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Mega forwarders expand their logistics reach

With global networks comprising hundreds of offices around the world, very large forwarders are thriving in the competitive international transport and logistics business. They seek to exert control over door-to-door transportation of goods and associated logistics services under one roof — and continue to record solid profits.

Peak(ed) season

Rapid growth in Asian imports to the U.S. has returned, but shippers and intermediaries are facing a raft of problems. With the current capacity shortages, financial losses among carriers, dissatisfaction among some shippers and intermediaries, and the start of an investigation into alleged carrier’ bias against NVOCCs, the market mechanism has gone badly wrong in the transpacific this year.

Industry balks at advanced manifest rules

Recently proposed U.S. Customs rules that would mandate filing of cargo manifests 24 hours prior to loading overseas has caused an uproar in the nation’s shipping industry. Numerous industry groups called the agency’s proposed rulemaking “unreasonable” and incompatible in today’s international supply chain management. Some groups went as far as to ask the agency to drop the proposed rules altogether.

Palermo Senator:Feat of clay

No simulation consultant could have put together a more daunting scenario than the one just played out in New York harbor, in which government agents scrambled to determine if radiation detected on the Palermo Senator posed a public threat. Though the source of the radiation was believed to be clay tiles, the incident provided chilling questions as to how well-prepared agencies, ports, carriers and shippers are to handle the threat of weapons of mass destruction delivered in a shipping container.
Port investment without modernization

The choice of the most modern terminal in North America as a location to hold a union demonstration spoke volumes about the views of the International Longshore and Warehouse Union on modernization.

The union, which represents more than 10,000 U.S. West Coast dockworkers, demonstrated recently in front of Maersk’s high-tech Pier 400 container terminal in Los Angeles. The ILWU wanted to assert its demands as part of a new labor contract under negotiation with the Pacific Maritime Association.

The terminal is not only the largest in the world today — occupying 343 acres during its first phase — but it also represents hundreds of millions of dollars of investment by the port of Los Angeles.

You have seen unions demonstrating in front of factories that are being closed down. Holding a rally in front of an expanding, investing employer isn’t common.

If ports are going to create jobs for longshoremen, it is by making such heavy investments into future growth.

“True, it is the job of unions to protect the interests and benefits of their members, but they should not forget the reality of business.”

Just look at the continuing gap between the ILWU and the Pacific Maritime Association on technology.

The employers at West Coast ports want to introduce technology like terminal positioning systems and optical character recognition to replace manual processes. Labor is resisting the move towards those technologies, because of their impact on staff numbers.

But you cannot resist more productive technologies. These “new” technologies are already common in Asian and European ports, where port costs are (even in high-wage European countries) also cheaper than in the United States.

While shipping lines are cutting costs year after year, and forwarders and non-vessel-operating common carriers are streamlining and automating their processes, U.S. West Coast ports are still relying on old methods (with the exception of track-and-trace information technology systems).

Longshoremen will gain little sympathy from the general public and the rest of the industry if they insist on higher pay without making concessions on productivity. They are, after all, among the highest paid blue-collar workers in the nation — $116,300 a year on average for a longshoreman working more than 2,000 hours in 2000.

In return for productivity gains, port employers will need to share some of those gains with their longshoremen through training and improved benefits.

This publication has criticized the outdated, unproductive practices of Japanese ports in the past. Now, it seems that it is the turn of some of the largest American ports to catch up in terms of productivity, work practices and modernization.

Unless West Coast ports can improve their productivity, piling up new investments in assets will be a very expensive way of dealing with the expected growth in cargo volumes. (Philip Damas)

U.S. Customs’ stifling security measures

U.S. Customs is running the risk of sacrificing the timeliness and cost efficiency of shipping in its search for more security.

Associations representing shippers, intermediaries and shipping lines have stood up to warn U.S. Customs of the negative implications on business of its recent 24-hour prior manifest transmission proposal.

On paper, the U.S. Customs proposal requiring electronic transmissions of vessel manifests 24 hours prior to loading on a U.S.-bound ship makes sense. Early information, combined with any security intelligence and risk profiling checks, would allow the U.S.
government agencies and their counterparts overseas to inspect suspicious shipments before the vessel’s departure.

But the Association of American Exporters and Importers, the U.S. National Industrial Transportation League, the World Shipping Council and other representative organizations are concerned. If required documentation cannot be practically transmitted in time at origin, delays in supply chains and in vessel schedules will unavoidably follow and costs will mount.

Any transportation delays caused by extra importation regulations, if any, should only be exceptional. Compliance costs should be bearable. We are back to the question of finding the right balance between enforcement and trade facilitation.

If U.S. Customs ignores these requirements for trade facilitation, it will also deny the tenets of logistics: without predictable supply chains, importers will be forced to keep higher safety inventories and lose efficiency in their sourcing or sales activities.

True, most accept that there will be an additional regulatory cost to comply with tightened security regulations.

But the worst scenario, if this proposal is forced on an industry that is not able to meet such stringent data requirements, is that all shippers will lose out. The containers of shippers who can’t provide solid, timely information to Customs, as well as those of compliant shippers on the same ship, will be delayed. Some of the statements from Customs also suggest that only those shippers who have signed up to the voluntary Customs-Trade Partnership Against Terrorism programs will be expedited by Customs.

Let’s hope that U.S. Customs listens to the industry and finds security measures that are effective without being stifling.

(Philip Damas)

Shipowners pay security price

Shipowners want to help make the supply chain safe from terrorists, but don’t believe they should shoulder the bill to pay for new security measures.

“It should come down to the question of what is the U.S. consumer willing to pay to protect the infrastructure?” said Margaret Kaigh Doyle, executive director of the Chemical Carriers’ Association. “During the past year, the shippers seemed to be eating most of the costs.”

Shipowners discussed increasing security costs at the Marine Log’s Maritime Legislation, Regulation & Policy 2002 conference in Washington Tuesday.

Many attendees compared expensive new security measures to the implementation of the 1990 Oil Pollution Act. The legislation required shippers operating in U.S. ports to replace their single-hull tankers with double-hull tankers over a 15-year period.

Doyle said the costs to comply with new maritime security regulations may be more substantial for shippers than OPA 90.

A proposed user fee by Congress, for example, would cost the foreign chemical transportation industry about $43.8 million a year. Doyle said this estimate is conservative.

Doyle said another example of a shipowner-borne security cost is the Coast Guard’s requirement for armed guards on ships with detained crews. These guards are “a visual deterrent,” she said. “They can’t stop anyone from leaving the ship.”

The security guards are also expensive. In the Port of Houston, shipowners must hire security guards at a rate of $31 an hour. One carrier that calls frequently at the port has already spent about $3.5 million for security guards since Sept. 11, 2001, Doyle said.

Other security demands will involve increased staffing and vessel equipment for shippers.

“We don’t see the benefit in a lot of these measures,” Doyle said. “If a shipowner can’t afford to come this country, they won’t come.”

Gerhard E. Kurz, president and chief executive officer of Fort Lauderdale, Fla.-based Seabulk International, said the government and industry can make many security enhancements without spending a lot of money. “It’s largely common sense,” he said.

Kurz said, for instance, it’s unlikely that terrorists would try to enter well-guarded gates at the terminals. They would be more inclined to attack a ship or port infrastructure by using bomb-laden pleasure boats. He believes that pleasure boats should be kept further away from docked vessels.

However, Kurz also believes that improved security in the maritime sector is “long overdue.” He said he has “every confidence” in Coast Guard Adm. James Loy, deputy undersecretary for transportation security and chief operating officer of the Transportation Security Administration, to develop security regulations that the industry can live with.

Steve Poulin, commander and legal advisor to the Coast Guard Port Security Directorate, said shipowners must ultimately change their operations to meet new U.S. maritime security requirements.

“There’s a new normalcy here,” he said. (Chris Gillis)

Staggers Act’s unintended consequences

In the story “ ‘Captive’ shippers under railroads’ thumb,” (September American Shipper, pages 84-86), I note with interest the second paragraph: “The 1980 Staggers Act was developed with the intention of ushering in a new era of rail competition, which would ultimately provide shippers with better rates and services.” This simply is not so.

I was the vice president of public affairs at the Association of American Railroads when the Staggers Rail Act was passed. Rail deregulation, in fact, was intended to allow the railroad industry to raise rates, and by having more revenue thereby provide improved service to customers.

Airline and trucking deregulation, which occurred in 1978 and 1980, respectively, were intended to produce lower costs for customers by removing legal barriers to entry in two industries where regulation had provided protected markets. In the case of railroads, however, remember that at one point in the 1970s, 25 percent of the industry was in bankruptcy reorganization. Some in Congress actually were willing to entertain the possibility that railroads might never be able to generate sufficient capital from operations to regenerate themselves and therefore might have to be nationalized.

Deregulation for railroads was seen at the time as the last, best chance to save the industry. Many customers, primarily shippers of manufactured goods in manifest service, participated in negotiations to shape the Staggers Rail Act in the full expectation that railroads would raise rates once they were freed of the oppressive ICC regulation that existed in 1980. Railroads gave up collective ratemaking as one tradeoff. Perhaps the most significant provision of the Staggers Rail Act was creation of the “zone of reasonableness” in ratemaking. Only rates above the zone were subject to any economic regulation at all. This estab-
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lished differential ratemaking, by which carriers charge different rates of different customers of essentially the same commodities. Captive shippers, under this concept, make a larger contribution to the fixed plant — and should — because they are most dependent on the rail system. Under the ICC ratemaking system in effect prior to Staggers, rates were much more rigid and the same shippers who now complain about too much rail freedom complained then about poor service. Some things never change.

Recalling what was intended can go a long way toward putting the complaints of certain shippers and shipper organizations into context. By the way, the complaints of North Dakota and Montana grain shippers are the same today as they were before Staggers.

Lawrence H Kaufman
Golden, Colo.
(Note: Kaufman has co-authored a book with David J. DeBoer, retired president of Greenbrier Intermodal, which is being published by the Intermodal Association of North America. An American Transportation Story: the Obstacles, the Challenges, the Promise covers the history of all modes of U.S. transportation and how it has been impacted by public policy. Kaufman said the book’s goal is “to bring the reader to the conclusion that the reauthorization of the surface transportation program (now TEA-21, but who knows what they’ll call it next year) demands more intermodal thinking, planning and spending.”

‘Everything the freight will allow’*
The recent J.P. Morgan logistics conference in New York, for which analyst Gregory Burns secured the participation of 27 top-ranked organizations, was especially revealing in terms of executive behavior. As one chief executive officer followed another, making a pitch for his company while knowing that Burns and other analysts would then ask pointed questions not easily ducked, an aura of desperation and greasepaint clung to many of the presenters, as they braved the lions’ den. Some of the performances — and jargon used — were worthy of citations:

Most overused buzzword: Tailwind. Every company wants to feel one.

Runner-up: Traction. When your spin sticks.

Best mantra: From Sam Levine, managing director of EOS Partners, a venture capitalist: “It’s the deal you do that kills you, not the one you don’t do.”

Runner-up mantra: Also from Levine: “If the guys who built a great business are perceived as going to the beach, we’re not interested.”

Most succinct company description: From R. Jordan Gates, executive vice president and chief financial officer of Expeditors International of Washington: “We’re a travel agent for freight.”

Most copious crocodile tears: Those shed for Consolidated Freightways by its surviving competitors. The trucking company’s recent bankruptcy and total shutdown was the corridor talk of the conference. There was general agreement that Consolidated Freightways had over-discounted itself, and that its demise had been hastened by a medical insurer that yanked coverage of the company’s employees.

Audience favorite: By far, Peter Rose, chairman and chief executive officer of Expeditors International of Washington.

Most boring presenters: Railroad chief financial officers, who should be banned next year unless they appear in body paint or drag.

Most inspiring presentation: Jeffrey Crowe, chairman and chief executive officer, Landstar System Inc., whose enthusiasm for trucking, put across with four-star charisma, made me want to become an independent driver for Crowe’s company. That moment of delirium passed quickly enough, but it was real while it lasted.

Worthiest, if riskiest, thought: From Crowe: “You need intellectual stretch in your management team.” (But remember, we’d add, what overtaxed rubber bands do.)

Understatement of the day: From James Crane, chairman and chief executive officer, EGL Eagle Global Logistics Inc.: “Our numbers aren’t as good as Expeditors, so I’ve got more to explain.”

Best ‘calling a spade a spade’ comment: From James K. Davidson, president and chief executive officer of NTE: “The ‘e’ in ‘e-logistics’ has gone away.”

Best question many in the industry would like to ask if they had the courage: Again from Davidson, “Why does software so consistently fail?” (Our answer: too much of it is made by robots for robots.)

Best existential thought reflecting the current market: From Don Orris, chairman and chief executive officer of Pacer International, Inc.: “You seldom lose an account, but it’s hard to shake one loose from your competition.”

Most wretched excess: The disclaimers flashed before the slide shows used by too many presenters, saying basically that “nothing you hear should be taken that seriously” because “our lawyers have drawn the wagons around a black hole.”

Gold medal for folk wisdom: To Ronald Russ, senior vice president and chief financial officer of Kansas City Southern Industries, who told the assembled analysts that “you can’t save your way to prosperity.”

Finally, the award for best performance by a CEO under the gun goes to John Snow, chairman, president and chief executive officer of CSX Corp. In his comments, Snow lost no time getting to the point: “We’ve had a terrible third quarter. You have every right to ask, ‘how could you have missed your coal forecast so much?’ (CSX Transportation had predicted coal would be up $35 million in the third quarter of 2002; it actually dropped about $30 million). We were blindsided by our estimates,” Snow said.

Then, in plain English — without resorting to a flurry of figures in a slide show — Snow discussed how the third quarter had been “a perfect storm” for CSX, with a confluence of one-time misfortunes — heat orders on over half of CSXT’s trackage that slowed trains, a “jamboree,” in which one railroad operates over another’s tracks during maintenance, and exceedingly hot days when utilities sat on their coal reserves. It was all plausible, pitched with a judicious mix of earnestness and chagrin. It you have to eat crow — or coal, in this case — this was the way to do it. The analysts, appreciating a classy salvage job, applauded Snow for some minutes after he’d finished. (Robert Mottley)

* Apologies to Irving Berlin’s “There’s No Business Like Show Business.”

Correction
A story in the September issue on Union Pacific Railroad and Norfolk Southern Railroad’s new expedited Mexican intermodal service should have said Mike McClellan is vice president of intermodal marketing for Norfolk Southern.
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MOL
Profit From The Global Power
MEGA
forwarders
expand their logistics reach
A handful of very large forwarders provide international logistics services globally, efficiently and profitably.

With global networks comprising hundreds of offices around the world, a handful of very large forwarders are thriving in the competitive international transport and logistics business.

They have large multinational operations and business volumes, and seek to exert control over door-to-door transportation of goods and associated logistics services under one roof. And they continue to make solid profits even during business downturns by controlling capacity, raising productivity, and managing their relationships with carriers centrally.

Their names are internationally well known: Expeditors International, Exel (formerly MSAS), Schenker, Kuehne & Nagel, Panalpina and Danzas AEI.

In the ocean freight business, Kuehne & Nagel is the biggest of them all. It shipped more than 850,000 TEUs last year, 7 percent more than in 2000.

Kuehne & Nagel’s international forwarding unit has enjoyed rapid growth in recent years. Its maritime container traffic has increased at double the average growth rate of the trade over the past five years.

“We have exceeded our growth forecasts,” Reinhard Lange, chief operating officer, international forwarding, Kuehne & Nagel, told American Shipper.

In 2001, when the global container market expanded by only about 2 percent in volume, Kuehne & Nagel increased its container traffic by 6 percent. Lange expects the global container traffic market to expand 5 to 6 percent this year, and Kuehne & Nagel to continue expanding its box volume at a faster pace than the average.

Resilient Profits. Kuehne & Nagel, and other major global forwarders, have found a way to increase sales and profits, despite the adverse cyclical pressures at play in the air freight and ocean freight business.

During the same period, many companies in the international transportation sector have seen their profits and, in some cases, their volumes, sharply decline. 2001 has been described as a time of crisis for the air-freight industry, and a very tough one in ocean shipping.

Yet, in 2001, the Kuehne & Nagel group’s earnings before interest and tax (EBIT) increased 7 percent to CHF213 million ($127 million) (see table). Kuehne & Nagel’s sea freight activities EBIT increased 14 percent to CHF110 million ($65 million), on revenues of CHF3.9 billion (2.3 billion), up 6 percent. The forwarder’s air freight arm saw its profit decrease 13 percent to CHF54 million ($32 million last year, on revenues of CHF2 billion ($1.2 billion).

The Kuehne & Nagel group earned a return on equity of 19 percent in 2001.

Carrier executives within shipping lines and airlines look enviously at the profit results.
of large forwarding and logistics groups, as the results of asset-based carriers have dived during the market downturn of the last year and a half.

Kuehne & Nagel, Exel and Schenker announced further rises in their respective operating profits from international transportation and logistics for the first half of this year, despite the continued difficult market environment.

Kuehne & Nagel saw its sea freight operating profit before income and tax jump 15 percent in the first half of this year, to CHF65 million ($44 million), as sea freight revenue rose 2 percent, to CHF2 billion ($1.3 billion). Kuehne & Nagel’s air freight operating profit increased 3 percent over the same period, to CHF31 million ($21 million), despite a 2-percent fall in revenues to CHF981 million ($667 million).

U.K.-based Exel reported a 4.5-percent increase in group operating profit from continuing operations for the first half of this year to £108 million ($162 million).

Revenue from Exel’s “freight management” activities — which comprise sea freight and air freight — was up by 2 percent to £1.1 billion ($1.6 billion), partly because of volume growth and the recent acquisition of U.S. Consolidators. Operating profit from “freight management” activities soared 37 percent over the same period to £33 million ($50 million).

Schenker increased its operating profit and traffic volume. Combined air and sea freight operating profit increased 3 percent over the same period, to CHF2 billion ($1.3 billion). Kuehne & Nagel’s air freight operating profit increased 3 percent over the same period, to CHF31 million ($21 million), despite a 2-percent fall in revenues to CHF981 million ($667 million).

Wider Range Of Services. Mega-forwarders have positioned themselves as providers of not only transportation services, but also inventory control and other value-added services. The forwarder can operate as a third-party provider, or even as a fourth-party provider managing several 3PLs.

Exel said its strategy is to be the preferred global supply chain partner of its customers, in particular by providing global coverage and integrated operations.

“The acquisition of Exel’s consolidation services business, formerly U.S. Consolidation Ltd., based in the U.S. and Asia, has already enabled the group to develop a significantly stronger sea freight proposition that embraces a wider range of value-added services,” the British group said. It noted operations ranging “from supplier management, consolidation optimization, freight brokering, customs clearance to sub-assembly operations and delivery to final destination.”

Exel said the combined global reach of its freight management and contract logistics capabilities “continues to provide the group with strong competitive advantage.”

The takeover of U.S. Consolidation also broadened Exel’s geographic presence. In particular, it added sea freight operations in the Shenzhen province of China.

Kuehne & Nagel is restructuring its global sales organization and setting up a key account management sales unit covering ocean, air and supply chain “solutions.”

“Solutions are protecting our core business — you have to create leverage to protect the last $50 (per container) or 10 cents per kilo,” Lange said.

In January, Kuehne & Nagel signed a major supply chain contract with Nortel Networks that covered its operations in some 18 countries. Under the contract, the Swiss group will operate as a lead logistics provider, managing the performance of multiple Nortel Networks logistics services providers around the world. It will seek to help Nortel Networks to build advanced supply chains and optimize its service to its global customers.

Wider logistics services help diversify the activities of mega-forwarders. Commenting on the adverse conditions of the global container shipping market, Lange said that ocean carriers have introduced containership capacity in excess of cargo growth in the last two years. “It’s brought rates down substantially lower.”

How did Kuehne & Nagel increase its profits in such a market?

“We have a lot of value-added products,” Lange replied. “We are not just paid on the margins on buying and selling (capacity).” Kuehne & Nagel also provides information services alongside pure physical transport services.

“We create different leverages,” Lange said. “Sea freight is not just transporting a container — it’s value-added products.”

Lange advocated a policy of service differentiation — and moving from the mere provision of port-to-port transport of containers.

“If you’re only in this small segment from A to B, your margins are under pressure,” he said.

Kuehne & Nagel has also increased its

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**Profitable major forwarding groups**

(2001, in million U.S. dollars)

<table>
<thead>
<tr>
<th>Company</th>
<th>Expeditors</th>
<th>Exel</th>
<th>Schenker</th>
<th>Kuehne &amp; Nagel</th>
<th>Panalpina</th>
<th>Danzas</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group revenue (in local currency)</strong></td>
<td>$1,653</td>
<td>$6,532</td>
<td>$5,418</td>
<td>$5,021</td>
<td>$3,998</td>
<td>$8,100</td>
</tr>
<tr>
<td><strong>Group operating profit (in local currency)</strong></td>
<td>$1,653</td>
<td>$4,507</td>
<td>$6,122</td>
<td>CHF9,435</td>
<td>CHF7,177</td>
<td>euro 9,157</td>
</tr>
<tr>
<td><strong>Operating profit margin</strong></td>
<td>8.8%</td>
<td>4.1%</td>
<td>2.6%</td>
<td>2.5%</td>
<td>2.3%</td>
<td>1.7%</td>
</tr>
<tr>
<td><strong>GROUP NET PROFIT (in local currency)</strong></td>
<td>$97</td>
<td>$97</td>
<td>N.A.</td>
<td>$96</td>
<td>$67</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

**Notes:** Operating profit is defined as earnings before interest and tax, except for Danzas, whose operating profit is earnings before interest, tax and amortization.

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“*We create different leverages. Sea freight is not just transporting a container — it’s value-added products.*”

Reinhard Lange

Chief Operating Officer, International Forwarding, Kuehne & Nagel
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Increasing Productivity. Mega-forwarders must also keep costs low and raise productivity in what is essentially a people-intensive business.

Schenker said cost-cutting programs contributed to its improved profit in the first half of 2002.

Many forwarders — particularly those heavily involved in air freight — have been forced to cut jobs to cope with lower yields and, in some cases, lower volumes.

Kuehne & Nagel believes its cooperation with airlines has enabled it to reduce the fall in air freight profits.

Productivity gains and standardization of processes are “extremely important” to achieve high profit returns, Lange said.

This year, Kuehne & Nagel introduced an integrated global operating software that creates visibility for customers and improves productivity for the forwarder. Lange said that operations are handled the same way by all offices of the company worldwide.

“We interface with the processes of the shipping lines,” he said.

Kuehne & Nagel is a member of INTTRA, the container shipping portal backed by several major ocean carriers, and it also has direct data links with individual shipping lines.

“With major carriers, we have a closer cooperation (on data exchange),” Lange said.

He believes the container shipping sector will benefit from greater standardization.

Meanwhile, Kuehne & Nagel works on balancing container flows to optimize balancing of two-way traffic. “It’s more of a ‘give-and-take’ with shipping lines than a ‘take,’” he said.

He also believes that key issues like equipment balancing must be jointly addressed by forwarders and ocean carriers on a global, centralized basis. “Carriers and forwarders need global policies,” he said.

Although freight rates have dropped in the last 18 months, Lange sees a reversal of trends. “The transpacific trade is now booming,” he said, attributing the rapid growth of the transpacific container trade in the first half of 2002 partly to advance shipments made by shippers who had expected port strikes at U.S. West Coast ports.

“Rates will go up like hell,” he said. Lange underlined the need of money-losing ocean carriers to recover revenue. Freight rates are already increasing in the eastbound transpacific container trade, he said.

Kuehne & Nagel is also standardizing processes within its air freight business. It participates in the Cargo 2000 industry initiative, and also uses the Global Freight Exchange Internet-based air cargo portal.

“The environment (of the air freight business) is not good — you have to cut costs,” Lange said.

But despite the need for standardization in the air cargo industry, Lange believes

Motivating staff to improve service

Incentive programs give employees sense of ownership in the company.

SEATTLE

For more than 20 years, Expeditors International of Washington has had a reputation for awarding those who generate the biggest bang for the corporate dollar.

The Seattle-based freight forwarder and customs broker pays 20 percent of the pretax bottom line to the management of its successful offices.

“We want to provide incentives for those who bring in business,” said Peter Rose, chairman and chief executive officer for Expeditors, who implemented the program shortly after taking over the firm with two partners, Glenn Alger and James Wang, in 1981.

The company also developed an in-house stock purchase plan with a 15-percent discount and a liberal stock option plan. “This plan is not just designed for the ones at the top,” Rose said. “It’s available all the way down to the clerical level.”

Rose said he’s satisfied with these incentive programs because it makes the employees feel like they’re owners of the company and reduces employee turnover, a rampant problem in the third-party logistics industry.

“My job now is to watch the others come along, and at the same time protect their investments,” Rose said.

Today, Expeditors is considered one of the most financially successful publicly traded third-party logistics firms in the United States. The company posted gross revenue of $1.9 billion and net revenue (gross revenue minus purchased transportation) of $607 million in 2001.

Expeditors has particular strength in the retail industry. In 2001, the company’s operations in North America accounted for 29 percent of gross revenue and 31 percent of operating profit. Europe brought in 14 percent of gross revenue and operating profit, while the Far East accounted for 53 percent of gross revenue and 48 percent of operating profit.

In the second quarter of 2002, Expeditors’ net revenue increased 5.7 percent, an improvement over flat growth in the first quarter of the year. Ocean freight and customs brokerage services did particularly well in the second quarter.

The provider presently operates 171 offices and seven international service centers in 56 countries. Expeditors’ return on equity has averaged 24.7 percent over the past five years with virtually no debt.

Rose told financial analysts at a recent J.P. Morgan logistics conference in New York, “we don’t know if there’s going to be a peak season this year. West Coast ports are busy. I don’t see a labor slowdown or strike as being in the cards. There’s been a lot of saber-rattling and posturing, but that’s to be expected.”

Acknowledging “it’s a tough market out there,” Rose — who has a reputation for candor — added, “when a provider loses business, it’s generally because of price. These days, the cutting edge is to win more business than you lose.”

A long-time opponent of fads and hypocrisy in the logistics industry, Rose nailed several of his favorite targets.

Corporate governance, “our latest buzzword, is another consultant-perpetuated scam,” he said. “Of course, if they made it a law, we’d probably do it.”

“Honesty is ‘in,’” Rose explained. “You all have to be honest now, until the winds change and you can go back to being whatever else you were.”

Looking around the gilded rooftop ballroom of the St. Regis Hotel, where the conference convened, Rose said, “I want to take a moment and savor this beautiful room with its crystal chandeliers.” He paused, and then added, “next year, we may all be meeting at the ‘Hanoi Hilton’ at JFK.”

In discussing recent logistics trends, Rose said he was relieved that “the dot-bomb thing is gone,” but remains “amazed that anyone would buy this 4PL nonsense — 4PLs are ga-ga,” he told the New York analysts, who gave him an ovation.
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many industry players are reluctant to align their practices. There is a fear among forwarders that they could lose their competitive edge by joining a standardized industry group or portal.

The Global Freight Exchange will need to attract more airlines globally, Lange said.

The air freight business is picking up, but utilization remains weak. Kuehne & Nagel does not see air cargo rates increasing now.

Panalpina considers that one of the tasks ahead is linking by e-commerce with core carriers.

Expeditors, a company originally set up by former executives of Circle International, has built a strong reputation as a rapidly growing and profitable forwarder.

The company is mainly focused on U.S. imports, and runs its business with a staff policy based on direct financial rewards for high achievers (see “Motivating staff to improve service”).

**Door-to-door Control.** One lesson that mega-forwarders have learned from integrators is they need to control operations from door to door — and stop looking at each part of a transportation move in isolation.

“The trend is to move away from ‘we’re an air freight forwarder’ or ‘we’re an ocean freight forwarder’ to ‘we’re a logistics provider,’” said Phil Rathgeb, vice president of ocean freight for Danzas AEI Intercontinental.

“Forwarders used to get it to the outbound ship at the port. When the cargo arrived overseas, it was handed off to an agent. Today it’s about controlling your service from door to door. We’re looking after the total supply chain,” Rathgeb said.

“The carriers have the advantage of ships, but we have the flexibility of service as non-asset-based logistics providers.”

The mega-logistics providers “are all moving toward who has the best system,” he said. “It’s all going to come down to who can manage the supply chain and the customer information the best.”

In recent years, Danzas has invested on systems technology to better manage shippers’ inventory and distribution requirements.

Danzas AEI continues to increase its share of global ocean freight. This year the company expects to manage more than 800,000 TEUs.

In recent years, Danzas AEI has put more emphasis on the efficient management of less-than-containerload traffic through its international network.

“Every logistics company offers LCL services, but they rely mostly on neutral co-loaders to handle the freight. They may manage some of their own LCL freight in trade lanes where their business is strongest.”

Prior to Danzas’ merger with AEI in November 1999, the company would often co-load freight with neutral non-vessel-owning common carriers. The merger helped Danzas AEI to bring its LCL freight under its direct control. “We took the best of both companies and brought the LCL freight in house,” Rathgeb said.

The acquisition of forwarder ASG firmed up Danzas AEI’s position in the Scandinavian LCL market. The company’s main LCL load centers are located in Hong Kong, Singapore, Gothenburg, Bremen, Antwerp, Miami, New York, Chicago, Los Angeles, Houston and Atlanta.

*Tips: The trend is to move away from ‘we’re an air freight forwarders’ or ‘we’re an ocean freight forwarder’ to ‘we’re a logistics provider.’”

“I consider our LCL service a prime product today, simply because we control it. The problem with co-loaders is that the contain- ers that aren’t full may sit until they are. We don’t have to do this. We’ll load the cargo in 20-foot containers or even move it at a loss if we must. We can make these choices because we have total control of the service.”

Danzas AEI’s LCL business product is called Danmar Lines. “It’s like a company within a company, it is managed separately,” Rathgeb said.

On the inland side, Kuehne & Nagel is seeking to increase its own intermodal activities. “We are trying to create round-trips,” Lange said. “We do our planning in advance.”

Kuehne & Nagel is targeting the transpacific air freight market. Whereas overall transpacific air cargo volumes dropped 15 to 20 percent last year, the Swiss forwarder recorded a positive growth in volume.

**Carriers, Capacity.** Danzas AEI’s global ocean freight management team comprises 12 trade route managers. These managers meet twice annually to discuss Danzas AEI’s carrier strategy and service contracts. “It’s a very powerful tool for our company,” said Rathgeb. “We use these meetings to look at all the angles of our global ocean business.”

Other large forwarders also have a global cooperation between their trade managers.

Several mega-forwarders also manage their relationships with airlines and ocean carriers centrally.

“For both the sea and air freight sides, we have so-called ‘preferred carrier programs’,” said Lange. “They are like business partnership programs.”

Kuehne & Nagel seeks to plan and control its freight capacity on both the carrier and the shipper sides. Lange said Kuehne & Nagel gets priority on available capacity from carriers during peak periods.

For container shipments, Kuehne & Nagel shares its capacity growth forecasts with carriers. Volume growth plans for the next year are agreed upon beforehand. Every three months, capacity plans are adjusted.

“We do not just promise (volumes) — we deliver them,” Lange said. “Steamship lines appreciate this.”

Does Kuehne & Nagel pay carriers penalties if it does not use agreed capacities?

“We never pay liquidated damages or penalties for non-performance — we’re always over,” Lange replied.

In the transpacific trade, forwarders and carriers sign formal contracts that include penalties for not meeting volume commitments. In the Asia/Europe trade, less formal “gentlemen’s agreements” are reached by both sides.

“It’s mainly a question of attitude, of trust,” Lange said, pointing out the need for long term cooperation between forwarders and carriers.

Kuehne & Nagel also gives capacity commitments to airlines. This includes charter operations, block-space agreements and capacity agreements.

“That is very important for both sides,” Lange said. “It’s a firm commitment.” This way, Kuehne & Nagel also secures space for its customers.

However, Lange pointed out that capacity management is harder in air freight than in sea freight, because of the higher proportion of irregular traffic flows and the shorter lead times.

“In air freight, you have a mix of regular shipments, accounting for about 50 percent, and spot shipments that include late sea freight shipments and shipments caused by low inventories,” he said.

“In sea freight, with the top five carriers, we are their number one customer,” Lange said.

Organizationaly, Kuehne & Nagel has a centralized unit responsible for buying capacity from carriers. The forwarder unit
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Mega-forwarders, as non-asset-based transportation providers, seek to buy, secure and manage freight capacity to reflect the cargo flows that move at any given time or economic cycle.

“We are doing capacity management,” said Thomas Eisenblaetter, managing director of ASB-Sea, the capacity management arm of the Swiss forwarding group Panalpina.

“The individual stations provide us with forecasts of annual volumes, and quarterly and final forecasts,” he said. ASB-Sea has staff in North America, Europe and Asia that consolidate the figures on capacity requirements and are responsible for managing maritime trade lanes for the group.

“The market is extremely volatile,” Eisenblaetter said. Centralizing capacity management “is an extremely valuable tool with regard to space and competitive rates.”

One of the benefits of centralizing capacity management and controlling capacity — described by Panalpina as running an “in-house carrier” — is that Panalpina can give firm space commitments to shippers.

Centralized capacity management has also made the group’s internal processes more efficient, allowed Panalpina to get more competitive rates and service levels, and improved its profits, Eisenblaetter said.

Panalpina’s ASB-Sea unit has entered into agreements with its core ocean carriers about the use of their carrying capacity. Those agreements range from firm detailed block-space agreements defined at the level of port pairs (representing 70 percent of agreements), to “loose agreements” by trade, Eisenblaetter said.

Under the block-space agreements, Panalpina is committed to fulfill its allocation according to the agreement. The loose agreements are more flexible for the forwarder.

“We know, for example, that we have 150 TEUs out of Hong Kong on P&O Nedlloyd,” Eisenblaetter said.

Conversely, Panalpina guarantees capacity to its major customers like Hewlett-Packard.

“Sometimes, people believe that forwarders cannot guarantee capacity because they don’t own the vessels — but they can control capacity,” Eisenblaetter said.

Aligning the customer and carrier sides of capacity management is “quite complex,” he added. “If supply is higher than demand, then it easier; if there is a capacity shortage, then it’s more complex.” For this reason, the peak season is the time when the capacity management skills of Panalpina are tested to the full.

Centralized capacity management also aims to manage container equipment to ensure availability. Besides its trade division, responsible for capacity allocation, Panalpina’s ASB-Sea unit also has an intermodal division that looks after equipment and transport by barge.

Panalpina sees differences between the characteristics of the ocean freight and air freight sectors when it comes to capacity management. Maritime shipments imply slower transit times, but there is the complication of the logistics of the container equipment. Air freight is mainly consolidated.

ASB-Sea was set up in 1998, on the initiative of Bruno Sidler, a former managing director of ASB-Air and now the chief executive officer of the Panalpina group. Eisenblaetter said ASB-Sea still has a lot to do after its first three years of operations.

Organizationally, ASB-Sea is responsible for the maritime transport product. ASB-Sea reports directly to Panalpina’s group CEO, as do regional CEOs. The regional CEOs of Panalpina are responsible for the retail product: its customers.

With centralized capacity management, Panalpina said its regional offices can make rapid decisions.

“Every country, every station knows how much allocation they have,” Eisenblaetter said. If more capacity is needed, they will contact their ASB-Sea contact at the regional office, which will obtain more capacity.

ASB-Sea negotiates freight rates with carriers frequently.

“The problem is that it’s almost done on a monthly basis — it’s a headache, administratively,” Eisenblaetter said. “That’s not healthy for the industry.”

Optimal capacity planning

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Capacity bottlenecks, “rolled over” cargo, alleged bias against NVOCCs and other problems have impacted this year’s peak season.

By Philip Damas
Rapid growth in Asian imports to the U.S. has returned, but shippers and intermediaries are also facing a raft of problems.

With the current capacity shortages, financial losses among carriers, dissatisfaction among some shippers and intermediaries, and the start of an investigation into carrier malpractices, the market mechanism has gone badly wrong in the transpacific this year.

Freight forwarders and shippers are struggling to find sufficient capacity to ship containerized goods by sea from Asia to North America and Europe.

Intermediaries have also complained that carriers of the Transpacific Stabilization Agreement discriminated against them, and asked them to sign contracts with "open ended" pricing clauses that did not protect them from future rate and surcharge increases.

In the meantime, it is known that major transpacific shippers have obtained service contracts at low, fixed rate levels. But some shippers suspect that the shortages in ship capacity are partly artificial.
Capacity bottlenecks in Asian trades

Imports from Asia have exceeded available ship capacity and forced adjustments.

By Philip Damas

Capacity bottlenecks in the sea trades from Asia to North America and Europe have taken the industry by surprise, and contradicted earlier forecasts of surplus ship capacity combined with sluggish growth.

“Our experience in the market is the same as competitors — right now, ships are totally overbooked,” said Michael Dietmar, assistant product manager, sea freight at Schenker.

Eastbound traffic volumes from Asia to North America have soared nearly 20 percent in the first half of 2002. Industry forecasts were for single-digit increases in volumes. The addition of substantial capacity in the transpacific and Asia/Europe trades has been absorbed by higher-than-expected increases in cargo volumes, particularly since March.

California container ports have reported record traffic levels in recent months. First-half volumes on the Asia/U.S. East Coast all-water route have jumped a spectacular 50 percent.

Shipping lines attribute the surge in traffic levels to strong consumer spending, fueled by low interest rates and refinancing of home mortgages, and a diversion of travel spending to home improvement and recreation spending after Sept. 11, according to the Transpacific Stabilization Agreement.

Overbookings. “It’s so heavy — literally every ship is overbooked,” said Alvin Tan, vice chairman of Famous Pacific, the Singapore-based forwarder and non-vessel-operating common carrier.

“Late last year, movements were down,” he added. “But since March/April, it’s been very strong.”

Famous Pacific’s Asian traffic volume has been up 15 to 20 percent this year, compared to the first half of 2001.

Following the start of the peak shipping season, forwarders reported that shipments from Asia had to be left behind because of insufficient ship capacity. Shippers have been told that cargoes had to ‘rolled over’ from ship to ship.

Some shippers are reportedly frustrated that their cargoes cannot arrive in time at destination because of the capacity bottlenecks.

The need for cargo to be rolled over “has happened to every carrier,” said Stanley Shen, general manager, corporate marketing at Orient Overseas Container Line.

Different categories of shippers — major direct shippers, associations and forwarders — are competing for the available ship capacity. The capacity crunch also creates supply problems, particularly for just-in-time shippers, according to Dietmar.

“The large shippers, for the most part, are getting what they need ... or at worst are going on the next vessel,” said Andrew Rosener, director of international logistics at Hasbro Inc., the toy company.

Carriers and forwarders have sought to prioritize shipments.

“We use different ways,” Shen said.

“We do it by service contract minimum quantity commitment. The other way is to communicate with the customer to see what is really hot cargo and what is not,” he added.

“Carriers are trying their best to minimize the impact (of capacity shortages),” Tan said.

Long Peak Season. In mid-August, the Transpacific Stabilization Agreement, a group of 14 transpacific container lines, reported that U.S. imports from Asia showed no sign of slowing.

The carrier group has since extended its $300-per-40-foot-container peak season surcharge, initially due to expire at the end of September, until Oct. 31. The carriers said the extension was necessary in light of the continued strong freight market.

Traditionally, the transpacific peak season tapers off in mid-September, Tan said. “But this year, it is still strong.”

Shen predicted the peak season would last until the first week of November. Increases in U.S. inventory levels and the expectation of potential port strikes may also increase the duration of the peak season, he suggested.

“Earlier in the year, with the threat of the International Longshore and Warehouse Union (ILWU) strike, we had some heavy volume,” Rosener said. But he reported that the warehouses of logistics service providers on the West Coast are now full.

The capacity bottleneck “will probably loosen up a little bit in October,” he predicted.

Rate Increases. Schenker, Famous Pacific and other forwarders report that ocean carriers have capitalized on the space shortage and increased freight rates.

“That is the reason why the Transpacific Stabilization Agreement is putting up rates ... and extending the peak season surcharge,” Tan said.
“On the transpacific, we have experienced three rate increases in the last four months,” said Dietmar in an interview in September. Ocean rates went up on May 1 and Aug. 16, and a peak season surcharge levied by carriers kicked in on July 1.

After raising freight rates on July 1, the Far Eastern Freight Conference, an Asia/Europe conference, announced another increase in rates of $150 per TEU, effective Oct. 1.

The rate increases on the transpacific and Asia/Europe routes come after about two years of continued erosion in freight rates from Asia.

“If it’s a good time for shipping lines to recover their losses,” Tan said.

Like other NVOCCs, Famous Pacific had to pay ocean carriers more to move cargoes from Asia to the United States. “We tried to protest but, at the end of the day, it is the shipping lines that call the shots,” Tan said.

West Coast Strikes. The capacity bottlenecks in the transpacific trade may be complicated by an additional factor: potential port disruptions. The ILWU and the Pacific Maritime Association are battling over the renewal of their waterfront labor contract covering all the ports on the U.S. West Coast.

“There were many threats before,” Dietmar said. “Some carriers have taken precautionary measures.”

If U.S. West Coast ports are affected by labor disruptions, Dietmar expects an increase in the volumes of cargo routed via the U.S. East Coast, using all-water services, or air-freighted.

But the peak season is concluding, and the threat of supply disruptions is not as acute as it would have been if West Coast ports had shut down at the beginning of the summer.

“This situation will weaken the power of the union,” Dietmar said.

The industry was taken aback by the sudden reversal from a situation of ship overcapacity to one of undercapacity.

Tan said the level of demand for east-bound transpacific container transport has been underestimated this year. He suggested that the industry — reliant on just a few independent forecasting organizations — may be using the wrong forecasting tools.

“In our business, we deal with TEUs; our customers deal with dollars,” Shen observed. Lower prices for Asian products have fueled the eastbound transpacific trade.

“The same dollar gives you more volume,” Shen said.

He also stressed that forecasts of supply and demand balance cannot be annualized meaningfully. “People should not forget, when you talk about capacity, that we have a peak season and a slack season.”

Tan sees a correlation between the jump in the volume of Asian goods imported into the United States and the return of U.S. consumer confidence. “Consumers are the most important factor,” he said.

This suggests that the supply-and-demand balance in the high-volume transpacific container trade depends to a large extent on a psychological variable — the mood of consumers.

But Rosener isn’t convinced that the shortage of containership capacity is caused solely by stronger import volumes. “A lot of it is artificial,” he said. Some carriers “may be withdrawing capacity,” he added.
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Three months after receiving complaints from intermediaries, the U.S. Federal Maritime Commission initiated a formal investigation into transpacific carriers’ service contract practices as they relate to non-vessel-operating common carriers in the trade.

The FMC investigation, announced Aug. 23, was motivated by a May 10 petition jointly filed by the National Customs Brokers and Forwarders Association of America and the International Association of NVOCCs. The petition alleged that liner carrier members of the Transpacific Stabilization Agreement used discriminatory practices against NVOCCs during the 2002-03 contract season.

The petition, widely discussed in the industry, was subsequently backed by the National Industrial Transportation League and the Transportation Intermediaries Association.

The FMC described the allegations of carrier malpractices made by the associations of intermediaries as “serious.”

The FMC reported in its decision that the NCBFAA and IANVOCC said the TSA ocean carriers decided through “an internal agreement,” which they subsequently executed, to finish negotiating their 2002-03 service contracts with direct shippers before dealing with the NVOs. The industry groups also said TSA members colluded to charge NVOs “significantly higher rates” than for proprietary shippers for the same services.

“The manner in which TSA members allegedly implemented this agreement was through the discriminatory subjection of NVOCCs, through their service contracts, to general rate increases and a peak-season surcharge, which were not applied to proprietary shippers through their service contracts,” the FMC said.

The FMC’s investigation of the 2002-03 TSA contract season will cover:

- Refusals to deal with NVOs until a substantial number of shipper contracts were complete.
- General rate increases and the peak-season surcharge imposed on NVO service contracts and not on those of direct shippers.
- Extent and degree to which rate increases and service contract policies, practices and guidelines of the TSA remain “voluntary and non-binding” among the liner carrier members.
- Extent and degree to which the TSA has submitted complete and accurate minutes of its meetings to the FMC.
- Development and use of “open-ended” service contract clauses that allow ocean carriers to change prices unilaterally.

The FMC investigation will probe the question of service contract clauses that allow ocean carriers to change prices unilaterally. The regulator said it would look into development and use of “open-ended” provisions that allow the “unilateral implementation” of general rate increases and peak-season surcharge by Transpacific Stabilization Agreement members in their contracts with non-vessel-operating common carriers “without genuine further negotiation, while waiving or not requiring similar provisions in their service contracts for proprietary shippers.”

The TSA carrier group wouldn’t comment on whether these practices are standard among its members. If these practices are true, they would differ from purchasing contracts in other industries that base prices on an industry index, because the container shipping general rate increases are decided unilaterally by carriers without disclosing information on underlying cost increases.

“IT is not unusual for the TSA carriers to say that contracts are subject to future surcharges or general rate increases that may occur,” said Ed Greenberg, counsel to the National Customs Brokers and Forwarders Association of America. “It means the rate you’re negotiating today won’t be worth anything.”

Greenberg said NVOs can be caught between price commitments they have given to their customers, and variable carrier prices. “You can understand the problem an NVO has.”

NVOs can pass on higher carrier costs to shippers by amending their tariffs, but the law requires a 30-day wait. Greenberg warned that increasing tariff rates also “becomes an administrative nightmare. And the customer may balk (at the price increase) and move to another NVO,” he added.

The FMC may also find there are similarities between the new fact-finding investigation — including allegations of open-ended price increase provisions in service contracts — and a previous investigation. In 1999, Commissioner Del Won looked into shipper complaints of unilateral “opt out” clauses that allowed transpacific carriers to end service contracts and charge higher tariff rates.
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The FMC wants TSA contracts information

WASHINGTON

The U.S. Federal Maritime Commission has ordered 16 transpacific carriers to provide service contract information and copies of internal documents and communications relating to the 2002-2003 season, to gather facts for the agency’s investigation into alleged malpractices.

Commissioner Joseph Brennan, the investigative officer, asked the TSA and affiliated ocean carriers to report in writing on facts and transactions relevant to the investigation. The carriers involved—APL, CMA CGM, COSCO Container Lines, Evergreen, Hanjin Shipping, Hapag-Lloyd, Hyundai, “K” Line, Maersk Sealand, MOL, NYK, Orient Overseas Container Line, P&O Nedloyd, Yang Ming Marine, Hatsu Marine and Lloyd Triestino — and the secretariat of the Transpacific Stabilization Agreement, must answer 23 probing questions raised by the FMC, in writing and under oath.

The information requested includes:

• Copies of all memoranda and other documents issued by the TSA to carrier members and sent by carrier members to the TSA since May 2001.
• Copies of “all formal or informal minutes” (including handwritten notes) about all TSA meetings and teleconferences over the same period.
• Copies of all documents and communications to carrier marketing or sales staff, from May 2001, that “suggest, advise, instruct or recommend” general rate increases, a peak season surcharge or other surcharges in the eastbound transpacific trade.
• A report identifying which rate information carriers sent to, or received from the INTTRA, GT Nexus and CargoSmart multi-carrier portals.
• A matrix that analyzes, by class and size of shipper or NVOCC, whether their 2002-03 service contracts include higher or lower rates than last year, and whether they are subject to general rate increases and peak season surcharges.
• Copies of complaints made by NVOCCs about general rate increases and peak season surcharges.
• Copies of all internal studies about competition from NVOCCs in the transpacific.
• A list of all TSA committees and groups that make recommendations on pricing and service issues.
• Copies of all surveys of service contracts and of recent TSA surveys of market conditions.
• Copies of a cost data worksheet discussed among TSA carriers.
• Consultants’ reports or studies on the transpacific trade used by carriers.

The NCBFAA welcomed the fact that the FMC went forward with the investigation. The TSA carrier group had tried to discourage the FMC from launching the investigation, by saying that the NCBFAA had produced no evidence.

However, the FMC looked at a sample of transpacific service contracts of direct shippers and NVOs with ocean carriers (filed confidentially with the agency) to check whether the complaints of discrimination had any substance.

“After the NCBFAA-IANVOCC petition was filed, the commission’s Bureau of Trade Analysis did perform a preliminary sample of service contracts,” an FMC official told American Shipper. “On the basis of that analysis, the commission determined to launch this fact-finding investigation. The preliminary sampling did raise the concern that TSA members may have discriminated against NVOCCs during the 2002 contracting season.”

Carrier/NVO Conflicts. Section 10 of the 1984 Shipping Act on prohibited acts bans “unjustly discriminatory practices” by common carriers. The latest investigation will probe into whether transpacific ocean carriers have been biased against NVOs as a class of shippers.

Ocean carriers and NVOs are known for having had uneasy relationships, as ocean carriers regard intermediaries as their competitors, as well as their customers.

The FMC has the authority to investigate malpractices by carriers. The FMC also investigated alleged price discrimination by transpacific carriers against NVOs in 1998-1999.

The TSA is a group of ocean carriers that has the authority to agree on rate increase and surcharge “recommendations.” The non-binding price recommendations are, in turn, implemented on a voluntary basis by individual carriers. Carriers of the TSA are APL, CMA CGM, COSCO Container Lines, Evergreen, Hanjin Shipping, Hapag-Lloyd, Hyundai, “K” Line, Maersk Sealand, MOL, NYK, Orient Overseas Container Line, P&O Nedloyd, Yang Ming Marine and peak season surcharges.

During its informal investigation in the last few weeks, the FMC learned that the TSA had implemented a second general rate increase on Aug. 19.

“If the petitioners’ allegations of concerted action are correct, it would appear that this second general rate increase was agreed to among TSA members with the knowledge that certain shippers would be exempt from the increase by the terms of their 2002-2003 service contracts,” the FMC said.

In late August, the Transpacific Stabilization Agreement also announced a plan to extend the duration of its $300 per FEU peak season surcharge, initially due to expire at the end of September, until Oct. 31.

Only those NVOs and shippers whose service contracts permit general rate increases and peak season surcharges will bear the price rises of the TSA carriers.

The TSA group has again denied the intermediaries’ allegations. “TSA has no comment with regard to a pending FMC proceeding, other than to note that the agreement has already strongly denied any wrongdoing or violation of law, and is confident the commission’s investigation will confirm that conclusion,” a spokesman for the carrier group told American Shipper.

Timetable. Joseph Brennan, FMC commissioner, has been named investigative officer for this complex investigation.

The final fact-finding report after completion of the investigation, with recommendations to the commission, is due on Jan. 17. The FMC had not scheduled any hearings as of early September. Hearings are expected during October.

“The investigation seeks information mainly from TSA, its carrier members, shippers, and ocean transportation intermediaries,” a source at the FMC said. “Information is sought from any person, however, who can be helpful in developing a record on the various practices allegedly engaged in by TSA and its members in the 2002-2003 contracting season.”

Brennan may also use his authority under section 15 of the Shipping Act of 1984 to require common carriers to report in writing on relevant facts and transactions.

“I assume the commission is going to hold hearings, and I would not be surprised if the commission subpoenaed witnesses, particularly from carriers,” said Ed Greenberg, counsel to the NCBFAA.

The NCBFAA welcomed the fact that the FMC went forward with the investigation. The TSA carrier group had tried to discourage the FMC from launching the investigation, by saying that the NCBFAA had produced no evidence.

However, the FMC looked at a sample of transpacific service contracts of direct shippers and NVOs with ocean carriers (filed confidentially with the agency) to check whether the complaints of discrimination had any substance.

“After the NCBFAA-IANVOCC petition was filed, the commission’s Bureau of Trade Analysis did perform a preliminary sample of service contracts,” an FMC official told American Shipper. “On the basis of that analysis, the commission determined to launch this fact-finding investigation. The preliminary sampling did raise the concern that TSA members may have discriminated against NVOCCs during the 2002 contracting season.”
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INDUSTRY BALKS
at advance manifest rules

Customs wants containerized cargo information 24 hours prior to loading overseas.

By Chris Gillis and Mark McHugh
Recently proposed U.S. Customs rules that would mandate filing of cargo manifests 24 hours prior to loading overseas has caused an uproar in the nation’s shipping industry.

In comments to the agency in early September, numerous industry groups called the agency’s proposed rulemaking “unreasonable” and incompatible in today’s international supply chain management. Some industry groups went as far as to ask the agency to drop the proposed rule altogether.

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

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

Similarly, the International Mass Retail Association called for withdraw of the proposed rules. “While Customs has the right to make regulations … this proposed regulation seems extremely premature,” said Robert J. Verdisco, president of IMRA.

The World Shipping Council, NVOCC-Government Affairs Conference, and National Industrial Transportation League also raised numerous questions regarding the rules, but did not outright reject them.

“We recognize that the cargo manifest has become a document that is used by the government to prescreen cargo for national security reasons,” the World Shipping Council said. “It was not designed for this purpose and has some limitations in this regard.”

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

Overall, the respondents generally support Customs’ efforts to tighten supply chain and border security against terrorist plots and other criminal activities. “We recognize the importance of insuring that cargo destined for the United States does not contain weapons of mass destruction or other means through which the enemies of this country can do us harm,” the seven industry groups said.

Since earlier this year, Customs Commissioner Robert C. Bonner has said advance manifests would play a key role in the Container Security Initiative. CSI, which was announced in January, is designed to help protect the United States and a large portion of the global trading system from terrorists who might use container transport to hide weapons and related materials.

In June, the Group of Eight nations and the World Customs Organization endorsed CSI as a way to improve security in the supply chain without disrupting legitimate flows of cargo.

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

Customs has entered into CSI agreements with the Netherlands, Belgium, France, and Germany, covering the ports Rotterdam, Antwerp, Le Havre, Bremerhaven, and Hamburg. Singapore also announced its
intention to join CSI and others are agreements are expected to be established in the coming months. “It is critically important that Customs officers receive (manifest) information as soon as possible in the process,” Bonner said during the proposed rulemaking’s release in early August. “U.S. Customs officers need timely and accurate manifest data and they need it now.”

Under the proposed rules, Customs said vessel operators that break the law would be liable for civil penalties of $5,000 for the first violation and $10,000 for each subsequent violation. NVOCs are similarly subject to civil penalties for wrongdoing.

While it’s not required in the proposed rules, the agency strongly encourages ocean carriers and NVOCs to file their manifest details electronically through the Automated Manifest System.

Customs also encourages shippers, intermediaries and carriers to join its Trade Partnership Against Terrorism program, or C-TPAT. Companies agree to develop and implement documented programs to improve security procedures throughout the supply chain process.

**NVOCs Details.** NVOCs are willing to do their part to combat terrorism, but they’re concerned about how to accommodate Customs’ advance manifest rules for consolidations and still meet their tight shipping schedules.

“It raises issues of technical competency; of dealing with the operational consequences of boxes not making scheduled sailings, and boxes being detained; and, of course, the NVO-GAC is seriously mindful of the penalty consequences of breaching these regulations,” the group said.

The multi-industry group’s comments pointed out that AMS is not available in certain locations, and criticized the proposed rules for not considering how non-automated NVOCs may transmit their manifests to Customs.

“Aside from the substantial cost associated with AMS, many NVOCs do not have the sophisticated automation presently in place,” the groups said. “Regardless, even the NVOCs that currently have the capability for automated transmission do not have the corresponding software to implement the transmissions. Obtaining the appropriate software and subsequent programming will be extremely costly, and will ultimately take substantial time to be incorporated into the ordinary course of business.”

A number of the large NVO-GAC members said they would be willing to participate in AMS with some modifications to the proposed filing rules.

To prevent confusion as to which NVOC containers may be loaded on vessels, for instance, Customs needs to develop a “green light” or official electronic notice in AMS for the ocean carriers. It should not be left up to the NVOCs to tell the ocean carriers when they can load their containers, the NVO-GAC said.

The NVO-GAC also said Customs’ advance manifest rules must acknowledge the industry practice of co-loading. “It should be clear that the NVOC that appears in the shipper and consignee box of the master bill is the NVOC with reporting duties and responsibilities for all cargo in the box.”

In addition, the NVO-GAC said it accepts the new responsibilities related to participation in AMS and compliance with the international carrier bond requirements for the industry. However, the group said the “NVOCs are not assuming any other new roles, and the bond obligation should reflect that.”

The World Shipping Council, the country’s largest liner carrier organization, supports allowing NVOCs to file manifest data to Customs, but it wants the agency’s assurance that NVOCs are responsible for the accuracy of their data and not the ocean carriers.

**Confidentiality.** Several industry groups voiced concern about confidentiality of manifest data once it’s filed to Customs.

“Also, alerts about how to accommodate Customs’ advance manifest rules for consolidations and still meet their tight shipping schedules.

“Today’s it’s common for large U.S. retailers to move cargo straight from foreign suppliers to the store in a matter of two to three weeks,” Verdisco said. “Adding a day or half a week to these supply chains is enormously expensive, given the investment that has been made to squeeze a few hours out of some supply chains.”
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Independents show most dynamic growth, capacity still increasing despite efforts

By Simon Heaney

Unsurprisingly the A.P. Moller group with Maersk Sealand and its sister company Safmarine, remains the top carrier in American Shipper’s annual survey of the top 20 ocean carriers.

The Danish mega-carrier is nearly twice the size of nearest rivals P&O Nedlloyd, Evergreen and Mediterranean Shipping Co. While it may be some time before anyone challenges for the top spot, this year’s survey has thrown up some interesting themes.

According to statistics compiled by French shipbroker Barry Rogliano Salles at the end of July, there are 4,696 vessels with 6.6 million TEUs capacity being deployed on global liner trades. This includes 2,935 fully cellular ships with 5.8 million TEUs capacity. The top 20 carriers, with a total capacity of 4.8 million TEUs, now control 72 percent of the world’s available container capacity.

Overall, since summer 2001, the fleet capacity for the top 20 carriers has increased 13 percent, or 558,967 TEUs. This compares to a rise of 15 percent between 2000 and 2001.

This year the second-tier carriers have made the biggest gains. Indeed, at the top end of the chart only independent carriers Mediterranean Shipping Co. and CMA CGM made significant progress.

There is one new entry in the top 20, with Pacific International Lines taking over from the Hamburg-Sud group, at 20th place.

Following CP Ships’ conversion from a Canadian-owned company to a U.K. company in October, North America lost its last representative in the top 20.

Table 1 (page 34) highlights the aggressive growth of non-alliance affiliated carriers. Maersk Sealand, Mediterranean Shipping Co. and CMA CGM posted the highest increases in fleet capacity within the top 10 over the past 12 months. In comparison, many carriers with alliance ties showed a minimal increase or decline in the rate of fleet growth.

The combined fleet capacity of the Grand Alliance members, including Malaysian International Shipping Corp., increased 7 percent, adding 56,054 TEUs. P&O Nedlloyd increased just 5 percent compared to a 34-percent rise the year before. OOCL did jump 11 percent, as compared to 25 percent between 2000 and 2001. NYK and Hapag-Lloyd both improved 19 percent.

The New World Alliance members’ combined fleet increased 8 percent, adding 41,525
The 12 months following our last top 20 survey has been one of the most turbulent periods in the container shipping industry. An already slowing world economy was dampened further by the events of Sept. 11, and most carriers have posted deficits.

The gulf between supply and demand in container shipping has forced rates down across the trades and virtually all carriers’ annual reports unveil “cost-cutting” as the in-vogue phrase.

While 2000 saw a record high of 228 new ships at 885,436 TEUs ordered, Clarkson Research Studies said orders last year dropped 38 percent to 154 ships at 545,180 TEUs.

Table 2 (page 36) shows orders to be delivered within the next two years. Taking into account that some vessels have been delivered since last year’s survey, the total TEU capacity on order is 687,378 TEUs, down 35.4 percent from 1.1 million TEUs last year.

On top of the reduction in orders, attempts were made to correct overcapacity by withdrawing services and withholding capacity from services in rate-decreasing markets.

However, collective action proved difficult to implement. The Far Eastern Freight Conference abandoned its joint vessel withdrawal program, started in October 2001 and due to run to March of this year. “The program notified to the (European) Commission was now inadequate and it would be necessary for there to be a more substantial withdrawal of capacity,” the conference said, adding that member lines would instead make “their own individual capacity withdrawals and service adjustments”.

### Table No. 1

**Top 20 container carriers ranked by operating capacity**

(As of June-July 2002)

<table>
<thead>
<tr>
<th>Rank (2001)</th>
<th>Carrier</th>
<th>Country</th>
<th>2002 TEU capacity</th>
<th>2001 TEU capacity</th>
<th>% 2002/2001</th>
<th>No. of owned ships (TEUs)</th>
<th>No. of charter ships (TEUs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (1)</td>
<td>A.P. Moller group</td>
<td>Denmark</td>
<td>754,619</td>
<td>653,499</td>
<td>14%</td>
<td>125 (445,537)</td>
<td>187 (309,082)</td>
</tr>
<tr>
<td>2 (2)</td>
<td>P&amp;O Nedlloyd</td>
<td>UK/Netherlands</td>
<td>414,876</td>
<td>396,088</td>
<td>5%</td>
<td>40 (135,812)</td>
<td>127 (279,064)</td>
</tr>
<tr>
<td>3 (3)</td>
<td>Evergreen group</td>
<td>Taiwan</td>
<td>401,907</td>
<td>375,006</td>
<td>7%</td>
<td>121 (353,396)</td>
<td>26 (48,511)</td>
</tr>
<tr>
<td>4 (4)</td>
<td>Mediterranean Shipping Co.</td>
<td>Switzerland</td>
<td>391,001</td>
<td>252,938</td>
<td>55%</td>
<td>103 (262,486)</td>
<td>74 (128,515)</td>
</tr>
<tr>
<td>5 (5)</td>
<td>Hanjin group</td>
<td>South Korea</td>
<td>315,605</td>
<td>319,751</td>
<td>(1%)</td>
<td>22 (94,226)</td>
<td>65 (221,382)</td>
</tr>
<tr>
<td>6 (6)</td>
<td>APL</td>
<td>Singapore</td>
<td>255,000</td>
<td>243,455</td>
<td>5%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>7 (7)</td>
<td>COSCO Container Lines</td>
<td>China</td>
<td>236,680</td>
<td>224,936</td>
<td>5%</td>
<td>111 (233,350)</td>
<td>1 (3,330)</td>
</tr>
<tr>
<td>8 (10)</td>
<td>CMA CGM group</td>
<td>France</td>
<td>208,712</td>
<td>151,660</td>
<td>38%</td>
<td>26 (73,182)</td>
<td>74 (155,350)</td>
</tr>
<tr>
<td>9 (9)</td>
<td>MOL</td>
<td>Japan</td>
<td>202,492</td>
<td>161,221</td>
<td>26%</td>
<td>32 (116,099)</td>
<td>43 (86,393)</td>
</tr>
<tr>
<td>10 (11)</td>
<td>NYK</td>
<td>Japan</td>
<td>179,775</td>
<td>151,481</td>
<td>19%</td>
<td>18 (60,169)</td>
<td>57 (119,606)</td>
</tr>
<tr>
<td>11 (15)</td>
<td>“K” Line</td>
<td>Japan</td>
<td>171,383</td>
<td>137,497</td>
<td>25%</td>
<td>5 (15,537)</td>
<td>95 (155,841)</td>
</tr>
<tr>
<td>12 (12)</td>
<td>Zim Israel Navigation Co.</td>
<td>Israel</td>
<td>170,656</td>
<td>145,460</td>
<td>17%</td>
<td>25 (49)</td>
<td>49</td>
</tr>
<tr>
<td>13 (8)</td>
<td>CP Ships</td>
<td>UK</td>
<td>164,400</td>
<td>170,700</td>
<td>4%</td>
<td>31 (74,000)</td>
<td>42 (90,400)</td>
</tr>
<tr>
<td>14 (13)</td>
<td>OOCL</td>
<td>Hong Kong</td>
<td>158,649</td>
<td>142,541</td>
<td>11%</td>
<td>16 (63,238)</td>
<td>36 (95,411)</td>
</tr>
<tr>
<td>15 (16)</td>
<td>China Shipping Container Lines</td>
<td>China</td>
<td>144,823</td>
<td>126,000</td>
<td>15%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>16 (19)</td>
<td>Yang Ming Line</td>
<td>Taiwan</td>
<td>142,612</td>
<td>103,214</td>
<td>38%</td>
<td>26 (75,740)</td>
<td>20 (66,872)</td>
</tr>
<tr>
<td>17 (17)</td>
<td>Hapag-Lloyd</td>
<td>Germany</td>
<td>135,193</td>
<td>114,035</td>
<td>19%</td>
<td>23 (102,525)</td>
<td>12 (32,668)</td>
</tr>
<tr>
<td>18 (13)</td>
<td>Hyundai Merchant Marine</td>
<td>South Korea</td>
<td>130,003</td>
<td>141,294</td>
<td>(8%)</td>
<td>20 (74,809)</td>
<td>14 (55,194)</td>
</tr>
<tr>
<td>19 (18)</td>
<td>COSCO group</td>
<td>Chile</td>
<td>99,817</td>
<td>105,840</td>
<td>(6%)</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>20 (new)</td>
<td>Pacific International Lines</td>
<td>Singapore</td>
<td>99,400</td>
<td>83,166</td>
<td>20%</td>
<td>52 (50,070)</td>
<td>35 (49,330)</td>
</tr>
</tbody>
</table>

**Total** | 4,777,603 | 4,218,636 | 13% | 235,880 | 210,932 | 13% |

Source: Carriers and ComPairData (www.compairdata.com).

### Table No. 3

**Top 20 container carriers using ships of 5,000+ TEUs**

(As of June-July 2002)

<table>
<thead>
<tr>
<th>Carrier group</th>
<th>No. ships 6,000+ TEUs</th>
<th>No. ships 5,000-5,999 TEUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maersk Sealand</td>
<td>28</td>
<td>0</td>
</tr>
<tr>
<td>Mediterranean Shipping Co.</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>NYK</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>CMA CGM</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>P&amp;O Nedlloyd</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Hyundai Merchant Marine</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>MOL</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Evergreen group</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Hapag-Lloyd</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Hanjin Shipping</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>COSCO Container Lines</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>“K” Line</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>OOCL</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>APL</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Yang Ming Line</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>China Shipping Container Lines</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

**TOTAL** | 79 | 120 |

Source: ComPairData (www.compairdata.com).
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without coordinated action through the conference.

Earlier in 2001, ocean carriers in the transpacific trade also shelved a plan to jointly manage capacity, following unsuccessful exploratory discussions.

Considering the state of the industry, there has been remarkably little activity regarding acquisitions or consolidation among the top 20 carriers over the past year. In August, CP Ships purchased Italia Line from D’Amico for $40 million, but the deal represents the exception rather than the rule. The state of Israel has still to find a buyer for its 48.6-percent share of Zim Israel Navigation Co., and while rumors persist that carriers like Hanjin, Hapag-Lloyd, OOCL and Yang Ming are all viable candidates for takeover, all of last year’s top 20 remain as they were. The question is: Can all the carriers survive another year like the last one?

One industry source believes that over the next few years a significant shift in power among the top 20 carriers will take place. He argues that a few carriers are concentrating power and control, with the badge of this group being the commitment to buying and operating large ships.

Is the move towards using larger ships inevitable if carriers are to achieve the economies of scale required to be profitable and remain independent? Table 2 and 3 show the carriers that either operate or have placed orders for ships of 6,000 TEUs and above. The “elite group” comprises 10 carriers, independent giants Maersk Sealand, Evergreen, CMA CGM and Mediterranean Shipping Co. plus the members of the Grand Alliance and New World Alliance barring APL and Malaysian International Shipping Corp. If such a divide emerges, those carriers that fall into the second tier will surely have to develop even further cost-cutting and cooperative agreements to avoid being swallowed up by one of the bigger players.

Just recently, there has been a surprising amount of new capacity ordered:
- CMA CGM has ordered eight ships of 5,770-TEUs to be delivered from April 2004 through December 2004.
- Yang Ming placed an order for two 5,500-TEUs ships for delivery in 2004.
- Zim has ordered another four 5,000-TEU vessels for delivery in 2004.

Initially it would appear that carriers are cutting their own throats by adding new vessels at a time of overcapacity. If this is a sign of an industry recovery or are carriers taking advantage of the cheaper shipbuilding rates and looking to achieve significant volume and cost advantages in the medium-term? One thing almost as certain as Maersk Sealand being number one next year is that the industry will see some changes over the coming year or two.

---

### Table No. 2

**Top 20 container carriers vessel orders**

(As of June-July 2002)

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Vessels on order</th>
<th>Total TEUs on order</th>
<th>Projected capacity increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediterranean Shipping Co.</td>
<td>7 x 6,750, 6 x 5,000</td>
<td>77,250</td>
<td>468,251</td>
</tr>
<tr>
<td>CMA CGM group</td>
<td>8 x 5,770, 1 x 4,346, 3 x 4,050, 4 x 2,200</td>
<td>71,456</td>
<td>280,168</td>
</tr>
<tr>
<td>CP Ships</td>
<td>11 x 4,100, 5 x 3,200, 1 x 2,300</td>
<td>63,400</td>
<td>227,800</td>
</tr>
<tr>
<td>OOCL</td>
<td>8 x 7,400, 1 x 4,100</td>
<td>63,300</td>
<td>221,949</td>
</tr>
<tr>
<td>A.P. Moller group</td>
<td>5 x 7,226, 4 x 4,300, 3 x 3,000</td>
<td>62,330</td>
<td>218,949</td>
</tr>
<tr>
<td>China Shipping Container Lines*</td>
<td>5 x 5,500, 5 x 4,050</td>
<td>47,750</td>
<td>192,573</td>
</tr>
<tr>
<td>MOL</td>
<td>4 x 4,642, 4 x 4,576</td>
<td>36,872</td>
<td>239,364</td>
</tr>
<tr>
<td>Zim Israel Navigation Co.</td>
<td>4 x 5,000, 3 x 4,992</td>
<td>34,976</td>
<td>205,632</td>
</tr>
<tr>
<td>NYK</td>
<td>5 x 6,200</td>
<td>31,000</td>
<td>210,775</td>
</tr>
<tr>
<td>P&amp;O Nedlloyd</td>
<td>5 x 2,556, 4 x 4,112</td>
<td>29,228</td>
<td>444,104</td>
</tr>
<tr>
<td>Hanjin group</td>
<td>4 x 5,750, 1 x 5,500</td>
<td>28,500</td>
<td>344,105</td>
</tr>
<tr>
<td>Yang Ming Line</td>
<td>3 x 1,620, 4 x 5,500</td>
<td>27,090</td>
<td>169,702</td>
</tr>
<tr>
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<tr>
<td>Evergreen group</td>
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<td>417,807</td>
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<td><strong>Average of top 20 carriers</strong></td>
<td><strong>33,439</strong></td>
<td><strong>274,769</strong></td>
<td><strong>14%</strong></td>
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* China Shipping’s figures do not include the reported 5 x 9,800 TEU orders with Samsung and Hyundai yards.

### Table No. 4

**Major carrier groups share of world fleet capacity**

(As of June/July 2002)

- A.P. Moller group: 46%
- CKYHS alliance: 13%
- Grand Alliance (incl. MISC): 12%
- Evergreen group: 9%
- New World Alliance: 6%
- Other carriers: 14%
- Total: 6,641,319

**Carrier groups/Alliances**

- A.P. Moller group: 773,105
- CKYHS alliance: 886,280
- Grand Alliance (incl. MISC): 926,938
- Evergreen group: 401,907
- New World Alliance: 587,495
- Other carriers: 3,085,594
- Total: 6,641,319

**Source:** Individual carriers, BRL Shipping Consultants.

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From Wall Street’s point of view, if any single inference can be drawn about the logistics industry, it is “more cyclical than we thought,” said Gregory E. Burns, vice president, J.P. Morgan Securities Inc., in New York.

Revenue and earnings figures from most logistics companies suggest that, despite a strong trend toward outsourcing, the industry is exposed to cyclical trends that have been hurting results in 2001 and 2002, yet will “benefit the industry in 2003 as the economy rebounds and companies face easier comparisons,” a recent J.P. Morgan survey said.

Burns, who organized J.P. Morgan’s annual logistics conference in September, told the attending financial analysts that “both large and small companies have reduced their appetite for additional outsourcing.”

In a sampling of logistics companies prepared for the conference, Burns said only medium-sized users of outsourcing gave any indication that they would increase their outsourced work over the next five years.

Economic pressures have made the price of proffered services the top ranking consideration and, followed by the financial strength of a logistics provider, among criteria used in awarding logistics contracts.

“A possible provider’s financial strength had never before made the top five criteria,” Burns said. “We attribute the very high raking of price as a reflection of the tremendous cost pressures on the third-party-logistics provider client base.

“We expect price and financial strength to diminish in importance as the economy recovers, but believe the trauma related to corporate bankruptcies may last for several years, favoring large, well-capitalized logistics companies over the smaller niche providers,” Burns noted.

Asked to rank the most important factors in awarding a logistics contract, company respondents in the Morgan survey listed (in order on a five-point scale): price (4.9), financial strength (4.2), product or business experience (4.2), industry reputation (4.1), potential cost or inventory savings (4.1), technology capability (4.0), geographical scope of the provider’s operations (3.9), breadth of service offerings (3.7), other (3.5), sales presentation (3.0), and prior relationship (2.8).

In other words, a logistics provider’s reputation counts for more than the savings it might bring and the technology in its quiver. The old comforting adage, “they’ll hire us because they’ve used us before,” comes in last in this ranking.

“Effective supply chain management, once viewed by U.S. corporations as a luxury that could be postponed, is now seen as a critical element in successful business execution,” according to an analytical statement from J.P. Morgan. Today, third-party logistics providers “are increasingly viewed as critical ‘change agents’ helping to reduce supply chain costs.”

The chief lure, companies responded to J.P. Morgan’s survey noted, was a 3PL’s ability to reduce the need for personnel on the payroll of the outsourcing party, a consideration that ranked far ahead (48 percent to 13 percent) of the second-best reason, which was reducing transport and distribution. Concerns about customer service came in last.

When asked to assess what they disliked about using a third-party provider, the respondents listed as their chief gripe the fact that a 3PL “does not understand my business.” Next were lack of service capabilities, overpromising those same capabilities, cost, and poor data collection. Lack of global scope was the least onerous negative cited.

“As eventful as the past has been” for 3PLs, the survey noted tactfully, “we think the future holds numerous opportunities and some risks for this emerging industry.”

Because of general investor worries “about the prospect of a ‘double-dip’ in the economy … many transportation and logistics stocks have given back their early gains in 2002, but remain modestly ahead of the overall market,” Burns explained.

“A flight to safety” has been a common theme in the market and logistics stocks have benefited, as their variable cost structure has enabled most logistics companies to meet earnings forecasts despite a disappointing revenue environment,” he said.

For that reason, “investors have been moving away from asset-based transportation companies and toward non-asset-based companies which have a higher proportion of variable costs,” Burns said.

“Given our expectation for a rebound in U.S. and global economies in 2003, we expect … non-asset-based companies to experience accelerating net revenue in the second half of 2002 and in 2003. With operating margins for many companies near an all-time peak, we do not expect (such) margins to expand further in 2003, and we believe many companies will have to increase their expenses in travel, marketing and other categories that were pared back sharply in 2001 and 2002,” the J.P. Morgan survey said.

“Our expectation for a slower industry growth rate in the next five years is based on the increased penetration of the 3PLs, compared with their market penetration five or 10 years ago,” Burns said.

Similarly, “market consolidation in the freight forwarder segment has also resulted in companies with larger shares and a much larger base of business,” he explained.

When asked how they spent their transportation budgets in 2002 and how they might allot such funds in 2007, the survey’s respondents said they spend the most on less-than-truckload shipments — 30 percent, which might drop to 29 percent in five years.

After LTL shipments, the companies said they allotted 24 percent of their budgets to ocean freight, 19 percent to full truckloads,
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13 percent to parcel carriers, 7 percent to air cargo, and 3 percent to intermodal and rail. Over five years, the respondents said they were likely to increase their use of parcel carriers by 2 percent, and their use of intermodal by 1 percent.

As for areas in a supply chain that most needed improving, the companies in the J.P. Morgan’s survey cited manufacturing responsiveness (at 46 percent), well ahead of tracking and tracing (18 percent). The companies said they were relatively satisfied with transportation management, supply chain visibility and planning and scheduling — all three were ranked not more than 9 percent on the worry scale.

Asked who was best able to manage shippers’ supply chains, the respondents noted consulting firms, followed by 3PLs, and then — sharing the same relatively low ranking — software providers, parcel carriers, LTL carriers, international freight forwarders and domestic freight forwarders.

In choosing a freight forwarder, the responding companies said that, on a scale of 1 to 8, customs knowledge ranked first (6.9), having knowledgeable employees (6.3), quality of service (5.9), pricing (5.6), having a global network (5.2), personalized service (4.0), advanced tracking systems (3.7), and information services (3.5).

This ranking may surprise and disappoint information technology and software providers, but reflects a genuine conservatism among users of freight forwarders, who have clearly not been seduced by bells-and-whistles technology.

Can logistics companies return to their 1999-2000 growth rates, even with a strong economy? “We believe most of them will not be able to replicate those growth rates without acquisition growth,” Burns said.

One conclusion from the survey was that J.P. Morgan’s own analysts anticipate that the U.S. Postal Service, which had $66 billion in fiscal 2001 revenue, will increasingly look to partner with private logistics companies to improve its internal processes, sorting and delivery methods. This should create opportunities for 3PLs with warehouse, line-haul and IT management skills.

E-logistics providers who can hang on a bit longer should be heartened by Morgan’s shipper respondents, 50 percent of whom said they would increase their use of e-logistics in the near future. Another 25 percent said they would maintain the level of e-services they have contracted. One-fourth said they would decrease their e-logistics commitments.

J.P. Morgan survey noted that “scores of Internet logistics providers seek either to act as a comprehensive provider or, as is more often the case, to operate a specialized marketplace for a specific transportation market. “Since the technology crash in 2000, venture capital funding as dried up, reducing the number of competitors in the field. The market opportunity, however, remains large,” the study said.

“As a paperless medium, we believe the Internet is ideally suited to bring transportation and logistics administration into the modern era. Even more important is the Internet’s role as a conduit of information,” the survey said.

There is a conundrum: “Despite the apparent large-market opportunity, e-logistics providers currently have a low market penetration” — 16 percent in 2002, compared to 11 percent in 2001 — “and we believe none have achieved the critical mass necessary to complete a public offering. The good news for them is that industry adoption rates are growing, albeit from a low base.” (For a comprehensive directory of e-logistics companies, check our Web site at www.AmericanShipper.com.)
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U.S. Bank’s PowerTrack system aims to cover entire financial supply chain.

By Chris Gillis

With most traditional third-party transportation payment services, someone wins and someone loses.

Minneapolis-based U.S. Bank introduced a system several years ago, which levels the playing field between buyers and sellers of freight transportation services. The U.S. military and numerous commercial shippers use the transportation payments system, known as PowerTrack.

“PowerTrack is not a third-party outsourcer,” said Richard Langer, senior vice president of business development for U.S. Bank’s Corporate Payment Systems division and the lead developer of the system. “Our product allows shippers and carriers to retain control of the process while automating the manual audit, reconciliation exception, dispute and payment processes for freight and all other supply chain activities.”

For the past 40 to 50 years, many shippers have relied on third-party payers to settle their transportation bills with carriers. These firms generally put the shipper’s funds in central accounts and pay the carriers 20 to 45 days after freight deliveries are made.

Third-party payers charge shippers a per-transaction fee ranging from 25 cents to $2.50. They also generate their revenues off interest from funds retained in the shipper’s account.

“These companies walk a tightrope in normal economic conditions,” Langer said. “In an uncertain, low-interest rate economy, like our current environment, the interest income on delayed payments drops and third-party payers get into financial trouble.”

“With long-term shipper payment contracts, the only alternative to ensure adequate revenue for many third-party payers is to delay payments even longer,” he said. “We hear a lot of complaints from carriers who are getting paid by third-party payers as late 45 to 75 days. This situation is a problem for transportation buyers as well, because they receive late payment charges from the carrier.”

Some third-party payers, such as STI and Computrex, have recently fallen on hard times and dissolved their operations. If the current economic slump continues, financial analysts believe other third-party payers will leave the business. Whenever this occurs, a shipper is left scrambling to cover outstanding transportation bills while it seeks a new third-party payer.

“In light of the recent bankruptcies of the third-party payment outsourcers, it is important to ask: who audits these organizations?”

Richard Langer senior VP of business development, U.S. Bank

“PowerTrack has a very straightforward implementation,” Langer said. “The system doesn’t pull the process away. Instead it places it closer to the source of the activity.”

Business-To-Business. Internet-based PowerTrack serves as a central communications point between shippers and transportation providers. The system basically retrieves electronic bills of lading from the shipper’s system and matches them with a carrier’s delivery and invoice information.

U.S. Bank makes the payment to the carrier’s bank account, and sends the shipper an electronic statement summarizing all payments made on the shipper’s behalf. The shipper then pays U.S. Bank within 30 days.

The system allows shippers and transportation providers to view all their trade documents online. It also provides daily statements to carriers, reconciliation of bills, currency exchange management, and tracking of goods from origin to destination.

PowerTrack is also flexible enough to plug into any large companies’ enterprise systems. Smaller companies can access PowerTrack with inexpensive Internet connections.

“In light of the recent bankruptcies of the third-party payment outsourcers, it is important to ask: who audits these organizations?”

Richard Langer senior VP of business development, U.S. Bank

U.S. Bank’s Corporate Payment Systems division is the largest provider of purchasing cards in the world and offers an integrated suite of procurement tools. The operation is also a subsidiary of U.S. Bancorp, the country’s eighth-largest financial services company.

Under this corporate umbrella, PowerTrack must operate under strict guidelines set by U.S. banking laws. The Office of Comptroller of Currency also maintains oversight of the system’s activities. “We’re highly auditable,” Langer said.

Many third-party payers don’t operate under the same rules and regulations. “It’s like depositing large amounts of money with a vendor that has absolutely no regulatory requirements to follow banking rules,” Langer said.


The Military Traffic Management Command, the surface transportation logistics unit for the armed forces, mandated the use of PowerTrack under the Defense Department’s Management Reform Memorandum No. 15, which requires the military to implement electronic systems to automate and standardize its processes with the commercial sector.

Under the former government bill of lading method, commercial carriers would wait 30 to 90 days to get paid through the Defense Finance and Accounting Service’s manual payment process. For a fee of 1 percent, carriers are often paid by MTMC...
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In fiscal year 2001, ending Sept. 30, $1.1 billion in MTMC transportation charges covering 2.7 million transactions were paid through PowerTrack. Today, there are about 550 participant MTMC carriers on the system, including 430 trucking firms, 25 barge operators, 20 pipelines, 20 railroads, and 15 ocean carriers.

U.S. Bank has similarly marketed PowerTrack to shippers as a more efficient tool to pay their transportation providers. In some cases, MTMC carriers themselves have introduced the system to their commercial shippers. Some shippers using the system are Deere & Co., Sunoco, Willamette, Gambio Renal Products, Andersen Corp., Pella Corp., and Broan-Nutone. PowerTrack covers all modes of transportation. Some of the large carriers on the system are BAX Global, YellowFreight, CNF, ConsolidatedFreightways, Old Dominion, and Lykes Lines.

**Cash Flow.** Most shippers and carriers that use PowerTrack said they have significantly improved cash flow through faster payment schedules and discrepancy settlements.

“Whenever a paper invoice comes from a carrier too many people have to touch it,” said Tom Moyer, transportation business analyst for Sunoco’s Chemicals and Lubricants Group in Philadelphia. “PowerTrack eliminates the paper chase.”

Sunoco introduced PowerTrack to its U.S. operations in 2000. The system manages payments to 37 trucking companies for transportation of its mixed and blended lube oils and chemicals at seven U.S. plants and refineries to the end users.

With paper invoices, Sunoco would take upwards of 60 days to pay the carriers. PowerTrack helped the company reduce its payment schedule to three days after delivery. “Discrepancies are settled online. There’s no more looking through stacks of paper,” Moyer said.

Today, Sunoco manages about 120 to 130 transportation bills daily through the system. “PowerTrack works well with our internal processes,” he said. “It makes a lot of sense.”

For some shippers and carriers, however, PowerTrack implementation immediately exposed systemic problems that had been either previously ignored as a cost of doing business or were entirely invisible. U.S. Bank officials said PowerTrack forces users to fix these problems at the source.

In the case of one carrier, U.S. Bank found it routinely failed to invoice for shipments that it hauled and delivered. These non-invoiced shipments amounted to more than $60,000 a month. Before PowerTrack was implemented, the carrier relied on the shipper’s “good will” to tell it about non-invoiced amounts. In PowerTrack the fact that the invoices were never submitted became immediately obvious because the carrier saw unmatched documents from its customer.

“It’s cut down the work at our end,” said Sue Victor, senior accountant for Buffalo, N.Y.-based National Air Cargo, which successfully implemented PowerTrack two years ago. “As far as difficulties for other carriers, I believe it all boils down to how much work they were doing prior to implementing the system.”

“Some carriers simply haven’t realized that the better the cash flow the more money they can make,” Moyer said. “We have a group of carriers that have embraced technology because they know it will be their savior.”

U.S. Bank plans to expand the use of PowerTrack beyond transportation payments to manage all financial aspects of a shipper’s supply chain, such as purchases of goods and services. “We’ve had significant interest from our customers to develop PowerTrack to cover all their supply chain aspects,” Langer said.

In October, U.S. Bank will begin a series of three releases in PowerTrack lasting through December, which will expand the system’s supply chain management capabilities.

PowerTrack Version 3.0 will integrate the user’s contract management with everyday payment functions. Contracts can be submitted to PowerTrack electronically by either the shipper or carrier. Once in the system, contract and associated pricing data can be used to price transactions or to audit records. U.S. Bank believes this function will be particularly valuable to large procurement networks that provide services to hundreds of buyers, sellers and distributors.

In addition to transportation payments, Version 3.0 will provide a new product and service transaction payment interface. Product and service orders and related documents, such as receipts and invoices, will be visible online on PowerTrack.

Version 3.0 will also allow shippers to send their general ledger account codes to PowerTrack and then the system will be able to attach those codes automatically to transactions based on transaction characteristics. The general ledger interface will also support segmented account codes for exceptional expense tracking purposes.

“Our business plan is to take the automation process even further upstream and standardize the procurement process as well,” Langer said. “We are working with several partners right now to deliver that capability.”

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**Payment model timeline comparison**

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Palermo Senator: Feat of clay

Incident proves false alarm, but puts carriers, shippers and federal agencies on notice.

BY ROBERT MOTTLEY, CHRIS GILLIS AND MARK MCHUGH

N o simulation consultant could have put together a more daunting scenario than the one just played out in New York harbor, in which agents from various government sectors scrambled to determine if radiation detected on the Palermo Senator, an inbound containership, posed a public threat.

There were four answers to that question over as many days: “maybe,” “yes,” “possibly,” and finally, “no.”

Though the source of the radiation was believed to be clay tiles, the incident provided chilling questions as to how well-prepared federal agencies, ports, carriers and shippers are to handle the threat of weapons of mass destruction delivered to the United States in a shipping container.

Well-intentioned agencies discovered gaps in communications, decision-making, equipment and knowledge and understanding of the intricacies of maritime cargo. They vow that they will use this false alarm to prepare for the next threat.

American Shipper spoke with participants and witnesses who provided an account on what happened aboard the Palermo Senator.

Early Warning. When the vessel entered New York harbor on Sept. 8, it had been identified “as a possible conveyance of some type of radioactive material,” a U.S. Coast Guard officer said.

Captured terrorists believed to be privy to al Qaeda operations, after being interrogated, had said a containership with a nuclear weapon was coming toward the United States from the Middle East.

The Palermo Senator had sailed from Valencia, Spain. Prior port calls included Jeddah, Saudi Arabia; Khorfakkan, the United Arab Emirates; Pusan, South Korea; Hong Kong; and Shanghai.

“We would have checked the ship for that reason alone,” the Coast Guard source said. After the vessel docked in Port Elizabeth, “our inspectors were walking around, making normal checks, when they heard thumping sounds from the forward section of the ship.

“They first thought that the noises might have come from stowaways in a container. Then, they found it was a lashing bar that had come loose, and was banging against one container.”

When the inspectors resumed their walking around the vessel, their Geiger counters went off around the hatch cover for cargo cells 41-43. The counters were triggered by energy surges that denoted radiation coming from a source eventually found in cell 42.

Immediately, the Coast Guard notified the White House, the FBI, and the Department of Energy. The White House situation room controlled everything that followed.

Stephen H. Vengrow, an attorney with Cichanowicz, Callan, Keane, Vengrow & Textor, said in an interview, “on Tuesday morning (Sept. 10), I got a call from Senator Lines that the yellow flag had gone up from U.S. Customs and that the ship had been essentially quarantined. Operations had ceased, because there were radiation energy surges emitting from some containers on board.”

Senator Lines chartered the Palermo Senator; Hanjin and four other carriers were slot charterers. Reederer F. Laeisz GmbH owned the vessel, which had been built in Hamburg in 1992.

Shooting The Breeze. Vengrow reached the ship by 11 a.m. “What caught my attention immediately was that everyone was milling around, shooting the breeze. There were agents from the Federal Bureau of Investigation, and U.S. Customs, as well as representatives from the U.S. Navy, the U.S. Coast Guard, and the Port Authority of New York and New Jersey,” he said.

Later, more agents would come from the Department of Energy, including members of DOE’s Nuclear Emergency Search Team; the National Oceanic and Atmospheric Administration; New York and New Jersey environmental authorities; and other intelligence agencies.

Vengrow, a 59-year-old ex-Marine, attended meetings held on the ship as a representative of the charterer and owner.

“The Coast Guard chaired the meetings, at first, although that would change shortly. We had objectives to be achieved in so many hours, and then we were given new objectives. The meetings were run military style — you didn’t speak unless it was pertinent.

“There were 26 of us in the room. The meetings were focused, not tense, but there wasn’t much in the way of levity, either,” Vengrow said.

On the increasingly crowded decks, some of the waiting agents sunned themselves and told war stories.

“They were waiting for someone from the Department of Energy with more sophisticated equipment than Geiger counters, to determine the location of the exact source of radiation and how serious it was,” Vengrow said.

Was Vengrow fearful about going on the vessel, given the detected emissions? “I saw all of those agents standing without any protective gear. I wasn’t worried if they weren’t,” he said.

Stage Three. The ship’s master, Karl-Heinz Mehnert, his Russian officers and crew, were kept isolated at first. The INS came on board and gave permission for them to go ashore, but the Coast Guard ordered them all to stay on the ship.

“The master kept his cool,” Vengrow said. “He didn’t like what was happening in the least, but there was nothing he could do. He had no effective say on the ship from the time the radiation was discovered.

“The Coast Guard, more than the other agencies, was very sensitive to his pain, so to speak, but they could do nothing to restore his authority. I saw real fear in the eyes of some of the Russian officers. I supposed they had been through this kind of authoritarian situation in the Soviet days,” Vengrow said.

Tom Allan, chairman of the Maritime Safety Committee of the International Maritime Organization, told American Shipper the abrogation of a master’s authority was consistent with three-stage port security plans developed by the IMO.

“Stage Three is basically, ‘you do as you’re told.’ In that case, a terrorist incident is considered to be an immediate threat,” Allan said.

After the crew on the Palermo Senator was let out of isolation, they stayed out of sight. While the vessel remained dockside, as far as Vengrow could determine, there was no service for any of the ship’s “guests” from the vessel’s galley. The government agents had to go to a nearby fast-food outlet for sustenance.

Later on Tuesday, DOE agents tested the

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cargoes with more sophisticated equipment, and sent the results to a government laboratory in Los Alamos.

A determination was made that the emissions coming from cells 41-43 were not harmful to anyone on the ship if the hatch had to be opened. As for defining the source, the results were “inconclusive.”

“They were getting gamma neutron surges showing up as peaks and valleys on a graph,” Vengrow said. “The surges could have come from anything, earthenware, bananas, television screens or ceramic tile, or a nuclear weapon.”

On Sept. 11, President Bush planned to address the nation from Ellis Island, not far from where the Palermo Senator was docked.

On Tuesday evening, based on the results from Los Alamos, the Coast Guard decided to move the vessel offshore. “The first location of choice was a secret, offshore Navy facility that’s little known and always off limits,” Vengrow said. “Apparantly, there was no response from that base, so the ship was sent to an anchorage six miles out,” near the Ambrose Light station.

Vengrow continued to attend meetings on shore after the ship had been moved to the anchorage. “The Coast Guard chaired the meetings until a moment on Wednesday when the FBI said it was in charge,” he recalled. “The FBI was in constant contact with the White House.”

On the vessel, Sea Marshals patrolled the decks. The FBI established a 1,000-meter security zone around the ship, and ordered any intruders to be shot dead.

Ashore, there was talk of the effects of a nuclear weapon that might explode at sea. If the device were a 1.5 megaton warhead, the fireball from the blast would extend for two miles. If the bomb should be a stolen, aging 20-megaton relic from the Soviet arsenal, the fireball would have touched the Brooklyn and New Jersey shorelines.

Meanwhile, the charterer and vessel owner provided full disclosure of container cell plans and manifests. Yet, very little could be done Wednesday or Thursday on the ship. Winds were gusting, and waves were running six to nine feet. At least three crane operators on shore were asked to sail with cranes on barges to assist in lifting containers. Each refused, citing sea conditions.

Finally, “the DOE brought in secret equipment, 1,000 pounds of it, that pinpointed the location of the energy surges and determined that they were consistent with what could be expected from clay tiles, not a nuclear weapon,” Vengrow said.

At that point, the authorities decided officially that no public threat existed. The Palermo Senator was allowed to return to the harbor, and after the vessel docked, U.S. Customs flagged 40 containers for intensive scrutiny as they were unloaded.

Vengrow was told that the source of the emissions was not opened to confirm its contents, but allowed to pass through the port with seals intact, so that the FBI could trace it further.

**Lessons Learned?** What lessons have the FBI and other security agencies learned from all of this? “To establish a chain of command immediately, with the FBI in full control from the beginning,” Vengrow said.

“There was too much ‘down time’ from the initial Geiger readings until the most sophisticated readings they got on Friday that made them feel secure,” he explained.

“They didn’t have the proper equipment on station — for days I’m writing the FBI myself about that. They went in gradations, but each higher level of equipment they used wasn’t conclusive enough.

“To quote what I was told, this raised more ‘unkowns than knowns.’

“No one made any decisions in those first few days, because the proper people weren’t there to make them,” Vengrow said.

As the meetings continued, Vengrow felt that most of the participants were woefully ignorant of factors affecting maritime cargo. “They didn’t know what a bill of lading was. They didn’t know that containers were sealed before being loaded.”

The FBI agreed that lessons were learned in this incident.

“There’s not a blueprint for every situation we encounter. How we respond depends on the situation or potential threat. Then, the assessment is done accordingly,” said Sandra Carroll, a special agent for the FBI in Newark N.J.

“We stand to learn a great deal from this event,” said Adm. Thomas H. Collins, commanding officer of the Coast Guard. “The lessons learned will include ways to improve information flow, the speed of decision-making, gaps in capacity, and public affairs guidance. I believe that each of these lessons will be useful in establishing greater predictability for the government, as well as the maritime industries.”

“Beyond the lessons learned, such an event serves to point up two clear facts: our ports are vulnerable and they are valuable,” Collins added. “It also highlights the delicate balance between security and free commerce.”

In addition, the incident involving the Palermo Senator may add fodder to the Customs Service’s argument to improve targeting through more stringent advance cargo manifest requirements for carriers and shippers.

“In our efforts to protect the most valuable and vulnerable elements of our maritime frontier, it would be a real strategic mistake for us to build the first line of defense in close proximity to the highest valued targets,” Collins said.

“The Palermo Senator is a case in point. Imagine if we had several such events in the same port at the same time.”

Vengrow, as a lawyer representing ocean carriers, believes that several vessels will be detained or at least delayed at the same time as more such emissions are detected.

“One of the DOE agents at the meetings made a very strong point. He said that if you ploughed under a football field and turned the earth up, you would detect radiation that would cause an alarming response. It’s in the ground — in us — as a matter of fact.”

Cargoes of earthenware, tile, marble, many shipments of which come from Italy, are going to emit energy surges. A 2000 United Nations report, “Sources and Effects of Ionizing Radiation,” said some building materials and soil contain natural radiation sources known as radionuclides. “Upon decay, these radionuclides produce an external radiation field to which all human beings are exposed,” the UN report said.

The event may also require changes to inspection equipment to avoid overreacting to trace amounts of radiation from other kinds of harmless cargo, such as smoke detectors and cat litter.

“As more of this equipment is purchased (by regulatory agencies), more of these kinds of events are going to occur,” said Richard Oxford, sales and marketing manager of Thermo-Electron Radiation Measurement and Protection.

An FBI official agreed with Oxford, adding that the Palermo Senator incident can serve as a wake-up call to industry. Precautionary measures need to be in place, but shippers and carriers need to prepare for an over reactive environment in the immediate future. “This is the type of flag you want raised if you were in that industry,” said Carroll, with the FBI.

The Palermo Senator’s delay could cost the charterers and vessel owner as much as $900,000 or more. Who pays? “I asked at one of the meetings if we could be reimbursed under the National Security Act. I never got an answer,” Vengrow said.

“My firm’s own research suggests there’s nothing in that act that specifically allows for any recovery. Our only remedy is to sue the government under the Tucker Act in the Federal Court of Claims. Still, we had an innocent ship, and good-faith actions by the government. I’m not sure there is any recovery, but that’s a preliminary observation,” he said.
Mastering logistics

MBA programs attract more logisticians.

By Robert Mottley

Post-graduate education in logistics has working value, the kind that can increase paychecks and secure jobs.

That is the chief reason more logisticians are going back to universities for master’s degrees, or for those with less time to commit, certification in logistics disciplines.

Also, “recessions are always good for graduate schools,” said John Thomas Mentzer, faculty leader for supply chain management programs at the University of Tennessee.

Around the country, enrollment has increased in graduate programs to the extent that two in every five logistics managers are reckoned to be considering obtaining a master’s degree.

“Doing so means committing to a timeframe of 16 to 24 months,” said David J. Closs, professor of logistics studies in the marketing and supply chain management departments at Michigan State University.

“People either come to study in residence on campus, or in programs such as Michigan State’s master of science degree, where you are required to have two weeks in residence four times over two years,” Closs said.

Why put in that time? Companies are paying more for master’s degrees. If the average logistics manager with a bachelor’s degree earns $70,000 to $80,000, a master’s degree can mean a salary of $110,000 or more as a general manager, and a better chance of advancement to being a vice president, a position that usually pays in the range of $120,000 to $160,000. Senior vice presidents earn $200,000 and up.

This surge in enrollment “is driven by peer pressure,” Mentzer said. “An MBA is the professional degree in the U.S., considered comparable to a law degree. There’s no question that chief executive officers and chief financial officers accord more respect to logisticians who have a master’s degree. It appears that in many companies, you can’t go beyond a certain point without one.”

Few Corporate Doctorates. While more people are also enrolling in doctor of philosophy programs, most seekers of Ph.D.’s are less interested in corporate life. “Doctorate programs focus on preparing people for academic environments,” Closs said. “Apparently, the feeling is that if you’re earning $70,000 to $90,000 going into a graduate studies program, why put in four years for a doctorate when, employed as a Ph.D. by a college or university, you’ll make essentially the same money.”

“Doctorate programs focus on preparing people for academic environments,” Closs said. “Doctors focus on preparing people for academic environments. There’s no question that chief executive officers and chief financial officers accord more respect to logisticians who have a master’s degree. It appears that in many companies, you can’t go beyond a certain point without one.”

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LOGISTICS

examinations — the dreaded GREs — or similar tests that graduate programs require for admission. “Most people who have been out of college for some time do quite well on the writing sections of such tests, but not on the math portions,” Closs said.

A number of logistics departments, including Michigan State, are convincing their gatekeepers to let would-be graduate students with proven industry experience bypass such tests, or take others that, while demanding, are less daunting.

Bipolar Crossover. It’s still not uncommon, at both graduate and undergraduate levels, for logistics programs to be offered in either engineering or business schools. If they are in the engineering sphere, the focus is on the nuts-and-bolts technique of making logistics systems work optimally in the “real world.”

For logistics programs rooted in business schools, the emphasis is often on management, making logistics systems work in a larger supply chain context.

This division is not a hard-and-fast rule, since there is symbiotic liaison between the camps of engineers and managers. But it does reflect two schools of thinking, and it is fair to say that logisticians oriented toward engineering processes find it hard on occasion to shift to the broader view of managers.

“There is a definite consensus as to what logistics means,” said Jerry Wilson, a professor at Georgia Southern, who noted the definition promulgated by the Council of Logistics Management is widely accepted.

According to the CLM, “logistics is that part of the supply chain process that plans, implements, and controls the efficient, effective flow and storage of goods, services and related information between the point of origin and point of consumption, in order to meet customer requirements.”

However, “there has been no general agreement on what supply chain management really means,” Mentzer said. Wilson and Closs agreed.

“Supply chain management is the umbrella concept over logistics,” Wilson said. “It is also the umbrella over procurement and management,” Closs added. “At Michigan State, we’ve defined supply chain management as occurring when various firms collaborate to leverage strategic positioning and to improve operating efficiency.”

Since the slump in the economy in 2001, both college graduates and graduate students who complete an advanced degree tend to find jobs first with shippers, and then carriers or transportation providers.

Third-party logistics providers are attracting the fewest graduates with bachelor degrees or MBAs. “I’d have to say that 3PLs are in a trough,” Wilson noted.

“Fewer people are going to 3PLs,” Mentzer said. “Third-party providers are not hiring as much, which would explain part of it. Also, smarter shippers have seen an opportunity to pick up smarter people.”

Wilson, who teaches only undergraduates, said that when his students finish college, “we track them as closely as we can. They do pretty well, rather quickly, once they start in the business world. Looking past our own school, I would say that jobs are out there for entry-level people in supply chain management, providing you can learn on your feet and have a nimble mind.”

As employers eliminate mid-management logistics jobs and shift those responsibilities higher on the corporate ladder, there are more opportunities for senior logistics executives who can handle expanded roles — if they can think out of the boxes they were trained in.

Having a master’s in logistics suggests “that you’ve theoretically acquired a broader grasp of supply chain management,” Closs said.

That fits like a glove into the executive reshuffling of logistics that’s occurring in many companies. Instead of maintaining separate budgets and executives assigned to various departments, companies are delegating purchasing, operations, inventory, transportation and warehousing to one person, or to a very small staff working under one instead of two or more senior people.

Also,” if you’re a manager, and want to be a candidate for a senior executive job, you have to be willing and competent enough to take additional roles that would normally be handled by subordinates, at least until the economy recovers,” said Anita Artner, president of Forager, an executive search firm.

Artner’s company recently filled a position for a director of corporate logistics in the Midwest that “combined the roles of at least two individuals,” she said. The previous director, whose strong suit was systems, could not handle an expanded management strategy that involved broadening the company’s infrastructure.

Many U.S. logistics managers, while effective at their tasks, were never trained for the work they do.

“They need to know more about the multiple tasking that comprises supply chain management,” Mentzer said.

“The confidence that comes from having a larger frame of reference than one’s initial training in the business certainly makes it easier to wear several hats at the executive level,” Mentzer said.

Today, more chief executive officers are demanding that responsible employees in logistics departments be certified as professional. Sometimes, that is a requisite for staying employed. Certification requires less time than undertaking a master’s program, and can become a stepping stone in the direction of an advanced degree. It can be done individually, or in seminars arranged by one’s company.

Online certification is possible via a number of organizations. Two of the most reputable are the American Production and Inventory Control Society, based in Alexandria, Va., [(703) 354-8851, www.apics.org], and the American Society of Transportation and Logistics, now part of the National Industrial Transportation League in Arlington, Va. [(703) 524-5011, www.astl.org].
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USAID ships food aid to Southern Africa

U.S.-flag bulk carriers called into action to move shipments to famine region.

BY CHRIS GILLIS

With an estimated 13 million people in Southern Africa near starvation, the U.S. Agency for International Development and its partners in the U.S.-flag vessel industry have mobilized to move food aid into the region.

Southern Africa is experiencing its worst drought in 10 years. Without the urgent delivery of many thousands of tons of food aid in the coming months, many people in the region will likely die.

“The food security situation is increasingly alarming,” said USAID Administrator Andrew Natsios in testimony to the House International Relations Committee in mid-June. “USAID has taken a number of actions that could position the international community to prevent a famine, not respond to one.”

USAID watched the famine start to spread in Southern Africa, especially in Malawi, Zambia and Zimbabwe, in early 2001. Since the beginning of 2002, the U.S. government has provided 290,000 metric tons of food at a value of $144 million to the region. This food aid included large volumes of com meal, whole corn, vegetable oil, beans, peas, corn-soya blend and coms oil — enough to feed about 9 million people for a month, USAID said.

The first USAID shipment to Southern Africa was transported in May. U.S.-flag dry bulk vessel Liberty Glory, which is operated by Liberty Maritime Corp., moved 33,230 metric tons of corn, beans and vegetable oil. The vessel first stopped at Tanzania’s Dar Es Salaam seaport to unload food aid for delivery to Malawi and Zambia. The remaining 9,890 metric tons was delivered to Maputo for Mozambique.

USAID then chartered the Liberty Star, another Liberty Maritime U.S.-flag dry bulk vessel, in June to move another 36,450 metric tons of food aid, including corn, coms oil meal and commeal, to Southern Africa.

On June 10, the U.S. government announced the release of 275,000 metric tons of wheat from the Emerson Trust, a food reserve for urgent humanitarian need. This wheat was exchanged for about 160,000 metric tons of corn, beans and vegetable oil, equal in value to the wheat, and used to provide food assistance to Southern Africa.

The agency secured the release of another 300,000 metric tons of food aid from the fund in late August.

The Emerson Trust is an emergency food reserve available for humanitarian relief in developing countries, which is administered by the U.S. Department of Agriculture. The reserve was reauthorized through 2007 by the 2002 Farm Security and Rural Investment Act.

“Prior to the recent releases, the reserve held 2.5 million tons of wheat,” USDA said. “Up to 4 million tons in any combination of wheat, rice, corn or sorghum can be held in the reserve.”

TECO Ocean Shipping, another U.S.-flag dry bulk vessel operator hired for charter by USAID, moved 33,500 metric tons of food aid on its vessel, Marie Flood, to Southern Africa in late July. Liberty Maritime vessel, Liberty Sea, moved 41,500 metric tons to region in August. The Liberty Grace moved another 46,000 metric tons of USAID-financed bulk corn in September.

“Over the next nine months, we expect to send additional cargo,” said Michael L. Yarrington of USAID’s Southern Africa Drought Task Force, based in Washington.

Due to U.S. cargo preference rules, 75 percent of all food-aid procured by the government must be shipped on U.S.-flag vessels. Only 25 percent of this volume is permitted to move on foreign-flag ships. (For more information about how the program works, refer to March American Shipper, pages 30-36.)

The agency is concerned, however, that U.S.-flag dry bulk vessel capacity could become more difficult to obtain later this year.

Assessing Southern Africa’s needs

<table>
<thead>
<tr>
<th>Country</th>
<th>Populations in need*</th>
<th>Cereal food aid needs thru 3/03</th>
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<tbody>
<tr>
<td>Zimbabwe</td>
<td>5,263.0</td>
<td>6,075.0</td>
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<tr>
<td>Malawi</td>
<td>543.0</td>
<td>2,142.0</td>
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<td>Zambia</td>
<td>467.0</td>
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<tr>
<td>Mozambique</td>
<td>355.0</td>
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<tr>
<td>Lesotho</td>
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<td>315.2</td>
</tr>
<tr>
<td>Swaziland</td>
<td>0</td>
<td>144.0</td>
</tr>
<tr>
<td>Total</td>
<td>6,943.2</td>
<td>11,098.2</td>
</tr>
</tbody>
</table>

*Anticipated populations and food aid needs between June 2002 and March 2003 are based on World Food Program/Food and Agricultural Organization assessments during April and May 2002.

Source: U.S. Agency for International Development.
“In the fall and late summer, we often see the market tighten up and prices on charters go up,” Yarrington said.

USAID recently chartered its first foreign-flag vessel, operated by Denmark-based Copenship, for a 14,000-metric-ton shipment of bulk corn to southern Africa.

Over the years, U.S.-flag carrier executives have voiced concern in general about the management of grain trade programs sponsored by USAID and its counterparts at USDA.

“Government grain tends to move in just a few months at the end of the government’s fiscal year, while our other business requires a more consistent flow on a month-to-month basis,” said Cliff Johnson, director of business development for TECO Ocean Shipping, based in Tampa, Fla. “Fortunately, our regular customers share their inventory planning with us at a strategic level so we can ensure we cover their requirements while enabling us to support the needs of USAID and USDA.”

USAID and USDA are aware of the problem, but say their hands are tied.

“I wish we could manage everything from a transportation point of view, but there are buyer constraints, PVO (private volunteer organization) constraints and crop constraints,” Yarrington said.

“We’re trying to find innovative ways to accommodate the dwindling U.S.-flag vessel market,” Yarrington said. “For example, we have widened the laydays for vessels from 10 days to upwards of 20 to 25 days in some cases.”

U.S.-flag food-aid carriers, primarily Liberty Maritime and TECO, said they are pleased overall with USAID’s logistics management of the food aid to Southern Africa.

“This is an extremely well-organized effort to provide relief. USAID is handling this in a very disciplined way,” said Philip J. Shapiro, president and chief executive officer of Lake Success, N.Y.-based Liberty Maritime. “USAID is handling this in a very disciplined way.”

The World Food Program, manager of the food aid once it reaches Southern Africa, understands the logistics hurdles of the region. It knows the capabilities of the region’s seaports, and the intermodal transport options. During the severe drought in Southern Africa in 1992, the World Food Program oversaw the distribution of more than 12 million tons of food aid in a 15-month period.

The 2002 famine in Southern Africa is expected to worsen before the end of the year. However, some relief to the drought may come in March 2003 when the new planting season begins, U.S. government officials said.

Philip J. Shapiro
president & CEO,
Liberty Maritime

“This is an extremely well-organized effort to provide relief. USAID is handling this in a very disciplined way.”

TECO Ocean Shipping’s Marie Flood moved food aid to Southern Africa in July.

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AMERICAN SHIPPER: OCTOBER 2002 57
OGordon McNeill, director of global security for Exel, a U.K.-based provider of logistics services, takes his work home in the sense that he must always keep one ear open for breaking news, cell phone at hand.

McNeill, an ex-FBI agent, has responsibility for all of Exel’s operations in regard to security and security compliance for its facilities, as well as any theft-related losses that involve Exel.

From his office in Moorestown, N.J., McNeill has to both enforce and proselytize security for 58,000 employees working at 1,500 facilities in 125 countries.

“I try to sleep at night, bearing in mind that 60-70 percent of the cargo that Exel handles actually travels on passenger-carrying aircraft. That concerns me greatly at all times,” McNeill said in an interview. “I constantly drum into our people that ‘You have to think about your spouse, your children, or your relatives getting on an airplane with our cargo one level below their seats. Your vigilance is not just protecting Exel from liability, but safeguarding the lives of your loved ones and friends who fly. You have to be certain that our internal known shipper protocol isn’t violated in any way,’ ” he said.

“Exel has a very special protocol for determining the identities of shippers. If someone walks through the door of one of our facilities and says, ‘I want to move this particular piece of cargo from the U.S. to Heathrow at London,’ and they’ve never shipped with us before, well, that party is not going to ship with us before we can do a thorough background check,” he said.

To help get the word out, McNeill’s principal assistants include three regional security managers: one in the Americas, one for Europe, the Middle East and Africa, and one for the Asia Pacific region.

Exel also has country managers for security in Singapore, Taiwan, Thailand, China and India.

The company’s regional security manager for Europe, the Middle East and Africa, as well as its Asian country managers, were hired after the terrorist attacks on Sept. 11.

“I had flown from Newark Airport to Heathrow at London on Sept. 10,” McNeill recalled. “I spent the next nine days working in my hotel room, which I never left. Within Exel, we move high-valued cargo very quickly — we don’t allow it to sit. All of a sudden, there was no inbound cargo coming into the U.S. for three or four days.

“We had hundreds of millions of dollars in cargo in our warehouses around the world, and it all had to be secured. There’s an old adage in the cargo business: freight at risk is freight at risk,” McNeill said.

After Sept. 11, McNeill ordered a closer scrutiny of every individual piece of freight coming through Exel’s facilities for signs of any tampering.

“Unfortunately, there’re black holes for cargo all over the world, where you can easily lose sight of shipments.”

Gordon McNeill
director of global security,
Exel

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“There is now a specific audit trail on that piece of freight showing that it was personally inspected by a member of our staff, who then had to sign off on it,” he explained.

“We do both announced and unannounced security audits. If something slipped through, we would take disciplinary measures against whichever employee was responsible for dropping the ball. That hasn’t happened yet,” McNeill said.

“U.S. Customs has pushed back the borders of the U.S. the best they can at this point. They now have agents in place in Singapore, Antwerp, Amsterdam, and Rotterdam and other ports, building databases and targeting containers intended for ocean transit where a shipper isn’t known. This network will be shortly expanded to 30 ports around the world,” he said.

McNeill expects Exel “will be getting our marching orders from U.S. Customs. As soon as membership roles are open in the Customs-Trade Partnership Against Terrorism, we’re going to join that initiative immediately,” he said.

“Within Exel, we are already taking steps in anticipation of requirements to insure that our partners in the supply chain, such as the air carriers, steamship lines, rail lines, and trucking companies we use, are compliant with the regulations,” McNeill said. Exel will also conduct unannounced inspections and audits of its partners in the new initiative. “We’re not just going to accept having a letter sent back to us saying ‘yes, we’re compliant,’ ” McNeill said. “Our message is this: If you’re compliant, your freight will be fast-tracked at the U.S. border. If you aren’t, it’s going to go low and slow.”

Looking beyond the perimeters of Exel, McNeill said, “what has changed the whole security equation for me is that when you have extremists willing to give up their lives, unfortunately you can block them so they can fail eight times in a row and then, if you inadvertently give them an opportunity, they’ll succeed on the ninth try.

“Unfortunately, there’re black holes for cargo all over the world, where you can easily lose sight of shipments.”

Before Sept. 11, for “90 to 95 percent of the theft-related losses that I saw involving our particular freight, we felt that if we pointed the finger of responsibility, it was usually at the air carrier or the ground handling agent,” McNeill said. “I know that was the same for other freight forwarding companies, because of talks I had with their security officials.”

Since Sept. 11, “there’s been a total flip-flop — a remarkable development, and not by coincidence. Today, I’d say that 90-95 percent of theft-related losses are on the
IN AN INSECURE WORLD,
SAFE PASSAGE IS A PRICELESS COMMODITY.

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LOGISTICS

trucking side,” he said. “Maybe thieves realize there’s greater scrutiny at the larger airports, so they’ve shifted to a more vulnerable mode of transportation.”

The majority of truck thefts occur while the actual trucking unit is en route to the port or the ultimate consignee. In most alleged truck “hijackings,” the driver “has either given up the load, or is in cahoots with the bad guys,” McNeill said.

“I recently saw a film at a security seminar of a driver stopping his rig outside of a town and then voluntarily helping thieves pull cargo out of a container. They replaced the weight of the shipment with rocks or sand to make up for the weight loss.

“Such drivers usually bounce from cargo company to cargo company. A lot of times, people who hire them are only looking for a warm body,” McNeill aid. “The only effective deterrent is to screen the background of employees, and check on their prior employment.”

“All of the airlines,” he noted, “because passenger revenues are down, earn about 25 percent of their profit from cargo.”

Preferred Carriers. Last year, Exel called together the airlines it used and “told them we were establishing a preferred carrier program. They had to meet our security standards, or see a decrease in the amount of cargo we would give them,” McNeill said.

This September, in San Francisco, Exel will convene a meeting of the ocean carriers it uses to announce minimum-security requirements for its first preferred sea carrier program.

“We expect that our commercial leverage will put enough pressure on them so they will meet our minimum requirements,” McNeill said.

After a 30-year career with the Federal Bureau of Investigation, of which 21 years were spent in supervisory roles, McNeill retired from the FBI’s San Francisco office in 1997. He became director of security for MSAS, later integrated with Exel.

Within Exel, McNeill reports to Ole Ringheim, vice president of Exel’s airfreight board. “I have total backing through all levels of the company,” McNeill said.

“Everyone understands the seriousness of our situation.

“In my job, it helps to be an overall negative thinker. I have to ask myself, ‘if I were a terrorist, how would I break into such-and-such facility?’ Or, ‘how would I steal from a container, circumventing seals and monitors?’ I have to think all of the time about how to breach our own security systems.”

“When I’ve done enough of that,” McNeill said, “then I may sleep through the night.”

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Dialing, flying, sailing — and hoping

Asset-based, network-operating industries struggle to manage ‘through the cycles.’

BY THEODORE PRINCE

In a recent description of the liner shipping market, Lucio Pompeo, of McKinsey and Co., offered up this analysis: “Over the past 10 years,” he wrote, “it has clearly underperformed the S&P 500 index, failing to recover its cost of capital and creating limited shareholder value, if any.” He went on to hypothesize “possible reasons for this include the industry’s inability to capitalize on revenue opportunities and to successfully manage the business through the cycles.”

These words could just as well have been describing the airline or telecommunications industries. All three are asset-based, network-operating companies that share certain structural and behavioral characteristics. Beyond that, they are all suffering through global economic problems, experiencing losses measured in billions of dollars.

Each is burdened by an orgy of overcapacity that was purchased at high cost when times were better and the outlook rosier. The common problems of these industries tell us there are lessons to be learned here.

The liner shipping, telecommunications, and airline industries each underwent rapid expansion after deregulation. Airline deregulation began in 1976. The current slump is just the latest of several cycles the industry has encountered since then. The Telecommunications Act of 1996 and the Ocean Shipping Reform Act of 1998 resulted in similar trends. In all three industries, carriers sought to achieve economies under newfound market freedoms. These were economies of scale (lower unit costs of production); scope (serving more — or all — points); and density (driving more volume through a fixed network and lowering unit costs even further). Unfortunately, many companies came up with the same strategy simultaneously — and they each assumed astronomical growth rates without other competitors — which, in turn, justified major network expansions. Bullish investors and aggressive lenders now worry about investment value and debt repayment.

The underlying assumptions of these economies are now under scrutiny. The airline industry has been greatly challenged by the ability of consumers to obtain low fares over the Internet. Discount airlines now account for 20 percent of traffic, and the percentage continues to grow. Major airlines are finding their hub-and-spoke networks too expensive to maintain without high fare passengers — but very difficult to scale back without compromising their entire operations.

Liner shipping faces similar problems. The search for economies of scale resulted in deployment of larger ships. These require a hub-and-spoke network that increases expense and shipment uncertainty. Meanwhile, new carriers are entering the trade to take the easier, more profitable cargo — while depressing overall rate levels. Internet pricing — which liner shipping companies have successfully resisted to date — does seem to be inevitable, and it will cause rate levels to decline even more rapidly.

Most transportation companies are frantically looking for ways to cut costs and raise revenue. Ten years ago, American Airlines stopped putting olives in their salads to save $70,000 a year. Now, American is considering selling advertising space on the back of boarding passes — as supermarkets do with receipts.

A number of liner shipping companies have announced cost savings plans. Their vendors, recognizing that such proclamations usually precede requests, demands and pleadings for rate reductions, are waiting for the other shoe to drop. Many vendors have refused these arbitrary actions. Others have consolidated, as have the carriers, to match up size and clout. But even large vendors are not immune to price competition — witness Singapore’s PSA price cuts to compete with Malaysian ports.

Some shippers have confided that they prefer working with carriers who broadcast intended cost savings as these lines are usually seeking business at any rate level. Airlines were able to withstand some of deregulation’s financial rigors by develop-
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ing yield management software. Many ocean carriers are mistakenly hoping for a similar pricing panacea. But today’s Internet has effectively leveled the information playing field, and legalized rate collusion has been outlawed. Price increases are realized in more subtle ways (such as charging for features once included in the base price.)

The “father” of yield management, American Airlines, recently repudiated their revenue maximization strategy for one that maximizes profitability.

Organized price discipline in all three industries is a relic from the past. (Even OPEC, has troubles.) Guidelines for rate increases have been ignored as lines struggle for business. The resignation of Maersk Sealand from the Westbound Transpacific Stabilization Agreement clearly signals that every line must fend for itself in this market. It could get worse. Lines might want to look at the cable industry — which is losing billions although it is usually a local monopoly that has been steadily raising prices.

Liner shipping’s successful growth into other business segments seems unlikely. These companies apparently hope to avoid the commoditization of their base product by utilizing favorable transfer costs. Look better at the expense of other businesses and sales. There is also no guarantee that logistics won’t very soon resemble liner shipping. Two lines are already clear leaders in providing logistics, and two others are well established. New entrants will most likely compete on price.

We have heard many recent references to “unusual accounting” in the telecommunications industry. Likewise, it is difficult to track financial results of liner shipping companies as they are usually part of larger entities that rarely reveal financial transparency. Just as airlines have extensive off-balance sheet financing for airplanes and facilities, shipping companies have developed special purpose vehicles to skew their balance sheets.

Even internal accounting can be misleading. In some liner shipping companies, budgets can be designed to predict positive results for senior management. The bottom line is not necessarily driven by compiling cost and revenue projections — costs and revenues are sometimes fabricated to meet an arbitrarily determined (but inevitable positive) bottom line. Monthly P&L calculations follow the same process. Politically influential trade managers are able to make their trades look better at the expense of other businesses by utilizing favorable transfer costs.

While none of this activity is illegal, it calls into question the ability of management to face and solve tough issues. It also raises the possibility of an interesting phenomenon. In 1999, AT&T replaced the head of its business services division, Michael Keith, because he couldn’t match WorldCom’s profitability — although he had maintained the goal was impossible. We now know that Keith was right. Unfortunately, AT&T destroyed itself in trying to become more like its fraudulent competitor.

Industry turmoil inevitably leads to realignment. Airlines will doubtless be part of the future landscape. United Airlines and US Airways have instituted a code-sharing arrangement in place of their failed merger. Liner shipping companies are beginning to address structural costs (i.e., redundant terminals) in their quest for savings.

Some companies are selling pieces of their business to offset losses and reduce debt (e.g., Qwest selling its yellow pages business and HMM’s sale of its car carrier business.) Merger and consolidation seem inevitable. (Six wireless phone companies are too many. How many airlines and liner shipping companies are enough?) Antitrust concerns, which may have prevented a mega-merger last year, may be overcome today.

Bankruptcy also beckons. This is worse on the remaining companies than the company who files. With reorganization, a company can repudiate contracts (including debt) and greatly reduce its cost structure to become a fierce competitor (e.g., Continental Airlines went through several bankruptcies before becoming the powerhouse it is today. Kitty Hawk is now almost debt-free. US Airways is hoping to follow that strategy.) Equipment lessors can be forced to reduce lease rates — or take back equipment in a market already awash in surplus.

In liquidation, hard assets may not disappear. Assets are often recycled at a cost less than acquisition. Telecommunications companies who contributed to the market glut are being financially rescued — but with much of the massive debt wiped out. A carrier without debt can price close to marginal expense. This often results in pricing that drives other companies bankrupt — further accelerating the cycle of reduced-cost asset recycling.

In today’s unpredictable environment, our industry, like all others, is challenged. Network-operating companies are still an essential component of our economy, but today, more than ever, they require sound management, and creatively conceived business practices — not accounting — to succeed.

Theodore Prince can be reached by e-mail at ted@oax.com.
Brokers, Forwarders & NVOs

By Chris Gillis, cgillis@shippers.com

NVOs need more guts

Paranoia runs deep in the heart of the non-vessel-operating common carrier business. Most NVO executives proudly talk about their newest services. However, when it comes to openly discussing with their peers about ways to improve the overall industry, they run for cover.

Some fear loss of competitive edge, shame of past mistakes, or regulatory retaliation from Washington. Others are simply too concerned about finding their next dollar to look up from their desks.

No matter what the reason, this aversion has worked to the detriment of the NVO industry, now largely fragmented and extremely reactionary to the issues facing the ocean shipping business.

Maybe the next generation of NVO executives will bring the industry out of its shell. But it will take gutsy individuals to set this change in motion.

One of those young NVO executives speaking out is 31-year-old Nelson Cabrera, president of Miami-based neutral consolidator Lilly & Associates International. His company, now in its sixth year of operation, has quickly grown into a 10,000-TEU-a-year NVO in the U.S./Latin American trade.

In August, Cabrera was a guest speaker at a seminar in Miami sponsored by the Florida Customs Brokers & Forwarders Association. The topic was a hot one for NVOs: “FMC Enforcement Issues and Defenses — Where the FMC is now looking, and the steps you can take to avoid steep penalties.”

Cabrera, who admits he was a little nervous about the presentation, held nothing back. He even talked about his own FMC audit experience.

“My not making excuses for myself,” Cabrera said in a recent telephone interview. “We’re a relative newcomer and some things weren’t correct.”

The FMC conducted an audit of Lilly & Associates in January, and fined the firm $70,000. This didn’t count the legal fees and the ongoing expenses, such as hiring a third-party auditor to periodically check the books, which Cabrera’s firm would have to cover.

Cabrera doesn’t despise the FMC or its general mission. “I’m not saying the FMC shouldn’t exist. That’s not in my control,” he said. “The reality is there are laws to be followed.”

Even his dealings with the FMC auditors weren’t bad. “I thought the FMC staff were very professional,” Cabrera said. “They didn’t come with a nasty attitude. The audit process was smooth.”

“I just wish I could have worked with the FMC in an educational environment, not when they were punishing me,” he said.

Lilly & Associates operates in a market where there are numerous small NVOs scratching to make a living. There is also a big problem in Miami with non-licensed and bonded operators.

“I have a lot to lose against illegal operators,” Cabrera said. “But I believe the FMC should hold educational seminars to give these companies a chance to comply. Then those who don’t should pay the piper.”

Cabrera said the problem with the FMC is that when you ask them a question they respond with “look at the regulations.” “That’s very unfair,” he said.

Many attendees at the Florida association’s seminar praised Cabrera for his unashamed remarks. “I can’t remember the last time a forwarder/NVO executive being as candid and sincere as Nelson Cabrera,” said Gregory J. Kritz, regional vice president for Roanoke Trade Services in Miami and education committee chairman for the Florida Customs Brokers & Forwarders Association.

While the NVOs and FMC may want to forge a closer partnership, the agency must meet its statutory obligations with a small budget and limited manpower. “I believe the FMC tries to inform and educate the industry the best it can,” Kritz said.

FMC officials try to attend most industry events to which they’re invited. They make regular appearances before groups, such as the National Customs Brokers and Forwarders Association of America and Pacific Coast Council of Freight Forwarders and Customs Brokers Association.

The agency also receives hundreds of inquiries each month from forwarders and NVOs via e-mail through its Web site (www.fmc.gov) and by telephone. “We answer them all,” said Bryant L. Van Brakle, secretary of the commission.

“The commission has an excellent reputation for responding to public inquiries,” Van Brakle added. “That’s one of the things we pride ourselves on.”

In its 2003 performance objectives report, the FMC made it its goal to acknowledge all inquiries within a day of receipt.

The FMC will explore other ways to extend its outreach. “We’re planning to do even more,” Van Brakle said. “We would like to make our area representatives more available to address various regulatory subjects to individuals and trade groups.”

The agency will also soon roll out an extensive list of frequently asked questions and answers related to ocean transportation intermediaries and the 1998 Ocean Shipping Reform Act on its Web site.

The NVO industry would be wise at this time to increase its outreach back to the FMC area representatives and officials at headquarters, either individually or through one of the two leading Washington-based NVO associations, the NVOCC-Government Affairs Conference or International Association of NVOCCs.

While these groups are heavily focused on Customs’ manifest issues, they have an interest in the activities of the FMC.

Individual NVOs can also obtain FMC compliance assistance through law and consulting firms. Roanoke Trade and Washington law firm Rodriguez O’Donnell Ross Fuerst Gonzalez & Williams, for instance, recently formed a program to provide this service.

“We encourage all ocean forwarders and NVOCCs to periodically review their service contracts, shipping practices, and operational procedures in order to ensure compliance,” the firms said.

Today, there are more than 2,100 NVOs licensed and bonded with the FMC. (It’s uncertain how many operate illegally in the shipping hubs of Miami, New York and Los Angeles.)

Violation of the 1984 Shipping Act, as amended by OSRA, can be costly for NVOs. Violations may incur fines of as much as $27,500 per bill of lading issued. The outcome of an agency investigation could result in hundreds of thousands of dollars, in addition to the negative publicity.

Van Brakle said that contrary to popular industry belief the FMC’s goal is not to collect penalties. The agency prefers to help industry participants stay compliant, he said.

Yet many NVOs choose not to get involved, but still grumble about how they’re mistreated by the FMC. These operators need to take a note from Cabrera: Have some guts! Get involved!
To substitute or not to substitute wood-packaging materials in cargo shipments? That’s a big question that U.S. agriculture regulators and shippers must consider in the coming months as new rules are developed to control pests found in imported wood-packaging materials.

Officials at the U.S. Department of Agriculture’s Animal and Plant Health Inspection Service have linked several recent infestations of wood-eating bugs in American forests to untreated wood packaging from overseas. The devastation has become increasingly prevalent in and around the nation’s cargo hubs.

“The costs of damage from and mitigating the damage from these pests caused APHIS to reconsider earlier phytosanitary regulations that were not designed for handling the elevated pest risks under the current expansion of trade,” said David Bergsten, a toxicological analyst for the Riverdale, Md.-based agency.

In mid-August, APHIS initiated a study into how it could most efficiently counter the spread of pests in wood packaging, such as crates, dunnage, spools, pallets and packing blocks, in addition to logs and lumber.

One of the most drastic measures APHIS officials will consider is the requirement of non-wood-packaging materials, such as rubber, metal and plastic, for cargo shipments. “Certainly, from both an environmental and pest risk perspective, the transition to substitute packaging materials should constitute a desirable regulatory objective,” Bergsten said.

APHIS officials acknowledged the dominance that wood packaging has in international shipping today. This material accounts for about 95 percent of all cargo that requires wood packaging. “Substitute packing materials may increase their market share to as much as 10 percent in the near future, but present indications are that any transition to these materials will occur gradually,” Bergsten said.

No Substitutes. Members of the National Wooden Pallet and Container Association are opposed to any mandatory use of substitute packaging for cargo.

“Obviously our members have a major stake in ensuring the perpetuation of America’s forests — and American shippers have a significant interest in assuring widespread continued access to wood pallets and containers,” said Bruce N. Scholnick, president and chief executive officer of the Alexandria, Va.-based group.

“Our members use low-quality lumber that is a byproduct of other primary wood products such as furniture and construction materials,” he said. “Were it not for the shipping platforms and containers manufactured by our industry, this low-quality lumber would largely be discarded.”

About 450 million wooden pallets are made or refurbished in the United States each year. A new standard pallet, measuring 48 inches by 40 inches wide, costs about $11 to $12, while a refurbished pallet cost about $4 to $7.

Scholnick called APHIS’s proposed mandate of substitute packaging “unrealistic.” “Alternative material pallets simply do not exist in quantities that would come close to meeting the needs of international shippers,” he said.

“Our industry is ready, willing and able to comply with whatever reasonable regulations are introduced,” Scholnick added. “However, it is not reasonable to propose alternative requirements that would destroy the wood pallet industry.”

Environmental groups strongly support the use of more substitute materials for cargo packaging.

Faith T. Campbell, director of the invasive species program for the Washington-
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based American Lands Alliance, said that while non-wood packaging materials were more costly, they would be easier for government regulators to track and would encourage shippers to use them more efficiently in their supply chains.

Some analysts question the environmentalists’ arguments for substitute packaging, especially when it comes to disposal. “In my view, the advocates of substitute materials have not adequately considered the lifecycle of these materials,” said John J. Healy, CEO of Washington-based consulting firm 360 Solutions Group, which specializes in international shipper supply chain improvement.

“There’s nothing wrong with strong arguments for or against particular types of packaging,” said Jan Fredell, president of Stockholm-based wood pallet manufacturer Fredell Travaru AB, and chairman of the National Wooden Pallet and Container Association. He is also treasurer emeritus of the Federation Européene des Fabricants de Pallettes, the umbrella group that represents the European Union pallet-manufacturing base. “But at the end of the day we will prove that wood packaging is the best environmentally.”

The Beetles. Regulations for logs, lumber and other rough wood materials were first created by APHIS in the mid-1990s after the agency found pests in shipments from Chile, New Zealand and Far East Russia. Wood packaging from Canada and Mexico were excluded from the rules.

The agency’s rules (7 CFR subpart 319.40) require wood packaging to be debarked. If it has not been debarked, shippers have the option to treat these materials by:

- Heat-treating to a core temperature of 71 degrees Celsius for 75 minutes.
- Fumigation.
- Chemical treatments with preservatives approved by the Environmental Protection Agency.

Shipping documents must certify that wood packaging has been debarked or treated by one of the acceptable methods.

Public concern about invasions of foreign wood-eating pests took off in 1996 when the Asian longhorned beetle began killing trees in New York and Chicago. The insect, which was transported in untreated wood packaging from China and Hong Kong, has no natural predators in North America and could result in billions of dollars in lost forests if left unchecked, scientists said.

APHIS issued regulations in 1998 mandating treatments for all wood packaging from China and Hong Kong. Phytosanitary certificates must be backed by treatments, which include heat, methyl bromide fumigation, or chemical preservatives, from the Chinese government.

During the past two years, more exotic pests linked to untreated wood packaging have appeared in the United States.

The Forest Service recently found pests in lumber, logs and wood packaging from northern Mexico. Later this year, APHIS is expected to require Mexico to meet the current U.S. wood-packaging treatment rules.

APHIS also found the Japanese wood borer in nursery stock in Connecticut. In July, the emerald ash borer from Europe was found in five counties around Detroit and across the U.S./Canadian border in Windsor, Ontario. Also in July, the agency’s inspectors in Indiana discovered wood boring moths in wood containers from Spain.

“Our industry is ready, willing and able to comply with whatever reasonable regulations are introduced. However, it is not reasonable to propose alternative requirements that would destroy the wood pallet industry.”

International Standards. The United States isn’t alone in its desire to keep wood eating pests in check. Canada, China and the European Union have also recently implemented wood packaging rules of their own.

Shippers, transportation intermediaries and carriers have become frustrated by the proliferation of national and regional regulations to control the movement of untreated wood packing for cargo.

To remedy this concern, the United Nations Food and Agriculture Organization’s International Plant Protection Convention (IPPC) Secretariat in Rome developed an international standard to control pests in wood packaging.

The IPPC became involved in the development of the standard following the Uruguay Round of the General Agreement of Tariffs and Trade, which led to the Agreement on Application of Sanitary and Phytosanitary Measures.

An IPPC working group met in Ottawa in June 2000 to begin laying the groundwork.
for an international wood-packaging standard. In March 2002, the IPPC released its “Guidelines for Regulating Wood Packaging Materials in International Trade.”

The standard promotes heat treatment of wood packaging at 56 degrees Celsius for 30 minutes or fumigation by methyl bromide as the most efficient ways to destroy wood pests. Other methods, such as chemical pressure impregnation, are considered effective ways to eliminate wood pests, but more scientific data must be gathered.

The standard also supports the use of a standard marking for treated wood packaging. However, it will be up to the national plant protection organizations to audit shippers and to ensure that authorized wood-packaging facilities are performing the proper treatments.

The United States and 114 other countries are signatories to the IPPC standard, but it’s up to the individual countries on how far to use the standard in their national regulations.

**IPPC Preferred.** Because of the wide range impact that new wood-packaging rules would have, APHIS is required under the 1969 National Environmental Policy Act to conduct a comprehensive analysis of alternatives.

**“At the end of the day we will prove that wood packaging is the best environmentally.”**

Jan Fredell
president,
Fredell Travaru AB

In addition to the proposed exclusive use of substitute packaging, the agency must consider the effects of taking no action, universally applying its rules for wood packaging from China, or adopting the IPPC standard. The public is invited to submit comments to the agency in the coming months.

Industry officials generally prefer the use of the IPPC standard to control pests in wood packaging.

“We’re concerned about getting wood packaging to move uniformly and cost effectively though the international supply chain,” Healy said. “Otherwise, it could put some shippers at a competitive disadvantage.”

“U.S. regulations must be considered in the broad context of existing shipping practices and the history of the harmonizing efforts of international groups like the World Trade Organization with the Food and Agriculture Organization,” Scholnick said. “Those groups have worked together for years on the IPPC to assure the elimination of pests without impeding global trade. Their research, discussions and conclusions must be part of America’s decision-making process.”

APHIS officials said the IPPC standard, so far, has the best potential for implementation in the United States.

“APHIS feels adopting the IPPC standard is urgently needed,” Nosbaum said. “The treatments in the standard are effective in controlling bark beetles and wood borers.”

“Adopting the IPPC standard would replace the China rule,” Nosbaum added. “Adopting the IPPC standard helps the U.S. achieve harmonized phytosanitary measures developed by international standards-setting organizations, like the IPPC.”

The National Wood Pallet and Container Association is already working with APHIS officials to develop a fumigation certification and audit program in anticipation of the IPPC ratification. The association wants to ensure that manufacturers continue to have access to the broadest range of compliance options, Scholnick said.

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Customs lays first ACE on table

Agency’s project gathers steam as first product, a Web portal, to be launched in October.

By Mark McHugh

For nearly a decade, the U.S. Customs Service’s trade monitoring system, the Automated Commercial Environment, has largely been a concept on paper.

However, in late October, Customs’ Modernization Office is expected to roll out its first deliverable product to the agency.

“We’re going to deliver our first set of technologies that will be a foundation for all of ACE and what ACE will ride on,” said Charles Armstrong, executive director of Customs’ Modernization Office.

The first ACE product will be a Web portal with easy navigation devices, Armstrong said. “Like an Amazon.com, it will be intuitive, and it will have dialogue boxes and pop-down menus, so you don’t have to guess where you are going.”

ACE, which will replace Customs’ current system, the 18-year-old Automated Commercial System, also has been seen as a method of tightening homeland security, since it is accessible in a secure environment attainable by trade and authorities.

As Congress ponders forming the Department of Homeland Security, a proposal that would combine more than 20 federal agencies into one, Armstrong said ACE’s role in homeland security would be invaluable.

“I think ACE will help define a framework for all these agencies to connect to,” Armstrong said. He sees ACE as an imperative in successful international trade, with or without the new homeland security department. “We’re going to have to meet the challenge to share information across all of our business lines to meet that goal.”

Armstrong said his office will participate in a Trade Support Network meeting just prior to delivering the Web portal to Customs. At that meeting, a customs official will demonstrate some of the portal’s capabilities to TSN participants.

The second major release of the ACE project, scheduled for fall 2003, will be the consolidation of release mechanisms used at U.S. land border locations, such as Border Release Advanced Screening and Selectivity, and the National Customs Automation Program. “We are going to bring all of them together under one umbrella,” he said.

Charles Armstrong
executive director,
Modernization Office,
U.S. Customs

“We’re going to deliver our first set of technologies that will be a foundation for all of ACE and what ACE will ride on.”

Since spring, Customs has worked closely with eight trade and transportation agencies to integrate them into the ACE and International Trade Data System environment, ITDS, which underwent pilot testing last year, is often referred to as the “front end” of ACE.

By early 2004, Customs will integrate the first two of those eight agencies into ACE/ITDS system — the Immigration and Naturalization Service and the Department of Transportation’s Federal Motor Carriers Safety Administration.

Following those two agencies, the Food and Drug Administration, the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture will be integrated into ACE. Following them are the U.S. Army Corps of Engineers, the Federal Maritime Administration, the International Trade Commission, and the Bureau of Transportation Statistics.

ACE will use a multilayered set of security devices so that users will be able to define who will be able to see information on their accounts. “We want to preserve its integrity, and we also want to prevent unscrupulous hackers out there from getting into the system and using the information from the system for ill gain,” Armstrong said.

Armstrong said all ACE deadlines will be met, especially since the ACE program is led by the e-Customs Partnership, a consortium of more than 40 technology specialty firms under the leadership of the five managing partners: IBM, Lockheed-Martin Corp., KPMG Consulting, Computer Sciences Corp., and Sandler & Travis Trade Advisory Services.

Armstrong said the corporate practices and qualities these firms bring to the project have added to its development, while insuring quality work. “I think the corporate culture is such that we are focused on delivering, and focused on improving our mission,” he said.

Sam Banks, senior vice president of Sandler & Travis, agreed. “We all work hard together; we push each other.” All participants undergo training sessions under the watch of KPMG, and everyone follows established and professional “ground rules” to prevent infighting.

Customs may have assembled its best and brightest, along with those of the private sector, but that doesn’t always spell out smooth sailing for ACE. Funding needs to be met. Deadlines, too. And, additionally, bureaucracy cannot be ignored.

The General Accounting Office in August observed that Customs lacked “effective cost estimating capabilities.” In the same report, GAO cited what it called, “weaknesses in the process of Customs’ ACE budget estimates, which led to an overestimate of $36 million in a previous request by the agency to fund an increment of ACE.

Customs responded to GAO that by December of this year, it would correct those errors. In a July 31 letter, Christine Gaugler, the agency’s acting director of the Office of Planning, wrote to GAO that, “we continue to pursue efforts to improve our cost estimates.”

Additionally, in the August report, GAO criticized Customs for shifting ACE’s development from five years to four. “This exacerbates the level of project risk,” GAO said.

Another scare came on July 30, when White House Office of Management and Budget director Mitch Daniels issued a memo calling for a freeze on information technology spending.

Eugene Rosengarden, chairman of the ITDS Board of Directors, called the memo a “heads up” measure. “To me, it reflects the director’s desire to ensure that every opportunity is taken to realize cost savings through consolidation of the various programs now underway,” Rosengarden said.

However, the money has flowed, and continues to flow, for ACE. Armstrong noted that the ACE project was appropri-
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AES readies for new phase

Munitions and Commerce Control List exporters will soon file all shipment data electronically.

BY CHRIS GILLIS

The days of paper shipper’s export declarations are coming to an end in the United States.

The Census Bureau’s Foreign Trade Division is expected to propose regulations this month that will push the nation’s exporters toward mandatory electronic filing of shipment data through the government’s Automated Export System (AES). The first shipments subject to the new regulations will be those controlled by the State and Commerce departments.

“If exporters of munitions and other licensed commodities send us paper declarations after these new regulations take effect, their shipments will be considered illegal in the eyes of the government,” said Gerard J. Horner, chief of Census’ AES Branch, based in Suitland, Md.

For many years, Census has had an interest in eliminating the hundreds of thousands of yellow-colored paper export

Ending Option 3 in AES

Census says use of filing option by industry doesn’t justify continuation.

SUITLAND, Md.

The Census Bureau may terminate a filing option in the U.S. government’s Automated Export System that allows shippers to file minimal shipment data prior to export, followed five days later with complete information.

Census said the filing option, known as AES Option 3, has been underused by the export industry during the past several years. Option 3 filers have also repeatedly failed the agency’s compliance tests.

“There’s simply too many problems with supporting Option 3,” said Gerard J. Horner, chief of the AES Branch for Census’ Foreign Trade Division. “The two transmissions per shipment makes it too difficult for filers to comply.”

Census developed Option 3 several years ago as part of a four-option AES-filing strategy to accommodate various export-filer concerns. Option 1 requires all shipment data in paper form prior to export. Option 2 requires all shipment data filed electronically in AES or the Internet version, AESDirect, prior to export. Option 4 allows certain approved exporters to file their data electronically 10 days post-departure.

Census has 53 filers registered to use Option 3. Most of these filers are freight forwarders with power of attorney from their exporter clients. These filings account for about 29,000 filings of a total of 735,000 filings a month, or less than 4 percent of annual AES filings, the agency said.

Census will propose the termination of Option 3, along with several other minor systems changes, in its proposed mandatory AES filing rules for State and Commerce Department licensed exports due out in October. “These rulemakings are good opportunities for us to make changes and clean up any problems with the system,” Horner said.

Option 4 may also face termination in the near future. The 2002 Trade Act calls for complete export data for all waterborne cargo filed to the government prior to exportation. Option 4, which has 2,500 about approved filers, covers about 20 percent of annual AES filings.

“The Secretary (of Treasury) shall solicit comments from and consult with a broad range of parties likely to be affected by the regulations, including importers, exporters, carriers, customs brokers, and freight forwarders, among interested parties,” the Trade Act said.
declarations submitted by the industry each month.

The agency, which is charged with compiling the country’s trade statistics from these documents, said that one out of every two paper declarations contains errors. Sifting through mounds of paper export declarations has also made it challenging for Customs inspectors to intercept illegal exports before they leave the country.

To reduce the paper burden, Census and Customs jointly developed AES. The system became operational in July 1995, but it took several years of refinement and inducements to get the export industry on board.

AES has since become the sole means for many exporters and their freight forwarders to report export data to the government. A strict system of edits has reduced the data error rate from 50 percent to 6 percent, Horner said.

AES now accounts for 84 percent of U.S. exports reported. Still, thousands of paper export declarations are filed to Census each month. The agency, as well as some lawmakers, believe that the voluntary industry use of AES may allow some dangerous exports to slip past regulators undetected and end up in the hands of rogue nations or terrorists.

In 1999, Congress passed the Consolidated Appropriations Act, which called for a study into the feasibility of mandatory filing in AES. The secretaries of Commerce, State, Defense, Energy and Treasury, in addition to the Central Intelligence Agency director, oversaw the study. They reported to Congress in July 2000 that the AES could handle mandatory filing requirements.

The same legislation also included the so-called Proliferation Prevention Enhancement Act, which called for mandatory AES for exporters with items regulated by the State Department’s U.S. Munitions List and the Commerce Department’s Commerce Control List. In a report to Congress last June, Census said AES could securely handle this sensitive data.

For the Commerce Control List shipments, Census and Customs have programmed tighter edits for the Export Control Classification Number (ECCN) data field in AES. To cover the State Department’s needs under the International Traffic in Arms Regulations, the agencies added data fields in the system to collect:

- Registration codes assigned by the State Department’s Office of Defense Trade Controls (ODTC).
- “Yes” or “no” indicators for the shipment of ODTC significant military equip-

ment and eligible party certificates.
- ODTC munitions list category codes, quantity and units of measure, and export license line numbers.

Further impetus to move to mandatory electronic filing of export data came recently when Congress passed the 2002 Trade Act.

Section 343 of the legislation orders Customs to develop regulations requiring ocean shipment information to be filed to the government prior to export. Proposed port security legislation includes similar language.

The agency has notified about 1,200 exporters with State Department and Commerce Control List license requirements about the upcoming mandatory filing procedures. Census has also addressed numerous industry questions in recent months through seminars held around the country, and recently set up a test site in AES.

Once the proposed rules for mandatory AES filing for State Department and Commerce Control List exports are published, the industry will have 60 days to comment. When the rules are finalized, the industry will then have 90 days to comply. This could occur as early as March 2003, Horner said.
NVOs find freight outside the box

Transportation services for project cargo proves profitable niche.

By Chris Gillis

For neutral non-vessel-operating common carriers, full-containerload and less-than-containerload services are no longer enough to stay ahead in the business.

Many operators in recent years have added a new dimension to their transportation services menu — project cargoes. These are shipments that are either too large or too heavy for standard-sized ocean containers, or require a combination of container and breakbulk transport services to move overseas.

“The NVO industry may be relatively new to handling project cargo, but they’re moving quickly into the business,” said Jeff Joachim, president of World Trade Distribution, a neutral container freight station operator for NVO freight.

Based in Houston, Joachim has witnessed an increasing number of NVOs in the past two to three years starting to offer project cargo transportation services. His container freight station regularly handles about dozen NVOs with this freight.

Houston is a traditional U.S. export hub for the petroleum and heavy construction businesses. Shippers here routinely move large pieces of equipment to overseas and offshore oil patches.

Project cargo export volumes from the United States have further increased in recent years due to a rise in purchases of used factory equipment by companies in China, Russia and Latin America.

Traditionally, large shippers, freight forwarders and ocean carriers have tightly managed project cargo transportation. However, there are many forwarders and new project cargo shippers that lack a global logistics reach, and may not have the overall cargo volume to command favorable rates on their own from ocean carriers, especially in off-line markets. Some neutral NVOs believe they could help these forwarders and shippers with their project cargo transportation needs.

Joachim said that like the emergence of the full-containerload business in the mid-1990s, the NVOs were “cautious” about venturing too rapidly into project cargo transportation because of concerns about upsetting their forwarder customer base and the ocean carriers. NVOs are now increasingly marketing project cargo transport services.

“The NVOs’ knowledge to manage project cargo transportation appears adequate,” he said. “In a couple of years, I don’t think it will matter if a shipper uses a forwarder or an NVO.”

“It’s somewhat prestigious to have project cargo on your list of transport services,” said Pekka I. Kauhanen, president of Finn Container Cargo Florida Corp., an NVO that specializes in project cargoes. “I think there will be new NVOs popping up in this business. But it’s very risky. You could sink your business and your reputation with a failed project shipment.”

Unlike regular containerized freight, which is priced and shipped rapidly through an NVO’s network, project cargoes may take months to bid and involve years of oversight.

“The vast majority of these shipments take four to six months from rate quote to transport,” said Michael Dye, senior vice president of global sales and services for NACA Logistics (USA).

Through its subsidiaries Direct Container Line, Brennan International Transport and Conterm Consolidation Services, NACA Logistics has been providing project cargo transport services for about 15 years. DCL, for example, began by managing the transportation of amusement park equipment to Japan, but project cargoes weren’t actively solicited by the NVO until 1997.

NVOs with project cargo services must have staff knowledgeable with how to handle these types of shipments and the equipment that’s required to move them. Some NVOs have employees with engineering backgrounds to manage their project cargo operations.

Many NVOs charge in the range of $10,000 to $50,000 per bill of lading to cover their project cargo service costs. Depending on the shipment sizes, logistics requirements and duration of the transportation services, NVOs can generate hundreds of thousands of dollars annually in project cargo-related revenues.

“It’s a good contributor to the bottom line,” said Dye, who estimates that project cargoes account for 5 percent of NACA’s U.S. export revenues today. “We don’t do it for nothing. It’s a lot of work. You have to have enough margin to cover your costs.”

The project cargo transportation business is highly competitive. “Lots of bids go out and not a lot come back. Everyone is hungry for business,” Kauhanen said.

Project shipments dropped off significantly for four to five months after the Sept. 11 terrorist attacks on the United States.

“We were looking at going to a four-day work week, but fortunately we didn’t have to go that route” Joachim said. “The business picked up in March.”

Besides competitive bidding, NVOs’ ability to obtain business is based on their experience and reputation among the tight-knit community of project cargo forwarders and shippers.

Liner carriers have also increasingly en-
FORWARDING / NVOs

countered neutral NVOs with requests for space for project cargoes. Because of the complex loading specifications for these shipments, carrier executives are cautious about which NVOs they will work with.

“We would certainly prefer to go directly to the beneficial owners of this cargo,” said Ed Long, director of project sales for Maersk Sealand in Madison, N.J. “But we will work with those NVOs that specialize in the project cargo industry.”

“We prefer to deal with NVOs with project cargo teams,” said Edward Zaninelli, vice president of transpacific outbound for OOCL (USA), based in San Ramon, Calif. “The NVOs must have all the information so we have no surprises.”

OOCL has made a push into project cargoes during the past year. “We’re going to grow with the NVOs,” Zaninelli said. “They have the ability to work with small and midsized shippers that may have specialty moves, whereas we focus most of our attention on the large shippers with project cargoes.”

Most breakbulk carriers, such as Intermarine, Rickmers-Linie, BigLift Shipping and Jumbo, prefer to work exclusively with the shippers of project cargoes.

“The cargo interest has to evaluate whether NVOs are providing additional value above what they could get from the carriers directly,” said Greg Stangel, vice president of New Orleans-based Intermarine. “It’s our desire to work with the project contractor directly because we design customized transport solutions.”

But some industry officials believe it’s a matter of time before the NVOs become more involved with the breakbulk carriers in project cargoes. “NVOs are sales and marketing entities that could enhance the sales and marketing reach of the breakbulk carriers,” Kauhanen said.

NVOs must also become familiar with the air carrier industry. Some project cargo components require air-freight consolidation services for quick delivery to destination.

While neutral NVOs increase their share of project cargo volumes, large forwarders, such as Kuehne & Nagel, Panalpina, Danzas AEI, and Schenker, continue to dominate the business. These firms prefer to keep as much of their project cargo logistics management in-house as possible.

“Pure consolidators, who are mainly port-to-port shipping operators can hardly comply with all aspects of the demanding requirements of the industry for fully comprehensive door-to-door services, and thus only provide services as lower-tier contractors to the project forwarder, who will always remain the overall responsible contractor to its clientele,” said Nils Wolf, director of corporate projects for Kuehne & Nagel’s Oil & Energy Division.

Kuehne & Nagel, for example, has a worldwide network of 600 offices in 90 countries. “Existing infrastructure is available through this network, which can be complimented by experienced project personnel,” Wolf said.

Trans Global Projects, a project forwarder that’s heavily involved in the petroleum industry, will occasionally call on NVOs to provide support transportation services. “NVOs can serve an extremely good purpose,” said Josephine Treurniet, vice president of Trans Global Projects in Houston. “They may have service contracts to destinations that we don’t have.”

Trans Global recently used Finn Container Cargo to transport a shipment of 36-foot pipe to Tunisia, an off-line market for the forwarder. “All went very smoothly for the client and receiver, and the receiver has since ordered more pipe,” Treurniet said.

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Lozbenko climbs Russian Customs ranks

Former WCO official will encourage modernization of agency’s activities.

BY CHRIS GILLIS

The Russian State Customs Committee affirmed its commitment to building modern operations when it recently appointed Leonid Lozbenko to first deputy chairman.

Lozbenko returned to Russia earlier this year after completing 10 years with the World Customs Organization in Brussels. It was during this time that customs officials and shippers internationally recognized Lozbenko for his progressive views on cross-border management.

He is optimistic that he will implement efficient practices and procedures in Russia’s border clearance activities. He even has the support of Russian State Customs Committee Chairman Mikhail Vanin. But Lozbenko knows the task ahead won’t be easy.

The Russian State Customs Committee is relatively new, emerging from under Soviet rule just over 10 years ago. Rigorous bureaucratic controls and old habits still persist in Russia. The agency also remains largely focused on collections of duties, taxes and fees, providing as much as 40 percent to the Russian government’s revenues.

On his side is Russia’s desire to become a member state of the World Trade Organization. One of the key obligations to be part of the WTO is the implementation of trade facilitation measures.

“We want the Russian customs service to fully comply with the trade regulations of the World Trade Organization as well as with the rules and standards of the World Customs Organization,” said Lozbenko in a recent interview. “We want to become an equal partner speaking a common language with customs services of the most developed countries. We want the Russian customs to provide efficient and convenient services for the industry and foreign investors.”

“The Russian customs must not be some kind of barrier or hindrance for the trade but must be a real partner for the legitimate businessmen facilitating trade,” he said.

The Russian State Customs Committee in Moscow oversees about 63,000 officers spread across offices and outposts in seven regional departments. These departments cover clearance activities in the central, northwestern, far eastern, Siberian, Ural-Altaic, and southern regions of the country.

Lozbenko is responsible for the management of the regional operations, in addition to the agency’s international activities and customs union with Byelorussia, Kazakhstan, Kyrgyzstan, and Tajikistan.

The Russian State Customs Committee has opened offices abroad. Five offices are located in Byelorussia, Kazakhstan, Kyrgyzstan, and Finland. The agency plans to open offices soon in Belgium and Germany.

This year the Russian customs committee opened about 10 modern auto control stations around the country. The largest stations were built in Nyekhoteyevka at the border with Ukraine and Svyatogorsk at the Russian-Finnish border. A new control station opened at the Salla along the Russian-Finnish border at the end of September.

“The Russian State Customs Committee is paying great attention to the development of an up-to-date customs infrastructure along the whole length of the Russian state border,” Lozbenko said. “Otherwise it is hardly probable to secure the growth of foreign trade turnover inevitably pending the admission of Russia to the World Trade Organization.”

The agency also wants to remove administrative barriers in trade by implementing new computer technologies across the entire operation. While modern systems already exist in Russian Customs, the country will receive $14 million worth in credit from the World Bank early next year to further automate its customs operations.

“If things go on the way we are planning, the Russian customs service and its IT (information technology) systems will soon be ready to operate in the framework of the World Trade Organization,” Lozbenko said.

The Russian State Duma (parliament) is also considering the adoption of a new Russian Federation Customs Code. The code was submitted to the WTO, WCO and Russian business associations and unions for their review. The Russian Federation Customs Code will comply with the standards outlined in the WCO’s revised International Convention on the Simplification and Harmonization of Customs Procedures, or Kyoto Convention. “It will be a law meeting the demands of our time,” Lozbenko said.

Youth. Besides regulatory and operational reforms, Lozbenko believes Russia’s cross-border operations will modernize with help from a new generation of customs officers.

Lozbenko’s first assignment when he returned to Russia was to head the Russian Customs Training Academy in Moscow. The academy provides training and refresher courses to about 2,000 officers at a time, in addition to instruction to another 600 officers at its branches in Vladivostok, Roslavl and St. Petersburg. Some officers from the Commonwealth of Independent States also train at the academy.

Lozbenko managed an academy staff of
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about 150 instructors and regularly reported to senior officials of the Russian State Customs Committee and the country’s Ministry of Education.

“In training, we must try to raise the profile of customs,” he told American Shipper late last year. Lozbenko believes that the academy should become a center for research and development for customs operations and policies. Although Lozbenko is now first deputy chairman of the Russian State Customs Committee, he plans to stay involved with activities at the academy and with future training programs.

“I am eager to be involved in the process of education and the growing up of the new generation of young customs officers,” Lozbenko said. “This is part of my responsibilities.”

Industry Outreach. The international shipping industry praised the Russian State Customs Committee for its appointment of Lozbenko to first deputy chairman.

“It’s a brilliant move on behalf of Russian Customs,” said Michael C. Eads, vice president of Washington-based JBC International, and executive director of the Global Alliance for Trade Efficiency with operations in Washington and Brussels. “Lozbenko is a man of integrity and a true visionary.”

“He has a deep understanding of all the issues associated with border clearance,” Eads added. “But more importantly, he recognizes the role of customs from the perspective of business. Customs has to provide a level of service to allow businesses to thrive.”

“The changes he has promoted at WCO can be a benefit not only to Russian Customs but also to Russia’s trading partners,” said Goran Latkovic, program director for the Foundation for Russian American Economic Cooperation. The Seattle-based foundation has spent the past several years working with Russian Far East Customs on the development of an import pre-clearance system, known as the Customs Link Entry/Exit American Russia-Pacific or Clear-Pac.

The Russian State Customs Committee plans to continue improving relations with the shipping industry.

“It is very easy to firmly lock up the home market and by doing so free the local businessmen from any outside competition,” Lozbenko said. “But there is another way — to facilitate the development of legitimate trade, to stimulate the growth of foreign investments, to encourage export-oriented enterprises and to open the home market for modern high technology products. These measures will stimulate the development of the country’s industry, its renewal and modernization.”

“As far as the interaction of the Russian customs service with business and industry is concerned, we hear and listen to their voice so that their aspirations are taken into consideration when we are making decisions,” Lozbenko said.

The Russian State Customs Committee created a consultative council on customs policy, which supports regular interaction between the agency’s management and large shippers and trade group representatives. The agency has also set up a consultative council to address concerns of overseas shippers and trade groups with an interest in the Russian market. Some of these groups include the U.S. Chamber of Commerce in Russia, the European Business Club, and the German Economy Union.

“We have moved forward on establishing true partnership with legitimate trade and industry,” Lozbenko said. “But there is even more to be done in the future.”

WCO task force swings into action

International customs effort underway to improve supply chain security.

BRUSSELS

The World Customs Organization has initiated a task force to find ways to improve international supply-chain security against terrorist acts, while continuing to facilitate legitimate trade across national borders.

The task force was created through a resolution agreed upon by the heads of the world’s customs administrations during a June meeting in Brussels.

“Bringing together customs administrations, intergovernmental organizations, trade associations and those involved in air and maritime transport, the creation of the task force is the first step to develop new guidelines to simultaneously increase supply chain security and ensure the flow of international trade,” the Brussels-based organization said.

The task force will consider improvements to:

• Import, export and in-transit controls.
• Technology and automation.
• Advance electronic filings of customs data.
• Risk management and assessment techniques to examine goods and conveyances.

The WCO received impetus for the task force from the Group of Eight nations and the International Maritime Organization. The WCO will also include a number of aspects from U.S. Customs’ Container Security Initiative, which calls for pre-screening containers before they’re exported overseas.

The WCO said it would take a “multifaceted” approach to developing measures to protect the supply chain. The specific areas of review during the first task force meeting included:

• Identification of key data elements to incorporate in the WCO Data Model to help customs administrations identify “high-risk” shipments.
• Development of guidelines to help create a legal basis for collection, transmission, sharing and confidentiality of data.
• Review of the WCO’s 1972 Convention on Containers.
• Development of guidelines to encourage voluntary cooperation with business.
• A needs assessment tool to help individual customs administrations assess their developmental needs.
• Development of a WCO databank of technical inspection and detection devices.

Kunio Mikuriya, deputy secretary general of the WCO, said the work of the task force should be “treated as matters of top priority” in the coming months. He also said security issues have “the potential to cause distortion of trade patterns and severe damage to national economies,” and that it’s important for customs administrations to have efficient controls.

The task force plans to complete its work by June 2003. While the basic concepts of the WCO’s global supply chain security measures could be applied to any cross-border transport mode, container security will be its most important application. It’s estimated that 200 million containers move between the world’s biggest ports each year.
The debut of large integrators such as United Parcel Service and Federal Express in the ocean freight arena does not bode well for smaller forwarders and transportation providers.

“A shift in business to the ‘big dogs’ in a tight market is going to take some margin from everyone else,” said Joe Pyne, senior vice president, UPS Supply Chain Solutions. “For some companies, that might be the margin they need to survive.”

If the nervous tremors that greeted it are any indication, UPS’s new ocean option for U.S. shippers moving goods from China or Brazil is a warning shot for those whose employment depends on routing imported products through distribution centers to end users.

The new UPS service drastically reduces the need for distribution facilities for imports being delivered directly to customers. A dozen shippers that participated in a nine-month beta testing of the service are keeping mum at present, allegedly because of the uproar it provoked among their own internal logistics managers — who saw the handwriting on the container wall all too clearly.

“Basically, the service is designed to leverage the strengths we acquired in Fritz with what we already had in UPS,” said Chris Maiocco, vice president, marketing services management, for UPS Supply Chain Solutions.

Once the purchase of Fritz Cos. was certain, strategists at UPS lost no time in planning how to best use Fritz’s ocean freight services. “That was a key ingredient into why we needed to buy Fritz,” Maiocco said.

After the purchase, Fritz had no official designation among UPS’s subsidiaries, other than being jokingly referred to “as the NVO no longer known as Fritz,” until it was recently rebranded as UPS Ocean Services Inc.

UPS had not tapped into ocean transportation before Fritz came its way. “We have groups of people who look at product development,” said Lynnette McIntire, a UPS spokesperson. “We also continually listen to what our customers are telling us. From that, we derive what we think are market opportunities. We saw this one on the horizon a while ago.”

Several UPS customers said they wanted a means of shipping packages into the United States that would allow immediate delivery via UPS’s land network.

One customer, a prominent importer of women’s footwear, specifically wanted such a service from Novo Hamburgo, a Brazilian port with a sizeable footprint in the global shoe market.

Other UPS customers who imported ap-
parcel and electronic products from China were similarly interested. Because all of the potential users had established vendor networks on their own or with affiliates in Brazil and China, UPS decided to start its pilot ocean program in those two countries.

The company’s strategists decided to use three Chinese ports: Shanghai, Hong Kong, and Yantian. Goods from those exit points would go to Long Beach, Calif. Given the lucrative Brazilian market for shoes and other products, UPS agreed that Novo Hamburgo was the best port of origin in Brazil — from which cargoes would go to New York.

UPS asked Haight, Gardner, Holland & Knight, an admiralty law firm in New York, to assess the legal aspects of the new ocean option. After months of planning, the beta-testing phase of the new service started quietly at the end of 2001.

Here’s how the service works. Customers in China and Brazil instruct their vendors to bring their pre-boxed goods to a UPS container freight station, where UPS employees label the packages. “Everything must be ready for our label,” Maiocco said. “The goods to be shipped come to us in the customer’s own boxes.”

If the cargo is to go in small packages, they have to meet UPS’s U.S. domestic requirements for that format, each package weighing no more than 150 pounds. Cargo requiring larger boxes is also accepted for LTL (less-than-truckload) routing.

After being labeled, the boxes go into a container. Then, UPS Ocean Services arranges to move the boxed, labeled goods from the container freight station to the port of shipment.

“We do a lot of groupage, full-container loads, or less-than-container loads with different carriers, so we can offer multiple sailings per week out of multiple ports,” McIntire explained.

Does the UPS NVO have a list of preferred ocean carriers? “We have relationships with the top 25 carriers,” said Lynnette McIntire. “We can choose who is best for a particular shipment.”

In Long Beach or New York, the arriving containers clear U.S. Customs under the auspices of UPS — we have the brokerage piece of the puzzle for that,” Maiocco said.

Containers are subsequently taken off the ship and moved to a UPS center near the port — from Long Beach, they go to a UPS facility in Carson, Calif.

“Once a shipment comes into our freight services facility, in the deconsolidation process we determine what portion of it is small package and what portion is LTL,” Maiocco said.

The small packages go directly to a UPS facility where they are put into the UPS domestic network for delivery. “The LTL pieces go to LTL carriers that we use,” he explained.

If importers “don’t know which retail store some things are going to, we can label those packages after a shipment arrives in Long Beach or New York, but that slows the process,” he said.

During beta testing, customers were not troubled by the need of conformity — having to box goods in the way UPS required. “These are things they are used to doing,” McIntire said. “They asked their Chinese and Brazilian vendors to comply.”

UPS’s ocean option is a contractual service, “meaning there are certain guidelines that customers need to meet. When this happens, we can take them into the program,” Maiocco said.

The guidelines include guaranteeing certain minimum volume thresholds, the ability to transport goods from vendors to the UPS container freight station in the country of origin, and legal compliance.

“For example, we have to comply with federal [known shippers] regulations,” he said. “If customers have never shipped with UPS before, there have to be background checks. ‘We want to know who they are and what they are shipping.’

“The new service minimizes the need for shippers to own warehouses,” Pyne said. “That saves the shippers money, which can imperil their existing logistics arrangements. Hence the outcry from some quarters.”

UPS will expand its ocean service “as demand increases,” Maiocco said. “You’ll see a few more ports added by the end of the year.” The third nation in the program is likely to be Japan, which UPS has been evaluating for some time.

Another attraction of the service is that users receive a consolidated bill. “They get a single invoice. They don’t have to negotiate transportation for different legs of the journey and pay all of the separate bills,” Maiocco said.

“We also give shippers the ability to track what’s going on. A shipper and consignee can monitor the progress of their goods — they can see their passage through successive UPS hubs,” he explained.

Customers currently using the UPS ocean service are reporting time savings of 20 days.

For its part, FedEx, UPS’s chief competitor among integrators, started FedEx Trade Networks Ocean-Ground Distribution on Feb. 1, a service that bundled services offered by other FedEx operating companies for customers shipping from Asia and Europe to multiple destinations in North America.

7-Eleven, the first vendor to use FedEx’s Ocean-Ground service, cited “higher sales with lower costs on our Halloween and holiday seasonal merchandise” after a beta test in the fall of 2001, according to Dick Garrison, 7-Eleven’s executive director of non-foods merchandising.

FedEx Trade Networks managed 7-Eleven’s entire distribution process, including ocean freight forwarding and ground transportation. Less-than-truckload freight was handled by FedEx Freight, which delivered shipments to combined distribution centers that served 7-Eleven, and small packages were handled by FedEx Ground, which delivered directly to individual 7-Eleven stores.

Pyne summarized the impact that large integrators can have in the ocean transportation market: “We’re finding that shippers prefer to move goods with a trusted partner, rather than using an entity not previously known to them.”

“Selling new business is very difficult. Even we get more business from customers that we already have,” he added.

Large integrators have “name recognition and deep pockets,” he added. “That counts in today’s climate.”

“If UPS can save you substantial money by reducing transit time for inventory and the need to use a distribution center for imports, then it will be all the harder for you to get away from us,” Pyne said.

Joe Pyne
senior vice president, UPS Supply Chain Solutions

“A shift in business to the ‘big dogs’ in a tight market is going to take some margin from everyone else. For some companies, that might be the margin they need to survive.”

In Long Beach or New York, the arriving containers clear U.S. Customs under the auspices of UPS — we have the brokerage piece of the puzzle for that,” Maiocco said.
International business helps EGL recovery

Dual revenue stream allows Eagle Global Logistics to get back on its feet.

BY PHILIP DAMAS

Like other businesses involved in the U.S. air forwarding market, EGL (Eagle Global Logistics) was hit by the market downturn and the aftermath of Sept. 11, 2001.

The Houston-based forwarder and logistics service provider saw its gross and net revenues fall 10 percent in 2001, while its net results moved into the red. To stem the losses, Eagle cut its U.S. workforce by 17 percent, reduced the number of dedicated leased aircraft from 14 to four, and closed the former headquarters offices in San Francisco of Circle International, the large forwarding company it acquired in 2000.

With the economic shock and restructuring of 2001 largely behind it, Eagle now seems to be on the way to recovery. Second quarter net revenues — gross revenues less the cost of transportation — went up again (see chart). The company broke even during the quarter. And Eagle’s international arm — largely comprised of Circle’s former air freight and ocean freight activities — is enjoying higher growth rates than the U.S. domestic business of the group.

The downturn of the U.S. high technology industry last year triggered a fall in demand for higher yield air expedited services. “Volumes have been back, but not with the same urgency requirement,” said Peter Singleton, executive vice president at Eagle in charge of the Europe, Middle East, Africa and West Asia region, commenting on U.S. trends.

 Expedited air services have been replaced by deferred, 2nd or 3rd-day services moving by truck, he explained.

Eagle’s international activities provide a diversified base for the group. International activities are also more profitable than the group’s U.S. domestic business.

EGL’s revenues, profits 2001-2002
(in thousand dollars)

<table>
<thead>
<tr>
<th></th>
<th>1st Q ’01</th>
<th>2nd Q ’01</th>
<th>3rd Q ’01</th>
<th>4th Q ’01</th>
<th>1st Q ’02</th>
<th>2nd Q ’02</th>
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</thead>
<tbody>
<tr>
<td>Gross revenues</td>
<td>$422,319</td>
<td>$409,201</td>
<td>$414,992</td>
<td>$425,482</td>
<td>$371,999</td>
<td>$402,262</td>
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<tr>
<td>Net revenues</td>
<td>$159,190</td>
<td>$146,032</td>
<td>$171,444</td>
<td>$167,517</td>
<td>$154,120</td>
<td>$163,155</td>
</tr>
<tr>
<td>Net income</td>
<td>($9,051)</td>
<td>($23,172)</td>
<td>($8,802)</td>
<td>$821</td>
<td>($3,917)</td>
<td>$938</td>
</tr>
</tbody>
</table>

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STAYING FLEXIBLE BY BEING PERSONAL

The other word we know is Yes
In fact, international continued to make money for Eagle last year, while domestic incurred losses.

Singleton said the U.S. domestic side continues to account for the majority of revenues of Eagle, but the group’s strategy has become less reliant on this main activity.

“The investment in Circle was a very good investment,” Singleton said. “The international business is the future for EGL.”

Eagle, founded in 1984 by entrepreneur James R. Crane, started as a U.S. domestic air freight forwarder. The takeover of Circle in 2000 was also Crane’s idea — an ambitious move for a young company with little experience of the international arena.

“Jim Crane saw that, if the North American domestic market took a hit, they would need the international,” Singleton said.

International Push. Singleton said the focus of Eagle’s management lately has been to “stop the bleeding” within its U.S.-based domestic business. “Now, we’re looking at the international (business) for expansion.”

In Europe, the group is considering acquisitions, he said. Crane has traveled to Europe four times since the beginning of this year.

In the second quarter, gross revenue for the Europe/Africa/Middle East region rose 12 percent over the second quarter of 2001. The South America region saw gross revenue jump 47 percent, from a small base. By contrast, gross revenue from the North America region was down 7 percent. The Asian region of Eagle posted a 2-percent drop in gross revenue during the same quarter.

Eagle has opened a distribution center in the Netherlands, and centralized its U.K. air freight hub near Heathrow airport at a new distribution center in Hounslow.

Singleton said Eagle is prepared to invest in new facilities and in people. It provides training at its Houston headquarters to senior managers from around the world.

Two American managers have been transferred from U.S. stations to Europe to further the cross-national links within the group.

“There’s a lot more emphasis on the international flavor of the business,” Singleton said.

However, Eagle in the United Kingdom also had to cut staff numbers as part of the group’s restructuring. The British market is regarded as a relatively low-growth, mature market.

By contrast, the group’s activities in South Africa and India have been booming.

“Where we have seen growth is in emerging areas,” Singleton said. China is probably also another major source of additional business for the group, he added.

Integrator Model. Shortly after the takeover of Circle, Eagle told its newly acquired European businesses that it hoped to replicate the U.S. model of leased aircraft and air freight hubs in Europe. The model resembled that of express integrators who, like FedEx, own and control their aircraft.

But Eagle subsequently decided to abandon the leased aircraft model when demand dropped in 2001, to go back to a non-asset-based model.

“We don’t even want to be committed to a long-term leased model,” Singleton said. “We are now a little bit more back to basics.”

But Eagle is planning to develop second- and third-day distribution services across Europe, by buying trucking capacity from others.

The company’s European headquarters has hired Tony Miller, a former Air Express International and DHL executive, to become its vice president in charge of European and road express services.

“(In Europe) we are much more accustomed to a genuine third-party service where we are subcontracting,” Singleton said.

Singleton sees a big difference between the United States and Europe in how forwarding groups look at their customs brokerage activities. In Europe, forwarders have realized that importers are no longer prepared to pay a lot to brokers to handle their customs entries, he said. Forwarders and importers are encouraged to automate customs transactions, rather than work on manual entries with individual brokerage fees.

By contrast, in the United States, forwarders “put too much faith in brokerage as a long-term source of revenue,” Singleton said.

In Europe, customs are only interested in stopping drugs and weapons, not in activities of legitimate businesses, he explained.

“All the customs want (from businesses) is an audit trail so they can have the facilities to check on imports,” Singleton said. “Big companies are not interested in smuggling.”

Eagle has been active in Europe working with large importers to help them automate their customs transactions and move to electronic, periodic reports (September American Shipper, page 54).

Low Rates. In international air freight markets, volumes continue to be sluggish, keeping rates low.

“We’re certainly seeing some softness in the market,” Singleton said.

But the differential between traditionally higher yields on U.S. domestic air freight and yields on international air shipments has narrowed, he said.

Eagle has seen shortages of capacity from carriers in the ocean freight sector.

“In terms of ocean, the main purchasing power was volume,” Singleton said. “That may not be what carriers want any more.”

He said ocean carriers may try to allocate more capacity to smaller niche forwarders, rather than to large forwarders. This goes against Eagle’s policy of developing long-term relationships with ocean carriers, he observed.

Eagle ships about 250,000 TEUs a year worldwide and is among the top 10 air forwarders in many countries.

The market situation of forwarders in both the air and ocean freight international sectors is slowly improving, Singleton reported.
For the first time ever, TransComp 2002 and the International Intermodal Expo are co-locating to become the premier gathering of transportation, distribution, and logistics professionals.

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For additional information about IANA’s Annual Membership Meeting and International Intermodal Expo, please call toll free 1-866-438-Expo (3976) or email iana.expo@intermodal.org. Registration information is available on IANA’s website: www.intermodal.org.

For additional information about TIA’s Fall Meeting, please call (703) 317-2140 or visit the TIA website: www.tianet.org/tia.asp.
DHL defends U.S. citizenship

Responds to filings by UPS and FedEx calling for DOT investigation.

WASHINGTON

DHL Airways Inc. said that when you look at its books, it’s just as American as any of the other major express carrier operators in the United States. The operating arm of DHL group said basically that in a filing with the U.S. Department of Transportation, in response to separate filings by United Parcel Service and Federal Express in August, requesting DOT once again probe DHL’s U.S. corporate citizenship status.

UPS and FedEx first approached the DOT in January 2001, with separate filings asking the agency to examine DHL’s citizenship status. FedEx had also filed a similar complaint at the time with the Federal Aviation Administration. The DOT concluded in May 2001 that the matter did not need to be met in “an enforcement context.”

With FedEx’s and UPS’s filings with the DOT and FAA — along with a successful complaint by UPS to the European Commission — the integrators are not challenging DHL, as much as who’s backing the company.

Deutsche Post, the Bonn, Germany-based logistics and postal giant, purchased an addition 25-percent stake in DHL in the second quarter, raising its stake to over 75 percent in the company. Deutsche Post said it intends to increase its stake in the company to “100 percent in due course.”

UPS successfully contended before the European Commission that Deutsche Post received funds from the German government that were used to finance an aggressive pricing policy to undercut rivals in the private sector between 1994 and 1998. The EC ordered the German integrator to repay 572 million euro (about $543 million) of state subsidies used to illegally cross-subsidize its commercial parcel activities.

Deutsche Post rejected the European Commission decision and pledged to file a suit before the European Court of Justice against the ruling.

“More than DHL, I believe it’s their backers — Deutsche Post — that FedEx and UPS are combating,” said Ram Menen, director of Cargo for Dubai-based Emirates SkyCargo. “This is a very controversial one.”

Citizenship. Air carriers may operate in the United States if they meet U.S. corporate citizenship requirements. In 49 U.S.C. Section 40102(a)(15)(C), to be a U.S. citizen, a carrier must satisfy two conditions:

• At least 75 percent of the voting interest in the carrier must be owned or controlled by U.S. citizens.
• At least two-thirds of the carrier’s board of directors and other managing officers must be U.S. citizens.

DHL said in its Sept. 6 filing with DOT that the company complies with the citizenship requirements.

“DHL Airways continues to satisfy unequivocally the statutory citizenship requirements applicable to U.S. airlines,” said Steven Rossrum, senior vice president and general counsel for DHL. “We find the allegations made by our much larger competitors to be wholly without merit.”

DHL’s filing with the DOT said William A. Robinson, a U.S. citizen, controls 75 percent of the voting stock of DHL Airways. The remaining 25 percent of voting interest is held by DHL Holdings (USA) Inc., a Delaware corporation, although it does not qualify as a U.S. citizen.

Robinson also appoints three-quarters of the airline’s board of directors, each of whom must be a U.S. citizen.

Additionally, DHL said Robinson’s shareholdings in Airways represent 55 percent of the carrier’s total equity; and DHL Holdings has the remaining 45 percent.

“This straightforward corporate structure clearly satisfies the first element of the citizenship test,” DHL said.

But FedEx and UPS disagree. In their DOT filings, they note a March presentation to the Federal Aviation Administration by a senior manager of DHL Worldwide, who said, “DHL Holdings (USA) is a wholly owned subsidiary of DHL International (Brussels).”

“Turf Wars. While there’s no indication when DOT will address UPS’ and FedEx’s complaints against DHL, some in the industry say the integrators are merely defending themselves from foreign corporate invasion. Once a foreign company encroaches upon the interests of another market, they stand to gain leverage by avoiding that country’s citizenship requirements.

Still, others believe that DHL’s and UPS’s criticisms of DHL’s and UPS’s citizenship test, its: “This is an opportunity for DHL to acquire a company like Airborne Express.”

Others in industry see this situation as a time when DOT and U.S. government are being too accommodating to foreign entities.

Joel Ditkowsky, vice president of Freight Brokers International Inc., said he normally doesn’t throw support toward FedEx and UPS, “but at least they are U.S. companies.”

“We make so many overtures to our foreign neighbors above and beyond what they do,” he said. “We’ve done enough for them: let them do something for us.”
Transport / Ocean
By Philip Damas, pdamas@shippers.com

Five fewer niche carriers
Just when the stream of carrier mergers and takeovers had virtually dried out, they have started again.
This time, it is the small, single-trade ocean carriers active on low-volume routes that are being acquired by bigger shipping lines.
In September, A.P. Moller, the parent company of Maersk Sealand and Safmarine, announced the takeover of the niche African liner operator Torm Lines from A/S Dampskibsselskabet Torm. Torm Lines is an operator of direct container and breakbulk services from the U.S. Gulf and East Coast of North America to West Africa.
In August, Seaboard Marine took over the liner activities of Concorde on the U.S./Central America route.
In July, Tropical Shipping took over Tecmarine’s services.
In May, CP Ships acquired Italia, a carrier active in the transatlantic and South American trades.
And in April, Sea Star took over the U.S. mainland/Puerto Rico operator Navieras.
That’s five fewer niche carriers so far since the beginning of the year.

Jacobs believes in NOL
It was encouraging to see that Flemming Jacobs, the group president and chief executive officer of Neptune Orient Lines, the parent company of APL, has bought 100,000 shares in the company.
Jacobs acquired the shares, which have been falling on the stock market, shortly after the group announced a net deficit of $151 million for the first half of this year — its worst result since 1998.
Because Jacobs is a director of NOL, the share purchase had to be reported to regulators in Singapore, where NOL is headquartered.
Seeing a senior executive investing in his own company sends a stronger message than the usual public statements that the company “is an industry leader well positioned for a great future.”

Mega-terminals
Hanjin Shipping and APM Terminals, a sister company of Maersk Sealand, have opened huge new container terminals in South California.
To help people better understand the sizes of the terminals, the operators have introduced a new measurement unit: the football field.
Hanjin Shipping and the port of Long Beach have completed the first phase of construction of the new Pier T terminal. The terminal occupies 288 acres in the current phase 1, and will measure 375 acres when the next development phase has been completed in 2003. This “will be equivalent to the size of 280 football fields,” Hanjin said.
The new APM/Maersk terminal in Los Angeles, Pier 400, opened in August with 343 acres. It will occupy 484 acres in 2004, “equal in area to almost 370 football fields,” APM Terminals said.
Other figures cited by Hanjin and APM Terminals are equally unfathomable without seeing the terminal with your own eyes.
The Hanjin terminal has an initial deep-water wharf of 3,700 feet, due to be extended by 1,300 feet of wharf during the second phase of construction. “This will ... accommodate four world-class vessels simultaneously,” the Korean shipping group said.
The Pier 400 terminal has an initial berth length of 4,000 feet, “capable of handling three post-Panamax vessels simultaneously.”
For those who try to read into the shipping groups’ plans to build larger ships, there are also worthwhile figures on the dimensions of the terminals’ quay container cranes.
Both the Hanjin and APM facilities feature new Post-Panamax gantry cranes that can handle vessels up to 22 containers wide. Hanjin said that this makes them “ready for the industry’s next generation of super-sized container ships.”
The largest containerships afloat today are 17 containers wide.

Transpacific complications
The Federal Maritime Commission will deal with complicated matters during its just-started investigation of alleged malpractices by ocean carriers in the transpacific trade (see article, page 18).
To prove that carriers have discriminated against non-vessel-operating common carriers and other intermediaries, the agency will need to find written evidence and compare the terms of service contracts of NVOCCs and direct shippers in similar circumstances.
To make a credible case, it will probably also have to show a pattern of discrimination against intermediaries. Otherwise, carriers will just say that different contractual conditions are the result of business decisions at the time — not unfair discrimination.
And the investigation will probe into detailed service contract provisions like the “open-ended” clauses on pricing. These clauses allow the ocean carrier to automatically pass on new surcharges or general rate increases to the customer. Were such clauses discussed openly, or did the carrier include them in the middle of a mass of legalese in the contract, hoping the shipper would not read them?
The contractual and discriminatory questions are sensitive, doing-business issues that shippers and intermediaries will be watching.

Port control or financial investment?
European and Asian shipping groups are acquiring U.S.-based stevedores with the same enthusiasm that fueled the takeovers of U.S.-flag carriers Sea-Land, APL, Lykes and Farrell a few years ago.
Nippon Yusen Kaisha, the Japanese shipping line, announced the takeover of Ceres Terminals Inc., the independent terminal operator active on the U.S. East Coast, Gulf Coast, the Great Lakes, Canada and The Netherlands.
NYK’s takeover of Ceres follows acquisitions in recent years of the U.S. stevedores ITO, Gulf Services Inc. and Fairway Terminal Corp. by P&O Ports, a company linked to P&O Nedlloyd Container Line; and the takeover of Sea-Land’s former U.S. terminals by A.P. Moller, the parent company of Maersk Sealand and Safmarine.
The NYK group is the parent company of NYK Line. The Japanese group already operates container terminals, mainly in Japan and on the U.S. West Coast. But, until now, it had not been a major player in the common-user port business.
“With this acquisition, NYK contemplates handling in excess of 6 million TEUs worldwide in 2003, thereby propelling the company into the ranks of the world’s premier terminal operators,” the Japanese group said.
One view is that these takeover decisions are financial investments made by transportation conglomerates that rightly regard ports as safe investments with defensible local market positions.
But it seems that carrier-affiliated groups also want increased control over their marine terminal operations. These groups may also want to build their market positions in the U.S. port industry before fast-expanding independent global terminal operators based in Asia, like PSA and Hutchison, move in.

AMERICAN SHIPPER: OCTOBER 2002 83
**Expedited vessel reflagging**

*MarAd promotes need for U.S.-flag product tankers in international and coastal trades.*

**By Chris Gills**

U.S.-flag product tankers have long been the transportation workhorses for government and military-financed liquid bulk shipments, but they’re getting fewer in number.

The military has already had to transport many bulk fuel shipments on foreign-flag product tankers to overseas installations in recent years, because U.S.-flag capacity was simply unavailable on a spot basis.

“I have a serious problem with this, but it’s not the military’s fault,” said U.S. Maritime Administrator William G. Schubert, who was aware of the problem prior to his appointment to lead the agency last year. “We simply don’t have the excess capacity anymore.”

In August, the Israeli Defense Ministry asked the U.S. government for permission to use foreign-flag product tanker capacity when necessary to transport jet fuel that it bought under a three-year contract from the U.S. Defense Security Cooperative Agency under the Foreign Military Sales Program. The Israeli Defense Ministry is concerned about the reliability of access to qualified U.S.-flag tonnage through 2004.

The 1954 Cargo Preference Act requires that at least 50 percent of non-agricultural government-sponsored cargoes be transported on U.S.-flag vessels. Foreign-flag capacity may be obtained under a waiver from MarAd if U.S.-flag vessels are not available at a “fair and reasonable rate.”

However, the cargo preference rules exclude from eligibility foreign-built ships previously registered under foreign flags that were re-registered under the U.S.-flag until after three years. The Defense Security Cooperative Agency’s rules are even more explicit in that they require 100-percent U.S.-flag carrier transport of goods.

The number of tankers leaving the U.S. flag due to age and tough oil pollution regulations continues to outpace replacement tonnage.

By the end of this year alone, five U.S.-flag product tankers, all about 39,000 deadweight tons and built in the mid-1970s, will be taken out of service, because they don’t meet the double-hull requirements of the 1990 Oil Pollution Act. Another five ships face a similar fate in 2003. All single-hull tankers must phased out of service by 2015.

There are about 50 U.S.-flag product tankers operating today in the international and coastal trades. Most of these ships are unavailable on the spot market because they are already tied to long-term contracts, such as with the oil companies on the U.S. West Coast.

Some shipping analysts warn that without adequate and affordable U.S.-flag product tanker capacity that government and military customers may soon be forced to buy finished petroleum and chemical commodities abroad.

**Expedited Procedures.** Schubert has vowed to lawmakers and the shipping industry that he will take steps to halt the deterioration of the nation’s merchant marine. Uppermost on his U.S.-flag fleet rebuild agenda is to add product tanker capacity in both the international and coastal trades. To start the rebuild process, Schubert recently developed a two-prong program, which he calls the “product tanker initiative.”

On the international side, MarAd met with Coast Guard officials to secure a memorandum of understanding that would allow operators of foreign-built product tankers to switch over to U.S.-flag operations at less cost and delay.

Expedited measures for bringing ships under the U.S. flag are not new. Operators with foreign-built tonnage were allowed expedited approval for U.S.-flag operations under the 1996 Maritime Security Program. Besides meeting the military transportation needs, these vessels must comply with International Maritime Organization requirements and be accepted by internationally recognized classification societies. These vessels must also meet certain age requirements. There are 47 vessels enrolled in the MSP program, none of which are tankers.

The expedited re-flagging process for product tankers takes about 45 days. The

### Major commodities in domestic product tanker trades

<table>
<thead>
<tr>
<th></th>
<th>U.S. Gulf/Atlantic</th>
<th>U.S. Gulf/West Coast*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline</td>
<td>19.8</td>
<td>7.8</td>
<td>27.6</td>
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<tr>
<td>Distillates</td>
<td>8.9</td>
<td>3.9</td>
<td>12.8</td>
</tr>
<tr>
<td>Blending comp.</td>
<td>3.1</td>
<td>3.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Residual oil</td>
<td>4.2</td>
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<tr>
<td>Crude oil</td>
<td>0.9</td>
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</tr>
<tr>
<td>Lube oil</td>
<td>2.6</td>
<td>1.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Tar and asphalt</td>
<td>0.1</td>
<td>—</td>
<td>0.1</td>
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<tr>
<td>Waxes</td>
<td>0.2</td>
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<tr>
<td>Other petroleum</td>
<td>1.2</td>
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<tr>
<td>Other chemicals</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>47.4</strong></td>
<td><strong>26.7</strong></td>
<td><strong>74.1</strong></td>
</tr>
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</table>

* Includes intra-West Coast

**Source:** U.S. Army Corps of Engineers
Coast Guard conducts a plan review of each vessel eligible for re-flagging and gives approval subject to on-site inspections.

Costs to re-flag to the United States are also significantly reduced. “There’s a false impression that to do anything positive in the maritime industry you have to get out the checkbook,” Schubert said.

Unlike the international trades, vessels operating in domestic waters must comply with the U.S.-build requirements under section 27 of the 1920 Merchant Marine Act, also known as the Jones Act.

To increase U.S.-flag product tanker capacity in the coastal trades, MarAd is working with the country’s shipyards to find ways to reduce vessel-building costs. Several operators in the 1990s built new double-hull product tankers in U.S. shipyards at considerably lower rates than what shipyards are charging today. The current cost to build an average size product tanker (between 35,000 and 45,000-deadweight-tons) in a U.S. shipyard is upwards of $85 million.

Other Jones Act operators, such as Seabulk International, Marine Transport and Keystone Shipping, either have ships being built or are expected to place orders with U.S. shipyards.

But cost is still a primary concern for these operators. “I think the prices commonly quoted by the U.S. shipyards are way too high, and will clearly make it difficult to justify building these ships in this country,” said Gerhard E. Kurz, president and chief executive officer of Seabulk International, based in Fort Lauderdale, Fla. Seabulk International is one of the largest U.S.-flag product tanker vessel operators.

Schubert said shipyards must reduce their cost per product tanker vessel to $70 million or less to induce more operators to order U.S.-built ships for the coastal trades.

In addition to high build costs, Jones Act product tanker operators face increasing vessel-building competition from tank barge operators. Tank barges are built in U.S. shipyards for a third of the cost of product tankers, and are easily integrated into the country’s extensive pipeline networks.

Seeking Support. Schubert emphasized the importance of moving this U.S.-flag product tanker initiative forward as soon as possible.

“If we don’t find a way to make this work in the next year, shippers are going to import finished products,” he said. “Once that’s established as the norm, we can’t go back.”

The toughest part in moving this initiative forward, however, is winning full support from the vessel operators and shipyards themselves.

“This is a commendable, well-intentioned initiative on the part of MarAd’s new leadership,” said Gloria Cataneo Tosi, president of the Washington-based American Maritime Congress, which represents U.S.-flag vessel interests.

“Capt. Schubert is aggressively working to increase the size of the U.S.-flag fleet, as well as the vital maritime jobs that go along with it. It demonstrates that no stone is left unturned in seeking out new ways to strengthen our fleet, ship by ship.”

“Anyone in Capt. Schubert’s position has the task and responsibility to support U.S.-flag vessel operations,” Kurz said. “Without the U.S.-flag product tanker ships, this country would be in big trouble.”

Schubert’s product tanker initiative is already showing some results. Maersk Line Ltd., a subsidiary of A.P. Moller/Maersk, was the first U.S.-flag carrier to take advantage of Schubert’s product tanker initiative for the international trade. On Sept. 6, the company re-flagged the 35,000-deadweight-ton Maersk Rhode Island from U.K.-flag to U.S.-flag.

Maersk Line Ltd. began to study the U.S.-flag product tanker market in July 2001. Schubert’s product tanker initiative was good timing for the company. “It certainly made things a lot easier to re-flag,” said Steve Carmel, senior vice president of Maersk Line Ltd. in Norfolk, Va.

Recently in the Jones Act trade, work is underway by Crowley Maritime to win government approval to re-flag the former Stolt-Nielsen product tanker, Stolt Spirit. The ship is docked in Houston and will undergo repairs after a fire damaged the engine room and accommodation in November 1997.

The country’s shipyards, however, are less certain they could meet Schubert’s product tanker initiative under the current economic conditions of the market. Large-size commercial vessel orders are miniscule and once bountiful orders for new Navy ships are declining.

“We would have to encourage a standard design and then find three to four shipyards to build that design. The volume of orders must also go up to bring down the costs,” said Cynthia L. Brown, president of the American Shipbuilding Association in Washington. “Right now, we don’t have that luxury. We can’t build at costs less than our production costs.”

Schubert said he hopes the initiative will “bring people together” from the U.S.-flag vessel operating and shipbuilding industries.

“I’m optimistic,” Brown said. “I think the opportunity is there to be a united industry and get back to the business of rebuilding our maritime nation.”

Seabulk International joins a list of Jones Act carriers either having ships being built or are expected to place orders with U.S. shipyards.
FABC’s quiet voyage

Union-owned carrier ensures U.S.-flag vessels for members.

BY CHRIS GILLIS

First American Bulk Carrier Corp. prefers to operate behind the scenes. The U.S.-flag vessel operator neither maintains an Internet Web site nor engages in marketing campaigns. In Washington, the location of its headquarters, the telephone directory lists the company’s name in the fine print.

“There’s no need for us to take on a high profile,” said John A. Gaughan, president of FABC. “We provide the ships for other U.S.-flag carriers to market as their own.”

While this asset management concept is not entirely uncommon in the transportation industry, FABC’s ownership stands out from its counterparts in the U.S.-flag vessel trades.

In the early 1980s, the Reagan administration suspended the Construction Differential Subsidy program, which resulted in the inability for carriers to build new U.S.-flag tonnage competitively in the country’s shipyards.

The Reagan administration compromised with the carrier industry by creating the “Section 615” program of the 1936 Merchant Marine Act. This established a one-year waiver system to allow operators at the time to construct U.S.-flag-qualified vessels in foreign shipyards and enter them into the cargo preference program without the three-year waiting period.

Most carriers in the U.S.-flag container trades, such as APL, Crowley and United States Lines, and two bulk carriers, OMI Corp. and Apex Marine Corp., took advantage of the Section 615 program.

The maritime labor union Marine Engineers’ Beneficial Association (MEBA) Pension Trust also wanted a piece of the Section 615 program. In 1983, MEBA applied to the U.S. Maritime Administration for two Section 615 waivers. “The application was treated no differently than any other Section 615 permit application. There was no question whether or not the union had the right to do this,” said Warren G. Leback, a MarAd official at the time and now consultant for FABC.

The union’s application also underwent an intense review by the Labor Department to ensure that vessels built from the permits would not injure the pension fund and would be operated at “arms length” from the union. MEBA passed this test too.

MarAd approved MEBA’s Section 615 permits, and FABC was born. In late 1983, construction of the two 2,400 TEU containerships began in a South Korean shipyard. The vessels were delivered to FABC in January 1985.

Turbulent Years. The use of the two FABC vessels was supposed to be simple. They would both be bareboat chartered to United States Lines, the world’s largest liner carriers at the time, for 18 and a half years with an option to extend another five years.

United States Lines operated the two FABC vessels under the names American Ohio and American Georgia. After about two years, however, United States Lines filed for bankruptcy and the vessels were returned to FABC.

In the late 1980s, established container operators showed little interest in bareboat charters. FABC managed to enter a bareboat charter arrangement with upstart Top Gallant, a U.S.-flag carrier created by former United States Lines executives. The premise for Top Gallant’s operations was to secure lucrative contracts with the U.S. military for base cargoes and top off the remaining capacity with commercial freight. Top Gallant used the two FABC ships between the U.S. East Coast and Northern Europe for about two years before it too went bankrupt in 1989.

FABC’s vessels, now named the Chesapeake Bay and Delaware Bay, were arrested and laid up in Bremerhaven, Germany, for about a year and a half until the judge overseeing the Top Gallant bankruptcy ruled that the bareboat chartered vessels were not part of the creditors’ pool.

FABC next chartered the vessels to Lykes Lines from 1990 to 1997 under the names Tillie Lykes and Tyson Lykes. FABC appointed Nicolas Bachko Co. of New York to help manage the time-charters with Lykes. During this time, FABC enrolled the two vessels in the federal government’s newly formed Maritime Security Program (MSP), which provided the company with $2.1 million per ship to make them available on a moment’s notice to the military in times of war or national emergency.

Expansion. In 1997, Lykes slid into bankruptcy, and again, to FABC’s relief, the judge ruled that the two vessels were outside the account of the creditors. The Tillie Lykes and Tyson Lykes were allowed to remain in service to help Lykes bring itself out of bankruptcy and prepare it for purchase by Canadian Pacific Ltd.
When CP proposed to transfer three U.S.-flag Lykes vessels (Lykes Navigator, Lykes Discoverer and Lykes Liberator) under MSP in 1997, MarAd objected because of its narrow interpretation of the cross-border financing provisions in the 1996 Coast Guard Authorization Act. CP-Lykes appealed the decision to the U.S. Transportation Secretary and later to the U.S. Court of Appeals for the District of Columbia.

During this time, the U.S.-flag carrier industry continued to undergo significant change with foreign-based carriers buying up these operations. Singapore-based NOL Group’s APL proposed to form a section 2 citizen for its U.S.-flag vessels in MSP, based on the recommendations from MarAd’s initial CP-Lykes decision. MarAd accepted APL’s section 2 corporate citizen structure.

CP-Lykes then decided to transfer the three MSP slots to FABC. In turn, FABC would assume the bareboat charters of the vessels and time charter them back to Lykes. After a year of negotiations, MarAd approved the transfer in early July 1998.

FABC designated the three Lykes ships First Ocean Bulk Carrier I, II and III, and time-chartered them back to Lykes to operate in the U.S. Gulf and East coasts/North Europe trade. This was also about the time Gaughan was hired by FABC and its subsidiaries.

However, shortly after CP Ships concluded the acquisition of Lykes, the Tillie Lykes and Tyson Lykes time charters were terminated and the vessels returned to FABC as the Chesapeake Bay and Delaware Bay. In 1999, Nicolas Bachko Co. received FABC’s approval to operate the two ships in the spot container market. The vessels served under time charters to Van Ommeren, Lykes and Farrell Lines.

In February 2000, FABC placed the two ships under time charter to Farrell, which many shipping analysts believe saved the carrier from bankruptcy and preserved its

The Delaware Bay and sister ship Chesapeake Bay operate under time charters in P&O Nedlloyd’s Farrell Mediterranean Express service.

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The Delaware Bay and sister ship Chesapeake Bay operate under time charters in P&O Nedlloyd’s Farrell Mediterranean Express service.

Which describes your shipper/carrier prospect file?

A motor carrier or third party logistics firm wants to add new customers. A shipper needs to explore new truck fleet choices.

There’s something each should know. Us. Transportation Technical Services.

Our Directory of Shippers is a strategic compilation of 13,000 logistics executives. The Private Fleet Directory offers complete demographics for ferreting out new freight customers. And, our National Motor Carrier Directory and Carrier Routing Directory offer the shipper community the best coverage of for-hire trucking companies.

In fact, our trucking intelligence is so good, so comprehensive, it all comes with a no nonsense money back guarantee.

For details on our print, CD-ROM and internet access products, go to www.ttstrucks.com or www.fleetseek.com and click on Learn More. You may also call us toll-free at 1-888-ONLY-TTS.

We hope you’ll contact us. Because you can be sure of one thing. You’ll be in good hands.
Gaughan on deck

Former MarAd administrator manages U.S.-flag vessel fleet with hands-on style.

WASHINGTON

Former U.S. Maritime Administrator John A. Gaughan may be president of First American Bulk Carrier Corp., but he doesn’t let you know it.

Gaughan is often so unassuming that when crewmembers aboard the company’s vessels encounter him on deck they may engage in conversation or smoke cigarettes with him long before they find out that he’s the boss. Meanwhile, Gaughan learns enough about the condition of the ships and any crew concerns.

This down-to-earth management style may have something to do with Gaughan’s upbringing — the son of a Maryland lawyer who worked part time in a quarry to make ends meet. He believes it has more to do with an experience during his days as a cadet at the U.S. Coast Guard Academy in the late 1960s. He greeted an upperclassman by his first name. The senior cadet abruptly responded to Gaughan with “that’s sir to you.”

“Whether it was said to be demeaning, I don’t know. But it cut me short. It hurt me deeply,” Gaughan said. “At that point, I made a decision that I would never intentionally talk down to or be dismissive of anyone.”

Still, Gaughan, an attorney himself, is no pushover when it comes to getting the job done. He has long been known in government and industry circles, particularly in Washington, for taking a stand on issues.

“Other then keeping an eye on the ball, I try to stay out of the way,” Gaughan said. “However, if I find that the crew is not doing its job, I have every right and responsibility to step forward to resolve it.”

For 30 years, these personal attributes made Gaughan highly sought after for senior-level appointments in the Coast Guard, Federal Maritime Commission, Maritime Administration, and various other positions in both the Reagan and Bush administrations. In 1998, the Marine Engineers’ Beneficial Association Pension Trust asked Gaughan to oversee its vessel operations.

“I’ve been viewed by others as a behind-the-scenes ‘Mr. Fix-it.’ It works for me.”

John A. Gaughan
president,
First American Bulk Carrier Corp.

access to lucrative U.S. military cargoes. It also made Farrell an attractive U.S.-flag acquisition for P&O Nedlloyd, which acquired the carrier in July 2000 after receiving MarAd’s approval of the deal.

‘Reliable’ Ships. Today, FABC’s two Bay ships operate under time charters in P&O Nedlloyd’s Farrell Mediterranean Express service. The time charters expire in June 2004 with the possibility of extension. Similarly, the three First Ocean Bulk Carrier vessels will continue under time charters with Lykes until September 2005.

Despite the variation of carrier clients during the past 17 years, FABC’s vessels are known in the U.S.-flag industry for their efficient operations. “They’re not particularly fast ships, but they deliver cargoes safely and are reliable as hell,” Gaughan said.

Last year, FABC generated $40 million in revenues. “When reviewing overall operating expenses and cash flow of FABC, the company continues to enjoy favorable return when measured against other sectors of the liner sector,” the company said in its 2001 financial report to MEBA.

During the next two years, FABC will face big decisions about its future in the U.S.-flag container trades. The vessels are aging and MSP is expected to expire on Sept. 30, 2005.

Gaughan said FABC would explore its options. “We have a lot on our plate to consider,” he said.
Eye on ocean shipping taxes

BIMCO tracks tax regimes of 120 countries for more than 30 years.

BAGSVAERD, Denmark

Government taxes are a burden for many industries, and ocean carriers engaged in international trade are no exception.

The Baltic and International Maritime Council, based in Bagsvaerd, Denmark, has been tracking the tax regimes of 120 countries and how they impact the business of ocean carriers and shipowners for more than 30 years.

“Carriers must be aware of their obligations under the contracts of carriage, or charter parties,” said Susan Agerskov, a BIMCO spokesman. “An unexpected freight tax of 5 to 10 percent can turn an expected profit into a loss.”

BIMCO represents about 2,500 maritime firms, of which about 1,000 members are shipowners. To help prevent its members from tax pitfalls, BIMCO annually publishes its Freight Tax Manual, which reviews the maritime tax regimes of about 60 countries.

“One of the tools that we use to determine if there is a potential freight tax involved with a particular country is BIMCO’s handbook,” said Walter Ramirez, a charter broker for Miami-based Oceanfreight International. “It’s very concise and tries to cover as much as possible.”

BIMCO collects most of its ocean freight tax data from local sources overseas, such as port agents. Other sources that provide this information are the International Chamber of Shipping and countries’ tax agencies and embassies.

Income tax rates for ocean shipping fluctuate slightly year-to-year, ranging from 3 percent to 10 percent of the gross freight value.

Tax data helps ocean carriers and shipowners avoid or mitigate tax burdens. Cases where taxes cannot be avoided result in higher freight rates for shippers.

“Knowing if a freight tax is applicable for a particular trade is extremely important because the owner or the charterer must take this into consideration when working out freight calculations or freight ideas for a particular piece of business,” Ramirez said.

“As brokers we are expected by our principals, be it owners or charterers, to be fully aware of the conditions at the respective ports and of the cargoes on which we embark on trading,” Ramirez said. “At times it’s impossible to know it all, but it’s expected of us.”

Carriers and shipowners generally protect themselves from unforeseen taxes when they create their charters with shippers.

“We usually quote business with an inclusive number, including taxes,” said Brian DeRoche, post fixture assistant for CSL International, a Beverly, Mass.-based bulk shipping association said. “Consequently, BIMCO would prefer to see general average preserved, but would provide shipowners with a solid contractual mechanism to allow them, if they so choose, to claim for the other parties’ contributions under their hull insurance policy,” it added.

BIMCO hopes that its standard clause initiative will help to promote a broad move away from declaring general average for small and uneconomic claims in all sectors of the industry.

“The Standard Absorption Clause is designed to be of benefit both to shippers and insurers by avoiding the time and expense associated with pursuing small general average claims,” BIMCO said.

The clause is targeted for use in hull and machinery policies covering all types of vessels, from container ships, bulk carriers, and tankers to cruise ships.

To define the standard clause, BIMCO has worked with insurance underwriters, average adjusters, shipowners and the International Group of Protection & Indemnity Clubs.

Howard McCormack, president of the Average Adjusters Association of the United States, has welcomed BIMCO’s initiative. The standard clause “reflects the commercial resolution of a matter that has caused some angst in the maritime industry, particularly among the container trades where there is intense competition,” McCormack said.

“Due to the complexities of obtaining security for a general average declaration by the vessel owner, the owners and cargo interests have reached a reasonable commercial solution to this problem,” he added.

One of the disadvantages to shipowners of declaring general average is the risk of delay at the discharge port, because general average security must be in place prior to the delivery of the cargo.

In recent years, insurance underwriters and others have called for the general average system to be abolished or substantially amended. The Comité Maritime International is reviewing the provisions of the York-Antwerp Rules, which define the general average rules.
vessel operator. “There is also a clause we have in all our contracts to state that any new or unforeseen taxation which may occur is to be billed to the shipper’s account.”

BIMCO has produced several contractual stipulations used by the carrier industry as clauses for charter parties. These clauses specifically define which contracting party must absorb the taxes.

BIMCO, for example, created a specific clause to address the U.S. government’s 1986 tax reform legislation, which created income tax burdens on non-resident shipowners trading their vessels in the United States. “This clause places the tax burden squarely on the charterers’ shoulders,” Agerskov said.

These contractual stipulations can be found in the BIMCO Forms of Approved Documents publication, which is available to group members and non-members. However, group members can access the specific charter party from the BIMCO Web site, at www.bimco.dk.

Many countries impose taxes against carriers and shipowners based on the economic and political relationships they share with other countries. In other cases, they may impose ocean freight taxes to cover losses to domestic industries by international trade.

These taxes may be implemented in a variety of ways. Some are straightforward, while others are derived through loopholes or technicalities in the tax laws. China and the United States have extremely complex freight tax schemes to determine the assessments.

Most taxes are imposed on carriers and shipowners with export cargo, and in a few cases, they are assessed on both export and import cargoes.

When it comes to assessing income taxes on ocean carriers, carrier industry tax specialists consider South Korea one of the worst. “South Korea will assess taxes on fixtures even if the carrier is not calling on a port in South Korea but has a charterer involved who is Korean,” Agerskov said. “The comparable situation exists in Singapore.”

Some countries have tax requirements for ocean shipping, but fail to collect them. More than a dozen countries grant tax exemptions based on vessel flags. Greece, for example, gives tax-free status to shipowners and carriers incorporated in Argentina, Canada, Germany, Italy, Netherlands, and Norway, irrespective of the vessels’ flags.

Some countries avoid taxing their friendly trade partners through amendments to their laws, treaties or exchanges of diplomatic letters. In a few cases, some countries have stopped taxing carriers and shipowners altogether. Three years after the unification of North and South Yemen in 1990, the 3.75-percent tax collected in South Yemen ports was dropped. “It is not often that countries will drop such legislation, because there is no political motivation to do so,” Agerskov said. “The non-resident companies paying these taxes are not local voters, so the politicians stand nothing to gain by dropping these taxes. Their treasuries will lose the revenues generated from these taxes.”

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**World’s most burdensome tax countries**

(As a % of gross freight)

<table>
<thead>
<tr>
<th>Country</th>
<th>Income tax</th>
<th>%</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>36.00%</td>
<td></td>
<td>36% on assessable income derived from export freight and coastal operations.</td>
</tr>
<tr>
<td>Haiti</td>
<td>Progressive scale 10-35%</td>
<td>10.00%</td>
<td>All regular lines also have to pay a “forfeited tax” of 1% on turnover (50% of freight received), not refundable.</td>
</tr>
<tr>
<td>Poland</td>
<td>10.00%</td>
<td></td>
<td>Levied on all outward gross freight and all freight earned during coastal and/or domestic transportation by foreign flagged vessels.</td>
</tr>
<tr>
<td>Pakistan</td>
<td>8.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>8.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>6.61%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ukraine</td>
<td>8.00%</td>
<td></td>
<td>Only applicable to Indian tonnage.</td>
</tr>
<tr>
<td>Russia</td>
<td>6.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>5.50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>5.00%</td>
<td>5% on inward and outward gross freight earnings.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Baltic and International Maritime Council.

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**LMSR contract with Maersk draws fire**

Two U.S.-flag vessel operators question fairness of $400-million ro/ro contract award.

WASHINGTON

A five-year $400-million vessel operations contract recently awarded to Maersk Line Ltd. by the U.S. Military Sealift Command has drawn criticism from two U.S.-flag vessel operators who allege the contract process was “seriously flawed.”

The vessel operators, Patriot Contract Services and Keystone Shipping Co., have asked the U.S. General Accounting Office to stop the contract and subject the military’s solicitation process to a thorough evaluation.

Under the contract, which was announced Aug. 5, Maersk Line Ltd. would operate and maintain eight large, medium-speed, roll-on/roll-off ships near Diego Garcia in the Indian Ocean on behalf of the Military Sealift Command.

The Military Sealift Command is the ocean transportation provider to the Defense Department. The agency’s pre-positioning program comprises 35 strategically located ships laden with military equipment, supplies and fuel for the Army.

The eight LMSRs in the Maersk Line Ltd. contract are the USNS Watson, USNS Watkins, USNS Red Cloud, USNS Sisler, USNS Soderman, USNS Charlton, USNS Dahl, and USNS Pomeroy. These ships alone carry 33 percent of the Army’s pre-positioned equipment.

Maersk Line Ltd., the U.S.-flag vessel subsidiary of A.P. Moller, operated the military’s LMSRs when they started entering service in October 1997. The eighth LMSR, the USNS Soderman, joined the Military Sealift Command in the fall of 2001.

In addition to the eight LMSRs, Maersk Line Ltd. owns or operates other ships for the Defense Department, including five other pre-positioning ships and 12 surveillance vessels. Maersk Line Ltd. also participates in the government’s Maritime Security Program and Voluntary Intermodal Sealift Agreement. The carrier annually transports about 60,000 TEUs of cargo to support military operations overseas.

Although Patriot Contract Services and Keystone Shipping each have experience operating vessels for the military, attorneys for these firms believe the Military Sealift Command arbitrarily picked Maersk Line Ltd. to operate the eight LMSRs.

Patriot Contract Services, based in Walnut Creek, Calif., is part of the Patriot

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Group, which was formed in 1997. The Patriot Group also includes American Ship Management, a commercial ship-operating firm. The company manages all U.S.-flag vessels owned by APL and manages the ocean carrier’s government contracts.

“PCS is an experienced operator of LMSR ships and also offers substantial additional military and commercial experience in ship operation and maintenance,” the company’s attorneys said in their filing to the GAO.

Keystone Shipping, based in Bala Cynwyd, Pa., is a privately held company, which owns and operates a fleet of 25 U.S.-flag ships. While the company is heavily involved in the transport of crude oil, petroleum products and chemicals, it has increased its government business in recent years through expanding relationships with the U.S. Maritime Administration and Military Sealift Command.

Attorneys for Patriot Contracting Services and Keystone Shipping both pointed out to the GAO that their clients’ contract offers were “millions of dollars” less than Maersk Line Ltd.’s offer.

They also said the Military Sealift Command justified its decision to pick Maersk Line Ltd. by listing a number of alleged flaws during the contract debriefings. The attorneys said some of the agency’s requirements weren’t mentioned during the contract pre-solicitation discussions.

For now, the Military Sealift Command said it could have operated the eight LMSRs under its current contract with Maersk Line Ltd. for another six months, but the agency went ahead with implementing the new more expensive contract.

Rear Adm. D.L. Brewer III, the Navy’s commander of the Military Sealift Command, warned the GAO that disruptions to the operations contract of the eight LMSRs could threaten the nation’s ability to fight terrorism.

GAO is required by law to issue a decision on the protest by early December.
Laredo, Texas, calls itself the “Gateway to Mexico.” But for the last two and a half years, the onslaught of commercial vehicles coming from Mexico has made it look more like a truck stop.

City leaders want that situation to change, because the port of entry has become a bottleneck that may chase business to another port of entry.

Laredo officials have proposed building two truck inspection sites about 20 miles north of two bridge crossings entering town, the World Trade Bridge, and the Colombia Solidarity Bridge. The sites would be immediately beyond Laredo’s commercial zone, a radius that extends 24 miles into Texas from the Rio Grande.

Wait times for incoming trucks had been as long as five hours. The addition of the World Trade Bridge in April 2000 shortened the wait, but trucks can still wait as long as three hours to cross the bridge.

The U.S. Senate, through the 2002 Transportation Department Appropriations Bill, approved funding for the sites’ construction. But the money for Laredo’s sites is frozen.

One holdup is an internal study being conducted by the Texas Department of Public Safety. The study, to be released in October, is looking at environmental factors of building the sites near the bridges. Results of the study will be given to the Federal Highway Administration, who will sign off on releasing the more than $40 million in funds approved by the Senate to pay for the Laredo projects and six other Texas sites under construction.

The study is considering effects on air quality from idling trucks awaiting inspection, affects on local traffic patterns, and how new sites would effect local land use.

A larger issue is a conflict between city and state officials on where to locate the inspection sites.

City officials prefer to have the truck inspection sites north of the bridges after trucks enter the city. They would even settle for having the inspection sites in Mexico; they simply want the inspection stations anywhere but on the bridges.

But Texas authorities, including the Texas Department of Transportation, want to place the inspection sites right at the bridges on the Texas side.

Placing the sites outside of the commercial zone provides escape routes for trucks to avoid inspection, said Coy Clanton, of the Traffic Law Enforcement Safety Division of Texas DOT. “There are five major roadways out of Laredo right there. Twenty-eight miles out is not a border crossing. The most effective place to screen them is at the bridge.”

Clanton and the Texas DOT are not alone. Earlier this year, the Federal Motor Carrier Safety Administration in Washington wrote a letter to Texas DOT, saying it believes “the intent of Congress to ensure border safety at the border would be best served if inspection facilities are placed as close as possible to ports of entry.”

The Commercial Vehicle Safety Alliance, a group of federal government agencies and representatives from private industry, said this year that all commercial vehicle safety inspection facilities should be constructed at border crossing sites, and not inland. “Any sites other than at the border could have the effect of creating a new and expanded commercial zone that could compromise safety on Texas highways,” CVSA said.

Texas DOT has held three public hearings on the issue of where to place the Laredo sites since then. And the process is taking too long, said a Laredo city official.

“We’ve been charged in insuring an effective and efficient trade process to allow for goods going in cities in the United States,” said Rene Gonzales, director of state, federal and international affairs for the City of Laredo. “That is a monkey that has been placed on our back.”

Gonzales said that the City of Laredo would file lawsuits, possibly with the Texas DOT, the DOT or the Texas Department of Public Safety if they are not given permission to build the stations in their preferred sites.

The issue goes back to December 1999, when the Texas DOT issued a resolution calling for building an inspection site in Laredo. With the addition of the World Trade Bridge in April 2000, the wait times for trucks entering Laredo were shortened, but they still had to wait as long as three hours to cross the bridge.
Bridge the state has needed two inspection sites. State officials, preparing for expected traffic from North American Free Trade Agreement provisions that would open the border to incoming Mexican trucks, hoped the site would serve as a prototype for others to follow.

Opening the border to Mexican trucks coming into the United States awaits the approval of the U.S. Department of Transportation and President Bush.

The city has long been a busy stopping point for traffic going north on Interstate 35, also known as “the NAFTA highway." Government reports show the Laredo port of entry accounts for more than 40 percent of all the overland trade between the United States and Mexico.

A transportation executive said inefficiencies in Laredo have long been an issue. "You would be amazed. It’s one of the most inefficient processes I have ever seen," said James Welch, president and chief executive officer of Yellow Transportation Inc. Yellow moves about 80 percent of its traffic from Mexico through Laredo.

Welch said he was surprised that, eight years after enactment of NAFTA, the situation is still inefficient. "What is discouraging is that, since NAFTA, things have not really changed much on the whole clearance process, other than the fact that there is more business,” Welch said.

Some in the industry complain that graft and corruption run rampant among the traffic that waits at the border, compromising safety inspections and Customs processes.

While Laredo waits for guidance, its police, DOT inspectors, Customs inspectors, and even an international entity — the Nuevo Laredo Mexico Trucking Association — conduct truck safety inspections at the roadside as traffic crawls.

**WASHINGTON**

The U.S. Surface Transportation Board wants to speed up its process to resolve large rail rate complaints.

The agency has proposed regulations that would require parties to seek information from each other and mandate the use of mediation before filing rate complaints.

In recent years, the STB has focused on “streamlining and simplifying” its rate-compliant process. However, the agency acknowledged “delays in resolving large rate cases continue to be a concern.”

Since many of the delays in these cases revolve around so-called discovery disputes, the STB has proposed two changes:

- The requirement of standards to obtain discovery more restrictive in large rate cases so that parties would know in advance that they should not attempt to obtain certain types of information.
- The use of informal conferences among agency staff and the parties to “narrow issues in dispute and to provide for prompt rulings on remaining discovery impasses.”

The agency said “a more efficient means of moving a rate dispute toward quick resolution at an early stage is to bring parties together outside of the ad judicatory context.”

The STB proposed that shippers who seek relief from railroads in large rate cases must use non-binding mediation before filing formal complaints with the agency. Under this proposal, mediators would be assigned by the agency to work with parties to try to reach settlements within a specified time frame. The STB would not impose any filing fees for mediation requests, and mediator services would be paid by the agency.

“If parties still were to fail to reach any resolution, the shipper could proceed to file a formal complaint with the board,” the STB said.

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**Uses for printed schedules - Idea #23**

**Step 1**

Start with a printed schedule. Fold in half.

**Step 2**

Fold to the center.

**Step 3**

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

**Finished hat**

Wear hat while checking online schedules at www.compairdata.com
NYK acquires Ceres Terminals

WEEHAWKEN, N.J.

Nippon Yusen Kaisha, the Japanese shipping line, said it will takeover Ceres Terminals Inc., the independent terminal operator active on the U.S. East and Gulf coasts, the Great Lakes, Canada and the Netherlands.

Terms of the acquisition, made under a binding agreement, were not disclosed.

The takeover marks a big push by NYK into the common-user port business. The Japanese group already operates container terminals, mainly in Japan and on the U.S. West Coast.

Ceres, headquartered in Weehawken, N.J., has annual revenues of more than $150 million. The container side of its operations handles more than 2.5 million TEUs a year.

“The acquisition, NYK contemplates handling in excess of 6 million TEUs worldwide in 2003, thereby propelling the company into the ranks of the world’s premier terminal operators,” the Japanese group said.

Founded in 1958 by Christos Kritikos, Ceres provides stevedoring and terminal operating services in: Halifax, Nova Scotia; Baltimore, Md.; Norfolk, Va.; Charleston, S.C.; Savannah, Ga.; New Orleans; Houston; Chicago; Cleveland; and Duluth, Minn. Ceres also participates in a joint venture with Logistec in Montreal.

Ceres also operates the Ceres Amsterdam Marine Terminals B.V. and the Amsterdam Paragon Container Terminal in the Netherlands. The Paragon terminal has an innovative indented berth design that allows a container ship to be worked simultaneously on two sides.

The purchase of Ceres provides NYK “with a significant terminal operating base on the East and Gulf coasts of North America,” the Japanese group said. Ceres Terminals also gives NYK an entry into the European port business, via its terminals in Amsterdam.

The Ceres locations will complement NYK’s existing facilities in Los Angeles and Oakland, Tokyo, Yokohama, Kobe and Kaohsung. NYK also has investments in facilities in Nagoya, Japan; Laem Chabang, Thailand; and Sydney, Australia.

Ceres provides stevedoring services mainly for containers, but also handles every type of cargo, including general cargo, roll-on/roll-off, bulk commodities, steel, grain, dry bulk materials, project cargo, heavy lift and vehicles.

Kritikos, president of Ceres, and his management team will remain with the company after the acquisition, NYK said. “Continuity of management and maintenance of superior service levels is a key for NYK to insure this new acquisition continues to prosper and grow,” the company said.

NYK’s strategy is to grow business segments, not just in the ocean transportation sector, but also in worldwide logistics and other transportation related activities that support NYK’s worldwide freight handling network. “As one of the world’s largest vessel operators, terminal capability for containers as well as roll-on/roll-off and breakbulk cargoes represents a vital business sector for NYK,” it said.

NYK and Ceres expect to close the acquisition by late October.

NYK’s takeover of Ceres follows the acquisition in recent years of the U.S. stevedores ITO, Gulf Services Inc. and Fairway Terminal Corp. by P&O Ports and the takeover of Sea-Land’s former U.S. terminals by A.P. Moller.

PSA Marine acquires stake in Mermaid Marine

SINGAPORE

PSA Marine (Pte) Ltd, a subsidiary of PSA Corp., has signed a conditional agreement to acquire a 20-percent stake in Mermaid Marine Australia Ltd.

Under terms of the deal, Mermaid Marine will issue 23.48 million new shares to PSA. “We have core competency in marine operations for the offshore oil and gas industry. This partnership expands our service offering and our scope of operations,” said V. Sivarajan, managing director of PSA Marine (Pte) Ltd.

Mermaid Marine’s vessel fleet services Australia’s oil and gas industry.

PSA Corp. operates the world’s largest container transshipment hub in Singapore. PSA Group participates in 13 overseas port projects in eight countries, which are expected to handle 25 million TEUs in 2002.

PMA calls for international perimeter of port security

SAN FRANCISCO

The Pacific Maritime Association, which is participating in contract talks with the International Longshore & Warehouse Union, said, “the issue of port security transcends the individual agendas of labor or management.”

The PMA in a statement called for “an international perimeter of security for the nation’s ports.” By computerizing the movement of cargo information, the U.S. government is moving that perimeter “to ports of origin around the world,” the statement noted.

U.S. CIT rejects harbor maintenance tax challenge

WASHINGTON

The U.S. Court of International Trade has rejected a challenge by Thomson Multimediad of the constitutionality of the harbor maintenance tax as applied to ocean imports.

Judge Jane A. Restani ruled Aug. 21 that the harbor maintenance tax for imports does not violate the Constitution’s uniformity clause nor the port preference clause. She had ruled similarly in Amoco Oil vs. United States.

Restani also ruled against Thomson’s argument that the HMT statute was severable and that since the U.S. Supreme Court found the HMT for exports unconstitutional, it should invalidate it with respect to imports.

The harbor maintenance tax was enacted as part of the Water Resources Development Act. It imposed an ad valorem tax, based on value, of commercial cargo imported or exported through U.S. ports. The HMT was created to fund the operation and maintenance of U.S. channels and harbors.

Thomson is not expected to appeal the decision to the U.S. Court of Appeals.

Panama Canal sets two-step toll hike

PANAMA CITY, Panama

The Cabinet Council of Panama has approved a two-phase increase in Panama Canal tolls.

Tolls will increase 8 percent, effective Oct. 1, and will be increased an additional 4.5 percent in July 2003. The council also approved a locomotive charge of $200 per wire.

Aleman Zubieta, Canal administrator, said, “we considered the comments and recommendations submitted during the public response period and during a public hearing on July 19,” before deciding to split the toll increase into two phases.
Shippers’ Case Law

Abstracts by Robert Mottley, rmottley@shippers.com

Sub-contracted railroad lacks Himalaya cover

James N. Kirby Pty Ltd., a shipper in Sydney, Australia, sold 10 containers of machinery to a General Motors plant in Huntsville, Ala. To fulfill its obligation to delivery the machinery, Kirby entered into a contract of carriage with International Cargo Control Pty Ltd. (ICC), an Australian freight forwarder. To formalize the contract, ICC issued a bill of lading to Kirby for the 10 containers. The bill of lading named Kirby as the consignor of the cargo and ICC as the carrier. It also contained a Himalaya clause extending to the carrier’s agents and contractors the carrier’s own defenses and limitations of liability under the bill.

ICC then hired Hamburg Sud, a German ocean carrier, to transport the containers. Hamburg Sud issued its own bill of lading to ICC, which included a Himalaya clause that extended the bill’s limitations on Hamburg Sud’s liability to “all agents, servants, employees, representatives, all participating (including inland carriers) and all stevedores, terminal operators, warehousemen, crane operators, watchmen, carpenters, ship cleaners, surveyors and all independent contractors whatsoever.”

(Note: Himalaya clauses take their name from an English case which involved a vessel called the Himalaya (Underwriters at Lloyds v. Barber Blue Sea Line, 675 F.2d 266, 269 n.5 [11th Cir., 1982].)

Hamburg Sud’s ship brought Kirby’s machinery to Savannah, Ga., where it was placed on a train owned by Norfolk Southern Railway Co., which Hamburg Sud had sub-contracted to transport the machinery inland to its destination, Huntsville. The train derailed en route, allegedly causing $1.5 million damage to Kirby’s shipment.

$5,000 vs $1.5 million

Both bills of lading invoked the U.S. Carriage of Goods by Sea Act, and incorporated COGSA’s $500-per-package limitation on the carrier’s liability. COGSA applies its own force from “tackle to tally,” from the time goods are loaded onto a ship to the time they are discharged from it. A Clause Paramount in the bills of lading extended the application of COGSA’s liability rules beyond the tackles, just as the Himalaya clauses extended the application of those rules to parties other than Hamburg Sud.

In litigation after the train wreck, a U.S. district court ruled that Norfolk Southern’s liability to Kirby was limited to $5,000, or $500 for each of Kirby’s 10 containers of machinery. The court concluded that Kirby was bound by the Himalaya clause in the Hamburg Sud bill of lading, and that Norfolk Southern, as a beneficiary of that clause, was entitled to invoke COGSA’s $500-per-package limitation. Kirby subsequently appealed the district court’s decision to the U.S. Court of Appeals for the 11th Circuit in Atlanta.

When a freight forwarder is not an agent

In a decision made in August, the appellate panel looked at the chain of events described above and concluded “that in receiving ICC’s bill of lading, Kirby did not engage ICC as its agent, but instead, hired ICC as a principal carrier to perform the transport, which ICC in turn sub-contracted to Hamburg Sud.

“If ICC had merely been acting as Kirby’s agent … we would expect the contract with the ocean carrier to reflect as much, by indicating that Kirby was a party to the transaction. Yet Kirby’s name does not appear on the Hamburg Sud bill of lading,” the appeals court said.

“Our own case law suggests that a freight forwarder should not automatically be taken to be the agent of the party who hires it to facilitate the shipment of goods,” the appellate panel noted, citing Naviera Neptuno S.A. v. All International Freight Forwarders [709 F.2d 663, 665 (11th Cir. 1983)], where this same circuit upheld a lower court’s ruling that in the absence of special arrangements between a shipper and freight forwarder, the latter “is considered as an independent contractor.”

“Therefore, as the parties intended, and as our case law suggests, when ICC issued its bill of lading to Kirby, ICC did not become Kirby’s agent and so did not act as Kirby’s agent when it received the second bill of lading from Hamburg Sud. This means that Kirby (the originating shipper) is not bound by the Himalaya clause in the Hamburg Sud bill, and that the district court erred in deciding that Norfolk Southern could limit its liability to Kirby based on the Hamburg Sud bill of lading,” the appellate panel determined.

How far COGSA can extend inland

Furthermore, the appeals court warned that “we should be cautious about extending the reach of a Himalaya clause, and with it the reach of COGSA, inland … the Himalaya clause is only meant to extend the carrier’s protections to parties who are, so to speak, between liability regimes, at the fringes of the sea regime — stevedores, terminal operators, and the like. Therefore, Norfolk Southern, as an inland rail carrier, should not be allowed to invoke the Himalaya clause in the ICC bill of lading to its benefit.”

Circuit Judge Eugene E. Siler Jr., U.S. Court of Appeals for the Sixth Circuit, sitting by designation, dissented. “I disagree with the majority’s conclusion that ICC was acting as a principal, not as Kirby’s agent.” Siler wrote. “Although a freight forwarder can be a principal, in this case it was acting as an agent for Kirby.”

As for Norfolk Southern’s role, Siler wrote that while the Kirby-ICC bill of lading “does not include the name ‘Norfolk Southern’ … it includes ‘independent contractors.’ As the majority states, Kirby and ICC could have used clearer language in the bill to include any inland carriers, but that does not mean that the failure to include them specifically (prevents) the application of a Himalaya clause.”

In Siler’s dissenting view, because “the ICC/Hamburg Sud bill of lading expressly included inland carriers, the Himalaya clause extended COGSA protection to Norfolk Southern.”

Nonetheless, Chief Circuit Judge J.L. Edmondson and Circuit Judge Ed Carnes, the two prevailing appellate judges, reversed the decision of the lower court.

“We hold that the language of the Himalaya clause in the ICC bill of lading, which names as its beneficiary ‘any servant, agent, or other person, including any independent contractors whose services have been used in order to perform the contract,’ does not clearly identify Norfolk Southern, as a sub-sub contractor of the carrier and an inland carrier, as a member of (a) well-defined class of readily identifiable persons’ entitled to claim the benefits of the clause,” the appeals court ruled.

[James N. Kirby Pty Ltd., d.b.a. Kirby Engineering, and MMI General Insurance Ltd. vs. Norfolk Southern Railway Co; U.S. Court of Appeals for the 11th Circuit; No. 01-13776; D.C. Docket No. 98-02939-CV-CAO-1; Date of ruling: August 8. (Appeal from the U.S. District Court for the Northern District of Georgia)]

AMERICAN SHIPPER: OCTOBER 2002 95
Corporate Appointments

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Logistics

Elogex Inc.
Jerry Overcash has been named executive vice president of the Charlotte, N.C.-based provider of collaborative logistics software for food, grocery and consumer goods retailers.

Overcash was executive vice president of worldwide sales for Servigistics.

eModal
Gary Gonzalez has been appointed sales and marketing manager, eastern region.

Gonzalez was vice president, new business development with Compaa SudAmericana de Vapores (CSAV).

G-Log
The provider of global logistics and transportation software has named Rob Parrish, a former executive with DHL and BDP International, as its vice president of marketing.

Parrish has nearly 20 years of international business experience, marketing logistics and technology products globally within the U.S., European and Asian logistics organizations.

With G-Log, he will be responsible for extending the company’s presence with logistics service providers, including freight forwarders, third-party logistics companies and international freight transportation companies. He reports to Darcy Maclaren, senior vice president of global sales.

Parrish spent five years with DHL, working up to vice president. Most recently, he was vice president of corporate and international operations at BDP International.

Nextjet Technologies
Mark A. Skoda, a veteran of UPS, FedEx, Mark VII and i2 Technologies, has been appointed chief executive officer for the provider of Web services software for the logistics industry.

Skoda was president of i2 Technology’s FreightMatrix and head of i2’s global logistics solutions practice. Before that, he was CEO and president of Mark VII, a leading intermodal marketing company and now part of Exel. He also served in leadership positions with Penske Logistics, TNT Worldwide Transportation Group and Federal Express. Prior to that, he spent 20 years with United Parcel Service, where he worked up the ranks, eventually becoming executive vice president.

Weber Distribution
The Santa Fe Springs, Calif.-based third-party logistics provider has named Michael L. Stark president and chief operating officer.

Stark, a 35-year industry veteran, spent more than 14 years with Exel, the U.K.-based global supply chain management company, where he was most recently vice president, western region. He was responsible for 32 locations with 1,800 associates and 9.2 million square feet of warehouse space.

Prior to Exel, he worked 23 years for VONS Cos. Inc., a southern California-based retail food chain.

Forwarding

Direct Container Line
The Carson, Calif.-based non-vessel-operating common carrier has named Robert Sutton regional vice president for the eastern region.

Sutton, a 16-year veteran of the transportation industry, joined DCL as Philadelphia sales representative in 1995 and was named Mid-Atlantic sales manager in 1997 and, most recently, eastern region sales manager.

DCL is a member of the Long Beach-based NACA Logistics Group of companies, along with Brennan International Transport and Conterm Consolidation Services.

Maritime

Columbus Line Inc.
Bonnie Ferris has been named manager of strategic accounts for the unit of Hamburg Sud, based at the company’s Morristown, N.J. headquarters.

Ferris will oversee major company accounts in New Jersey, Pennsylvania and Maryland.

She has more than 25 years experience in marine transportation and intermodal logistics, including positions with Maersk, Hapag-Lloyd and Lykes Lines. She served most recently as senior account executive with Australia-New Zealand Direct Line.

Hyundai Merchant Marine

Noh Jeong-Ik, former vice-president of Hyundai Capital Services, has named president of the company.

Noh succeeds Jang Cheol-Soon, president and chief executive officer, who has been appointed vice-chairman of Hyundai Merchant Marine.

Noh joined Hyundai Engineering & Construction Co. Ltd. in 1977 and has had various posts within the Hyundai group.

Hyundai Merchant Marine said it will “focus on restructuring to further advance its position in the shipping industry.” Noh said the company needs to complete its restructuring and generate profits. Hyundai Merchant Marine has recently sold its car-carrier division to a joint venture led by Wilh. Wilhelmsen ASA and Wallenius Lines AB.

Sea Star Line LLC

The Jacksonville-based vessel operator serving the U.S. and Puerto Rico, Dominican Republic and Virgin Island trades has named Bob Krok director of transportation.

Kruk has 40 years of industry experience, starting with Sea-Land in 1962. He held management positions with PRMMI and NPR/Navieras. He was most recently traffic manager for NPR/Navieras, which Sea Star Line acquired.

Air

Atlas Air Inc.
The subsidiary of Atlas Air Worldwide Holdings Inc. has named Jeffrey H. Erickson president and chief operating officer, succeeding Jim Matheny, who is retiring.

Erickson is a 30-year veteran of the domestic and international airline industry.

Before joining Atlas, Erickson was president and CEO of Trans World Airlines from 1994 to 1997, following its re-emergence from bankruptcy. He was president and CEO of Reno Air from 1990 to 1994,
after serving as president and COO of Midway Airlines. He also had operations experience with Aloha and Continental airlines.

Atlas Air, based in Purchase, N.Y., provides charter of freighters, including aircraft, crew, maintenance and insurance.

**Inland**

**Pacer International**

The non-asset-based, third-party logistics and transportation provider has restructured its corporate structure to maximize “profitability by cross-selling services through our various divisions,” said Don Orris, Pacer’s chairman and chief executive officer.

Under the new structure, the presidents within the company’s retail division, Pacer Global Logistics, and the president of the wholesale division, Pacer Stacktrain, will now report directly to Orris.

Pacer’s reorganization includes:

- Carl Kooyoomjian has been appointed vice chairman of the parent company. He was CEO of Pacer Global Logistics.
- Alex Munn has been appointed chief information officer for Pacer International. He was vice president for information systems at Pacer Global Logistics.
- Bill Smith has been appointed executive vice president of Pacer International. He will continue as chief operating officer for Pacer Global Logistics, and also manage the parent company’s human resources.
- Mike Fielden has been appointed president of the supply chain services unit of Pacer Global Logistics. He was executive vice president for sales and administration in that same division.
- Denis Brunca has been named executive vice president of Pacer International.

He was chief commercial officer of Pacer Global Logistics.

Pacer International is based in Concord, Calif.

**Yellow Corp.**

The holding company with three transportation subsidiaries, has appointed Daniel J. Churay senior vice president, general counsel and secretary, effective Sept. 3.

Churay has been senior counsel in the Houston law firm of Fulbright & Jaworski LLP.

Overland Park, Kan.-based Yellow includes Yellow Transportation, a mover of industrial and retail goods; SCS Transportation, a provider of overnight and second-day less-than-truckload and selected truckload services, and Meridian IQ, a non-asset based subsidiary offering Web-based transportation solutions.

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**TACA carriers raise fuel charge**

Shipping lines of the Trans-Atlantic Conference Agreement have advised shippers of a plan to raise bunker charges, from Oct. 16 until at least Nov. 15.

For shipments to, from, or via U.S. Atlantic and Gulf coast ports, the conference’s bunker adjustment factor will be increased to $137 per 20-foot container, $274 per 40 or 45-foot box, or $14 per freight ton.

For cargo to, from, or via Pacific ports, the charge will be $206 per 20-foot box, $412 per 40 or 45-foot container, or $21 per freight ton.

The carriers of the TACA conference are: Atlantic Container Line, Hapag-Lloyd, Maersk Sealand, Mediterranean Shipping Co., NYK Line, Orient Overseas Container Line and P&O Nedlloyd.

**Hapag-Lloyd takes Atlantic slots form MSC**

Hapag-Lloyd and Mediterranean Shipping are planning a space charter agreement in the transatlantic container trade.

Under the proposed agreement, filed with the U.S. Federal Maritime Commission, Mediterranean Shipping will charter space to Hapag-Lloyd in the trade between U.S. Atlantic Coast ports and ports in North Europe.

Hapag-Lloyd already provides U.S./North Europe services as part of a cooperative agreement between the Grand Alliance and CP Ships.

**Pacific lines extend peak season surcharge**

Container shipping lines of the Transpacific Stabilization Agreement said they plan to extend their $300 peak season surcharge through Oct. 31.

The carrier group said extension of the surcharge, originally due to expire at the end of September, was necessary in light of the continued strong freight market.

The surcharge is a premium intended to cover higher equipment positioning, vessel chartering, and other costs associated with the summer-fall peak shipping season.

Transpacific carriers implemented the peak season surcharge on June 1, in response to a sharp increase in cargo demand beginning as early as March.

In previous years, the surcharge “has typically been applied beginning July 1 and ending October 31, although the end date has been flexible depending on cargo volumes from Asia,” a spokesman for the carrier group said.

“A soft market in late 2001 and early 2002 led to announcement of a shortened peak season ending Sept. 30, but carriers’ internal research and customer feedback now suggest continued strong demand through October,” the carrier group added.

TSA shipping lines have indicated “that rising costs over the extended peak season have far outpaced the marginal gains in freight rates achieved so far in 2002.”

The TSA is a discussion group of 14 major container shipping lines, and has no authority to set binding rates and surcharges. The group’s recommendations are implemented individually by agreement members.


**Asia/Canada lines raise bunker surcharge**

Shipping lines of the Canada Transpacific Stabilization Agreement plan to increase their bunker surcharge on Oct. 1.

The carrier group’s fuel recovery charge will then amount to: $140 per 20-foot container, $185 per 40-foot container, $210 per 40-foot high-cube container, $235 per 45-foot container, or $4 per freight ton.

The Canada Transpacific Stabilization Agreement, a group of 12 ocean carriers serving the trade from Asia to Canada, said that the increases are required due to escalating fuel prices.

**Evergreen switches from Singapore to Pelepas**

Evergreen Marine Corp. is set to switch three weekly services from the port of Singapore to Tanjung Pelepas within the next week.

The services involved are the “CEM and “FEM” services in the
Asia/Europe/Mediterranean trades and the North America/Asia/Europe “WAE” pendulum service.

The first call at Tanjung Pelepas westbound on the “WAE” service will be made by the “Ever Union” on Sept. 1, and eastbound by the “Ever Unity” on the same day. The “WAE” service has a revised port rotation of Tacoma, Wash.; Vancouver, B.C.; Tokyo; Osaka; Hakata; Kaohsiung; Hong Kong; Tanjung Pelepas; Colombo; Rotterdam; Hamburg; Thanesport; Zeebrugge; Le Havre; Port Said; Colombo; Tanjung Pelepas; Kaohsiung; Hong Kong; Yantian; Hong Kong; Osaka; Tokyo; Tacoma; and Vancouver.

The “LT Ursula” was scheduled to make the first westbound call at Tanjung Pelepas Aug. 27. The first eastbound call is scheduled to be made by the “LT United” on Aug. 31. The “CEM” now calls at Shanghai, Ningbo, Yantian, Hong Kong, Tanjung Pelepas; Taranto, Rotterdam, Hamburg, Thanesport, Taranto, Port Said, Tanjung Pelepas, Kaohsiung, Hong Kong, Shanghai, Ningbo and Yantian.

The first eastbound call on the “FEM” will be made by the “Ever Gifted” on Aug. 29, and westbound by the “Ever Grade” on Aug. 30. The new rotation is Kaohsiung, Hong Kong, Tanjung Pelepas, Colombo, Taranto, Genoa, Fos, Barcelona, Valencia, Trieste, Port Said, Jeddah, Colombo, Port Kelang, Tanjung Pelepas, Kaohsiung and Hong Kong.

Evergreen is following in the footsteps of Maersk Sealand who were the first major carrier to switch to Tanjung Pelepas from Singapore on a number of its deep-sea services.

Danzas starts charter program in Hong Kong

Danzas Group, a logistics services provider, has launched a new air charter service program comprising 70 twice-weekly flights from Hong Kong to Los Angeles, Chicago and New York, in partnership with Atlas Air and Lufthansa.

Atlas Air departs Hong Kong on Thursday and Monday to Chicago and New York, while Lufthansa flies from Hong Kong to Los Angeles every Wednesday and Sunday.

The continued demand for imports from Asia to North America has put a premium on the availability of scheduled air-freight flights out of Hong Kong.

The charter program insures that customers have access to air-freight space during the peak shipping season, Danzas said.

“Hong Kong has traditionally been a high-season market for us. We’ve experienced an upsurge in shipments of up to 170 percent. Customers, particularly in the high-tech and fast-moving-consumer goods industries, have been responding positively,” said Kelvin Leung, head of Danzas’ Intercontinental Business Unit for Hong Kong and South China.

Contship, P&O Nedlloyd revise Australia links

Contship Containerlines, P&O Nedlloyd and future partners are preparing to revamp their respective Europe/Australia/New Zealand and U.S. East Coast/Australia/New Zealand services following the introduction of new large containerships.

The Contship Aurora, one of three new ships being introduced by Contship in the Europe-Australasia trade, entered the service on Sept. 16. P&O Nedlloyd has also ordered four 4,100-TEU for its Australia/New Zealand services.

Contship said that five Australia/New Zealand existing services from Europe or the U.S. will be replaced by “two contra-rotating round-the-world strings” following the retonnaging and merger of the services. Both strings will operate on a fixed day weekly schedule, one sailing eastbound the other westbound.

The “eastbound string” will sail out from Europe to Australasia via the Suez Canal, and continue via the Panama Canal to the U.S. East Coast. In total, 10 new ships of 4,100 TEUs operated by Contship and its partners in the trade will be deployed in this service.

The “westbound string” of Australia/New Zealand services will sail from Europe to the Pacific Islands and Australasia via the Panama Canal, returning via South East Asia and the Suez Canal. Twelve ships of 2,200-TEU average capacity will be deployed in this string.

The large reefer capacity of the new ships — 1,300 reefer plugs — will significantly enhance Contship’s ability to carry temperature-sensitive cargoes, the carrier said.

Final port rotations for each string are still being concluded. Contship said that further announcements will be made soon. CMA CGM and Hamburg Sud/Columbus Line are likely to be part of the future merged Australia/New Zealand services of Contship and P&O Nedlloyd.

Conferences seek to restore rates

Lines belonging to the European Middle East Rate Agreement and the Jeddah Service Group said they plan to raise rates by $200 per 20-foot container and $300 per 40-footer, effective Oct. 1.

The rate increases cover shipments from the United Kingdom, North Continent and Scandinavia to the Middle East Gulf and Jeddah.

CMA CGM, Hapag Lloyd, Maersk Sealand, P&O Nedlloyd and United Arab Shipping are members of both conferences.

AWS (Ellerman), Contship Containerlines, Norasia Container Lines and Safmarine and members of the European Middle East Rate Agreement.

Nippon Yusen Kaisha is a member of the Jeddah Service Group.

Lykes adds Rio Haina to Africa link

Lykes Lines has added Rio Haina in the Dominican Republic as a port of call on its North America/Africa “East Coast Loop” multipurpose service.

The carrier said it has also signed a deal with Global Container Lines, a regional carrier, to transship cargo between South African and East African ports.

A new agent, African Liner Agencies Ltd, has been appointed in East Africa.

The East Coast Loop service calls at Montreal, New York, Philadelphia, Charleston, Rio Haina, Dakar, Cape Town, Durban, Port Elizabeth, Cape Town, New York, Philadelphia, Montreal, and Hamilton (the latter in summer months only). Other ports are called on inducement.

Lykes’ multipurpose service can carry containers, bulk, breakbulk and roll-on/roll-off cargoes.

Lykes said the new call in the Dominican Republic opens three markets: Canada and the U.S. East Coast to the Dominican Republic; Canada to Mexico; and Mexico, the Caribbean and Central America to Africa via Rio Haina.

TMM Lines joins Lykes on Africa service

TMM Lines has joined fellow CP Ships subsidiary Lykes Lines’ fortnightly multipurpose service between the East Coast of North America and Africa.

The service calls Montreal; New York; Philadelphia; Charleston, S.C.; Rio Haina; Dakar; Cape Town; Durban; Port Elizabeth; Cape Town; New York; Philadelphia and Montreal. Calls at Hamilton, Ontario, are made during the summer months.

West Africa is served via transshipment at Dakar, while Southern and East Africa are serviced via transshipment or inland connections to and from Cape Town, Port Elizabeth and Durban.

TMM Lines has appointed African Liner Agencies Ltd as its agents in Kenya, Tanzania and Uganda, and will work with Global Container Lines to transship cargo between East African ports and Durban.
Carriers to exchange space in Caribbean

Tecmarine Lines and Frontier Liner Services plan to exchange space between their respective Caribbean services.

Under an agreement filed with the U.S. Federal Maritime Commission, the two carriers will charter space to each other in the trade between U.S. East Coast ports and ports in the Dominican Republic.

In a separate development, Crowley American Transport and King Ocean have also filed a cooperation agreement with the FMC concerning the U.S./Caribbean/South America trades.

Under the proposed agreement, Crowley American Transport and King Ocean will charter space to and from one another on their respective vessels in the trade between ports on the Atlantic Coast of Florida and ports in Aruba, Bonaire, Curacao, Colombia, and Venezuela.

TMM adds U.S./South America link

TMM Lines has launched a U.S. Gulf/Florida/Central America/Colombia/West Coast of South America service.

With a 10-day frequency, the “Gulf-Andes” service will connect the U.S. Gulf and Florida with the West Coast of South America, and the U.S. Gulf and Florida with Central America, both southbound and northbound.

The service will call at ports of Honduras and Costa Rica direct, and offer intermodal connections to Guatemala, El Salvador and Nicaragua.

The full port rotation of the service is: Houston, New Orleans, Miami, Puerto Cortes, Puerto Limón, El Tablazo, Cartagena, Guayaquil, Callao, Valparaiso, Lirquen, Callao, Guayaquil, Cartagena, Puerto Limón, Puerto Cortes, Houston.

Con-Way adds intermodal option

Con-Way Transportation Services Inc. is offering a new service option, Con-Way DEFERRED.

Con-Way called it a “slower” and “lower” service, adding that the “slower” portion of the service comes from using intermodal linehaul service to move transcontinental shipments. The “lower” portion of the option provides an automatic 20-percent reduction from prices already negotiated with current customers.

Con-Way DEFERRED is the second service introduced by the company this year under its “Value Zone” program, which offers services designed to provide Con-Way customers with lower cost options.

Con-Way is a subsidiary of CNF Inc., a management company of global supply chain services including regional trucking, air freight, ocean freight, customs brokerage and trailer manufacturing.

Columbia Coastal expands into Gulf

Columbia Coastal Transport LLC has extended its project cargo operations to the U.S. Gulf region.

The company has moved a barge, the Columbia Savannah, into Houston.

Project cargo moves “continue to be a logical extension of our container barge services, since we can easily accommodate breakbulk, outsized and overweight cargoes on our barge decks,” said Bruce A. Fenimore, president of Columbia Coastal Transport.

Columbia Coastal’s container barges call at Boston; Portland, Maine; New York-New Jersey; Philadelphia; Baltimore; Wilmington, N.C.; Charleston; Savannah, Ga.; Jacksonville; Port Everglades and Miami, Fla.; Houston; New Orleans; and Freeport, in the Bahamas.
Valuable lessons from *Palermo Senator* incident

You may read the account of what happened aboard the *Palermo Senator* in New York harbor (see story, page 46), as the scenario for an episode of the Keystone Cops or as valuable lessons in how to deal with transportation’s inevitable encounters with the War on Terror.

Hopefully, you will do both.

The quixotic nature of events built a convincing case for action which should be taken by shippers, carriers, customs agencies, and the public worldwide.

**Coordination, Training:** Information that “solved” the mystery was electronically available in manifests and the ship’s loading plan all the time. The entire, costly episode could have been avoided if enforcement and defense personnel knew how to utilize the information and if there had been proper coordination and flow of information among all with need to know.

**72-Hour Pre-filing.** This incident proved the necessity to pre-file complete information about cargo prior to loading. While Customs wants information 24-hours prior to loading, that should be considered a cut-off. A 72-hour requirement for most containers would be more practical and realistic.

**Who Must Pay.** Ship, air, rail and truck lines that adhere to rules established by Customs and defense agencies should not be required to absorb the cost of detain-and-search procedures — reported to be about $900,000 in this case. Lines that fail to adhere to rules and procedures should be required to pay.

**Universal tax on value of cargo:** Pre-loading inspections and safeguards will not be effective unless they are applied worldwide at small ports and inland border crossings as well as large ports. As with any war, costs will be high. In this case, the costs should be recovered through a universal cargo tax or surcharge applied against the value of cargo and collected through Customs agencies worldwide. This cost will be passed along to the ultimate consumers.

**Enforcement:** Cargo to and from any nation that refuses to participate fully should be denied access to vessels, planes, trucks and rail cars operated by cooperating carriers. Ship, rail, truck and air lines which fail to cooperate should be denied access to ports and terminals.

Costly? Yes. Disruptive to trade? No.
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- The largest, most sophisticated refrigerated container facility in North America – with 1800 refrigerated plugs to serve perishables and frozen cargo with special monitoring and constant care.
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Global competition intensifies each year. With Maersk Sealand’s Pier 400, you can gain and keep the advantage of speed and customer service in the most modern container handling facility in the world.

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