ltd. (ENL), a Russian subsidiary of ExxonMobil, part of the Exxon Mobil Corp.

Russia generally requires that foreign oil companies work through subsidiaries,” Godfrey said. “It will be interesting, after the political phase is over, to see if Iraq will do the same.”

NEW YORK

Two recent vessel accidents have drawn considerable attention from the project cargo industry.

In mid-afternoon Dec. 9, the Stellamare, a 289-foot project cargo ship owned by Jumbo, a Dutch shipping company, was loading a generator in the port of Albany, N.Y. The 18-man crew used the vessel’s onboard cranes to lift the second of two locomotive-size, 308-ton power units made by General Electric in Schenectady, N.Y.

A group of longshoremen on the docks watched as the cranes begin to lower the generator into a hold on the Stellamare. Without any warning, the ship tilted to the left, its tipping slowed by mooring lines. Eight crewmen lost their footing and fell into the Hudson River, from which they were rescued by the longshoremen and emergency service personnel. Seven of the crew managed to leap to the dock as the vessel turned over, but three were trapped inside and drowned.

Only once before in the United States, more than a quarter century ago, had a project vessel flipped while loading.

U.S. Coast Guard Commander John E. Cameron noted that the Stellamare was holding only 20 percent of its weight capacity, making it vulnerable if an imbalance had occurred in the ship’s ballasting system.

“We have no official comment about what might have happened, pending the completion of an official investigation,” John Hillin, a Coast Guard spokesman, told American Shipper in February. “I think it’s a tragic one-off rather than something that the project cargo industry has to worry about.”

Other maritime sources have questioned whether the vessel’s mostly Russian crew had been trained in proper ballasting techniques.

Jumbo’s insurance company, after paying to have the vessel raised, declared the ship a constructive loss and sold it on Jan. 16 for $125,000 to Empire Harbor Marine Inc., and Port Terminal Ltd., of Albany.

General Electric is repairing the two generators for future reshipment to power plants in Italy and Romania.


Three crewmembers were extracted alive from the capsized vessel after rescue workers cut a hole in its hull. Others were rescued from the water.

The Rocknes, managed by The Jepsens Group of Bergen, was carrying a load of gravel that had shifted to the right when the vessel turned into the channel, according to pilot Vermund Halhjem.

The Rocknes’ captain, Jan Aksel Juvik, told the pilot, “this isn’t unusual.” A German master sailing on board as part of a training program disagreed as to what effect the cargo shift might have. The two captains discussed the situation, and the German remained nervous about the ship’s stability.

A crewman reported at a later hearing that a computer screen on the bridge of the Rocknes had flashed a warning that something was amiss with machinery used
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Breakbulk, bulk lines rush to AMS

Vessel agents help these operators meet U.S. Customs’ March 4 deadline.

BY CHRIS GILLIS

International breakbulk and bulk carriers are scrambling to comply with the U.S. government’s mandatory rules for automated filings of manifest information for inbound cargo shipments.

The U.S. Bureau of Customs and Border Protection announced the regulation in a Dec. 5, 2003 Federal Register notice, and gave the ocean carriers until March 4 to comply. The regulation covers mandatory electronic manifest filings provisions in both the 2002 Trade Act and 2002 Maritime Transportation Security Act.

Many breakbulk and bulk carriers that make infrequent calls to U.S. ports have traditionally relied on their vessel agents in the arrival ports to process their inbound cargo manifests with Customs. This process also included the use of the vessel agents’ SCAC (Standard Carrier Alpha Code) numbers and international carrier bonds. Under the new regulation, these carriers must use their own SCAC numbers and obtain the necessary $50,000 bond for customs clearance purposes.

SCAC numbers may be obtained through the National Motor Freight Traffic Association in Alexandria, Va., and surety companies provide the bonds. Both activities take time.

“There has not been any explanation for practical implementation of this regulation,” said Gene Meredith, a manager in Savannah, Ga. for vessel agency Wilmington Shipping. “The vessel operators are stumbling into it and along with it.”

Many breakbulk and bulk carriers must either invest in direct connections with Customs’ Automated Manifest System or sign onto a certified third-party data service center. Carriers that use data service centers may authorize their vessel agents to process inbound manifest data on their behalf, an avenue most of these operators are expected to take.

The Mississippi River Maritime Association recently signed onto Flagship Customs Services’ data service center, Import2000, which its agent members can use to assist their breakbulk and bulk carrier customers with electronic manifest filings. The Baton Rouge, La.-based association’s 13 vessel agent members handle about 3,000 ship calls a year.

“Most of the agents have no prior experience with AMS,” said Michael Titone, president of the Mississippi River Maritime Association, in an interview. “With the carrier’s bond in place, it only takes (the authorized agent) one to two days to set up an account on the system.”

Vessel agents generally pay an agreed upon transaction fee to use the data service centers, which they in turn bill back to the carriers. In addition to the Mississippi River Maritime Association, Robert Foley, president of Flagship Customs Services, said his company has signed up about 15 individual vessel agents in recent weeks. Flagship Customs Services has had its Import2000 service in place since Customs announced on Dec. 2, 2002 a rule for all inbound cargo container manifests from both liner carriers and non-vessel-operating common carriers to be filed to the agency 24 hours prior to loading on U.S.-bound vessels overseas. Today, the Silver Spring, Md.-based company’s Import2000 serves more than 200 NVOs and 50 carriers.

Foley said his company did not have to make any changes in the existing Import2000 to accommodate breakbulk and bulk cargo manifest reporting. The company did make some administrative changes to allow the agents to more conveniently manage filings for multiple vessel operators.

Under the so-called 24-hour rule, Customs provided exemptions for certain breakbulk imports. But the carriers of these cargoes still had to supply the agency with manifests 24 hours prior to arrival for voyage times of less than 24 hours. For voyages of less than 24 hours, manifests must be filed to the agency at the time of sailing.

Bulk carriers under the initial 24-hour rule could continue filing manifests to Customs 24 hours prior to arrival in a U.S. port, and for voyages of less than 24 hours, manifests must be filed at time of sailing.

Even with the ability to file electronic manifests on their customers’ behalf, anxiety is running high throughout the small vessel agent industry. The national vessel agents have the chance to knock out many smaller operators with their ability to develop their own AMS connections to keep processing fees low, whereas the small vessel agents may have to charge carriers $300 to $900 per manifest to cover their costs. There is also concern about managing manifest traffic through multiple third-party data service centers used by a vessel agent’s carrier clients.

“I’m playing the lottery a hell of a lot more than I ever did,” Meredith said. “But everyone adjusted to the 24-hour rule, and when this shakes out, it may not be a problem after all.”

Titone believes the regulation could foster new business opportunities for vessel agents. “The vessel agents simply need to look at what they do in a different manner,” he said.
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Textile loopholes

GAO says U.S. Customs lacks capability for thorough enforcement of textile transshipments.

By Eric Kulisch

The U.S. government’s top watchdog agency said in a recent report that the U.S. Bureau of Customs and Border Protection needs to get its house in order to prevent foreign suppliers and importers of textiles from circumventing trade laws designed to protect domestic industry.

A recent General Accounting Office report said U.S. Customs does not have adequate internal controls, resources and penalties to monitor and prevent illegal textile transshipments designed to evade quota limits and duties on products from certain countries.

In addition to the difficulty of catching imports routed through countries with fewer quota restrictions, Customs has problems keeping track of shipments entering the United States under the in-bond system for deferring duty on cargo moving inland, GAO said. The use of in-bond entries rose 69 percent between January 2002 and May 2003, while the number of immediate transportation entries doubled.

The lack of strong systems means the federal government does not have a handle on the level of illegal shipments, potentially worth millions of dollars in lost duties, tariffs and other revenue.

The GAO recommended seven ways Customs Commissioner Robert Bonner could begin to close loopholes in transshipment and in-bond enforcement:

- Require production verification teams that visit foreign manufacturing sites to complete their reports faster and enter them in the Automated Commercial System (ACS) so ports can be aware of what shipments to stop.
- Assign import specialists to Customs Attaché Offices in high-risk textile transshipment countries to assist with textile monitoring and enforcement activities.
- Place priority on timely implementation of a fully automated in-bond reporting system, including requiring more data to track in-bond movements.
- Increase port targeting and inspection of in-bond shipments.
- Routinely investigate overdue shipments and, pending implementation of an improved automated system, require personnel at ports of entry to maintain accurate and up-to-date data on in-bond shipments.
- Assess and revise regulations governing the time intervals allowed for in-bond shipments to reach their final destinations, and whether importers or carriers can change the in-bond destination port without notifying Customs.

“Bond amounts can be set considerably lower than the value of the cargo, and violators may not view the low payments as a deterrent against diverting the cargo.”

U.S. General Accounting Office

- Review whether the value of carrier bonds is high enough to deter illegal diversions of goods.
- Textile and apparel products account for about 7 percent of all U.S. imports, with a value of about $81 billion in 2002, nearly double the amount a decade ago. Customs, which is in charge of enforcing the nation’s trade laws, has intensified its scrutiny of illegal textile and apparel imports during the past 15 months (December American Shipper; pages 38-44). But many importers and customs brokers who process their entries complain that the lengthy investigations are causing delays for other cargo due to a backlog of seized shipments and lengthy investigations that divert Customs resources away from trade facilitation.
- When exporters have used up the annual quota allotted by the United States to their government, they are faced with three choices: sell to another country, wait until next year or ship the goods through a third country with extraquota capacity and create fake documents showing the goods were produced there instead.

The GAO found that Customs is only able to scrutinize a tiny fraction of imports for transshipment violations, and is unable to quantify the magnitude of the problem. Analysis of country-of-origin information in entry documents led Customs to target about 2,500 textile shipments for inspection in 2002, less than 0.01 percent of the 3 million entries processed. Of the shipments reviewed, about 24 percent were excluded from entering the United States, 2 percent resulted in penalties and 1 percent in seizures.

In-Bond. Concurrent with the rise in use of the in-bond system in recent years has been an increase in enforcement activity. Last year an investigation found that 5,000 containers of apparel were illegally imported, thus avoiding quota restrictions and payment of $63 million in duties. Between May and Oct. 7, the ports of Long Beach and El Paso made 120 seizures valued at more than $33 million, according to the GAO.

Nonetheless, most ports do not have the luxury of assigning any full staff dedicated to inspecting in-bond shipments. At seven ports surveyed by the GAO, inspectors dedicate less than 10 percent of their time to in-bond inspections, with only 2 percent of in-bond entries actually inspected at the Port of New York-New Jersey.

The nation’s auditor criticized Customs for having weak in-bond controls, saying the agency needed:

- An automated system to track in-bond shipments.
- A consistent approach to targeting and inspecting in-bond shipments from port to port.
- Adequate verification that in-bond shipments bound for Mexico are actually exported.
- Tougher rules restricting the ability of importers from changing final shipment destinations without notifying Customs and the extensive time now allowed for in-bond shipments to reach their final destination.
- GAO recommended carriers have 10 to 20 days to close out an in-bond entry, rather than the 30 days currently allowed.

“Internal control weaknesses have meant that CBP places an unacceptably high level of reliance on the integrity of bonded carriers and importers” and “little actual monitoring of cargo using this system takes place,” the GAO added.
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Diversion back to the U.S. market of in-bond shipments designated for export to Mexico is a growing problem, compounded in part by the lack of severe penalties, the report said. In one case a company transported $600,000 worth of blue jeans to evade quota and visa restrictions, but company officials that pled guilty ended up paying civil penalties totaling only $53,000. And if a company appeals for mitigation, a penalty for such an amount can often be reduced to as little as $500.

A related problem is that when a trucking company is discovered violating the conditions of its bond intended to guarantee compliance with import laws, the company is only liable for the amount of the bond, rather than the value of the merchandise.

“Bond amounts can be set considerably lower than the value of the cargo, and violators may not view the low payments as a deterrent against diverting their cargo,” the GAO said. “Additionally, it is difficult for CBP to enforce payment of unpaid penalties and liquidated damages because the Department of Justice does not have sufficient resources available to prosecute all the referrals for collections actions.”

Furthermore, the difficulty of building a transshipment case serves as a disincentive for Customs agents to seize cargo and prosecute violators. Customs officials instead tend to rely on excluding shipments from entering U.S. commerce as the primary method of enforcement because seizures require more evidence.

Customs “has experienced serious challenges in deterring illegal textile transshipment due to a lengthy and complex investigative process and competing priorities,” the GAO said. Some investigations that went to the Court of International Trade in 1989, for example, were not decided until 1995, 1997 and 1999. Two large civil cases against multinational corporations took seven and 10 years to pursue at the Court of International Trade, the GAO said.

“In addition, in-bond arrival and departure information recording is not always timely; and according to our survey (of 13 major ports), insufficient cargo information, along with a lack of communication between U.S. ports about in-bond shipments, makes it difficult for ports of destination to monitor cargo and know the number of in-bond shipments to expect.”

Customs personnel are unable to keep up with the growth of in-bond entries that have to be manually entered into the agency’s automated import system. The GAO found that at some ports from half to all of their in-bond entries were in paper form.

Customs officials have said they plan to fully automate the paper-intensive in-bond process, starting with air cargo and then trucking. Last year, Customs issued stricter data requirements for in-bond entries as part of a wider effort to improve cargo security. Customs officers are now required to immediately enter the data into a computerized system, rather than processing entries after a bond has been issued. The change in procedure is designed to make data from the paper process as quickly accessible to Customs analysts as electronic in-bond filings, which customs brokers can voluntarily submit via a public version.

WASHINGTON

U.S. imports of clothing from China over the past decade have grown significantly and that trend appears ready to accelerate.

U.S. textile and apparel importers will increasingly turn to China as their preferred supply source beginning in 2005, when quotas that limit the amount of Chinese products that enter the country are supposed to be phased out to comply with a global agreement to end most quotas, according to the U.S. International Trade Commission.

In a report assessing the competitiveness of certain foreign suppliers to the U.S. market, the ITC said U.S. importers would switch to China as their primary supplier. China is in demand because producers there “can make almost any type of textile and apparel product at any quality level at a competitive price,” the ITC said.

The ITC is an independent agency that analyzes the effect of foreign trade on U.S. industries and enforces certain violations of trade laws.

Countries that belong to the World Trade Organization agreed in 1995 to eliminate quotas by Jan. 1, 2005. The United States will continue quotas for five countries that are not WTO members and can institute quotas to safeguard domestic industries in cases in which it can prove unfair trade. China agreed as part of its WTO entrance requirements to allow the United States to impose selective safeguards on imports for four more years if they cause market disruption. Last December, in fact, the United States slapped quotas on imports from China of certain types of knit fabrics, gowns and bras in response to petitions filed by U.S. manufacturers.

Last year, the United States recorded a $120-billion trade deficit with China, although Chinese officials peg their trade surplus with the United States at only $53 billion. U.S. imports of textile products from China totaled $81 billion in 2002, when China surpassed Mexico as the largest foreign supplier to the U.S. market, according to the latest U.S. trade figures.

U.S. importers will also expand trade relations with other nations with low production costs to spread their risk in the event circumstances that might disrupt the flow of trade from China, the ITC predicted. India likely will be a highly sought after source for fabrics and clothing, because it also has a very large manufacturing base and a large supply of relatively low-cost labor. Bangladesh and Pakistan are also likely to emerge as major textile and apparel exporters, but with a more limited range of products, the ITC said.

The only major competitor to China and India in East Asia is Vietnam, according to the ITC. Vietnam’s growth as a clothing supplier will be limited because it is not a WTO member and its products will be subject to quota. Importers are expected to shy away from Indonesia as a significant alternative because political and social unrest in that country make it a potentially unreliable supplier, the ITC said.

“Although many countries may see their share of the U.S. market decline, a large number of countries likely will become second-tier suppliers to U.S. importers looking for extra savings, flexibility and speed will look beyond their main supply source. Some U.S. companies expressed an interest in sourcing from Central America if a regional or hemispheric free-trade agreement is negotiated that allows the use of third-country fabrics, the ITC reported. Central American and Caribbean Basin countries will remain important because their proximity provides quick turnaround times that allow U.S. buyers to adjust orders to meet demand. Turkey and Colombia are also considered capable suppliers for quick turnaround business, the ITC said.

The ITC submitted a confidential version of the report to the Office of the U.S. Trade Representative, which requested the study, in June 2003, seven months prior to the Feb. 9 release of the public version.

China poised for larger textile market share
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The GAO report was required by Congress in the 2002 Trade Act to address concerns that illegal shipments were contributing to the decline of the domestic textile manufacturing base and lost jobs. Customs has failed to implement all of the GAO’s recommendations from its 1994 and 1997 reports on in-bond shipments, the congressional watchdog agency said.

The GAO’s conclusions were based on first-hand reviews of Customs procedures at the ports of New York-New Jersey; Los Angeles-Long Beach; Laredo, Texas; Columbus and Cleveland, Ohio; and Seattle and Blaine, Wash. Collectively, the seven ports of entry handled 55 percent of U.S. textiles and apparel imports in 2002. Thirteen other ports were surveyed. Investigators also reviewed how Customs analyzed trade data at its Strategic Trade Center in New York, followed agency teams on visits to foreign factories to verify production and discussed the coordination of textile enforcement with customs authorities in several countries.

Customs doesn’t have a reliable estimate of the number of illegal textile transshipments because transshipment is difficult to detect and the agency hasn’t tried to systematically determine the extent of such activity. The lack of data prevents Customs from determining whether the number of inspections is sufficient to detect and deter textile transshipment, GAO said. The result is a chicken-and-egg scenario in which the number of foreign factory visits is limited by resources and probable cause, yet the targeting used to review shipments and visits is heavily reliant on the information officers uncover during the site visits.

Part of the problem is that Customs is stretched thin as the volume of trade keeps growing, and the agency has shifted resources to focus on its top priority of border security. Commodity expertise at the port level is atrophying as inspectors are less willing or able to look for physical clues of country of origin violations, such as altered labels, GAO said. Most of the responsibility now falls to import specialist to determine from production documents what shipments should be reviewed and seized.

“At all but one of the ports we visited, inspectors were mainly pulling sample garments from shipments for import specialists to examine, rather than acting as an additional, knowledgeable source on textiles who could do a first level of review,” the GAO said.

Customs officers at the Strategic Trade Center in New York analyze trade data using a risk management approach similar to the winnowing process used by the National Targeting Center to identify and review international shipments that pose a high security risk. As of last December, however, 25 percent of the positions at the Strategic Trade Center were unfilled (three out of 12 positions) while its workload grew as trade agreements increased.

The overburdened staff has postponed several types of analyses which would improve its targeting process, including analyses of high-risk countries, improvements to existing targeting processes and studies of alternative targeting techniques, GAO found.

Customs pinpoints textile shipments for review by targeting countries, manufacturers, shipments and importers with the most opportunity and incentive to avoid trade restrictions and taxes. Sudden surges of products restricted by quotas coming in from countries without quotas, production data, results of past factory and port inspections, suspicious patterns of behavior, tips for the private sector and other intelligence
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are used to identify shipments for closer examination. Customs officers actually visit about 11 high-risk countries per year and 45 manufacturing plants per country to find evidence of transshipment or compliance with U.S. trade laws. During the past four years, Cambodia, Hong Kong, Macau, Taiwan and El Salvador received the most U.S. Customs visits. About half of the manufacturers targeted for closer review turned out to have serious violations, including closed factories and factories that refused admission to Customs officials.

Importers are also considered at high risk if audits of their overall customs compliance procedures and fees indicate a lack of internal controls against transshipment. In the past year, Customs identified more than 40 importers who have a pattern of sourcing from foreign manufacturers involved in transshipment. Even if no evidence of actual illegal activity is discovered, companies can be fined for failing to exercise reasonable care to ensure that the documents their manufacturers submitted accurately listed the country of origin.

Course Correction. In a letter to the GAO, the Department of Homeland Security and Customs agreed that textile transshipment reviews and in-bond enforcement need to be improved and would take steps to implement the agency’s recommendations.

Customs said it plans to update its standard operating procedures in the spring to require that Textile Production Verification Teams immediately input high-risk factories into ACS to reduce the five-week reporting lag.

The border management agency was more non-committal on the issue of assigning more import specialists to overseas offices to assist with textile monitoring, saying it would look into the matter.

Customs also said it would complete the automation of the in-bond entry filing system in fiscal 2005.

The bureau said it was continuing to step enforcement of in-bond movements, with six to eight national enforcement operations scheduled in fiscal year 2004, as well as implementing an Automated Targeting System for in-bond shipments.

As for revising the 30-day time frame to complete an in-bond move, Customs said such changes would be considered once the automated system is in place.

Customs also agreed that bonds are not set high enough and said it was developing new guidelines that adjust the bond amount for each carrier based on the type of commodity, history of the carrier and the potential revenue loss for non-compliance.

Bush free-trade agenda under fire

Agricultural shipper lobby severely erodes benefits of recent U.S.-Australia agreement.

BY CHRIS GILLIS

For the past two years, the Bush administration has touted the economic benefits of bilateral and regional free-trade agreements with other countries, but a recent agreement signed with Australia has dealt this agenda a major blow.

Powerful agricultural lobbies representing American beef, dairy and sugar production successfully convinced the administration to maintain traditional trade protections for their products in the U.S.-Australia free-trade agreement. U.S. quotas on imported Australian beef will remain in place for 18 years. There will also be no change in the U.S. must-favored nation quota tariff on dairy products. Australia’s current quota access for sugar remains unchanged.

U.S. wheat interests pounded the Bush administration for not using the free-trade agreement negotiations to eliminate the Australian Wheat Board (AWB), a government-operated manager for Australia’s wheat exports, which American wheat producers say unfairly reduces commodity prices on the international market.

“We are very disappointed that the U.S.-Australia FTA (free-trade agreement) did not address the inequities inherent in the AWB monopoly,” said Alan Lee, chairman of U.S. Wheat Associates, in a statement.

“Negotiators made the same mistake when the U.S. signed the original free-trade agreement with Canada, and American wheat producers are still subject to the unfair trading practices of the monopoly up north,” Lee said, referring to the continuation of the Canadian Wheat Board. “Again U.S. negotiators missed the opportunity to correct the trade distortions as practiced by export monopolies.”

U.S. Wheat Associates, which represents wheat commissions in 20 states, will lobby Congress to oppose the U.S.-Australia free-trade agreement’s implementation. “If we cannot solve trade issues in a free-trade agreement, and if the FTA partner continues with unfair trade practices, harming the financial well being of wheat producers, then the FTA should be defeated and negotiators should go back to the table,” Lee said.

The Bush administration has downplayed the agricultural product exemptions in the U.S.-Australia free-trade agreement. Under the agreement, the administration pointed out that more than 99 percent of U.S. manufactured exports to Australia will become duty-free immediately upon implementation of the agreement. Manufactured goods account for 93 percent of U.S. exports to Australia.

“This is the most significant immediate cut in industrial tariffs ever achieved in a U.S. free-trade agreement, and manufacturers are the big winners,” said U.S. trade representative Robert B. Zoellick, when the deal was signed between the countries Feb. 9.

According to the USTR, two-way annual goods and services trade between the countries is about $28 billion. Australia buys more goods from the United States than any other country, and enjoys a bilateral goods and services trade surplus of $9 billion. Australia is a key export market for U.S.-made planes, cars and auto parts, machinery, computers and electronic products, chemicals, and wood and paper products.

The Bush administration also cited new opportunities for U.S. farmers in its Australia free-trade agreement. A USTR trade facts sheet covering the agreement said all eligible American agricultural exports to Australia, valued at more than $400 million, will receive immediate duty-free access.

Key U.S. agricultural products that will benefit from immediate tariff elimination include:

• Processed food products, such as soups, food preparation and bakery products.
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• Fresh and processed fruits, vegetables.
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- Pork products, with resolution of technical issues expected in the near future.
- Alcoholic beverages, such as distilled spirits.

The United States and Australia vow to resolve outstanding sanitary and Phytosanitary differences to agricultural trade, especially with pork, citrus, apples and stone fruit. The agreement also calls for strengthened scientific cooperation between the countries to resolve specific bilateral animal and plant health concerns.

In response to U.S. concerns about Australia’s agricultural state trading enterprises, such as AWB, Australia said it would work with the United States in the ongoing WTO negotiations on agriculture to develop “export competition disciplines that eliminate restrictions on the right of entities to export.”

The Bush administration began free-trade negotiations with Australia in March 2003. The U.S.-Australia free-trade agreement is the first agreement concluded between the United States and a developed country since the U.S.-Canada free-trade agreement in 1988.

While President Bush may negotiate free-trade agreements under his Congressionally approved trade promotion authority, Congress must approve the final draft of the agreements before they’re implemented.

Some members of Congress are already steamed at the administration for allowing certain agricultural exemptions to stand in the U.S.-Australia free-trade agreement.

“One exemption is provided for one so-called ‘sensitive’ commodity, others inevitably step forward to demand their exemption, and the equity and comprehensive nature of a free-trade agreement unravels,” warned Reps. Calvin Dooley, D-Calif., and John Boehner, R-Ohio, in a Jan. 22 letter to the White House. “The list of industries demanding an exemption will only grow now that the door has been opened.”

The lawmakers’ letter also warned the administration about the perception these exemptions will set when the U.S. government goes back to the table to implement the World Trade Organization’s Doha Development Agenda. They said the exemptions in the U.S.-Australia free-trade agreement “jeopardizes support in the international community and in the Congress for free-trade initiatives for years to come.”

Wrong Way. Increasingly, product-specific U.S. agricultural interests have chastised the Bush administration’s piecemeal and inconsistent trade negotiations.

In a recent statement, Carolyn Cheney, chair of the U.S. Sugar Industry Group, said the Bush administration’s desire for bilateral and regional free-trade agreements, as they relate to sugar, is “ineffective and dangerous.”

The Bush administration has either entered into or intends to start free-trade agreement talks with a large number of sugar-producing and exporting countries. According to the U.S. Sugar Industry Group, these countries export more than 27 million tons of sugar, three-times the amount of U.S. consumption.

The U.S. Sugar Industry Group represents American growers, processors, and refiners of sugar beets and sugarcane. The business, both in the United States and abroad, is heavily subsidized. It’s estimated that more than 120 countries produce sugar.

Cheney said the proposed Central American Free Trade Agreement’s inclusion of sugar “further strengthens our resolve to work diligently to defeat the sugar provision.”

Sticking To It. The Bush administration remains adamant in its pursuit of bilateral and regional free-trade agreements. It has recently seen the implementation of its free-trade agreements with Chile, Singapore and Jordan. Other agreements are in the works with countries such as Morocco and Bahrain.

The USTR recently emphasized the benefits of the U.S.-Jordan free-trade agreement. Since the adoption of the agreement, Jordan has increased its exports to the United States to about $600 million in 2003, creating more than 30,000 jobs, the agency said. The U.S. agreements with Chile and Singapore entered into force Jan. 1.

The administration recently signed trade and investment framework agreements with Yemen and Kuwait. The agreements lay the groundwork for free-trade agreement talks between the United States and these countries. The agreements are also in line with the Bush administration’s initiative to create a Middle East Free Trade Area by 2013.

The administration’s drive to create a western hemispheric free-trade agreement, covering 34 countries from Canada to Argentina, has slowed during the past year.

After a week of intense talks in Puebla, Mexico, early February, the co-chairs of the Free Trade Area of the Americas Trade Negotiations Committee (the United States and Brazil) said the negotiators needed more time to consult with their governments back home and each other before advancing the trade agreement.

There’s already concern about nations watering down the proposed FTAA benefits. The nations in the committee have already scaled back on their original goals in the areas of services, investment, government procurement, intellectual property, and access to agricultural markets.

The United States acknowledged at the February FTAA meeting that it wants to aggressively pursue so-called “plurilateral” agreements with other countries or blocs of nations in the region. The United States plans to pursue this type of trade agreement with Canada, Mexico, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Dominican Republic, Colombia, Ecuador, Peru and Chile.

The Bush administration’s overall promotion of free-trade agreements, however, may weaken as the 2004 presidential election draws closer and political rhetoric increasingly turns to maintaining U.S. jobs.
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Origin compliance challenges shippers

More than 200 free-trade agreements and there’s no standard origin rule.

BY CHRIS GILLIS

Global shippers aren’t fooled by the “free” in free-trade agreements, because there’s a price to pay to ensure compliance with rules of origin.

Companies are devoting more staff and resources in their customs compliance departments just to keep up with the proliferation of origin rules contained in new free-trade agreements. Governments use origin rules to ensure that exporting and importing companies seeking free-trade agreement benefits comply with the conditions. Trade control measures, such as import bans and tariff quotas, also depend on the strict application of rules of origin.

“If we want to expand a product around the world, then we must consider the duty rates at destination, and if we want to take advantage of free-trade agreements, we need to know the administrative cost to comply with the rules of origin,” said James Lietz, senior international services manager for the Procter & Gamble Distributing Co., in an interview.

With more than 200 free-trade agreements in place internationally, the internal management of origin rules increasingly tests the customs compliance expertise of big companies like Cincinnati-based P&G, which sells a large variety of consumer goods such as feminine and baby care products, toothpaste, laundry detergent, paper towels, and animal food.

“We treat it like any other legal obligation,” Lietz said. “We must make sure that our countries of origin are correct. It’s quite a challenge at times to label products correctly.”

P&G markets 300 brands of consumer products in 160 countries and has manufacturing sites in 80 countries. Last year, the company shipped about 200,000 TEUs of product globally.

Individual P&G country customs managers largely manage origin rules. Lietz, for example, is responsible for overseeing the company’s origin rule compliance within the North American Free Trade Agreement, while his counterpart in Germany, Walter Steinberger, deals with European free-trade agreements.

P&G spends about $300,000 a year in the United States to comply with NAFTA. The company’s operation in Germany spends about $125,000 annually to comply with free-trade agreements affecting that market. However, the company believes the cost is worth it when compared to its $43 billion in annual sales.

“Our brands are our most important asset,” Lietz said. “We built in-house expertise to do confidential cost analysis of free-trade agreements. There are some things we don’t want floating out there, such as information about new products, new markets and new markets for existing products.”

General Electric Consumer Products has operated a similar strategy towards international compliance with origin rules. “To determine the origin or products is a decisive factor from the aspect of the marketability of the products and naturally has an impact on the customs duty payable,” said Farkas, Barsony, the company’s European tax and customs director in Hungary.

GE Hungary manufactures light bulbs, circuit breakers and medical equipment components. The company handles about 60 percent of its foreign trade within the framework of free-trade agreements. Hungary, the country, operates within the pan-European free-trade agreement. It also enjoys preferential treatment from the United States and Canada.

“GE Hungary’s main products can be grouped into eight different customs tariff codes, and the company has to work with seven different origin rules (including the U.S. and Canadian systems),” Barsony said. “Further complexities arise from Hungary’s system of bilateral agreements.”

Barsony said compliance with these numerous free-trade agreements has required large management and information technology investment on the part of the company, and changes to the free-trade agreements and duty rates of imports must be constantly monitored for the most cost-effective shipping. GE Hungary is now preparing for changes resulting from the country’s accession to the European Union on May 1.

P&G also routinely evaluates its administrative cost to prove products qualify for free-trade agreement benefits. For example, if NAFTA brings no benefit to a product, P&G will pay the most-favored nation duty rate, the U.S. Bureau of Customs and Border Protection’s merchandise processing fee and harbor maintenance fee if it comes in by ship, Lietz said.

The United States continues to increase its number of free-trade agreements, with Singapore and Chile as two of the most meaningful since NAFTA. Lietz said he and his staff would evaluate the origin rules of the Singapore and Chile free-trade agreements to determine which P&G products may benefit from them.

Both P&G and GE Hungary agree that their compliance with free-trade agreement origin rules would be much easier if there was some standardization in their application and use among countries.

Intergovernmental organizations, such as the World Customs Organization, World Trade Organization, World Bank, and United Nations Conference on Trade and Development (UNCTAD), are concerned about the global economic impact of strict origin rules, especially with an estimated 300 free-trade agreements expected to be in place by the end of 2005.

“A serious practical consequence of divergent approaches on the rules of origin is the increase in transaction costs for business faced with having to respect different rules or follow different procedures,” said Parashand Hurry, senior customs affairs officer for the Trade, Customs and Monetary Affairs Division of the Common Market for Eastern and Southern Africa, during a Jan. 26-27 meeting of the WCO in Brussels.

At the same meeting, Stefano Inama, project director for UNCTAD’s International Trade in Goods, Services, and Commodities Division, said origin rules negotiations in free-trade agreements have become part of market access negotiations.

“A tariff concession may easily be nullified by stringent rules of origin,” Inama said. “Negotiating techniques are becoming increasingly complex, based on origin jargon and industrial processes.”

There are generally three categories of free-trade agreements:

- Between developed countries (such as the original U.S.-Canada free trade agreement and the European Economic Area Agreement).
- Between developed and developing countries.
countries (such as NAFTA and the Euro-Mediterranean).

- Between developing countries (such as the Southern African Development Community and Mercosur).

Inama pointed out the most sophisticated and elaborate origin models are those of the United States and European Union. Developing countries, on the other hand, often come up short when negotiating free-trade agreement benefits with industrialized countries.

“Developing countries have yet to come up with model rules of origin reflecting their concerns and level of industrial development,” Inama said. “Rules of origin in South-South free trade areas are mostly of a primordial nature when compared with the NAFTA or pan-European rules of origin.”

In 1995, the WCO began work on harmonizing the non-preferential rules of origin and forwarded its recommendations to the WTO in 1999. The ongoing work at the WTO has been tedious at best. Some sticky origin issues, such as food safety, origin labeling for coffee, political concerns such as whether the exclusive economic zone of the sea should be considered a territory of a coastal state, have slowed the harmonization process in the WTO. The WTO’s Committee on Rules of Origin is expected to finish its work by the end of 2004.

To exporters and importers, however, a global standard for rules of origin is still a long way off. They must comply with today’s origin rules to avoid problems with customs administrations.

Non-compliance with origin rules could prove devastating to a shipper’s bottom line. In the United States, if Customs finds an origin certificate to be invalid, the importer will lose the right to preferential treatment under the free-trade agreement, at a minimum for the consignment or period covered by the origin certificate. The importer will also have to settle the customs duties based on the normal duty rate for the products concerned. In addition, the agency may assess penalties against the importer for willful wrongdoing.

It can be complicated to testify to the origin of a product. The country of origin is not the country where the product is shipped, but rather where the product was made or underwent a substantial change or modification.

The origin certificate must be signed by the exporter or certified by a local chamber of commerce or any designated government agency. The certifier must have access to copies of other commercial documents, such as invoices and bills of lading, to verify that the goods’ origin.

Last year, CrimsonLogic, based in Singapore, developed a Web-based application for companies to process origin certificates. The online program, CertOfOrigin, was implemented by four authorized organizations in Singapore: Singapore Chinese Chambers of Commerce and Industry, Singapore Confederation of Industries, Singapore Indian Chamber of Commerce & Industry, and Singapore International Chambers of Commerce. The program eliminates the manual handling of documents to produce the origin certificates. It also alerts the relevant parties when the document has been viewed or printed.

V. Mathivanan, chief executive officer of CrimsonLogic, said a Singaporean exporter with 10 origin certificates a month spends about $195 to manually process the documents, whereas with CertOfOrigin, the exporter pays only $90, a savings of 54 percent. In addition, the entire process from application to transmission of origin certificates to buyers, banks and customs is reduced to minutes from four to seven days under the paper-based system.

“Proof of origin needs to evolve with technology evolution,” Mathivanan said. “Use of information and Internet technologies can create tremendous potential to gain efficiencies in international trade.”

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USAID considers PowerTrack test

Food-aid agency hopes U.S. Bank system demonstrates improved transport finance management.

By Chris Gillis

The U.S. Agency for International Development wants to improve the way it manages its transportation bills for food aid, and is considering an automated payment program developed by U.S. Bank Corporate Payment Systems to help it out.

USAID is close to trying out the system, PowerTrack, in a limited six-month pilot. If successful, USAID may use PowerTrack to cover all of its transportation finances. The U.S. Department of Agriculture is also heavily involved in the country’s international food-aid programs and will be closely watching the test’s results.

“USAID is currently exploring what benefits PowerTrack has to offer the agency and the ocean transportation carriers,” said Denise Stone Scherl, chief of the USAID Office of Procurement’s Transportation Branch. “We are under no obligation at this time.”

USAID and USDA have been under scrutiny in recent years for the way they manage their transportation payments both with the carriers and internally with their federal counterparts at the Maritime Administration. The Bush administration also wants federal agencies to improve their information management by acquiring electronic off-the-shelf systems.

It takes USAID 150 to 180 days to settle their transportation bills. USDA’s track record on paying carriers is better with an average settlement period of 30 to 35 days. However, the ocean freight differential — the difference paid by MarAd to food aid agencies for the cost of U.S.-flag vessel transport vs. the use of foreign-flag shipping — could take years to settle.

Cargo preference laws require 75 percent of food-aid shipments be shipped on U.S.-flag vessels. The 1936 Merchant Marine Act, as amended by the 1985 Food Security Act, requires MarAd to reimburse food-aid agencies for the difference paid between the use of U.S.-flag vs. foreign-flag vessel transport for the cargo volume shipped between the 50 percent and 75 percent U.S.-flag vessel requirement.

In March 2001, USAID’s inspector general raised concern about the agency’s $175 million in unclaimed reimbursements and $7.2 million in misallocated cargo preference reimbursements.

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ment electronic systems to automate and standardize its transportation processes with the commercial sector.

It used to take the military 30 to 90 days to pay its carriers for transportation services. PowerTrack has reduced many transaction times to three days or less.

“This is revolutionary,” said John Randt, a spokesperson for the U.S. military’s Surface Deployment and Distribution Command (formerly the Military Traffic Management Command). “It’s one of the fastest implementations I’ve ever seen.”

In 2003, SDDC processed about 4.2 million transactions, valued at about $1.97 billion, through PowerTrack. There are 880 participant SDDC carriers, including railroads, truckers, vessel and barge operators and pipelines, on the system.

“We think USAID and USDA will find the system extremely beneficial just like the Defense Department has,” said Thomas W. Harrelson, director of MarAd’s Office of Cargo Preference. “It should save them money and make their processes more efficient.”

MarAd has led the push for the food-aid agencies to try out PowerTrack. “We’ve been discussing this for two years,” Harrelson said.

PowerTrack is also used by other federal agencies such as the State Department, Coast Guard, National Aeronautics and Space Administration, and the Postal Service.

Many carriers are familiar with PowerTrack through their Defense Department business. Maersk Line Ltd., the U.S.-flag vessel operation of A.P. Moller/Maersk Sealand, uses PowerTrack for most of its containerized shipments with the Defense Department.

“Overall, PowerTrack has provided substantial benefits to all stakeholders,” said Barney T. McGale, director of food-aid marketing for Maersk Line Ltd., in an interview. “Such automation can materially decrease the government’s and the carriers’ administrative costs by eliminating manual processes and paperwork.”

He added: “To optimize the value of PowerTrack for all stakeholders, USAID must reengineer its processes to eliminate manual activities and documentation that duplicate PowerTrack’s functions.”

USAID issued a notice to the trade in October 2003 informing ocean carriers that it was considering a pilot test with PowerTrack. “Though most of the comments were supporting, there were issues raised in those comments that USAID must take into consideration before taking the next step,” Scherl said.

If USAID decides to enter into a pilot project with PowerTrack, it will be through an existing contract with the Navy Department, she added.

USAID is expected to focus its six-month PowerTrack pilot on P.L. 480 Title II emergency food-aid shipments. These shipments are handled strictly by the agency. There’s no involvement with private voluntary organizations and USDA in terms of managing the transportation payments. USAID processed about $80 million in emergency food-aid shipments in 2003. On average, the agency handles about $30 million to $50 million a year in emergency shipments.

If the PowerTrack test proves successful, the system may be used to cover USAID’s entire food-aid activity, Scherl said. From April 2002 to March 2003, the agency’s transportation bill was about $280 million.

Some food-aid officials, however, remain skeptical about PowerTrack’s ability to integrate with multiple government systems and further improve USDA’s established transportation payment process.

“We remain interested in the (automated payment) process, whether that’s through PowerTrack or something else,” said Mark Rowse, director of operations for export credits at USDA’s Foreign Agricultural Service. “We’ll be closely watching what happens with USAID’s test.”

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Breaking out of Brussels

If you’re looking for the World Customs Organization secretary general, chances are he’s on the road, meeting with customs officers and other government officials in developing countries and regions.

The WCO, the Brussels-based organization charged with establishing prescriptive standards and guidelines to improve customs management and global trade facilitation, has had a long tradition of considering developing country issues. However, Michel Danet has personalized that relationship during his more than five years as head of the WCO.

“I’m constantly visiting my members,” Danet said in a recent interview. “That’s when I hear what their problems and concerns are.”

More than two-thirds of the WCO’s 162 customs administration members are considered developing countries, each with a vote in the organization, which makes their issues difficult to ignore. Danet’s concern for developing country issues also significantly contributed to his election to a second five-year term as secretary general.

Moreover for Danet, the hardship in developing countries is personal. He was born in Oran, Algeria, in 1941. His father died when he was young and his mother didn’t have much money for his education. Danet knew he had to work hard to get ahead. A few fortunate moves led him to a successful 40-year career in French Customs and 25 years of involvement in the WCO.

“I know the realities of poverty,” he said. “If I’m in a position to make positive change (in poor countries), which I am, then I must try to do it.”

A big problem for many developing countries is justifying the cost to send customs officers to Brussels to attend WCO meetings, when so many people within their borders suffer from the ills of weak economies. Those developing country customs officers that do travel to Brussels return home with many good ideas for reform and modernization of border controls. However they’re difficult to sell up the chain of command in cash-strapped administrations.

At the same time, the gap of sophistication between customs administrations in industrialized and developing countries continues to widen since the Sept. 11, 2001 terrorist attacks in the United States, as industrialized country customs administrations increase security within the global supply chain. Security experts warn that terrorist organizations may attempt to use ocean containers and other transport conveyances to carry out future attacks.

The Organization for Economic Cooperation and Development (OECD) estimated last year that post-Sept. 11 security initiatives added $75 billion to the cost of trade, and each day cargo sits adds 0.5 percent to the value of the goods.

Danet’s visits to developing countries help to personalize the WCO’s relationship with those customs administrations. It also gives him the opportunity to promote the benefits of customs improvements, such as increased foreign investment, face to face with government leaders.

But Danet believes developing countries shouldn’t be expected to reach the same level of border management sophistication found in industrialized countries, such as the United States, European Union and Japan. Danet believes developing countries could still have success with low-tech risk management-based processes and officer integrity improvements. The broader strategy for improving customs operations in developing countries is known at the WCO as “capacity building.”

To create its capacity building strategy, the WCO asked for help from the World Trade Organization, World Bank, OECD, and United Nations Conference on Trade and Development, and other donors, as well as the private sector. The WCO asked the World Bank, International Monetary Fund and Inter-American Development Bank to encourage ratification of WCO-established guidelines for customs improvements, such as the revised International Convention on the Simplified and Harmonization of Customs Procedures, when making trade-facilitation improvement loans to developing countries.

Danet is also encouraged by the increasing willingness of regional groups, such as the Common Market for Eastern and Southern Africa and Mercosur, to streamline customs controls between their country members. He believes regional customs blocs are an unavoidable reality of global trade in the near future, but WCO standards and guidelines could serve as a basis to draw the regions together. “A multilateral organization like the WCO can help members of regional organizations, because our function is to avoid political, social, commercial and digital divides,” he said.

The WCO has held more meetings outside of Brussels. This year’s WCO IT Conference and Exhibition, for example, will be held in Kuala Lumpur, Malaysia, March 10-12. The conference, which originated at the WCO’s headquarters in Brussels several years ago, is expected to generate a high concentration of customs officials and industry representatives from the Southeast Asian region to alert them to “digital opportunities” for trade facilitation and customs compliance.

Another step encouraged by the WCO is the creation of regional customs training centers.

Training centers are generally supported by host countries, which in turn offer instruction to customs officers in neighboring countries. For example, the training center in Moscow serves not only Russian Customs officers but also officers from emerging administrations in the former Soviet states. A training center operated by Hungarian Customs is open to its Eastern European neighbors. Similarly, South African Customs’ training center in Pretoria provides instruction to African countries in the southern region. A center was recently opened in Baku, Azerbaijan, to serve training needs of customs administrations in Central Asia.

The training centers also offer high-tech facilities. About $2 million was spent on the development of the training center at Baku. The first three regional training programs to be rolled out at this center in 2004 include a train-the-trainer course, a course on customs valuation, and another on the harmonized system.

Russian Customs, which spent $6 million on its training center, may go a step further to provide courses to local shippers, a move Danet welcomes. Since the late 1990s, Danet has encouraged dialogue between the WCO and international shippers.

In addition, the training centers are staffed with active customs personnel. “We want young energetic customs officials as teachers, not retired officials,” Danet said.

Another regional center is expected to open in Beirut, Lebanon in late March or early April to serve Middle East customs administrations. Discussions are also underway with other WCO regions. Danet said sub-Saharan Africa and Latin America need training centers.

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A little more than a year ago, non-vessel-operating common carriers underwent a transformation of sorts, not in terms of how they load containers but in the way they perform as regulated entities in the ocean shipping business.

In February 2003, anxiety ran high in the industry when the U.S. Bureau of Customs and Border Protection began enforcing its new rule requiring NVOs and ocean carriers to file their cargo manifests for inbound containerized cargo at least 24 hours prior to loading on vessels overseas. Prior to the rule’s implementation, NVOs let the ocean carriers worry about satisfying customs manifest details.

The so-called 24-rule also demanded that NVOs supply more detailed information about their cargo to Customs, including the shipper and consignee data. The NVOs that didn’t take advantage of the new privilege to file through Customs’ Automated Manifest System were forced to hand their cargo information over to carriers to process in the system.

Indeed, the rule’s implementation was
“The 24-hour rule has definitely strengthened the NVO position globally,” said John Brown, president of Rancho Dominguez, Calif.-based Primary Freight Services. “It has separated companies who have a long-term commitment in our trade from the ones who don’t.”

AMS Transition. When U.S. Customs announced its new manifest reporting regulation in late October 2003, most NVOs were not prepared to electronically file in AMS. Many NVOs turned to a handful of specialized third-party systems providers to prepare their U.S. inbound operations for automated manifest filing to the agency. These providers include firms such as Flagship Customs Services, Vilden Associates, WTS Agencies, TradeTech, TradePoint, IES Ltd., and Aviarc Corp.

More than 200 NVOs use Flagship Customs Services’ Import2000 online application, making it the most widely used third-party system. Import2000 operates as an Internet-based data service center for filing manifest data into AMS.

Before using an AMS data service center, the U.S. or overseas-based NVO first must be licensed with the U.S. Federal Maritime Commission, obtain a SCAC (Standard Carrier Alpha Code) code through the Alexandria, Va.-based National Motor Freight Traffic Association, and have a $50,000 international carrier bond on file with U.S. Customs.

Data service centers generally charge a fee per bill of lading processed under the NVO’s manifest filing, ranging from $1 to $2. For example, if the fee is $1 per bill of lading and the NVO’s manifest has eight bills of lading under it, the NVO pays the service center $8 to submit that manifest in AMS.

Some software companies have developed AMS applications for their NVO clients who would prefer to file direct to U.S. Customs. The combination of the bonds and software provider agreements, ranging from $12,000 and $15,000, was substantial for small NVOs.

Many overseas NVOs and even many multinational operators took longer to implement their AMS filing systems, relying on the carriers to process their manifests on their behalf. Unlike the NVOs, ocean carriers have had the ability to electronically file their master bills of lading and manifest data to U.S. Customs for more than 15 years.

Michael Dietman, product manager for Schenker’s full-load container business, said the problem for many large forwarder NVOs to implement AMS programs was due to their “fragmented IT platforms.” Many large forwarder NVOs operated on separate regional systems, and until recently, many of them sent paper-based information to ocean carriers, who included the data in their electronic transmission to U.S. Customs, he explained.

“It was not very difficult to comply, due to the assistance of the carriers,” Dietman said. “They have done the job for us.

“Only a few major forwarders have established direct links with U.S. Customs,” he said.

Yet, implementing procedures has been a major undertaking for some forwarders that have found it necessary to re-enter data in separate systems to comply with the requirements.

“Many origin forwarders have their reservations about using their own software and filing the data directly without carrier intervention, based on stiff fines for insufficient or improper data,” said Peter Gruettner, president of Southern California NVO Extra Logistics.

U.S. Customs promises to take swift action in the form of liquidated damages against NVOs that commit manifest fraud. The worst violations could face criminal proceedings or banishment from the U.S. trades.

Ocean carriers charge intermediaries or shippers a $20 to $30 automated manifest system fee per bill of lading when they handle their cargo manifest data, and $40 to $45 for a correction if the initial data is amended. Carriers also charge a fee for every house bill of lading, which adds to the costs of intermediaries and shippers. “Many NVOs simply acknowledge that there is the (ocean carrier) filing fee and incorporate it into the cost of doing business,” Gruettner said.

NVOs that process their manifests in AMS generally charge their customers a fee of $15 to $25 per bill of lading to help recover the additional operations costs. Some costs that are difficult for the NVOs to recover are the additional employees hired to process manifest information.

“We had to hire more people to handle the same amount of cargo,” said Fadi Aftimos, president of Miami-based ITN. “We also receive lots more inquiries from the consignees — five to 10 calls more to keep each one of them up to date on their shipments.”

Another big concern for NVOs is the liability associated with containers with multiple NVO loads. If a co-loading NVO is on AMS, it must file its own manifest...
even though it’s loaded its shipment in a container with another NVO on AMS. If mistakes are made, the master NVO risks cargo being held at origin or destination by U.S. Customs and demurrage costs. Antwerp-based NVO Confreight Group asked its co-loading NVOs to sign a form for their liability, but they refused, said the company’s president Roger Claessens.

NVOs also occasionally have problems with ocean carriers that do not receive AMS acceptance from U.S. Customs when they do. The ocean carriers, however, refuse the NVO containers. “This week (Jan. 19-25), we had four containers shut out because the carrier had some problems with its system,” Claessens said.

Fundamental Changes. Before the implementation of AMS systems, NVOs had to undergo some substantial changes to the operating fundamentals of their companies.

First, the 24-hour rule required NVOs to change the organization of their information flows from overseas offices and agencies. Prior to the rule’s implementation, shippers in overseas markets generally did not provide NVOs with cargo documentation until the shipments showed up at the loading dock, and even the information on the paperwork was often sparse. U.S. Customs’ 24-hour rule demanded NVOs file manifests with detailed manifests, and no longer allowed the use of vague freight descriptions, such as “freight all kinds” (F.A.K.) or “said to contain” (S.T.C.), or broad descriptions, such as “chemicals” or “foodstuffs.” In the past, many NVOs used these types of cargo descriptions to protect the privacy of their business information from competitors, ocean carriers, and reporting services. U.S. Customs told the industry it must now provide a more detailed cargo text descriptions or used the first six digits of the Harmonized Tariff Schedule numbers.

In early 2003, several industry groups, including the NVOC-Government Affairs Conference, International Mass Retail Association, and Pacific Coast Council of Customs Brokers & Freight Forwarders Association, asked U.S. Customs to increase the confidentiality of manifest data. Reporting services gained access to manifest information in 1984 when U.S. Customs lost in court to PIERS, a Journal of Commerce/Commonwealth Business Media-owned reporting service, and had to amend its regulations under the 1930 Tariff Act. U.S. Customs issued a proposed rulemaking Jan 9, but backed off later in the year, citing a “clear lack of consensus.” The current regulations allow an importer or its attorney to request confidentiality relative to the importer’s name and address, and the name and address of its supplier by filing a request to the agency every two years.

Albert W. Saphir, president of Marietta, Ga.-based ABS Consulting, doesn’t believe the NVOs have to worry much about ocean carriers taking their business. “Global trade simply would not work without NVOs, because VOCCs (vessel-operating common carriers) could not handle the massive advance seal AMS filings. They are not equipped or staffed to do this,” he said. “Imagine a 6,500-TEU ship operated by one VOCC vs. maybe 100 NVOs doing the bulk of the filing work.”

A big challenge for NVOs, particularly for those based overseas, was educating their customers about the new U.S. law. “We short-shipped a lot of containers due to the lack of on-time information, which meant unused space and loss of income,” Claessens said. “Things have improved, although we still need to chase a lot of information, especially for transit cargo coming from India and some African destinations.”

“There’s no way we can be flexible,” he added. “Instead of working two days on a file we now work four days on the same file to check if the information is available.”

“In the days and weeks after the 24-hour rule went into effect, we experienced a break-in period for the process change,” said Michael Ford, Philadelphia-based BDP International’s vice president of regulatory compliance. “A number of clients built a 24- to 48-hour buffer into their supply chains, and others physically moved their shipments ahead in tandem with the advance date, which was required. However, as we all became more acclimated to the process change, the reporting and procedure became more a standard practice.”

Ford explained that in terms of transit times the processing of full-containerload shipments normalized more quickly than less-than-containerloads. “On the occasions where co-loadings were involved, the task of back checking with other parties in a container became more labor intensive. Asia was a little slower than other regions in this regard,” he said.

Some Miami NVOs that specialize in handling transit cargoes from Europe to Latin America and from Latin American to Central America and the Caribbean watched this business suddenly dwindle after the implementation of the 24-hour rule. “Lots of this cargo is now going to transshipment hubs in Panama and Rio Haina (Dominican Republic),” Aftimos said.

A big concern for overseas shippers and forwarders that use NVO services is the delays they may incur in the U.S. market from manifest errors and U.S. Customs inspections. But inspections have so far been held to a minimum compared to the volume of imported cargo handled by NVOs.

“With few exceptions in the beginning, the 24-hour rule itself has been mostly invisible to our customers. But there are more cargo examinations at arrival in the United States that have resulted in additional charges and time delays for our customers,” said Philip C. Rathgeb, vice president of ocean freight in North America for DHL Danzas Air & Ocean in Newark, N.J.

U.S. Customs and the shipping industry recently worked together to correct a major technical problem with AMS that caused delays for containers moving inland. In mid-April 2003, a group of liner carrier and NVO executives approached the agency with a plan for a better way to manage AMS filings involving inward moves of containers, called the “special bill” which U.S. Customs accepted the plan and implemented it in the system in mid-January.

Under the special bill process, NVOs are required to transmit bill of lading data in AMS with complete name and address information for commercial parties (shipper, consignee, and notify party if present) and a full and accurate description of the cargo. The NVO bill of lading must also contain the master vessel operating carrier (MVOC) bill of lading number in a special data field for reference information.

Customers expects a one-on-one pairing of MVOC and NVO bills of lading in AMS for NVO boxes with one shipper and consignee. NVOs must send bills of lading for each shipper/consignee in a grouppage box. Each NVO bill of lading in a grouppage box will have the same MVOC bill of lading number in the reference data field.

While the special bill process helps correct the problem with inland moves of containers, it may add another day or two at origin since now the ocean carrier also has to transmit data for all automated NVOs. There is also a duplication of work, and automated NVOs may end up having similar cut-off times for data as non-automated NVOs. “I think this is an unintended side effect. I’m not sure what can be done about it,” Saphir said.
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FORWARDING / NVOs

He warned, however, that NVOs could see more aggressive, meaningful enforcement by U.S. Customs in the near future. “I would not be surprised if several NVOs will be facing steep penalties which may force them to close down or abandon the trade,” he said.

**Customer Relations.** Most NVOs that are on AMS now are glad they did it. “For the NVOs that immediately went out and got the bond to file via AMS directly, I believe this regulation has become a competitive advantage over NVOs that did not quickly get the bond and have the vessel operator file via AMS on their behalf,” said Brad S. Broder, vice president of Econocaribe Consolidators in Miami.

“We are pleased that the NVOs were given the opportunity to file on behalf of their customers, instead of disclosing the data to the lines,” said Lisa Domingo, manager of Phoenix International’s NVO Pix Line. “It certainly sends the right message to those who did not consider NVOs a carrier.”

Brown said AMS brought his NVO operation closer to his customers. “This is due to us being more aware of their products, classifications, getting suppliers to deal with timely deliveries for cutoffs, and providing accurate information to both U.S. Customs and the consignees,” he said. “In the past, suppliers that were behind schedule used many excuses rather than telling the truth. This has helped bring out the truth.”

Alvin Tan, consultant to Singapore-based NVO and forwarder Famous Pacific Shipping, said the 24-hour rule has created a noticeable competitive gap between those NVOs filing manifests directly to U.S. Customs and the NVOs that send data to the ocean carriers to transmit. In the latter case, the NVO’s customers must provide cargo information earlier than if the NVO has a direct link to U.S. Customs, he said.

Tan said Famous Pacific Shipping can accept cargo information on a Wednesday, for example, for vessels sailing on the following Friday, whereas an NVO still sending data to the ocean carrier to process would require cargo information from the shipper on the Monday.

The introduction of new information demands wasn’t easy for some NVO customers to comprehend.

In a February 2003 survey commissioned by BDP and its Centrx supply-chain consulting unit, nearly 30 percent of global shippers reported allowing extra time in their supply chain order cycle to comply with the 24-hour rule. Rather than sending data only in advance of the goods under the rule, about 15 percent of these shippers scheduled simultaneous advanced arrival of both the containerized cargo and manifest data at ocean export facilities, the BDP survey found.

“Well before the rule went into effect, BDP reached out to its customers to deliver information, address questions, and provide extra help to prepare for the new regulations,” Ford said. “If anything, relationships with customers and other trade partners became more intimate.”

**Trade Act.** With the inbound cargo manifest rules in place, U.S. Customs will

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Canada Customs plans to implement its new manifest filing rules on April 16, a deadline Dietmar described as “tough” for the industry to meet.

Marc Greenberg, president of American Shipping Co. and American International Cargo Services in Long Beach, Calif., said many U.S. NVOs ship containers through Canada because the ocean carriers include this in their trade lane offerings for destinations in the United States. Canada Customs’ new manifest rule may require U.S. NVOs to abandon the Canadian port routing to the Midwest states. “It is one thing to deal with U.S. Customs being a U.S. resident NVOCC, but for the NVOCCs to do the same thing for transshipping through Canada is expected to be a nightmare,” Greenberg said.

The European Union is less advanced in the development of its policy on electronic advance manifest filing. “The EU is still looking at the implications seen in the U.S. and Canada,” Dietmar said. The EU will “benefit from the complications” experienced in North America, he added.

Dietmar does not expect the EU authorities to implement electronic cargo manifest requirement before the end of the year. However, when it does, this will “change the operating procedures of forwarders and shippers,” he said.

Global Response. More NVOs are looking ahead to what other countries and regions of the world will do regarding advance manifest regulations in the next two years. For example, Canada and the European Union announced advance manifest regulations. Even India announced a similar rulemaking for imported cargo.

While NVOs are generally confident that they can respond to these ongoing changes in the international market, they are concerned about the differences in regulatory practices between customs administrations and meeting the possible supply-chain alterations taken by their customers.

Canada Customs plans to implement its new manifest requirement before the end of the year. The Canadian port routing is expected to change, and this will affect U.S. NVOs doing business in Canada because the ocean carriers include this in their trade lane offerings for destinations in the United States. Canada Customs’ new manifest rule may require U.S. NVOs to abandon the Canadian port routing to the Midwest states.

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Long road to aviation liberalization

The Canadian government should eliminate regulatory obstacles and other factors that prevent air cargo carriers from operating more efficiently because the industry is so critical to overall economic growth in North America, a UPS official said in late January.

Chris Mahoney, senior vice president of global transportation services, during a speech to the Canada Air Transport Policy Conference in Ottawa, cited the inability of U.S. carriers to serve more than one Canadian city per flight, or to pick up cargo in Canada en route to a third country destination as the two main constraints on air cargo traffic between the United States and Canada.

The lack of so-called co-terminalization and fifth-freedom rights are examples, he said, of how the air express industry is constrained from fully meeting shippers’ expectations, and why the bilateral air agreement between the two countries is not as liberalized as it should be.

“Permitting co-terminalization would allow larger aircraft to operate to more Canadian cities connecting more Canadian cities and U.S. hubs and facilitating better service to shippers and businesses on both sides of the border. Frankly, it’s hard to imagine a less rational policy than one which requires a carrier to use two planes to do the job that one can do,” Mahoney said.

Similarly, the inability to make intermediate stops in Canada prevents UPS from operating efficiently and harms Canada by limiting its access to more trade opportunities from Europe and Asia. The best solution, he said, would be for Canada to follow the U.S.’s lead in several of its recent bilateral aviation agreements and allow so-called seventh-freedom rights, which would allow an air carrier to operate from Canada without requiring the flight to originate in the carrier’s home country.

The air freight industry has been at the forefront of efforts to liberalize aviation markets and allow more cross-border competition. The United States and the European Union last year began negotiations on an aviation free trade agreement that essentially would permit foreign airlines to operate on each side of the Atlantic without regard to nationality restrictions on ownership and lift controls on routes, pricing and other business practices.

In February, the Financial Times reported it had obtained a draft text to be used as a starting point for negotiations. Indicating just how difficult the negotiations will be, the U.S. team makes clear in the document that rights to domestic carriage between U.S. destinations, an increase to 49 percent in the cap on foreign ownership of voting stock in U.S. airlines and changes in the Fly American program guaranteeing that U.S. carriers get government-related travel are off the table for now.

Even if the State Department negotiators reach agreement on these issues, they know they cannot get Congress to ratify an agreement that includes them. Pilots unions are opposed because they fear job losses and wage reductions if European carriers enter the domestic market. Last year the Congress did not include the administration’s proposal for increased levels in foreign ownership in a bill to fund the Federal Aviation Administration.

The Fly America rule, the multibillion-dollar bailout of U.S. airlines that suffered losses from the Sept. 11, 2001 attacks, loan guarantees and war risk insurance coverage are all examples of indirect U.S. airline subsidies.

Contrast that to what is happening in the European Union, which has sought to eliminate state subsidies for airlines and required member countries to allow outside carriers to own and operate airlines.

In early February the European Commission ruled that low-budget airline Ryanair had received illegal subsidies in the form of discounts on landing fees and other concessions from Brussel’s Charleroi Airport and the Walloon Region to attract the airline to the small public airport.

The commission required Ryanair to repay about 4 million euros ($5 million) of the incentives. The decision was in response to a complaint filed in 2001 by Charleroi’s larger competitor, Zaventem Airport.

Ryanair, which plans an appeal, said the decision could force consumers to pay higher fares, especially if it decides to depart the airport. But EU Transport Commissioner Loyola de Palacio said, “Only genuine competition is truly capable of safeguarding national pride. The air cargo industry has proved it is the best-operated aviation sector and able to quickly adapt to changing conditions.

If regulators let the air cargo companies operate with more freedom for a few years then they can point to better service, price and other benefits, and bring their publics around to accepting a completely liberalized system.

Crusader or Whiner?

Rep. Edward Markey, D-Mass., introduced a bill in the U.S. House designed to close gaps in the aviation security system that he says have been neglected since the Sept. 11, 2001 terrorist attacks.

Markey’s bill, the Secure Existing Aviation Loopholes (SEAL) Act includes provisions to physically screen cargo on passenger planes as well as airport employees with access to sensitive areas and airplanes, and install reinforced cockpit doors on cargo planes.

Markey has been a constant crusader against the Bush administration’s aviation security efforts, saying not enough is being done to protect passenger planes. Last year he introduced legislation that similarly would have required all cargo on passengers planes to go through x-ray and explosives trace detection systems.

Markey is right that much more needs to be done to screen cargo, but every time there is a security hiccup he’s out front with a press release or media event bemoaning the problem. His message would be more credible if it wasn’t tied so strongly to the unrealistic concept of banning cargo on passenger planes unless there is 100 percent screening, something that current systems are not ready to handle.
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Those are the general guiding principles that shape the decisions of logistics managers when it comes to moving stuff across the ocean.

Now a major aircraft manufacturer says it plans to rely on aircraft as the primary transportation mode for bringing large components long distances to its final assembly plant in Everett, Wash., in the process turning the whole logistics equation on its head. Meanwhile, its major competitor is going in the opposite direction, embracing sealift to complement its fleet of specialty cargo planes that move large airplane pieces between production sites.

When Boeing Co. begins building its new 7E7 passenger plane it will ship tail assemblies, wings and other large components from Japan and other countries on specially modified jumbo jets, the company says.

Boeing is scheduled to begin production of the 7E7 in 2006 and anticipates the plane will enter service in 2008. The 7E7 Dreamliner is a long-range airplane designed to carry 200-250 passengers, with a third, short-range version capable of
Airlines see the 7E7 as a possible replacement for the Boeing 757, 767 and A300-600 in the next decade.

The 7E7 will be the first large commercial jet to have a majority of its primary structure, including the wings and fuselage, made of composite materials.

“That allows us to build larger, more integrated assemblies that will come from all over the world,” said Mike Blair, senior vice president of the 7E7 program, in a statement last year. Large sections of the plane will be built in Japan, Italy, Australia, as well as Boeing plants in Tulsa, Okla., Wichita, Kan., and Winnipeg, Canada.

Boeing is outsourcing as much as 35 percent of structural work for the plane to Japanese manufacturers such as Fuji Heavy Industries, Kawasaki Heavy Industries and Mitsubishi Heavy Industries, highlighting a trend to use more foreign suppliers.

The use of larger component pieces from domestic and offshore suppliers is key to Boeing’s effort to reduce the time and cost of assembling aircraft. Outsourcing to foreign manufacturers in Japan and China also serves as a sweetener for airlines in those markets to select Boeing products.

Boeing is pursuing a lean manufacturing strategy that involves pushing more of the subassembly integration work, as well as the research and development, onto its major suppliers and feeder plants, so that when giant parts arrive at the Everett plant they are ready to be riveted together. The effort is also designed to streamline the thousands of suppliers Boeings directly manages by holding major suppliers such as Rockwell Collins and Hamilton Sundstrand responsible for dealing with third and fourth-tier parts providers, said Scott Garl, a senior logistics manager. Many suppliers, who thought they had an advantage by being located near Boeing’s assembly line, are now scrambling to get work from big subcontractors. If they succeed, they could end up shipping their products overseas only to have them return as part of a larger jet section.

The Seattle Times reported Feb. 10 that Boeing is considering a plan to have at least one major supplier open a new satellite factory near the main Boeing plant to help assemble large structures and install systems and interiors. The paper noted that horizontal stabilizer and the aft fuselage of the 7E7, made by Dallas-based Vought Aircraft Industries, must be connected with a fuselage section made by Italy’s Alenia Aeronautica.

Subcontractors have increasingly been taking on a greater production role in recent years by stuffing subsections with systems and control wires, according to aviation analysts. But Boeing may switch gears a bit by doing more systems installation in Everett rather than having sections arrive plug-in ready, the Seattle Times said. The paper quoted Ren Nanstad, senior manager of supplier management for the 7E7 program, as saying that sensitive aviation electronic systems for the nose and cockpit section, which are made in Wichita, could be susceptible to damage during shipping.

By Air. Boeing officials project possible savings of 20 to 40 percent by using the specially modified freighter compared to traditional shipping methods, primarily because they will be able to build planes faster without having to wait 20-30 days for parts to cross the Pacific Ocean. A faster build schedule means the company gets paid faster and can reduce the cost of carrying inventory.

The savings will offset the higher cost of air transportations within the first few years of production, Boeing said.

“Transporting large pieces by air will allow us to dramatically reduce flow time,” Blair said. More efficient manufacturing methods combined with speedier transportation will help the company achieve its goal of completing final assembly in three days vs. as many as 18 days for Boeing’s 777, according to the Wall Street Journal.

Boeing will use at least three 747-400s with an expanded capacity fuselage, but the company has not decided whether to lease the humped planes or own them outright.

“It’s about how much weight you carry. But here the issue isn’t the weight they are carrying, it’s the volume, the sheer size, of the things they are trying to transport,” said Bob Dahl, project director of Air Cargo Management Group, a Seattle-based consulting firm.

The idea of air transport for supplies seemed more of a necessity when Boeing was considering inland locations for its final assembly plant. Everett has a small port that handles barges transporting oversized containers of 777 components from Japan. But Boeing officials insist they still intend to use air transport for overseas shipments even though they have water access.

One prominent aviation analyst questioned whether Boeing would ever actually go forward with plans to transport large components by air. The air option was a carrot held out to U.S. cities during the site selection process for the final 7E7 production plant to convince them they had a chance to win the competition even though they lacked access to a port, said Richard Aboulafia, vice president of the Teal Group, an aerospace and defense consulting firm in Fairfax, Va.

“There’s a good chance that the modified 747 used in the bidding for the site was nothing more than a pressure tactic designed to produce aggressive bids for the 7E7 plant,” Aboulafia said. He sug-
gested Boeing intended all along to stay in Everett, but used low bid offers from other localities to get tax breaks, infrastructure improvements and other concessions from state and local politicians in Washington afraid of losing Boeing work.

“The timing was very coincidental, when best and final offers were due,” he told American Shipper.

The freighter option raises questions because ocean transport is so much cheaper and a 6,500-mile trans-Pacific flight stretches the limits of outsize airlift.

“Put a structural barn on the back of a plane and you watch the range and payload fall very fast,” Aboulafia said. “They may have done wind tunnel tests, but I can’t imagine they gathered enough data in the short time” since they announced the airfreight option.

“The economics of long-distance large aerostructures transport heavily favors ships. I can’t think of anything that has really changed that,” he said. Boeing will continue to use air transport for avionics and other high value electronic components.

Virtually everything that comes into the Port of Everett is transshipped by barge from the Port of Seattle-Tacoma.

In 2000, Boeing tried to partner with start-up carrier North Pacific Steamship Corp. to directly receive shipments from Japan at the Port of Everett. But that effort failed after about six months when the niche carrier went out of business because it was undercapitalized and couldn’t recover from early losses even though business eventually picked up, said John Mohr, the port’s executive director.

Even though Boeing promoted NPSC as one of its preferred carriers, the final decision about which carrier to hire rested with Japanese suppliers, who were slow to book orders with the new company. When substantial business failed to materialize as expected, NPSC was doomed. The silver lining is that NPSC’s failure prompted better dialogue between Boeing and the port about how to coordinate requirements and capabilities, Mohr said.

A new contract with Boeing covering 7E7 shipments requires the port to expand one of its three terminals to more efficiently handle Boeing’s supersize containers, which measure 23.5 feet wide, by 17.5 feet high and 45 feet long. That is almost three times as wide, twice as high and five feet longer than a typical shipping container.

The port is also building a satellite barge terminal three miles up the coast adjacent to the main Boeing assembly plant. Water access will enable Boeing to reduce its reliance on rail.

Containers are currently offloaded from the barges onto rail cars for transit to the plant, about five miles away. The first three miles are on a mainline operated by the Burlington Northern Santa Fe Railway, and the rest of the distance is on a spur that runs right up to the Everett plant, which is the largest building in the world. The problem is that the containers are so big the BNSF has to shut down tracks in both directions for one to two hours to safely accommodate the extra-wide load. And the situation will only get worse as Boeing brings in large pre-assembled pieces.

“The new parts are going to be of a size that will exceed the capacity of the current mainline rail, and as a result, there will have to be either major modifications of the mainline rail” or some other alternative, Mohr said. Boeing even considered using giant helicopters to ferry components to the assembly plant, according to the port’s Web site.

The new rail-barge facility will allow Boeing to skip the BNSF mainline and go right onto the spur, Mohr said. The expansion of the existing deepwater terminal enables the port to offload parts from the Seattle-Tacoma barges and stage them for delivery to the plant on a feeder barge. Removing the Boeing rail shipments will increase the capacity for BNSF’s northern tier line to the Midwest, thus reducing delays for other freight and passenger traffic. Current plans call for one barge trip per day.

Boeing is designing containers for 777 parts that will be even bigger than the outsize ones currently in use. The barge facility is designed to handle containers 35 feet wide, by 35 feet high by 140 feet long, roughly the size of a small three-story building, although Mohr added that the final size has not been determined. The port Web site said it is unlikely a container would include all three maximum dimensions, but that many

7E7 Structures Work Share

- Boeing: 35%
- Japan: 35%
- Vought/Alenia: 26%
- Other: 4%

The A300-600ST (foreground) is a highly modified version of the A300-600, a freighter version is in the background in Federal Express colors.
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containers could have at least one of the dimensions.

Mohr said the final design and environmental permits for the barge terminal are not complete, but suggested the likely preferred method would use a rubber-tired gantry crane to lift the containers from the barge and onto rail cars for the short ride to the plant. The port expects to have all the permits completed by the end of the year or early 2005, and construction to be completed by the end of the first quarter of 2006. The first parts to come through the new facility will be for the 777 jet, he said.

The port received a $15.5-million grant from Washington to build the rail barge facility as part of the state’s incentive package to Boeing to pick Everett as the 7E7 production site, Mohr said. The terminal expansion will be paid for by the port, which will recover its costs through tariffs and fees.

Boeing will be the primary customer for the new barge and expanded port terminals, but port and government officials hope to attract other users to the public terminals as well, Mohr said. However, it appears unlikely there will be other customers for the rail-barge terminal because the rail spur does not extend beyond the Boeing plant.

Boeing declined to make 7E7 officials and other transportation managers available for an interview. Spokeswoman Bev Clark said the security department determined that “even to discuss how we use suppliers, how we use different modes, how we make decisions about different modes, or transport stuff between factories” poses a potential risk to shipments.

Development of the 7E7 follows Boeings decision not to pursue a super jumbo jet after reaching different conclusions about the future of the airline industry than European competitor Airbus SAS. Boeing sees growth potential from airlines that want more non-stop capabilities between airports. Airbus is pursuing a strategy that envisions passengers relying on major hub airports for long international flights with its mammoth 550-seat, double-deck A380, scheduled for first delivery in 2006. Airbus says it has 129 firm orders from 11 customers, including FedEx Express, for the A380. The base freighter version, which will enter service in 2008, will carry a payload of 150 tons and accommodate 71 large cargo pallets. The standard Boeing 747-400 freighter can carry 124 tons.

Airbus surpassed Boeing last year in aircraft deliveries for the first time, building 305 planes compared to Boeing’s 281 planes.

Airbus. Boeing’s manufacturing and logistics strategy is not a new concept. Especially modified airplanes have been used to move oversized goods for many years and were popularized by Airbus. One of the first planes to move satellites, rocket components and other large loads was the Super Guppy, a converted four-engine turboprop Boeing 377 Stratocruiser. The plane was converted in the late 1960s by cutting off the top of its fuselage and fusing on a larger canopy. 

Airbus used four Super Guppies to move components from subsidiaries throughout Europe to its final assembly plants in Toulouse, France and Hamburg, Germany, until replacing them in 1996 with the Beluga Super Transporter, a modified version of the manufacturer’s own A300-600.

Airbus has had to totally redesign its logistics network to accommodate the A380, because even the extra-large Beluga cannot handle the enormous components of the new jetliner. Component production began last year and final assembly is scheduled to start in the spring. The plane is expected to enter commercial service in 2006.

Airbus will use ocean vessels and barges for more than 90 percent of its transportation requirement, according to the company’s Web site. Airbus is scheduled to take delivery in March of a huge Chinese-made ro/ro ship specially designed to handle components for the A380 super jumbo jet. Major components such as wings and fuselage sections built in Spain, Germany and Britain will move by ship to the inland port of Pauillac, near Bordeaux, where they will be offloaded...
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onto special barges for the trip to the river port of Langon, in southwest France. From there, they will travel the final 159 miles to the Toulouse production site by road.

Airbus and the French government have spent years preparing the equipment and infrastructure it will use, including expanding ports and roadways.

The French government had to expand the port at Langon to accept the barges, including building a special basin to maintain the barges at the level of the docks during unloading. Airbus has built an 82,000-square-foot warehouse near Langon to store the A380 components other equipment. Airbus is also building a logistics facility to equip and store the giant rigs that support and carry the aircraft sections during their trip.

In November, Airbus and its truck contractor, Capelle, conducted the first of three dry runs, using full-scale wooden and wire-frame mockups of the giant aircraft sections and their protective housings, to test their ability to maneuver the special flatbed trucks and their 96-wheel trailers over the road and through towns before the first scheduled delivery in April. Picture the Trojan Horse or a float from the Macy’s Thanksgiving Day parade taking a spin. The practice convoys are designed to make sure the roads are wide enough to accommodate the massive loads as they go around corners and traffic circles. After the first test, French officials moved several guardrails and road signs.

Airbus officials and French authorities tried to minimize disruption by selecting smaller, less-traveled roads. The roads had to be modified to accept the giant transporters, which are 26 feet wide and 42 feet high—taller than many of the homes and buildings along the route. Bypasses were built around environmentally sensitive areas, including an underground tunnel to allow a protected colony of minks to safely cross the road. Airbus plans to operate the convoys only at night, stopping at specially prepared rest areas during the day.

Special ocean containers are needed for many of the parts. The containers are more than twice the length of a typical 40-foot box and nearly three times as wide.

The journey of a tail assembly, for example, illustrates how Airbus is integrating the use of multiple transportation modes to move parts. The Airbus plant in Stade, Germany, makes the vertical tail plane for the A380 using lightweight carbon fiber and composite materials. It receives subassemblies from Airbus facilities in Puerto Real, Spain, and Varel, Germany, as well as from Japanese manufacturer Fuji Heavy Industries. Once assembled, the tail section will be transported by truck to the River Elbe, loaded on a barge and sent to Hamburg, where it will be painted. Crews will then detach the lower rudder and send it by Beluga transport to the final assembly plant in Toulouse. The rest of the tail will follow by sea and road.

In Britain, Airbus required a specially designed self-propelled, ro/ro barge to be designed to transport wing sections down the River Dee. Tow operator Holyhead Transportation Co. Ltd. will own and operate the vessel, which it ordered from custom ship builder McTay Marine. The barge features an environmentally friendly propulsion system and hull designed to minimize the wake and prevent disturbing the river bed and banks as the vessel passes. Engine emissions, noise and the speed of the vessel will also be tightly controlled.

The vessel has a low draft and a low profile to enable the barge to pass under bridges on the way to the Port of Mostyn. A hydraulic floor lowers a wing transporter vehicle below the deck level for transport and raises it back up to exit the vessel.

French shipping company SOCATRA is managing all river transportation operations for Airbus on the Garonne River, between Bordeaux’s Pauillac port and Langon. It needed a way to handle ship-to-barge transfers at the Bordeaux port so it contracted with Polish shipyard Remontowa to build a floating transfer station for 8 million euros ($10 million). Dock handlers will unload ro/ro vessels at one end of the pontoon structure, lower it to the level of the barge through the use of an internal ballast system, and then roll pallets and containers onto barges at the other end. The floating transfer station was delivered in January.

The floating dock is moored to high-strength pillars installed by the port authority at the edge of an existing dock to enable loading and unloading during any tidal changes.

The barges will also lower themselves in the water with ballast tanks in order to fit under bridges along the river route.

Establishing the new transport system cost about $370 million, of which Airbus is paying about one-third, according to the Wall Street Journal. The French government and transportation providers are funding the rest.

Boeing’s Land Network. Boeing appears to be borrowing from the Airbus playbook when it comes to decentralizing manufacturing. Boeing consequently faces a growing challenge of moving larger and larger pieces to Everett from its nearby component plant and hundreds of suppliers in the Puget Sound area as it pursues its goal of the “200-part aircraft.”

 Everett is the home for the 747, 767 and 777, in addition to the proposed 7E7. Boeing makes 737s and 757s in Renton, Wash., near Seattle.

Boeing operates a private truck fleet in the Puget Sound area comprising more than 110 standard 40-foot trailers, box vans and flat beds providing small parcel delivery, special priority mail, airplane parts distribution and priority pick up, computer and electronics delivery and set up, refuse hauling and oversize load transport, according to a copy of a presentation by Garl, senior area manager for logistics services, to local transportation officials. Garl’s drivers run parts and supplies between Boeing facilities in Spokane, Wash., Portland, Ore., the Los Angeles basin and Wichita, Kan., through a hub in Renton.

Oversize pieces of tail sections from the plant in Frederickson, Wash., typically make the 75-mile journey north to Everett up I-405.
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In the past five years, as congestion in the Seattle area has worsened, Boeing has experienced a 20-percent increase in travel time between production sites, forcing the company to plan additional time for each route, according to meeting notes from a Sept. 5 Regional Freight Mobility Roundtable at which Boeing outlined its logistics needs to local, state, federal and transportation industry officials.

Inbound jet engines can involve inventory costs of $10,000 per day if a window for oversized delivery is missed, Boeing officials told the group.

As part of the change in the way it does business, Boeing wants to move completed 777 tail sections up the road in one piece. A production schedule would require seven to 10 moves per month, Garl said. The moves require special equipment, planning and coordination with the Washington Department of Transportation to ensure on-time deliveries.

Specially constructed trailers, which are used to transport wing components, have hydraulic lifts to shift the load and a steerable rear wheel chassis to help with maneuvering. The trailers are 127 feet long, but are normal width. The new trailers will carry tail sections 85 feet long and 35 feet wide.

The enormous size of specialty trucks required to move the bigger components basically requires the state to shut down the freeway system during transit because the shipments take up three lanes of traffic.

Boeing leaves no stone unturned in its quest to find the most practical form of transportation to serve its plants, said Tim Erickson, administrator of commercial vehicle services for the Washington Department of Transportation.

“They sit down and study every possible method of delivering that component part to the manufacturer. They dream up all of these different ways of getting to the destination and look at the cost and see if it’s feasible,” he said.

Once Boeing settles on a route state officials have to plan for every conceivable contingency to ensure the safety of motorists and the load. Boeing was scheduled to reveal the route they’ve selected for the super cargo movements at a Feb. 13 meeting with state officials.

“We like them to make the moves late at night when there is not as much traffic,” Erickson said. “But then you’ve got other problems, like intoxicated drivers on the highway, abandoned vehicles on the side of the road.” Boeing contracts with the state police to provide patrols for each convoy.

Officials also have to figure out how to divert freight shipments around construction projects. I-405 is scheduled to be expanded.

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The airline has eight freighters on order, including two A380-500s, according to company statements.

“The problem that the cargo industry is struggling with is the loaded density of pallets is going down. So we need a lot more volume, and that’s what the A-380 provides,” Menen said.

Emirates is also talking to Boeing about offering a new generation freighter like the 777, and with Airbus about adapting the A330-300 for cargo, Menen said. That conversion process is something aircraft manufacturers should have in mind from the very beginning, he said, and that includes selling production freighters side by side the passenger model. Modifying the 747 for cargo, for example, has been easy because it was originally designed as a cargo plane that happened to be put to passenger use.

“Isay to airline manufacturers, design for cargo. When you design a plane for cargo, you design it for space, and isn’t that what passengers want? I think there is a lot more realization amongst manufacturers that we need to start catering to the afterlife,” when passenger planes get recycled as cargo planes, he said.

Menen praised Airbus for launching a passenger and cargo version of the A380 at roughly the same time, saying some airlines would rather opt for newer, more reliable cargo aircraft. Airlines whose cargo operations depend on just-in-time inventories and shorter manufacturing cycles cannot afford to have their planes out of service for regular maintenance, he said.

Emirates plans to capitalize on the new 747 freighter service to New York to capture a lot of business moving equipment needed for the reconstruction of Iraq, Menen said. The freighter service will not diminish the carrier’s business with carriers that carry cargo because weight must be sacrificed to allow more fuel for those 16- to 17-hour flights, Menen explained.

Emirates began offering daily non-stop Dubai-to-Sydney, Australia service in October with the introduction of its ultra long-haul Airbus A340-500 plane. Emirates is touting its ability to fly non-stop as a benefit for shippers of perishable or just-in-time goods who require faster delivery times.

“Our own developments on the IT have side have gone much further. So at the moment we are outside the Cargo 2000 because it would just slow us down.”

Emirates SkyCargo division had revenue growth of 49 percent in the first half of the company’s fiscal year, ending Sept. 30. Cargo tonnage rose 29 percent to 315,000 tons compared with 245,000 for the same prior-year period.

One of Emirates SkyCargo’s most successful markets is Germany. In the first eight months of 2003, the carrier experienced 75-percent growth in cargo revenues, according to Frankfurt Airport’s quarterly newsletter Cargo City. In addition to passenger connections, Emirates operates twice-weekly B747-400F flights from Frankfurt via Dubai to Shanghai, China.

SkyCargo moved about 2,200 tons of exports per month from Frankfurt during the first half of 2003, making it the airport’s fifth-largest cargo carrier. Frankfurt officials attribute SkyCargo’s growth to new routes, extra frequencies, higher capacity and reliability.

“We possess only large aircraft. This means that even if the passenger figures suddenly drop, we do not use smaller aircraft. Therefore, no deliveries have to remain on the ground,” Reinhard Coldewe, Emirates chief of freight for northern and central Europe, told the newsletter.

Emirates is financing its expansion drive with loans from western banks, international export credit agencies, Islamic banks and Japanese investors, according to a company news release.

Emirates huge capital outlays are not limited to air assets. The SkyCargo division is also investing heavily in information technology, replacing its legacy cargo system with a modern one that can manage everything from booking, ground handling, and capacity distribution, to tracking shipments. The system soon will be able to receive data from radio frequency identification tags and Global Positioning System satellite receivers.

Menen said Emirates does not belong to Cargo 2000, an initiative by the International Air Transport Association to get airlines and freight forwarders to measure and improve quality performance through the use of common information technology and benchmarking standards. Emirates approves of Cargo 2000’s mission, “but our own developments on the IT side have gone much further,” he said. “So at the moment we are outside the Cargo 2000 because it would just slow us down.”

Swiss. Other airlines are turning to the Airbus A340 family of planes as well to increase passenger and cargo capacity for long-haul flights.

Last October, Swiss International Air Lines took delivery of two more Airbus A340-300 jets as part of the phase out of the Boeing MD11 as the airline’s flagship.

Swiss made the change because the new planes run cleaner, are more efficient, have more high-tech capabilities and can carry more cargo.

Swiss said at the time that the A340-300’s fuel efficiency creates the potential for more cargo revenue even though the plane’s volume is similar to the MD11. By not having to carry as much fuel Swiss can carry a heavier payload on long-haul flights. Cargo division Swiss WorldCargo will be able to offer customers an average of five tons and three cubic meters of additional cargo payload for routes over 5,000 miles, according to a Swiss news release.

Swiss plans to have a fleet of nine A340-300s, which are suited for eight-to-10-hour missions, in place by June for all of its long-distance international flights. Swiss downsized its long-haul fleet, and cut back its A340 order, in an effort to stay afloat during last year’s downturn in air travel.

Dubai is a popular transshipment point because it is close to manufacturing sectors in India and duty-free zones in Jordan and Mauritius. The Gulf sheikdom is also centrally located between factories in Asia and consumer markets in Europe and North America. Emirates officials envision selling space on the daily New York frequency, which will provide a more time-definite cargo option than the freighter service, to express delivery operators looking for shorter transportation times. Cargo capacity will be about 13 tons on the 14-hour long New York route, but the San Francisco and Los Angeles flights won’t carry as much cargo because weight must be sacrificed to allow more fuel for those 16- to 17-hour flights, Menen explained.

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Empty boxes add full-blown costs

Ports get paid for moving empty containers but carriers don’t, noted Robert Woods, chief executive of Peninsular & Oriental Steam Navigation Co. The former group managing director of P&O Nedlloyd Container Line underlined this as a major difference between ports and carriers.

Repositioning empty containers in increasingly unbalanced container trades has created an enormous financial and operational burden for carriers, particularly in the Asian trades.

Just consider the figures reported by the ports of Los Angeles and Long Beach, two major ports exposed to the transpacific container trade (see chart). For the Southern Californian ports, handling empty containers is their fastest-growing business. It is also one of the carriers’ fastest-rising cost items. The ratio of empty boxes as a proportion of the total throughput of the ports of Los Angeles and Long Beach increased to 30 percent in 2003 from 28 percent in 2002.

With about three full containers moving from Asia to North America for one full box going to Asia, the empty container issue is a structural inefficiency costing more than $1 billion in this trade alone. And it has no known solution. A figure commonly cited in the industry is that each container repositioning costs carriers about $400. But this covers only port handling costs, not vessel costs.

Even though U.S. exports are picking up, there is no short-term prospect that the empty container problem will go away.

Change of guard at top of box carriers?

After a long period of continuity, there will be some new blood at the top of several of the largest container shipping lines.

Ray Miles will step down as chief executive officer of CP Ships in May, to be replaced by Frank Halliwell, his right-hand man and the company’s chief operating officer. After a 16-year stint as CEO, Miles will become chairman of CP Ships.

Guenter Casjens, the long-serving CEO of Hapag-Lloyd Container Line, will leave the German shipping group on March 1. Casjens had been a member of the executive board of Hapag-Lloyd since 1990, and was also one of the founders of the Grand Alliance between Hapag-Lloyd and other carriers in the mid-1990s.

He will be succeeded by Adolf Adrion, managing director of Hapag-Lloyd Container Line.

In January, former Reuters executive Philip Green took the helm at P&O Nedlloyd, succeeding ex-P&O Containers executive Robert Woods.

And in Asia, Ron Widdows was confirmed as CEO of APL last year, having been acting CEO of the container shipping line since the departure of the high-profile Flemming Jacobs.

The names Miles, Casjens, Woods and Jacobs have been familiar to ocean carriers and their customers for years.

Whereas these four professional executives are moving, or have moved to other things, there is no sign of senior management change at Evergreen, Mediterranean Shipping Co. and CMA CGM, three shipping groups headed by their founders.

The founders and patriarchs, Chang Yung-fa at Evergreen, Gianluigi Aponte at Mediterranean Shipping Co. and Jacques Saade at CMA CGM, are in their 60s or 70s and still very much the boss.

All three have their children involved in the family-controlled business. But will they hand over to the next generation?

As driven individuals, Chang, Aponte and Saade may decide retirement really isn’t for them. While the second-generation Changs, Apontes and Saades are assuming increasingly senior executive positions in their respective family-controlled companies, the founders will likely continue to keep a close eye on what they are doing.

Concentration of a kind

The largest 25 containership operators in the world have increased their combined share of the global shipping capacity to 79.6 percent on Jan. 1 from 77.4 percent in January 2003, the research arm of French shipbroker Barry Rogliano Salles said in a report.

BRS-Alphaliner said the TEU capacity deployed by the 25 largest carriers liner trades, including fully cellular and other container-capable ships, expanded 12.3 percent to 5.96 million TEUs over the one-year period to Jan. 1. Over the same period global ship capacity of all operators grew 9.3 percent to 7.49 million TEUs.

BRS-Alphaliner said the increasing share of the top 25 operators confirms the concentration trend in the container shipping sector.

True, a share of about 80 percent is a big chunk of the worldwide capacity. But saying that 25 companies have a combined share of 80 percent is not the same as saying that three or four companies have such a share, as it is the case in the express courier industry.

So, we are still very far from a situation of oligopoly in worldwide container shipping.

The combined share of the largest 20 or 25 carriers has shown a slow upwards trend for many years, largely because of their tendency to order a disproportionately high share of new containerships. Nevertheless, other reports have shown the number and scale of takeovers and mergers in container shipping have decreased in the last five years.
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P&O Nedlloyd to join stock market

Royal Nedlloyd to acquire P&O’s 50% stake. Will become one of few independent, public container shipping lines.

BY PHILIP DAMAS

Seven years after forming their container shipping joint venture, the managements of Rotterdam-based Royal Nedlloyd NV and London-based Peninsular & Oriental Steam Navigation Co. have announced a plan to transform P&O Nedlloyd Container Line into an independent, stock market-listed company.

The plan also includes Royal Nedlloyd buying out P&O’s 50-percent interest in P&O Nedlloyd Container, the world’s fourth-largest container shipping line.

If P&O Nedlloyd’s buyout and public listing plans are approved, it will join a small number of container shipping lines listed on the stock market, including Orient Overseas (International) Ltd., Yang Ming Marine Transport, Evergreen Marine Corp. (Taiwan), Wan Hai, CP Ships and Neptune Orient Lines/APL (see chart). But even in this group, most companies are tied to larger groups, conglomerates or dominant stockholders.

Hapag-Lloyd has also recently expressed an interest in rejoining the stock market.

Complex Deal. Royal Nedlloyd has agreed to buy the 50-percent stake for about 215 million euros ($272 million) in cash and about 270 million euros ($341 million) in Royal Nedlloyd stock at current stock prices, representing a 25-percent shareholding. The deal is worth about $600 million in total.

The agreement marks the culmination of years of discussions between Royal Nedlloyd and P&O about the future ownership and structure of P&O Nedlloyd. It also marks P&O’s virtual exit from container shipping.

To finance the cash payment to P&O, Royal Nedlloyd announced a rights issue to raise about 190 million euros ($241 million).

The buyout is subject to the approval of stockholders of both companies, regulatory approval and other conditions. Both Royal Nedlloyd and P&O will hold extraordinary general meetings of stockholders in March or April to submit the buyout plan.

Haddo Meijer, chairman and chief executive officer of Royal Nedlloyd, said the deal is “fair” between Royal Nedlloyd and P&O because the transfer of the P&O Nedlloyd stake will be at close to book value, with no premium paid. Meijer said that making a decision on the future ownership of P&O Nedlloyd has been the “top priority” of both stockholders since early 2003.

“Royal Nedlloyd in its old form will cease to exist,” Meijer said.

If the deal goes ahead, Royal Nedlloyd will be renamed Royal P&O Nedlloyd and will consolidate P&O Nedlloyd as a 100-percent subsidiary — an operation described as a reverse listing. In effect, P&O Nedlloyd will inherit Royal Nedlloyd’s stockholders.

“The whole approach is to use the Royal Nedlloyd company as a vehicle for this,” said Jeffrey Sterling, chairman of P&O.

P&O Nedlloyd will therefore become a Dutch-owned company, marking the end of the last British-owned major container shipping line.

The company will continue to use the trade name P&O Nedlloyd for its container shipping operations.

Royal Nedlloyd also owns 50 percent of the Dutch airline Martinair, but it said that it plans to sell its stake in the airline.

Changes, Management. Royal P&O Nedlloyd will be headquartered in Rotterdam, the traditional base of Nedlloyd, while the “operational headquarters” for its container shipping operations will be in London, where P&O Nedlloyd has been.

Philip Green, recently appointed CEO of P&O Nedlloyd, will become CEO of the Royal P&O Nedlloyd.

The board of Royal P&O Nedlloyd will comprise two executive directors and seven non-executive directors. The executive directors will be Green and a chief financial officer. The management structure of Royal Nedlloyd will change from the current dual system of a supervisory board and an executive board to one of a one-tier board.

Meijer will step down as CEO of Royal Nedlloyd to become a non-executive director of Royal P&O Nedlloyd. He urged Royal Nedlloyd stockholders to support the transaction. P&O’s Sterling and Leo Berndsen, former chairman of Royal Nedlloyd, will step down as co-chairmen of P&O Nedlloyd.

In a joint statement, Royal Nedlloyd and P&O said P&O Nedlloyd “will benefit from increased strategic and financial flexibility to grow and develop its position as one of the leading global container shipping companies.”

However, they said the transaction will have no impact on P&O Nedlloyd’s business, its employees or its day-to-day operations and services provided to its customers.

Asked whether the future public company Royal P&O Nedlloyd will be competing on an uneven playing field if it has to disclose more information than its privately held competitors, Green said such differences were common in other industries, with no adverse problems for public companies.

Robert Woods, CEO of the P&O group and former group managing director of P&O Nedlloyd, said the company will avert some of the same costs for ships and supplies as other container shipping lines, irrespective of their...
Green said the buyout will “remove the uncertainty” surrounding the ownership of P&O Nedlloyd. The future simplified management and board structure will speed up decision-making, he added. As a public company, P&O Nedlloyd will have “access to capital markets” and “control over its strategic direction.”

According to a company insider, the complex ownership and management structure of P&O Nedlloyd had led to internal conflicts.

P&O Nedlloyd recognized that it has underperformed its competitors in recent years, but its management believes the new structure will help close the gap.

“We need to more efficiently manage our costs,” Green said during a press conference in London. Cost management and yield management will be priorities for the company, he added.

Many of the issues of P&O Nedlloyd “are of a very similar type to those I have experience in,” the new CEO said. Green described P&O Nedlloyd as “a major trading brand.”

**P&O Exit.** Sterling said the timing is right for the P&O Nedlloyd transaction. If the stock price of Royal Nedlloyd had not

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### Few Public Companies among Top Box Carriers

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<tr>
<th>Rank</th>
<th>Carrier</th>
<th>Ownership type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Maersk Sealand/Safmarine</td>
<td>Part of A.P. Moller-Maersk A/S conglomerate, a public company</td>
</tr>
<tr>
<td>2.</td>
<td>Mediterranean Shipping Co.</td>
<td>Privately owned and family controlled</td>
</tr>
<tr>
<td>3.</td>
<td>Evergreen Marine</td>
<td>Evergreen Marine Corp. (Taiwan) is only listed arm of the group, which remains controlled by the Chang family overall</td>
</tr>
<tr>
<td>4.</td>
<td>P&amp;O Nedlloyd</td>
<td>To become an independent public company</td>
</tr>
<tr>
<td>5.</td>
<td>CMA CGM</td>
<td>Privately owned and family controlled</td>
</tr>
<tr>
<td>6.</td>
<td>Hanjin Shipping/Senator</td>
<td>Part of Hanjin conglomerate</td>
</tr>
<tr>
<td>7.</td>
<td>APL</td>
<td>Main business of Neptune Orient Lines, public company in which the state of Singapore has a large shareholding</td>
</tr>
<tr>
<td>8.</td>
<td>NYK</td>
<td>Part of diversified shipping group NYK, public company affiliated to Japanese industrial group Mitsubishi</td>
</tr>
<tr>
<td>9.</td>
<td>COSCO Container Lines</td>
<td>Part of COSCO Group, a state-owned company</td>
</tr>
<tr>
<td>10.</td>
<td>China Shipping Container Lines</td>
<td>Part of China Shipping Group, a state-owned company</td>
</tr>
<tr>
<td>11.</td>
<td>“K” Line</td>
<td>Part of diversified shipping group Kawasaki Kisen Kaisha Ltd., a public company affiliated to the Japanese industrial group Kawasaki</td>
</tr>
<tr>
<td>12.</td>
<td>OOCL</td>
<td>Main business of Orient Overseas (International) Ltd., public company controlled by the Tung family</td>
</tr>
<tr>
<td>13.</td>
<td>MOL</td>
<td>Part of diversified shipping group Mitsui O.S.K. Lines, public company affiliated to the Japanese industrial group Mitsui</td>
</tr>
<tr>
<td>14.</td>
<td>CP Ships</td>
<td>Independent public company</td>
</tr>
</tbody>
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**The messy desk loses the order.**
reached recent levels, the deal would “probably not” have been done, he added.

The buyout proposed to P&O’s and Royal Nedlloyd’s stockholders coincides not only with the recovery of the Royal Nedlloyd stock, but also with an upturn in worldwide container shipping, which saw P&O Nedlloyd move back into the black in the third quarter of 2003. The pre-tax profit of $41 million was its first positive result since the third quarter of 2001.

Present in the liner shipping market for decades, P&O said the move to reduce its exposure to container shipping “achieves P&O’s key strategic objective.”

The London-based shipping and port group has sought to withdraw from container shipping for years to focus on the more remunerative port sector. P&O said it remains committed to directing capital “to the strongest growth areas of its business where it has a competitive advantage,” and exiting from or reducing investment elsewhere.

P&O will incur a loss of £52 million ($96 million) on the sale of its 50-percent share in P&O Nedlloyd and an 8 million ($15 million) reduction in group net equity before transaction costs and other items. P&O said it intends to use the cash raised in the sale to reduce its debts.

The British group noted that its 25-percent residual shareholding in Royal P&O Nedlloyd “will enable P&O to participate in any further upside in the container shipping industry.” P&O said it will retain a 25-percent equity stake in Royal P&O Nedlloyd for a minimum of six months following the transaction.

P&O also said it has allowed its name to be used in the “P&O Nedlloyd” carrier name for “at least eight years.”

Asked whether P&O intends to keep the 25-percent share in Royal P&O Nedlloyd, Woods replied: “We’re very comfortable with that shareholding.” He stressed the synergies between P&O Nedlloyd and P&O’s port business, but also suggested that P&O would not rule out selling the 25-percent stake.

In early trading shortly after the buyout and rights issue announcements Feb. 2, the Royal Nedlloyd stock was down 6.6 percent to 28.35 euros, while P&O’s stock fell 7 percent to £2.25.

Royal Nedlloyd’s stock is traded on the Euronext stock exchange in Amsterdam. In addition, its stock is traded in the United States through American depository receipts.

Royal Nedlloyd has considered the possibility that the future Royal P&O Nedlloyd stock could start trading on the London stock market, but decided against it. However, it will carry out a new program to sell American depository receipts in the United States.

P&O Nedlloyd has stock market capitalization of about 650 million euros ($823 million) and 21.3 million shares. After the proposed buyout and issuing rights for 14 million new shares, Royal P&O Nedlloyd is expected to have a market capitalization of 1.1 billion euros ($1.4 billion).

Atlantic lifts CP Ships profit

Carrier group says 4th quarter net income was highest quarterly result in more than two years.

By Philip Damas

CP Ships lifted its fourth-quarter net income 78 percent to $41 million, its highest quarterly earnings since the company went public at the end of 2001.

But CP Ships differed from other container carriers in that its strong profits were not due to the boom of the Chinese container trade. The key profit contributor was the transatlantic trade, which brought in a 76-percent higher operating income.

Despite increases in operating costs, group operating income in the latest quarter rose 44 percent to $49 million, $15 million more than in the fourth quarter of 2002. Behind this $15-million improvement in group operating income was a $16-million rise in the operating income of CP Ships’ transatlantic trade to $37 million from $21 million a year earlier.

For the carrier group, transatlantic freight rates, volumes and operating profit all showed marked improvements in the latest quarter, as freight rates experienced a third consecutive quarter of rate increases (see chart).

Ray Miles, chief executive officer of CP Ships, noted a “significant increase in profitability of the transatlantic segment.”

The company’s transatlantic revenues jumped 16 percent in the latest quarter, with average rates rising 13 percent and traffic levels up 6 percent to 301,000 TEUs.

CP Ships reported a strong growth in eastbound transatlantic traffic from North America during the fourth quarter, linked to the depreciation of the U.S. dollar, and a “moderate import growth” into North America.

Miles told a conference of investment analysts Feb. 5 that vessel load factors in the transatlantic trade have reached about 75 percent eastbound and the “high 80s or 90 percent” westbound.

“Things look quite firm going forward,” added Miles, who expects CP Ships to continue to raise transatlantic rates.

The Trans-Atlantic Conference Agreement, of which CP Ships is not a member, plans to raise its westbound tariff rates April 1 and its eastbound tariff rates July 1 and again Oct. 1.

CP Ships, the largest group in the Atlantic trade, is the parent company of Canada Maritime, Cast, Lykes Lines, TMM Lines, Italia Line, Comship Containerlines and ANZDL.

The transatlantic accounted for 51 percent of CP Ships’ fourth-quarter revenue and 76 percent of its operating income.

Other Trades. CP Ships’ fourth-quarter profit results for other trades, though, were not as strong as those of its core Atlantic trade.

CP Ships made an operating loss of $6 million in the fourth quarter on the Asian trade (including the transpacific and Indian routes), a gain of $7 million on the Australian trade, and a profit of $6 million on the Latin American trade.

Latin America was “a tough market,” but rates rebounded in the fourth quarter after

<table>
<thead>
<tr>
<th>CP Ships rates, revenues</th>
<th>2003</th>
<th>2002</th>
</tr>
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<tbody>
<tr>
<td>(Volume in 1,000 TEUs, in $millions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarterly freight rate change (avg. eastbound/westbound)</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Revenue</td>
<td>$429</td>
<td>$371</td>
</tr>
<tr>
<td>Expenses</td>
<td>$392</td>
<td>$350</td>
</tr>
<tr>
<td>Operating income</td>
<td>$37</td>
<td>$21</td>
</tr>
</tbody>
</table>
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managed to lower its unit costs, CP Ships after more than five years when the company 9 percent to 2.2 million TEUs. Therefore, in 2003 to $3 billion, while carryings rose 15 percent to $1,297 per TEU. Over the same period, CP ships reported a 1-percent fall in average freight rates between the third and fourth quarters of 2003.

For the year, operating income before exceptional items rose to $131 million from $83 million in 2002. Return on average capital employed increased to 7.3 percent in 2003 from 5.7 percent in 2002. Net income increased 58 percent to $82 million from $52 million in 2002, although this was still below the $135 million net income earned in 2000.

“With record operating income in the fourth quarter and up nearly 60 percent for the full year, and record volume and sales revenue for both the quarter and the year, we consider these to be outstanding results,” Miles said.

Revenue for 2003 rose 17 percent to $3.1 billion, as CP Ships’ container carryings increased 9 percent to 2.2 million TEUs, and average freight rates rose 7 percent, reflecting improved market conditions in most trade lanes.

Miles noted cost pressures on CP Ships from higher vessel charter rates and the adverse effect on costs of the weaker U.S. dollar. A third negative external factor was the increase in bunker prices.

Figures published by CP Ships show that most of its rate increases last year were eaten up by higher operating costs. Average revenue per TEU for the company rose 7 percent to $1,429 in 2003 from $1,338 in 2002. Average operating cost increased 6 percent last year to $1,369 per TEU from $1,338 per TEU. Over the same period, CP Ships’ operating profit margin as a percentage of revenue widened to 4.2 percent from 3.1 percent in 2002.

CP Ships consumed 1.5 million tons of bunkers at an average price of $161 per ton last year, as compared to 1.32 million tons at $139 per ton in 2002.

Total operating costs soared 15 percent in 2003 to $3 billion, while carryings rose 9 percent to 2.2 million TEUs. Therefore, after more than five years when the company managed to lower its unit costs, CP Ships saw unit costs rise again in 2003.

Of the 6.2-percent increase in its average cost per TEU in 2003, CP Ships said 4.6 percent was due to currency effects (Euro- and sterling-denominated costs have increased when converted into U.S. dollars) and 2.2 percent due to higher fuel costs.

Higher fuel costs added $56 million in expenses during 2003, and more expensive rates for chartered ships added another $17 million for the full year.

“The 2003 cost reduction program delivered over $100 million of annualized savings, of which about $75 million contributed to the 2003 result, exceeding previously announced targets and partly offsetting the cost increases,” CP Ships commented.

In the fourth quarter, group operating costs at CP Ships went up 10 percent to $792 million, whereas container volume increased 3 percent to 569,000 TEUs.

CP Ships’ earnings for the fourth quarter exceeded analysts’ expectations, according to Reuters. However, the stock price of CP Ships, trading at about $18, has been largely unchanged following the announcement of its fourth-quarter results.

Carriers ride strong market ... for now

Container shipping lines, analysts predict another good year for carriers.

BY PHILIP DAMAS

A
fter experiencing a tight container shipping market in 2003, shippers are facing another year of freight rate increases leading to larger profits for container shipping lines.

Most industry analysts are predicting a further improvement in shipping companies’ financial results this year. While carrier agreements have announced plans for further price rises.

“(The) demand/supply balance for container shipping should continue to improve due to supply constraints,” Deutsche Bank said in a recent report on Hanjin Shipping.

“We expect freight rates to rise further.”

Morgan Stanley predicts that P&O Nedloyd will boost its net earnings from an estimated $2 million profit in 2003 to $132 million this year. For comparison, P&O Nedloyd lost $281 million in 2002.

CP Ships has predicted continuing strong volumes and further increases in rates this year. These factors, the company believes, will outweigh cost pressures and result in higher net earnings.

Carnegie Securities Research also expects some increases in freight rates this year, citing the price hikes planned by the Far Eastern Freight Conference in the Asia/Europe trade and by the Trans-Atlantic Conference Agreement in the Atlantic market.

The FEFC has scheduled four westbound freight rate rises in 2004. The Transpacific Stabilization Agreement hopes to increase eastbound freight rates by $450 per 40-foot container in May, covering the 2004-2005 service contract season.

As usual, these increases are negotiated between carriers and shippers, but service providers have recently had a stronger bargaining position thanks to the tight market. Carnegie Securities expressed doubts “that the proposed rate hikes will come through in full” for the transatlantic and Asia/Europe trades.

Yet, the momentum of rate increases at the end of 2003 seemed strong, and could continue into 2004.

CP Ships reported that its average freight rates in the fourth quarter were 8 percent higher than the fourth quarter of 2002. Average container freight rates at APL for the six-week period to Dec. 26, at $2,532 per-40-foot equivalent unit, were 16 percent higher than in the same period in 2002.

A discordant signal concerning the state of the market was that APL’s latest average rate was also down 5 percent from the average level of $2,653 per FEU in the four-week period ended Nov. 14. But Neptune Orient Lines, the parent company of APL, discounted this as being the result of a change in the mix of cargoes carried by the shipping line, rather than a fall in absolute rate levels.

Demand Growth. Forecasting future cargo volumes in international commerce is not an accurate science, and has led to widely erroneous predictions of traffic volumes in the last few years.

Ian Webber, chief financial officer of CP
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Ships, said container traffic growth in 2003 was forecast to be 7 percent, but turned out to be about 12 percent.

Various forecasts from specialized organizations now suggest cargo growth will be relatively strong this year, but less rapid than in 2003.

Based on data from Clarkson and Drewry Shipping Consultants, CP Ships said world container traffic could expand about 8 percent this year and about 10 percent in 2005 — representing a slowdown from the global growth of 12 percent in 2003.

In January, the Transpacific Stabilization Agreement published a forecast of 10-12 percent cargo growth for the eastbound transpacific trade this year.

“Removal of apparel quotas at the end of 2004 is expected to produce a high volume of shipments early in 2004 under the current system,” the transpacific carrier group said.

The FEFIC said it expects growth of about 11 percent in westbound container traffic from Asia to North Europe this year. And TACA forecasts the volume of westbound Atlantic cargoes to rise about 4 to 5 percent this year.

Recent economic forecasts have been more bullish about international trade growth. In November, the Organization for Economic Cooperation and Development forecast the volume of world imports and exports will expand 7.8 percent in 2004 and 9.1 percent in 2005, nearly twice as fast as they grew in the last two years.

In January, Global Insight, a forecasting organization, said that, after three difficult years, the world economy will enjoy in 2004 “its strongest growth since 2000.” The Eurozone would see “its strongest expansion of the last four years” in 2004, while Asia is “geared to have a very strong 2004” and Latin America is expected to experience its highest economic growth in more than five years.

Ray Miles, chief executive officer of CP Ships, said the outlook for the Latin American trades is better than the “glumy” prospects the company had faced previously.

In 2002 and 2003, cargo growth has matched or exceeded containerization capacity growth, according to industry analysts. But container shipping is a cyclical industry and is bound to experience a downturn when demand weakens again relative to supply, as was the case in 2001.

Worldwide containerization capacity is expected to increase nearly 10 percent this year, and about 10 percent in each of 2005 and 2006. These large capacity increases raise question about the ability of global trade to keep up with the vessel supply growth, and about whether shippers could start to demand lower rates from carriers ahead of a capacity surplus.

CP Ships does not believe this situation has arisen. “There is no evidence of shippers having a ‘futures’ view of the market,” Miles insisted, referring to a potential future downturn.

Miles noted the “strong delivery of containership supply over the next three years,” but believes the supply/demand situation will remain favorable to carriers for at least the next two years. He told a conference of investment analysts Feb. 5 that “we should prepare ourselves for the cyclical downturn” when it comes, without specifying which year that would be.

“2004 from the demand side is going to be a strong year,” he stressed. “The question is: Will 2004 be the peak, or will it continue into 2005? I don’t know.”

For the time being, at least, the market is good for ocean carriers and more expensive for shippers.

WSC offers ‘smart container’ advice

Carrier group says separate approaches, devices needed for container security, supply chain management.

WASHINGTON

The U.S. Bureau of Customs and Border Protection should separate electronic devices related to container security and those related to supply chain cargo management, the Washington-based World Shipping Council carrier group said in a comment to the agency about the proposed “smart and secure container” technology.

To further reduce the risk of containers being used for potential terrorist attacks, U.S. Customs requested industry comments on using radio-frequency identification (RFID) technology for maritime containers on Dec. 16.

In November, Customs Commissioner Robert Bonner also told members of the trade that companies that use electronic seals and sensor technology to secure international containers and monitor tampering would receive expedited clearance of their goods.

In a five-page comment to the agency, the World Shipping Council recommended a framework for how RFID technology used in electronic seals and in cargo shipment tags should be analyzed and applied in “smart container” initiatives.

Specifically, the council’s paper proposes what the security characteristics for RFID e-seals should be, and it advocates that container security objectives and devices and supply chain cargo management objectives and devices need to be analytically and physically separated.

“A failure to clearly distinguish between security objectives and commercial applications will create confusion and ambiguity, will impede progress on these issues and, in fact, may create security vulnerabilities,” the council said.

The carrier group recommended that three separate devices could be used to meet security or supply chain objectives:

- A passive, read-only RFID container tag, permanently affixed by the container owner on the container, would only contain “license plate” information such as container number, owner code and other information elements.
- A "semi-passive," read-only, non-reusable electronic seal, affixed to the container door by the shipper (for a particular shipment immediately upon stuffing of the container, would record the date and time of when the seal was activated and when it was opened or breached.
- An active, read/write non-reusable RFID cargo shipment tag for a particular shipment may be affixed by the shipper on the container upon stuffing to serve the shipper’s or importer’s supply chain management requirements, if desired by the shipper.

Passive electronic tags, which have no power source, cost much less than active ones like those produced by Savi for the “smart and secure tradelanes” voluntary program of P&O Ports, Hutchison and PSA Corp.

The World Shipping Council encouraged Customs to carry out a pilot program of e-seals with officials of other countries and a small number of shippers.

The council also stressed that smart container technology requirements must fit into the operating environment of international trade without impeding trade flows or operations.

The carrier group believes that the objective of any future Customs regulation on RFID use for containers must be to build a more secure operating system that will work more efficiently. “Concepts and proposals that do not reflect a commonly understood and shared set of objectives are not likely to produce progress,” it warned. “Proposals that do not attempt to address how the proposals would actually be applied to the operating conditions of international commerce are deficient.”

The council also raised questions about
the cost of the electronic technology, who will pay for it, who will have to read the information and who will operate the supporting technology infrastructure.

The shipping industry is expected to focus its attention on who will have to read the security information and operate the reading devices before the goods are loaded on ships.

Customs has already identified the cost of possible technologies as a consideration, a point that the World Shipping Council said is “obvious and unarguable.” The carrier group also urged the authorities to take into consideration several cost factors:

- When non-security features are added to electronic devices, the cost of the device, the cost of the supporting infrastructure, and the cost of its use increase.
- Cost analysis must include not only the cost of a device, but its administration and use (including maintenance and repair), the number and cost of “false positives,” the infrastructure needed to properly utilize the device, and the protocols resulting from the use of whatever information is produced by the device.
- Unless the device is permanently affixed to the container, “it should be designed for a single usage.” Recycling devices from one shipment to another not only raises significant logistics and security issues, but also the cost and complexities of such recycling “is likely to be unacceptable.”
- The cost of deploying whatever technology is determined most appropriate to the international trade network “will be substantial.” Accordingly, there needs to be confidence that the government will not want to switch technologies soon after establishing what is desired, the carrier group said.

The council asked whether the objective is to develop and deploy technology that can be used for security screening before vessel loading at non-U.S. ports, and thus integrated into the 24-hour rule and the Container Security Initiative, or whether the objective is to use technology for security screening “upon the port of entry,” as stated in Customs’ request for information.

“The answer to this question will obviously have a substantial impact upon the scope of application and the number of entities in the global supply chain who would be involved,” the World Shipping Council stressed.

The Council represents 44 liner shipping companies which carry more than 90 percent of U.S. containerized imports and exports.

After gathering industry comments through its request for information, Customs is expected to issue a more detailed request for proposal before adopting rules on RFID technology for containers.

Coast Guard cites 90% return for security plans

WASHINGTON

The U.S. Coast Guard said 90 percent of vessels and port facilities turned in security plans as required by the Maritime Transportation Security Act.

The Coast Guard has begun issuing notices of violation accompanied by $10,000 fines to those ships and ports that have not filed security plans, the agency said in a statement.

Large cargo and passenger vessels, port facilities, and outer continental shelf facilities were required to submit a vulnerability assessment report and a security plan.

“Additional civil penalties for failing to submit the security plan may be issued at a later date, and non-compliant operators may have their operation shut down after July 1 if an approved plan is not in place,” the Coast Guard said.

The names of those fined have been designated as “sensitive security information” and will not be released to the public, the agency explained.
Midwest grain growers and shippers are formidable competitors in the global market, but without efficient inland waterways transportation, their business could come to a grinding halt.

During the past two years, hundreds of agriculture and shipping industry interests have lined up behind an evolving lobby in Washington, which is pressing Congress to allocate more money to upgrade the U.S. inland waterways system.

“As our rivers become less competitive and the price of grain goes up because of backlogs on the waterways system, we become a less desirable source of grain,” said Greg Guenther, an inland river waterways advocate and grain farmer in Belleville, Ill., just east of St. Louis.

And it’s not just the delays in transporting their commodities that worry Midwest farmers. They also rely on the rivers to transport large quantities of crop inputs, such as fertilizer and chemicals. “We get the...
will turn to overseas producers.

“The big multinational companies don’t care where they originate their corn,” Guenther said. “They go to where it’s cheaper.”

In recent years, Argentina, a large corn producing country, has chipped away at the U.S.’s hold on the global corn trade. The South American country can produce corn more cheaply with lower labor and land costs.

“The only thing that makes us competitive still is our river transportation system,” Guenther said. “If that deteriorates further that competitive advantage goes away.”

Guenther, past president of the Illinois Corn Growers Association, and member of the National Corn Growers Association’s Production and Stewardship Action Team in Washington, believes that with the clout of the newfound Waterways Council working the halls on Capitol Hill, the country may have a chance to turn around what shippers perceive to be a trend toward disaster. “At the rate Congress spends money, repairing the nation’s locks is pocket change,” he said.

By Chris Gillis

problems both ways,” Guenther said.

Guenther’s farm is a relatively small operation compared to other regional producers, with an annual corn export production of about 50,000 bushels, enough to fill more than one barge on the Mississippi River. But the combination of numerous Midwest farms like Guenther’s provides large supplies of grain to multinational buyers, such as ADM, Cargill, and ConAgra, located in the U.S. Gulf.

Midwest corn farmers are worried that if they can’t deliver shipments in a timely manner at a fair price, multinational buyers will turn to overseas producers.

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Urgent Upgrades. Of the country’s 194 inland waterway locks and dams, better than half are more than 50 years old. Yet the system annually handles about 1 billion tons of cargo, valued at about $312 billion. In addition to agricultural-related commodities, other goods tied to river transport are building materials, iron and steel, petroleum, industrial chemicals, coal, ores and minerals.

Illinois borders or contains more than 1,000 miles of the inland waterway system. There are 403 manufacturing facilities, terminals and docks in the state that depend on river transport. According to the U.S. Army Corps of Engineer’s waterborne commerce statistics, Illinois ships more than 87 million tons of commodities a year out of the state on the waterways. This figure excludes the more than 240 million tons of commodities that move by barges within Illinois. The agency’s figures point to Louisiana as the top state shipped to with over 49 million tons of commodities that move by barges per tow. However, once these tows reach the oldest locks and dams, which generally have a capacity 600 feet, the towboat operators must split up the tows to get them through. This doubles the time spent at the locks and dams, contributing to congestion, delays and increased costs to transporters and shipper.

“Anyone doing business in the central part of the United States has a real advantage in using this system,” said Looman Stingo, senior vice president of logistics for Holcim (U.S.), a cement manufacturer based in Waltham, Mass. “We set up a lot of our strategy based on river transportation.”

Holcim operates a cement plant at Clarksville, Mo., just north of Lock and Dam 24 on the Missouri River. The company plans to build a new plant in St. Geneve County, Mo., south of St. Louis, along the Mississippi River. When the plant is operational, its 14 million tons of annual capacity will make it the largest in the country. “This plant will be 100-percent dependent of the waterways,” Stingo said.

John S. Doyle Jr. VP of government relations, Waterways Council

“We’re trying to be reasonable with our request. We need to spend down the $400-million surplus over a 10-year period on congressionally approved projects that promise multiple returns on investment.”

But Holcim has been feeling the bite from downtime on Lock and Dam 24. For the past several years, the Corps of Engineers has closed the lock and dam for repairs from mid-December to mid-March. “Between this time period, we cannot move product south on the Mississippi to pick up the Illinois River to go up to our two terminals in Chicago,” Stingo said. “It creates a real problem for us.”

Many more locks and dams, such as the busy Olmsted Locks and Dam, are in desperate need of upgrades to accommodate the larger barge tows. Like the railroads’ desire for unit trains, modern towboat operators can transport up to 15 barges per tow. However, once these tows reach the oldest locks and dams, which generally have a capacity 600 feet, the towboat operators must split up the tows to get them through. This doubles the time spent at the locks and dams, contributing to congestion, delays and increased costs to transporters and shipper.

Both scheduled and unscheduled repairs

By Chris Gillis

2/19/04   5:00:51 PM

2/19/04   5:00:51 PM
More water

Missouri River levels drag down region’s barge shippers.

WASHINGTON

Missouri River shippers and terminal operators have a transportation calamity on their hands.

Blaske Marine and Memco, the river’s two largest barge operators, have decided to shut down their services from the St. Louis area to the upper Missouri River for 2004. The reason: Lack of sufficient water.

“We’re real concerned about the future,” said Paul Davis, owner of Interstate Marine Terminal at Boonville, Mo. “I’m reluctant to spend any more capital on this operation.”

Interstate Marine receives barge loads of fertilizer from plants as far south as New Orleans, which it delivers by truck to farm cooperatives and retail outlets within a 75-mile radius of its operations. In the fall of 2003, the terminal was scheduled to receive 25,000 tons of fertilizer, but because of the persistent low water levels on the Missouri River, it lost all but one barge of 1,300 tons.

Joe LaMothe’s company, Kansas City, Mo.-based Midwest Terminal Warehouse Co., is grateful to have access to rail and truck service, but would prefer to use barge transport to receive his loads of fertilizer, industrialized salt and steel commodities. “We got bunker mentality right now,” LaMothe said. “We’re planning our year as if there’s no barge service.”

Most shippers on the Missouri River book their barge shipments for the season in February, which generally runs from April to November. “Will they move their cargo by rail or not at all? We just don’t know, yet,” LaMothe said.

LaMothe believes that shippers will absorb the cost of rail services for about two years, but the long-term impact on their supply chains to the region is uncertain. Many Missouri River shippers are only able to employ 10 to 15 railcars at a time, which doesn’t give them the same rate and service negotiating clout as shippers that require 100 to 150 car unit trains, he said.

Dave Burkholder, president of Consolidated Blenders, operates a receiving depot for processed alfalfa pellets at Blair, Neb., which is located 650 miles north of St. Louis. He has already felt the pinch of higher rail rates. To move an export shipment by rail from Blair to St. Louis cost his company $4 a ton over regular barge service from Blair. When the railcars reached St. Louis, Burkholder paid another $2 per ton to transfer the cargo to barges for onward shipping to New Orleans. “That’s $6 a ton over what I would have normally paid to use all barge transport,” he said.

A drought in the Upper Midwest started several years ago. At the same time, the U.S. Army Corps of Engineers removed court-ordered restrictions on how much water and when to release it from its dams at Gavins Point, S.D. Environmental groups and the federal government’s Fish and Wildlife Service desire more flow modifications on the river to preserve endangered species, such as the piping plover and pallid sturgeon, which is diametrically opposed to the barge shipping season. The Corps of Engineers is now considering changes to its Missouri River Master Water Control Manual.

Two years ago, a group of 25 agricultural and transportation businesses on the river banded together to form the Coalition to Protect the Missouri River. The companies hired a full-time executive director, Randy Asbury, to manage the coalition’s activities and to fight to restore water levels for safe barge navigation on the river. It’s still highly uncertain whether the coalition can win the fight.

“It’s unfortunate that the Endangered Species Act is a law with little common sense, given the need for all modes of transportation to provide for a robust U.S. economy,” Asbury said. “The U.S. government should be working to maintain navigation as opposed to being in the position of terminating its existence.”
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of government relations for the Waterways Council. “We need to spend down the $400 million surplus over a 10 year period on congressionally improved projects that promise multiple returns on investment.”

The council is irked that millions of dollars are spent studying inland waterway improvements long before construction begins. For example, the Corps of Engineers has spent $65 million over a 12-year period on an incomplete study of the upper Mississippi River and hasn’t improved a single lock.

At a September meeting in Houston, the Corps of Engineers’ Inland Waterways User Board outlined several significant project delays caused by insufficient funding levels.

The Lower Mon project has had its completion date extended seven years already. At the current rate of funding, it will take the Corps of Engineers until 2015 to finish the project.

The Corps of Engineers’ McAlpine project has already slipped six years with a completion date of 2012 at the current funding level. The Kentucky River project has fallen back four years and the Corps of Engineers doesn’t expect to complete the project until 2026. Similarly, the Inner Harbor project in New Orleans has slipped two years and won’t be finished until 2030.

“We used to complain that it took 25 years to build a lock and dam, but now it’s taking 30 to 35 years,” said R. Barry Palmer, president and CEO of the Waterways Council. “It is unacceptable that we tolerate this in this country.”

Yet an “initial impressions” report by the National Academy of Science called for the Corps of Engineers to consider non-infrastructure improvements to manage barge traffic on the Upper Mississippi and Illinois rivers. The academy questioned the Corps of Engineers study analysis and estimates for managing future barge traffic on these rivers. The report said structural measures, such as increasing lock capacity for barges at a cost of $2.8 billion, might not render much benefit.

The academy report recommended the Corps of Engineers establish new tolls and discard its first-come, first-served lock operations for barge traffic to eliminate seasonal backups.

Christopher Brescia, president of MARC 2000 and a board member of the Waterways Council, said his group is “frankly mystified that preliminary conclusions were reached by the committee before reviewing all of the data and talking to the real experts.”

The Waterways Council was established in early December 2003 by the merger of the Waterways Work! and the Association for the Development of Inland Navigation in America’s Ohio Valley (DINAMO). More than 250 waterways carriers, shippers, port authorities, shipping associations, and waterways advocacy groups support the council’s work.

The council hopes to bring together common concerns of the many individual waterway users and regional advocacy groups around the country to create a single, more powerful lobbying voice on Capitol Hill. The challenge of lobbying for inland waterway improvements is the system’s lack of visibility with the public. Unlike trucks and trains, the river system operates quietly out of the way.

“The problem is getting people to care,” Burrack said. “The beauty of the river is that it’s not seen. We ship a billion bushels of corn a year down the river. The public would notice if we had to move this volume over the road by truck.”

At the same time, the council wants to avoid confrontation with other transport modes, such as trucks and railroads, for infrastructure improvement funds.

“If this country is going to address the economic growth and traffic increases in the next 20 years, we have to invest in our entire transportation system,” Doyle said. “No one mode will be able to address the growth predicted for this country.”

MarAd’s inland waterways research archive

WASHINGTON

The U.S. Maritime Administration has developed an online archive available to shipping industry researchers to provide information about the country’s river transportation.

The Inland Waterways Research Project contains published studies, reports, and ongoing research results by waterway experts, all in searchable databases. In addition, the site provides links to inland transport companies, news sources, and other useful links.

“For many years, transportation researchers seeking to investigate marine transportation system reports, data and other information sources have faced an overwhelming array of documents, studies and news reports that are scattered across the information spectrum,” MarAd said when it unveiled the site last year.

The agency said the idea of the Web site came after consultations with maritime industry officials indicated the need for a “consolidated repository” on the national river transport system. “In this way, it would be easier for researchers to see what is being said, written, examined and debated regarding the national waterway system,” MarAd said.

MarAd worked with more than 60 national organizations and individual researchers to collect publicly available information for the Web site (www.marad.dot.gov/iwrp).
In its ten years of existence, Intermodal South America has always stood out by pointing the new trends of foreign trade and international logistics to a market that is in constantly evolving.

A fact that proves it is the growth of the event. In 2003, the trade show had 350 exhibitors, a universe composed of providers of foreign trade services, international logistics operators and many others. All of them aiming at a specialized public. In its last edition, the public surpassed the milestone of 38 thousand visitors, among shippers and entrepreneurs of the industry.

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has no fleet of smaller feeder ships that can sail at speeds necessary to compete with the other “legs.” Tug-barge combinations handle most short-sea cargoes.

“If you want shippers to move their cargo off the roads, you have to offer rapid and regular service. You can’t get that just from barges,” Shaerf said.

“Barges have their place. They are being used up and down the coasts. But for the domestic 53-foot truck chassis trade, second-day service is about the worst you can provide,” Kunkel said.

“We need to build feeder vessels, drop-trailer ferries, ro/ro (roll-on/roll-off) ships, and even fast cargo hydrofoils, all of which have been developed in Europe as the concept of short-sea shipping has caught on,” he explained.

New Database. SCOOP is making a database of the type and number of vessels available in the existing domestic fleet.

“We want to see if some components of that fleet can be repositioned or modified to be used directly in short-sea shipping,” Kunkel said. “There is also a lot of discussion going on about new construction.”

Pricing will ultimately determine how much business comes to short-sea vessels. Shaerf cited rail rates as low as 65 cents per mile. Trucking companies charge $1.20-$1.30 per mile. “There’s an opportunity for short-sea shipping between those ranges,” he said.

“We have to be at or below the truck price,” Kunkel said. “Short-sea shipping has to work as an alternative to trucking, one that some trucking companies are beginning to embrace.”

“If the trucking company can use short-sea shipping as an alternative on congested routes, there are cost benefits: less wear and tear on trailers, and fewer driving hours coming in and out of long-haul movements,” he said.

“That’s especially true with the new Department of Transportation regulations on driver time,” Shaerf said of hours-of-service rules that went into effect last month.

The federal government has estimates it will cost $32 million a mile to expand the U.S. highway system, and $100 million for each highway interchange to ease congestion on local roads.

“You can build a 24-knot ro/ro ship for under $30 million today in midsized U.S. yards,” Shaerf said.

Kunkel’s company, Apex Marine Ship Management, first surveyed short-sea shipping in 1996. After spending more than $500,000 on research, Apex Marine and naval architect Robert Allan, based in Vancouver, British Columbia, designed a drop-trailer ferry with a speed of 18 to 20 knots, capable of carrying 80 53-foot trailers on a double deck.

Apex Marine sees a market for two such ships in short-sea service between New York and Boston, and two between New York and Norfolk.

“We hope we’re not the only company planning such vessels,” Kunkel said. Apex Marine runs a fleet of eight foreign-flag bulk carriers, and manages three vessels for MarAd’s school ship program.

“Although a 24-knot ro/ro ship, compared to an 18-knot ro/ro vessel, means two hours’ faster delivery, higher speeds bring a cost that is ultimately self-defeating, Kunkel said.

“You don’t want a vessel that’s so damned thirsty you’d never be able to pay for its operating cost on the box side,” he said. “The range of 18 knots to 20 knots, maximum, is about right.”

Apex Marine’s research into shipping up and down the Interstate 95 corridor indicated that one million 20- and 40-foot ISO containers could have been transshipped by water.

“We also found about nine million 53-foot domestic truck chassis that could have made part of their journey by water. At that point, we began to think of a ro/ro ship or a drop-trailer ferry as the ideal vessel format for expanded short-sea business,” he said.

Last fall, the SCOOP held shipper meetings to discuss the benefits of short-sea shipping. “At the beginning, no one showed much interest,” Kunkel said. “That’s definitely changed in recent weeks.”

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“We have to be at or below the truck price. Short-sea shipping has to work as an alternative to trucking, one that some trucking companies are beginning to embrace.”

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“European short-sea transportation is growing at a rate of 25 percent right now,” he explained. “That’s more than road or rail growth on the Continent. But that system has had massive support from individual governments to get up and running.”

Logistics companies that have participated in the SCOOP’s discussions have said, “it’s more productive for them to consolidate the contents of two 40-foot containers into one 53-foot truck.” Kunkel explained.

“That leads to a perfect short-sea scenario: after that 53-footer is stuffed, it goes on a ro/ro vessel or drop-trailer ferry and is taken out of a densely populated area,” he said. “If we dealt with more cargo that way, it would help to mitigate the repositioning costs of empty 40-foot containers that eventually have to get back to larger ports where significant import business is being done.”

Under a proposed U.S. short-sea shipping network along the East Coast, 90 percent of the system would be domestic.

“You would see increasing use of trans-shipment cargo,” Shaerf predicted.

As for the federal money required to make short-sea shipping work, “Washington seems to focus on one financial package at a time,” Shaerf said. “Title XI is done and in place. We’d like to see further set-asides for vessel and port short-sea development.”

Other officers in SCOOP are vice chair John S. Tirpak, vice president of government sales, Saltchuk Resources Inc.; treasurer Joseph J. Cox, president of the Chamber of Shipping of America; and Raymond Barberesi, director of MarAd’s Office of Ports and Domestic Shipping, is program administrator.

Pacer boosts 4th quarter net income

CONCORD, Calif. — Pacer International, the stacktrain and transportation company, increased its net income 43 percent in the fourth quarter ended Dec. 26, to $11.4 million from $8 million in the year-earlier quarter.

Operating income rose 6 percent to $21.7 million, and gross revenue increased 5 percent to $456.3 million.

Fourth-quarter net revenues for Pacer’s wholesale segment, which principally provides double-stack rail services and cartage operations, increased 19 percent to $71.9 million. Improvement came from strong business volumes in all three lines of Pacer stacktrain’s business — domestic, automotive and international — and from the addition of new locations for the cartage business.

Net fourth-quarter revenues from Pacer’s retail segment, which includes intermodal marketing, truck brokerage and services, freight forwarding, supply chain management and warehouse and distribution services for manufacturers and retailers, decreased 17 percent to $28.1 million. The reduction was primarily a result of declines in the rail and truck brokerage units.
Boeing goes maritime
Aerospace giant sharpens security credentials in port, maritime facilities.

By Robert Mottley

The Boeing Co., known for building aircraft and for its aerospace contracting, decided last year to make a serious pitch as a security systems integrator for ports and other maritime facilities handling containerized cargo.

Under the auspices of the Transportation Security Administration within the Department of Homeland Security, Boeing in 2003 was awarded two contracts to develop and demonstrate security systems for prominent ports.

The contracts are for the ports of Los Angeles and Long Beach, valued at $4.5 million, and with the Port Authority of New York and New Jersey, valued at $4.5 million to $5 million.

The genes of the integrated security system that Boeing is expected to demonstrate may be found in a sampling of the company’s government contracts since Sept. 11, 2001.

In 2002, Boeing was selected as the lead integrator of the Future Combat Systems program, a decades-long effort to transform the U.S. Army. Also in that year, the government chose Boeing to support TSA in meeting a Congressional mandate to screen 100 percent of checked baggage.

The Defense Department also selected Boeing to be a systems integrator for the National Missile Defense Program and the Joint Tactical Radio System.

The link between these assignments was systems integration, and it was logical for Boeing to want to expand its proven expertise.

“We are now leveraging the work we did with the airport security program to support additional large-scale systems integration opportunities,” Richard Stephens, Boeing’s vice president and general manager, Homeland Security and Services, told the U.S. House of Representatives Select Committee on Homeland Security’s Subcommittee on Infrastructure and Border Security in Washington, D.C., last summer.

Boeing’s Homeland Security & Services is a unit of Boeing Integrated Defense Systems, a $23-billion business based in St. Louis.

To facilitate its development and demonstration of an integrated security system, Boeing enlisted the help of four partners in a consortium presently called Global Secure.

The consortium comprises Global Marine Security Systems, a company that assesses maritime security plans has had a catalytic role in sharpening Boeing’s maritime credentials (February American Shipper, page 55).

“We are attempting to come up with a solution for securing a container from its place of origin to its destination,” said Fred Gordon, chief operating officer of Global Marine Security.

“We’re working to put a real-world system on the ground,” Gordon said.

Boeing will integrate real-time, in-transit container information with existing networks and databases.

The system comprises container screening upon departure and arrival, outfitting selected containers with a tamper-proof seal, a redundant intrusion detection and reporting system, and a wireless transmission device to provide periodic positioning and notifications of exceptions to the container’s routine.

The technology for all of that is on the market already. Boeing is shopping about, “taking the best of what’s out there, although we’re not releasing any names,” a Boeing spokesman said.

“I don’t think anyone has the upper hand now. We want to come up with a system that works for everybody,” Gordon said.

Besides using off-the-shelf technology, the new system will be open-ended enough to be compatible with new security software designs.

In its manufacturing procedures for aircraft, “Boeing has been very good at designing and integrating large logistics systems with disparate pieces,” said Ronald C. Maehl, vice president, network enabled solutions, Boeing Integrated Defense Systems, Boeing Homeland Security & Services.

“We subcontract most of the component work for our commercial aircraft, and then integrate what our suppliers and vendors send us,” explained Maehl, whose Boeing unit is based in Seal Beach, Calif.

Maehl, holds a patent for electrically wired extendible tubular booms. He was senior vice president, networks and applications, for Boeing Satellite Systems. Before coming to Boeing in 1999, Maehl was president of CyberStar, a limited partnership created and managed by Loral Space and Communications Ltd.

Asked how the idea of going to the commercial market in logistics came up, Maehl said that “it didn’t seem like a stretch, extrapolating our air systems logistics model to port security.”

“The key to ports has always been fast throughput. We don’t want to disrupt that, but to develop a security system that can be put in place on top it,” Maehl said.
“The overall idea here is to avoid solving security problems in a piecemeal way creating bottlenecks that tie up the flow of commerce,” he said. “We don’t see this as being an IT problem, but as an information management problem.”

Maehl said, “we’re talking about a broad, ‘open architecture’ system, not a niche operation. If you simplify it, you take away the essence of the solution. You’re sort of stuck with looking at a high level system that’s hard to describe to laymen.”

Maehl said Boeing’s concept “may be more attractive to larger companies, the top 50 shippers, sourcing from multiple vendors. “Providing better access to information all the way through the supply chain will enable you to identify more accurately what’s in a box,” Maehl said.

“Clearly, we have a challenge to convince commercial stakeholders why an integrated system is necessary, and get the government to begin to write regulations the right way to certify these systems,” he said.

Boeing has targeted ports, ocean carriers, cargo consolidators and deconsolidators, and ultimately, importers, as possible customers. Pricing options have not been finalized, “but we’re heading toward a subscription basis, depending on volume,” he said.

As part of its overall security consulting, Boeing also would act as a 4PL, riding herd on a client’s previously hired security companies and assessing the effectiveness of their technologies.

“The idea is to integrate legacy systems and make them talk to each other, to make a company’s entire security network work seamlessly,” Maehl said. “We don’t presume to think that our system will be the only one certified. Frankly, we think there will be a lot of competition.”

The ports of Los Angeles and Long Beach contracted with Sandia National Laboratories to manage Operation Safe Commerce for them. “Our approach is a little different in that we believe in understanding a problem before you apply a technology to it,” said Dick Wayne, who represented Sandia in recent discussions with Boeing on behalf of Los Angeles and Long Beach.

Wayne, citing TSA constraints, would say only that the ports had identified three trade lanes. The first phase in each trade lane for Operation Safe Commerce was to assess existing security along that supply chain “and evaluate what might improve it.”

Boeing and its consortium partners agreed to assess security and make suggestions in one trade lane. “The other trade lanes are managed by Unisys and PSA,” Wayne said.

According to sources in Los Angeles and Long Beach, Sandia’s negotiations with Boeing were difficult, with Boeing reluctantly accepting Sandia’s rigid, standards-based criteria for assessments. “It was not a smooth procedure,” Wayne said. “I’m not at liberty so say more about the contract.”

“As a result of what Boeing does in its trade lane, we will make certain recommendations to TSA. Sandia Labs will also be conducting its own testing, independent of Boeing and of any technology component manufacturers,” Wayne said.

All results from the testing will be labeled “SSI,” for “sensitive security information,” and will not be made public.

Sandia National Laboratories is a government-owner, contractor-operated (GOCO) facility managed by Lockheed Martin for the U.S. Department of Energy’s National Nuclear Security Administration.

“We don’t make products to put into the security chain. Sandia is involved in analysis,” Wayne said.

Sandia, located on Kirkland Air Force Base in Albuquerque, N.M., also has an office in Livermore, Calif. The laboratory, which seeks collaborative partnerships on emerging technologies, recently demonstrated a foam to stop the SARS virus.
**Fire alone isn’t enough for negligence claim**

Ambraco Inc., an importer of sisal bale twine into the United States, typically sells bale twine to retail outlets. Toward the end of 2000, Ambraco and Cosibra, a Brazilian source of bale twine, arranged with Mammoet Goedkoop B.V., an Amsterdam-based shipowner, to ship palletized sisal bale twine from Cabedelo, Brazil, to New Orleans on Mammoet’s Project Europa, a vessel designed to carry heavylift or project cargo. Ambraco was the consignee for the cargo.

Sisal bale twine is made from the sisal plant, similar to hemp. When made into twine, sisal is considered to be a Class 4.1 combustible solid, as set forth in the International Maritime Dangerous Goods (IMDG) Code.

On Dec. 27, 2000, Ambraco’s bales of twine were placed in the ship’s cargo hold on pallets covered with “shrink-wrap.” Ambraco’s twine comprised 94 percent of the vessel’s cargo.

On Jan. 2, 2001, en route to New Orleans, the vessel’s boatswain reported smoke coming from the main cargo hatch. The master ordered the crew to pump water and then CO2 into the hold, but the fire continued to burn. Mammoet hired Smit Tak, a salvage company, to assist the crew in fire-fighting. The shipowner also tried to find a safe berth for the vessel, but was thwarted by a local harbor master in Curacao, Venezuela. The ship was finally allowed to berth Jan. 9 at a sheltered area in Curacao. The vessel’s No. 3 hatch was opened, which had been too risky to attempt at sea, and the fire was extinguished in minutes. After stevedores removed burned and smoldering pallets of twine, the ship sailed to New Orleans, where all parties retained surveyors and started to determine damages.

Ambraco estimated its loss at $2,977,430, from 12,900 bales of twine that burned and 237,095 bales that were damaged. Mammoet, the shipowner, incurred 600,000 euros in general average expenses.

Ambraco subsequently sued Mammoet in federal court in New Orleans, seeking to recover damages resulting from cargo losses. Ambraco alleged that Mammoet had been negligent in either causing the fire, or preventing it from being extinguished for six days. Mammoet asserted liability against the cargo for 50 percent of general average expenditures in the amount of 282,960 euros.

U.S. District Judge Kurt D. Engelhardt noted in his ruling that “a shipper’s burden under the fire defense of the Carriage of Goods by Sea Act (COGSA) and the U.S. Fire Statute (46 U.S.C.S.App. 182) is not satisfied by proving that a maritime fire was caused by the negligence of the master or crew ... the negligence must be that of a managerial officer or an agent with a broad range of corporate authority.”

Moreover, “loss resulting from fire is one of the perils excepted, more so than other perils, from the general liability of the carrier for damage sustained while goods are in the carrier’s possession. Once the carrier shows that the loss or damage was caused by fire, the burden of proof shifts back to the cargo owner to prove that the fire was caused by the design or neglect of the shipowner,” Engelhardt said.

He noted further that the Project Europa’s CO2 systems had worked, and that the ship was in class without restriction, according to the classification society Germanischer Lloyd. “The Court finds no negligence on the part of Mammoet either in equipping the vessel or in accepting the twine as cargo,” Engelhardt ruled in dismissing Ambraco’s claims against the ocean carrier.

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He noted further that the Project Europa’s CO2 systems had worked, and that the ship was in class without restriction, according to the classification society Germanischer Lloyd. “The Court finds no negligence on the part of Mammoet either in equipping the vessel or in accepting the twine as cargo,” Engelhardt ruled in dismissing Ambraco’s claims against the ocean carrier.

“The doctrine of general average requires all parties to a sea adventure — cargo owners as well as a shipowner — to share the costs of sacrifices and extraordinary expenses necessary to save the ship and its cargo,” Engelhardt wrote in his opinion.

“Ambraco ... does not contest that a general average act occurred. Rather, it argues that Mammoet should be denied a general average contribution because it was at fault in causing the peril that necessitated the general average acts,” the court explained.

“Generally, a vessel owner at fault is not able to collect a general average contribution from the cargo owner. However, where the carriage contract includes a ‘New Jason Clause,’ as in this case, the cargo interest is required to contribute to general average expenditures even if the carrier is negligent,” Engelhardt said.

The judge concluded that “none of the damage was caused by the actual fault of Mammoet,” the ocean carrier was entitled to 282,960 euros in general average contribution from Ambraco.

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**Single incident’ doesn’t sustain jurisdiction**

Hartford Fire Insurance, as the subrogated cargo insurer of shipper Strippit Inc., sued Mediterranean Shipping Co. (MSC), an ocean carrier, in federal court in New York to recover alleged damages to optical laser machinery shipped from Belgium to New York. Subsequently, MSC filed a third-party complaint against Hesse Noord Natie, N.V. (HNN), a stevedore and terminal operator based in Antwerp that contracted with MSC to stow cargo containers aboard its vessel.

Hesse Noord Natie then asked U.S. District Judge Shira A. Scheindlin to dismiss MSC’s complaint for lack of personal jurisdiction.

“In this case,” Scheindlin determined, “crediting MSC’s allegations as true, HNN’s negligent stowage of the cargo above deck, contrary to instructions, constituted the initial tort (or wrongful act). The first effect of that tort was the seawater damage to the cargo; hence, the original event that caused the injury occurred somewhere en route from Antwerp to New York. The only effect of the tort to occur in New York was the economic injury felt by Strippit, a New York corporation, as a result of the damaged cargo. Such consequent economic injury is insufficient to make New York the site of the injury. Accordingly, this court lacks personal jurisdiction over HNN under New York law.”

“The critical issue is whether HNN has had sufficient contacts with the U.S. to justify personal jurisdiction. MSC contends that HNN satisfies the ‘minimum contacts’ inquiry because it has caused an effect in the U.S. through an act performed elsewhere,” Scheindlin said. Although Hesse Noord Natie handled a large volume of traffic to and from the United States, HNN’s actions still did not have “a broad effect in the U.S.,” the court determined.

“This single incident is insufficient to support personal jurisdiction,” Scheindlin ruled, dismissing MSC’s third-party complaint against Hesse Noord Natie.
Corporate Appointments

Logistics

CombineNet
The Pittsburgh-based provider of integrative tasking software has named Mike Trist vice president of business development.
Trist was supply chain director for Vis-ten.

Freightgate Inc.
Rick Anchan has been named vice president, business development, of the Huntington Beach, Calif.-based provider of Internet applications for the freight and logistics industry.
Anchan was senior vice president of UTi Worldwide. Prior to that he served as vice president of operations for Menlo Logistics, and senior vice president of GATX Logistics (now APL Logistics).

Omni Logistics
The third-party logistics provider and freight forwarder based in Hackettstown, N.J., has named John W. Jackson executive vice president.
He was chief operating officer of HazMat Environmental Group in Buffalo, N.Y.

Maritime

Crowley Liner Services
Dennis Derby has been named vice president, business development, Puerto Rico, Caribbean service. Joel Klenck has been appointed vice president, Caribbean Island services. Thomas Farmer has assumed the position of vice president, pricing and yield management. Jorge Estevez has been named vice president of sales and marketing.
Derby was vice president and general manager for the Caribbean Islands service and Klenck was vice president, pricing and yield management, with overall pricing responsibilities for Crowley Liner Services’ Puerto Rico, Caribbean group.
Farmer, formerly vice president of domestic pricing, was vice president of sales and marketing since May 2000, while Estevez was vice president of pricing and yield management.

Crowley Maritime Corp.
Alex Sweeney has been promoted to vice president of Russian Far East operations, effective March 1.
In his new position, Sweeney is responsible for the management of the BETS Scalift to Lunskoye, Sakhalin Island and the tow of the Orlan from Sov Govan, Russia to Ulsan, Korea.
Sweeney joined Crowley in 1980 and has more than 20 years experience in marine operations for Crowley on the U.S. East and West coasts.
Crowley formed Crowley Far East Services in Sakhalin state, Russia, in April 2003, to offer marine and shoreside logistics and transportation services to the energy and construction industries in the region.

Hamburg Sud
Gale Searing has been named director of the North American West Coast area.
Searing joined Hamburg Sud in 1991 as manager of sales for the West Coast. He previously held positions with American President Lines and OOCL.

Matson Navigation Co.
Charles M. Stockholm has been appointed chairman of the shipping line subsidiary of Alexander & Baldwin Inc., and Allen Doane has moved from chairman to vice chairman.
The appointments follow the Jan. 1 retirement of C. Bradley Mulholland, former vice chairman of Matson.
Stockholm will also continue to be the chairman of Alexander & Baldwin Inc. Doane continues as A&B's president and chief executive officer.

Nippon Yusen Kaisha
The Japanese company’s board of directors has decided to change the lineup of its top management. The five new main board directors of NYK are: Yoshiharu Murata, now chairman of NYK Line (Hong Kong) Ltd.; Masato Katayama, general manager, Latin America and Africa group.; Masahiro Kato, general manager, car carrier group.; Hidenori Hono, general manager, petroleum group; and Yuji Senba, general manager, gas carrier group.

Ports

P&O Ports Canada Inc.
The Vancouver, British Columbia-based company has appointed Tom Boardley president and chief executive officer.
Boardley was chief commercial officer of the London-based P&O Ports group.
He replaces Robin Silvester, who is returning to London to take on a newly created role as executive director of P&O Ports, reporting to executive chairman and group chief executive Robert Woods.

NYK promoted president Takao Kusakari to chairman, senior managing director Koji Miyahara to president, senior managing director Tadamasu Ishida to executive vice president, managing director Koji Usami to senior managing director, and managing director Takao Manji also to senior manag- ing director.
NYK had said in December that Miyahara would become president, the most senior position at Japanese shipping groups.
Taizo Akabane will continue as president of NYK Logistics (Asia), but will retire from the main board. Shuichi Tsuji will retire to become advisor to the president of Taiheiyo Kisen Kaisha Ltd. Three other executive directors, Yuji Hirano, Yoshihiro Uesu, and Shun-ichi Yano will also retire into new less central positions or as advisors.
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AMERICAN SHIPPER: MARCH 2004
TACA plans rate hikes amid recovery

The Trans-Atlantic Conference Agreement shipping lines are planning to raise their eastbound tariff rates April 1, as a lower U.S. dollar exchange rate starts to bolster U.S. exports to Europe.

The planned conference tariff increases are $120 per 20-foot container and $150 per 40-foot or 45-foot container, for traffic from U.S. Atlantic, Gulf and West Coast ports. The rate increases are expected to be used by member carriers as a basis for the negotiation of individual service contracts after existing contracts have expired.

TACA said it plans to implement further rate increases later in the year “at a level and date to be decided and announced.”

“The eastbound market is growing rapidly,” said David Jeffries, TACA’s general manager. Eastbound shippers have told TACA carriers they expect a 20 to 25 percent rise in first quarter volumes in some sectors, Jeffries added.

The conference noted the contrast between the latest market trends and the sluggish growth of the eastbound transatlantic trade in recent years. “The poor eastbound market conditions of recent years have led to depressed ocean tariff rates,” the TACA said.

In 2003, the eastbound transatlantic container trade grew 1 or 2 percent, with TACA carriers increasing their combined volumes by more than 5 percent, according to the conference.

TACA carriers cited positive U.S. economic indicators that “confidently suggest that the United States’ export growth will be sustainable and the effective devaluation of the U.S. dollar against the euro and the pound sterling will enhance or re-open markets in Europe to U.S. exporters,” TACA said.

The conference also reported “the exceptional strength of first quarter eastbound bookings, giving rise to the prediction of very high utilization levels.”

In a related development, TACA said it plans to review assessorial charges, such as free time and demurrage, and consider TACA tariff conditions for exports of a seasonal nature, such as agricultural products.


U.S./South Europe conference raises rates

The United States South Europe Conference has advised shippers it will increase its eastbound tariff rates effective April 1.

The new tariff rate increases will be $160 per 20-foot dry container, $200 per 40-foot dry container, $240 per 20-foot temperature controlled container, and $300 per 40-foot temperature controlled container.

In a statement, USSEC said evident growth in the export trade from the U.S. Atlantic and Gulf coasts to ports in southern Europe “will be sustainable.”

“However, the need for measures aimed at eastbound tariff rate recovery to sustain the level of service demanded by the trade remains paramount,” the USSEC said.

The members of USSEC are A.P. Moller-Maersk Sealand, Hapag Lloyd Container Line and P&O Nedloyd.

Canada/Europe conferences add reporting fee

The four liner conferences active in the Canada/North Europe trade plan to charge shippers a fee of $30 per bill of lading to compensate ocean carriers for the cost of processing manifest data and sending it to the Canada Customs and Revenue Agency (CCRA).

The “advance cargo and conveyance reporting fee” will be charged on all containers that are electronically reported by the member lines of the Canadian North Atlantic Westbound Freight Conference, Continental Canadian Westbound Freight Conference, Canada-United Kingdom Freight Conference and Canadian Continental Eastbound Freight Conference, effective April 19.

The introduction of the fee will coincide with the implementation by the Canadian customs authorities of the Advanced Commercial Information — Electronic Data Interchange Cargo and Conveyance Reporting rule April 19.

“This CCRA rule obligates carriers and freight forwarders involved in the transportation and importation of goods to Canada to electronically provide the CCRA with detailed manifest data about the cargo,” the conferences said in a joint statement. For goods in a cargo container to be loaded on board a vessel bound for Canada, the data pertaining to those goods must be transmitted electronically to CCRA at least 24 hours prior to loading the goods on board the vessel.

Carrier members of the four Canada/North Europe conferences are Canada Maritime, Cast, Hapag-Lloyd and Orient Overseas Container Line. Atlantic Container Line withdrew from the conferences in November.

Transpacific lines reaffirm rate increases

Containerline members of the Transpacific Stabilization Agreement have reaffirmed their plans to implement rate increases later this year, amid promising market trends.

“Cargo demand will keep pace with effective capacity and produce continued tight space in the coming year. Given that scenario, along with dramatically rising operating costs and rate levels still recovering from steep declines in 2001-02, TSA carriers have reaffirmed their support for planned May 1, eastbound transpacific rate increases of $450 per 40-foot container to U.S. West Coast destinations, and $600 per 40-foot container to U.S. East Coast and inland point locations,” the TSA said in a statement.

TSA shipping lines have also scheduled a $400 per 40-foot container peak season surcharge for 2004 on shipments moving between June 15 and October 31.

The carrier discussion agreement noted “spring freight bookings (are) on the rise and positive economic signals coming from both Asia and the U.S. for the first time in many months,” pointing to “another year of strong Asia-U.S. trade growth.”

“The removal of apparel quotas at the end of 2004 is expected to produce a high volume of shipments early in 2004 under the current system, and a shift in sourcing to Asia from other countries as quotas are lifted. As a result, TSA carriers now forecast a 10 percent to 12 percent average eastbound transpacific cargo growth during 2004-2005,” the TSA said.


CP Ships lines add Asia/North America loop

Three carriers from the CP Ships stable — Lykes Lines, Canada Maritime and TMM Lines — will start a weekly transpacific service utilizing small ships in early March.
The “Asia North America Sprint” will complement the “Asia Canada Sprint” launched last year, and demonstrates CP Ships’ intent to build upon its modest presence in the transpacific trade.

The new service will use five ships with an average capacity of 1,500 TEUs, much less than the average of vessels in the trade. It will call at Hong Kong; Yantian; Vancouver, B.C.; Oakland, Calif.; Hong Kong and Yantian.

Canada Maritime will not offer calls at Oakland to its shippers, while TMM Lines will not carry cargoes for Vancouver.

The service will be introduced in early March, but will not commence its fixed-day weekly status until April 6. Once the service becomes weekly, it will offer a transit of 12 days from Yantian to Vancouver and 15 days from Oakland to Hong Kong.

The service will add about 78,000 TEUs in annual one-way capacity to the transpacific market.

**China Shipping, Norasia end PNW/Asia link**

China Shipping Container Lines and Norasia Container Lines have ended the Pacific Northwest/Asia leg of a “pendulum” service that also connects Asia with the Mediterranean.

Started last July, the transpacific service called at Port Kelang, Laem Chabang, Hong Kong, Yantian, Shanghai, Ningbo, Busan, Vancouver, B.C. and Seattle.

However, the two carriers will continue to operate the Asia/Mediterranean section of the former pendulum service.

The decision to restructure the service will remove about 2,800 TEUs in weekly one-way capacity from the transpacific trade.

A spokesman for Norasia said the company is starting the “AAC” transpacific service, seen as a replacement for the discontinued service. The existing “AAC” loop, previously operated by China Shipping on its own, will pick up the calls at Seattle and Vancouver of the former pendulum service.

Norasia said the revised “AAC” service will call at Hong Kong; Yantian; Shanghai; Ningbo; Busan; Vancouver; Seattle; Los Angeles and Hong Kong.

**P&O Nedlloyd leaves southern Africa pact**

P&O Nedlloyd is leaving the USA Southern and Eastern Africa Discussion Agreement, the carrier group notified the U.S. Federal Maritime Commission.

The remaining members of the group are Maersk Sealand, Mediterranean Shipping Co., Safmarine Line, Gulf Africa Line and Lykes Lines.

**U.S./Caribbean carriers raise charges**

The Caribbean Shipowners Association, an agreement of ocean carriers in the U.S./Caribbean trade, said carriers have increase drayage, bunker and security charges applicable to tariff and service contract rates.

Local south Florida drayage increased $15 per roundtrip to $200.

The bunker surcharge has increased by $62 to $248 for 20-foot containers; by $112 to $448 for 40-footers; and by $128 to $512 on equipment larger than 40-foot. For less than containerload and breakbulk cargoes, the increase is to $11 per weight/measurement ton from $8.

The security charges will increase March 7: by $50 per 20-foot container to $100; by $100 per 40-foot container to $200; and by $112 on equipment larger than 40-foot to $224. For LCL and breakbulk, the increase is to $4 per weight/measurement ton from $2.

Caribbean Shipowners Association members are: Bernuth Lines, CMA CGM (Caribbean), Crowley Liner Services, Interline Connection, Lykes Lines, Seaboard Marine, Sea Freight Line, TMM Lines, Tropical Shipping, and Zim Israel Navigation Co. Maersk Sealand recently left the carrier group.
China’s export boom enigma

“I cannot forecast the action in Russia,” Winston Churchill said at the start of World War II. “It is a riddle wrapped in a mystery inside an enigma.”

This description of the difficulty of making certain predictions could well apply to the job of assessing the continuing growth of China’s international trade.

True, we have become used to China winning huge export markets overseas, dominating other exporting countries, and beating export volume records. Just consider the U.S. Census Bureau’s latest report that the U.S. deficit in international trade in goods with China widened to $124 billion in 2003, from $103.1 billion in 2002, raising America’s goods deficit with the rest of the world to a record $549.4 billion (see story, pages 10-16).

It is China which has driven the expansion of the eastbound transpacific trade in the last two years. Transpacific transport providers have largely depended on this one country to produce growing cargo volumes. And importers have also relied on China as a source of a wide range of manufactured goods. Since 2002, the eastbound transpacific trade has enjoyed a sustained boom.

The question now is whether this can continue, or whether the party will soon be over, given several complicating factors.

First, the Chinese question is becoming more political, with the Bush administration putting pressure on the Chinese to allow their currency to appreciate against the dollar, while keeping import quota on some textiles. Currency changes and textile quota are hard to predict, but could have a big restraining effect on the growth of China’s exports.

Of course, the Chinese government has its own political and social problems, and hopes that further export growth and inward investment will continue to expand its economy. China and the United States could head for more serious frictions over the trade issue.

Then, there is the economic factor in the United States, where you see signs that consumers may become unwilling to keep increasing their spending. If consumer spending slows, so will the growth of imported consumer goods.

Yet, general economic forecasts predict that the economy of China will remain strong, while the U.S. and the global economies will pick up this year.

These political and economic factors in both exporting and importing countries are hard to weigh, but will have a bearing on future growth in the transpacific trade.

Some see further growth ahead, others predict a slowdown.

In January, the Transpacific Stabilization Agreement published a forecast of 10-12 percent cargo growth for the eastbound transpacific oceanborne containerized trade this year.

“We don’t think that China will collapse under all this growth,” Ray Miles, chief executive of CP Ships, told an investment analysts’ conference Feb. 5.

Washington-based forecasting organization Global Insight also predicts that Asia Pacific-to-U.S. container traffic will rise 14.8 percent, from 9.5 million TEUs in 2003 to 10.9 million this year.

By contrast, the Port Import Export Reporting Service is reportedly predicting eastbound transpacific growth this year of only 1 to 2 percent.

Forecasters do the best job they can, and at least one of these divergent forecasts must be the right one. But a lot of imponderables are involved, and they expose international trade to uncertainties.
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